A COMPARATIVE STUDY ON FUND MOBILIZATION OF HIMALAYAN BANK LIMITED AND EVEREST BANK LIMITED

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RECOMMENDATION

This is to certify that the Thesis

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has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

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We have conducted the viva –voce examination of the thesis presented

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**A COMPARATIVE STUDY ON FUND MOBILIZATION OF HIMALAYAN BANK LIMITED AND EVEREST BANK LIMITED**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Study (M.B.S.) under the supervision of Devendra Pal Shrestha, Saraswoti Campus.

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ABBREVIATIONS

C V	=	Coefficient of Variation
CFFA	=	Cash Flow from Financing Activities
CFIA	=	Cash Flow from Investing Activities
CFOA	=	Cash flow from Operating Activities
Debn.	=	Debenture
EBL	=	Everest Bank Limited
F.Y	=	Fiscal Year
Govt.	=	Government
HBL	=	Himalayan Bank Limited
Invt.	=	Investment
JVB	=	Joint Venture Bank
Ltd.	=	Limited
NRB	=	Nepal Rastra Bank
P.E	=	Probable Error
S.D	=	Standard Deviation
Sect.	=	Securities
TWF	=	Total working Fund

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER- I

INTRODUCTION

1.1 Background of the Study

Generally the organization that transacts money is called bank. Bank and banking has always played a significant role for the financial activities in the business. So bank is the major need for various developments. Bank collects fund as a saving from the community and invest them into most desirable and highly yielding sector as a full to a process of economic development. It develops saving habits of people. "The importance of the banking as the nerve center of economic development can not be over emphasized and it is said that bank which are the need of and great wealth of country have get to be kept very scared. Just as water for irrigation, good banks are for the country's industry and trade" (Desai, 1967:120).

The main objectives of the bank are collection of amount from public in a form of saving and providing short-term loan (for the development of industry, trade, and business) to the ones in need. The development of country's economy is impossible without expansion of banking function in both rural and urban area of the country. Development of trade and industry is dependent upon the development of banking facilities. So it is said that the bank is backbone of economic development in modern society. Banking institutions are inevitable for mobilizing resources, for finance and social economic development of a country and which is important to all parties i.e. generally public, business, organization, government and other small financial institution. The development of a country is always measured by its economic development through economic indices. That's why every country has given emphasis on boost up its economy. At present, the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of

domestic resources is one of the key factors in the economic development of a country.

Bank is resource for economic development that maintains economic confidence of various segments and expands credit to people. Bank means “A financial establishment for the deposit, loans exchange or issue of money and for the transmission of funds” (Bhandari, 2003: 119).

The bank draws surplus money from the public, who cannot use the money at the time and lends to those who give attention to use for productive purposes. Bank lends the loan to the customers; gain interest amount, the bank draw the money from institution or individual or people pay the interest amount by certain interest rate. Banking institutions collect scattered financial resources from the mass and invest them among those who are associated with the economic, commercial, and social activities of the country.

“Bank assists both the flow of goods and services from the product to the consumers and the financial activities of the government. Banking provides the country with a monetary system of making payment and is an important part of financial system, which makes loans to maintain and increase the level of consumption and production in the economy” (The American Bankers Association, 1972: 162).

A new organized financial institution companies, commercial banks and other financial intermediaries play an important role for the development of a country.

1.2 Development of Banks

1.2.1 In Nepalese Context

The growth of banking in Nepal is not so old. In the 14th century, Jayasthiti Malla - a king of Kantipur classified people in 64 groups according to their occupations, "Tanka Dhari" was one among them who used to lend money at a fixed rate of interest. During the period of Ranodip Singh, the Prime minister, a government institution called "Tejarath Adda" was established around 1887 AD for providing easy and cheap credit at 5% interest to the public on securing of gold and silver.

"In the overall development of banking system in Nepal, the "Tejarath Adda" may be regarded as the father of modern banking institution and for quite a long time it tendered a good servants as well as to the general public" (Shrestha, 1995: 4).

The development of modern bank started from the establishment of "Nepal Bank Limited" in 1937 AD with put forth effort of government and public, as a commercial bank with 10 million authorized capital. The authorized capital was contributed by the government 51% and remaining by public 49%. It started to provide depositing and borrowing facilities to commercial as well as agricultural sectors. The government felt the requirement of a central bank and established "Nepal Rastra Bank" in 2013 BS. It played leading role in development of banking in Nepal and also controlled the monetary culture in the country. NRB was established with the objective of supervising, protecting and directing the functions of commercial banks. Likewise, raising of banking function get popular and more complicated, thus NRB suggested for the establishment of another commercial bank and in 2022 BS (1966 AD) "Rastriya Banijya Bank" was established as a fully government owned commercial bank. Now its branches are diversified all over the country. It made another milestone in the history of growth of banking.

Apart from this, NIDC was established in 1959 AD & Agricultural Development Bank established in 1976 AD and other development bank and financial institutions were established & continue to establish and are contributing to the economy and banking tradition in Nepal. In 1990 AD, after reestablished of democracy, the government took the liberal policy in banking sector. As an open policy of HMG's to get permission to invest in banking sector from private and foreign investor under Commercial Bank Act 2031 BS, different private bank are getting permission to establish with the joint venture of other countries.

1.3 Focus of the Study

Bank is an institution, which helps in collection and mobilization of savings. The role of commercial banks in uplifting the economic growth of the country is very important. The uplifting of the development of a nation largely depends upon the development of its economic growth. The development of the economy is greatly influenced due to the internal management of the bank.

"General fund mobilizing means to flow the cash in different sectors at profit motive. Investment in its broadest sense means the sacrifice of certain present value for (possibly uncertain) future value. In pure financial sense, the subsequent use of the term investment will be in the prevalent financial sense of the placing of money in the hands of other for their use, in return for a proper instrument entitling the holders to fixed income payment or the participation in expected profits. It can define the terms of investment at manufacturing and trading forms those long term expenditures that aim at increasing plant capacity of efficiency or at building up goodwill, there by producing an increased return over a period. Experts define the terms of investment from economic view point that investment as a productive process by means of which additional are made to capital equipment's. It is finding to clear the terms of investment at different points of view. But it needs to clear the

terms of investment in financial point of view as related to this study" (Swami and Basudevan, 1979: 23).

This research focuses on the comparative study of fund mobilization of two joint venture banks; Himalayan Bank Ltd. and Everest Bank Ltd. These two banks are compared as per their fund mobilization procedure by taking 5 years data from the year to 2006.

1.4 Profile of the Concerned Banks

As there has been number of commercial banks established, the research has been taken into consideration of EBL and HBL. Therefore, short glimpse of these commercial banks are given as:

1.4.1 Himalayan Bank Limited

Himalayan bank limited is a Joint Venture Bank with Habib Bank of Pakistan, was established in 1992 under the company act 1964 as a fourth joint venture bank of Nepal. This is the first Joint Venture Bank managed by Nepali Chief Executive. The operation of the bank started from 1993 February. HBL does not include government ownership. It has been established to maintain the economic welfare of the general people to facilitate loan for agriculture, industry and commerce to provide the banking services to the country and people.

It is the first commercial bank of Nepal with maximum share holding by the Nepalese private sector. Besides commercial activities, the Bank also offers industrial and merchant banking. Its ownership is composed of founder shareholders 51%, Habib bank of Pakistan 20%, Karmachari Sanchaya Kosh 14% and general public 50%. It is the first bank having domestic ownership more than 50%.HBL has been operating in high profit for the establishment's period till now.

It accepts deposit through current deposit, saving deposit, fixed deposit and call deposit.

At present HBL has five branches in Kathmandu valley namely Thamel, New road, Maharajgunj, Pulchowk (Patan) and Suryavinayak (moved from Nagarkot). Besides, it has nine branches outside Kathmandu valley namely Banepa, Tandi, Bharatpur, Birgunj, Hetauda, Bhairawa, Biratnagar, Siddharthanagar, Pokhara and Dharan. The bank is also operating a counter in the premise of the Royal Palace. The Bank has a very aggressive plan of establishing more branches in different parts of the kingdom in near future. HBL was access to the worldwide correspondent network of Habib bank for fund transfer, letter of credit or any other banking business any where in the world. Himalayan Bank has adopting innovative and latest banking technology. The bank provides various facilities such as:

Tele- Banking
24 hours banking
Credit card facilities
Automatic Teller Machine(ATM)
Visa card
L.C. service
Safe deposit locker
Himalayan SMS(Short Message Service)
Foreign currency transaction etc.

The ownership of HBL is composed as:

Subscription	**% Holding**
Promoter Share Holders	51%
Habib Bank Ltd., Pakistan	20%
Financial Institution (Employees Provident Fund)	14%

Nepalese Public share holder	15%
Total	**100%**

The present capital structure of HBL is shown below:

Share Structure	**Amount (Rs.)**
Authorized Capital	1,000,000,000
Issued Capital	772,200,000
Paid- Up Capital	(7,722,000equity shares of NRS 100.00 each, fully paid)

Source: Report of HBL

1.4.2 Everest Bank Limited

Everest Bank Ltd. was registered under the Company Act 1964 in 19th November 1993 (2049/09/03) and started banking transaction in 16th October 1994 (2051/07/01). The promoter of the bank decided to join hands with an Indian bank and entered into joint venture agreement in January 1997 AD with Punjab National Bank (PNB), which is one of the leading commercial bank of India, having over 100 years of successful banking experience and known for its strong system and procedure. A team of professionals deputed by PNB under this arrangement. Now, the bank 19 branches including main branch (i.e. head office) in Nepal.

On equity holding PNB has 20% equity participation in its total shareholding and also has undertaken management responsibility under a technical service agreement and other balance is maintain by Nepali investor. Nepalese promoter holding 50% and rest 30% held by General Public. The main purpose of EBL is to extend professional banking services to various sectors of the society in the kingdom of Nepal and thereby contributing in the economic development of the country. It provides following facilities and services to their customers:

- Cumulative Deposit Scheme
- Unfix Fixed Deposit

- Remittance
- ATM Facilities
- FC Deposit/ Lending
- Facilities of NRN
- Required Deposit Plan
- Telegraphy transfer (T.T)
- Letter of Credit
- Drawing Arrangement
- SWIFT Transfer
- Foreign Exchange
- International Trade and Bank Guarantees
- Merchant Banking

The ownership of EBL is composed as:

Subscription	**% Holding**
Promoter Share Holders	50%
Punjab National Bank	20%
General Public	30%
Total	**100%**

The authorized capital of the bank has been Rs. 240 million, issued Rs. 120 million and paid capital Rs.117.5645 million in the beginning of 2051/052. The present capital structure of EBL is shown below:

Share Structure	**Amount (Rs.)**
Authorized Capital	60,00,00,000
Issued Capital	52,98,00,000
Paid- Up Capital	51,80,00,000

Source: Report of EBL

1.5 Statement of the Problems

After introducing the liberalization policy of the government, many banks and institutions are established rapidly. These days many commercial banks, developments bank and financial institutions are operating their work to assist in the process of economic development in the country. Due to the high competition between the financial institutions the collected huge amount from public is comparatively lower than fund mobilization and investment practice of collected funds. Therefore, it raised the problems of investment and proper mobilization of collected funds. Strong fund mobilization activities play a vital role in utilization of collected funds and overall development of the economy of the nation.

If the funds are wrongly invested without thinking any financial risk, business risk and other related facts, the bank cannot obtain profitable return as well as it should sometimes lose its principle. Fund mobilization policy may differ from one joint venture banks to another but there is no optimum utilization of shareholders fund to have greater return in any bank. Nepal Rastra Bank has also played significant role to make commercial bank mobilize their fund in good sector. For this purpose, NRB imposed many rules and regulation so that commercial bank can have sufficient liquidity and security. Though most of the joint-venture banks have been successful to earn profit from fund mobilization, none of them seem to be capable to invest their entire fund in more profitable sectors.

To meet the requirement of NRB, joint venture banks must have 6% deposits of total current account and fixed deposit account of local currency with NRB. They should have 3% minimum cash balance in their own vault of total currency of all types of accounts. Except this, they have fund from current, saving and fixed deposits borrowing, from other banks, cash margin for different purpose, amount of bills payable and retained earning, reserves share capital and other liabilities.

Commercial banks are reported to be criticized by customer due to implementation of wrong investment policies. They are said to be investing less risky and highly liquid sector, they keep high liquid position and flow less funds in productive sectors, so these types of function prove less investment opportunity of the fund. Sometimes they seem to be ready to invest the idle fund even in those investment, which have lower risk and comparatively greater profit the another problem is diversification of investment. The bank cannot achieve profitable return from their resources as well as they sometimes may lose their principle resulting in decreasing of national economy.

Fund mobilization is the most important factor from the shareholder and banks management point of view. This study is a comparative study on fund mobilization of Himalayan Bank Ltd and Everest Bank Ltd. The problems related to fund mobilization procedures of the joint venture banks of Nepal have been presented briefly as under:

a) Is there any uniformity in fund mobilization between HBL and EBL?
b) What is the relationship between deposit and total capital raised, deposit with total investment and loan and advances with total deposits?
c) Does the investment decision affect the total earning capacity of the bank?
d) Do the two joint ventures successful to utilize their available fund?
e) Are they maintaining sufficient liquidity position?
f) Which joint ventures have more effective investment policy among HBL and EBL?

1.6 Objective of the Study

For any kind of research work or study, first of all the objectives should be determined. It shows the way to achieve desired goals. Likewise, the main objectives of this research work is to examine, interpret and analysis the fund

mobilization procedures adopted by two joint ventures; Himalayan Bank Ltd. and Everest Bank Ltd. This study is concerned with whether HBL and EBL are adopting efficient fund mobilizing policy or not. The main objectives related to this study are presented below:

1. To evaluate the growth rate of loan and advances and total investment with respective to growth rate of total deposit and net profit of HBL and EBL.
2. To evaluate rate of risk on loan & advance and investment.
3. To analyse the operating, financial and investment efficiency of two joint venture banks.
4. To analyze the relationship between deposits and total investment, deposits and loan and advance and net profits of HBL and EBL.
5. To analyze the sources and uses of funds and analysis of cash flow of these two joint venture banks.
6. To suggest and recommend some measures for improvement of financial performance of HBL and EBL.

1.7 Significance of the Study

Fund mobilization activities of joint venture banks greatly effects the growth and earning of banks. Effective, stable, appropriate fund mobilizing policy may cause the earning of sufficient return to the banks. Most of the joint- venture banks have been successful to earn profit from effective fund mobilization. Fund mobilizing policy may differ from one joint-venture banks to another but there is no optimum utilization of shareholders fund to have sufficient return in any bank.

Optimum utilization of fund makes better impact on the economy of the nation. Fund mobilization activities must consider customer, national and government as well as its shareholders interest. Significance of the fund mobilization can be written as the following manner:

- General public can make decision to deposit their money in the bank after analyzing the fund mobilization of joint ventures.
- By the help of this study, general public can know the funds mobilizing activities of banks.
- It is also beneficial for the government while formulating policies and rules regarding joint venture bank.

From the study of fund mobilizing policy about bank, shareholders and companies would get information related to the fund mobilizing scheme of the bank and they may know how banks are mobilizing their fund and resources. And it is fruitful to make investment on shares of various joint venture banks.

The study of fund mobilizing policy would provide information to the management of the bank that would be helpful to take corrective action in the bank activities. Effective fund mobilization activities are the cause to increase earnings of the banks. This study will serve to be a guide to the management of banks, financial institutions, related parties, shareholders, general public (customer, depositors and creditors).

1.8 Limitation of the Study

For the completion of the study, some facts are to be considered as limitation of this research work:

This study is based on secondary data and accuracy depends upon the data collected and provided by the organization. The whole study is based on the data of 5 years period (i.e. from F.Y. 2002 to 2006).

This study has been only of two joint venture banks as sample i.e. HBL and EBL.

Non availability of the various references of sources acts as constraints for the study.

Only the fund mobilization aspects are analyzed. Other performance of the organizations is fully neglected, while providing suggestions.

1.9 Organization of the Study

The entire study carried out to different stages and procedures as it needed. The study organized in the following chapters in order to make the study easy to understand.

The first chapter is an introductory chapter which contains background of the study, introduction of commercial banks, focus of the study, statement of the problems, research methodology, and objectives of the study, limitation of the study and organization of the study.

The second chapter is concerned with review of literature. This contains conceptual framework, review of legislative provision, review of research paper and published and unpublished master's thesis of T.U.

The third chapter is the most important part of the study. It deals with the research methodology, which is applied to collect the data and analyze them in this study. It contains introduction, research design, sources of data, population and sample, financial analysis and statistical analysis.

The fourth chapter is analyzing chapter, which deals with presentation and analysis of relevant data through definite courses of research methodology with financial and statistical analysis related to investment and fund mobilization of HBL and EBL. Major findings of the study have been presented at the end of this chapter.

The fifth chapter is the last part of the study, which provides summary and conclusion, suggestions and recommendations for improving the future performance of the sample banks. Finally, an extensive, bibliography and appendices are also presented at the end of the thesis work.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Concept

This chapter is basically concerned with review of literature relevant to the topic "A comparative study on fund mobilization of HBL and EBL." Every study is very much based on past knowledge. The previous study cannot be ignored because they provide the foundation to the present study. There must be continuity in research. This continuity in research is ensured by linking the present study with past research studies. This chapter highlights the literature that is available in concerned subject as to my knowledge, research work, and relevant study on this topic, review of journals and articles and review of thesis work performed previously.

2.1.1 In Worldwide Context

The concept of banking developed from the very beginning of the economic activities. First of all, the effort was made by the ancient gold and valuables. Under such arrangements, the depositors would have their gold for safekeeping and in turn were given a receipt. Whenever receipt was presented, the depositors would return back their gold and valuable after receiving a small payment as fee.

The word "Bank" is derived Italian word "Banko." That means the place where people come together for different transaction. The "Bank of Venice" was the first bank, which established in Italy in 1157 AD as a first modern bank. Then after in 1401 AD "Bank of Barcelona" is established in Spain, Bank of Geneva established in 1407 AD, Bank of Amsterdam established in 1609 AD. But the credit of the development of modern banks goes to "The Bank of England" which was established in 1694 AD in London. The growth of banking accelerated only after

the introduction of the banking Act 1883 in United Kingdom as it allowed opening joint stock company banks.

2.1.2 Introduction of Commercial Bank

Commercial bank is a financial institution which transfers monetary sources to users. In the process of such intermediation, commercial bank deploys funds raised from different sources into different assets with a prime objective of profit generation an administrative assistance. According to Commercial Bank Act 2031, "Commercial banks are those banks which are established under this act to perform commercial function". The commercial banks pool together the savings of the community and arrange for their productive uses. They supply financial needs of modern business.

"The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development; it maintains economic confidence of various segments and extends credit to people" (Grywinski, 1991: 87).

These banks are established to improve people's economic welfare and facility, to provide loan to the agriculture, industry and commerce and to offer banking services to the people and the country. It provides internal resources for developing countries economy. It collects diversified capital from different parts of country through its own branches.

Commercial bank is a corporation which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services.

The main purpose of establishing RBB was to contribute to the development of banking system, particularly in the remote and hilly regions, providing more banking facilities to the public.

Nepal Arab Bank Ltd. (NABIL Bank Ltd.) was the 1st Joint Venture Bank established in 1984 AD, joint ventured with United Arab Emirates Bank. Then two other banks, Nepal Indosuez Bank Ltd. (Nepal Investment Bank Ltd.) with Indosuez Bank of Finance and Nepal Grindlays Bank of London were established in 1986 AD. Himalayan Bank Ltd. joint ventured with Habib Bank of Pakistan and SBI Bank Ltd. with State Bank of India was established in 1993 AD. Everest Bank Ltd. joint ventured with Punjab National Bank, India (early it was joint ventured with United Bank of India, Calcutta) and Nepal Bangladesh Bank Ltd. with IFIC Bank of Bangladesh were established in 1991 AD., Bank of Kathmandu joint ventured with SIAM commercial Bank Public Co., Thailand was established in 1995 AD. And Nepal Bank of Ceylon joint ventured with Ceylon Bank of Sri-Lanka was established in 1997 AD. Besides this, Lumbini Bank Ltd., and NIC Bank Ltd. are also operating from 1997 AD and Kumari Bank Ltd. & Siddhartha Bank Ltd. served as a new commercial bank of Nepali financial market.

All of these banks barely follow the directive and policies of Nepal Rastra Bank (NRB). NRB functions as the central Bank of Nepal. NRB formulates financial and monetary policies under which commercial banks, financial institutions are functioning.

Nowadays there are 25 commercial banks operating in Nepali financial market along with 9 joint venture with foreign investors.

2.1.3 Role of Joint Venture Bank in Nepal

In global prospective, joint venture bank is the mode of trading through partnership among the nations and also a form of negotiations between two or more enterprise

for the purpose of carrying out a specific operation. So, the main purpose of joint venture is to join economic forces in order to achieve desired end. Under joint venture basis, to operate a business organization, there should be at least two partners from the different countries. The primary objective of joint venture bank is to earn profit by investing or granting the loan and advances to the people associate with trade, business, industry etc. that means they are required to mobilize their resources properly to acquire profit "A joint venture is forming of two forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial investment, production trade)" (Gupta, 1984: 25).

The Nepal Government budget for the FY 1984/85 provided the following justification for allowing the setting up of joint venture banks in the following words:

"At present, the financial institutions of the country have been effortful to mobilize resources. On one hand, the major part of the few individual where as the small traders and entrepreneurs are facing difficulties to receive loans on the other. The only solution to this problem is to encourage competition in the banking sector. Therefore, a policy of allowing new commercial banks under joint venture with foreign collaboration has been adopted; this will promote competition among banks whereby the clients will get improved facility. Addition, the share of these new banks will also be sold to the general public and while distributing the shares, it will be ensured that the ownership is spread out to the maximum extent possible". In such manner, joint venture banks are successful to bring healthy competition among banks, increase in foreign investment, promoted and expand export-import trade, introduce new techniques and technologies. The various roles plays by the joint venture banks in Nepal can be classified into three categories:

a. Introducing Advanced Banking Techniques

The joint venture banks in Nepal have been largely responsible for the introduction of new banking techniques such as computerization, hypothecation, consortium finance, fee-based activities and syndicating under the foreign exchange transactions by importers and exporters, merchant banking, inter-bank market for the money and securities, arranging foreign currency loans, etc.

b. Introducing Foreign Investment in Nepal

When looking at the possibility of investing in Nepal, multinational companies are unfamiliar with the local rules, regulations and practices. Though there are many system actually operates during the implementation period. In this context, the joint venture banks help the multinational companies to build up their confidence for investment by providing necessary information and financial support.

c. Bringing in Healthy Competition

The induction of joint venture banks also brings the benefit of healthy competition of which the main beneficiaries are the bank customers and the economy. The increase in competition also force the existing banks to improve their qualities of services by simplifying procedures providing training and motivation to their own staff to respond to the new challenge.

Hence, the entrepreneurial dynamic and pivotal role of the joint venture banks contributes the economic development of the country by providing various new financial services to modernize traditional Nepalese banking system.

2.2 Theoretical Framework

Basically, theoretical framework describes the following terms which are closely related to the research work using different books, while

2.2.1 Features of Sound Lending and Fund Mobilization Policy

Income and profit of the financial institutions like commercial banks and financial institutions depend upon its lending procedure, lending policy and mobilizing collected fund through investing in different securities. The greater the credit created by the bank the higher will be the profitability. Some required features of sound lending policy and fund mobilization is explained as under:

a) Safety and Security

Financial institutions should inlets their deposit in profitable and secured sectors. They should not invest their fund in securities of those companies whose securities are too much depreciated and fluctuated because of risk of loss factors. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable. In this case MAST should be applied for the investment.

Where,

M = Marketability

A = Ascertain ability

S = Stability

T = Transferability

b) Legality

Each and every financial institution follow the rules and regulation of the company, government and various directions supplied by Nepal Rastra Bank, Ministry of Finance and on while issuing securities and mobilizing their fund. Illegal securities will bring out any problems to the investors. Lastly, the reputation and goodwill of the firm may be lost.

c) Liquidity

Liquidity is the position of the firm to meet current or short-term obligations. General public or customers deposit their savings 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, every firm must keep proper cash balance with them while investing in different securities and granting loan for excess fund.

d) Profitability

To maximize the return on investment and lending position, financial institutions must invest their collected fund in proper sectors. Finally they can maximize their volume of wealth. Their return depends upon the interest rate, volume of loan its time period and nature of investment on different securities and sectors.

e) Tangibility

A commercial bank should prefer tangible security to an intangible one. Though it may be considered that tangible properly doesn't yield an income a part from intangible securities, which have lost their value due to price level inflation.

f) Purpose of Loan

Banks and other financial institutions must examine why loan is required to the customer. If customers do not use their borrowings, they can never repay and the financial institutions will have heavy bad debts. So, they should collect detailed information about the plan and scheme of the borrowing.

g) Diversification

A firm can invest its deposit collection in various securities to minimize the risk. So, all the firms must diversify their fund or make portfolio investment. Diversification helps to earn a good return and minimize the risks and uncertainty.

So, the firms are making portfolio investment with different securities of different companies.

2.2.2 Meaning of Some Important Terminologies

The study in this section comprises of some important banking terminology for which efforts have been made to clarify the meaning, which are frequently used in this research work. Their brief summary is presented below:

a) Loan and Advances

Loan, advances and overdrafts have occupied a huge portion for the mobilization of funds of the commercial banks. Bank deposits can be crossed beyond a desired level but the level of loans and advances and overdrafts will never cross it. Commercial Banks and other financial institution may take more preferential collateral while granting loan and advances. Some portion of loan and advances and overdrafts includes that amount which is given to staffs of the banks as home loan, vehicle loan, personal loan and others.

b) Investment on Government Securities, Shares and Debentures

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 banking business. A commercial bank may extent credit by purchasing government securities, bond and shares for several reasons. Some of them are given as:

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

However, investment portfolio of commercial bank is established and maintained primarily with a view of nature of banks liabilities since depositors may demand funds 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.

c) Investment on other Company's Shares and Debentures

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

d) Off- Balance Sheet Activities

Off-balance sheet activities involve contracts for future purchase and sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities on balance sheet. Some good example of these items are letter of credit(L/C), letter of guarantee, bills of collections etc. nowadays, such activities are stressfully highlighted by some economist and finance specialists to expand the modern transaction of a bank.

e) Other use of Fund

A commercial bank must maintain the minimum bank balance with NRB i.e.6% for fixed deposits and 8% for each of current and saving deposit account in local currency. Likewise, 3% cash balance of local cash balance, in local currency, accounts must be maintained in the vault of the bank. Again a part of the fund should be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computers, stationery etc.

f) Deposits

Deposit is the most important source of the liquidity for each and every commercial bank. For financial strength of banks, it is treated as a barometer. In the word of Eugene, "a bank's deposits are the amount that it owes to its customers." A deposit is the lifeblood of the commercial banks. Even 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. (Brigham, Eugene P., 1999).

They are:

- Current Deposits
- Saving Deposits
- Fixed Deposits

2.2.3 Review of Legislative Provisions

Legislative environment has significant impact on the commercial bank's establishment, their mobilization and utilization of resources. All the commercial banks have to confirm to the legislative provisions specified in the Commercial Bank Act 2031 and the rules and regulation formulated to facilitate the smooth running of commercial banks.

Compulsory Cash Reserve Ratio (CRR) and Refinancing

In order to improve the sluggish economy, continuity has been given to flexible monetary policy. NRB has revised the compulsory CRR effective from 22nd July 2002 with a view to reduce the cost of fund of banks which will facilitate the banks to reduce their lending rates without changing in deposit rates. As per this revision, in respect to balance with NRB requirements of commercial banks, the present level of 7 % of the domestic current and saving deposit liabilities and 4.5% of time deposit liability remain unchanged. The requirement of cash reserve in their own

vault, however, has been brought down to 2% from 3%. In respect of refinancing rates, the present rate of 2% for export credit in foreign currency; 3% rehabilitation of sick industries, 4.5% for Grameen Bikas Banks(Rural Development Banks) and export credits in Nepalese currency; and 5.5% for all other types of refinancing remains unchanged. An additional amount of Rs. 1500 million has been set aside to provide refinancing facilities for such industries.

Revised Compulsory Cash Reserve Ratio (in Percentage)

S.N	**20 Dec. 2002**	**22 July 2002**	**Diff. in % points**
Description			
1.Cash deposit requirement in NRB by the commercial banks:			
Total domestic current and savings deposit liabilities	7.0	7.0	0
Total domestic time deposit liabilities	4.5	4.5	0
2. Cash-in-Vault requirement of the Commercial banks (of Total Deposit Liabilities)	3.0	2.0	1.0

Policy Guidelines on the Establishment of the Commercial Banks

Receiving applications for the establishment of commercial banks has been stopped since 1995. Visualizing that such an administrative restriction is not in conformity with the liberal financial policy, the following new policy guidelines have been made public on 16th May 2003:

1) Paid up Capital

To establish a commercial bank of national level having its office in Kathmandu, joint investment with foreign bank and financial institution or a management contract at least for 3 years with such institutions is required. The paid up capital of such bank must be at Rs. 1000 million. To establish the commercial banks in all the

places in the Kingdom other than in the Kathmandu Valley, the paid up capital must be Rs. 250 million.

2) Share Capital

In general, the share of commercial banks will be available for the promoters (70 percent) and general public (30 percent). The foreign banks and financial institutions could have a maximum of 67 % share in investment on the commercial banks of national level. In order to provide adequate opportunity for investment to the Nepali promoters in national level banks, only 20 % of total share capital will be made available to general public on the condition that the foreign bank and financial institutions are going to acquire 50% of the total share. In case of commercial banks to be established outside Kathmandu Valley, share investment of promoters and general public should stand at 70% and 30% respectively.

3) Legal Procedure

Banks to be established with foreign promoters, participation have also to be registered fulfilling all the legal processes prescribed by the prevalent Nepal laws.

4) Banks Already in Operation

Banks that is already in operation and those who have already acquired letter of intent before the enforcement of these provisions have to bring their capital level within seven years, i.e. by 16 July 2009, as per the recently declared provision. Such increase in the capital should be at a rate of 10 percent should be at the minimum.

5) Concerning up Gradation

Banks to be established outside Kathmandu Valley could be allowed to operate throughout the Kingdom including Kathmandu Valley only on the condition that they have brought their paid up capital level to Rs. 1000 million and also fulfilled

other prescribed conditions. Until and unless such banks do not get license to operate throughout the kingdom, they will not be allowed to open any office in Kathmandu Valley.

6) Promoters Share Payment Procedure

Of the total committed share capital, the promoters has to deposit in NRB an amount equal to 20% along with the application and another 30% at the time of receiving the letter of intent on a interest free basis. The bank should put into operation within one year of receiving the letter of intent. The promoters have to pay fully the remaining balance of committed total share capital before the bank comes into operation. Normally, within 4 months from the date of filling the application, NRB should give its decision for the establishment of the bank whether it is in favor or against it. If it declines to issue license, it has to inform in writing with reasons to the concerned body.

7) Promoters Qualification and Experience

Action on the application from promoters will not be initiated if it is proved that their collateral has been put on auction by the bank and financial institutions as a result of non-payment of loans in the past, who have not cleared such loans or those in the black list of the Credit Information Bureau and 5 years have not elapsed from the date of the removal of their name from such list. The application will be deemed automatically cancelled irrespective of it being on any stage of process for license issuance if the above events are proved. Of the total promoters, one-third should be its chartered accountant or at least a graduate of Tribhuvan University or recognized institutions with major in economics or accountancy, finance, law, banking or statistics. Likewise, one-fourth promoters should have the work experience of bank or financial institution or similar nature.

8) Promoters Share

Promoter Group's share can be disposed or transferred only on the condition that the bank has been brought in operation; the share allotted to the general public has been floated in the market and after completion of 3 years from the date it has been registered in the Stock Exchange. But before the disposal of such shares it is mandatory to get approval from NRB. The share allotted to general public has to be issued and sold within 3 years from the date the bank cannot issue bonus shares or declare and distribute dividends, shareholders of the promoters group and their family members cannot have access to loans or facilities from the same institution.

9) Branch Expansion

The commercial banks established in national level will initially be authorized to open a main branch office in Kathmandu Valley. They will be authorized to open one more branch in Kathmandu Valley only after they have opened two branches outside the Kathmandu Valley.

10) Disqualify from Becoming Director

An individual who is already serving as a director in one of the bank or financial institutions licensed by NRB cannot be considered eligible to become the director in other banks or financial institutions. Also, stock brokers, market makers and also an individual and institution involved as an auditor of the bank and institutions carrying on financial transactions cannot be a director (Source: Economic Survey 2002/03).

2.2.4 Fund Mobilizing Procedure of Joint Venture Banks

All the banks of entire world were applied their own fund mobilizing procedure. In practice, straightforward and effective fund mobilization procedure has adopted by the bank. Effective fund mobilization is the indicator of banks prosperity and its growth. Banks have some fund mobilizing procedure they are summarized below:

1. Sources of Fund

In the economic activities there are so many sources of fund. In these sources, issuing share and borrowing loan from different sector. The sources of funds can be categorized in two ways.

A. Owned Funds/ Equity Capital of Bank

Following are the sources of owned funds:

a) Ordinary Share

Ordinary sources are the bank's strong and reliable sources of funds. Banks promoters issue ordinary shares to the public in fixed number. Banks collects the fund by selling fixed ordinary shares to the public by adopting fixed rules and regulation. These public make shareholders after purchasing the issued share.

b) Preference Share

It is that kind of share which receive dividend and after liquidation money before ordinary share. But in Nepal, bank can not issue preference share. But some situation it can issue preference share by taking permission from Nepal Rastra Bank.

c) Bonus Share

Company issue the extra share to the shareholder from the saving from profit and reserve fund by capitalizing these funds is known as bonus share. Bank issue shares to shareholders instead of banks amount. From this share, bank collects some share of funds.

d) Retained Earning

Banks earns profit by investing the funds in different sector through the principle of profit earning. Banks invests its fund in productive or profitable industries and business. Bank earns some amount from these investments.

e) Reserve Fund

Bank separates some share of capital in reserve funds in the time of banking activities. The reserve funds size based on banks earning and rules and regulation. Banks must separate some share of amount from profit in reserve fund. Banks have been earning by investing the reserve funds in liquid sector.

f) Undistributed Dividend

Bank does not distribute all profit to the shareholders. Banks invest some amount from profit by not distributing to shareholders. By this, the invested profit makes sources of funds to the banks.

B. Borrowed Fund of Bank

Bank collects the funds from another source except owned funds. Another source is borrowing from different sector. These types of funds collect borrow and debt capital. Following are the sources of the borrowed fund:

a) Selling of Debenture

Debenture means a “Rinpatra” which is issued by company by keeping or not keeping assets securities for collection of funds. If bank need a fund, it can collect capital by issuing debenture. The money also collects bank capital, which is collected by issuing debenture.

b) Deposits

The bank performs two-fold functions, i.e. the receipt of the deposits and granting the loans. The bank borrows money by accepting different types of deposits. The bank attracts the deposits from the public. The bank not only undertakes to take care of the deposits but also agrees to honors the demands of the depositor for withdraw of money from the deposits. Deposits accepted by the bank are of different types. They are:

Current Deposit

It is also known as demand deposit. A customer can open a current account with a bank by making an initial of Rs. 100. Any amount may be deposited in this account. The bank makes a small charge on the customer having current deposit account.

Saving Deposit

In this deposit, there are restriction on the maximum amount that can be deposited and also withdrawals from the account. The bank may not permit more than one or two withdrawals during a week.

Fixed Deposit

A fixed deposit is one where a customer is required to keep a fixed amount with the bank for specific periods. He is not allowed to withdraw amount before expiry of the period. The rate of interest is higher than on other deposit account during this period the bank is free to make use this money for granting loans and advances.

c) Loan from the Central Bank

NRB is the central bank of Nepal. All banks should operate their banking activities by maintaining the rules and regulations directed by the NRB. In the time of necessity, NRB provides the loans for the banks. The loan granted by the central bank is a bank capital.

d) Loan from the Financial Institutions

Financial institutions also provide loan for the banks. Bank can receive loans from financial institutions in the form of borrowing. The loan granted by the financial institutions is also a bank capital.

e) Loan from Commercial Banks

If banks need money, it receives money from other commercial bank also in the form of borrowing. Banks fulfill the need of cash by taking loan from other banks. It is also the types of bank capital.

2. Mobilization of Funds

Banks utilize its funds in suitable area and right sector. Banks can not achieve its goals until and unless it mobilizes its funds in right sectors and by performing different activities. Many kind of activities and other thing can origin for the purpose of receiving invest from the bank. But bank should separate the useful and profitable sector for mobilization its funds. Banker being only a financial intermediary, we will not be able to make any profit unless he has to pay interest on deposits, meet establishment expenses, meet liquidity of cash balance, and yet allow him some balance from out of which he can build reserve and pay dividend to the shareholder.

As commercial bank they are expected to make profit. If there is no profit, there will be adverse criticism against public sector banking, both in and outside the

parliament when these banks are asked to open new branches in areas which do not allow profits for years, or asked to grant loan to the priority sectors such as small industries and agriculture with a high incidence of bad debts, there is need for counter balancing profit from elsewhere. Therefore, these banks will have to show an ascending order of profits in order to ensure growth with stability. For this purpose the bank will have to allocate land able resources to different segments in such a manner these banks can ensure adequate profitability while at the same time responding to policies laid down in accordance with national objectives.

Therefore, banks should mobilize its funds in suitable and profitable banking activities and right sector. Generally bank has mobilized its funds in the following activities.

a. Liquid Funds

A bank has kept a volume of amount in liquid funds. The funds have so many responsibilities in banking activities liquid funds has covered following transactions.

- Cash in hand
- Balance with NRB
- Balance with domestic bank
- Call money

b. Investment

Bank invests its fund in different banking activities and different fields. Many types of fields are shown in market for investment. But banks invest its funds in profitable and safety activities. Bank invests its fund in the following titles:

- Share and debenture
- Government securities

- NRB bond
- Joint-venture

c. Loan and Advances

Banks mobilize its funds by providing different types of loan and advances to customers, by charging fixed interest. Different types of loan and advances are

- To government enterprises
- To provide enterprises

Bank manages the different types of loans i.e. providing loan, business loan, and traditional loan to priority area.

d. Fixed Assets

Land and buildings are essential for the establishment of bank. Bank's funds are used in buying of furniture, vehicle, computer, and other concerned instrument, which are related to banking activities. Bank cannot take direct gain from these assets, but bank should buy it. A bank has a need of fund to purchase fixed assets for the new branches of the bank.

e. Administrative and Miscellaneous Expenses

Bank should manage funds for administrative and other miscellaneous expenses. The administrative expenses are:

- Salary of Employee
- Allowances
- Pension
- Advertisement
- Stationery

- Provident Fund
- Rent
- Income tax
- Donation
- Insurance
- Tour expenses
- Commission

The miscellaneous expenses are

- To distribute the dividend to shareholders
- To bear the loss on sale and purchase of banking assets
- Maintenance expenses
- To pay the interest on borrowed amount
- Reserve fund

In this way, bank mobilizes its fund by performing different activities to achieve its desired goals i.e. earning profit. Banks are able to earn sufficient profit by mobilizing its funds in proper way into the different profitable sector. It can utilize its collected fund as well as own funds in all banking activities by performing effective fund mobilization procedure.

2.3 Review of Related Studies

2.3.1 Review of Books

Banks are that kind of institutions, which deals with money and substitutions for money. They deal with credit and credit instrument. Effective circulation of credit is more significant for the banks. Unsteady and unevenly flow of credit harms the economic situation of the nation. Because of this, collected fund should be invested

and mobilized into the right sector. An investment of fund decides the life and death of the banks.

“An investment is a commitment of money that is expected to generate additional money that is expected to generate additional money. Every investment entails sacrifice for a future uncertain benefit” (Francis, 1991: 2).

Likewise, Cheney and Moses are concerned with the objective of investment and indicate that the risk is in proportion with the degree of returns. They write, “The investment objective is to increase systematically the individual’s wealth, defined as assets minus liabilities. The higher the level of the desired wealth, the higher must be received. An investor seeking higher return must be willing to face higher level of risk” (Cheney and Moses, 1992: 12).

“Investment is the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor’s wealth, which is the sum of current income and present value of all future income” (Charles, 1999: 2).

“investment” as the sacrifice of money today for the prospective money tomorrow. They write, “Investment in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all and the magnitude is uncertain. In some cases the element of time predominates (e.g. government bond). In other cases, risk is the dominant attribute (e.g. call option on common stock). In yet both time and risk are important” (Sharpe and Gorden, 1996: 1).

“Investment policy fixed 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” (Baxley, 1987: 5).

“Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns” (Gittman and Jochnk, 1990: 18).

Sakespeare Baidya (1997) has an elaborated definition on “investment” which beseeches of sound investment policy and covers wider aspects. He writes, “A sound investment policy of bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to the depositors and banks on the other hand. Moreover, risk in banking sector tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually springs from significant amount of loans that have become uncollectible due to mismanagement, illegal economic downturn. Therefore, the banks investment policy must be such that it ensures sound and prudent in order to protect public funds.

“Further in details he deals with what type of loan do banks make? And, how much of loan is to be invested? The banks make a variety of loans to a wide variety of customers from many different purposes from purchasing automobile to construct of homes and making trade with foreign countries. There, no uniform rules can be laid down to determine the portfolio of bank.

The environment in which the bank operates influences its investment policy. The nature and availability of funds and assets also differ widely from region to region within a country or country to country. For example, the scope of operating a bank in Jumla will be different from the scope of a bank operating in Kathmandu. The

investment policy to be applied in Kathmandu may not be applicable to the customer of Jumla because the demand for loans is less in rural areas whereas it is higher in urban areas".

There are derived a three- pointed basic concept of investment. They are:

- Economic investment that is an economics definition of investment.
- Investment in a more general or extended sense which is used by the man of street or ordinary people.
- The sense in which we are going to be very much interested namely financial investment.

He says, "Banks are those institutions which accepts deposits from the public and in return provide credit to trade, business and industry that directly makes a remarkable impact on the economic development of a country. To collect fund and collect as a good investment is a very risky job. Ad-hoc investment decision leads the bank out of the business thereby drawn the economic growth of a country. Hence sound investment policy is another secret of a successful bank" (Bhalla, 1997: 13).

"Commercial Banks still remain the heart of our financial system holding the deposits of millions of persons, governments and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and governments. Commercial banks are the most important type of financial institutions in the nation in terms of aggregate assets" (Reed, Cotter, Gill and Smith, 1980: 5-1).

The primary function of commercial banks is the extension of credit to worthy borrowers. In making credit available, commercial banks are rendering a great social service. Through their action, production is increased, capital investments

are expanded, and a higher standard of living is realized. Although the investment activities of commercial banks are usually considered separately from lending, the economic effects and social results are the same.

Emphasizing the importance of investment policy, H.D. Crosse puts his opinion like 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 conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit" (Crosse, 1963: 38).

2.3.2 Review of Journals/Articles, Research Papers and Previous Studies

In this subject, effort has been made to examine and review some of the related articles published in different economic journals, Bulletin of World Bank, dissertation papers, newspapers, researchers view and findings towards fund mobilization and other related books.

Sunil Chopra (1989) in his article, "*Role of Foreign banks in Nepal*" had conducted that the joint venture banks playing an increasingly dynamic and vital role in the economic development of the country that will undoubtedly increase with time.

Sunity Shrestha (1997) has analyzed in her article, "*Financial performance of commercial banks using both descriptive and diagnostic approach*". In her studies she has concluded the following points:

a. The structural ratio of commercial banks show that banks invest on the average 75% of their total deposit on the government securities and the shares.
b. The analysis of resources position of commercial banks should quit high

percentage of deposit as cash reserve.

c. Return ratio of all the banks show that most of the time foreign banks have higher return as well as higher risk than Nepalese banks.
d. The debt-equity ratios of commercial banks are more than 100% in most of the time period under study period. It led to conclude that the commercial banks are highly leveraged and highly risk. Joint venture banks had higher capital adequacy ratio but has been dealing every day.
e. In case of the analysis of the management achievement foreign banks have comparatively higher total management achievement index.

According to Asian weekly news paper report, published from Hong Kong, competition between joint venture banks made them to collect large amount as deposit. In same way, Nepal's two joint venture Nepal Arab Bank Ltd. and Himalayan Bank Ltd. are positioned among 500 biggest banks of Asia region. This evaluation is based on the total assets, deposit, loan investment, net income and profit and investment on shares (Kantipur Daily, Wednesday 2001).

Ramesh Lal Shrestha (1987) in his article, "*A study on deposit and credit of commercial banks in Nepal*" concluded that the credit deposit ratio would be 51.30%, other things remaining the same in Nepal, which was the lowest under the period of review. Therefore, he had strongly recommended that the joint venture banks should try to give more credit entering new field as far as possible, otherwise, they might not be able to absorb even the total expenses.

Shiva Raj Shrestha (2055) has presented a short scenario of investment management from his article "*Portfolio Management in Commercial Bank, Theory and Practice*". He has stressed in the following issues, in case of investors having lower income, portfolio management may be limited to small saving incomes. But, on the other hank, portfolio management means to invest funds in

various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore, portfolio management becomes very important both for an individuals as well as institutional investors. Large investors would like to select a best mix of investment assets and subject to the following aspects:

a. Higher return which is comparable with alternative opportunities available according to the risk class of investor.
b. Good liquidity with adequate safety on investment.
c. Certain capital gains
d. Maximum tax concession
e. Flexible investment
f. Economic and efficient investment

In the view of these aspects, investors are expected to develop the following strategy:

a) Do not hold any single security; try to have a portfolio of different securities.
b) Do not pull all the eggs in one basket i.e. to have a diversified investment.
c) Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower return with added objectives wealth maximization.

In order to prepare structure and modus operandi of effective portfolio management, Mr. Shrestha has presented the following approaches to be adopted.

1. To find out the investing assets (generally securities) having scope for better returns depending upon individual characteristics like age, health, need deposition, liquidity and tax liquidity etc.
2. To find out the risk of securities depending upon the attitude of investor towards risks.

3. To develop alternative investment strategies for selecting a better portfolio this will ensure a trade-off between risk and return so as to attain the primary objective of wealth maximization at lowest risk.
4. To identify variety of securities for investment to refuse volatility of returns and risk.

Bodi B. Bajracharya (2047) in his article "*Monetary Policy and Deposit Mobilization in Nepal*" that the mobilization of domestic saving is one of the prime objectives of monetary policy in Nepal. For this purpose, commercial banks stood as the active and vital financial intermediary for generating resources in form of deposit of the investors in different aspects of the economy".

He has explained that commercial banks only can play an important role to mobilize the national savings. Now a day other financial institutions like finance companies, cooperative societies have been established actively to mobilize deposits in the proper sectors so that return can be ensured from the investment.

Bhaskar Sharma (2000) has found same results that all the commercial banks are establishing and operating in urban areas, in this study, "*Banking the future on competition*". His achievements are:

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 sectors.

Commercial banks are charging higher interest rate on lending
They have maximum tax concession
They do not properly analyze the 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 effects 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 activities are possible.

Shekhar Bahadur Pradhan (2053) in his articles, “*Deposit Mobilization, its Problem and Prospects*” He has presented the following problems in the context of Nepal.

People do not have knowledge and proper education for saving in institutional manner. They so now know financial organizational process, withdrawal system, depositing system etc. Financial institutions do not want to operate and provide their services in rural areas.

He has also recommended about how to mobilize the deposit collection by the financial institutions by rendering their services in rural areas, by adding various services. By operating rural banking programmes and unit Nepal Rastra Bank must organize training programmes to develop the skilled human resources. By spreading a numbers of co-operative societies to develop mini banking services and improves the habits of public on deposit collection to the rural areas.

Dr. Radhe Shyam Pradhan (1994) has done a research for which he carried out a survey of 78 enterprises. Through his research entitled, “*Financial Management Practices in Nepal*”. He found some of the major features of the Nepalese financial management. According to him “the most important one appeared to be maintaining good relation with stockholder. The finding reveals that banks and retained earning are most widely used financing sources. Most enterprises do not borrow from one bank only and they do switch between banks to banks whichever

offers best interest rates. Most enterprises find that banks are faxable in interest rate. Among the banks loan, bank loan of less than one year are more popular in public sector where as banks loan of 1-5 years are more popular in private sector. In period of light money, the majority of private sector enterprises fell that bank will treat all firms equally while public sector does not feel so. Similarly, he concluded that the majority of enterprises in traded sector find that bank's interest rate is just right while the majority of non-traded sector find that the some is one higher side".

2.3.3 Review of Thesis

Before this study, various studies regarding the various aspects of commercial banks such as fund mobilizing policy, financial performance, investment policy, lending policy, interest rate structure, resource mobilization and capital structure have conducted several thesis works.

Some of them, which are relevant for this study, are presented below:

Mahendra Mandala (1998), in his thesis paper "*A Comparative Financial Performance Appraisal of Joint Venture Banks*". has studied primarily three joint venture banks i.e. NABIL, NGBL and Nepal Indosuez Bank Ltd. His main objectives is to find out the both banks, NGBL and NABIL have mobilized the debt funds in proper way for generating more return but Nepal Indosuez Bank (NIBL) could not mobilize as NABIL and NGBL. He has recommended that all the banks should provide their facilities in rural areas and encourage the small entrepreneur's development programmes, play merchant role, mobilize the deposit funds in productive sectors and grant priority to the local manpower.

He has not attempted to show the investment policy and concentrated only on financial performance of JVBs, therefore if can not represent the performance appraisal of JVBs. His study is comparative study of only three JVBs. His study

period is up to FY 1997/98 and it can not analyze the investment policy after this fiscal year.

Udaya Bahadur Silwal (1980), has conducted a study on "*Lending Policy of Commercial Banks in Nepal*" having following objectives:

- To analyze the role of commercial banks in its historical perspective
- To show the relationship between deposits and loan and advances
- To identify major weakness of lending policy of the commercial banks

The research was conducted mainly on the basis of secondary data. Findings of this research are summarized below:

Effectiveness of lending policy is directly based upon a sound banking system. But due to geographical variation, transportation and other regional disparities, it is very difficult to expand branches in different rural areas. So, it can be said that commercial banks in Nepal are not playing an active role to utilize their sources collected from different sectors.

By paying higher interest rate, the banks are increasing deposits, which in turn increase saving habits of the general people. Then the banks will be able to utilize these idle funds in productive channels. This type of business of commercial bank is really a necessary one in an agricultural country like Nepal, where public investment has limited capacity.

M.N. Karmacharya (1998), in his thesis paper "*A Study on the Deposit Mobilization by the Joint Venture Banks*" has mentioned that the bank has successfully maintained its liquid asset position but could not mobilize its resources efficiently. He has concluded that Nepal Bank's utilization side is weak as compare

to the collection of resources. He suggested for extending its branches, so NBL's deposit collection and also long-term as well as short-term credit may increase. He has recommended not to consider security factor only but to provide loan to genuine projects without securing.

Uttam Raj Panta (1998), in his thesis paper "*A Study of Commercial Bank Deposits and Utilizations*" has tried to examine the resources collection and utilization. He has concluded that commercial banks have failed to utilize their resources due to lending for short term only. So that he has suggested that all commercial banks should give preference on long term lending sectors for the better utilization of the deposits and improvement of their existing situation.

He has tried to show the deposit position and utilization. He has not also explained the risk factors. His main focus is deposit collection, which can not show and analyze the financial position and proper investment policy. His study period is up to FY 1975/76 which can not show deposit position and its utilization for succeeding years.

Bhoj Raj Bohara (1992), in his thesis paper "*A Comparative Study of the Financial Performance of Nepal Arab Bank Ltd. and Nepal Indosuez Bank Ltd.*" has studied mainly financial performance of two joint venture banks. His main objective is to examine the comparative financial performance (during FY 1986/87 to 1990/91) of NABIL and SCBNL in terms of their liquidity, activity and profitability. He has summarized and concluded that the increasing trend of SCBNL's earning per share, cash dividend per share, tax per share, net profit, total loans, total deposits and advances and market value per share in the last deposits, total loans and advances and market value per share in the last three years of the study period had shown improvement than that of NABIL.

He has also shown the comparative performance appraisal of only two joint venture banks. Although he has tried to analyze and explain the liquidity and explain the liquidity, activity and profitability position of two JVBs, he has not explained the investment policy and various types of risks. His study can not show the performance of the selected firms for the succeeding years because of time limitation i.e. up to 1990/91.

Uddab Prasad Sapkota (2002), in his thesis paper "*A study on Fund Mobilizing Policy of Standard Chartered Bank Ltd in comparison to Nepal Bangladesh Bank Ltd and Himalayan Bank Ltd*" having main objectives to examine the fund mobilizing policy adopted by three joint venture banks viz. SCBNL, NBBL and HBL and the way these banks mobilized their funds during five year study period i.e. from 1996/97 to 1999/2000.

He found the overall condition of SCBNL seems in satisfactory position in comparison to NBBL and HBL. In other words, he recommends that banks are strongly recommended to provide information about its services, facilities and extension of their services towards rural areas. These three banks is recommended to increase cash and bank balance to meet the need of investment and demand of loan and advances. And banks are to be investing its funds in the purchase of shares and debentures of other financial, non-financial companies, hotels and government companies.

Sapkota has not explained about the risk ratios which have to be faced by these joint venture banks. His study can not show the fund mobilizing policy of the selected banks for the succeeding years because of time limitation i.e. up to 1999/2000.

While reviewing the books and articles and previous studies, it is found that banks are not just the storehouse of the country's wealth but are the reservoirs of resources necessary for economic development and employment generation. There are still different obstacles in the effective operation of the commercial banks in Nepal. Therefore these obstacles should be eradicated for the economic development of Nepal.

2.4. Research Gap

The present thesis work reflects the following research gap.

This thesis work has covered the period of study till 2006/07 A.D. whereas the previous thesis work covered only up to 2005/06.This thesis work has covered that HBL and EBL are focusing on different schemes to collect deposits from general public whereas the previous thesis work lacks this concept. Because deposit collecting schemes are new concepts to attract consumers in competitive banking sector.

We have lots of research on the topic 'Fund mobilization' of Everest Bank Ltd and Himalayan Bank Ltd. Among those studies - some focused on the deposit collection of the Everest Bank Limited and Himalayan bank limited-some included the study on their fund mobilization and some also emphasized on the consistency of the fund investment.

This study also focuses on all the above issues related to fund mobilization of the bank – with similar kind of analysis tools. The selection of the banks here is made on the basis of their establishment date, i.e. they are categorized on the basis of their establishment time. Besides this study fund mobilization on EBL and HBL has covered data which covers the information from 2003-2007.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Generally, Research methodology refers to the numerous processes adopted by the researchers during the research period. It is the technique to solve the research problem in systematic manner. This includes many techniques and is crucial for every research work. The main objective of this research work is to evaluate the fund mobilizing procedure adopted by the two joint venture banks i.e. HBL and EBL.

"Research methodology refers to the various sequential steps to be adopted by a research in studying a problem with certain objectives in view" (Kothari, 1989: 30).

This study will seek the conclusion to the point that what kind of position EBL and HBL have got and suggested the precious and meaningful points so that all concerned can fruitful from this research work.

3.2 Research Design

"A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure" (Kothari, 1992: 25).

This study is analytical in nature. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. The research design allows the researchers to take an appropriate measure and direction towards the predetermined goals and objectives.

The research examines the facts and postulates in certain frameworks on details and supplies the important information on subject matter, summary of the study, major findings of the study, recommendations, conclusion etc. are the most significant information among them, they are derived with the help of some financial and statistical tools were adapted to evaluate the fund mobilization of joint venture banks viz. EBL and HBL in consideration not only to research about them but also to facilitate among them.

3.3 Sources of Data

The study is mainly based on secondary data. The secondary sources of data collections are those that have been used from published on used by someone previously. The secondary sources of data are Balance Sheet, Profit & Loss account and literature publication of the concerned banks. The NEPSE report of the concerned bank has furnished some important data to this research work. Some supplementary data and information have been collected from the authoritative sources like Nepal Rastra Bank, Central Library of T.U., Shankar Dev Campus library, Nepal Commerce Campus library, Nepal Stock Exchange Limited, Security Exchange Board, Economic Survey, National Planning Commission, different journals, magazines and other published and unpublished reports documented by the authorities.

In order to fulfill the objectives of this research work, all the secondary data are compiled, processed and tabulated in time series. And to judge the reliability of data provided by the banks and other sources, they were compiled with the annual reports of auditors. Formal and informal talks to the concerned head of the department of the bank were also helpful to obtain the additional information of the related problem.

3.4 Nature of Data

In case of primary data, some personal views and ideas of individual's respondent are collected. But in case of entire study secondary data used are basically of the following nature. Most of the data taken for the analysis is collected in the form of published by the concerned banks through their annual reports.

Since all the banks which are taken into account for the study are listed in NEPSE, the figures are all most reliable and suitable too.

3.5 Population and Sample

There are altogether 18 commercial banks functioning all over the kingdom and most of their stocks are traded actively in the stock market. Among them nine are JVBs and nine are domestic commercial banks. Among all the banks only two banks are selected for comparative study. These banks are compared as per fund mobilizing activities. They are:

1. Everest Bank Ltd.
2. Himalayan Bank Ltd.

These two banks are compared as per fund mobilization procedure, that they are adopting to mobilize their collected funds as well as own funds.

3.6 Data Analysis Tools

Analysis and presentation of the data is the core of each and every research work. This study requires some financial and statistical tools to accomplish the objective of the study. The financial and statistical tools are most reliable. In this study various financial, statistical and accounting tools have been used. These tools make the analysis more effective, convenience, reliable and authentic.

The various results obtained with the help of financial, accounting and statistical tools are tabulated under different headings. Then they are compared with each other to interpret the results. Two kinds of tools have been used to achieve the certain goals.

1. Financial Tools
2. Statistical Tools

3.6.1. Financial Tools

Financial tools basically help to identify the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. Financial tools are categorized into two parts.

They are:

i. Ratio Analysis
ii. Sources and Uses of Funds
iii. Cash flow Analysis

I. Ratio Analysis

Ratio analysis is the powerful tool of financial analysis. A ratio is defined as "the indicated quotient of two mathematical expressions, the relationship between two or more things" (Merriam, 1975: 958). "In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The relationship between two accounting figure expressed mathematically, is known as a financial ratio or simply a ratio. An accounting figure conveys meaning when it is related to some relevant information" (Pandey, 1975: 104).

"A ratio is a mathematical relationship between two variables. It is significant for financial analysis. It also helps us to predict the future performance of a company based on study of ratios of earlier years" (Benerjee, 1989:95).

Thus, ratio analysis is the part of whole process of analysis of financial statements of any business or industrial concerned especially to take output and credit decision. Ratio indicates a quantitative relationship, which can be, in turn, used to make a qualitative judgment. Even though there are various types of ratios to analyze and interpret the financial statement, only six types of ratios have been taken in this study, which are related to fund mobilization of the banks. They are presented below:

A. Liquidity Ratios

i) Cash and Bank Balance to Total Deposit Ratio

ii) Cash and Bank Balance to Current Assets Ratio

iii) Investment on Government Securities to Current Assets Ratio

B. Assets Management Ratios

i) Loan and Advances to Total Deposit Ratio

ii) Total Investment to Total Deposit Ratio

iii) Loan and Advances Total Working Fund Ratio

iv) Investment on Government Securities to Total Working Fund Ratio

v) Investment on Shares and Debenture to Total Working Fund Ratio

C. Profitability Ratios

i) Return on Loan and Advances Ratio

ii) Return on Total Working Fund Ratio

iii) Total Interest Earned to Total Working Fund Ratio

D. Risk Ratios

i) Liquidity Risk Ratio

ii) Credit Risk Ratio

E. Growth Ratios

i) Growth Ratio of total Deposits

ii) Growth Ratio of Total Investment

iii) Growth Ratio of Loan and Advances

iv) Growth Ratio of Net Profit

A. Liquidity Ratio

Liquidity ratios are applied to measure the ability of the firms to meet short term obligations. It measures the speed of firms to convert the firms asset into cash to meet deposit withdraws and other current obligations. This is quick measure of the liquidity and financial strength of the firm.

"Liquidity ratios examine the adequacy of funds, the solvency of the firms ability to pay its obligation when due" (Hampton, 1971: 139). Various types of liquidity ratios are applied in these studies, which are explained below:

i) Cash and Bank Balance to Total Deposit

Cash and bank balance are the most liquid current assets of a firm, cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositors immediately.

This ratio is computed dividing the amount of cash and bank balance by the total deposits. It can be presented as,

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

Where, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance held abroad. Total deposits consist of deposits on current account, saving account, fixed account, money at call and short notice and other deposits.

ii) Cash and Bank Balance to Current Assets Ratio

This ratio measures the percentage of liquid assets i.e. cash and bank balance among the current assets of a firm. Higher ratio shows the higher capacity of firms to meet the cash demand. This ratio is calculated dividing cash and bank balance by total current assets and can be calculated as,

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

Hence, cash and bank balance includes cash in hand, foreign cash and foreign banks.

iii) Investment on Government Securities to Current Assets Ratio

This ratio is used to find the percentage of current assets invested on government securities, treasury bills and development bonds. It can be mentioned as:

$$\text{Invt. on Govt. Sects. to Current Assets} = \frac{\text{Investment on Government Securities}}{\text{Current Assets}}$$

Where, Investment on government securities involves treasury bills and development bonds etc.

B. Assets Management Ratios (Activity Ratio)

The asset management ratios, measures how effectively the firm is managing its assets. These ratios are designed to answer this question: does the total amount of each type of asset as reported on the balance sheet seem reasonable or not. If a firm has excessive investments in assets then its capital costs will be unduly high and its stock price will suffer (Brigham, 1996: 74).

In this study this ratio is used to indicate how efficiently the selected banks have arranged and invested their limited resources. The following financial ratios related to fund mobilization are calculated under asset management ratio and interpretation is made by these calculations.

i) Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out how successfully the selected banks are utilizing their total collections or deposits on loan and advances for the purpose of earning profit. Greater ratio shows the better utilization of total deposits. This ratio can be obtained dividing loan and advances by total deposits, which can be shown as,

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

ii) Total Investment to Total Deposit Ratio

Investment is one of the major sources of earning of profit. This ratio indicates how properly firm's deposits have been invested on government securities and shares and debentures of other companies. This ratio is computed by using following formula:

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

Where, total investment includes investment on government securities, investment on debentures and bonds, share in subsidiary companies, shares in other companies and other investments.

iii) Loan and Advances to Total Working Fund Ratio

The main element of total working fund is loan and advances. This ratio indicates the ability of selected banks in terms of earning high profit from loan and advances.

Loan and advances to working fund ratio can be obtained dividing loan and advances amount by total working fund.

That is formulized as,

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

Where, total working fund includes total amount of assets given in balance sheet which refers to current assets, net fixed assets, total loans for development banks and other sundry assets except off balance sheet items i.e. letter of credit, letter of guarantee etc.

iv) Investment on Government Securities to Total Working Fund Ratio

Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage. It can be obtained by:

$$\text{Invt. on Govt. Sect. to Total Working Fund Ratio} = \frac{\text{Invt. on Government Securities}}{\text{Total Working Fund}}$$

Where, investment on government securities includes investment on debentures, bonds and shares of other companies.

v) Investment on Shares and Debentures to Total Working Fund Ratio

Investment on shares and debentures to total working fund ratio shows the investment of banks on the shares and debentures of other companies in terms of total working fund. This ratio can be obtained dividing on shares and debentures by total working fund. It is calculated as:

$$\text{Invt. on Shares and Debt to TWF Ratio} = \frac{\text{Invt. on Shares and Debn}}{\text{Total Working Fund}}$$

Where, total investment includes investment on government securities, investment on debenture and bonds, shares of other companies.

C. Profitability Ratios

Profit is only appeared when there is positive difference between total revenues and total cost over a certain period of time. Profitability ratios show the combined effects of liquidity, assets management, and debt on operating results. Profitability ratios are very helpful to measure the overall efficiency of operations of a firm. It is a true indication of the financial performance of each and every business organization. Here profitability ratios are calculated and evaluated in terms of the relationship between net profit and assets. Profitability of the firms can be presented through the following different ways:

i) Return on Loan and Advances Ratio

Return on loan and advances ratio shows how efficiently the banks have utilized their resources to earn good return from provided loan and advances. This ratio is computed dividing net profit (loss) by the total amount of loan and advances and can be mentioned as,

$$\text{Return on Loan and Advances Ratio} = \frac{\text{Net Profit (Loss)}}{\text{Loan and Advances}}$$

ii) Return on Total Working Fund Ratio

Return on total working fund ratio measures the profit earning capacity of the banks by utilizing available resources i.e. total assets. If the bank's well managed and efficiently utilized its working fund, it will get higher return. Maximizing taxes, this in the legal options available will also improve the return. It is computed as:

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

iii) Total Interest Earned to Total Working Fund Ratio

This ratio reflects the extent to which the banks are successful in mobilizing these total assets to acquire income as interest. This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the income as interest.

We have,

$$\text{Total Interest Earned to TWF Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Working Fund}}$$

iii) Total Interest paid to Total Working Fund Ratio

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher interest expenses on total working fund and vice-versa. This ratio is calculated as:

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

D. Risk Ratios

Generally, risk means uncertainty which lies in the business transaction of investment management. When a firm wants to bear risk and uncertainty, profitability and effectiveness of the firm is increased. This ratio checks the degree of risk involved in the various financial operations. For this study, following risk ratios are used to analyze and interprets the financial data and investment policy.

i) Liquidity Risk Ratio

The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit, as the liquidity needs. The ratio of cash and bank balance to

total deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash and bank balance but this reduces profitability. When the bank makes loan, its profitability increases and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated by dividing cash and bank balance to total deposit.

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

ii) Credit Risk Ratio

Bank utilizes its collected funds in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally credit risk ratio shows the proportion of non performing assets in the total investment plus loan and advances of a bank. It is computed as:

$$\text{Credit Risk Ratio} = \frac{\text{Total Investment} + \text{Total Loan and Advances}}{\text{Total Assets}}$$

E. Growth Ratios

The growth ratios represent how well the commercial banks are maintaining their economic and financial position. The higher ratios represent the better performance of the selected firms to calculate, check and analyze the expansion and growths of the selected banks the following growth ratios are calculated. Growth ratios are directly related to the fund mobilization and investment of those firms.

i) Growth Ratio of Total Deposits
ii) Growth Ratio of Total Investment
iii) Growth Ratio of Loan and Advances
iv) Growth Ratio of Net Profit

II. Sources and Uses of Funds

Management of funds is the important part of the banking business. The problem of managing funds is great for banks than it is for almost any other enterprise. The sources and uses analysis took out proportion of each source and each use to the total funds of the bank and it were expressed in percentage. And the percentage was compared with the standard percentage of a typical bank. This analysis also concerned behaviors of the sources of funds. The uses were analyzed in terms of their supporting ability to the sources of funds to which they represent. In order to make study easier, the sources and uses of funds of bank's were categorized and presented below:

Sources and Uses of Funds

1. Capital Fund
    - Liquid Funds
2. Deposits
    - Investments
3. Borrowings
    - Loan and Advances
4. Others
    - Interest Accrued
    - Others

Cash is the lifeblood of an organization. No business can be satisfactorily managed unless careful attention is paid to its requirements of cash. Without it a business will cease to operate. Therefore, an analysis of cash flows is useful for short-run planning. A firm needs sufficient cash to pay debts maturing in the near future, to pay interest and other expenses and to pay dividends to shareholders.

The analysis of events and transactions that affects the cash position of company is termed as cash flow analysis. Cash flow analysis is done through statement of cash

flows. A cash flow statement is a statement of company's ability to generate cash from various activities such as operating, investing, and financing and their need of cash. It is a statement which shows the inflows and outflows of cash and cash equivalents during the year (Wagle & Dahal, 2003: 11).

This statement is prepared to know clearly the various items of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis relates to the movement of cash rather than the inflow and outflow of working capital. It summarized the causes of change in cash position between dates of two balance sheets. While preparing cash flow statement, only cash receipts from debtor against credit dates are recognized as the source of cash. Similarly, cash purchases and cash payment to supply for credit purpose is regarded as the use of cash. The projection of cash flow for near future can be made to determine the availability of cash. This cash balance can be matched with the firm's need for cash during the period and accordingly, arrangements can be made to meet the deficit or invest the surplus cash temporarily. A historical analysis of cash flows provides insight to prepare reliable cash flow projections for the immediate future.

Outflows

Fixed Assets

Expenses

Creditors

Cash Purchase

Repayment of Loan

Bank

Total Debt, Issue of Share, Fixed Assets

3.6.2 Statistical Tools

In this study, some important statistical tools have been used to present and analyze the data for achieving the objectives. Such as coefficient of correlation between different variables, trend analysis of important variables as well as hypothesis test (t-statistic) has been used, which are presented below:

i) Karl Pearson's of Coefficient of Correlation Analysis
ii) Coefficient of Variation (C.V)
iii) Standard Deviation (S.D)
iv) Probable Error (P.E)
v) Testing of Hypothesis

i) Karl Pearson's Coefficient of Correlation Analysis

This statistical tool has been used to analyze, identify and interpret the relationship between two or more variables. It interprets whether two or more variables are correlated positively or negatively. Statistical tool analyses the relationship between those variables and helps the selected banks to make appropriate investment policy regarding to profit maximization and deposit collection; fund mobilization through providing loan and advances.

For the purpose of decision-making, interpretation is based on following term:

When r = 1, there is perfect positive correlation.

When r = -1, there is perfect negative correlation.

When r = 0, there is no correlation.

When 'r' lies between 0.7 to 0.999 (-0.7 to 0.999), there is a high degree of positive (or negative) correlation.

When 'r' lies between 0.5 to 0.699, there is moderate degree of correlation.

When 'r' is less than 0.5, there is low degree of correlation.

Karl Pearson's correlation coefficient has been used to find out the relationship between the following variables:

a) Coefficient of Correlation between Deposit and Loan and Advances

Correlation coefficient between deposits and loan and advances measures the degree of relationship between two variables i.e. X and Y. In this analysis, deposit is independent variables (X) and loan and advances is dependent variables (Y). The main purpose of calculating correlation coefficient is to justify whether the deposits are significantly used in proper way or not and whether there is any relationship between these two variables.

b) Coefficient of Correlation between Deposit and Total Investment

Correlation coefficient between deposit and investment is to measure the degree of relationship between deposit and total investment. In this analysis, deposit is independent variables (X) and total investment is dependent variables (Y).

Karl Pearson's Correlation coefficient(r) can be obtained as:

$$r = \frac{N\sum xy}{\sqrt{\sum x^2}\sqrt{\sum y^2}}$$

$x = X - \overline{X}$

$y = Y - \overline{Y}$

Where,

n = number of observations in series X and Y

X = sum of observations in series X

Y = sum of observations in series Y^2

X =sum of squared observations in series X^2

Y = sum of squared observations in series Y

XY = sum of the product of observations in series X and Y

i) Coefficient of Variation (C.V)

The coefficient of variation is the most commonly used measure of relative variation. It is used in such problems where the researcher wants to compare the variability of more than two less consistent, less uniform, more years. Greater the C.V, the variable or conversely consistent, more uniform, more stable and homogeneous.

$$CV = \frac{\text{Standard Deviation}}{\text{Expected Return}} \times 100$$

ii) Standard Deviation (S.D)

Karl Pearson first introduced the concept of standard deviation in 1983. Standard deviation is the positive square root of the arithmetic average of the squares of all the deviation measured from the arithmetic average of the series. The standard deviation measures the absolute dispersion of a distribution. Greater the amount of dispersion the greater the standard derivation i.e. greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series. Standard Deviation is denoted by a Greek letter '∃' (Sigma) and is calculated as follows.

$$\text{Standard Deviation } (\exists) = \sqrt{\frac{f\varepsilon\ z\varepsilon\bar{A}^2}{\rho}}$$

Where,

N = Number of items in the series.

$\bar{\varepsilon}$ = Mean

X = Variable

iv) Probable Error (P.E)

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

$$P.E = 0.6745 \times \frac{1 - r^2}{n}$$

Where r is coefficient of correlation and n is the number of pairs of items. The following general rules are taken to interpret the value of r:

If the value of 'r' is less than the probable error, there is no evidence of correlation, i.e. the value of 'r' is not at all significant.

If the value of 'r' is more than six times the probable error, the existence of correlation is practically certain, i.e. the value of 'r' is significant.

vi) Test of Hypothesis

Under this analysis the effort has been made to test the significance level regarding the parameter of the population on the basis of sample drawn from the population. The following steps have been followed for the test of hypothesis.

a) Formulating Hypothesis

i) Null Hypothesis (H_0)

ii) Alternative Hypothesis (H_1)

b) Computing the t- statistic

c) Fixing the significance level on

d) Finding critical region

e) Deciding two-tailed or one-tailed test

f) Decision making

The following lines, some of main hypothesis tests are calculated and decision is made in according to findings.

Null Hypothesis (H0): $\mu_1 = \mu_2$ i.e., there is no significant difference between mean ratios of loan and advances to total deposit of HBL and EBL.

Alternative Hypothesis (H_1): $\mu_1 . \mu_2$ i.e., there is significant difference between mean ratios of loans and advances to total deposits of HBL and EBL.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

General fund mobilization means to flow the cash in different sectors at profit motive. All the banks were applied their own fund mobilizing procedure. In practice, straight forward and effective fund mobilization procedure has adopted by the bank. Effective fund mobilization is the indicator of banks prosperity and its growth.

This chapter is primarily concerned with presentation and analysis of data. In this study effort has been made to analyze the collected data by using financial and statistical tools as well as various graphical presentations. Like wise, comparative balance sheet and comparative profit and loss account from the year 2003 to 2007 of HBL and EBL are presented in appendices.

4.1 Ratio Analysis

4.1.1 Liquidity Ratios

4.1.1.1 Cash and Bank Balance to Total Deposit

Cash and Bank balance to total deposit ratio is computed by using following formula:

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

Table 4.1

Comparative Cash and Bank Balance to Total Deposit Ratio

Year	Ratio (%)	
	HBL	**EBL**
2003	6.79	10.84
2004	9.42	17.02
2005	9.09	7.84
2006	8.12	10.40
2007	6.48	11.25
Mean($\bar{X}$)	**7.98**	**11.47**
S.D.(σ)	**1.18**	**3.02**
C.V.	**14.79**	**26.33**

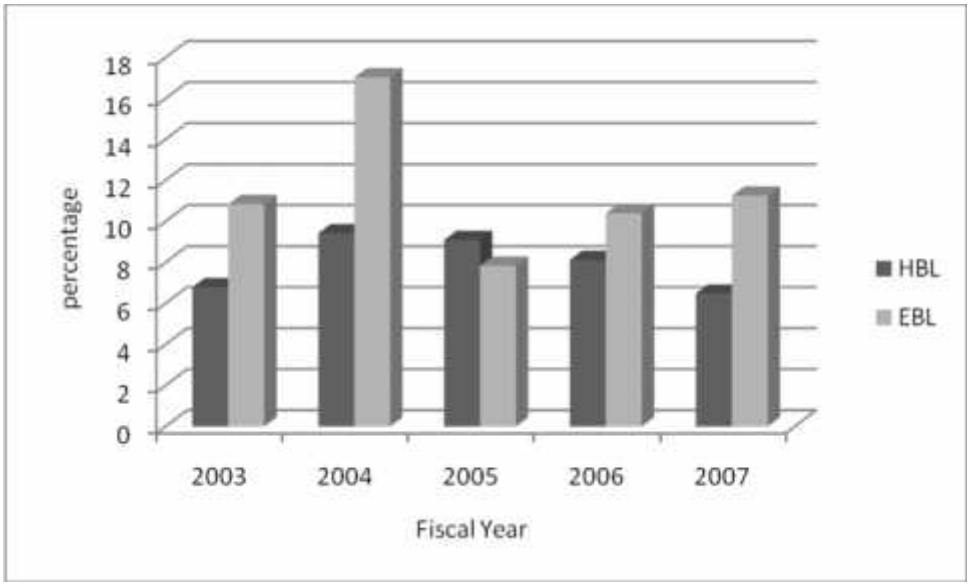
Source: Appendix- I

From the above comparative table, cash and bank balance to total deposit ratio of the two banks followed a fluctuating trend. EBL has maintained the higher ratio i.e. 17.02% of cash and bank balance to total deposit than HBL during the study period.

The average ratio of EBL is higher than HBL. HBL has the ratio of 7.98%. The variability of the ratio is lower in HBL it states that HBL is more consistent than EBL.

This ratio can be presented by the help of diagram, which is shown below:

Figure 4.1
Comparative Cash and Bank Balance to Total Deposit Ratio



4.1.1.2 Cash and Bank Balance to Current Assets

This ratio is calculated dividing cash and bank balance by total current assets and can be calculated as,

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

Table 4.2

Comparative Cash Bank Balance to Current Assets Ratio

Year	Ratio (%)	
	HBL	**EBL**
2003	8.93	9.32
2004	11.72	14.54
2005	10.76	6.72
2006	10.79	9.10
2007	8.06	10.25
Mean($\bar{X}$)	**10.05**	**10.00**
S.D.(σ)	**1.35**	**2.56**
C.V.	**13.43**	**25.6**

Source: Appendix-I

From the above comparative table, it reveals that cash and bank balance to current assets ratio of HBL has less fluctuating trend. The highest ratio of HBL is 11.72% in the year 2004 and lowest ratio 8.06% in the year 2007. EBL has highest ratio of 14.54% and lowest ratio 6.72%. Among two banks, EBL has maintained the highest ratio than HBL.

Similarly, C.V. ratio of HBL is less than EBL i.e. 13.43%. It indicates that ratio of HBL is more stable than EBL.

4.1.1.3 Investment on Government Securities to Current Assets

This ratio is used to find the percentage of current assets invested on government securities treasury bills and development bonds. It can be mentioned as:

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

Table 4.3

Comparative Investment on Government Securities to Current Assets Ratio

Year	Ratio (%)	
	HBL	**EBL**
2003	21.52	24.20
2004	23.69	20.41
2005	14.90	26.24
2006	29.30	18.20
2007	24.16	23.43
Mean($\bar{X}$)	**22.71**	**22.50**
S.D.(σ)	**4.68**	**2.85**
C.V.	**20.61**	**12.67**

Source: Appendix-I

The above comparative table shows HBL has invested more portions of current assets in government securities i.e. 29.30% in the year 2006 in comparison to EBL during the study period.

The mean ratio of HBL is highest i.e. 22.71% than that of EBL coefficient of variation of EBL is 12.67%. It seems that EBL is more consistent to make investment in government securities than HBL.

4.1.2 Assets Management Ratio

The following financial ratios related to fund mobilization are calculated under assets management ratio and interpretation is made by these calculations.

4.1.2.1 Loan and Advances to Total Deposit

This ratio can be obtained by dividing loan and advances to total deposit, which can be shown as.

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

Table 4.4

Comparative Loan and Advances to Total Deposit Ratio

Year	Ratio (%)	
	HBL	**EBL**
2003	47.87	72.23
2004	47.61	73.32
2005	54.30	72.97
2006	50.07	75.45
2007	55.27	71.01
Mean($\bar{X}$)	**51.02**	**73.00**
S.D.(σ)	**3.21**	**1.46**
C.V.	**6.29**	**2.00**

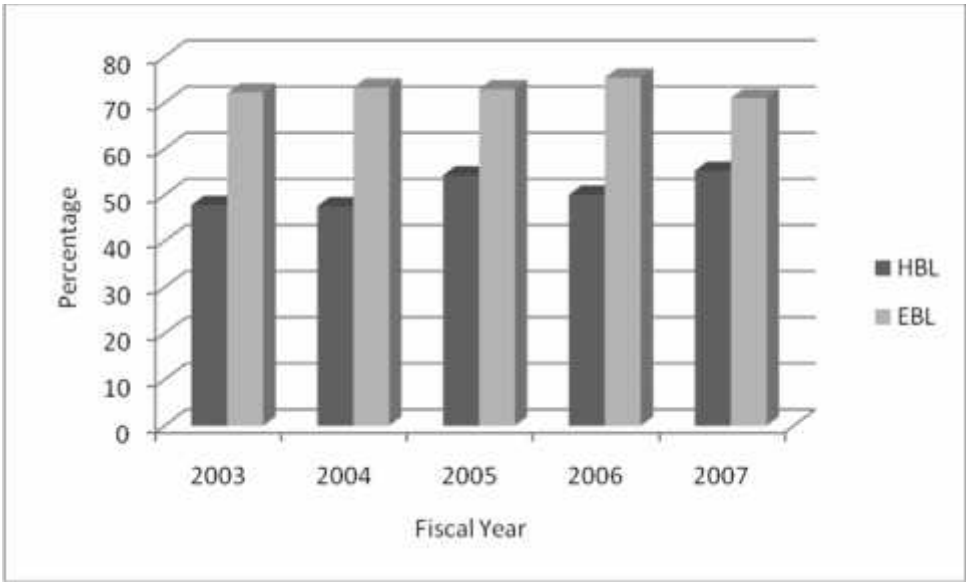
Source: Appendix-I

The above comparative table shows that these two banks have mobilized their collected deposits in fluctuating trend as loan and advances during the study period. The higher ratio of loan and advances to total deposit of HBL and EBL are 55.27 and 75.45 respectively. HBL has mobilized 51.02% of it's collected deposit in loan and advances which is less than EBL in average, coefficient of variation of EBL is 2% which shows that EBL is more stable than HBL in mobilizing collected deposit.

This ratio can be presented by the help of graph.

Figure 4.2

Comparative Loan and Advances to Total Deposit Ratio



4.1.2.2 Total Investment to Total Deposit

This ratio is computed by using following formula.

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

Table 4.5

Comparative Total Investment to Total Deposit Ratio

Year	Ratio (%)	
	HBL	**EBL**
2003	49.18	29.79
2004	48.44	24.15
2005	42.22	30.80
2006	22.20	21.00
2007	19.60	25.85
Mean($\bar{X}$)	**36.33**	**26.32**
S.D.(σ)	**12.85**	**3.62**
C.V.	**35.38**	**13.74**

Source: Appendix-I

From the above comparative table, it can be conclude that to banks have the ratios of fluctuating trend during the study period. In average HBL has invested more amount of its total deposit in comparison to EBL i.e. 36.33%. The coefficient of variation of EBL is 13.74%. It indicates that EBL is more consistent to make investment of total deposit than HBL.

4.1.2.3 Loan and Advances to Total Working Fund

Loan and advances to working fund ratio can be obtained dividing loan and advances amount by total working fund that is formulizes as,

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

Table 4.6

Comparative Loan and Advances to Total Working Fund Ratio

Year	Ratio (%)	
	HBL	**EBL**
2003	43.12	59.20
2004	42.82	60.96
2005	48.26	61.37
2006	45.37	65.07
2007	49.74	61.44
Mean($\bar{X}$)	**45.86**	**61.61**
S .D.(σ)	**2.75**	**1.91**
C.V	**6.00**	**3.11**

Source: Appendix- I

Above table describes the loan and advances to total working fund ratio of HBL and EBL in fluctuating trend. During the study period HBL and EBL have highest ratio 49.74 and 65.07 in year 2007 and 2006 respectively. On average EBL maintains highest ratio of 61.61% than HBL. The coefficient of variation of lowest variation i.e. 3.11%.

4.1.2.4 Investment on Government Securities to Total Working Fund

Investment on government securities to working fund ratio show how much part of investment is there on government securities. It can be obtained by.

$$\text{Investment on Government of TWF Ratio} = \frac{\text{Investment on Govt Securities}}{\text{Total Working Fund}}$$

Table 4.7

Comparative Investment on Government Securities to Total Working Fund Ratios

Year	Ratio (%)	
	HBL	**EBL**
2003	14.74	23.07
2004	17.12	19.86
2005	14.02	25.73
2006	20.00	17.94
2007	17.74	22.25
Mean($\bar{X}$)	**16.67**	**21.77**
S.D (σ)	**2.13**	**2.68**
C.V.	**12.77**	**12.31**

Source: Appendix-I

Above comparative table shows the investment on government securities to total working fund of HBL and EBL in increasing and decreasing trend. HBL and EBL have the highest ratio of 20.00 and 25.73% in year 2006 and 2005 respectively. Like wise they have the lowest ratio of 14.02 and 17.94 in year 2005and 2006 respectively. EBL has highest mean ratio 21.77% than HBL. The coefficient of variation indicates EBL (i.e. 12.31) has more stable ratio than that of HBL.

4.1.2.5 Investment on Shares and Debentures to Total Working Fund

This ratio can be obtained dividing shares and debentures by total working fund. It is calculated as:

$$\text{Investment on Shares and Debn. to TWF Ratio} = \frac{\text{Investment on Shares \& Debenture}}{\text{Total Working Fund}}$$

Table 4.8

Comparative Investment on Shares and Debentures to Total Working Fund Ratio

Year	Ratio (%)	
	HBL	**EBL**
2003	1.66	2.57
2004	1.47	2.12
2005	1.38	1.78
2006	1.46	1.66
2007	1.31	1.20
Mean(X)	**1.46**	**1.87**
S.D.(σ)	**0.10**	**0.46**
C.V.	**6.85**	**21.39**

Source: Appendix-I

From the above analysis HBL and EBL have a highest ratio of 1.66 and 2.57 in year 2003 during study period. EBL has invested more amounts in shares and debentures i.e. 1.87% than HBL. The coefficient of variation shows more stable ratio of HBL i.e. 6.85%.

4.1.3 Profitability Ratio

Here profitability ratios are calculated and evaluated in terms of the relationship between net profit and assets. Profitability of the firms can be presented through the following different ways.

4.1.3.1 Return on Loan and Advances

This ratio computed dividing net profit (loss) by the total amount of loan and advances and can be mentioned as,

$$\text{Return on Loan and Advances Ratio} = \frac{\text{Net Profit (loss)}}{\text{Loan and Advances}}$$

Table 4.9

Comparative Return on Loan and Advances Ratios

Year	Ratio (%)	
	HBL	**EBL**
2003	2.64	2.16
2004	2.12	1.92
2005	2.20	2.44
2006	2.48	2.21
2007	3.12	2.42
Mean(X)	**0.36**	**2.23**
S.D.(σ)	**2.51**	**0.67**
C.V.	**14.34**	**30.08**

Source: Appendix- I

In the above analysis the return on loan and advances of HBL and EBL have the ratio of fluctuation trend. During the study period, HBL has a higher ratio 3.12% than EBL i.e. 2.44%. In average HBL has the highest mean ratio of 2.51% where as EBL has the mean ratio of 2.23% coefficient of variation indicates that EBL has no more variance between EBL.

4.1.3.2 Return on Total Working Fund

Return on Total Working fund Ratio is computed as:

$$\text{Return on Total Working Fund Ratio} = \frac{\text{Net Profit (loss)}}{\text{Total Working Fund}}$$

Table 4.10

Comparative Return on Total Working fund Ratio

Year	Ratio (%)	
	HBL	**EBL**
2003	1.14	1.28
2004	0.91	1.17
2005	1.06	1.50
2006	1.13	1.44
2007	1.55	1.50
Mean(X)	**1.16**	**1.38**
S.D.(σ)	**0.21**	**0.10**
C.V.	**18.08**	**7.25**

Source: Appendix- I

As per above comparative table the n on total working of HBL and EBL have the ratio of rising and falling trend. **Due** he study period HB the highest ratio 1.55 than EBL i.e. 1.50. EBL has highest return total working fund i.e. 1.38 % than HBL. In case of coefficient of variation, EBL has the lowest CV of 7.25% than HBL.

4.1.3.3 Total Interest Earned to Total Working Fund

The ratio actually reveals the earning capacity of commercial banks by mobilizing its working higher will be the income as interest, we have.

$$\text{Total Interest Earned to TWF Ratio} = \frac{\text{Total Interest Fund Earned}}{\text{Total Working Fund}}$$

Table 4.11

Comparative Total Interest Earned to Total Working Fund Ratio

Year	Ratio (%)	
	HBL	**EBL**
2003	5.56	6.65
2004	5.14	6.46
2005	5.03	6.86
2006	5.28	6.14
2007	5.52	5.66
Mean(X)	**5.31**	**6.35**
S.D.(σ)	**0.18**	**0.42**
C.V.	**3.47**	**6.61**

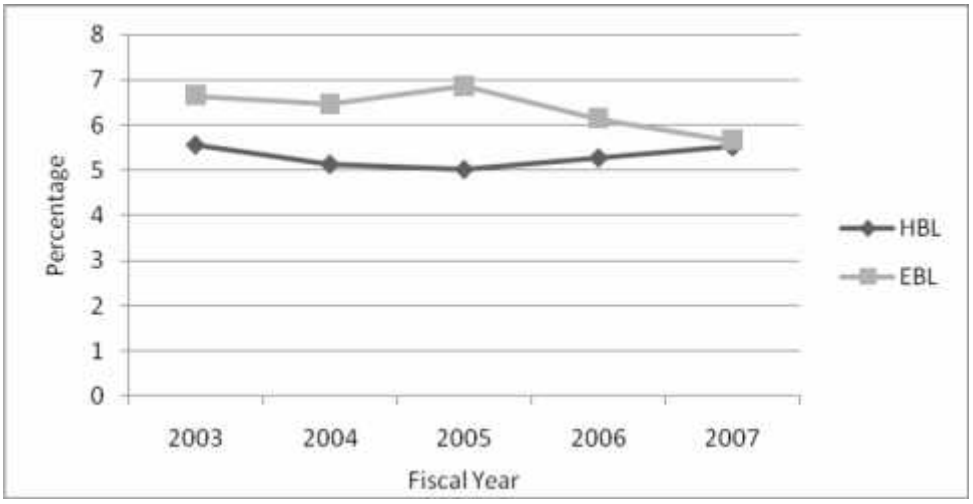
Source: Appendix- I

The above analysis shows the EBL has highest interest earned to total working fund ratio 6.86% in the year 2005 and the lowest ratio 5.66% in the year 2007. Like wise HBL has highest ratio 5.56% and lowest ratio 5.03% in the year 2003 and 2005 respectively. EBL has 6.35% mean ratio but HBL has only 5.31%. The coefficient of variation of HBL is less than EBL i.e. 3.47%. It indicates that interest earning power of HBL is more consistent than EBL.

This ratio can be presented by the help of graph as following.

Figure 4.3

Total Interest Earned to Total Working Fund Ratio



4.1.3.4 Total Interest Paid to Total Working Fund

Total Interest paid to Total Working Fund Ratio is calculated as:

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

Table 4.12

Comparative Total Interest Paid to Total Working Fund Ratios

Year	Ratio (%)	
	HBL	**EBL**
2003	6.80	3.85
2004	2.37	3.82
2005	1.98	3.30
2006	2.05	2.55
2007	2.20	2.52
Mean(X)	**3.12**	**3.21**
S.D.(σ)	**1.87**	**0.58**
C.V.	**59.79**	**18.14**

Source: Appendix-I

From the above comparative table HBL has paid to total working fund ratio in fluctuating trend. Similarly, EBL has the ratio of decrease HBL has 6.80% highest ratio in year 2003 and lowest ratio1.98 in year 2005. And EBL has highest ratio of 3.85% and lowest ratio 2.52 in yea and 2007 respect EBL has 3.21% mean ratio, which greater than that of HBL i.e. 3.12%. The coefficient of variation of EBL is more stable than HBL i.e. 18.14%.

4.1.4 Risks Ratio

For this study, following risk ratios are used to analyze and interpret the financial investment policy.

4.1.4.1 Liquidity Risk Ratio

This ratio is calculated by dividing Cash and Bank Balance to Total Deposit.

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

Table 4.13

Comparative Liquidity Risk Ratios

Year	Ratio (%)	
	HBL	**EBL**
2003	6.79	10.84
2004	9.42	17.02
2005	9.09	7.84
2006	8.12	10.40
2007	6.48	11.25
Mean(X)	**7.98**	**11.47**
S.D.(σ)	**1.18**	**3.02**
C.V.	**14.83**	**26.32**

Source: Appendix - I

The above table shows that HBL has highest cash and bank balance to total deposit ratio of 9.42% in the year 2004 and lowest ratio of 6.48% on 2007 whereas, EBL have the highest ratio of 17.02% and lowest ratio 7.84% on 2004 and 2005 respectively.

The mean ratio of HBL is lower than that EBL i.e. 7.98% <11.47%. It means the HBL has maintained the lower liquidity risk ratio which means it operates with higher risk of higher profit. The coefficient of variation of EBL i.e. 26.32 is high that of HBL i.e. 14.83. It shows that the ratio of EBL is more variable than HBL.

4.1.4.2 Credit Risk Ratio

In general credit risk ratio shows proportion of non performing assets in the investment plus loan and advances of a bank. It is computed as:

$$\text{Credit Ratios Ratio (\%)} = \frac{\text{Total Investment} + \text{Total Loan and Advance}}{\text{Total Assets}}$$

Table 4.14

Comparative Credit Risk Ratios

Year	Ratio (%)	
	HBL	**EBL**
2003	87.41	83.61
2004	86.39	81.03
2005	85.87	87.28
2006	65.49	83.18
2007	67.35	83.81
Mean(X)	**78.48**	**83.78**
S.D.(σ)	**9.85**	**2.01**
C.V.	**12.55**	**2.40**

Source: Appendix- I

The above comparative table s credit risk ratio in fluctuating trend. HBL and EBL have the highest ratio 87.41% and 87.28 % in the yea respectively. On the basis of mean ratio it can be said that the credit risk of HBL is lower than of EBL i.e. 78.48% < 83.78%. HBL has the highest coefficient of variation than EBL i.e. 12.55% >2.40% which shows more variable ratio of HBL.

4.1.5 Growth Ratios

The growth ratios represent how well the commercial banks are maintaining their economic and financial position. To calculate, check and analyze the expansion and growth of the selected banks, the following growth ratios are calculated.

4.1.5.1 Growth Ratio of Total Deposits

Table 4.15

Growth Ratio of Total Deposits

Rs. in million

Banks	Total Deposits					Growth Rate %
	2003	2004	2005	2006	2007	
HBL	18619.37	21007.37	22010.33	24814.01	26490.85	9.21%
EBL	5466.61	6694.95	8063.90	10097.70	13802.45	26.00%

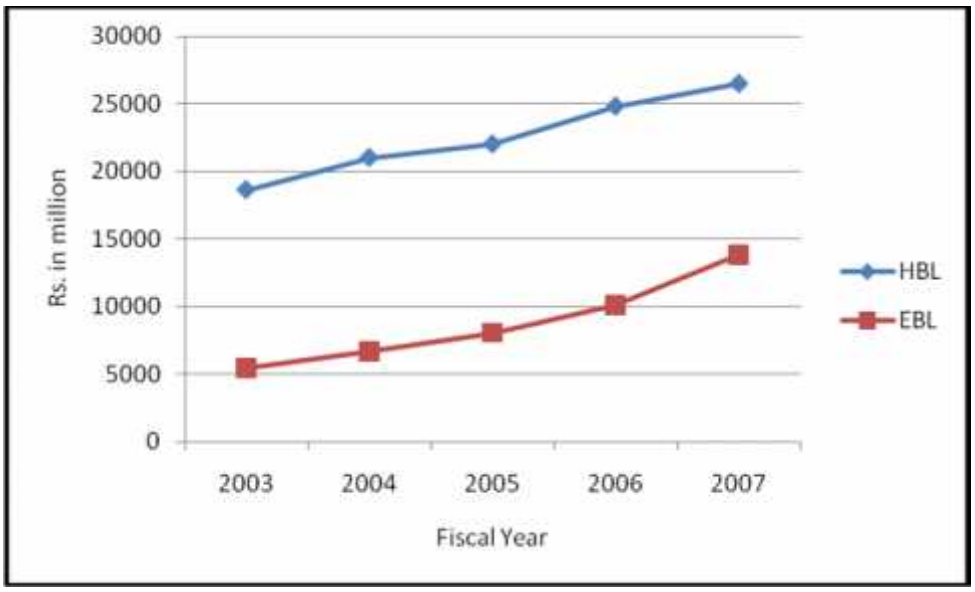
Source: Appendix -II

The table presented above shows that HBL and EBL are increasing their deposit collecting five years study period. The growth ratio of total deposits of HBL seems lower than EBL.

Growth ratio of total deposit of HBL and EBL are also shown in the following chart.

Figure 4.4

Growth Ratio of Total Deposits



4.1.5.2 Growth Ratio of Total Investment

Table 4.16

Growth Ratio of Total Investment

Rs. in million

Banks	Total Investment					Growth Rate %
	2003	2004	2005	2006	2007	
HBL	9197.00	10175.44	9292.10	5509.68	10889.03	4.31%
EBL	1628.50	1616.50	2483.50	2119.70	3567.70	21.7%

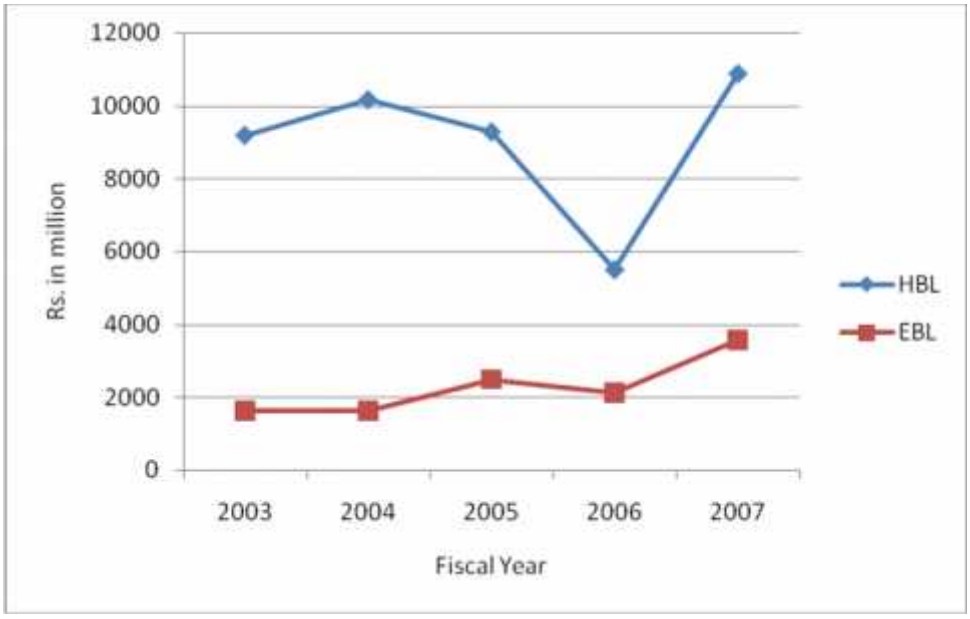
Source: Appendix -II

The above table shows the growth rate of 4.31% and 21.7%. Among them, EBL has highest growth rate than HBL.

It can also be presented with help of line chart as following:

Figure 4.5

Growth Ratio of Total Investment



4.1.5.3 Growth Ratio of Loan and Advances

Table 4.17

Growth Ratio of Loan and Advances

Rs. in million

Banks	Loan and Advances					Growth Ratio %
	2003	2004	2005	2006	2007	
HBL	8913.73	10001.85	11951.87	12424.52	14642.56	13.21%
EBL	3948.48	4908.46	5884.12	7618.67	9801.31	25.52%

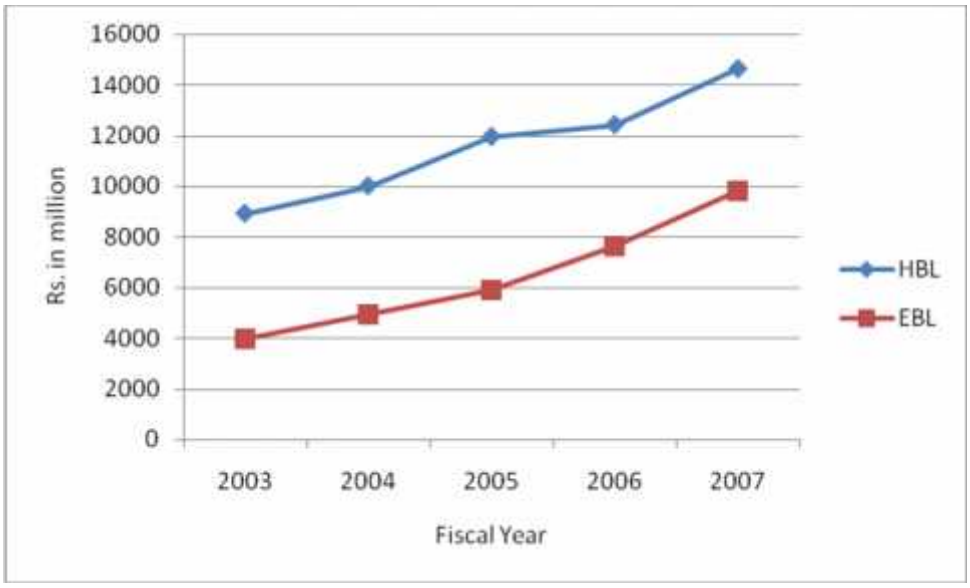
Source: Appendix -II

The above table describes the growth ratio of loan and advances of HBL and EBL are in increasing order under five year study period. The table shows the high growth ratio of EBL 25.52% and low growth ratio of HBL 13.21%.

Growth ratio of loan and advances of HBL and EBL are also shown in the following line chart.

Figure 4.6

Growth Ratio of Loan and Advances



4.1.5.4 Growth Ratio of Net Profit

Table 4.18

Growth Ratio of Net Profit

Rs. in million

Banks	Loan and Advances					Growth Ratio
	2003	2004	2005	2006	2007	%
HBL	235.02	212.12	263.05	308.28	457.46	18.12
EBL	85.33	94.17	143.57	168.22	237.29	29.14

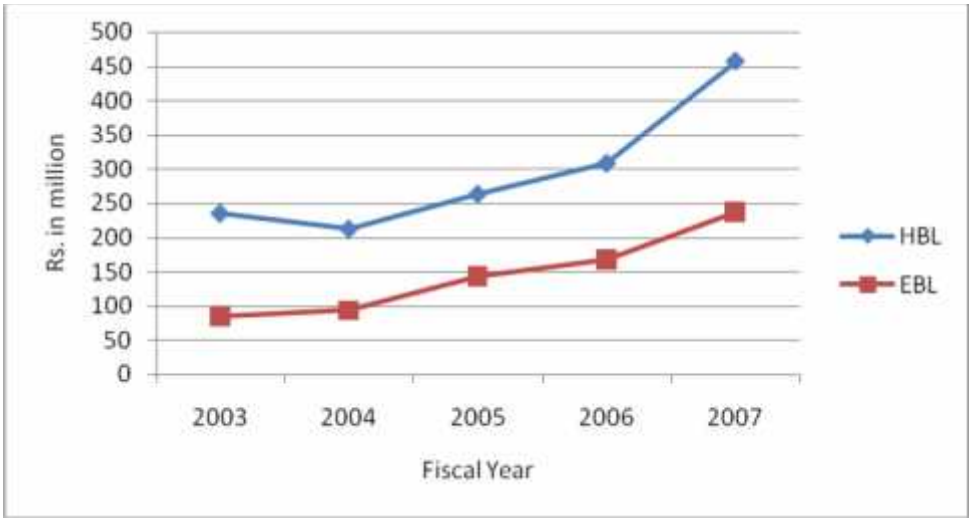
Source: Appendix –X & XI

The above table represents the growth ratio of net profit of HBL and EBL during 5 years study periods. Its shows the EBL has highest ratio 29.14%

Growth ratio of Net Profit of HBL and EBL are also shown in the line chart.

Figure 4.7

Growth Ratio of Net Profit



4.2 Analysis of Sources and Uses of Funds

The following table presents the list of sources and uses of funds of HBL. And it represents the proportionate contribution to the total funds HBL.

4.2.1 Analysis of Sources and Uses of Funds of HBL

Table 4.19

Percentage of various sources of Funds from Total Sources of HBL

Particulars	Year						
	2003	**2004**	**2005**	**2006**	**2007**	**Total**	**Average**
1. Capital fund	3.05	3.00	5.37	4.56	4.96	20.94	4.19
2. Deposits	86.97	84.96	85.08	85.32	85.16	427.49	85.50
3. Borrowings	0.23	2.18	0.25	1.67	1.24	5.57	1.11
4. Others	9.76	9.87	9.30	8.45	8.64	46.02	9.20
Total	100	100	100	100	100	500	100

Source: Banking and Financial Statistics of NRB Mid July 2007 (Appendix- IV)

Figure 4.8

Funds from Total Sources of HBL

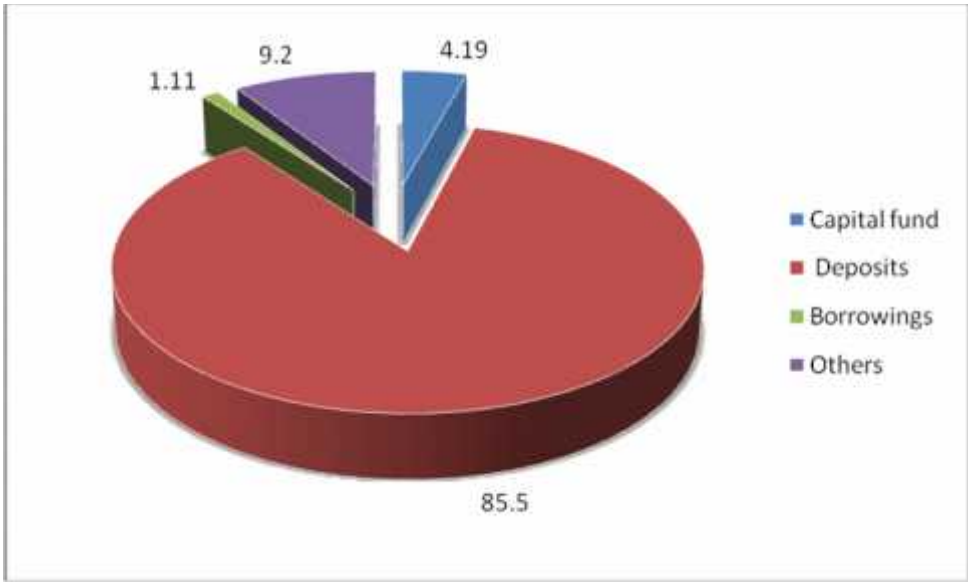


Table 4.20

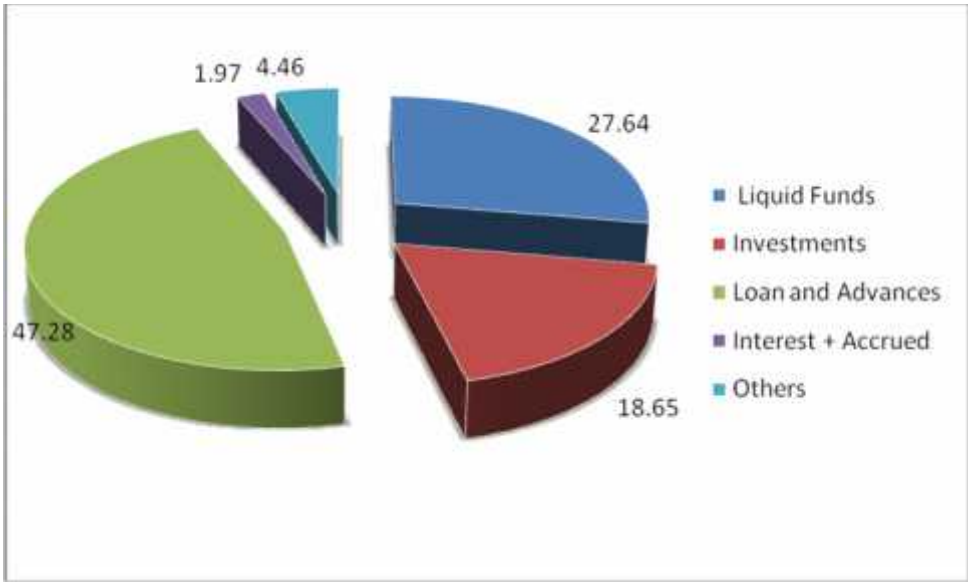
Percentage of various uses of funds form Total uses of HBL

Particulars	Year						
	2003	**2004**	**2005**	**2006**	**2007**	**Total**	**Average**
1. Liquid Funds	35.82	33.50	32.20	28.08	8.62	138.22	27.64
2. Investments	12.27	16.24	10.76	18.93	35.06	93.26	18.65
3. Loan and Advances	45.24	44.80	48.90	46.71	50.76	236.41	47.28
4. Interest + Accrued	1.47	1.27	2.47	2.41	2.21	9.83	1.97
5. Others	5.20	4.20	5.67	3.87	3.35	22.28	4.46
Total	100	100	100	100	100	100	100

Source: Banking and Financial Statistics of NRB Mid July 2007 (Appendix- IV)

Figure 4.9

Funds form Total uses of HBL



From the above analysis, contribution of capital fund in total sources is 4.19% likewise, deposits contribute more funds out of total sources of funds i.e. 85.50% considering the contribution of borrowings to total sources, it is 1.11% which is lowest among others sources of funds other sources of funds is 9.20%. Deposit is the only one reliable source of funds of HBL.

The above sources of funds are used for different purposes. HBL has maintained liquid funds of 27.64%. It has maintained sufficient liquid funds in the starting period of the study. It makes average investment of 18.65% similarly; it provides loan and advances of 47.28% for its customers to fulfill their daily cash requirements. Similarly interest accrued and others cover 1.97% and 4.46% respectively.

4.2.2 Analysis of Sources and Uses of Funds of EBL

Table 4.21

Percentage of Various Sources of Funds Total Sources of EBL

Particulars	Year						
	2003	**2004**	**2005**	**2006**	**2007**	**Total**	**Average**
1. Capital Funds	7.35	7.11	2.68	6.48	4.98	28.6	5.72
2. Deposits	80.62	81.05	80.91	66.78	82.58	391.94	78.39
3. Borrowings	4.58	0.01	4.35	0.0	1.79	10.73	2.15
4. Others	7.45	10.84	8.07	26.74	10.65	63.75	12.75
Total	100	100	100	100	100	500	100

Source: Banking and Financial Statistics of NRB Mid July 2007 (Appendix- V)

Figure 4.10

Funds Total Sources of EBL

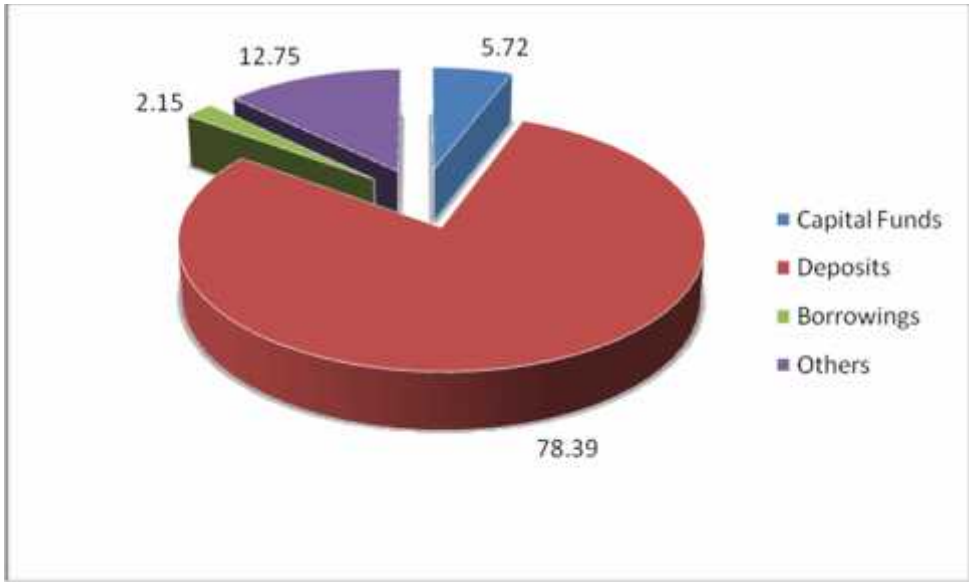


Table 4.22

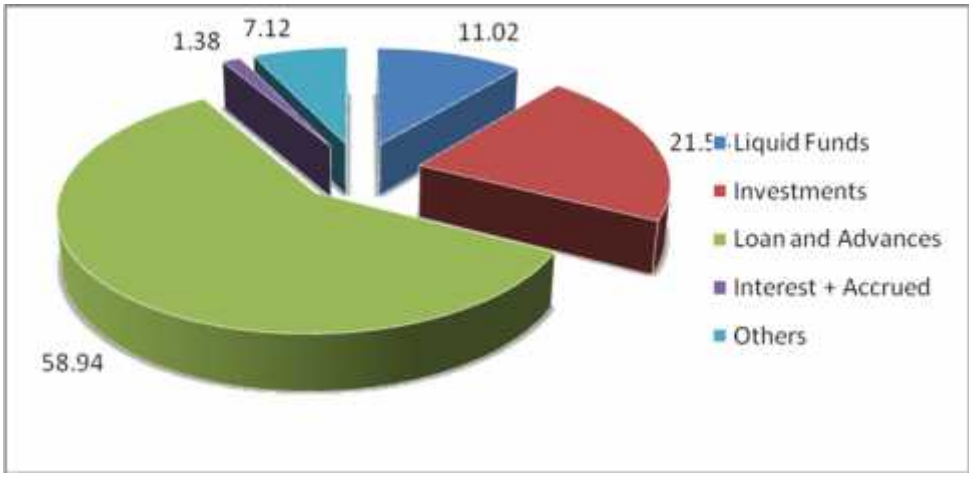
Percentage of Various Uses of Funds from Total Uses of EBL

Particulars	Year						
	2003	**2004**	**2005**	**2006**	**2007**	**Total**	**Average**
1. Liquid Funds	11.95	14.00	8.73	10.74	9.69	55.11	11.02
2. Investments	24.04	19.57	24.92	14.02	25.14	107.69	21.54
3. Loan and Advances	58.79	61.13	61.51	52.53	60.75	294.71	58.94
4. Interest + Accrued	1.47	1.79	1. 3.07	1.19	0.66	6.88	1.38
5. Others	3.75	3.52	3.07	21.51	3.76	35.60	7.12
Total	100	100	100	100	100	100	100

Source: Banking and Financial Statistics of NRB Mid July 2007 (Appendix - V)

Figure 4.11

Funds from Total Uses of EBL



From the above analysis, contribution of capital fund in total sources of funds of HBL is 5.72%. Similarly deposits contribute more funds in total sources of funds i.e. 78.39%. Borrowing occupies only 2.15% of the total source. And remaining funds is contributed by other sources i.e.12.75%. It can be said that deposits is the main sources of funds.

These above sources of funds are used for different purposes. EBL has maintained liquid funds of 11.02% out of total sources. It makes average investment of 21.54%. It provided loans and advances of 58.94% to its customer. Out of total uses percentage covered by other uses is 7.12% and interest occurred is 1.38% of the total uses of funds.

4.2.3 Comparative Analysis of Sources

The following table shows the average sources of two joint venture banks.

Table 4.23

Comparative average sources of HBL and EBL

Particulars	Average %	
	HBL	**EBL**
Capital Fund	4.19	5.72
Deposits	85.50	78.39
Borrowings	1.11	2.15
Others	9.20	12.75
Total	**100**	**100**

From the above analysis, capital fund of EBL is higher in comparison to HBL i.e. 5.72% capital base of HBL is not good. Since the deposit contribution to total sources of funds is high, HBL seem to be high liquidity sensitive bank. The deposit proportion of HBL is higher than EBL. EBL has borrowed proportionately more fund than that of HBL. Deposit proportion of EBL is lower than that of HBL. Likewise involvement of other sources of fund of EBL is 2.75% which is greater among two banks.

4.2.4 Comparative Analysis of Uses

The subsequent table shows the average uses of funds of the two joint venture banks.

Table 4.24

Comparative Average uses of funds of HBL and EBL

Particulars	Average %	
	HBL	EBL
Liquid funds	27.64	11.02
Investments	18.65	21.54
Loan and Advance	47.28	58.94
Interest Accrued	1.97	1.38
Others	4.46	7.12
Total	**100**	**100**

HBL has maintained high liquid funds than EBL i.e. 27.64%. EBL is successful to make investment indifferent sector in comparison to HBL. EBL has proportionally higher investment i.e. 21.54% which is grater than HBL. Out of total uses of funds, loan and advances of EBL contribute 58.94% in average which is higher than HBL. EBL has the low proportion of interest receivable i.e. 1.38%. EBL is comparatively able to realize interest as it has maintained low proportion of interest receivable in relation to total available funds. HBL has least allocation of funds under other assets in comparison to EBL.

4.3 Cash Flow Analysis

The cash flow analysis of the banks are grouped in to three categories according to the nature of business activities namely cash flows from operating activities, investing activities an financial activities. These activities show the movements of cash in the two banks. They are summarized in the following table.

4.3.1 Cash Flow Analysis of HBL

The cash flow of HBL from different activities is shown in the following table.

Table 4.25

Cash flow from different Banking Activities of HBL

(Rs. in Million)

Year	CFOA	CFIA	CFFA
2003	589.74	1524.22	1247.30
2004	636.56	3134.27	2423.12
2005	725.69	1921.65	1073.00
2006	585.55	31.31	0
2007	590.61	287.41	0

Source: Annual Report of HBL (Appendix- VI)

Above analysis shows the cash in flow and out flow of HBL during five years study period. Operating activities of HBL is in fluctuating trend operating efficiency of this bank is increasing in 2003 to 2005 and decrease in 2006. HBL has the maximum operating activities in year 2005.

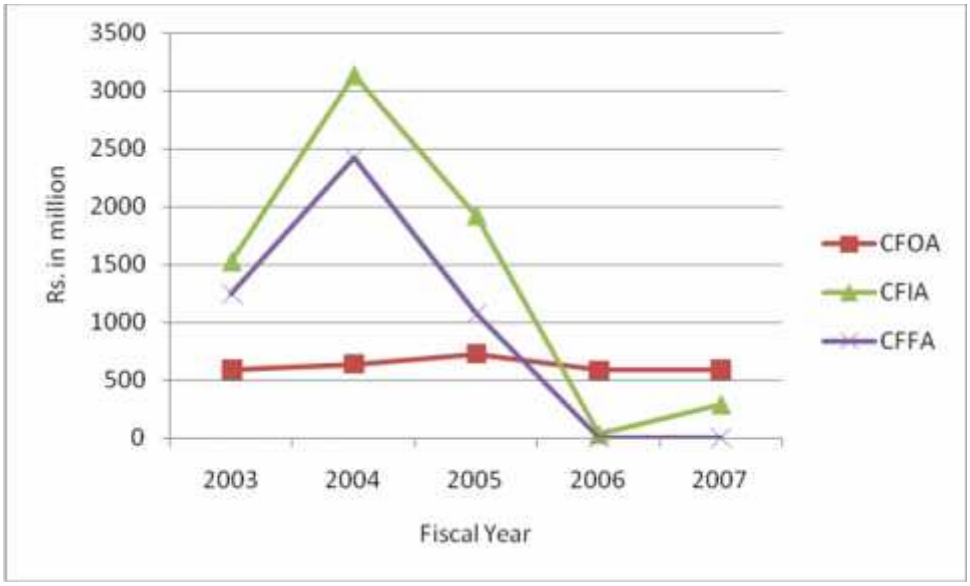
Investing activities of HBL is increasing fluctuation trend. HBL has the maximum investment of Rs. (3134.27) million in year 2004. By investing more cash in investing activities it can achieve profitable opportunity.

Cash flow from financing activities of HBL is fluctuating. Year 2006 and 2007 HBL has unable to generate cash flow. It has more cash flow from financing activities in year 2004 i.e. (Rs. 2423.12) million. It appears cash acquisition efficiency of bank is better in year 2004.

Cash flow activities of HBL are also shown by the help of following figure.

Figure 4.12

Cash flow from different Banking Activities of HBL



4.3.2 Cash flow Analysis of EBL

Table 4.26

Cash Flow of Different Banking Activities of EBL

Rs. in million

Year	CFOA	CFIA	CFFA
2003	131.35	1455.47	1382.47
2004	138.95	1543.64	1382.13
2005	273.18	1670.90	1389.82
2006	269.88	2232.67	2026.62
2007	485.75	45.77	63.00

Source: Annual Report of EBL (Appendix- VII)

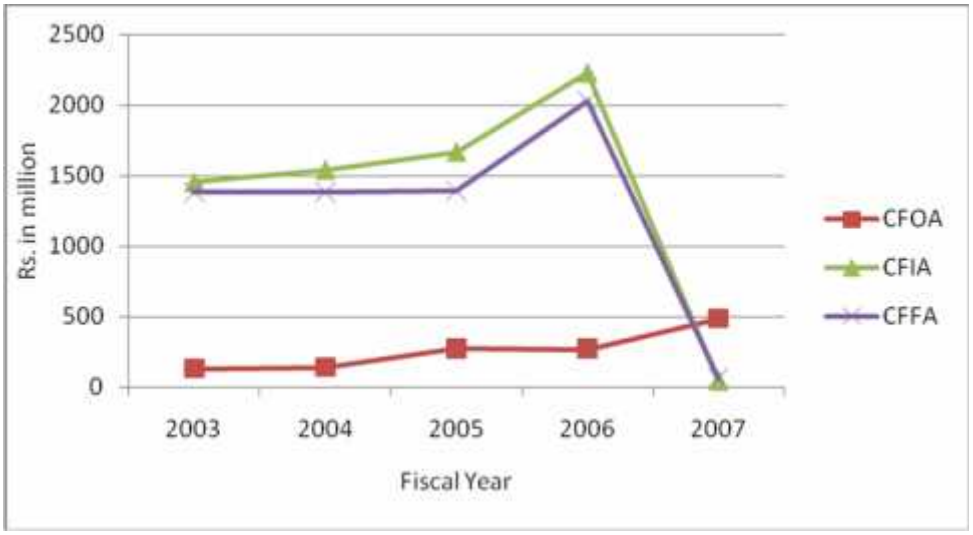
Above analysis shows the cash in flow and outflow of EBL. The operating efficient of EBL is increasing trend. Cash flow from investing activities increased

from the year 2003 to 2006. Cash flow from investing activities is maximum in year 2006 i.e. (Rs. 2232.67) million.

Cash from financing activities is fluctuating trend.

Figure 4.13

Cash Flow of Different Banking Activities of EBL



4.3.3 Comparative Cash Flow Analysis of HBL and EBL

4.3.3.1 Cash Flow Analysis from Operating Activities (CFOA)

Flowing comparative table shows the cash flow from operating activities and their percentage change.

Table 4.27

Comparative CFOA of HBL and EBL

Rs in million

Year	HBL	% Change	EBL	% Change
2003	589.74	-	131.35	-
2004	636.56	7.94	138.95	5.79
2005	725.69	14.00	273.18	96.60
2006	585.55	(10.00)	269.88	(1.20)
2007	590.61	0.86	485.75	55.56

Source: Annual Report of EBL

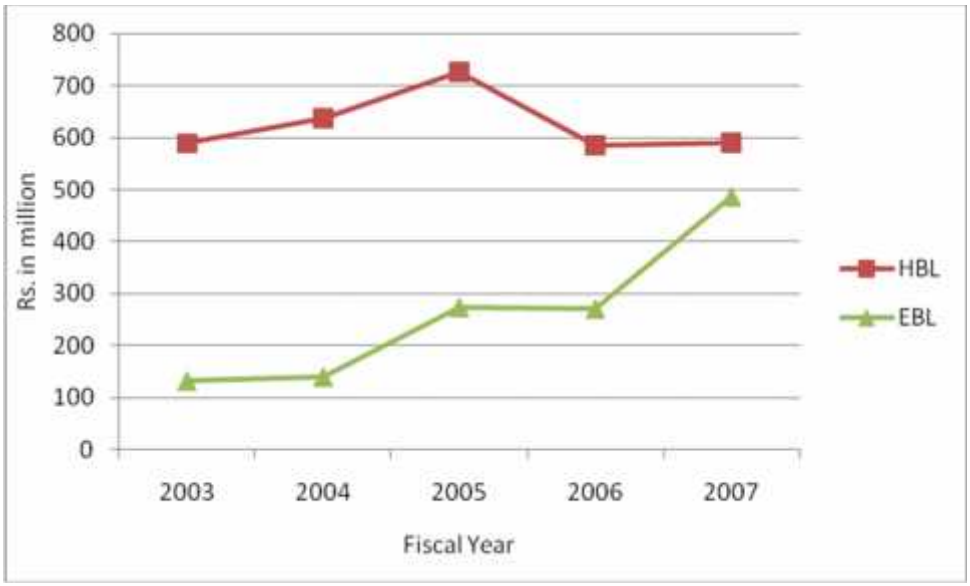
From the above analysis operating activities of HBL and EBL are fluctuating trend where as EBL has the more fluctuating in cash flows, there is the highest cash inflow Rs. 485.75 million in FY 2006 and lowest cash inflow of Rs 131.35 million in FY 2003.

In the above analysis we can see the positive as well as negative changes in cash flow from operating activities of HBL and EBL due to fluctuations in operating activities.

Cash from operating activities of two banks is also shown by the help of following figure:

Figure 4.14

Comparative CFOA of HBL and EBL



4.3.3.2 Cash Flow Analysis from Investing Activities (CFIA)

Following comparative table shows the cash from investing activities of two banks.

Table 4.28

Comparative CFIA of HBL and EBL

Rs. in million

Year	HBL	% change	EBL	% change
2003	1524.22	-	1455.47	-
2004	3134.27	105.63	1543.64	6.06
2005	1921.65	38.69	1670.90	8.24
2006	31.31	(98.37)	2232.67	33.62
2007	287.41	817.95	45.77	(97.95)

Source: Annual Report of EBL and HBL

The investing activities of two banks have cash outflows throughout the study period. They all have cash outflow of fluctuating trend. This study shows HBL has the highest cash outflow of (Rs. 3134) million in FY 2004 where as lower cash outflow (Rs. 31.31) million in FY 2006.

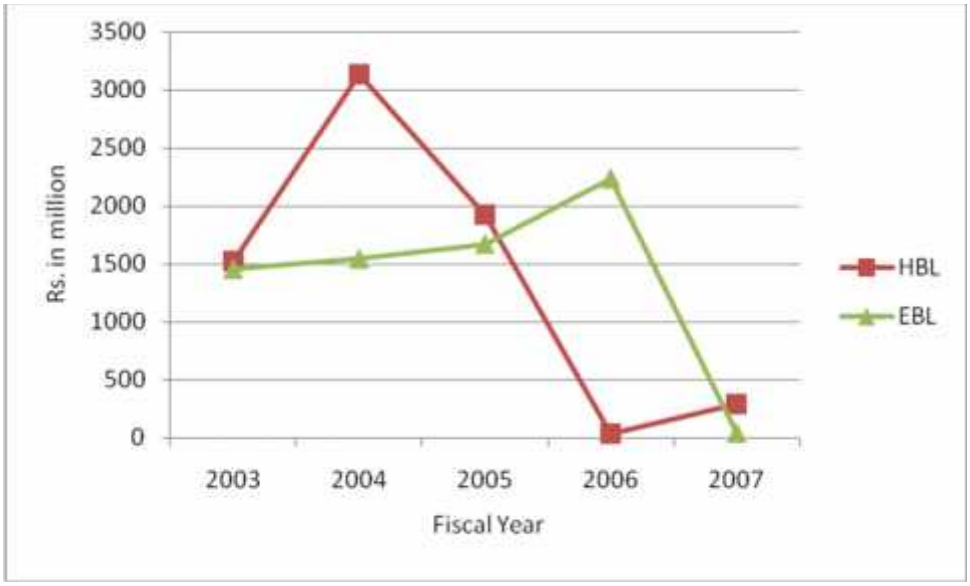
Considering percentage changes in investing activities of two banks, we observe that the negative and positive cash changes in two banks. It is because of fluctuations in investing of activities we can see more changes in investing activating of HBL in year 2006 i.e. 817.95%.

It means that HBL drastically increased its investment in this year in comparison to previous years.

Cash from investing activities of two banks is also shown by the help of following figure:

Figure 4.15

Comparative CFIA of HBL and EBL



4.3.3.3 Cash Flow Analysis from Financing Activities (CFFA)

Following comparative table shows the cash from financing activities of two banks.

Table 4.29

Comparative CFFA of HBL and EBL

Rs. in million

Year	HBL	% change	EBL	% change
2003	1247.3	-	1382.47	-
2004	2432.12	94.99	1364.13	(1.33)
2005	1073.00	(55.88)	1389.82	1.88
2006	0	-	2026.62	45.82
2007	0	-	63.00	(96.89)

Source: Annual Report of EBL

The above analysis shows that cash flow of financing activities of two banks in fluctuating trend. EBL flow more cash for financing activities than HBL. It shows

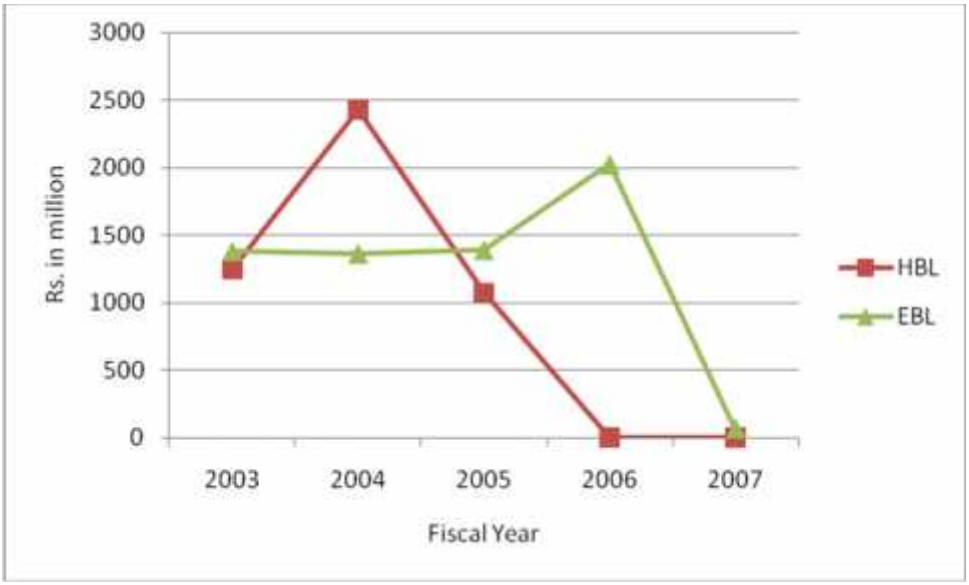
that cash acquisition efficiency of EBL is more than HBL. HBL is unable to create cash in flow from financing activities in year 2006 and 2007.

In the analysis of proportionate changes of cash flow from financing activities, we observed that two banks have the positives and negative changes. During the year 2006 and 2007 HBL is unable to generate cash inflow.

Cash from financing activities of two banks is also shown by the help of following figure:

Figure 4.16

Comparative CFFA of HBL and EBL



4.4 Correlation Analysis

Correlation between the important variables are analyzed under this heading

4.4.1 Analysis of Correlation Coefficient between Deposit and Total Investment

The following table describes the relationship between deposits and total investment of HBL and EBL under 5 years study period. In this case deposit is independent variable (X) and total investment is dependent variable (Y).

Table 4.30

Correlation Coefficient between Deposits and Total Investment

Banks	Base of Evaluation			
	r	R^2	PE	6×PE
HBL	0.87	0.76	0.072	0.432
EBL	0.92	0.85	0.045	0.271

Source: Appendix III

From the above table, it is found that coefficient of correlation between deposits and total investment of HBL is 0.87 i.e. high degree of positive correlation between these two variables. And the value of coefficient of determination R^2 is also 0.76 which means 76% of investment decision is depend upon deposit and only 24% investment is depend upon other variables. Similarly probable error P.E. is 0.072 and 6P.E is 0.432 which shows that 'r' is highly greater than 6P.E. Therefore it reveals that relationship between deposit and investment is significant.

Like wise in case of EBL, coefficient of correlation between investment and deposit is 0.92 i.e. high degree of positive correlation between two variables. Coefficient of determination (R^2) is 0.85 which means 85% of investment decision is depend upon deposit and only 15% investment depends on other variables and P.E. is 0.045 and 6P.E. is 0.271 which higher than 'r' i.e. 0.92. It means correlation of coefficient between deposit and investment of EBL is significant.

4.4.2 Analysis of Correlation Coefficient between Deposit and Loan and Advances

The following table describes the relation between deposit and loan and advances of HBL and EBL with comparatively under five years study period. In

the following case deposit is independent variables (X) and loan and advances is dependent variable (Y).

Table 4.31

Correlation Coefficient between Deposit and Loan and Advances

Banks	Base of Evaluation			
	r	R^2	PE	6×PE
HBL	0.98	0.96	0.012	0.071
EBL	0.997	0.993	0.002	0.012

Source: Appendix III

From the above table, we can find that the coefficient of correlation between deposit and loan and advances value of 'r' of HBL and EBL are 0.980 and 0.997 respectively. This shows the positive relationship between these two variables i.e. loan and advances and deposits. By considering coefficient of determination (R^2) the value of R^2 is 0.960 incase of HBL and 0.993 in case of EBL. The value of R^2 of HBL is 0.96 which means 96% of loan and advance decision is depend upon deposit and only 4% loan and advance depends upon other variables. The value of R^2 of EBL is 0.993 which means that 99.3% of loan and advance decision is depend upon deposit and only 0.70% loan and advance depends upon other variables.

By considering the probable error (P.E.) the value of R^2 less than the 6 times of P.E. i.e. 0.96 >0.71 and 0.993 > 0.012 which indicates that there is significant relationship between deposits and loan and advances.

The value of R^2 of HBL 0.96 which means 98% of loan and advances decision is depend upon deposit and only 4% loans advances.

4.5 Test of Hypothesis

Under this analysis an effort has been made to test the significance level regarding the parameter of the population on the basis of sample drawn from the population.

4.5.1 Test of Hypothesis on Loans and Advances to Total Deposit Ratios

Table 4.32

Test of Hypothesis on Loan and Advances to Total Deposit Ratio

S.N	Fiscal Year	X_1	x_1	X_1^2	X_2	x_2	x_2^2
1	2003	47.87	-3.15	9.92	72.23	-0.77	0.59
2	2004	47.61	-3.14	11.63	73.32	0.32	0.10
3	2005	54.30	3.28	10.76	72.97	0.03	0.001
4	2006	50.07	-0.95	0.90	75.45	2.45	6.00
5	2007	55.27	4.25	18.06	71.01	1.99	3.96
		ΣX_1=225.12		**Σx_1^2=51.27**	**ΣX_2=364.98**		**Σx_2^2=10.65**

Here,

$$\overline{X}_1 = \frac{\Sigma x_1}{n_1} \qquad \overline{X}_2 = \frac{\Sigma x_2}{n_2}$$

$$= \frac{255.12}{5} \qquad = \frac{364.98}{5}$$

$$= 51.02 \qquad = 73.00$$

Again

$$x_1 = X_1 - \overline{X}_1 \qquad x_2 = X_2 - \overline{X}_2$$

a) Test of Significance of Different between HBL and EBL

Here,

Null Hypothesis (H_o): $\bar{X}_1 = \bar{X}_2$ i.e. there is no significant difference between mean ratios of loans and advances to total deposit of HBL.

Alternative Hypothesis (H_1): $\bar{X}_1 \neq \bar{X}_2$ i.e. there is significant different between mean ratio of loan and advances to total HBL and EBL (where X_1 is mean ratio of HBL and X_2 is mean ratio of EBL).

Under H_o, the test static is given by,

$$t = \frac{\bar{X} - \bar{X}_2}{\sqrt{S^2 \frac{1}{n_1} + \frac{1}{n_2}}}$$

Where,

$$S^2 = \frac{1}{n_1 + n_{2-2}} (\sum x_1^2 + \sum x_2^2) = \frac{1}{5+5+2} (51.27 + 10.65) = 7.74$$

$$t = \frac{\bar{X} - \bar{X}_2}{\sqrt{S^2 \frac{1}{n_1} + \frac{1}{n_2}}}$$

$$= \frac{51.02 - 73}{\sqrt{7.74 \frac{1}{5} + \frac{1}{5}}}$$

=-12.44

Hence $|t|$= 12.44

Degree of freedom = $n_1+n_2-_2$=5+5-2=8

The tabulated value of t for 8 d.f. at 5% level of significance for two tailed test is 2.306.

Conclusion

Since, the calculated value of (t) i.e. 12.44 is greater than the tabulated value i.e. 2.306. It is significant, null hypothesis is rejected hence alternative hypothesis is

accepted which means that there is significant difference between mean ratios of loan and advance to total deposit of HBL and EBL.

4.5.2 Test of hypothesis Total investment to Total Deposit Ratio

In this analysis ratio of total investment to total deposit of HBL and EBL all taken and all carried out under t-test of significance difference.

Table 4.33

Test of Hypothesis on Total Investment to Total Deposit Ratios between HBL and EBL

S.N	Fiscal Year	X_1	x_1	X_1^2	X_2	x_2	x_2^2
1	2003	49.18	12.85	165.12	29.79	3.47	12.04
2	2004	48.44	12.11	146.65	24.15	2.17	4.71
3	2005	42.22	5.89	34.69	30.80	4.48	20.07
4	2006	22.20	-14.13	199.66	21.00	-5.32	28.30
5	2007	19.60	-16.73	273.89	25.85	-0.47	0.22
		ΣX_1=181.64		Σx_1^2=820.0	ΣX_2=131.59		Σx_2^2=65.34

Here,

$$\overline{X}_1 = \frac{\sum x_1}{n} \qquad \overline{X}_2 = \frac{\sum x_2}{n}$$

$$= \frac{181.64}{5} \qquad = \frac{131.59}{5}$$

$$= 36.33 \qquad = 26.32$$

Again

$$x_1 = X_1 - \overline{X}_1 \qquad x_2 = X_2 - \overline{X}_2$$

a. Test of significance of difference between HBL and EBL

Here,

Hypothesis (H_o): $\overline{X}_1 = \overline{X}_2$ i.e. there is no significant difference between mean ratios of total investment to total deposit of HBL and EBL.

Alternative Hypothesis $(H_1): \bar{X}_1 \neq \bar{X}_2$ i.e. there is significant difference between mean ratios of total investment to total deposit of HBL and EBL (where $\bar{X}_1$ is mean ratio of HBL and $\bar{X}_2$ is mean ratio of EBL.

Under H_o, the test statistic is given by.

$$t = \frac{\bar{X} - \bar{X}_2}{\sqrt{S^2 \frac{1}{n_1} + \frac{1}{n_2}}}$$

Where,

$$S^2 = \frac{1}{n_1 + n_2 - 2}(\sum x_1^2 + \sum x_2^2) = \frac{1}{5+5+2}(820 + 65.34) = 110.67$$

$$t = \frac{\bar{X} - \bar{X}_2}{\sqrt{S^2 \frac{1}{n_1} + \frac{1}{n_2}}}$$

$$= \frac{36.33 - 26.32}{\sqrt{110.67\left(\frac{1}{5} + \frac{1}{5}\right)}}$$

$=1.504$

Hence $|t| = 1.504$

Degree of freedom = $n_1+n_2-_2=5+5-2=8$

The tabulated value of t for 8 d.f. at 5% level of significance for two tailed test is 2.306.

Decision

Since, the calculated value of t i.e. 1.504 is less than the tabulated value i.e. 2.306. It is not cant, null hypothesis is accepted hence alternative hypothesis is rejected which means that there is no significant difference between mean ratios of total investment to total deposit of HBL and EBL.

4.6 Major Findings

Basically in this research work, all the data has been obtained from secondary sources. Data has been analyzed by using financial as well as statistical tools. This topic focuses on the major findings of the study, which are derived from the analysis of fund mobilization of HBL and EBL with comparatively applying five years data from 2003 to 2007.

The major findings of the study derived from the analysis of financial tools of HBL and EBL given below:

1. Finding from Liquidity Ratios

i. The mean ratio of cash and bank balance to total deposit of EBL is higher than HBL. It states that the Liquidity position of EBL is better in this regard. The ratio of EBL is less consistent and HBL has more consistent ratio. It shows HBL has taken more risk to meet the daily cash requirements.

ii. The mean ratio of cash and bank balance to current assets of HBL is higher than EBL. It reveals that HBL has the higher capacity to meet the cash demand of its customer deposit than that of EBL. The ratio of HBL is less consistent and EBL has more consistent ratio.

iii. The average ratio of investment of government securities to current assets of HBL is higher than that of EBL. It reveals that investment on government securities of HBL is stronger than EBL. Analysis shows that investment of government securities of EBL is more consistent.

The above result shows that the Liquidity position of HBL is comparatively better than EBL. HBL has highest cash and bank balance to current assets and investment to government securities to current assets ratio. EBL has enough in

cash and bank balance to total deposit ratio. At Last, it can conclude that EBL has good deposit collection higher ability to meet the cash requirements.

2. Findings from Assets Management Ratios

i. The mean ratio of loan advances to total deposit of EBL is greater than HBL. The variability ratio of EBL is lower than HBL. It seems more consistent than HBL.

ii. The average ratio of total investment to total deposit ratio of HBL is higher than that of EBL. The variability ratio of EBL lowers than HBL.

iii. The average ratio of loan and advances to total working fund of EBL is higher than HBL. The variability ratio of EBL is lower than that of HBL. It is the indication of more consistency of loan and advances.

iv. The average ratio of investment on government securities to total working fund of EBL is higher than HBL. It seems HBL has less consistent to make investment on government securities.

v. The mean ratio of investment on shares and debentures to total working fund of EBL is greater than HBL, where HBL has the lower variability of the ratio. It shows the stable investment on shares and debentures.

From the above analysis it helps to conclude that EBL is comparatively successful to invest in productive sector and has mobilized its collected deposits to provide loan and advances. It seems stronger incase of investing fund. Similarly HBL has mobilized its collected deposits investment.

3. Findings from Profitability Ratio

i. The mean ratio of return on loan and advances of HBL is higher than EBL. The variability ratio of HBL is lower than EBL. It seems HBL has stable return.

ii. The mean ratio of return of on total working fund of EBL is greater than HBL, where as the variability ratio of EBL is lower than HBL. It indicates that the return on total working fund of EBL is stable.

iii. In case of mean ratio of total interest earned to total working fund of EBL is higher ratio than HBL. The variability ratio of HBL is lower than EBL. It reveals that EBL is mobilizing its working fund successfully so that is has high earning capacity.

iv. The mean ratio of total interest paid to total working fund of HBL is lower than EBL. It reveals that HBL has not paid high interest as EBL. The ratio of EBL is more consistent than HBL. From the above analysis of profitability ratio, it can be conclude that the EBL is profitable in comparisons to HBL.

From the above analysis of profitability ratio, it can be concluded that EBL is profitable in comparisons to HBL.

4. Findings from Risk Ratios

i. The mean ratio of Liquidity risk of HBL is lower than EBL. Degree of risk and variability of risk is also lower in HBL in comparison to EBL. It seems Liquidity risk ratio is consistent.

ii. In case of credit risk ratio. HBL has the lower risk than EBL. The variability ratio of EBL is lower than HBL. It indicates that the credit risk ratio is consistent. From the above analysis HBL has maintained the lower Liquidity risk and lower credit risk. And lower Liquidity risk means higher risk for higher profit.

5. Findings from Growth Ratios

i. The growth ratios of total deposits of HBL & EBL are increasing every year. Out of two banks growth rate of total deposits of EBL is greater than HBL. It shows that EBL has increased its deposit collection capacity.

ii. The growth rate of total investment of EBL is higher than HBL. Although HBL is investing more funds but it seems weak in comparison to EBL. Because of lower growth ratio, it shows that HBL had adopted a policy to keep on increasing investment.

iii. The growth ratio of loan and advances of EBL and HBL both are increasing trend. Growth rate of EBL is higher than HBL. Though HBL is providing more funds in loan and advances it appears weak in growth rate point of view.

iv. The growth rate of profit of EBL is increasing trend the during study period. EBL has the higher growth ratio of net profit than HBL. From the above findings it can be observed that the EBL has maintained the high growth ratio in total deposits, total investment Loan and advances and net profit.

6. Findings from Analysis of sources and uses of funds

i. Capital base of EBL has been her than HBL. It can be said that EBL has been able to generate high volume of profit from operation than HBL.

ii. HBL has been remained very successful incase of mobilizing deposits during the study period in comparison to EBL. HBL is considered as a high Liquidity sensitive bank.

iii. In case of borrowing of funds borrowing from different sources.EBL depends upon borrowing to discharge its obligation. This is an indication that the internal fund management of EBL is not satisfactory towards

meeting Liquidity needs. Whereas HBL has been borrowing low proportion in comparison EBL.

iv. In Comparison of two banks, EBL is successful to generate funds from other sources.

v. HBL has maintained high Liquid funds than EBL. Considering Liquidity, it is good for holding necessary Liquid. In the banks but holding necessary Liquid funds is not favorable for income generation.

vi. EBL has been successful to make investment in different sectors in comparison to HBL.

vii. EBL provide more funds as a loan and advances than HBL.

viii. BL is comparatively able to realize interest as it has maintained low proportion of interest receivable in relation to total available funds. Whereas HBL are not able to realize interest receivable because of high proportion of interest receivable.

ix. EBL allocates more proportion of funds to other assets high allocation of such assets leads a bank to a less liquid position and vice versa.

7. Findings from Cash Flow Analysis

a. Finding from Operating Activities

Overall operating activities of HBL and EBL have been occurred cash inflows throughout the study period. Operating efficiency of both banks in fluctuating trend during the study period.

b. Finding from Investing Activities

The investing activities of two banks have occurred cash outflows throughout the study period.HBL and EBL both are fluctuating trend where as HBL has highly fluctuating trend of investing activities. By the help of investing activities, these two banks are able to increase long term assets as well as carry out profitable opportunity.

c. Finding from Financing Activities

It shows that cash acquisition capacity of EBL is more than HBL. During year 2005 and 2006 HBL is unable to create cash inflow from financing activities. The condition may arise due to the unavailability of cash flow from share, insufficient profit, dividend payment. Due to these cause HBL invested less amount which all arise from operating activities.

8. Finding from Coefficient of Correlation Analysis

i. Correlation coefficient between deposit and total investment of EBL is higher than HBL. It indicates that EBL is successfully mobilizing its deposits as investment. There is significant relationship between correlation coefficient of deposit and total investment of HBL and EBL.

ii. EBL has the highest degree of correlation coefficient between deposit and loan and advances than HBL. It states that the EBL is better position of mobilization of deposit as loan and advances in comparison to HBL, there are significant relationship between correlation coefficient of deposit and loan and advances of HBL and EBL.

9. Findings from Test of Hypothesis

i. There is significant difference between mean ratios of loan and advances to total deposit of HBL and EBL.

ii. There is no significant difference between mean ratios of total investment to total deposit of HBL and EBL.

CHAPTER- V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Basically the entire research work focus on the comparative study on fund mobilization of two Joint Venture Banks, Himalayan Bank Ltd. and Everest Bank Ltd. These two joint venture banks are composed as per their fund mobilization activities by taking five years data from the year 2003 to 2006.

The study is mainly based on secondary sources. All data are taken from concerned banks annual report, literature publication, balance sheet, profit and loss account, previous thesis report, different website, related books and booklets, journals and articles, After collecting data from different sources, it is analyzed by using financial and statistical tools .Findings are drawn by applying various financial tools viz. Liquidity ratio, assets management ratio, profitability ratio, growth ratio, risk ratio, sources and uses of Similarly, statistical tools have been used viz. Mean standard deviation, coefficient of variation coefficient of correlation.

In an attempt to fulfill the objectives of the research work, all secondary data are compiled, processed and tabulated as per necessity and figures, diagrams and different types of chart are also used.

This study suffers from different Limitation, it considers two banks only and time and resource are the constraints of the study. Therefore the study may not be generalized in all cases and accuracy depends upon the data collected and provided by the organization.

5.2 Conclusion

From the analysis of Liquidity ratio, the Liquidity position of HBL is comparatively better than EBL. HBL has highest cash and bank balance to total assets and investment to government securities to current assts ratio.

Considering assets management aspect of two banks, EBL is relatively successful to invest in productive sector and has mobilized its collected deposits to provide loan and advance for the purpose of earning profit. HBL has weak condition in mobilizing its collected deposits in comparison of HBL. In comparison of HBL, EBL seems more successful in mobilizing total fund on different types of government securities to maximize its earning capacity.

The Liquidity risk ratio of EBL is higher than HBL which appears to be less profitable return of EBL. On other hand Liquidity risk ratio of HBL has the lowest in comparison to EBL which specified that HBL has kept idle funds in the form of cash and bank balance but this reduces profitability. HBL has lowest credit risk ratio. Credit risk involved in loan and advances and total investment of EBL is more than HBL. It may arise due to default risk or non repayment of loan.

HBL appears to be more successful to earn profit on loan and advances than EBL. The average ratio of return to total working fund indicates the total working fund of EBL is well managed and efficiently utilized.HBL was not able to receive high interest on total working fund in comparison with EBL. On the other hand, EBL has mobilized its working fund properly and its earning capacity is also high .HBL is in better position from the viewpoint of interest expenses.

Growth ratio of total deposits, total investment, loan and advances and net profit of HBL in comparison to EBL, HBL has low growth ratio in comparison to

EBL.EBL has maintained high growth ratio. Therefore, we must say that the bank is successful in increasing its sources of funds and its mobilization.

Deposit is the strongest sources of fund where as borrowings cover fewer portions of sources of fund. EBL has kept fewer amounts in deposit in comparison to HBL. Among the uses of funds loan and advances cover maximum portion and interest occurred coverless portion.HBL has invested fewer amounts into loan and advances in comparison to EBL.

The operating activities of HBL and EBL have been occurred cash inflows throughout the study period. Operating efficiency of two banks are in fluctuating trend during the study period. The investing activities of two banks have deserved cash outflows throughout study period. By the help of investing activities, these two banks are able to increase long term assets as well as carry out profitable opportunity. It shows the cash acquisition capacity of EBL is unable to generate cash inflow from financing activities. The condition may arise due to unavailability of cash flow from share, insufficient profit dividend payment.

Correlation coefficient between deposit and total investment of HBL and EBL elucidates the positive relationship or there is high degree positive correlation. Most of the investment decisions depend upon deposits and only few decisions of two banks are depend upon other variables. Moreover by considering the probable error, the value of coefficient of determination of HBL and EBL both are more than 6 P.E. so it is significant relationship between deposit and total investment.

Correlation coefficient between deposits and loan and advances indicates the positive relationship between the variables of HBL and EBL. In most of the investment decision of these two banks depends upon deposits and only few decisions are depend upon other variables. Moreover by considering the probable

error the value of coefficient of all banks is greater than that of 6 P.E. so it can be concluded that the value of correlation coefficient is significant i.e. there is significant relationship between total deposit and loan and advances.

In case of testing of hypothesis we can conclude that there is significant difference between mean ratio of loan and advances to total deposits of HBL and EBL. Alternatively there is no significant difference between mean ratio of total investment to total deposit of HBL and EBL.

5.3 Recommendations

Suggestion is the output ions of the whole study. It helps to take corrective action in their activities in future. Different analysis were done till arrive this step on the basis of above analysis and findings of the study, following suggestions may be referred to over come weakness, inefficiency and to fund mobilization of HBL and EBL.

- **To maintain effective Liquidity Position**

The Liquidity position of a bank may be affected by internal as well as external factors. The affecting factors may be interest rates, supply and the demand position of loan and advances as well as savings, investment situations, central banks directives, the lending policies, capability of management, strategic planning and funds flow situations. The ratio of cash and bank balance to total deposit EBL is higher than HBL. It means EBL has higher cash balance to total deposit EBL is higher than HBL and it indicates EBL has higher idle cash and bank balance. It may decrease profit of bank. EBL is recommended to mobilize its idle cash and bank balance in profitable sector as loan and advances.

- **To Increase Deposit Collection**

The main source of commercial banks is collecting deposit from public who don't need that fund recently. So it is recommended to collect more amounts as deposits schemes and facilities, like cumulative deposit scheme, price bonds scheme (Life insurance), monthly interest scheme, house building scheme, direct finance housing scheme, education loan scheme and many others.

- **To make more Investment in Government Securities**

From the study EBL has not invested more funds in government securities. EBL has made lower investment amount on government securities. Increasing large amount on assets, as cash and bank balance is not considered good from the profitability point of view of the bank as it doesn't earn any return. EBL investment on government securities is not satisfactory position. Investment on those securities issued by government i.e. treasury bills, development bonds, saving certificates are free of risk and highly Liquid in nature and such securities yield the low interest rates of a particular maturity due to lowest risk in future, it is more better in regard to safety than other means of investment. So, EBL is strongly recommended to give more importance to invest more funds in government securities instead of keeping them idle with this proverb. "Something is better than nothing."

- **To make more Investment on Share and Debentures**

To get success in a competitive market and to raise financial and economic development of the country. A commercial bank must mobilize its fund in different sectors such as purchase of share and debentures of other financial and non financial companies and other government and non government companies. It is also genuine means of utilization of resource. Thus those companies may get chances to rise and that help to development of the country. Out of total working fund, investment on shares and debentures of HBL is lower than EBL. HBL is

suggested to invest more of its fund in share and debentures of different companies.

- **To Make Profitable Return**

As a private sector, commercial banks can not keep their eyes closed from the profit motive. They should be careful in increasing profit motive. They should be careful in increasing profit in a real sense to maintain the confidence of share holders, depositors and all its customers. HBL is profitability position is weak then EBL. So HBL is strongly recommended to utilize risky assets and shareholders fund to gain highest profit margin, similarly, it should reduces its expenses and should try to collect cheap fund being more profitable.

- **To Prefer Aggressive Defensive Policy**

Observing the findings of growth analysis; it has noticed that EBL has been adopting an aggressive policy in all the parameters including loan and advances. As the economy has not been able to show the survival growth, the aggressive policy may prove to be harmful in future.EBL should rather perform an aggressive defensive policy in mobilizing the resources into loans.

- **To Invest Deprive and Priority Sector**

NRB has directed to commercial banks to invest their certain percentage in deprives and priority sector and it is also responsibility of banks. The study has been found that EBL has earned high profit because their services are only for profitable sector. It reveals that it has not granted loan on priority and deprives sector. So EBL is recommended to thoroughly follow the directives issued by NRB and invest in priority and deprives sector and also to invest on other small scale industries like, public utilities, health sanitation and drinking water, education and agricultural.

- **To Make Effective Portfolio Management**

The total fund of bank is the aggregation of different portfolio such as deposits, capital fund, borrowing and other deposit liabilities. It is need not to state that deposit liability is the major contribution source of considering the position of HBL, the contribution of deposits of total source funds is high .It is definitely not a good sign .HBL are therefore, recommended to enhance its capital base and operation resources of funds of the bank. High contribution of deposition the total source of funds demands, high level of liquid assets and it is threat of with drawls

Portfolio management is very important for every investor. In each investment risk is involved. Risk is the chance of loss or the variability of the returns of a period. The greater the variability of the returns project will be a riskier. So it is kept in mind while investing in the project which would be lower risk and higher return. Portfolio Management plays vital role with dividing total investment in different areas. Portfolio management of the bank assets basically means allocation of funds in different components of banking assets having different degrees of risk and varying rate or return in such a way that the conflicting goal of maximums yield and minimum risk can be achieved. So portfolio conditions of HBL and EBL should be examined carefully from the time to time and alteration should be made to maintain equilibrium in the portfolio condition as far as possible. So it can be said “all eggs should not be kept in the same basket.” The bank should make continuous efforts to explore new competitive and high yielding investment opportunities to optimize their investment portfolio.

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APPENDIX-I

Table 1

Cash and Bank Balance to Total Deposit Ratio

(Rs in Million)

S.N	Name of Banks	Year				
1	**HBL**	**2003**	**2004**	**2005**	**2006**	**2007**
	Cash and Bank Balance	1264.67	1979.21	2001.18	2014.47	1717.33
	Total Deposits	18619.37	21007.37	22010.33	24814.01	26490.85
	Ratio %	**6.79**	**9.42**	**9.09**	**8.12**	**6.48**
2	**EBL**					
	Cash and Bank Balance	592.78	1139.57	631.81	1050.00	1552.97
	Total Deposits	5466.61	6694.95	8063.90	10097.70	13802.45
	Ratio %	**10.84**	**17.02**	**7.84**	**10.40**	**11.25**

Sample calculation of Expected Return ($\overline{X}$), Standard Deviation (σ) and Coefficiant of Variance (C.V) is presented bellows:

For HBL

Here,

Total Return = $\sum x$= 6.79+9.42+9.09+8.12+6.48=39.9

Expected Return($\overline{X}$) = $\frac{\sum x}{N}$

Where,

N= Number of observations

($\overline{X}$) = Expected return of the historical data

X = Return of the historical data

Return (X)	Expected Return (X)	X- $\overline{X}$	$(X-\overline{X})^2$
6.79	7.78	-0.99	0.98
9.42	7.78	1.64	2.69
9.09	7.78	1.31	1.72
8.12	7.78	0.34	1.12
6.48	7.78	-1.30	1.69
			7.20

$$S.D.(\sigma) = \sqrt{\frac{1}{N}\sum(X-\overline{X})}$$

$$= \frac{1}{7} \times 7.20 = \sqrt{1.03} = 1.01$$

Where,

N= Number of observations

$\overline{X}$ = Expected return of the historical data

$$CV = \frac{\text{Standard Deviation}\,(\delta)}{\text{Expected Return}\,(\overline{X})} \times 100$$

$$\frac{1.01}{7.78} \times 100 = 13\%$$

Table 2

Cash and Bank Balance to Current Assets Ratio

(In Million)

S.N	Name of Banks	Year				
1	**HBL**	**2003**	**2004**	**2005**	**2006**	**2007**
	Cash and Bank Balance	1264.67	1979.21	2001.18	2014.47	1717.33
	Current Assets	14165.33	16881.45	18605.75	18671.09	21294.33
	Ratio %	**8.93**	**11.72**	**10.76**	**10.79**	**8.06**
2	**EBL**					
	Cash and Bank Balance	592.78	1139.57	631.81	1050.00	1552.97
	Current Assets	6359.66	7836.89	9399.97	11545.24	15147.06
	Ratio %	**9.32**	**14.54**	**6.72**	**9.10**	**10.25**

Table 3

Investment on Government Securities to Current Assets Ratio

S.N	Name of Banks	Year				
1	**HBL**	**2003**	**2004**	**2005**	**2006**	**2007**
	Cash and Bank Balance	3047.75	3998.87	2771.73	5469.73	5144.31
	Current Assets	14165.33	16881.45	18605.75	18671.09	21294.33
	Ratio %	**21.52**	**23.69**	**14.90**	**29.30**	**24.16**
2	**EBL**					
	Cash and Bank Balance	1538.90	1599.35	2466.43	2100.29	3548.62
	Current Assets	6359.66	7836.89	9399.97	11545.24	15147.06
	Ratio %	**24.24**	**20.41**	**26.24**	**18.20**	**23.43**

Table 4

Loan and Advances to Total Deposit Ratio

S.N	Name of Banks	Year				
1	HBL	**2003**	**2004**	**2005**	**2006**	**2007**
	Loan and Advances	8913.73	10001.85	11951.87	12424.52	14642.56
	Total Deposits	18619.37	21007.37	22010.33	24814.01	26490.85
	Ratio %	**47.87**	**47.61**	**54.30**	**50.07**	**55.27**
	EBL					
2	Cash and Bank Balance	3948.48	4908.46	5884.12	7618.67	9801.31
	Total Deposits	5466.61	6694.95	8063.90	10097.70	13802.45
	Ratio %	**72.23**	**73.32**	**72.97**	**75.45**	**71.01**

Table 5

Loan and Advances to Total Deposit Ratio

S.N	Name of Banks	Year				
1	HBL	**2003**	**2004**	**2005**	**2006**	**2007**
	Total Investment	9175	1017.44	9292.10	5509.68	5183.00
	Total Deposits	18619.37	21007.37	22010.33	24814.01	26490.85
	Ratio %	**49.18**	**48.44**	**42.44**	**22.20**	**19.60**
	EBL					
2	Total Investment	1628.50	1616.50	2483.50	2119.70	3567.70
	Total Deposits	5466.61	6694.95	8063.90	10097.70	13802.45
	Ratio %	**29.79**	**24.15**	**30.80**	**21.00**	**25.85**

Table 4.6

Loan and Advances to Total Working Fund Ratio

S.N	Name of Banks	Year				
1	HBL	**2003**	**2004**	**2005**	**2006**	**2007**
	Loan and Advances	8913.73	10001.85	11951.87	12424.52	14642.56
	Total Working Fund	20672.45	23355.23	24765.77	27386.23	29438.66
	Ratio %	**43.12**	**42.82**	**48.26**	**45.37**	**49.47**
	EBL					
2	Cash and Bank Balance	3948.48	4908.46	5884.12	7618.67	9801.31
	Total Working Fund	6670.18	8052.20	9587.57	11708.00	15951.85
	Ratio %	59.20	60.96	**61.37**	**65.07**	**61.44**

Table 7

Investment on Government Securities to Total Working Ratio

S.N	Name of Banks	Year				
1	HBL	**2003**	**2004**	**2005**	**2006**	**2007**
	Investment on Govt. Securities	3047.75	3998.87	3471.73	5469.73	5144.31
	Total Working Fund	20672.45	23355.23	24765.77	27386.23	29438.66
	Ratio %	**14.74**	**17.12**	**14.02**	**20.0**	**17.47**
2	**EBL**					
	Investment on Govt. Securities	1538.90	1599.35	2466.43	2100.29	3548.62
	Total Working Fund	6670.18	8052.20	9587.57	11708.00	15951.85
	Ratio %	**23.07**	**19.86**	**25.73**	**17.94**	**22.25**

Table 8

Investment on Shares and Debenture to Total Working Ratio

S.N	Name of Banks	Year				
1	HBL	**2003**	**2004**	**2005**	**2006**	**2007**
	Investment on Shares & Debenture	34.27	34.27	34.27	40.00	38.57
	Total Working Fund	20672.45	23355.23	24765.77	27386.23	29438.66
	Ratio %	**1.66**	**1.47**	**1.38**	**1.46**	**1.31**
2	**EBL**					
	Investment on Govt. Securities	17.11	17.11	17.11	19.39	19.08
	Total Working Fund	6670.18	8052.20	9587.57	11708.00	15951.85
	Ratio %	**2.57**	**2.12**	**1.78**	**1.66**	**1.20**

Table 9

Investment on Shares and Debenture to Total Working Ratio

S.N	Name of Banks	Year				
1	HBL	**2003**	**2004**	**2005**	**2006**	**2007**
	Net Profit	235.02	212.12	263.05	308.28	457.46
	Loan and Advances	8913.73	10001.85	19951.87	12424.42	14642.56
	Ratio %	**2.64**	**2.12**	**2.20**	**2.48**	**3.12**
2	**EBL**					
	Net Profit	85.33	94.17	143.57	168.22	237.29
	Loan and Advances	3948.49	4908.46	5884.12	7618.67	9801.31
	Ratio %	**2.16**	**1.92**	**2.44**	**2.21**	**2.42**

Table 10

Investment on Shares and Debenture to Total Working Ratio

S.N	Name of Banks	Year				
1	HBL	**2003**	**2004**	**2005**	**2006**	**2007**
	Net Profit	235.02	212.12	263.05	308.28	457.46
	Total Working Fund	20672.45	23355.23	24765.77	27386.23	29438.66
	Ratio %	**1.14**	**0.91**	**1.06**	**1.13**	**1.55**
2	**EBL**					
	Net Profit	85.33	94.17	143.57	168.22	237.29
	Total Working Fund	6670.18	8052.20	9587.57	11708.00	15951.85
	Ratio %	**1.28**	**1.17**	**1.50**	**1.44**	**1.50**

Table 11

Total Interest Earned to Total Working Ratio

S.N	Name of Banks	Year				
1	HBL	**2003**	**2004**	**2005**	**2006**	**2007**
	Interest Working Fund	1149.00	1201.33	1245.90	1446.47	1626.47
	Total Working Fund	20672.45	23355.23	24765.77	27386.23	29438.66
	Ratio %	**5.56**	**5.14**	**5.03**	**5.28**	**5.52**
2	**EBL**					
	Interest Working Fund	443.82	520.17	657.25	719.30	903.41
	Total Working Fund	6670.18	8052.20	9587.57	11708.00	15951.85
	Ratio %	**6.65**	**6.46**	**6.86**	**6.14**	**5.66**

Table 12

Investment on Shares and Debenture to Total Working Ratio

S.N	Name of Banks	Year				
1	HBL	**2003**	**2004**	**2005**	**2006**	**2007**
	Interest Paid	578.13	554.13	491.54	562.00	648.84
	Total Working Fund	20672.45	23355.23	24765.77	27386.23	29438.66
	Ratio %	**6.80**	**2.37**	**1.98**	**2.05**	**2.20**
2	**EBL**					
	Interest Paid	257.05	307.64	316.37	299.57	401.40
	Total Working Fund	6670.18	8052.20	9587.57	11708.00	15951.85
	Ratio %	**3.85**	**3.82**	**3.30**	**2.55**	**2.52**

Table 13

Liquidity Risk Ratio

S.N	Name of Banks	Year				
1	HBL	**2003**	**2004**	**2005**	**2006**	**2007**
	Cash and Bank Balance	1264.67	1979.21	2001.18	2014.47	1717.35
	Total Deposit	81619.37	21007.37	22010.33	24814.01	26490.85
	Ratio %	**6.79**	**9.42**	**9.09**	**8.12**	**6.48**
2	**EBL**					
	Cash and Bank Balance	592.78	1139.57	631.81	1050.00	1552.97
	Total Deposit	5466.61	6694.95	8063.90	10097.70	13802.97
	Ratio %	**10.84**	**17.02**	**7.84**	**10.40**	**11.25**

Table 14
Credit Risk Ratio

S.N	Name of Banks	Year				
1	HBL	**2003**	**2004**	**2005**	**2006**	**2007**
	Total Investment Plus Loan and Advance	18070.73	20177.29	21243.97	17934.21	19825.56
	Total Assets	20672.45	23355.23	24675.73	27386.23	29438.66
	Ratio %	**87.41**	**86.39**	**85.78**	**65.49**	**67.35**
2	**EBL**					
	Total Investment Plus Loan and Advance	5576.90	6524.96	8367.62	9738.37	13369.01
	Total Assets	6670.18	8052.20	9587.57	11708	15951.85
	Ratio %	**83.61**	**81.03**	**87.28**	**83.18**	**83.81**

APPENDIX – II

Sample Calculation on growth Ratio of Total Deposits
We have,
$D_n = D_o(1+g)^{n-1}$
Where
D_n= Total Deposit in the n^{th} year
D_o= Total Deposit in the initial year
g= Growth Rate
n= Total number of year

Here
D_{2006}=264901.85
D_{2002}=18619.37
n= 5 year

Now,
$D_n = D_o(1+g)^{n-1}$
$26490.85 = 18319.37\ (1+g)^{5-1}$
$(1+g)^4 = \frac{26490.85}{18619.37}$
$1+g = (1.4228)^{\frac{1}{4}}$
1+g= 1.0921
G= 0.0921 or 9.21%

Similarly other growth ratios have been calculated by performing same method is mentioned above.

APPENDIX – III

Table 15

Sample calculation of correlation co-efficient between Deposit and Loan and Advances of HBL

Year	Deposit (x)	Land and Advances (y)	X= X-$\overline{X}$	X= X-$\overline{Y}$	x^2	y^2	xy
2002	18619.37	8913.73	-3968.18	-2673.18	15750024.1	7145891.31	10608862.34
2003	21007.37	1001.85	-158063	-1586.06	2498391.20	251245.01	2506974.02
2004	22010.33	11951.87	-577.67	364.96	333702.63	133195.80	210826.44
2005	24814.01	12424.52	2226.01	837.61	4955120.52	2701590.51	1864528.24
2006	26490.85	14642.56	3904.85	3055.65	15232238.12	9336996.92	11925743.6
Total	112939.93	57934.53			Σx^2 = 38769476.57	Σy^2 = 19830089.75	Σxy = 27116934.64
Mean	$\overline{X}$=22588	$\overline{Y}$=11586.91					

We have,

Correlation co-efficient (r) = $\frac{\Sigma xy}{\sqrt{\Sigma x^2 \Sigma y^2}}$

$= \frac{27116934.34}{\sqrt{38769476.57 \times 19830089.75}} = 0.98$

$r^2 = 0.9604$

Probable Error (P.E.) = $0.6745 \times \frac{1-r^2}{\sqrt{n}}$

$= 0.6745 \times \frac{1-0.9604}{\sqrt{5}} = 0.0119$

$6 \times P.E. = 6 \times 0.0119 = 0.0714$

Remaining correlation coefficient has been calculated by using same method as in table no. 15.

APPENDIX - IV

Table 19

Source and uses of Funds of Himalayan Bank Limited

S.N.	Particulars	Mid July				
		2003	2004	2005	2006	2007
1	**Capital fund**	**651.6**	**740.6**	**1435.9**	**1328.2**	**1541.7**
a	Paid up Capital	390.0	429.0	536.3	643.5	772.2
b	General Reserve	239.7	288.8	329.2	381.8	443.4
c	Retained Earning	0.0	0.0	68.9	173.9	158.2
d	Others reserves	21.9	22.8	501.5	129.0	167.9
2	**Deposits**	**18595.2**	**21002.8**	**22760.9**	**24831.1**	**26456.2**
a	Current	2652.8	3702.2	4353.1	5013	4993.6
b	Saving	9102.8	10840.8	11719.7	12852.4	14582.8
c	Fixed	6044.9	5880.7	6043.7	6364.3	6350.2
d	Call Deposits	343.8	201.3	219.6	15.4	41.6
e	Others	450.9	377.8	424.8	586	488
3	**Borrowings**	**48.2**	**538.8**	**66.4**	**485**	**383**
a	NRB	47.6	403.7	66.4	25	23
b	Inter Bank	0.6	135.1	0.0	100	0.0
c	Foreign Bank	0.0	0.0	0.0	0.0	0.0
d	Financial institutions	0.0	0.0	0.0	360	0.0
e	Bonds securities					360
4	**Other**	**2085.7**	**2439.0**	**2488.0**	**2458.3**	**2684.0**
	Sources of Funds	**21380.7**	**24721.2**	**26721.2**	**29102.6**	**31064.9**

1	**Liquid Funds**	**7658.8**	**8281.7**	**8613.5**	**8173.2**	**2677.6**
a	Cash in Hand	450.1	350	274.2	287.2	263.3
b	FC in Hand	12.7	37.7	0.0	-	42.1
c	Balance in Hand	695.4	1130.0	1623.9	1412.0	1093
d	Bal. With Dom. Bank	36.3	40	33	2.5	78.6
e	Bal. Held Abroad	36.9	600.0	-162.4	-152.3	-195.3
f	Call money	2427.4	6129.0	6844.8	6623.8	1005.3
2	**Investments**	**2622.8**	**4014.3**	**2878.3**	**5509.6**	**10890.5**
a	Govt. Securities	2588.6	3980.0	2781.7	5469.7	4577.7
b	Share and debenture	34.3	34.3	96.6	39.9	5746.1
c	NRB bond	0.0	0.0	0.0	0.0	566.7
3	**Loan and Advances**	**9673.5**	**11074.3**	**13081.7**	**13590.9**	**15768.6**
a	Govt. Enterprises	352.5	742.7	766.2	745	605
i.	Financial	350.0	290.0	290.0	290.0	0
ii.	Non Financial	2.5	452.7	476.2	455	605
b	Private Sector	9321.0	10151.5	12315.5	12500	14911
c	Foreign Bills P and D	0.0	180	0.0	0.0	0.0
d	Foreign ABC	0.0	0.0	0.0	0.0	0.0
e	Bills purchased				345.9	252.6
4.	**Interest Accrued**	**313.4**	**313.5**	**661.9**	**701.4**	**688.2**
a	Govt. Enterprises	5.5	0.9	2.2	0.0	0.0
b	Private Sector	307.9	312.6	659.7	701.4	688.2
5	**Others**	**1112.3**	**10375**	**15158**	**1127.5**	**1043.0**
	Uses of funds	21380.7	24721.2	26751.2	29102.6	31064.9

APPENDIX – V

Table 21

Source and uses of Funds of Everest Bank Limited

(Rs in million)

S.N.	Particulars	Mid July				
		2003	**2004**	**2005**	**2006**	**2007**
1	**Capital fund**	**497.8**	**587.1**	**665.8**	**980.3**	**832.5**
a	Paid up Capital	399.3	455	455.0	755	518.0
b	General Reserve	27.3	44.9	64.5	93.2	127.3
c	Retained Earning	62.5	72.9	62.5	46.9	70.5
d	Others reserves	8.7	14.3	83.8	78.8	110.3
e	Share Premium	-	-	-	6.4	6.4
2	**Deposits**	**5461.1**	**6694.9**	**8064.0**	**10097.8**	**13802.5**
a	Current	489.6	562.4	719.8	1025.2	155.2
b	Saving	1733.3	2758.0	3730.7	4806.9	6929.2
c	Fixed	2694.6	2803.4	2914.1	3444.5	4298.2
d	Call Deposits	439.4	428.0	565.6	704.4	1293.3
e	Others	104.2	143.1	133.8	116.8	126.6
3	**Borrowings**	**310.3**	**83.2**	**433.3**	**0**	**300**
a	NRB	81.8	0.0	0.0	0.0	0.0
b	Inter Bank	0.0	0.0	0.0	0.0	0.0
c	Foreign Bank	228.5	83.2	433.3	0	0
d	Financial institutions	0.0	0.0	0.0	0.0	300
4	**Other**	**505.0**	**895.0**	**804.1**	**4043.5**	**1779.5**
	Sources of Funds	**6774.2**	**8260.2**	**9967.2**	**15121.6**	**16714.5**
1	**Liquid Funds**	**809.2**	**1156.1**	**869.7**	**1624.2**	**1619.6**
a	Cash in hand	146.3	109.8	117.8	180.6	146.1
b	FC in hand	23.6	26.8	10.9	12.0	13.3
c	Balance in hand	257.7	724.8	441.9	774.5	1139.5
d	Bal. With Dom. bank	3.1	5.9	4.2	13.4	6.1
e	Bal. with other financial institution	0.0	0.0	0.0	0.0	0.0
f	Call money	137.0	37.5	232.1	570	0.0

2	**Investments**	**1628.6**	**1616.5**	**2483.5**	**2119.7**	**4201.3**
a	Govt. Securities	1538.9	1599.4	2466.4	2100.3	3548.6
b	Share and debenture	89.7	17.1	17.1	19.4	652.7
c	NRB bond	0.0	0.0	0.0	0.0	0.0
3	**Loan and Advances**	**3982.7**	**5049.6**	**6131.1**	**7943.7**	**10154.7**
a	Govt. Enterprises	0.0	60.0	69.2	0.0	494
i.	Financial	0.0	60.0	69.2	0.0	160
ii.	Non Financial	0.0	0.0	0.0	0.0	334
b	Private Sector	3969.6	4976.9	6047.4	7914	9631
c	Foreign Bills P and D	13.1	18.7	14.5	-	-
d	Foreign ABC	0.0	0.0	0.0	-	-
e	Bills Purchased	-	-	-	29.7	30.7
4.	**Interest accrued**	**99.8**	**147.6**	**176.6**	**180.6**	**110.2**
a	Govt. Enterprises	0.0	0.9	0.2	0.0	0.0
b	Private Sector	99.8	146.7	176.4	180.6	110.2
5	**Others**	**253.9**	**290.4**	**306.3**	**352.3**	**628.6**
	Uses of funds	6774.2	8260.2	9967.2	15121.6	16714.6

Source: Banking and Financial Statistics, Mid July 2006

APPENDIX – VI

Comparative Cash Flow Analysis (HBL)
From 17th July 2003 to 15th July 2007

(Rs in million)

Particulars	Year				
	2003	**2004**	**2005**	**2006**	**2007**
A. Cash Flow From Operating Activities(CFOA)	**589.74**	**636.56**	**725.69**	**585.54**	**590.61**
1.Cash receipts	**1389.79**	**1454.31**	**1519.62**	**1760.34**	**1897.77**
1.1 Interest Income	1149.0	1201.33	1245.9	1446.47	1419.9
1.2 Commission and Discount Income	101.7	102.56	123.93	132.82	165.45
1.3 Exchange Gain	104.6	109.6	112.42	137.3	198.13
1.4 Non Operating Income	2.45	10.76	3.30	-	-
1.5 Other Income	32.04	30.15	34.08	43.76	117.19
2.Cash Payments	**(800.05)**	**(817.74)**	**(793.93)**	**(1174.8)**	**(1307.16)**
2.1 Interest Expenses	578.13	554.13	491.54	561.96	648.84
2.2 Staff Expenses	101.54	120.15	152.51	178.59	191.64
2.3 Office Overhead Expenses	120.38	143.47	149.87	223.23	235.88
2.4 Exchange Loss	-	-	-	-	-
2.5 Non Operating Expenses	-	-	-	-	-
2.6 Other Expenses	-	-	-	211.01	230.8
a. Cash Flow Before Working Capital Activities	**-**	**-**	**-**	**(540.95)**	**(600.31)**
B. Cash Flow From Investing Activities(CFIA)	**(1524.22)**	**(3134.27)**	**(1921.65)**	**(31.31)**	**(287.41)**
1. Change in Balance with Banks	(483.32)	780.12	144.93	-	-
2. Changes in Money at Call and Short Notice	(3705.3)	(202.25)	21.88	-	-
3. Changes in Investments	5073.95	1018.33	(883.33)	-	-
4. Changes in Loan and Advance at Bill Purchased	376.06	1088.12	2136.25	-	-
5. Changes in Fixed Assets	140.9	(65.69)	102.3	-	-
6. Changes in Other Assets	121.94	515.64	202.71	-	-

C. Cash Flow From Financial Activities(CFFA)	**1247.3**	**2432.12**	**1073**	**-**	**-**
1. Changes in borrowings	454.49	111.83	50.87	-	-
2. Changes in deposits	**982.53**	**238.8**	**965.25**	**-**	**-**
3. Changes in bills payable	**29.66**	**(8.85)**	**17.65**	**-**	**-**
4. Changes in other liabilities	**(219.38)**	**(58.86)**	**39.32**	**-**	**-**
5. Dividend paid	**-**	**-**	**-**	**-**	**-**
D. Net cash flow of the year (A+B+C)	**312.82**	**(65.59)**	**122.95**	**13.29**	**(297.11)**
E. Opening cash balance	**149.96**	**462.78**	**397.19**	**2001.18**	**2014.47**
F. Closing cash balance(D+E)	**462.78**	**397.19**	**274.24**	**2014.47**	**1717.35**

Source: Annual Report of HBL

APPENDIX – VII

Comparative Cash Flow Analysis (EBL)

From 17th July 2003 to 15th July 2007

(Rs in million)

Particulars	Year				
	2003	**2004**	**2005**	**2006**	**2007**
A. Cash Flow from operating activities(CFOA)	**131.35**	**138.95**	**273.18**	**269.88**	**485.75**
1.Cash receipts	**540.93**	**635.33**	**785.06**	**864.48**	**1135.46**
1.1 Interest Income	**443.82**	**520.17**	**657.25**	**725.01**	**973.18**
1.2 Commission and discount income	**36.77**	**61.5**	**74.33**	**78.13**	**96.84**
1.3 Exchange gain	**45.41**	**32.21**	**27.79**	**27.08**	**14.4**
1.4 Non operating income	**1.14**	**1.25**	**1.87**	**2.78**	**-**
1.5 Other income	**13.78**	**20.20**	**23.82**	**31.48**	**51.05**
2.Cash Payments	**360.14**	**(496.38)**	**511.88**	**594.6**	**720.43**
2.1 Interest expenses	225.05	307.64	48.53	312.88	392.25
2.2 Staff expenses	32.19	37.37	78.96	60.60	99.00
2.3 Office overhead expenses	63.73	71.90	-	105.22	115.09
2.4 Exchange loss	-	-	-	-	-
2.5 Non operating expenses	-	-	68.03	-	-
2.6 Other expenses	56.62	56.14	1670.90	115.90	114.08
B. Cash Flow From Investing Activities(CFIA)	**(1455.47)**	**(1543.64)**	**(1670.90)**	**(2232.67)**	**(45.77)**
Change in Balance with Banks	(300.85)	(577.64)	499.86	(354.35)	
Changes in Money at Call and Short Notice	(153.95)	86.13	(187.45)	(382.56)	
Changes in investments	(791.31)	39.06	(881.68)	(406.73)	
Changes in Loan and Advance at Bill Purchased	(1040.25)	(1026.17)	(1051.07)	(1828.25)	

Changes in Fixed Assets	(65.13)	(38.68)	(20.44)	(39.90)	
Sales of Fixed Assets	0.18	1.09	0.12	1.08	
Changes in Other Assets	-	-	(40.64)	(36.11)	
Sale of Non Banking Assets	-	-	10.40	0.70	
C. Cash flow From Financial Activities(CFFA)	**1382.47**	**1364.13**	**1389.82**	**2026.62**	**63.00**
Changes in borrowings	1.77	(81.77)	-	300.00	
Changes in Deposits	892.10	1228.35	1368.94	2033.88	
Changes in Bills Payable	(9.50)	19.97	(0.07)	(4.25)	
Changes in Other Liabilities	319.64	238.78	90.48	230.88	
Changes in Share Capital	178.46	4.28	-	-	63.0
Share Premium	-	6.43	-	-	
Dividend Paid	-	(51.90)	(69.53)	72.03	
D. Net cash flow of the Year(A+B+C)	**58.35**	**40.55**	**7.90**	**63.83**	**502.98**
E. Opening cash balance	**118.86**	**177.21**	**136.66**	**128.76**	**1049.99**
F. Closing cash balance(D+E)	**177.21**	**136.66**	**128.76**	**192.59**	**1552.97**

Source: Annual Report of EBL

APPENDIX – VIII

Comparative Balance Sheet for FY (2003 to 2007)

(Rs in million)

Particulars	Year				
	2003	**2004**	**2005**	**2006**	**2007**
ASSETS					
Current assets	**14165.33**	**16881.45**	**18605.75**	**18671.09**	**21294.33**
1.Cash and Bank balance	1264.67	1979.21	2001.18	2014.47	1717.35
2. Money at call and short notice	352.35	150.10	368.96	441.08	1005.28
3. Loans and advances	8913.73	10001.85	11951.87	12424.52	14642.56
4. Investment on Govt. Securities	3047.75	3998.87	3471.73	5469.73	5144.32
Interest Receivable	330.38	418.46	526.65	511.18	550.37
Miscellaneous Current Assets	256.45	332.96	285.41	-	-
Fixed assets	318.85	229.87	299.64	295.82	540.82
Investment on Shares	34.27	34.27	34.27	39.91	39.91
Other Investment	6075.09	6142.3	5826.1	6182.7	5706.15
Total Assets(Working Fund)	**20672.45**	**23355.23**	**24765.77**	**27386.23**	**29438.66**
LIABILITIES					
Current Liabilities	19978.61	22370.12	23673.67	25844.48	27672.49
Deposits and other A/c's	18619.37	21007.37	22010.33	24814.01	26490.85
8. Short and Other Loan	605.35	608.13	659.01	506.05	504.62
Bills Payable	55.38	46.73	64.38	68.40	73.58
Tax Provision	114.02	147.9	157.52	214.26	214.94
Staff Bonus	38.78	40.00	46.73	58.06	67.24
Dividend Payables	6.44	7.86	6.32	80.12	238.41
Misc. Current Liabilities	539.07	512.13	729.38	103.58	82.85
Misc. Current					
Liabilities	539.07	512.13	729.38	103.58	82.58
Net Worth	**858.11**	**1063.13**	**1324.17**	**1541.75**	**1766.17**

Share Capital	390	429.00	536.25	643.50	772.20
Share holder's reserves	458.11	634.13	787.92	898.25	993.97
Total Liabilities	**20672.45**	**23355.23**	**24765.77**	**27386.23**	**29438.66**

Source: Annual Report of HBL

APPENDIX – IX

Comparative Balance Sheet for FY (2003 to 2007)

(Rs in million)

Particulars	Year				
	2003	**2004**	**2005**	**2006**	**2007**
ASSETS					
Current assets	**6359.66**	**7836.89**	**9399.97**	**11545.24**	**15147.06**
1.Cash and Bank Balance	**592.78**	1139.57	631.81	1050.00	1552.97
2. Money at Call and Short Notice	86.13	0.00	187.45	570	66.96
3. Loans and Advances	3948.48	4908.46	5884.12	7618.67	9801.31
4. Investment on Govt. Securities	1538.90	1599.35	2466.43	2100.29	3548.62
5.Interest Receivable	105.29	122.74	145.26	159.78	110.01
6.Miscellaneous Current Assets	88.10	66.77	84.90	130.68	67.19
Fixed Assets	93.39	109.59	118.37	134.07	152.09
Investment on Shares	17.11	17.11	17.11	19.39	19.89
Other investment	101.86	37.51	52.12	9.26	632.82
Total assets(Working Fund)	**6670.18**	**8052.20**	**958757**	**11708.10**	**15951.85**
LIABILITIES					
Current Liabilities	6102.30	7461.11	8984.55	10778.87	15129.04
7. Deposits and Other A/L's	5466.61	6694.95	8063.90	10097.69	1380.44
8. Short and Other Loan	81.77	0.00	0.00	-	-
9. Bills Payable	2.13	22.10	22.03	17.78	15.80
10. Tax Provision	38.43	41.71	57.55	81.91	34.96
11. Staff Bonus	14.15	15.10	23.46	28.08	114.67
12 Dividend Payables	1.34	1.29	7.36	10.93	1054.82
13 Misc. Current Liabilities	497.87	685.96	800.25	241.99	822.81
Liabilities	390.91	472.83	540.32	629.62	378.00
Net worth	**259.32**	**315.00**	**315.00**	**315.00**	**444.81**
Share holder's Reserves	331.59	157.83	225.32	314.62	15951.85
Total Liabilities	**6670.18**	**8052.20**	**9587.57**	**11708.00**	**15951.85**

Source: Annual Report of HBL

APPENDIX- X

Himalayan Bank Limited

Comparative Profit and Loss Account

Rs. Million

S.N	Particular	Fiscal Year				
		2003	**2004**	**2005**	**2006**	**2007**
A	Operating Income	1387.34	1443.54	1516.33	1757.88	2032.38
1	Interest (Earned)	1149.00	1201.23	1245.90	1446.47	1626.47
2	Commission & Discount	101.70	102.56	123.93	132.81	165.46
3	Exchange Income	104.60	109.60	112.42	137.30	198.13
4	Dividend	0.00	0.00	0.00	0.00	0.00
5	Other	32.04	30.15	34.08	41.30	42.32
B	Cost of Services	679.67	674.28	644.05	740.55	883.43
6	Interest Paid	578.13	554.13	491.54	561.96	648.84
7	Salaries, Allowances & P.F.	101.54	120.15	152.51	178.59	234.59
C	Provision for Bonus	38.78	40	46.73	58.06	67.24
D	Other General Expenses	298.56	356.72	257.78	402.10	366.31
E	Gross Profit	370.33	372.54	452	557.17	715.40
F	Depreciation	23.74	23.28	34.73	37.41	44.89
G	Operating Profit (E-F)	346.59	349.26	417.27	519.76	670.51
H	Income from other sources	2.45	10.76	3.30	2.79	1.89
I	Pre-tax profit (G+H)	349.04	360.02	420.57	522.55	672.40
J	Provision for Taxes	114.02	147.90	157.52	214.27	214.94
K	**Net Profit (I-J)**	**235.02**	**121.12**	**263.05**	**308.28**	**457.46**

Source: Annual Report of HBL

APPENDIX- XI

Everest Bank Limited

Comparative Profit and Loss Account

Rs. Million

S.N	Particular	Fiscal Year				
		2003	**2004**	**2005**	**2006**	**2007**
A	Operating Income	539.78	634.08	783.19	855.98	1063.55
1	Interest (Earned)	443.82	520.17	657.25	719.30	903.41
2	Commission & Discount	36.77	61.50	74.33	78.13	96.84
3	Exchange Income	45.41	32.20	27.79	27.07	14.40
4	Dividend	0.00	0.00	0.00	0.00	0.00
5	Other	13.78	20.20	23.82	31.48	48.90
B	Cost of Services	289.24	343.78	364.90	360.16	472.32
6	Interest Paid	257.05	307.64	316.37	299.56	401.40
7	Salaries, Allowances & P.F.	32.19	37.37	48.53	60.60	70.92
C	Provision for Bonus	14.15	15.10	23.46	28.08	34.56
D	Other General Expenses	100.10	121.07	127.27	196.87	190.35
E	Gross Profit	136.29	154.13	228.99	270.87	366.32
F	Depreciation	10.06	19.50	19.74	21.12	25.24
G	Operating Profit (E-F)	126.23	134.63	209.25	249.75	341.08
H	Income from other sources	1.14	2.25	1.87	2.97	2.96
I	Pre-tax profit (G+H)	127.37	135.88	211.12	252.72	344.04
J	Provision for Taxes	42.04	41.71	67.55	81.91	106.75
K	**Net Profit (I-J)**	**85.33**	**94.17**	**143.57**	**170.81**	**237.29**

Source: Annual Report of EBL