

INVESTMENT POLICY OF COMMERCIAL BANK
(A Comparative Study of Everest Bank Limited
& Himalayan Bank Limited)

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RECOMMENDATION

This is to certify that the thesis

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(A Comparative Study of Everest Bank Limited & Himalayan Bank Limited)

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I hereby declare that the work reported in this thesis entitled “**Investment Policy of Commercial Bank (A Comparative Study of Everest Bank Limited & Himalayan 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 degree of Master of Business Studies (MBS) under the supervision of **Asso. Prof. Ruchila Pandey** and **Kiran Thapa**, Lecturer of Shanker Dev Campus, T.U.

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ABBREVIATIONS

ABBS	:	Any Branch Banking System
ATM	:	Automated Teller Machine
B.S	:	Bikram Sambat
CA	:	Current Assets
CL	:	Current Liabilities
CR	:	Current Ratio
C.V	:	Coefficient of Variation
EBL	:	Everest Bank Limited
e.g.	:	For Example
F/Y	:	Fiscal Year
GDP	:	Gross Domestic Production
Govt.	:	Government
HBL	:	Himalayan Bank Limited
i.e.	:	that is
JVB's	:	Joint Venture Bank
Ltd	:	Limited
NEPSE	:	Nepal Stock Exchange
No	:	Number
NRB	:	Nepal Rastra Bank
P.Er	:	Probable Error
PNB	:	Punjab National Bank
r	:	Coefficient of Correlation
Rs	:	Rupees
SCT	:	Smart Choice Technology
SEBON	:	Securities Board of Nepal
S.D	:	Standard Deviation
SMS	:	Short Message Send
TU	:	Tribhuvan University

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

The economic development of a country is not possible without the development of different sector like Industry, Trade, and Agriculture etc. for to develop this sectors a regular supply of financial resources are needed. Government alone cannot handle and develop all the sectors. Private people also cannot undertake large business because per capita income of the people is very low while their propensity to consume is very high. Due to low income, their saving is very low and capital formation is very low. So their saving is not sufficient for carrying out the development works. Nepal's underdeveloped economy is not due to lack of resources but due to improper utilization of the available resource in the efficient manner. To attend the rapid of economic development of the country, there should be good environment for the establishment of corporation in the different sector of the economy. It needs proper plan and strategy for the proper utilization of resources. For plan and strategy development, huge amount of capital investment is required.

Capital formation is one of the important factors in economic development. The capital formation leads to increase in the size of the national output, income, and employment, solving the problem of inflation and balance of payment and making the economy free from the burden of foreign debt. Domestic Capital formation helps in making a country self-sustainable. Profit made by business community constituted the major part of the saving of the community and what was saved was assumed to be invested.

Banking sector plays an important role in the economic development of a country. Commercial Banks are one of the vital aspects of this sector, which deals in the process of channeling the available resources in the needed sector. It is the Intermediary between the deficit and surplus of financial resources. Financial institutions like banks are necessity to collect scattered saving and put them into

productive channels. In the absence of such institutions it is possible that the saving will not be safely and profitably utilized within the economy. It will be diverted abroad or channeled into unproductive conspicuous consumption including real estate speculation.

For the development of any country first it is required to have enough capital. Nepal lacks the adequate capital for its development planning. Due to this reason so many development planning are in pending. If there is enough capital available it can invest in the profitable project and contribute little bit in the national GDP. “Investment promotes economic growth and contributes to a nation’s wealth. When people deposit money in a saving account in a bank for example, the bank must invest by lending the funds of various business companies. These firms in return, may invest the money in new factories and equipment to increase their production. In addition to borrowing from the banks most issue stocks and bonds that they sell to investor to raise capital needed for business expansion. Government also issues bonds to obtain funds to invest in such project, as the construction of dams, roads and schools. All such investments by individuals, business and government involves a preset sacrifice of income to get an expected future benefits. As a result, Investment raises a nation’s standard of living” (*The World Book Encyclopedia*, 232).

Jack C. Francis, (1998:5) states; “Investing involves making a current commitment of funds in order to obtain a uncertain future return. It is risky business that demands information. To process information effectively and select the best investment requires goals that are clear cut and realistic. In simple term investment is making a current commitment of funds that is expected to generate additional money in future. Nevertheless, in the broadest sense it means the sacrifice of current rupees for future rupees that take place at present and certain time. Similarly William Sharpe (1986: 9) defines “Investment in the actual sense refers to the sacrifice of current dollars for future dollars”. Investment involves two attributes, time and risk. The sacrifice takes place in the present and is certain.

“The business of banking is one of collecting funds from the community and extending credit (making loans) to people for useful purposes” (*Edmister, 1980: 73*). Loaning money has always been a basic function of commercial bank. After providing for its cash need a bank normally seeks to loan as large a portion of its deposit and excess capital as it prudentially can. The remaining portion of its investible fund is placed in suitable securities. (*American Institute of Banking, 1966: 163*)

Loans are an essential aspect of commercial bank. “First, income from loan contributes substantially to the revenues and profit of the bank. Second, lending money to people in the community strengthens the community-bank relationship. Third, lending money surplus business development and supports a growing economy” (*Edmister, 1980: 82*). Credit affects overall development of the country. So far as pace of economic development is considered, it is directly related to the quality and quantity of the credit, which is derived from various financial institutions, especially commercial banks in Nepal.

Due to the growth on banking sector in Nepal and huge competition, opportunity for investment are comparatively losses. In this critical situation joint ventures banks are most appropriate or best suited because of their abundant resources, new technologies, sufficient capital and above all high integrity. Joint ventures banks can easily redress the problem faces by others and avoids many risks in investment by formulating and implementing good policy for proper utilization of funds. The fundamental principles of investment must be followed thoroughly for profitable investment. An investment policy should ensure maximum profit and minimum risk.

Investment promotes economic growths and contributes to a nation's wealth. When people deposit money in the saving account of a bank, the bank may invest by lending the funds to various business firms. These firms in return may invest the money in new factories and equipment to increase their production. In addition to borrowing from banks must companies issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issues bond to obtain funds to

invest its projects, such as the construction of dams, road and school etc. Nepal Rastra Bank on behalf of the government of Nepal issues bonds, treasury bills to finance the long-term and short-term needs of the government. All such investments by individuals, firms and government involve present sacrifice of income to get an expected future benefit. As a result of which investment raises a nation's standard of living. The bank must return fund to their customers when they demanded, so it is always gives attention on Liquidity position. The development of country's economy is impossible without expansion of banking function in both rural and urban areas of the country.

Investment operation of commercial banks is very risky one. For this, commercial banks have to pay due considerations while formulating Investment Policy. A healthy development of any commercial bank depends upon its Investment Policy. A good Investment Policy attracts both lenders and borrowers, which helps to increase the volume and quality of deposit, loans and investment.

1.1.1 Profile of Concern Bank

Everest Bank Limited

Everest Bank Limited (EBL) is joint venture with Punjab National Bank of India, which was established in 1994 A.D. The main objective of this Bank is to provide the banking facilities for the people in the country and to make the easy access of lending for the agriculture, industrial and commercial sectors. The joint venture partner of EBL, Punjab National Bank (PNB) is the largest public sector Bank of India having many years of banking history with more than 4600 office all over India and is known for its strong systems and procedures and a distinct work culture. During its strength from its joint venture Partner, EBL has been steadily growing in its size and operations ever since its inception and today it has established itself as a leading private sector Bank of the nation, reckoned as one of the fattest growing commercial bank of the Country, the local Nepalese Promoters hold 50% stake in the Bank's equity, while joint venture partner PNB contribute 20% of equity where as the public holds remaining 30%.

The present capital structure of EBL is as follows:-

Capital	Amounts (Rs in million)
Authorized Capital	1250
Issued Capital	1050
Paid up Capital	1030.467

Source: Annual Report 2009/10, EBL

Himalayan Bank Limited

Himalayan Bank Limited was established in 1992 by a few distinguished business personalities of Nepal partnership with employees' provident fund and Habib Bank Limited are of Pakistan. It is the first commercial bank of Nepal whose maximum shares were held by the Nepalese private sector, besides commercial banking service, the bank also offers industrial and merchant banking services.

Himalayan Bank Limited has always been committed to provide a quality service to its valued customers, with a personal touch. All customers are treats with utmost

courtesy as valued clients. Himalayan Banks policy is to extend quality and personalized innovation and latest banking technology’. As a result the bank is not only being able to constantly improve its service level but is capable enough for future adoption of new technology. The bank already offers services such as SMS banking and internet banking to its customers and will be introducing more modern services in the near future. Himalayan Bank is committed to be a “Bank with a difference”. The present capital structure of Himalayan Bank is shown below.

Capital	Amount (Rs. In million)
Authorized capital	3000
Issued capital	1600
Paid up capital	1600

Sources: Annual report 2009/10, HBL

1.2 Statement of the Problem

Banking industries should prepare proper investment policy so that they can reach into their target. Investment policy is an important tool to the banking industries. Nepal has open its door to foreign commercial banks almost a decade back. Recently, the policy maker has given suggestions for the development of banking system in the country.

Nowadays banking industries are facing various problems from external environment such as political, legal, economic and social. The unstable politics is the main cause that has negative impact in the development of the banking sector. Banking sector is not growing, as it ought to be, though it is growing. Various policies launched by NRB may be advantageous from the viewpoint of nation but it is providing unnecessary interference in the daily transaction of the Commercial Banks. The other common problems faced by both joint ventures banks and state owned Commercial Banks are the cutthroat competition between them. New entry of banks and financial companies has made the tough competition to the joint venture banks due to their nature of work and social responsibility.

In Nepal banks are acting only as the depositories of communities saving and lent such saving to those who are in need and are acceptable to the bankers to certain criteria. They are mainly guided by the objectives of profit maximization, which provides synergistic effect again to encourage savings. These Commercial banks are active only in the urban area because they expect great opportunities for the maximization of profit. Rural areas are being neglected. Nepal is an agricultural country and for the growth of Nepalese economy agricultural and Industrial sector should be developed, credit extended by commercial banks to these sectors is not satisfactory. Commercial banks are not fulfilling the NRB's regulation of 12% investment of their total loans to the priority sectors like agriculture, small industries and service.

Because of the increased banking industries, competition is tough today and they are facing the problem of proper investment opportunities. They collect adequate finance from mass but could not find or locate new investment sectors required to mobilize their funds. Many banks and financial companies succumbed to liquidation although they had sustainable investment sectors. It has ensured bad impact on interest rate to the depositors, lower market value of share etc. The economic development of the nation depend upon the level of national income but the level of national income is affected by bank portfolio variables like loans, investment, cash reserve, deposit and borrowing etc. Therefore, except monitoring money and credit conditions the central bank has to keep an eye on the bank portfolio behavior.

Thus the present study will make a modest attempt to analyze the impact of the new directives for the commercial bank specially two joint venture banks i.e. EBL and HBL. The problem specially related to investment policy of commercial banks in Nepal have been presented as under

- Is the fund mobilization and investment policy of commercial banks effective?
- Whether the commercial banks are able to meet the obligation laid down by the NRB.
- To see the effect of investment decision on total profit.

- Whether the condition of studied banks are sound from the view point of the nation and from the view point of banking industry.
- Are they maintaining sufficient liquidity as guided by NRB?

1.3 Objective of the Study

Investment decision is one of the major functions of financial Management. The basic objectives of the study are to examine and evaluate the investment policy and strategies of Everest Bank and Himalayan Bank of Nepal. The specific objectives of this study are as follows:

- To examine relationship between total investment, deposit, loan and advances, net profit and outside asset and compare.
- To analyze fund mobilization and investment policy of Everest Bank Limited and Himalayan Bank Limited.
- To evaluate comparatively the liquidity management, assets management, efficiency profitability position, risk position and investment practices of Everest Bank Limited and Himalayan Bank Limited.
- To analyze the trends of deposit utilization towards total investment and loan and advances and its projection for next five years.

1.4 Significance of the Study

This comparative study of investment policy of two joint venture bank is useful to know the present situation of banking industry in Nepal. This also shows how the success and prosperity of the bank lies upon the successful formulation and effective implementation of policy. Good investment policy has a positive impact on economic development of the country. The research work provides useful feed back for academic institution, researcher, bank employees, trainees and investor and also for financial person, policy-making bodies and other person concerned with 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) etc. It may also be useful to the selected commercial banks to evaluate their performances and make proper investment policy.

1.5 Limitation of the Study

This study is based on the secondary data only. This study covers the period of five years from 2005/06 to 2009/10. Due to the arrival of unforeseen difficulties, every study or research is always accompanied by some natural limitations. Some common limitations of this study are as follows:

- The study is particularly based on a data derived from the Published annual reports, web-sites, and newspapers, articles along with NRB directives. Therefore, the calculation and conclusions of the study are fully dependent on the accuracy of those data provided by the concerned parties.
- Due to the lack of sufficient data, out of numerous affecting factors only few related data of investment policy are considered.
- Since the study deals merely with EBL and HBL conclusion drawn from the study may or may not be applicable to other joint ventures bank of Nepal.
- Non-availability of various references or sources and lack of sufficient time is another limitation faced to complete this research work.

1.6 Organization of the Study

The study is organized in the following five chapters.

Chapter I: Introduction

Introduction chapter is the first chapter which includes the background of the study. It contains general economic background of the nation. On this chapter statement of problem, objectives of the study, significance of the study and limitation of the study and other introductory framework.

Chapter II: Review of the Literature

It deals with the review of available relevant studies. It includes the conceptual review and review of the related books, journals and articles, review of thesis.

Chapter III: Research Methodology

Third chapter explains the research methodology used in the study, which includes introduction, research design, sources of data, population and sample and data analysis tools.

Chapter IV: Data Presentation and Analysis

It deals with presentation and analysis of relevant secondary data and information through a definite course of research methodology. For analysis of data appropriate mathematical, financial as well as statistical tools are used. The main working of this chapter is to analyze different financial ratios related to the investment.

Chapter V: Summary, Conclusion and Recommendation

The last or fifth chapter will contain summary conclusion drawn on the basis of presentation of data on fourth chapter. And on the basis of these summary and conclusion recommendations are suggested to the concerned banks. Beside this, bibliography and appendix are also included.

CHAPTER - II

REVIEW OF LITERATURE

This unit of this study basically concerned with conceptual framework and review of literature relevant to the investment policy of commercial banks. Every study is much based on past data, knowledge and activities. The study of past knowledge should not be ignored as it provides foundation to the present study. So, the analysis and presentation of the following parts define this chapter.

2.1 Conceptual Framework

Banks are among the most important financial institutions in the economy an essential business in thousands of local towns and cities. Banks play an important role in the economic development of the country. Banking, when properly organized, aids and facilitates the growth of trade and industry and hence of national economy. In the modern economy banks are considered not as a dealer in money but as leaders of development. Banks are not just the storehouses of the country's wealth but are the reservoirs of resources necessary for economic development.

Banking industry has acquired a key position in mobilizing resources for finance and social economic of development of the country. No functions is more important to the economy and its constitute than financing. "Bank assists both the flow of goods and service from the products to the consumers and financial activities of the government Banking provides the country with a monetary system of payment and is in important part of the financial system, which makes loans to maintain and increase the level of consumption and Production in the economy" (*American Institute of Banking, 1972:162*).

Commercial banks are those banks, which perform all kinds of banking functions as accepting deposits, advancing loans, credit creation and agency functions. They provide short term, medium term and long term loans to different business houses and trading companies. Nepal Rasta Bank Act 2031 has defined the meaning of commercial Banks as Banks which perform the commercial functions.

“Commercial Banks” means a bank, which operates currency exchange transactions, accepts deposits, provide loans and performs dealing relating to commerce and other than those banks which have been specified for the cooperative, agriculture business of likely any other specific objectives (*NRB Act, 2031*).

As commercial banks have emerged for giving and taking loans to the public, the main function of commercial bank is the collection of deposit from the scattered market and give it to the needy person. They collect funds by accepting deposits on the conditions that they are repayable on demand or on short notice of the customer. The collected funds are reinvested in the form of loan and overdraft but the commercial banks cannot invest the funds in the fixed assets. They are restricted to invest in corporate securities. Their business is to finance for the short-term loan for the industries. Besides this, commercial banks also perform the function of collecting bills and cheques, safe keeping of valuables, financial advising etc. to the customer.

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Government of all countries has passed laws to regulate the operations of banks. Commercial Bank legislation is similar in most countries, although it is adapted to differing economic and political situations. The central bank is responsible for the efficient working of its country's monetary systems. For this reason, the Central Bank administered the government's regulations affecting Commercial Banks.

There are five main types of control of Commercial Banks. Some controls are designed to protect bank customers, others to promote monetary policy. First, banks in many countries may not accept more than a certain amount of deposits in proportion to the capital of the banks. The main purpose of this regulation is to ensure that the banks rather than their customers incur any losses if the banks lend money rashly. Second, banks generally have to keep cash and liquid deposits. This also ensures a certain standard of safety for the people depositing money with banks. Third, Commercial Banks are occasionally called upon to invest part of their deposits in government securities. Fourth, banks are often forbidden to any one borrower. They are also forbidden to lend any money to some kinds of borrowers, for example managers. Finally, the governments of most countries have a system of bank inspection (*World Book Encyclopedia*, 1966:62).

Hence, we can conclude from the above that the Commercial Banks are established under the rules and legislation of the central bank of the country. It has to move as per the directives given by the central banks. Though banks are established for the mobilization of the saved fund central bank makes certain rules so that the public or the customer of the bank may not undergo loss of their hard earned money by the disinvestment procedure of the bank.

Central Bank is an important financial institution in every sovereign independent country in modern times. It is the apex of economy's banking system. Central bank is the central arch of the monetary and fiscal framework in every country of the world and its functions are indispensable for proper functioning of the economy and fiscal operations of the government.

The central bank is a non-profit organization although it generates profit in the course of its functions. Central bank has full authority to manage the whole economic system, performs banking services for the country, and maintains the cash reserves of all commercial banks. The main objective of a central bank is to serve the board national interest in monetary matters and to support the economic policies of the government.

The international Bank for Settlement defines a central bank as, “The bank is any country which has been entrusted the duty of regulating the volume of currency and credit in that country.”

Nepal Rastra Bank is regarded, as one of the most prestigious institutions in Nepal. 1956 April 26 is an auspicious date in the economic history of Nepal. Nepal Rasta Bank, a pioneer institution in the economic modernization of the country, was established. Nepal Rasta Bank is the central bank of Nepal being a central bank it must be, to improve the strength of banking operation as well as financial weakness in the banking system, always threaten financial stability both within and outside the country, which may be the root cause of financial stability both within and outside the country and region also. So the central bank's role, whether in developing or developed country, should be to check the crisis through its monetary tools supervisory action and regulation. All these tools can be applied being transparency inside and outside the country.

Over the last few decades, it has been widely recognized that the maximum degree of independence for central bank, together with a clearly defined mandate, is the best way to ensure time consistency in the implementation of monetary policies and, therefore, to guarantee stable price. Consequently, Nepal Rasta Bank act 2002 has granted the central Bank full independence in the pursuit of its mandate. It is the duty of independent central bank to be transparent and to communicate. Nepal Rastra Bank's act 2002 mentioned its role as it preamble “whereas, it is expedient to established a Nepal Rastra Bank to function as the central bank

- To formulate necessary monetary policies
- To maintain the stability of price.
- To consolidate balance of payment for sustainable development of the economy of the Nepal and
- To develop a secure, healthy and efficient system of payment, to appropriately regulate, inspect and supervise in order to maintain the stability and healthy development of banking and financial system and for the enhancement of public credibility towards the entire banking and financial system of the country.
- To fulfill the theme that mentioned on its preamble of act 2002 the act 2002 chapter 2 sections 4 defined the objectives of Nepal Rastra Bank.

The objectives of the bank shall be as follows:

- a) To formulate necessary monetary and foreign exchange policies in order to maintain the stability of price and balance of payment for sustainable development of economy and manage it.
- b) To promote stability and liquidity required in banking and financial sector.
- c) To develop a secure healthy and efficient system of payment.
- d) To regulate, inspect, supervise and monitor the banking and financial system.
- e) To promote, the entire banking and financial system of Nepal; and to enhance its public credibility (*Nepal Rastra Bank Samachar*, 76).

2.1.1 Investment

Investment means to sacrifice current consumption for future consumption whose main objectives is to increase future wealth. The sacrifice of current consumption takes place at present with certainty and the investor expects desired level of wealth at the end of this investment horizon. The general principle is that the investment can be retired when cash is needed. The decision to investment now is not certain. Time and risk are the two conflicting attributes involved in the investment decision. According to Donal E Fischer and Ronald J Jordan “An investment is commitment of fund made in the expectation of some positive rate of return. If the investment is properly undertaken the return will be commensurate with the risk the investor assumes.”

Broadly investment alternatives fall into two categories: real assets and financial assets. Real assets are tangible while financial assets involve contracts written on pieces of paper such as common stocks, bonds and debentures. Financial assets are bought and sold in organized security markets. According to F. Amling “Investment may be defined as the purchase buy and individual or the institutional investor of a financial or real asset that produces a return proportional to the risk assumed over some future investment period.”

In the study the word investment covers the wide range of activities. Investment is not possible without adequate saving. If all income and savings are consumed to solve the basic needs there will be no existence of investment. Therefore both saving and investment are interrelated. According to W.J. Sharpe and G J Alexender, “Distinction is often made between investments and saving, saving is defined as forgone consumption, investment is restricted to real investment of the sorts that increase national output in the future” (*Sharpe and Alexender, PH,PI*).

Investment is concerned over the managing the surplus resources in such a way that will maximize the investor’s wealth. Resources should be utilized in such a way that it provides benefit to the owner by increasing the total assets and simultaneous providing benefits to the suppliers of the funds by letting the third party use such resources however, the investment is the procedural task. It must follow definite process. This definitely begins from the formulation of proper investment policy.

2.1.2 Investment Policy of the Banks

Investment policy is a role or course of future plan action that is proposed to adopt regarding a particular field of activities. Investment policy may be different according to the objectives and nature of the organization but all the investment must be balanced as of risk return characters and suggested to invest at liquidity, safety and profitable sectors.

The investment policy is the most important strategy performed by the banks. The profit and growth of the bank totally depends upon the decision taken by the banks to grant the loan. “Investment policy involves, determining the investor’s objectives and the amount of his or her invest able wealth. Because there is a positive relationship between risk and return for sensible investment strategies, it is not appropriate for an investor to say that his or her objective is to “make a lot of money”. What is appropriate for an investor in this situation is to state that the objective is to attempt to make a lot of money while recognizing that there is some chance that large loss may be incurred. Investment objectives should in terms of both risk and return” (*Jack Clark Francis, Management of Investment 1998: 10*).

The commercial banks have their own role and contribution in the economic development. They are inspired with the goal of earning profit. These are many other reasons except this. They are inspired with the objectives of earning profit and helping the economic development and finally to take the social responsibility. They should have the ability to use the policy of banking investment and to implement it much more carefully otherwise a bank may not be able to achieve the desired goals.

Some of the investment policies or principal are as under:-

Principal of Liquidity

Liquidity means the whole money stock in the economy. The liquid property means cash stock of the commercial banks, the amount of short term, current account and short term government and business security and the Treasury bill. The bank should consider the liquidity principal at the time of making investment policy. A bank should be able to return the deposits when demanded by the depositors. For this purpose bank need liquid cash. They should not lend whole the amount as loan and advances to the customer. The bank should maintain the proper liquidity ratio in order to meet the demand of the depositors and to maximize the profit.

Principal of Profitability

Profit maximization is the main objectives of any commercial banks. They exist in the society in order to earn profit. The bank should focus from which source it can earn much profit. The bank should be capable to identify the safe and long-term investment alternatives. But if the bank pays its attention only on profit, liquidity will be less and if it pays attention on liquidity, it cannot be a long-term investment and the bank does not earn profit. So it should maintain equally in it.

Principal of Safety

A bank should pay special attention on safe investment policy. Before making any investment, the bank should seriously study whether it is safe invest or not, otherwise it may cause loss to the bank.

Principal of Diversification

Diversification means to invest the money in the various sectors. The bank should extend its investment by studying and analyzing the different sector where it is investment by studying and analyzing the different sector where it is possible to earn more from little investment. If bank invests in various sectors, it becomes successful to keep it in balance. As the statement, the bank should not keep all its eggs in the same basket, and should invest in various fields.

Principal of Marketability

The bank should make investment by taking the security of high quality as possible. Bank should study the market evaluate the goods, which are taken as a security. There should not be investment by taking the securities of such goods, which are not saleable in the market.

Principal of National Interest

The objectives of the bank should not go against the national interest. The bank should follow the rules and regulations as well as policy, directions given time to time by Nepal Rastra Bank. The bank should make its investment, which is suitable to the national interest and carries benefit to the society.

Principal of Tangibility

Though it may be considered that tangible property does not yield on income apart from direct satisfaction of possession of property, many times intangible securities may lose their value due to price level inflation. A commercial bank should prefer tangible security rather than intangible one.

Principal of Legality

Illegal securities will bring out many problems for the investor. A commercial bank must follow the rules and regulations as well as different directions issued by Nepal Rasta Bank, ministry of finance and ministry of law and other while mobilizing its funds.

2.2 Conceptual Review of Investment

In the foreign investment law, investment is defined as, “Any activity undertaken with a view to the production, brokerage, or transformation of assets, as well as for the delivery and intermediation of services involving any type of assets or rights provided such activities have been carried out in accordance with the pertinent laws and regulations”. The law recognizes several forms of investment.

Corporate shares and quotas, and any other form of ownership interest, in any proportion in companies constituted and organized under the Guatemalan law.

Credit rights or any other benefits having an economic value.

- a) Movable and immovable property and any other rights in them.
- b) Intellectual and industrial property rights.
- c) Concessions or similar rights granted by law or under contract, to engage in economic or commercial activity.

In addition, the foreign Investment law defines foreign Investment as, “Any type of investment in which capital from abroad is transferred in any way to the Republic of Guatemala by a foreign investor”. Reinvesting earning or capital generated in Guatemala is also considered foreign investment. A foreign investor is a foreign individual or legal capacity, lawfully organized under the laws of the country in which

it was constituted, which makes a foreign investment in Guatemala, either directly or through some form of association or contract with Guatemala individuals or legal entities (*World Investment Directory, Volume IX*).

Investment in its simplest means employing money to generate more money in future. It is the sacrifice of rupee for future rupee. Return is the primary motive of investment, but it always entails some degree of risk. Buying common stocks, bonds of a company, depositing money into bank account, buying a piece of land, gold or silver, are example of investment. All those examples involve sacrifice of current rupee in expectation of future return. All though examples involve sacrifice of current rupee in expectation of future return. Hence, they are investment. The main objective of investment is to maximize the wealth of an investor. However, in the growing investment scenario, in Nepal, investors are the background of the capital market and they expect return by sacrificing their income to generate more return in future but this is what the management of companies is not realizing.

Investment can be a real investment of a financial Investment. Investment in tangible assets like land and machinery is a real investment. It has productive capacity.

Investment in financial assets like common stocks and bonds is financial investment. It does not directly possess productive capacity. Financial assets may also be viewed as claims to the income generated by real assets. In this sense, the values of financial assets are derived from the values of the underlying real assets of the firm. Although investment in real asset is also important we focus on the investment on financial assets. The capital formation is the direct outcome of productive investment (*Professor Dr. Manohar K. Shrestha, Fundamentals of Investment*).

Banks are such types of institutions that deal in money and substitute for money. They deal with credit and credit instruments. The most important thing for the bank is good circulation of credit. Fluctuate flow of credit and weak decision harms the whole economy and the bank as well. Thus to collect fund effectively and its well utilization is the very challenging task for the bank. The decision of an investment of fund may be the question of life and death for the bank.

In the word of V.K. Bhalla and S.K. Tutesa define, “There are basically three concept of investment.

- a) “Economic investment that is on the economists’ definition of investment”.
- b) “Investment is a more general or extended sense, which is used by the man of the street”.
- c) “The sense in which we are going to be very much interested namely financial investment” (*Bhalla, Investment Management; 1983:2*).

John M. Cheney and Edward A define “The word investments beings forth vision of profits, risk, speculation and wealth”.

According to Cheney and Moses, “The investment objectives is to increase systematically the individuals’ 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 return must be willing to face higher level of risk” (*Cheney and Moses, Fundamental of Investment; 1992: 23*)

Investment is made in present, which is certain, and gain profit in future, which is uncertain, involves a present sacrifice of income to get an expected future benefit. So, it is a kind of speculation to increase the wealth and the living standard of oneself as well as that of the nation. Most of the people invest their excess fund to different sectors for future financial gain and to protect the purchasing power of their saving against raising price of goods, due to inflation.

According to William F., Gorden. T. Alexander and Jeffery V. Barly, “Investment in its broadened sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved time and risk. The sacrifice shareholders wealth. Thus, investment should be evaluated on the basis of a criterion, which is compatible with the objective of the shareholder’s fund maximization. An investment will all to the shareholder’s wealth, if it yields benefit in excess of the minimum

benefits as per the opportunity cost of capital” (Pandey, *Financial Management*; 1999:407).

2.2.1 Directives of NRB on Investment Policy

The act has significant impact on the commercial banks establishment, their mobilization and utilization of sources. All the commercial banks have to conform to the act, provisions specified in the commercial bank act and the rules and regulations formulated to facilitate the smooth running of commercial bank.

Central bank has established a legal framework by formulating various rules and regulations to mobilize or invest the deposit of the bank in different sectors of different parts of the nation, to prevent them from the financial problems. These directives must have direct or indirect impact while making decisions. Those rules and regulation are discuss which are formulated by NRB in terms of investment and credit to other institutions, single borrower limit, CRR, loan loss provision, Capital adequacy ratio. Commercial bank is directly related to the fact that how much fund must be collected as paid up capital while establishing the bank at certain place of the nation, how much fund is needed to expand the branch and counters. But we discuss only those, which are related to investment function of the commercial bank. The provision established by NRB in the form of prudential norms areas follows.

1) Capital Adequacy Ratio (CAR)

The capital adequacy ratio (CAR) to be maintained by bank and financial institutions (BFIs) was set at 12 percent of their total risk weighted assets form FY 2003/04. But, taking into consideration the difficult situation of the country, such rate had been fixed at 11 percent for both FY2003/04 and FY 2004/05. Now taking into account the present capital fund position of BFIs, such ratio has been fixed at 11 percent, with core capital requirement set at a minimum of 5.5 percent for FY 2007/8. From this provision, capital structure of banks and financial institutions is expected to be sound and robust. Accordingly, for FY 2005/06, the CAR to be maintained by the financial

institutions belonging to category has been fixed at eight percent of risk weighted assets (RWA), of which core capital should comprise a minimum of 4 percent.

All commercial banks are directed to maintain the minimum capital fund on the basis of risk weighted assets.

2) Cash Reserve Ratio (CRR)

To ensure the adequate liquidity in the Commercial bank to meet the demands of the depositors for cash at anytime and to inject the confidence in depositors regarding the safety of their deposited fund, commercial banks are required to have maximum CRR. Banks are required to maintain a minimum cash reserve ratio of 5 percent of total deposit liabilities denominated in local currency, except for margin deposits. Banks, who fail to maintain such reserves, were levied financial penalties, the rate of which escalates every time there is non-compliance.

3) Loan Classification and Loan Loss Provision

With a view to improve the quality of assets of commercial bank, NRB has directed commercial bank to classify their outstanding loan and advances, investment and other assets into four categories. The classification is done in two ways. The loans of more than one hundred thousands are to classified as per debt service ratio, repayment situation and financial condition of borrower, management efficiency and quality of collateral. The loans of less than one hundred thousands have to be classified as per maturity period.

- | | | |
|-----------------|---|------------------------------------|
| a) Pass | : | No overdue and overdue by 3 months |
| b) Sub-Standard | : | Above 3 months- 9 months overdue |
| c) Doubtful | : | Above 9 months-1 year overdue |
| d) Loss | : | Overdue by more than 1 year |

Likewise, NRB has stated that all commercial banks are required to maintain certain reserves for the loans so classified. The loan loss provision requirement is as follows:

Table 2.1
Percentage of Loan Loss Provision

Loan Classification	Loan Loss Provision
Pass	1
Sub-Standard	25
Doubtful	50
Loss	100

Source: NRB

4) Directives to Raise Capital Fund

According to the current provision, a minimum paid up capital of Rs.1 billion is required for the establishment of a new national level commercial bank. The existing national level commercial banks are required to increase their paid up capital gradually to Rs.1 billion by the end of mid-July 2009. For this purpose, all commercial banks are appropriating some amount from their profit to capital adjustment fund. Some timely changes are made in this provision. Accordingly, commercial banks may maintain Rs.1 billion paid up capital by the end of mid-July 2009 or, make adjustment in above stated fund. Commercial banks are free to decided on any of these options and may go for combinations of these two. However, those banks increasing the paid up capital through capital adjustment fund are required to maintain a minimum paid up capital of Rs.500 million. Following measures will be initiated for those banks which fail to make provisions of capital requirement as stated above:

- a) Distribution of dividend will be banned,
- b) Branch expansion will not be allowed,
- c) A limit on deposit mobilization will be imposed,
- d) Single obligor limit relating to loans to an individual and a company will be reduced,
- e) Any other actions will be initiated.

These measures are expected to encourage banks to go for merger and acquisition in the event they fail to mobilize the required capital.

5) Priority and Deprived Sector Lending

The failure to meet such an obligation resulted in the financial penalty for the bank, computed as the product of shortfall amount and the highest published rate of the bank, commensurate to the applicable time period. NRB has issued a Circular on December 23, 2002 that has provided the requisite proportion of priority Sector lending (Deprived Sector remains unchanged).

2.2.2 Review of Articles

A central bank, reserve bank or monetary authority, is an entity responsible for the monetary policy of its country or of its group of member states, such as in the European Union. Its primary responsibility is to maintain the stability of the national currency and money supply, but more active duties include controlling subsidized loan interest rates, and acting as a “bailout” lender of the last resort to the banking sector during times of financial crisis (private banks often being integral to the national financial system).

It may also have supervisory powers to ensure that banks and other financial institutions do not behave recklessly or fraudulently. A central bank is usually headed by a Governor, president in the case of the European Central Bank or Chief Executive/Managing Director in the case of Hong Kong Monetary Authority and Monetary Authority of Singapore.

In conclusion, central banks have a long history of working to foster efficiency and stability in the global financial system that traditional role has become more complex over time as the institutional and market realities of the financial system have evolved. Fortunately, central banks are aware of these changes and have made greater progress in appropriately adapting their approaches to the execution of monetary policy, supervision, and crisis management (*Vice Chairman Roger W. Ferguson, Jr., The Federal Reserve Board; May 17, 2004*).

Buddhi B. Bajracharya (1990) article entitled *Monetary Policy and Deposit Mobilization in Nepal*, he has conducted that mobilization of domestic saving is one of the prime objective of the monetary policy in Nepal and commercial banks and the more active financial intermediary generating resources in the form of deposit from private sector and providing credit to the investor in different sectors of the economy.

Shekhar Bahadur Pradhan (1996) has presented a short glimpse on investment in different sectors, its problem and prospects, though his article *Deposit mobilization, its problem and prospects*. On his article he has expressed that, “Deposit is the life blood of any financial institutions, be it commercial bank, finance company, co-operative or non-government organization”. He also added, in consideration of 10 commercial banks and nearly three dozens of finance companies, the latest figure does produce a strong feeling that a serious review must be made of problems and prospects of deposit sector. Except few joint venture banks, other organizations rely heavily on the business deposit receiving and credit disbursement.

In the light of this, Pradhan has pointed out following problems of deposit mobilization in Nepalese perspective:-

- Due to the lesser office hours of banking system people prefer for holding the cash in the personal possession.
- Unavailability of the institutional services in the rural areas.
- No more mobilization and important of the employment of deposits in the loan sectors.
- Due to the lack of education must of Nepalese people do not go for saving in institutional manner. However, they are very much used of saving, be it in the form of cash, ornaments or kind. Their reluctance to deal with institutional system are governed by their lower level of understanding about financial organizations, process requirements, office hours withdrawal system, availability of depositing facilities and so on.

For the prosperity of deposit mobilization, Pradhan recommended that sufficient institutional services in the rural areas should be provided by cultivating the habit of using rural banking unit and adding service hour system to bank. Similarly, NRB could also organize training program to develop skilled manpower, spreading cooperatives in the rural areas to develop mini banking services.

Sunity Shrestha (1997) in her article, *Lending Operation of Commercial Banks of Nepal and Its Impact on GDP*, has presented the objectives to make and analysis of contribution of commercial banks lending to the Gross Domestic Product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending, Agricultural, Industrial, Commercial, Service and general and social sector as independent variables. A multiple regression technique has been applied to analyze the contribution.

The multiple analyses have shown that all the variables except service sector lending have positive impact on GDP. Thus, in conclusion she has accepted the hypothesis i.e. there has been positive in GDP by lending of commercial banks in various sectors of economy, except service sector investment. Likewise Dr. Shrestha has analyzed the financial performance of commercial banks using both descriptive and diagnostic approach. In her study, she has concluded the following points:-

- The structure of commercial banks shows that bank invest on the average 75% of their total deposit on the government securities and resources.
- The analysis of resources position of commercial banks showed quit high percentage of deposit as cash reserve.
- Return ratio of all the banks show that most of the time foreign banks have higher risk of Nepalese banks.
- The debt equity ratios of commercial banks are more than 100% in the most of the period under study period. It led to concluded that the commercial banks are highly leveraged and highly risk. Joint venture banks had higher capital adequacy ratio but has been dealing every day.

- Income of analysis of the management achievement foreign banks has comparatively higher total management achievement index.
- Thus comparing all the banks through the time period financial condition and performance are better in joint venture banks than local banks.

Murari R. Sharma (1998) in his article, *A Study of Joint Venture Banks in Nepal*, Coexisting and crowding out pointed out that it is very much beneficial for Nepalese to let joint venture banks than the local commercial banks. He suggested government to treat equally to joint venture banks and local banks both types of banks will coexist complementing each other and contributing the nations accelerated development (Sharma, 1998: HMG, 52nd Issue)

Prabakhar Ghimire (1999) has published an article in which he has maintained that *Most of the Commercial Banks of Nepal are Ready to Pay Penalty*, in spite of investing on rural, priority sector, poverty stricken and deprived areas. In the directives of Nepal Rastra Bank it is clearly mentioned and directed that all the commercial banks (under NRB) should invest 12% of its total investment to the priority sectors. However these commercial banks are unable to meet the requirement of NRB.

In the light of the above, foreign joint venture banks use to justify that they don't have any network among these priority areas. So if investment is made to these areas, operation cost will be very high, that exceeds the penalty of investment won't be made. That is why they are interested in paying penalty rather than investing in priority sectors.

The liberalization of the financial market and the lesson learnt from the Asian crisis in 1997 suggest that a strong regulatory and supervisory framework is necessary for strengthening the financial system. The shift in the relationship between banks and financial institutions, which is getting blurred due to adequate linkages between banks, financial institutions and other financial players in the economy; deregulation,

universal banking practices and competitive behavior among the banks and financial institutions demand for a strong and strengthened regulatory and supervisory framework in Nepal. Moreover, the poor banking culture, complexity in the financial system due to unhealthy competition, poor performance of public owned banks, weak corporate governance and the challenges that may emerge, as the banking sector is getting open to the international market by 2010 call for a strong central bank that can perform regulatory and supervisory functions effectively. Realizing the importance of prudent regulatory and supervisory framework, the revised NRB Act 2002 has given sufficient authority to NRB to ensure discipline in the financial system.

Due to open and liberal policies adopted by the Government of Nepal, it looks that the present trend of increasing the number of banks and financial institutions will continue in the future as well. The liberalization and competition has helped to create many financial products and innovations in the financial markets to cater the need of the customers. The universal banking practices, cross-border transactions and blurred relationships between banks and blurred relationships between banks and financial institutions have made the task of central bank more challenging then before. This call need for proper utilization of the available human resources, right man to right place and skill development opportunities to NRB staff (*BinodAtreya, Ph.D; Banking Prabardhan*).

Nara Bahadur Thapa (2005) in his article, *financial sector stability and monetary policy*, concludes that the segmentation of financial market and specialized function of financial institutions required the multiple regulatory agencies. A number of countries in recent time have taken a policy initiative to place the regulatory and supervisory function outside the central banks requires the number of consideration first, there has to be universal banking system under which a bank not only mobilizes deposit but also undertakes insurances and fund management business. The purpose of bank supervision is also to help enhance the public credibility towards the entire banking and financial system of the country. (*Thapa, 2005: NRB 50th Issue*).

2.2.3 Review of Thesis

A number of researchers who conducted their research study on the investment policy of commercial banks. The following are the review of those studies:

Shrestha (2004) concluded a study on *Nepal Rastra Bank Guidelines on Investment Policy of Commercial Banks in Nepal (A Case Study of Nepal Investment Bank Limited)* Nepal with the objectives presented below:-

- To highlight the NRB directives regarding investment policy (loan, advances and investment)
- To analyze the liquidity of NIBL.
- To find out the relationship between total deposit and advances, total deposit and total investment.
- To make the trend value analysis of deposit utilization and its projection for next five years.
- To find out whether NRB guidelines are actually implemented.

The study was concluded on the basis of secondary data. The main findings of the study were as follows:-

The bank was in good liquidity position to meet the daily cash requirements as it maintained the average cash and bank balance in respect to total deposit. The performance of NIBL regarding deposit collection, granting loan and advances and investment was quite satisfactory but did not seem to follow a definite policy. NABIL had not efficiently utilized its equity capital, enhance, return on equity was not satisfactory because of the lack of around investment policy of mobilization of its equity capital. Investment earned to total operating income of NIBL was high. However, bank failed to maintain net profit. The analysis of coefficient of correlation showed that there was positive and significant relation between total deposit and loan and advances and current assets and current liabilities and loan loss provision and loans and loans and advances, but there was negative and no significant relationship between outside assets and net profit. Trend analysis and projection for next five years of total deposit, loan and advances, investment and net profit were in increasing trend.

Joshi (2005) conducted a study on *Investment Policy of Commercial Banks in Nepal: A Comparative Study of Everest Bank Limited with NABIL Bank Limited and Bank of Kathmandu* with the objectives that follow:-

- To discuss fund mobilization and Investment Policy of EBL, NABIL and BOK Ltd.
- To evaluate the liquidity, efficiency and profitability and risk position.
- To evaluate the growth ratios of loan and advances, total investments with other financial variables.
- To analyze the trend of deposit utilization towards total investment and loan and advances.
- To conduct hypothetical test to find whether there is significant difference between the various important ratios of EBL, NABIL and BOK.

The secondary data were used to conduct the study. The research findings of the study were:-

The liquidity position of the EBL was better than NABIL and BOK. EBL had the highest cash and bank balance to current assets ratio. EBL had good deposit collection and made enough investment on Government securities, but it maintained a moderate investment policy on loans and advances. From the analysis of assets management or activity ratio, it was concluded that EBL was average, or in between NABIL and BOK. The total investment of EBL was in between the other two banks. In the study, loans and advances to total deposit was higher in BOK, but total investment to total deposit was higher in NABIL. Invest on shares and debentures to total working fund ratio was higher in EBL. In analysis of profitability, total interest earned to total outside assets of EBL is lowest at all. However, overall analysis of profitability ratios showed that EBL was an average in comparison to other compared banks i.e., NABIL and BOK. From the viewpoint of risk ratio, EBL had higher capital risk ratio, but average of credit risk of NABIL and BOK.

Regmi (2006) conducted *A Comparative Study on Investment Policy of Everest Bank and Himalayan Bank Limited*. With the objectives as given below:

- To find out the relationship between total investments, deposits, loans and advances, net profit and assets and compare them.
- To evaluate the liquidity, assets management efficiency, profitability and risk portion of EBL, and HBL.
- To analyze the deposit utilization trend and its projection for five years of HBL and EBL.
- To provide package of workable suggestion and possible guidelines to improve investment policies.

The study was carried out the basis of secondary data. The research findings of the study were:

The liquidity position of EBL was comparatively better than HBL. EBL had the highest cash and bank balance to total deposit ratios, cash and bank balance to current assets ratios than that of HBL. Both EBL and HBL had almost same pattern of investment on Government securities, but fluctuating ratios showed the unstable policy of investment. EBL has higher loan and advances to current assets ratio and successful in deposit collection as well. The assets management ratios of both banks are satisfactory. Both bank HBL and EBL had provided its most portion of deposits as loan and advances. Moreover, EBL had invested its more portions as loan and advances in case of investment in other sectors, HBL had adopted diversified investment policy EBL invest its working fund in government securities and other companies share and debentures than that of HBL is less effective in comparison to EBL. In profitability analysis, HBL had maintained high profit margin regarding profitability position. HBL was more successful to generate income though loan and advances and operating income and it has earned more form total outside assets and total working fund. From the study, it was concluded that profitability of HBL was better than that of EBL. From the risk point of view, HBL had borne lower liquidity risk and credit risk in comparison to EBL regarding various aspects of banking

activities. It could be said that HBL had followed a stable liquidity policy justified by lower coefficient of variation.

Shrestha (2007) conducted a study on *A Comparative Analysis on Investment Performance of Commercial Banks in Nepal*. With the following objective:

- To analyze the investment activities and fund mobilization with respect to fund based on-balance sheet transactions and fee based off-balance sheet transactions.
- To study the asset utilization system, profit ability and risk position of commercial banks under study.
- To assess the deposit utilization trends and its projection for the future.
- To evaluate the growth ratios of loan and advances and total investment and respective growth rate of total deposit and net profit.
- To appraise the suggestion on the basis of finding for further growth of the banks under study.

The study was conducted on the basis of secondary data. The research findings of the study were as follows:

The liquidity position of NIBL was stronger than NABIL was highly fluctuating, which showed that NIBL bore higher risk than other two banks. NIBL had the latest investment in Government securities, which consideration the least risky asset. From the analysis of assets, management ratio of NIBL in comparison to NABIL and HBL was more successful regarding assets management and deposit mobilization. NIBL'S investment on shares and debentures was high in comparison to the other two banks put its performance regarding total investment has been very poor. In the profitability analysis, none of the three banks' profitability position was clearly better. However, NABIL was slightly better profitability. Therefore, their profitability ratios were in moderate position. From the risk point of view, NABIL and NIBL were facing higher than HBL, but the risk level of all three banks seemed almost the same. From the analysis of growth ratios, NABIL'S collection of deposit, granting of loans and advances and net profit were better but in terms of investment, HBL is better. The coefficient of correlation analysis between different variables of NABIL, NIBL and

HBL revealed that NABIL was weaker regarding mobilization of deposits as loans and advances and NIBL was performing extremely well regarding earning profits from outside assets. From the trend analysis study, it was found that all banks were mobilizing their total deposits into loans and advances in increasing trend, which was the indication of efficient mobilization.

Dhakal (2008) conducted a study on *Investment Policy of Commercial Banks in Nepal* With the objectives that follows:

- To identify the investment priority sector of sampled commercial Banks.
- To assess the impact of investment on profitability.
- To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial banks.
- To provide suggestion and possible guidelines to improve investment policy and its problems.

The study was conducted based on the primary and secondary data. The researcher findings of the study were the followings:

The liquidity position of Everest Bank Ltd. (EBL) was comparatively better than that of Nabil Bank Ltd. (NABIL) and Bank of Kathmandu Ltd. (BOK). All the three banks had met the normal standard current assets ratio to meet the short term obligation of their customers. EBL had invested the most in Government securities, followed by BOK and NABIL. BOK had mobilized a huge sum its funds to earn the profit. From the analysis of assets management ratio, EBL was in better position than NABIL and BOK. The loan and advances to total deposit ratio, loan and advances to total working fund ratio of EBL lied in between those of NABIL and BOK. EBL had invested the highest portion of its total working fund on Government securities as compared to NABIL and BOK. Investment on Shares and debentures to total working fund ratio was higher in BOK. Overall analysis of profitability ratios showed that EBL was on an average profitable in comparison to other bank i.e. NABIL and BOK. The return on loan and advances ratio and return on assets of EBL was lowest of all. The degree of risk was average on EBL. EBL had shown its good performance by increasing

earnings by providing loan to clients. The trend of the total investment, total deposit, loan and advances and net profit of EBL showed better position than that of NABIL and BOK.

Basnet (2009) conducted a study on *Investment Policy of Commercial Bank (A Comparatively Study of NABIL Bank Ltd and Himalayan Bank Ltd)* with the following objective.

- To examine the fund mobilization and investment policy of HBL and NABIL selected for the study.
- To assess the liquidity, profitability, risk position in assets management of these commercial banks.
- To evaluate the growth ratios of loan and advances, total investment with respect to growth rate of total deposits and net profit of these banks.
- To find out the relationship between the banks' total deposit and loan and advances, total deposit and total investment and total outside assets and net profit.
- To examine, interpret and forecast the trend of their deposits and loan and advances, investment and net profit.

The study was conducted on the basis of primary and secondary data. The research findings of the study were as follows:-

The liquidity position of HBL was comparatively better than NABIL. Both banks had met the normal standard current assets ratio to the meet the short term obligation of their customer. HBL had invested the most in government securities. From the analysis of assets management ratio NABIL occupied the highest position in comparison to HBL. Loan and advances to total working fund, investment on government securities to total working fund, investment on share and debenture to total working fund NABIL was comparatively higher than HBL. Investment to total deposit HBL was in better position. Overall analysis of profitability ratio should that NABIL was on an average profitable in comparison to HBL. The degree of risk, from

the study of capital risk ratio and credit risk ratio of two banks, comparatively NABIL was successful. Growth position of total deposit and total investment of HBL are better than NABIL. Growth ratio of loan and advances and net profit of NABIL are better than HBL. The trend value of total deposit was increasing trend. In loan and advances HBL was best performances then NABIL. In net profit NABIL was better than HBL during the study period.

Binadi (2010) conducted a study on *A Comparative Study an Investment Policy of EBL and HBL* with following objective:-

- To analyze investment policy of EBL and HBL on the basis of their investment performances.
- To evaluate the liquidity assets management efficiency, profitability risk position of EBL and HBL comparatively.
- To find out empirical relationship between total investment, deposit, loan and advances, net profit and total working fund (total assets) of EBL and HBL and compare them
- To analyze deposit utilization and its projection for next five years of EBL and HBL.
- To identify problems and provide suggestions to improve investment policies of EBL and HBL.

The study was conducted on the basis of secondary data.

The liquidity position of EBL is higher than HBL. It has the higher cash and Bank balances to total deposit ratio and investment on government securities to current assets ratio. The assets management ratio both banks are satisfactory. Total investment to total deposit ratio of HBL is stronger than EBL and investment on government securities to total working fund ratio, share and debenture ratio to total working fund ratio of EBL are stronger than HBL. Profitability position of HBL is better than that of EBL's. HBL is more successful to generate income through loan and advances. From the risk point of view HBL has bearer lower liquidity risk and credit risk in comparison to EBL. Growth rate of total deposit, loan and advances of HBL is lower

than EBL. Trend value of total deposit, loan and advances, total invest and net profit of both bank are in increasing trend. EBL showed better position than that of HBL.

2.3 Research Gap

Investment in different sectors is made on the basis of the directives and instruction of Nepal Rastra Bank as well as the investment policy and guidelines of concerned commercial bank itself. Commercial banks should follow these directive and circulars. Furthermore, there own investment guidelines and policies should be in line with NRB directives and circulars. Therefore, the up to date study over the change of time frame has been a major concern for the researcher, concerned organization as well as the banking industry as a whole. This study covers the more recent financial data, NRB guidelines and instructions than those of studies previously conducted.

Portfolio management is the major part of the bank's investment policy and it is the major concern stakeholders to know the portfolio behavior of the bank. To reduce the default risk of credit, there should be the optimum diversification of loan and advances. This study puts its effort to find out the proportion to total loan and advances of the bank disbursed to different sectors of economy and analysis the diversification of its investment.

Not much more research study has been conducted in this topic. A very few study based on only one bank, but this study is based on comparatively analysis of two joint venture listed commercial banks namely Everest Bank Limited and Himalayan Bank Limited up to the fiscal year 2009/10. So, this research work is very much centered to identify responsible causes, to analyze them and recommend improvement measures for the betterment of the banks under study period and to analyze the investment position of the two lending banks.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is a systematic way of solving the research problem. Research Methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology describes the methods and processes applied in the entire subject of the study. Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done significantly. It is necessary for the researcher to know not only the research methods/techniques but also the methodology. Researchers not only need to know how to develop certain indicators or test, how to calculate the mean, the mode, the research techniques, but they also need to know which of these methods or techniques are relevant and which are not and what would they mean and indicate and why. The following methodology has been followed to conduct the present study.

3.2 Research Design

Research design is an essential part for each research work. It is plan structure and strategy investigation conceived to obtain answer to research question and to control variables. It is the systematic and objective process of collecting, verifying and evaluating evidence to reach conclusion. It is overall operational pattern or framework of the study that stipulates what information is to be collected from which sources by what procedure. Therefore, descriptive design of research is used in this study.

3.3 Data Collection Procedure

3.3.1 Nature and Source of Data

This study is conducted on the basis of secondary data. The data relating to investment, deposit, loan and advances and profit are directly obtained from the balance sheet and profit and loss account of the concerned Bank's annual reports published on website of concern banks. Supplementary data and information are collected from number of institutions and regulating authorities like Nepal Rastra Bank, website www.nrb.org.com.np and different related website.

According to the need and objectives, all the secondary data are compiled, processed and tabulated in time series. In order to judge the reliability of data provided by the banks and other sources, they are compiled with the annual reports of auditor.

Similarly, various data and information are collected from the periodicals, economic journals, managerial magazines and other published and unpublished reports and documents from various sources and websites.

3.4 Population and Sampling

Since new commercial banks are being incorporated every year, the number of Commercial banks in Nepal has been increasing rapidly. Some have already been started and others are in the process of starting their business. Currently however, there are 31 Commercial banks functioning all over the country and most of their stocks (26 commercial Banks) are traded actively in the stock market. In this study, all the listed joint venture commercial banks from population the study.

Among them HBL and EBL have been selected as sample for the study. Since the two sample banks are performing well and they are providing traditional as well as modern transaction facilities, they are chosen as sample for the purpose of the study.

Table 3.1

List of Sample Companies (Commercial Banks)

S.N	Name of commercial Bank	Year	Observation
1	Everest Bank Limited	2006,07,08,09,10	5
2	Himalayan Bank Limited	2006,07,08,09,10	5
		Total Observation	10

3.5 Data Presentation and Analysis Techniques

The data presentation and analysis are important part of the study. A number of financial, statistical and accounting tools are used to analyze the collected data and to achieve the objectives of the study. The analysis of the data has been done according to pattern of data available. Because of limited time and resources, simple analytical statistical tools such as

3.6 Tools For Analysis

Financial as well as the Statistical tools are used to make the analysis more convenient, reliable and authentic. Their ratio, percentage, mean, standard deviation and coefficients of variations are then calculated and presented in the tables. To study the relationship between two or more variables, correlation coefficients are also calculated. Likewise trend analysis is also used to know the trend of various ratios. Following are the brief introduction of the financial and statistical tools used in this study.

3.6.1 Financial Tools

Financial tools basically help to analyze the financial strength and weakness of a firm. It is the relationship between financial variables contained in the financial statements (i.e. balance sheet, profit and loss account and income statement). Ratio analysis is one of the important financial tools that have been used in the study. A ratio is simply one number expressed in terms of another and such it expresses the quantitative relationship between any two numbers. Ratio can be expressed in terms of percentage, proportion and such as coefficient. Financial ratio is the mathematical relationship

between two accounting figures. Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions. Even though there are many ratios to analyze and interpret the financial statement, only those ratios that are related to the investment operations of the bank are have been covered in this study. There are several financial tools which could be applied in order to analyze the investment policy of commercial banks. The financial tools used in this study are as follows: Liquidity Ratio, Assets Management Ratio, Profitability Ratio, Risk Ratio and Growth Ratio.

3.6.1.1 Liquidity Ratio

A liquidity ratio measures the firm's ability of fund, solvency of the firm and ability to pay its obligation when balances are due. It is the measurement of speed with which a banks asset can be converted into cash to meet deposit withdrawal and other current obligations. Short-term liquidity involves the relationship between current assets current liabilities. The current ratio and quick ratio measure the liquidity position of the company. These ratios are calculated to judge the long term as well as short-term financial position of concerned firm.

Liquidity of any business organization is directly related to working capital or currents and current liabilities of that organization. A high degree of liquidity shows inability of proper utilization of funds where as the lack of liquidity shows the signal of poor credit worthiness loss of creditors confidence or even in legal tangles resulting in the closure of the company. Therefore commercial banks need liquidity to meet loan demand and deposit with drawls. Without good liquidity bank is not able to operate its function. To measure the bank's solvency position or ability meet its short-term obligation, various liquidity ratios are calculated.

A. Current Ratio

Current ratio shows the short-term solvency and the relationship between current assets and current liabilities. Current ratio reflects the strength of current assets available with the company over its current liabilities into cash in one accounting year.

This ratio indicates the current short-term solvency position of the bank. The current ratios are the ratios of total current assets to current liabilities. Higher current ratio indicates better liquidity position. In other words, current ratio represents a margin of safety. The higher the current ratio, the greater the margin of safety, and the larger the amount of current assets in relation to current liabilities, the more the bank's ability to meet its current obligations. Current assets includes cash and bank balance, money at call of short notice, loan and advances, Investment on government securities and other interest, overdraft, bills purchases and discount, receivable and miscellaneous current assets where as current liabilities includes deposit and other accounts.

2:1 is standard of current ratio is widely acceptable or more is considered as satisfactory. It is not hard and fast assumption that the current ratio must be 2:1. Therefore, many firms below this standard are also seen sound and meeting those obligations efficiently.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

B. Cash and Bank Balance to Current Assets Ratio

Cash and Bank Balance to current assets ratio reflects the portion of cash and bank balance in total of current assets. Cash and bank balance are highly liquid assets than other in current assets portion so this ratio visualizes higher liquidity position than current ratio. This ratio can be calculated by using the following formula:-

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

The ratio shows the percentage of readily available fund within the Bank. In the present study Cash and Bank Balance represent total of local currency, foreign currencies cheques in hand and various bank balances in, local as well as foreign banks.

C. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the liquid current assets of a firm, cash, bank balance to total deposits ratios measures the percentage of most liquid assets to pay depositors immediately. This ratio is computed by dividing the amount of cash and bank balance by the total deposits, such that:-

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

Where, total deposits on current account, saving account, fixed account money at call and other deposits. Higher ratio shows higher liquidity position and ability to cover the deposits and vice versa.

D. Loan and Advances to Current Assets Ratio

It shows the relationship between loan and advances to current assets or it shows the banks liquid capacity of discounting and purchasing the bills and loan, cash and overdraft facilities to the customers. This can be computed in the following ways:-

$$\text{Loan and Advances to Current Assets} = \frac{\text{Loan and Advances}}{\text{Total Current Assets}}$$

Loan and advances are the current assets, which is the general income to the bank. It shows the percentage of loan and advances. In the present study loan and advances represent to local and foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well as inconvertible foreign currencies.

E. 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 securities, treasury bills and development bonds. This ratio can be calculated by dividing the amount of investment on government securities by the total amount of current assets and can be stated as follows.

Investment on government securities to current Assets Ratio

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

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

3.6.1.2 Assets Management Ratio

The funds of creditors and owners are invested in various assets to generate sales and profit. These ratios are used to evaluate the efficiency with which the firm manages and utilizes its assets. This ratio indicates how quickly certain current assets are converted into cash. From this ratio it can be known whether or not the business activities are efficient and effective. It is also called as the Activity or Turnover Ratio. The greater the rate of turnover or conversion, the more efficient is the management utilization of assets. These ratios moreover help in measuring the banks ability to utilize their available resources. Following ratios are use under the Assets management Ratio.

A. Total Investment to Total Deposit Ratio

Investment is one of the major sources of earning income. This ratio indicates how properly firm's deposits have been invested on government securities, and shares and debentures of other companies. This ratio can be computed by dividing total amount of investment by total amount of deposit collection, which can be shown as,

Total Investment on Total Deposit Ratio

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

B. Investment on Government Securities to Total Working Fund Ratio

Investment on Government Securities to total Working Fund Ratio shows how much part of total investment is there on Government Securities in percentage. This ratio is

computed by dividing investment on Government Securities by total working fund. This can be calculated as follows:-

Investment on Government Securities to Total working fund ratio

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

C. Investment on Shares and Debenture to Working Fund Ratio

This ratio shows the bank Investment on Shares and Debenture of the subsidiary and other companies. This ratio can be calculated by dividing investment in shares and debentures by working fund. This is calculated as follows:-

Investment on shares and debentures to working fund Ratio

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

This numerator indicates investment on debentures, bonds and shares of the other companies.

3.6.1.3 Profitability Ratio

The profitability ratio's the name suggests measure the operating profitability in terms of profit margin return on equity and return on total investment, reflects the overall efficiency and effectiveness of management. Shareholders, bankers, government, tax collectors, employees are concerned with the profitability of the company, the shareholders are interested with their rate of return, employees in the future prospect of the company, Government in companies' tax payment capacity and Bankers in the perspective of the company. A required level of profit is necessary for survival and growth of a firm in a competitive environment. Profitability can be measured in terms of relationship between net profit and assets. This ratio is also known as profit –to – assets ratio. It measures the profitability of investment. Various ratios can be developed based upon the profit under different circumstances. These different ratios

are called profitability ratios, which are required to support the purpose of the profitability ratios calculated in the study are:-

A. Return on Total Working Fund Ratio

A bank has to earn satisfactorily return on assets or working fund for its survival. Return on total working fund or total assets ratio measure the overall profitability. Net profit includes the portion of income left to the internal equities after all costs, all the charges, expenses have been deducted.

This ratio can be calculated by dividing net profit by total fund, such that.

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

B. Return on Loans and Advances Ratio

Return on loan and advances ratio shows how efficiently the banks and the other financial institution have utilized their resources to earn good return from providing loan and advances. This ratio is computed by dividing net profit/loss by the total amount of loan and advances.

$$\text{Return and Loan and Advances Ratio} = \frac{\text{Net Profit}}{\text{Loan and Advances}}$$

3.6.1.4 Risk Ratios

Risk means uncertainly, which lies in the business transaction of investment management. This ratio measures the level of risk associated with the liquid asset i.e. cash, bank balance that are kept in the bank for the purpose of satisfying deposits demand for cash. Following two ratios are used to interpret and analyze the investment policy of concerned banks.

A. Liquidity Risk Ratio

This ratio measures the level of risk associated with the liquid assets i.e. cash, bank balance that are kept in the bank for the purpose of satisfying the depositor's demand

for cash. Higher ratio shows lower liquidity risk. The ratio is calculated by dividing total cash and bank balance by total deposit.

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

B. Credit Risk Ratio

Credit risk ratio helps to check the probability of loan non – repayment or the possibility of loan to go into default credit risk ratio is expressed as the percentage of non-performing loan to total loan and advances. This ratio is calculated by dividing total loan and advances by total assets.

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

3.6.1.5 Growth Ratio

Here, the growth ratios represent how the Commercial banks are maintaining their economic and financial condition. The higher ratios represents the better performance of the selected firms to calculate, check and analyze the expansion and growth ratio of the selected banks the following growth ratios are calculated. Growth ratios are directly related to the fund mobilization and investment of those firms.

1. Growth ratio of total deposits
2. Growth ratio of total investment
3. Growth ratio of loan and advances
4. Growth ratio of net profit.

3.6.2 Statistical Tools

Various statistical tools mentioned above here used to analyze and interpret the investment policy of concerned bank. Similarly, Statistical tools help to find out the trends of financial position of the bank and to analyze the relationship between variables that helps bank to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan and advances or investment on other companies. In this study, Statistical tools such as coefficient of correlation between different variables, trend analysis of important variables have been used for analyzing and interpreting the financial data. This basis of Statistical analysis related to this study is discussed below:-

A. Arithmetic Mean

The mean or average value is a single value within the range of the data that is used to represent all the values in the series. Since an average is some where within the range of the data, it is also called a measure of central value. Average value is obtained by adding together all the terms and by dividing this total by the number of items. This formula is given below:-

$$\bar{X} = \frac{\sum X}{N}$$

Where,

$\bar{X}$ = Arithmetic average

$\sum X$ = Sum of the values of all items and

N = Number of Items.

B. Standard Deviation

The standard deviation is the measure that is most often used to describe variability in data distributions. It can be through of as a rough measure of the average amount by which observations deviate an either side of the mean.

Denoted by Greckletter σ (read as sigma), Standard deviation is extremely useful for judging the representatives of the mean.

Standard deviation is represented as:-

$$\sigma = \sqrt{\frac{\sum X^2}{N} - \frac{(\sum X)^2}{N}}$$

Where,

σ = Standard deviation.

X= Variance

N= number of items.

C. Coefficient of Variation

The coefficient of variation is the ratio of standard deviation to the mean for a given sample used to measure spread. It can also be thought of as the measure of relative risk. The larger the coefficient of variation, the greater risk relative to the average.

$$C.V = \frac{\sigma}{\bar{X}}$$

Where,

C.V= Coefficient of variation

S.D(σ)= Standard deviation

Mean ($\bar{X}$)=Arithmetic average

D. Coefficient of Correlation Analysis

Correlation is a statistical tool which is used to describe the degree to which one variable is linearly related to another. The coefficient of correlation measure the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation.

This analysis interprets and identifies the relationship between two or more variable in the case of highly correlated variable. Under this topic Karl pearson's coefficient of correlation has been used to find out the relationship between the following variables:-

- a) Coefficient of correlation between total deposit and loan and advances
- b) Coefficient of correlation between total deposit and total investment
- c) Coefficient of correlation between total outside assets and net profit
- d) Coefficient of correlation between deposit and net profit
- e) Coefficient correlation between deposit and interest earned
- f) Coefficient of correlation between loan and advances and interest paid
- g) Coefficient of correlation between total working fund and net profit.

The above tools analyze the relationship between these relevant variables and help the banks to make appropriate policies regarding deposit collection fund utilization (loan and advances and investment) and net profit maximization.

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

Where,

$$X = x - \bar{X}$$

E. Trend Analysis

Under this topic we analyze and interpret the trend of deposits, loan and advances, investment and net profit of Everest Bank Limited (EBL) and Himalayan Bank Limited (HBL) that helps to make forecasting for next five years. The following trend values analysis have been used in this study.

- Trend Analysis of total deposit
- Trend Analysis of loan and advances
- Trend Analysis of total investment
- Trend Analysis of net profit.

The trend related variables can be calculated as $Y = a + bx$

Where,

y= dependent variable

x=independent variable

a=intercept of the line

b=slope of the line

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter is main part and body of the study. The objective of this chapter is to study, evaluate and analyze those major financial and statistical performances which are mainly related to investment management and fund mobilization of Everest Bank Limited and Himalayan Bank Limited. There are many types of financial ratio, but only those ratios are calculated and analyzed which are important to evaluate fund mobilization of joint venture banks.

4.1 Financial Analysis

Financial analysis is an act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. For the purpose of this study, ratio analysis has been used.

Ratio analysis is an main tool of financial analysis. Financial ratios are calculated and data will be analyzed with the help of those ratios. Some important financial ratio are only calculated from the view point of fund mobilization and investment policy. The ratio are designed and calculated to highlight the relationship and procedure of dividing one item by another. All these calculations are based on financial statement of concerned banks. The important and needed financial ratios which are to calculated for the purpose of this study are as follows:-

4.1.1 Liquidity Ratio

Liquidity ratios measure the ability of the firm to meet its current obligations. Difference between current assets and current liabilities is known as working capital, which provides liquidity in business organization. A Commercial bank must maintain a fair liquidity position to satisfy the credit needs of the community, to meet demand for deposit withdrawals, pay matured obligations in time and convert non-cash into

cash to satisfy immediate needs without loss to the bank and without consequential impact on long run profitability of the bank.

a. Current Ratio

The calculation of current ratio is based on a simple comparison between current assets and current liabilities. This is the broad measure of liquidity of the bank. The standard of current ratio for banking companies is 2:1, which means the bank has to maintain total current assets double of its total current liabilities.

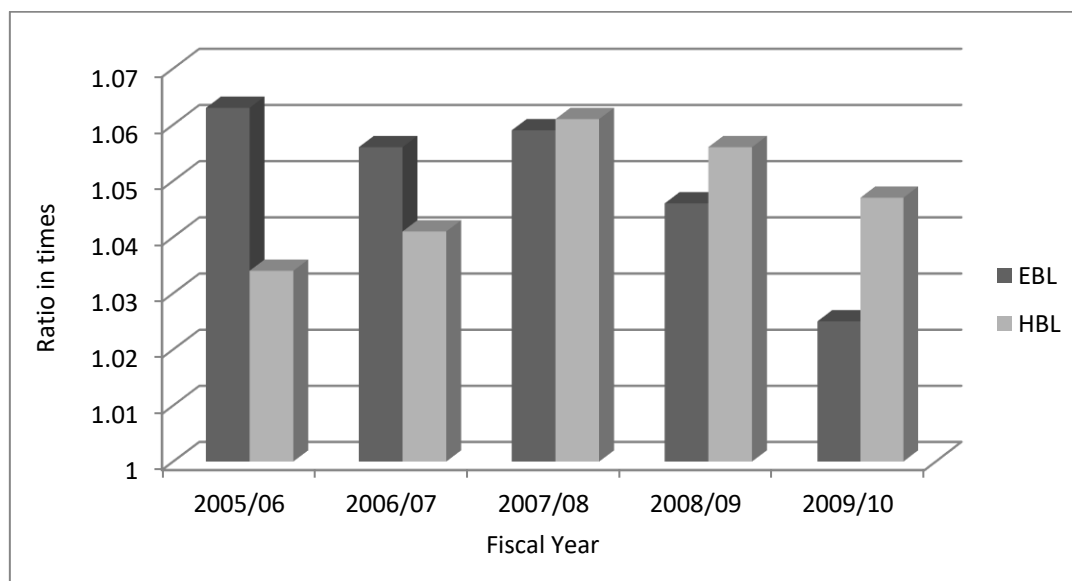
Where, current assets consist of cash and bank balance, money at call on short term notice, loan and advances, investment in Government securities and other interest receivable and other miscellaneous current assets, current liabilities, on the other hand consist of deposits loan and advances, bills payable, tax payable, tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

Table 4.1
Current Ratio

Banks	Fiscal Year					Mean	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	1.063	1.056	1.059	1.046	1.025	1.05	0.0136	1.29
HBL	1.034	1.041	1.061	1.056	1.047	1.0478	0.0097	0.93

Source: Annex 1

Figure 4.1
Current Ratio



From the above table and figure, it is clear that current assets of EBL and HBL are more than their current liabilities the ratio of EBL is ranged from 1.025 to 1.063 and ratio of the HBL is ranged from 1.034 to 1.061. EBL's ratios are fluctuating trend under period of study; it has high current ratio in fiscal year 2005/06. Current ratio of HBL is increasing and decreasing through out the five year.

The main ratio of EBL is 1.05 and HBL is 1.0478. On the basis of the mean EBL has good performance than HBL. Standard deviation measure the variability of the ratio. EBL's standard deviation 0.0136 is higher than HBL's 0.0097. Coefficient of variance of EBL 1.29 is more than HBL's 0.93 which shows the EBL is more consistency than HBL.

It states that liquidity position of EBL is sound in comparison to HBL. From the above calculation it shows the risk is highly associated with HBL in comparison to EBL.

b. Cash and Bank Balance to Current Assets Ratio

This ratio shows the bank's liquidity position in terms of the most liquid assets i.e. cash and balance. A high cash and bank balance to current ratio indicates high

position of the most liquid assets in total current assets. This further indicates the bank's ability to meet daily cash payments for the requirement of their depositors. However, much higher of this ratio is not preferred as the bank has to pay interest on deposits and will increase the cost of fund that might impair their profitability. Likewise, lower of this ratio is determinant to the bank, as the bank will have hard times to make the payments against the cheque presented by customers. Therefore, bank has to strike a balance of cash and bank balance, which is just adequate for the customers demand against deposit when required, and less interest payable against the cash deposit.

Table 4.2

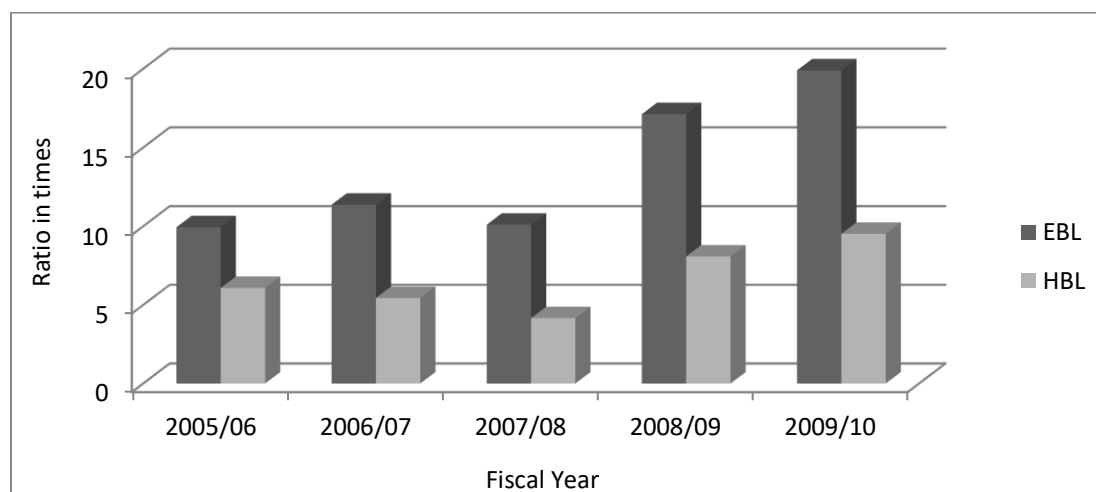
Cash and Bank Balance to Current Assets Ratio

Banks	Fiscal Year					Mean	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	9.94	11.37	10.10	17.12	19.90	13.68	4.07	29.75
HBL	6.08	5.44	4.16	8.08	9.52	6.65	1.91	28.72

Source: Annex 2

Figure 4.2

Cash and Bank Balance to Current Assets Ratio



From the above table and figure, cash and bank balance to current assets ratio of EBL has been ranged from 9.94 to 19.90 and HBL has 4.16 to 9.52. Ratios of HBL are decreasing and increasing throughout the five year. Whereas EBL's ratios are fluctuating trend during the study period. The EBL has maintain the highest ratio in 2009/10 i.e. 19.90 and HBL has maintain highest ratio in 2009/10 i.e. 9.52.

The mean ratio of EBL is 13.68 and 6.65 of HBL; on the basis of mean performance of HBL is weak than EBL. EBL's standard deviation 4.07 is higher than HBL's 1.91 which shows that cash and bank balance to current assets ratio of the EBL is more fluctuate than HBL's ratio. C.V of EBL 29.75 is higher than HBL 28.72. This shows that EBL is more consistency than HBL.

In conclusion it can be said that liquidity position of EBL is higher than the HBL and it is more capable to maintaining higher level of cash and bank balance ratio.

C. Cash and Bank Balance to Total Deposits Ratio

The ratio between the cash and bank balance and total deposits measures the ability of bank to meet the banks immediate funds to cover their (current margin, call margin and saving) deposits. Higher the ratio, the greater will be the ability to meet sudden of deposit. However, a very high ratio is not desirable since banks have to pay interest on deposits. This will also maximize the cost of fund to the bank.

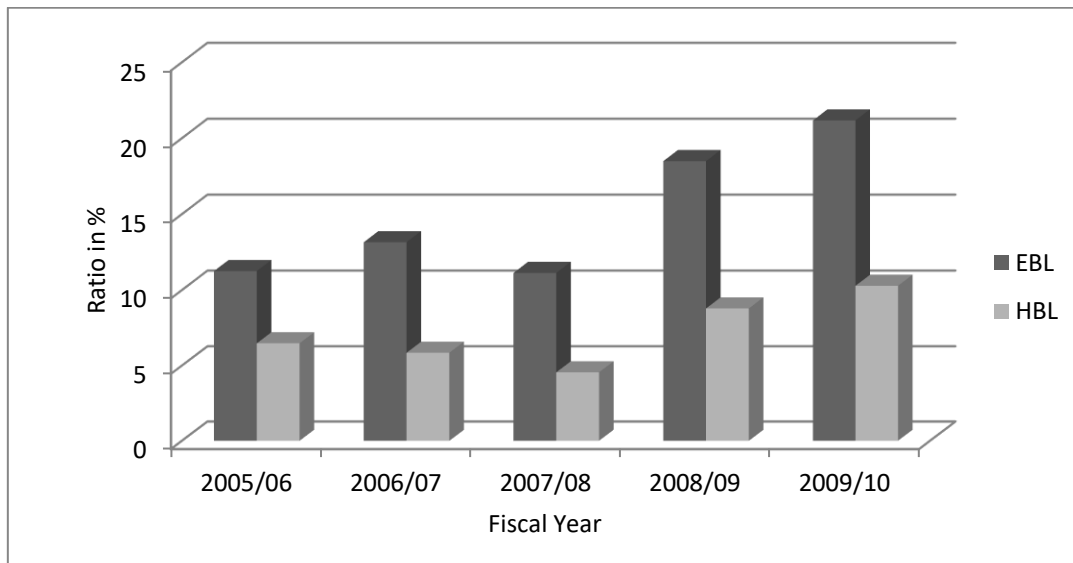
Table 4.3

Cash and Bank Balance to Total Deposit Ratio

Banks	Fiscal Year					Mean	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	11.25	13.15	11.13	18.49	21.17	15.04	4.06	26.99
HBL	6.48	5.85	4.55	8.79	10.28	7.19	2.06	28.65

Source: Annex 3

Figure 4.3
Cash and Bank balance to Total deposit Ratio



From the above table and figure, shows that the comparative cash and bank balance to total deposit ratio of both banks. The ratio of EBL is fluctuating trend i.e. ranged between 11.13 to 21.17, ratio of HBL is decreasing and increasing trend through out five year ranged between 4.55 to 10.28. EBL has the highest ratio of 21.17 percent in 2009/10 and lowest ratio of 11.13 in 2007/08, Similarly HBL's highest ratio in 10.28 in 2009/10 and lowest 4.55 in 2007/08.

The mean ratio of EBL is 15.04, higher than HBL's 7.19; on the basis of mean performance of EBL is better than HBL. The S.D of EBL is 4.06 and HBL's 2.06. Which shows the ratio of EBL is more fluctuate than HBL. C.V of EBL 26.99 is lower than HBL 28.65 which shows that EBL is more consistency than HBL. This indicates that HBL maintain lower liquidity position than EBL.

d. Loan and Advances to Current Assets Ratio

The ratio shows the relationship between loan and advances to total current assets or it shows the bank's liquid capacity of discounting and purchasing the bills and loan, cash, credit and overdraft facilities to the customers. If the bank can not grant sufficient loan and advances, it will have to pay interest on those unutilized deposits

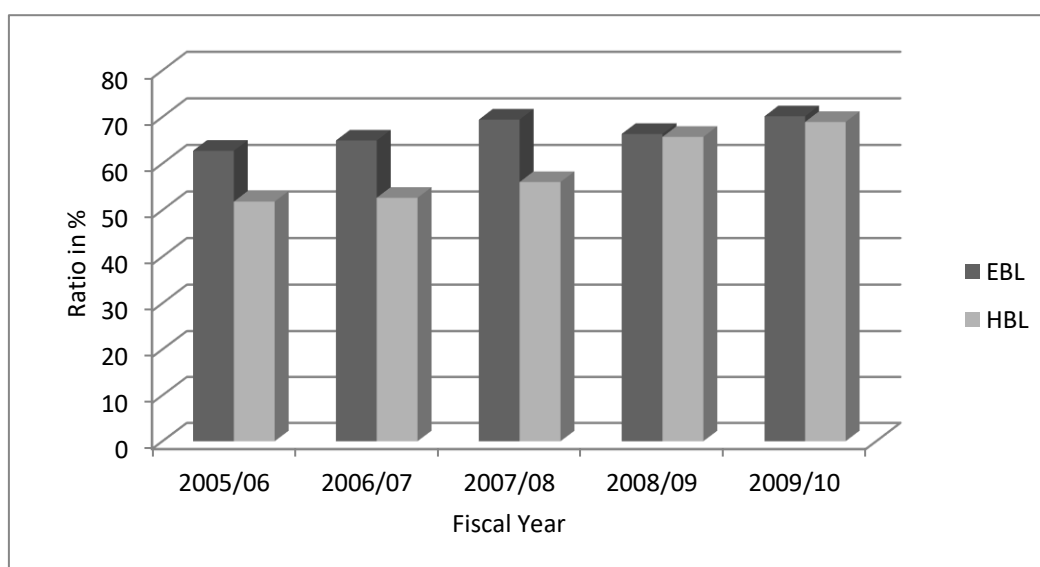
funds and at the same time may lose substantial earnings. However, too little and too high of high loan and advances may be under able to the bank as too little investment in loans and advances will result in high amount of utilize funds and too high investment in loan and advances will result in lack of liquidity and difficulty in collecting them at the time of their maturity.

Table 4.4
Loan and Advances to Current Assets Ratio

Banks	Fiscal Year					Mean	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	62.74	64.94	69.43	66.35	70.15	66.72	2.75	4.12
HBL	51.82	52.64	56.02	65.72	68.92	59.02	7.00	11.86

Source: Annex 4

Figure 4.4
Loan and Advances to Current Assets Ratio



From the above table and figure, loan and advances to current assets ratio of two banks of five year 2005/06 to 2009/10. The ratio has been ranged from 62.60 to 70.15 of EBL and from 51.82 to 68.92 of HBL. Ratio of EBL is fluctuating during the period and HBL are increasing trend. EBL maintain the highest ratio 70.15 in 2009/10 and lowest in 62.60in 2005/06. Similarly HBL maintain the highest ratio in 2009/10 and lowest in 2005/06.

The mean ratio of EBL is 66.72 and 59.02 of HBL. In average, EBL has maintained higher loan and advances to current assets ratio than HBL. It shows that EBL is strong to mobilize its current assets, loan and advances in comparison to HBL. On the basis of Standard deviation and coefficient of variation EBL's ratios are more consistent than HBL because of its lower C.V from the view point of risk. It is highly associated with EBL because EBL maintain lower liquidity position than HBL.

e. Investment on Government Securities to Current Assets Ratio

This ratio examines that position of commercial banks current assets which is invested in different government securities. More or less each commercial bank is interested to invest their collected fund on different types of securities issued by government at different times to utilize their excess fund and have other purpose. The government securities are not so much liquid as cash and bank balance but it can easily be sold in the market or they can be converted into cash in other ways. The ratio is computed by dividing investment on government securities by total current assets.

Table 4.5

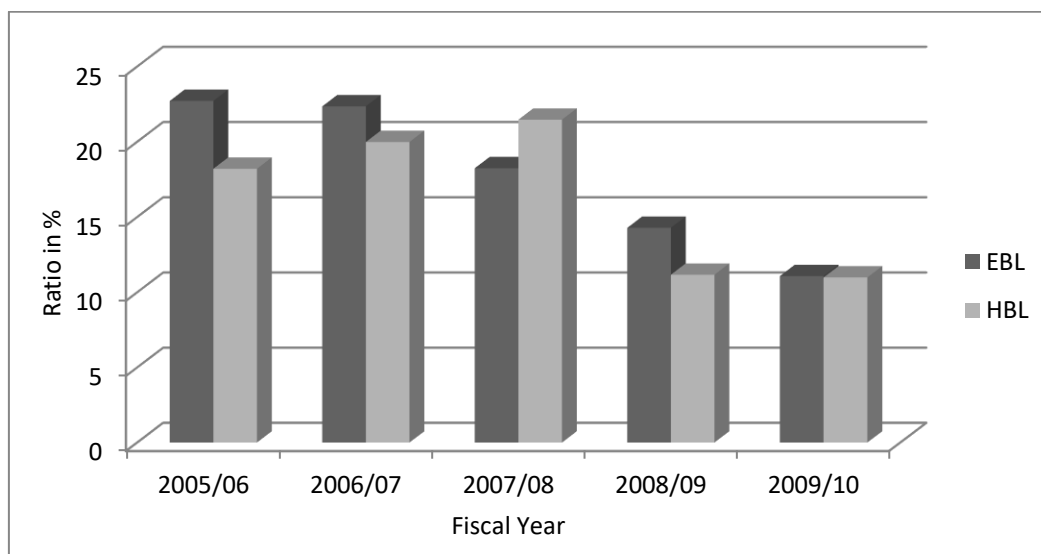
Investment on Government Securities to Current Assets Ratio

Banks	Fiscal Year					Mean	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	22.72	22.36	18.25	14.29	11.08	17.74	4.53	25.54
HBL	18.21	19.99	21.47	11.17	10.99	16.37	4.44	27.12

Source: Annex 5

Figure 4.5

Investment on Government Securities to Current Assets Ratio



From the above table and figure, EBL's investment on government securities to current assets ratio has decreasing trend. During the study period, it has highest ratio in FY 2005/06 i.e. 22.72 and lowest in FY 2009/10 i.e. 11.08, Whereas, HBL's ratios are in increasing and decreasing trends. The highest ratio is in FY 2007/08 i.e. 21.47 and lowest ratio in FY 2009/10 i.e. 10.99.

In overall, the mean ratio of investment on government securities to current assets ratio of EBL 17.74 is higher than HBL 16.37. If we measure the performance of these banks based on this mean, the performance of HBL is weak than EBL. EBL's standard deviation 4.53 is higher than HBL's 4.44 this mean EBL is more fluctuated than HBL's ratio. Coefficient of variation of EBL 25.54 is less than HBL 27.12 which shows that EBL is more consistency than HBL. It indicates that HBL maintain lower liquidity position than EBL.

4.1.2 Assets Management Ratio

Assets management ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. A commercial bank should be able to manage its assets very well to earn high profit, to satisfy its customers and for its own existence.

The following ratios are measured under the assets management ratio of EBL and HBL in comparison.

a Total Investment to Total Deposit Ratio

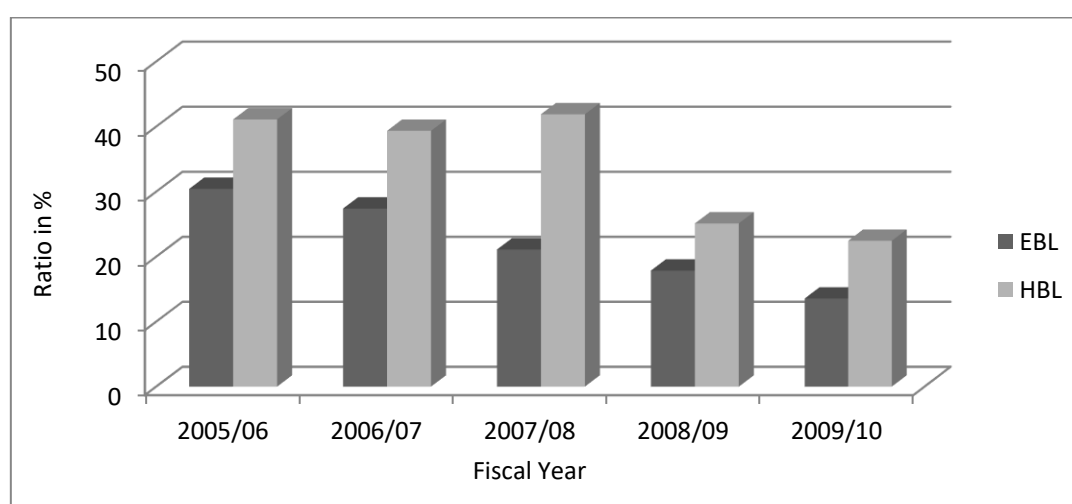
A commercial bank mobilizes its deposit by investing its fund in different securities issued by government and other financial or non-financial institutions. This ratio measures the extent to which the banks are able to mobilize their deposits on investment in various securities high ratio is the indicator of high success to mobilize the fund as investment and lower ratio is the indicator of lower success. This ratio is calculated by dividing total investment by total deposits.

Table 4.6
Total Investment to Total Deposit Ratio

Banks	Fiscal Year					Mean	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	30.43	27.41	21.10	17.85	13.56	22.07	6.15	27.86
HBL	41.10	39.35	41.89	25.12	22.45	33.98	8.41	24.75

Source: Annex 6

Figure 4.6
Total Investment to Total Deposit Ratio



From the above table and figure, the total investment to total deposit ratio of two banks of five consecutive year 2005/06 to 2009/10. The ratio has been ranged from 13.56 to 30.43 of EBL and 22.45 to 41.10 of HBL. Ratio of EBL is decreasing trend

and ratios of HBL are fluctuating during the study period. EBL maintain the highest ratio in 2005/06 and HBL in the 2005/06. Similarly EBL maintain lowest ratio in 2009/10 and HBL in the 2009/10.

The mean ratio of EBL 22.07 and 33.98 of HBL, if we measure the performance of these banks based in this mean, the performance of EBL is weak. EBL's standard deviation 6.15 is less than HBL's standard deviation 8.41, which shows that ratio of HBL, is more fluctuate than EBL's ratio. Coefficient of variation of EBL 27.86 is higher than HBL 24.75 this means HBL is more consistency than EBL.

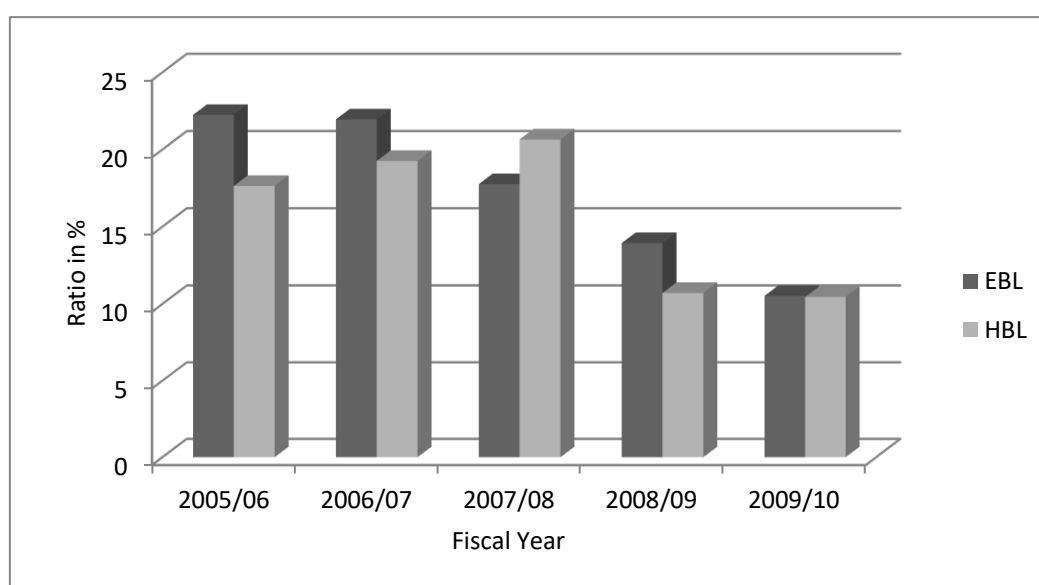
b. Investment on Government Securities to Total Working Fund Ratio

All the resources of a bank are never used as loan and advances. A bank mobilizes its fund in various ways. So commercial bank seem to be interested to invest those types of funds by purchasing government securities. A government security is safe medium of investment through it is not liquid as cash and bank balance. This ratio is very important to know the extent to which the banks are successful in mobilizing their total fund on different types of government securities to maximize its safe income. A high ratio indicates better mobilization of fund as investment on government securities and vice-versa. This ratio is calculated by dividing investment on government securities by total working fund.

Table 4.7**Investment on Government Securities to Total Working Fund Ratio**

Banks	Fiscal Year					Mean	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	22.24	21.95	17.76	13.94	10.52	17.28	4.55	26.33
HBL	17.64	19.26	20.65	10.71	10.45	15.71	4.31	27.43

Source: Annex 7

Figure 4.7**Investment on Government Securities to Total Working Fund Ratio**

The above table and figure shows that investment on government securities to working fund ratio of two banks of five years 2005/06 to 2009/10. The ratio of EBL has been ranged from 10.52 to 22.24. EBL maintain the highest ratio in 2005/06 and lowest in 2009/10. The ratio of HBL has been ranged from 10.45 to 20.65. HBL maintain the highest ratio in 2007/08 and lowest in 2009/10. Ratios of EBL is decreasing trend and HBL is fluctuating during the study period.

The mean ratio of EBL is 17.28 and HBL is 15.71, if we measure the performance of HBL is weak than EBL. EBL's Standard deviation is higher than HBL ($4.55 > 4.31$), this shows that ratio of EBL is more fluctuate than HBL's ratio. Coefficient of

variance of EBL 26.33 is less than HBL 27.43, which shows EBL is less consistency than HBL.

c. Investment on Share and Debenture to Total Working Fund Ratio

A commercial bank is interested to invest its fund not only on government securities but also on share and debenture of other different companies. Investment on share and debentures to total working fund ratio reflect the extent to which banks are successful to mobilize their working fund in purchasing share and debentures of other companies to generate income and utilize extra fund the high ratio indicates the more portion of working fund investment on share and debenture and vice-versa.

Table 4.8

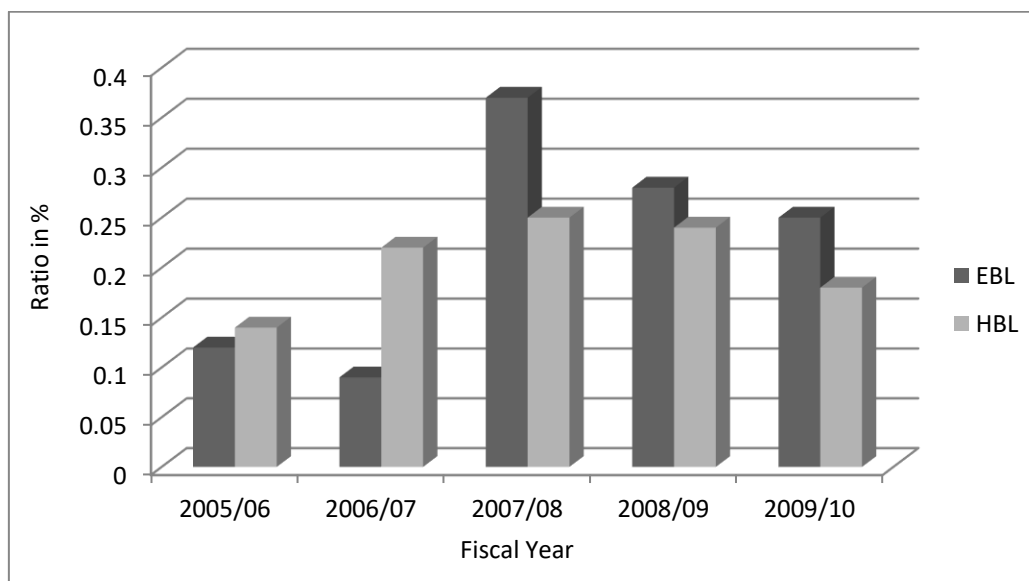
Investment on Share and Debenture to Total Working Fund

Banks	Fiscal Year					Mean	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	0.12	0.09	0.37	0.28	0.25	0.222	0.104	46.85
HBL	0.14	0.22	0.25	0.24	0.18	0.21	0.041	19.52

Source: Annex 8

Figure 4.8

Investment on Share and Debenture to Total Working Fund



From the above table and figure, it is found that both banks EBL and HBL have invested nominal percentage of total working fund into share and debenture of other companies. In all the cases the ratio percentage is less than 1% of both banks. The ratio of EBL is fluctuating trend during the period. It has maintained the highest ratio in 2007/08, i.e. 0.37 and lowest in 2006/07, i.e. 0.09. The ratio of HBL is increasing and decreasing trend. HBL has maintained highest ratio in 2007/08, i.e. 0.25 and lowest in 2005/06, i.e. 0.14.

On the basis of mean ratio, it can be maintained that EBL has invested higher amount in share and debentures in comparison to HBL. S.D of EBL is higher than HBL ($0.104 > 0.041$). The coefficient of variance of EBL is 46.85 higher than HBL i.e. 19.52, which shows the higher consistency in the ratio of EBL. From the above analysis, both banks have to invest amount on share and debenture for better result.

4.1.3 Profitability Ratio

Profitability ratios are helpful to measure the overall efficiency in operation of a financial institution. In the context of banks, no bank can survive without profit. Profit is one of the measure indicators of efficient operation of a bank. The banks acquire

profit by providing different service to its customers or by making investment opportunities, expending banking transactions, financing government during the need of development funds, overcoming the future contingencies and fixing the need of internal obligation for a bank. A profitability ratio measures the efficiency of bank.

a. Return on Total Working Fund Ratio

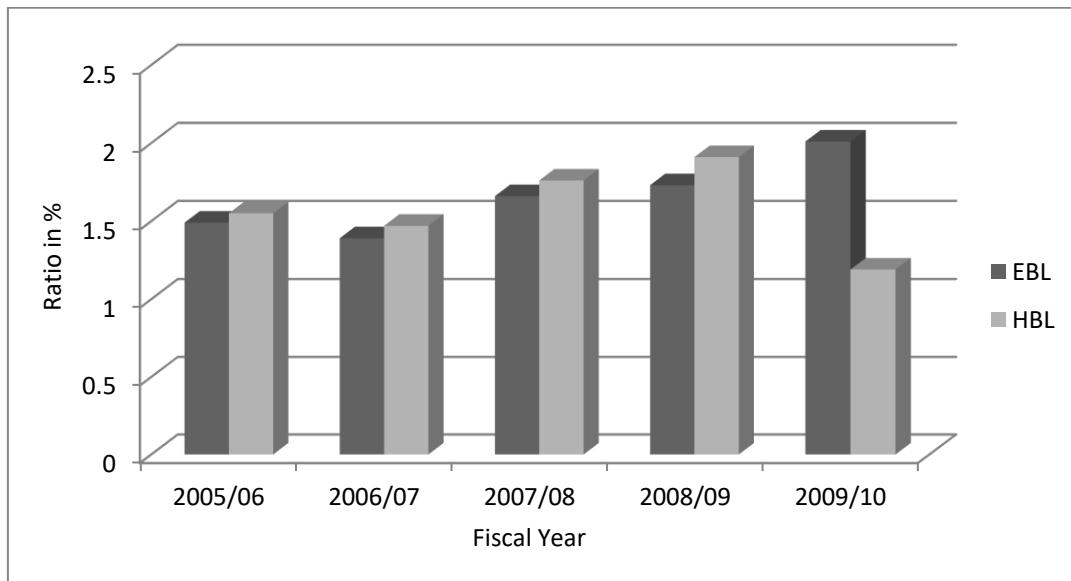
Return on total working fund ratio is a profitability indicator with respect to each financial resources investment of bank's assets if the banks total working fund it well managed and efficiently utilized, the return on such assets will be higher and vice-versa. The ratio is calculated by dividing net profit by total working fund.

Table 4.9
Return on Total Working Fund Ratio

Banks	Fiscal Year					Mean	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	1.49	1.39	1.66	1.73	2.01	1.66	0.214	12.89
HBL	1.55	1.47	1.76	1.91	1.19	1.57	0.247	15.73

Source: Annex 9

Figure 4.9
Return on Total Working Fund Ratio



The above table and figure shows that the return on total working fund ratio of EBL is in fluctuating trend, it has maintained the highest ratio in 2009/10, i.e. 2.01 and lowest in 2006/07, i.e. 1.39. And HBL's ratios are in fluctuating trend during the study period. It has maintained highest ratio 2008/09, i.e. 1.91 and lowest in 2009/10, i.e. 1.19.

On the basis of mean ratio EBL 1.66 has the highest ratio than HBL 1.57; it means EBL is able to earn high return on total working fund assets in comparison to HBL. Similarly the coefficient of variation of EBL 12.89% is lower than HBL 15.73%. Therefore, it can be concluded that EBL's position is sound to earn profit on total working fund with stability in earning than that of HBL's.

b. Return on Loan and Advances Ratio

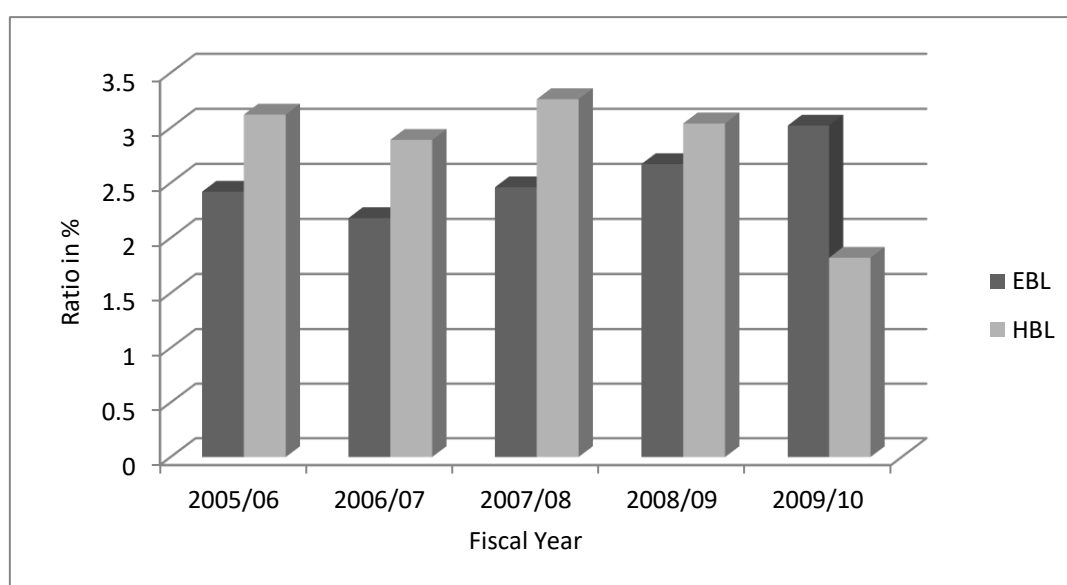
This ratio measures the earning capacity of the commercial banks through its fund mobilization as loan and advances. A high ratio indicates greater return on mobilize fund as loan and advances and vice-versa. This ratio is calculated by dividing net profit by total amount of loan and advances.

Table 4.10
Return on Loan and Advances Ratio

Banks	Fiscal Year					Mean	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	2.42	2.18	2.46	2.67	3.02	2.55	0.282	11.06
HBL	3.12	2.89	3.26	3.04	1.82	2.83	0.517	18.27

Source: Annex 10

Figure 4.10
Return on Loan and Advances Ratio



From the above table and figure, EBL's ratios are seemed to be fluctuating during the study period. It has the highest ratio in F/Y 2009/10 i.e. 3.02 and lowest ratio in F/Y 2006/07 i.e. 2.18 where as HBL's ratio are also in fluctuating trend. It has the highest ratio of 3.26 in F/Y 2007/08 and lowest ratio of 1.82 in F/Y 2009/10.

Comparing the mean ratio HBL 2.83 has higher ratio than EBL 2.55, it means HBL seems to be successful in maintaining its higher return on loan and advances in comparison to EBL. Similarly Standard deviation of HBL 0.517 is higher than EBL 0.282, it indicate that ratio of HBL is more fluctuate than EBL. Coefficient of variation of HBL 18.27 is higher than EBL 11.06. This implies that HBL ratios are

less consistent than EBL. In conclusion, it can be said that HBL is strong position in the earning capacity by utilizing available resources than that of EBL.

4.1.4 Risk Ratios

The possibility of risk makes bank's investment is a challenging task. Bank has to take risk to get return on investment. The risk taken is satisfied by the increase in profit. A bank has to take high risk if it expects high return on its investment. So the bank operating for high profit has to accept the risk and manage it efficiently. Through following ratios, efforts have been made measure the level of risk essential in the EBL and HBL comparatively.

a. Liquidity Risk Ratio

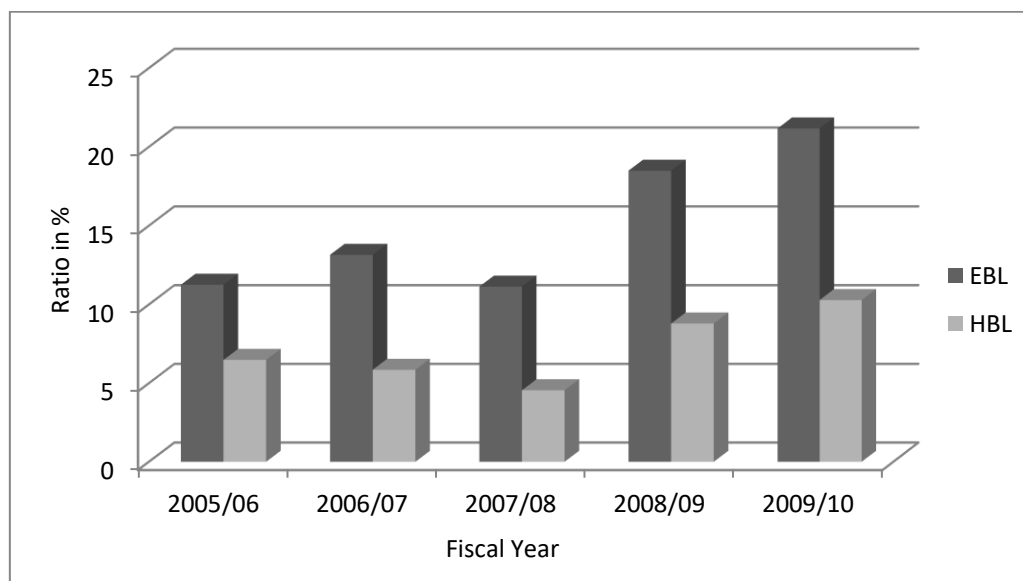
The liquidity risk of the bank defines its liquidity need for deposit. The ratio of cash and bank balances to total deposit is the indicator of bank liquidity needed. The cash and bank balance are the most liquid assets and they are considered as bank's liquidity sources and deposit as the liquidity need. A higher liquidity indicates less risk and less profitable bank and vice-versa. The ratio is calculated by dividing liquid assets or total cash and bank balance by total deposit.

Table 4.11
Liquidity Risk Ratio

Banks	Fiscal Year					Mean	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	11.25	13.15	11.13	18.49	21.17	15.04	4.07	27.06
HBL	6.48	5.85	4.55	8.79	10.28	7.19	2.07	28.79

Source: Annex 11

Figure 4.11
Liquidity Risk Ratio



From the above table and figure, liquidity risk ratio of five year 2005/06 to 2009/10. The ratio has been ranged from 11.13% to 21.17% of EBL and 4.55% to 10.28% of HBL. Liquidity risk ratio of EBL is in fluctuating trend and HBL's ratio is in decreasing and increasing trend. EBL has highest ratio i.e. 21.17% in year 2009/10 and lower ratio 11.13% in year 2007/08. HBL has maintained highest ratio 10.28% in year 2009/10 and lower ratio 4.55% in year 2007/08.

The mean ratio of EBL is higher than HBL i.e. $(15.04 > 7.19)$. So EBL is in less liquid risk than HBL. Similarly, Standard deviation of EBL is higher than HBL i.e. $(4.07 > 2.07)$, it indicates that ratio of HBL is less fluctuate than EBL. Coefficient of variance of EBL is lower than HBL i.e. $(27.06 < 28.79)$. It indicates that liquidity risk of EBL is more consistent than HBL. In conclusion liquidity risk of EBL is less than HBL.

b. Credit Risk Ratio

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

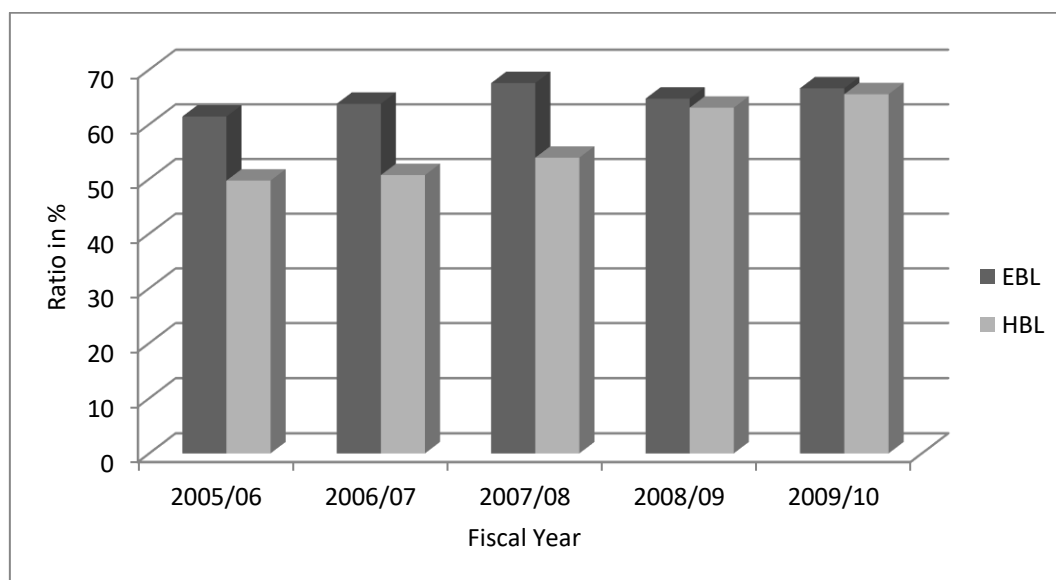
advances to total assets. The ratio of total loan and advances to total assets measures the credit risk ratio.

Table 4.12
Credit Risk Ratio

Banks	Fiscal Year					Mean	S.D	C.V
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	61.41	63.75	67.55	64.69	66.59	64.80	2.16	3.33
HBL	49.70	50.71	53.89	63.04	65.50	56.57	6.48	11.45

Sources: Annex 12

Figure 4.12
Credit Risk Ratio



The above table and figure measures credit risk ratio of five consecutive year 2005/06 to 2009/10. The ratio has been ranged from 61.41% to 67.55% of EBL and 49.70% to 65.50% of HBL. The above table shows that credit risk ratio of EBL is in fluctuating trend and HBL is increasing trend during the study period. EBL has maintained the highest ratio in F/Y 2007/08 and lowest ratio in the F/Y 2005/06. Similarly HBL has maintained the highest ratio in 2009/10 and lowest in the F/Y 2005/06.

The mean ratio of EBL is higher than HBL i.e. (64.80%>56.57%). So EBL is in high credit risk than HBL. Standard deviation of EBL is lower than HBL i.e. (2.16<6.48), it

indicates that ratio of HBL is more fluctuate than EBL. Coefficient of variation of HBL is higher than EBL (11.45%>3.33%). It indicates that ratio of credit risk of HBL is higher than EBL. It indicates that ratio of credit risk of HBL less consistent than EBL. Above analysis shows that credit risk of EBL is higher than HBL.

4.1.5 Growth Ratio

Growth ratios are directly related to the fund mobilization and investment of a commercial bank. It represent how well the commercial bank maintaining the economic and financial position. Under this topic four types of growth ratios are studied. These ratios can be calculated by dividing the last period figure by the first period figure. The high ratio generally indicates better performance of a bank and vice-versa. The calculation of growth ratios are as follows.

Growth Rate of Total Deposit

Growth ratios of total deposit of both banks are calculated to find out the trend of growth of the total deposits and to find better position of banks. The growth ratio is calculated by dividing final years deposit with initial deposit.

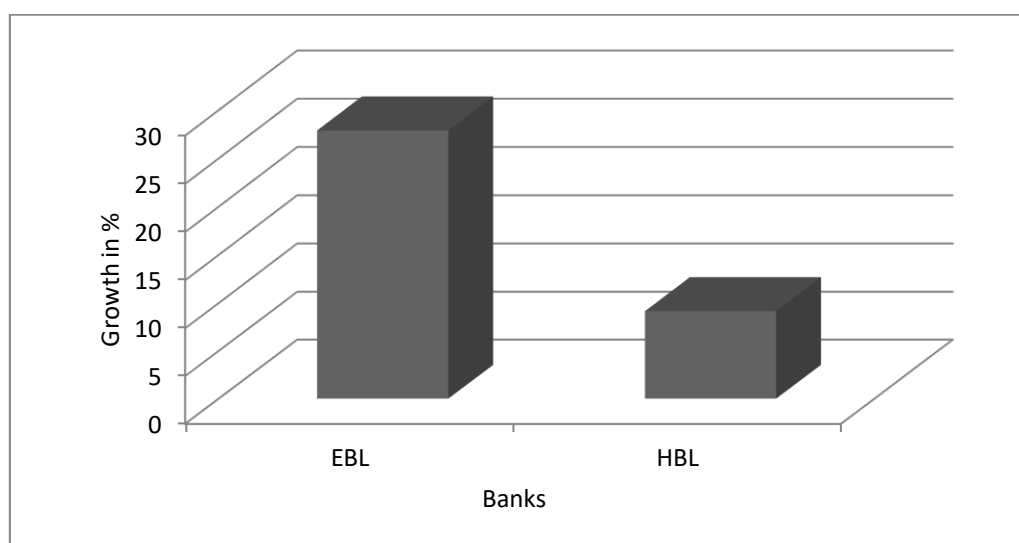
Table 4.13
Growth Rate of Total Deposit

(Rs. in Million)

Banks	Fiscal Year					Growth %
	2005/06	2006/07	2007/08	2008/09	2009/10	
EBL	13802.44	18186.25	23976.29	33322.90	36932.30	27.89
HBL	26490.85	30048.42	31842.78	34681.34	37611.20	9.16

Source: Annex 13 (a)

Figure 4.13
Growth Rate of Total Deposit



The above table and figure, the growth ratio of total deposits of EBL is more than HBL. It shows that the growth rate of EBL 27.89% is more than growth rate of HBL 9.16%. Above growth rate indicate that EBL is used to increase its deposits very highly than HBL.

b. Growth Rate of Total Investment

Growth ratios of total investment of both banks are calculated to find out the trend of growth of total investment and to detect better position of banks. The growth ratio is calculated by dividing final investment with initial investment.

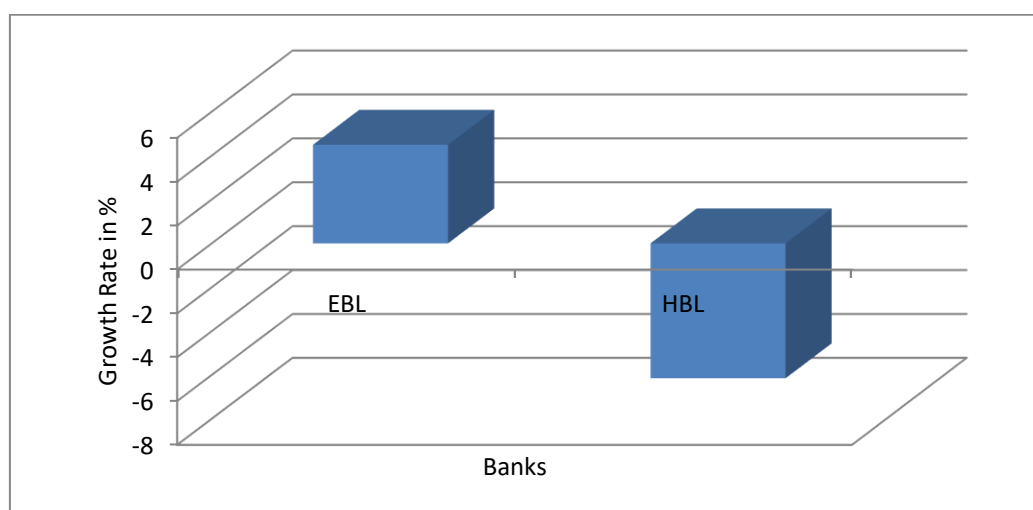
Table 4.14
Growth Ratio of Total Investment

(Rs. In Million)

Banks	Fiscal Year					Growth %
	2005/06	2006/07	2007/08	2008/09	2009/10	
EBL	4200.52	4984.31	5059.56	5948.50	5008.30	4.49
HBL	10889.03	11822.98	13340.17	8710.69	8444.91	-6.15

Source: Annex 13 (b)

Figure 4.14
Growth Ratio of Total Investment



The above table and figure that the growth rate of total investment of EBL 4.49% is higher than HBL -6.15%. Above growth rate indicates that EBL increase its total investment very highly than HBL. On the basis of growth rate HBL is not in the satisfactory condition.

c. Growth Rate of Loan and Advances

Growth ratio of total loan and advances of both banks are calculated to find out the trend of growth of total loan and advances and detect better position of banks. The growth ratios are calculated by dividing final loan and advances with initial loan and advances.

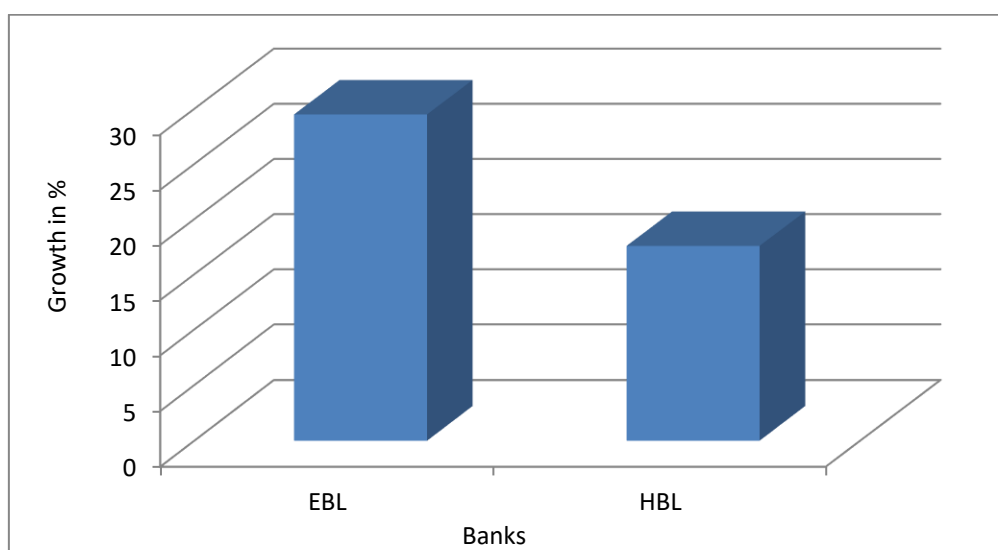
Table 4.15
Growth Ratio of Loan and Advances

(Rs. in Million)

Banks	Fiscal Year					Growth %
	2005/06	2006/07	2007/08	2008/09	2009/10	
EBL	9801.31	13664.08	18339.08	23884.67	27556.35	29.49
HBL	14642.56	16997.99	19497.52	24793.15	27980.62	17.57

Source: Annex 14 (a)

Figure 4.15
Growth Ratio of Loan and Advances



From the above table and figure, the growth of total loan and advances of EBL is higher than HBL. It shows that growth rate of EBL 29.49% is higher than growth rate of HBL 17.57%. Above growth rate indicate that EBL is used to increase its loan and advances very highly than HBL.

d. Growth Rate of Net Income

The growth ratio on net profit shows the overall performance of the bank. It shows that how efficiently banks use all its available resources in to income generating sector. Better the growth rate better the performance and vice-versa.

Table 4.16
Growth Ratio of Net Income

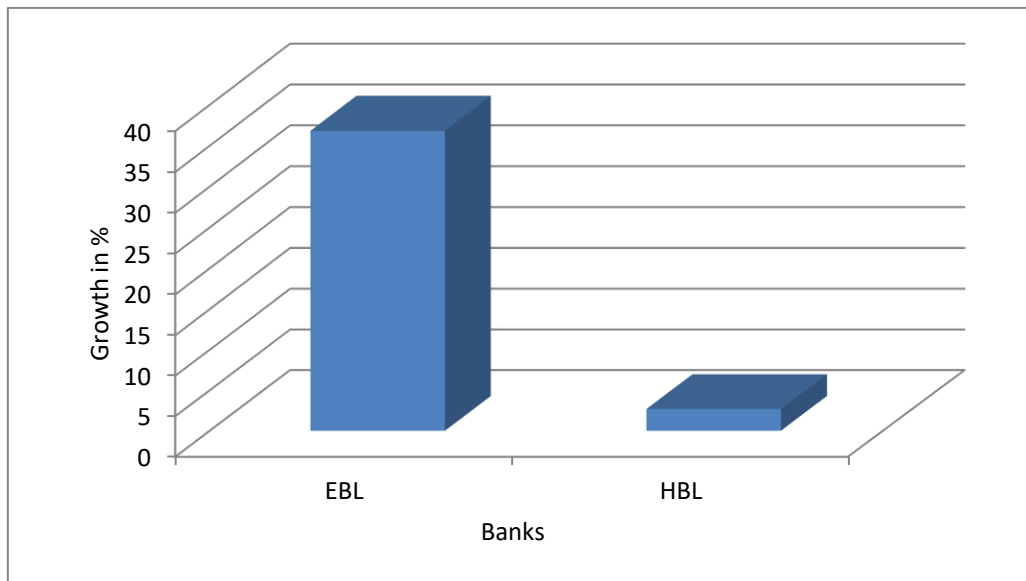
(Rs. in Million)

Banks	Fiscal Year					Growth %
	2005/06	2006/07	2007/08	2008/09	2009/10	
EBL	237.29	297.99	451.22	638.73	831.76	36.83
HBL	457.46	491.82	635.87	752.83	508.79	2.69

Source: Annex 14 (b)

Figure 4.16

Growth Ratio of Net Income



The above table and figure shows that the growth of net income of EBL is higher than HBL. It shows that the growth rate of EBL 36.83% is higher than HBL 2.69%. Above growth rate indicates that EBL is used to increase its net income highly than HBL. It shows that HBL should have invested its large amount in various secured and more profitable sector.

4.2 Statistical Analysis

Statistical tools help to find out the trend of financial position of the bank and to analyze the relationship between variables that help banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund mobilization through providing loan and advances or investment on other company. In this study, some statistical tools such as coefficient of correlation analysis between different variables, trend analysis of deposits, loan and advances, investment and net profit are used to achieve the objectives of the study. There are as follows:-

4.2.1 Coefficient of Correlation Analysis

Coefficient of Correlation measure the degree of relationship between two set of figure. The variable method of finding out coefficient of correlation, Karl Pearson's method is applied in the study. Coefficient of correlation has been used to find out the

relationship between deposit and loan and advances. Total deposit and total investment, outside assets and net profit, total deposit and total interest earned, loan and advances and interest paid, total working fund and net profit.

a. Coefficient of Correlation between Total Deposit and Loan and Advances

Coefficient of correlation between total deposit and loan and advances measures the relationship between total deposit and loan and advances. The main objectives of the calculation are to judge whether deposits are significantly used on loan and advances or not. Table shows correlation (r), coefficient of determination (r^2), probable error (P.Er) and 6p.Er between deposit and loan and advances.

Table 4.17
Correlation between Deposit and Loan and Advances

Banks	r	r²	P.Er	6P.Er	Remarks
EBL	0.99	0.9801	0.013	0.078	$r > 6P.Er$
HBL	0.98	0.9604	0.012	0.072	$r > 6P.Er$

Source: Annex 15 and 16

The above table shows that correlation coefficient between deposit and loan and advances of EBL is 0.99, it shows positive relationship between these two variables. Moreover, the calculated value of coefficient of determination (r^2) is 0.9801 and it means 98.01% of variation on dependent variable (loan and advances) has been explained by the independent variable (deposit). Similarly, considering the value of (r) i.e. 0.99 and comparing it with 6P.Er i.e. 0.078, the value of ' r ' is more than six times of P.Er, which shows that the value of ' r ' is significant. In other word there is significance relationship between deposits and loan and advances in case of EBL.

Likewise, coefficient of correlation between total deposit and loan and advances of HBL, coefficient of correlation between these two variables is 0.98 which indicates higher positive correlation between them. Similarly, the value of coefficient of determination (r^2) is 0.9604, which shows that 96.04% variation in the dependent variable has been explained by the independent variables. Moreover, considering the

6P.Er i.e. 0.072, which mean the relationship between deposit and loan and advances is significant.

From the above analysis, we can conclude that both EBL and HBL have positive relationship between deposit and loan and advances. The relationship is significant in case of EBL and the value of r^2 shows good percentage of dependency and in case of HBL, the relationship is also significant and r^2 shows higher percentage of dependency. It indicates that the increase in loan and advances is due to increase in deposit or successful mobilization of deposit in both banks and other factors have nominal role in increment of loan and advances as compare to deposit.

b. Coefficient of Correlation between Deposit and Total Investment

Coefficient of correlation 'r' between deposit and total investment measure the degree of relationship between these two variables. Here deposit is independent variable (x) and total investment is dependent variable (y). The purpose of computing this coefficient of correlation is to justify whether the deposits are significantly used in proper way or not and whether there is any relationship between these two variables.

Table shows correlation (r), coefficient of determination (r^2), probable error (P.Er) and 6p.Er between deposit and total investment

Table 4.18**Coefficient of Correlation between Deposit and Total Investment**

Banks	r	r²	P.Er	6P.Er	Remarks
EBL	0.70	0.49	0.15	0.90	$r < 6P.Er$
HBL	-0.06	0.0036	0.12	0.072	$r < 6P.Er$

Source: Annex 17 and 18

The above table shows that coefficient of correlation between deposit and investment is 0.7 in case of EBL, which shows positive relationship between these two variables. However by considering coefficient of determination the value of r^2 is 0.49, which indicates that 49% of variation in the dependent variables (investment) has been explained by the independent variables (deposit). By considering the probable error since the value of 'r' is less than 6P.Er i.e. $0.7 < 0.9$, we can say that there is not significant relationship between deposit and total investment in case of EBL.

Similarly, the coefficient of correlation between deposit and total investment in case of HBL is found to be -0.06, which shows negative relationship between these two variables if we consider the value of coefficient of determination (r^2) i.e. 0.0036, it shows 0.36% variation in the dependent variables has been explained by the independent variable. Moreover the value of 6P.Er is 0.072, we can further conclude that the relationship between deposit and total investment is not significant because 'r' is less than 6P.Er i.e. $-0.06 < 0.072$.

From the above analysis, it can be concluded that in case of both banks EBL and HBL, there is not a significant positive relationship between deposit (independent variable) and total investment (dependent variable) because 'r' is less than 6P.Er. Finally, it can be said that both banks EBL and HBL have followed the policy of maximizing the investment of their deposits.

c. Coefficient of Correlation between Total outside Assets and Net Profit

Coefficient of correlation between outside assets and net profit measures the degree of relationship between these two variables. Here outside assets is independent

variable(x) and net profit is dependent variables (y). The main objectives of the calculation are to judge whether outside assets is significantly used on income generating activity or not.

The following table shows the value of correlation (r), coefficient of determination (r^2), probable error (P.Er) and 6p.Er between outside assets and net profit of EBL and HBL.

Table 4.19
Coefficient of Correlation between Total Outside Assets and Net Profit

Bank	r	r²	P.Er	6P.Er	Remarks
EBL	0.98	0.96	0.012	0.072	$r > 6P.Er$
HBL	0.50	0.25	0.226	1.356	$r < 6P.Er$

Source: Annex 19 and 20

The above table shows the correlation coefficient between outside assets and net income of EBL and HBL is 0.98 and 0.50 respectively for the study period of 2005/06 to 2009/10, which shows that EBL used its outside assets on income generating activity more than HBL. There is high degree of positive relationship between outside assets and net income of EBL and positive relationship between outside assets and net income of HBL. Coefficient of determination r^2 of EBL and HBL 0.96 and 0.25 respectively indicate that 96% of the dependent variable variation by independent variable of EBL and 25% of the dependent variable variation by independent variable of HBL rest from other thing. The value of 'r' is greater than 6P.Er of EBL this shows that there is significance relationship between these variable. For HBL the value of 'r' is less than 6P.Er this shows that there is not significance relationship between these variables.

d. Coefficient of correlation between Deposit and Net Profit

The coefficient of correlation between deposit and net profit measures the degree of relationship between these two variables. Here deposit is independent variables (x) and net profit (y) is dependent variables. The objectives of computing 'r' between

these two variables are to justify whether deposits are significantly used to obtain return in a proper way or not.

The following table shows the value of r , r^2 , P.Er and 6P.Er of EBL and HBL during the study period.

Table 4.20
Coefficient of Correlation between Deposit and Net Profit

Banks	r	r²	P.Er	6P.Er	Remarks
EBL	0.990	0.980	0.006	0.036	$r > 6P.Er$
HBL	0.43	0.1849	0.25	1.5	$r < 6P.Er$

Source: Annex 21 and 22

From the above table it has been seen that correlation coefficient between deposit and net profit is 0.990 in case of EBL. It indicates that there is positive relationship between these two variables. The value of coefficient determination (r^2) is 0.980, which indicates that 98% of variation in dependent variable has been explained by independent variable. Moreover, by considering probable error there is significant relationship between deposit and net profit because the value of 'r' is higher than 6P.Er i.e. $0.990 > 0.036$.

Likewise, the correlation coefficient between deposit and net profit of HBL is 0.43; which also shows the positive relationship between these two variables. The value of r^2 is 0.1849, which indicates that 18.49% of total change independent variables is due to the effect of independent variables. By considering probable error there is not significant relationship between deposit and net profit because the value of 'r' is less than 6P.Er i.e. $0.43 < 1.5$.

In EBL has positive and significant relationship.

e. Coefficient of Correlation between Deposit and Interest Earned

The correlation coefficient between deposit and interest earned measure the degree of relationship between these two variables. Here, deposit is independent variables (x) and interest earned is dependent variables (y). The objectives of computing 'r'

between two variables are to justify whether the deposit is significantly used to earned interest in proper way or not.

The following table shows the value of r , r^2 , P.Er and 6P.Er between two variables of EBL and HBL.

Table 4.21
Coefficient of Correlation between Deposit and Interest Earned

Banks	r	r²	P.Er	6P.Er	Remarks
EBL	0.96	0.9216	0.024	0.144	$r > 6P.Er$
HBL	0.94	0.8836	0.035	0.21	$r > 6P.Er$

Source: Annex 23 and 24

From the above table correlation coefficient between deposit and interest earned of EBL and HBL is 0.96 and 0.94 for the study period 2005/06 to 2009/10. The value of coefficient of determination (r^2) is 0.9216 in case of EBL, which means 92.16% of the variation is dependent variable has been explained by independent variable. By considering probable error there is significant relationship between deposit and interest earned because of the value of 'r' is higher than 6P.Er i.e. $0.96 > 0.144$. Likewise, the value of determination (r^2) is 0.8836 in case of HBL, which means 88.36% of the variation is dependent variable has been explained by independent variable. By considering probable error there is significant relationship between deposit and interest earned because of the value of 'r' is higher than 6P.Er i.e. $0.94 > 0.21$.

In conclusion, since the value of 'r' is positive the relationship between these two variables is significant in case of EBL and HBL.

f. Coefficient of Correlation between Loan and Advances and Interest Paid

The correlation coefficient between loan and advances and interest paid measure the degree of relationship between these two variables. Here loan and advances is dependent variables (x) and interest paid is independent variables (y). The main

purpose of computing 'r' between these two variables is whether the increase in loan and advances caused the degree of interest paid of the banks and vice-versa.

The following table shows the value of r, r^2 , P.Er and 6P.Er between two variables of EBL and HBL.

Table 4.22
Coefficient of Correlation between Loan and Advances and Interest Paid

Banks	r	r^2	P.Er	6P.Er	Remarks
EBL	0.94	0.8836	0.035	0.21	$r > 6P.Er$
HBL	0.89	0.7921	0.06	0.36	$r > 6P.Er$

Sources: Annex 25 and 26

The above table shows that in case of EBL the correlation coefficient between loan and advances and interest paid is 0.94, which indicates that there is positive relationship between these two variables. The value of coefficient of determination (r^2) is 0.8836 which means 88.36% of the variation in dependent variable has been explained by the independent variable. By considering P.Er there is significant relationship between loan and advances and interest paid due to the value of 'r' is higher than 6P.Er i.e. $0.94 > 0.21$.

Similarly in case of HBL the value of 'r' is 0.89, which indicates that there is positive relationship between two variables. The value of r^2 is 0.7921, which means 79.21% of the variation in dependent variable has been caused by independent variable. Value of 'r' is higher than 6P.Er i.e. $0.89 > 0.36$, this means there is significant relationship between loan and advances and interest paid.

g. Coefficient of Correlation between Total Working Fund and Net Profit

The coefficient of correlation between total working fund and net profit measure the degree of relationship these two variables. In analysis total working fund is taken as dependent variables (x) and net profit is independent variable (y), the objective of computing 'r' between these two variables is to justify whether total working fund is

significantly used as to earn net profit in a proper way or not. The following table shows the value of r , r^2 , P.Er, and 6P.Er between these two variables of EBL and HBL.

Table 4.23

Coefficient of correlation between Total Working Fund and Net Profit

Banks	r	r²	P.Er	6P.Er	Remarks
EBL	0.99	0.9801	0.006	0.036	$r > 6P.Er$
HBL	0.45	0.2025	0.24	1.44	$r < 6P.Er$

Sources: Annex 27 and 28

From the above table, it seemed that in case of EBL, the value of 'r' is 0.99, which indicates there is positive relationship between total working fund and net profit. The value of coefficient of determination (r^2) is 0.9801. It means 98.01% of the variation in the dependent variable has been explained by independent variables. In other words 98.01% of the total change in dependent variable is due to the effect of independent variables. While considering probable error there is significant relationship between working fund and net profit because the value of 'r' is higher than 6P.Er i.e. $0.99 > 0.036$. Similarly the value of 'r' is 0.45 in case of HBL which indicates that there is positive relationship between total working fund and net profit and the value of coefficient of determination (r^2) is 0.2025. It means 20.25% of variation in dependent variables has been explained by independent variable. By considering P.Er the value of 'r' is less than 6P.Er i.e. $0.45 < 1.44$, which indicates that there is not significant relationship between total working fund and net profit.

In conclusion EBL has positive and significant relationship.

4.2.2 Trend Analysis

The objectives of analysis are to analyze the trend of deposit collection, its utilization and net profit of EBL and HBL. Granting loan and advances and investing some of the fund in government securities, Share and debenture of other companies by the commercial banks in the utilization of deposit. The topic analyze the trend of deposit,

loan and advances, total investment and net profit and forecasting for next five years.

The projection has the following assumption:

1. The main assumption is that other thing will remain unchanged.
2. The forecast will be true only when the limitation of least square method is carried out.
3. The bank will run in present position.
4. The economy will remain in the present stage.
5. Nepal Rastra Bank will not change its guidelines to commercial banks.

a. Trend Analysis of Total Deposit

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

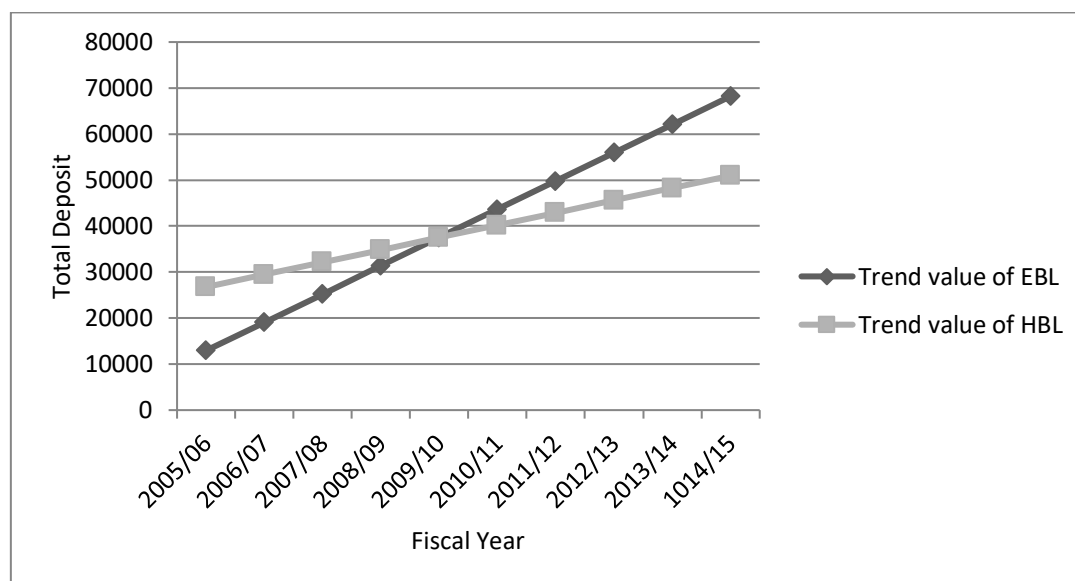
Table 4.24
Trend Value of Total Deposit of EBL and HBL

Fiscal Year	Trend Value of EBL	Trend Value of HBL
2005/06	12964.80	26760.21
2006/07	19104.44	29447.66
2007/08	25244.08	32135.11
2008/09	31383.72	34822.56
2009/10	37523.36	37510.01
2010/11	43663.00	40197.46
2011/12	49802.64	42884.91
2012/13	55942.28	45572.36
2013/14	62081.92	48259.81
1014/15	68221.56	50947.26

Source: Annex 29 and 30

Figure 4.17

Trend Value of Total Deposit of EBL and HBL



The above table and figure shows that the trend value of total deposit of EBL and HBL are in increasing trend if all other thing remaining constant. EBL has the highest trend value of 68221.56 in the year 2014/15 and HBL has the highest trend value of 50947.26 in the year 2014/15. The increasing trend of total deposits of both banks shows the good performance of the banks but trend values of total deposit of EBL and HBL are also fitted in the trend lines.

b. Trend value of Loan and Advances of EBL and HBL

Here the trend value of loan and advances of EBL and HBL have been calculated for five years from F/Y 2005/06 to 2009/10 and forecasting has been made for next five years from F/Y 2010/11 to 2014/15. The following table describes the trend value of loan and advances of EBL and HBL.

Table 4.25

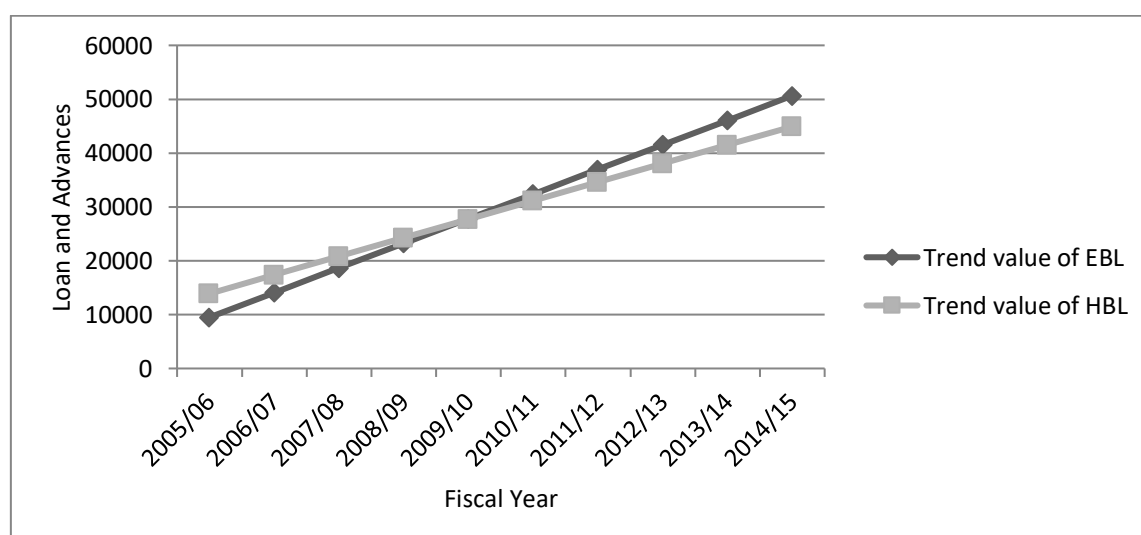
Trend Value of Loan and Advances of EBL and HBL

Fiscal Year	Trend Value of EBL	Trend Value of HBL
2005/06	9502.97	13888.12
2006/07	14076.03	17335.24
2007/08	18649.09	20782.36
2008/09	23222.15	24229.48
2009/10	27795.21	27676.60
2010/11	32368.27	31123.72
2011/12	36941.33	34570.84
2012/13	41514.39	38017.96
2013/14	46087.45	41465.08
2014/15	50660.51	44912.20

Source: Annex 31 and 32

Figure 4.18

Trend value of Loan and Advances of EBL and HBL



The above table and figure shows that the value of loan and advances of EBL and HBL are in increasing trend, if all other thing remains constant. EBL has the highest

trend value of 50660.51 in the year 2014/15 and HBL has the highest trend value of 44912.20 in the year 2014/15. From above analysis, it is clear that EBL's utilization of deposit in term of loan and advances is comparatively higher than that of HBL's.

c. Trend Value of Total Investment

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

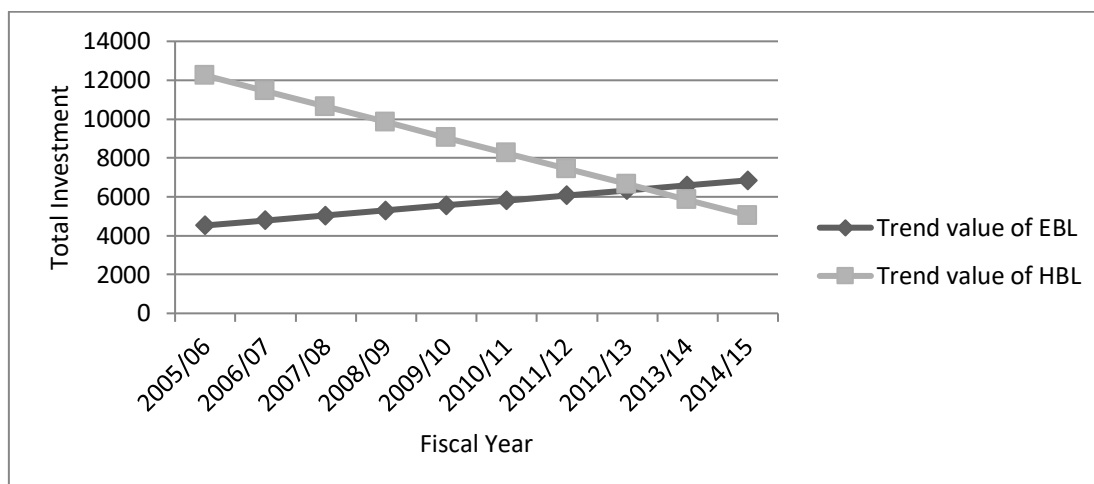
Table 4.26
Trend Value of Total Investment of EBL and HBL

Fiscal Year	Trend Value of EBL	Trend Value of HBL
2005/06	4524.29	12241.65
2006/07	4782.26	11441.60
2007/08	5040.23	10641.55
2008/09	5298.20	9841.50
2009/10	5556.17	9041.45
2010/11	5814.14	8241.40
2011/12	6072.11	7441.35
2012/13	6330.08	6641.30
2013/14	6588.05	5841.25
2014/15	6846.02	5041.20

Source: Annex 33 and 34

Figure 4.19

Trend value of Total Investment of EBL and HBL



The above table and figure shows that the trend value of total investment of EBL is in increasing trend if all other thing remains the constant and HBL is in decreasing trend. EBL has the highest trend value of 6846.02 in the year 2014/15 and HBL has the highest trend value 12241.65 in the F/Y 2005/06 and HBL has the lowest trend value 5041.20 in the F/Y 2014/15. In conclusion EBL's totals investment trend is satisfactory where as HBL has not maintained well investment trend during this study period. The above calculated trends value of total investment of both banks are fitted in the trend lines.

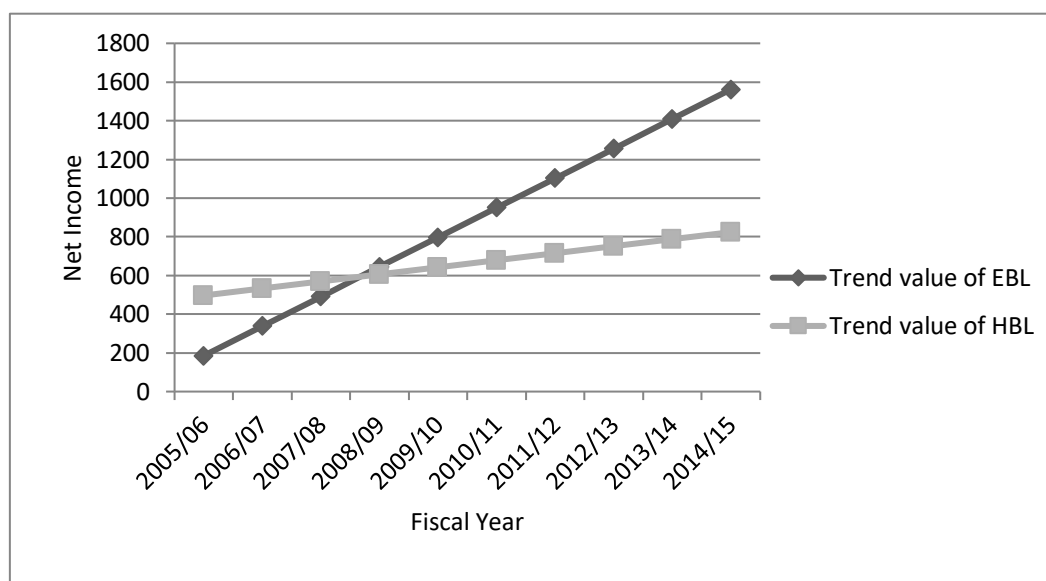
d. Trend Value of Net Income

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

Table 4.27**Trend Value of Net Income of EBL and HBL**

Fiscal Year	Trend Value of EBL	Trend Value of HBL
2005/06	185.47	496.63
2006/07	338.43	532.99
2007/08	491.39	569.35
2008/09	644.35	605.71
2009/10	797.31	642.07
2010/11	950.27	678.43
2011/12	1103.23	714.79
2012/13	1256.19	751.15
2013/14	1409.15	787.51
2014/15	1562.11	823.87

Source: Annex 35 and 36

Figure 4.20**Trend Value of Net Income of EBL and HBL**

The above table and figure shows that the trend value of net income of EBL and HBL are in increasing trend if all other thing remains constant. EBL has the highest trend value of 1562.11 in F/Y 2014/15 and HBL has the highest trend value of 823.87 in the year 2014/15. The increasing trend of net income of both banks are indicates the good performance.

4.3 Major Findings of the Study

The major findings of the study, which are derived on the basis of analysis of financial and statistical data of EBL and HBL, are given as below.

1. The mean current ratio of EBL 1.05 is higher than that of HBL 1.0478, likewise; EBL is more consistency than HBL.
2. The mean ratio of cash and bank balance to current assets of EBL 13.68 is higher than HBL 6.65. EBL is more consistent and it is more capable to maintaining higher level of cash and bank balance ratio.
3. The mean ratio of cash and bank balance to total deposit ratio of EBL 15.04 is higher than HBL 7.19. On the basis of coefficient of variation EBL has more consistency and it has maintained higher liquidity position.
4. The mean ratio of loan and advances to current assets ratio of EBL 66.72 is higher than HBL 59.02 and also there is lower consistency in HBL's ratio. From the view point of risk, it is highly associated with EBL, because EBL maintain lower liquidity position than HBL.
5. EBL has invested its more proportion current assets in government securities than that of HBL. Investment in government securities to current assets ratio of EBL is higher than HBL's (17.74>16.35). It indicates that HBL maintain lower than liquidity position than EBL.
6. The mean ratio of total investment to total deposit of EBL 22.07 is lower than HBL's 33.98 but there is more fluctuation in EBL's ratio and HBL is more consistent than EBL.
7. Investment on government securities to working fund ratios of EBL 17.28 is higher than HBL's 15.71. EBL's Standard deviation is higher than HBL. This shows that ratio of EBL is more fluctuating and consistent than HBL.
8. Investment on share and debenture to total working fund of EBL has slightly higher than mean ratio than that of HBL and also higher consistency.
9. Return on total working fund ratio EBL has higher mean ratio than HBL. HBL's ratios are more consistent in comparison to HBL.
10. The mean ratio of loan and advances of EBL is less than that of HBL. Standard deviation of HBL is higher than EBL. It indicates that ratio of HBL is more

fluctuating than EBL. HBL's ratios are less consistent than EBL due to higher coefficient of variation.

11. The liquidity risk ratio of EBL is higher than that of HBL. So, EBL is in less liquid risk than of HBL, Standard deviation of EBL is also higher it indicate that ratio of HBL is less fluctuating than HBL. However HBL has maintained more consistency in ratios in comparison to EBL.
12. The credit risk ratio of EBL is more consistent than HBL. On the basis of mean credit risk of EBL is higher than HBL. EBL ratio has consistency than HBL.
13. The growth rate of total deposit of EBL 27.89% is higher than HBL 9.16%. It is indicates that EBL is used to increase its deposits very lightly than HBL.
14. The growth rate of total investment of EBL 4.49% is higher than HBL -6.15%. Above rates indicates that EBL has increase its investment very highly than HBL.
15. Growth rate of loan and advances of EBL 29.49% is higher than HBL 17.57% it means EBL is used to increase its loan and advances very highly than HBL.
16. Growth rate of net income of EBL 36.83% is higher than HBL 2.69%. It indicates that EBL is used to increase its net income very highly than HBL. It shows that EBL has efficiently used all its available resources in profitable sector than HBL.
17. Coefficient of correlation between deposit and loan and advances of both banks has positive value. The value of 'r' of EBL (0.99) is higher than value of HBL (0.98). In case of both banks, it has been found that there is significant relationship between deposit and loan and advances.
18. Coefficient of correlation between deposit and total investment EBL has positive value and HBL have negative value. The value of 'r' of EBL (0.70) is higher than value of HBL (-0.060). In case of EBL there is significant positive relationship between deposit and total investment and HBL there is not significant relationship.
19. Correlation coefficients between outside assets and net profit of EBL and HBL both have positive value. Likewise, the relationship between outside assets and

net profit of both banks are significantly correlated the value of 'r' of EBL (0.98) is higher than HBL (0.50).

20. The coefficient of correlation between deposit and net profit, both banks have positive value. EBL's coefficient of correlation 'r' is higher than HBL. It has been found that there is significant relationship between deposit and net profit of both banks. The value of 'r' of EBL (0.99) is higher than HBL (0.43).
21. Coefficient of correlation between deposit and interest earned of EBL and HBL both have positive value. The value of 'r' of EBL (0.96) is higher than HBL (0.94). There is significant relationship between deposit and interest earned of both banks.
22. Coefficients of correlation between loan and advances and interest paid of both banks have positive value. The value of 'r' of EBL (0.94) is higher than HBL (0.89). There is also significant relationship between loan and advances and interest paid of EBL and HBL.
23. Coefficients of correlation between total working fund and net profit of both banks have positive value. There is significant relationship between these two variables of both banks. The value of 'r' of EBL (0.99) is higher than HBL (0.45).
24. Trend value of total deposit of both banks EBL and HBL are found to be increasing trend. In the F/Y 2014/15 of the projected trend value of EBL will be 68221.56 and HBL will be 50947.26. The increasing trend of total deposits of both banks shows the good performance of the banks and the trend value of EBL is higher than HBL.
25. The trend value of loan and advances of EBL and HBL found to be increasing trend. The trend value of EBL in 2014/15 will be 50660.51 and HBL will be 44912.20, Hence, EBL's utilization of deposit in terms of loan and advances comparatively higher than that of HBL's.
26. The trend value of total investment of EBL is in increasing trend and HBL is in decreasing trend the projected trend value of EBL in the year 2014/15 will be 6845.02 and HBL will be 5041.20. From above analysis EBL's total investment

trend is satisfactory where as HBL has not maintained well investment trend during this study period in comparison than EBL.

27. The trend values of net profit of both banks are in increasing trend. EBL has the highest trend value of 1562.11 in the F/Y 2014/15 and HBL has the highest trend value of 823.87 in the same year. The increasing trend of net profit of both banks shows the good performance of the banks. The trend value of net income of EBL is higher than HBL.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter presents the summary of the study, conclusion derived from the analysis of data and their interpretation and recommendation offered for the improvement of the investment policy of the banks under the study. The chapter is derived into three sections. The first section of this chapter focuses on summarizing the whole study. The second section draws conclusion from the analysis of data and interpretation of the result and the third section offers recommendation for improvement of the investment policy of the concerned banks.

5.1 Summary

Commercial banks play an important role for the economic development of the country as they provide finance for the development of industry, trade and business by investing the saving collected as deposit from public.

Investment operation of commercial banks is a risky affair. It is the most important factor for the shareholder and bank management for this commercial banks have to pay due consideration while formulating their investment policy. A healthy development of any commercial bank depends upon its investment policy. The word investment conceptualized the investment of income, saving or other collected fund. It is a well known fact that an investment is only possible where is adequate saving. If all the income and saving are consumed to the problem of hand and mouth and to other basic needs, then there is no existence of investment. Both saving and investment are interrelated. It is concerned with the management of an investor's wealth, which is the sum of current income and present values of all future assets already owned borrowed money and saving or foregoes consumption by the investors. The main objective of their investment is to secured financial benefit in future. The goal of investment is the maximization of owner's economic welfare.

The evaluation of the organized financial system in Nepal has more recent history than in other countries of the world. After the declaration of liberal and free market economy based policy, Nepalese bank and financial sector have greater network and access to national and international markets. Commercial banks plays vital role dealing with other people's money and stimulate saving by mobilizing idle resources to those sectors having investment opportunities. Modern banks provide various services to their customers in view of facilitating their economic and social life. The objective of commercial banks is to mobilize idle resources into the most profitable sectors. But commercial bank should be careful while performing the credit creation function. The bank should never invest its fund in those securities which are too much fluctuating. Investment is a commitment of money and other resources that are expected to generate additional money and resources in the future.

The income and profit of the bank depends upon its lending procedure, lending policy and investment of its fund in different securities. The greater the credit created by the bank, the higher will be profitability. A sound lending and investment policy is not significant for the promotion of commercial saving of backward country like Nepal.

The main objective of this study is to evaluate the investment policy of Everest Bank Limited and Himalayan Bank Limited and to recommend corrective measures if any, In order to improve its performance. So this researcher has focused this mainly to highlight and examine the investment of the selected banks ignoring other aspects of bank's transaction to highlight the investment of bank. The applied design is descriptive and core perspective because secondary data have been applied for analysis. It includes all the process of verifying, evaluating and comparing recent information systematically and objective to reach the final conclusion. Various financial parameters and effective research technique are employed to especially identify the strength and weakness in investment policy of the banks.

Financial and statistical tools are used to analyze the collected data and to achieve the results of the study. Ratios are very important financial tools to interpret the financial

performance of a firm. Only five ratios have taken in this study, liquidity ratios, assets management ratios, profitability ratios, risk ratios and growth ratios. Statistical tools such as mean, standard deviation, coefficient of variation, coefficient of correlation and trend analysis have been used to make decision.

5.2 Conclusion

Investment is the major essence of every commercial bank. The formulation and implementation of sound investment policies are among the most important responsibilities of the bank management. On the basis of the major finding of the study derived from the comparative analysis of EBL and HBL. The overall performance of EBL is satisfactory than HBL. Following conclusion can be made after analyze performance of concern bank as follows.

The liquidity position of EBL is higher than HBL. It has the higher cash and bank balance to total deposit ratio and investment on government securities to current assets ratio. On the view of cash and bank balance to current assets ratio, EBL has lower liquidity position.

The assets management ratio both banks are satisfactory. On the basis of total investment to total deposit ratio, the performance of EBL is weak than HBL. Investment on government securities to total working fund ratio and invest on share and debenture to total working fund ratios of EBL are stronger than HBL.

Profitability position of HBL is better than that of EBL's. HBL has maintained high profit margin regarding profitability position. HBL is more successful to generate income through loan and advances and total working fund (operating income). Both banks are in a way to improve its profitability position.

From the risk point of view, HBL has lower liquidity risk and credit risk in comparison to EBL regarding various aspect of banking activities. From the analysis of coefficient of variation EBL ratio are more consistent than HBL.

HBL has not successfully collected and utilized its funds among its customers because of lower growth rate of total deposit and lower growth rate of total loan and advances than that of EBL. EBL is successful to invest its fund on secured field, so it is able to earn more net profit than that of HBL. HBL has to re-think about deposit collection and utilization pattern, it should adopt more diversified investment portfolio to earn more net profit.

From the coefficient of correlation between deposit and loan and advances, deposit and interest earned, loan and advances and net profit there is significant relationship in case of both bank EBL and HBL. Coefficient of correlation between deposit and total investment both bank EBL and HBL there is not significant relationship. Coefficient of correlation between outside assets and net profit, total deposit and net profit, total working fund and net profit of EBL there is significant relationship and in case of HBL there is not significant relationship. EBL is better than HBL.

From the study, it can be concluded that the trend value of total deposit, loan and advances, total investment and net profit of both banks EBL and HBL are in increasing trend. The trend values of loan and advances are higher increasing trend in case of EBL and total deposit, total investment and net income of HBL are higher increasing trend the EBL.

5.3 Recommendations

On the basis of analysis and finding of the study the following suggestion and recommendation can be advanced to overcome, weakness, inefficiency and improvement of Everest Bank Limited and Himalayan Bank Limited.

Increase More Deposit

The commercial bank's main source of fund is collecting deposit from public who don't need that fund recently. Deposit collection has plays a significant role in terms of daily activities of the commercial banks. Without enough deposit collection banks

cannot operate effectively. It has been found that HBL's deposit collection ratios are comparatively lower than EBL. So it is recommended to HBL to collect more amounts as deposit through large variety of deposit scheme and facilities like cumulative deposit scheme, prize bond scheme, gift cheque, zero balance account scheme, recurring deposit scheme (like insurance) and monthly interest scheme, similarly customization of credit card provide, facility of transfer money to their home who live foreign country and it is strongly recommended to both banks that the minimum amount of needed to open an account should be minimized so as to attract small depositors and entrepreneurs for promoting and mobilizing small investors fund.

More Investment on Government Securities

It has been found that EBL has invested more amounts in government securities than that of HBL. EBL's investment on government securities to working fund ratio is higher than HBL. Investment on those securities issued by government i.e. Treasury bills development bonds, saving certificates are free of risk and highly liquid in nature such as securities yields of the lowest risk in future it is more better in regard to safety than other means of investment. So, both bank's EBL and HBL are strongly recommended to give more importance to invest large amounts on government securities.

Increase Investment on Share and Debenture

A commercial bank, must utilize its fund in different sector such as to purchase share and debenture of other financial and non-financial companies out of total working fund. It has been found that HBL's investment on share and debenture to total working fund ratios are lower than that of EBL. So, it is strongly recommended to HBL as well as EBL in invest more funds in share and debenture of different companies in different area to earn more profit.

Liberal Lending Policy

To get success in this competitive environment, deposit must be utilized as loans and advances. The largest amount in the in assets side is loan and advances. It is neglected that it could be the main causes of liquidity crisis in the bank and one of the main reasons for a bank's failure. It has been found from the study period EBL and HBL both banks have maintained loan and advances to total deposit ratio above 50% but EBL has maintained higher ratio than that of HBL's. And EBL ratios are also more consistent than HBL. So in favor of HBL, it is recommended to follow liberal policy, invest more and more percentage of total deposit in loan and advances.

Minimizing Risk through Effective Portfolio Management

Risk is a change of loss or that variability of the return of a certain period. There is high chance of return in the more risky projects portfolio management of the banks assets basically means allocation of fund in different components of banking assets having different degree of risk and rate of return. EBL has been increasing total investment in every year but HBL has the higher amounts of investment size in comparison to EBL. So, portfolio condition of EBL as well as HBL should be carefully examines from time to time and allocation should be made to maintain equilibrium in the portfolio as far as possible.

Project Oriented Approach

The project oriented approach encourage in lending business of the banks in which security is not necessary, risk is high but the project is important from the view point of national economy. The project should be allowed to make them capable to generate their own focus and to repay loan timely. So, it is recommended to these banks EBL and HBL to follow the project oriented approach in order to decrease the loan loss.

Loan Recovery Act

In banking history, there are many difficulties in recovery loan and advances and their large amount of loan is blocked as non-performing assets and which some time reduce income. So it is essential to exercise a suitable mechanism through which is the

overdue loan can be recovered within time. To fulfill these purpose, both banks are suggested to the special loan recovery act should be enacted.

Innovative Approach to Marketing

Marketing is one of the best and effective tools to attract customer's so it is must be to strong and active without effective marketing, any organization could be alone in the competitive market, Different marketing method like advertisement through audio visual, publish web site, documentary etc. Are followed likewise, draw attention of customer through new technology like E-Banking, Internet Banking service and increase investment through their wide international banking network should be introduced. EBL has provided many modern and sophisticated services in comparison to HBL. To exit in the comparative banking environment both banks should adopt new and customer oriented approach.

Expansion of Branch Network

Commercial banks should be expanding its branches all over the rural and urban areas. NRB and Government have also encouraged the joint venture banks to expand the banking service in rural areas and communities without making unwarrantable impact in their profits. EBL and HBL both have expected their branch but limited it only in urban areas. Therefore these banks are recommended to expand their branches and provide banking service and facilities to rural area and communities to accelerate the economic development.

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ANNEXURE

Annex - 1

Current Ratio

Everest Bank Limited

Fiscal Year	Current Assets	Current Liabilities	Ratio(Times)
2005/06	15621.75	14696.48	1.063
2006/07	21039.82	19931.06	1.056
2007/08	26412.58	24928.09	1.059
2008/09	35997.52	34413.22	1.046
2009/10	39281.27	38323.60	1.025
Mean		1.05	
S.D		0.0136	
C.V		1.29%	

Himalayan Bank Limited

Fiscal Year	Current Assets	Current Liabilities	Ratio(Times)
2005/06	28254.22	27334.21	1.034
2006/07	32288.89	31012.37	1.041
2007/08	34804.35	32802.50	1.061
2008/09	37723.10	35713.25	1.056
2009/10	40600.87	38777.92	1.047
Mean		1.0478	
S.D		0.0097	
C.V		0.93%	

Annex 2

Cash and Bank Balance to Current Assets

Everest Bank Limited

Fiscal Year	Cash and Bank Balance	Current Assets	Ratio(Times)
2005/06	1552.97	15621.75	0.0994
2006/07	2391.42	21039.82	0.1137
2007/08	2667.97	26412.58	0.1010
2008/09	6164.40	35997.52	0.1712
2009/10	7818.80	39281.27	0.1990
Mean		13.68%	
S.D		4.07%	
C.V		29.75%	

Himalayan Bank Limited

Fiscal Year	Cash and Bank Balance	Current Assets	Ratio(Times)
2005/06	1717.35	28254.22	0.0608
2006/07	1757.34	32288.89	0.0544
2007/08	1448.14	34804.35	0.0416
2008/09	3048.53	37723.10	0.0808
2009/10	3866.49	40600.87	0.0952
Mean		6.65%	
S.D		0.0191	
C.V		28.72%	

Annex 3

Cash and Bank Balance to Total Deposit

Everest Bank Limited

Fiscal Year	Cash and Bank Balance	Total Deposit	Ratio (%)
2005/06	1552.97	13802.69	0.1125
2006/07	2391.42	18186.25	0.1315
2007/08	2667.97	23976.29	0.1113
2008/09	6164.40	33322.95	0.1849
2009/10	7818.80	36932.31	0.2117
Mean		15.04%	
S.D		4.06%	
C.V		26.99%	

Himalayan Bank Limited

Fiscal Year	Cash and Bank Balance	Total Deposit	Ratio (%)
2005/06	1717.35	26490.85	0.0648
2006/07	1757.34	30048.42	0.0585
2007/08	1448.14	31842.78	0.0455
2008/09	3048.53	34682.31	0.0879
2009/10	3866.49	37611.20	0.1028
Mean		7.19%	
S.D		2.06%	
C.V		28.65%	

Annex 4

Loan and Advances to Current Assets

Everest Bank Limited

Fiscal Year	Loan and Advances	Current Assets	Ratio (%)
2005/06	9801.31	15621.75	0.6274
2006/07	13664.08	21039.82	0.6494
2007/08	18339.08	26412.58	0.6943
2008/09	23884.67	35997.52	0.6635
2009/10	27556.35	39281.27	0.7015
Mean		66.72	
S.D		2.75%	
C.V		4.12%	

Himalayan Bank Limited

Fiscal Year	Loan and Advances	Current Assets	Ratio (%)
2005/06	14642.56	28254.22	0.5182
2006/07	16997.99	32288.89	0.5264
2007/08	19497.52	34804.35	0.5602
2008/09	24793.15	37723.10	0.6572
2009/10	27980.62	40600.87	0.6892
Mean		59.02%	
S.D		7.00%	
C.V		11.86%	

ANNEX 5

Investment on Government Securities to Current Assets

Everest Bank Limited

Fiscal Year	Investment on Government Securities	Current Assets	Ratio (%)
2005/06	3548.62	15621.75	0.2273
2006/07	4704.63	21039.82	0.2236
2007/08	4821.60	26412.58	0.1825
2008/09	5146.04	35997.52	0.1429
2009/10	4354.35	39281.27	0.1108
Mean		17.74%	
S.D		4.53	
C.V		25.54%	

Himalayan Bank Limited

Fiscal Year	Investment on Government Securities	Current Assets	Ratio (%)
2005/06	5144.34	28254.22	0.1821
2006/07	6454.87	32288.89	0.1999
2007/08	7471.67	34804.35	0.2147
2008/09	4212.30	37723.10	0.1117
2009/10	4465.37	40600.87	0.1099
Mean		16.37%	
S.D		4.44	
C.V		27.12%	

Annex 6

Total Investment to Total Deposit Ratio

Everest Bank Limited

Fiscal Year	Total Investment	Total Deposit	Ratio (%)
2005/06	4200.52	13802.69	0.3043
2006/07	4984.31	18186.25	0.2741
2007/08	5059.56	23976.29	0.2110
2008/09	5948.48	33322.95	0.1785
2009/10	5008.30	36932.31	0.1356
Mean		22.07%	
S.D		6.15	
C.V		27.86%	

Himalayan Bank Limited

Fiscal Year	Total Investment	Total Deposit	Ratio (%)
2005/06	10889.03	26490.85	0.5182
2006/07	11822.98	30048.42	0.5264
2007/08	13340.17	31842.78	0.5602
2008/09	8710.69	34682.31	0.6572
2009/10	8444.91	37611.20	0.6892
Mean		33.98%	
S.D		8.41	
C.V		24.75%	

Annex 7

Investment on Government Securities to Working Fund Ratio

Everest Bank Limited

Fiscal Year	Investment on Government Securities	Total Working Fund	Ratio (%)
2005/06	3548.62	15959.28	0.2224
2006/07	4704.63	21432.57	0.2195
2007/08	4821.60	27149.34	0.1776
2008/09	5146.04	36916.85	0.1394
2009/10	4354.35	41382.76	0.1052
Mean		17.28%	
S.D		4.55	
C.V		26.33%	

Himalayan Bank Limited

Fiscal Year	Investment on Government Securities	Total Working Fund	Ratio (%)
2005/06	5144.34	29460.39	0.1746
2006/07	6454.87	33519.14	0.1926
2007/08	7471.67	36174.53	0.2065
2008/09	4212.30	39330.13	0.1071
2009/10	4465.37	42717.12	0.1045
Mean		15.71%	
S.D		4.31	
C.V		27.43%	

Annex 8

Investment on Share and Debenture to Working Fund Ratio

Everest Bank Limited

Fiscal Year	Investment on Share and Debenture	Total Working Fund	Ratio (%)
2005/06	19.89	15959.28	0.0012
2006/07	19.89	21432.57	0.0009
2007/08	101.15	27149.34	0.0037
2008/09	102.03	36916.85	0.0028
2009/10	102.03	41382.76	0.0025
Mean		0.222	
S.D		0.104	
C.V		46.85%	

Himalayan Bank Limited

Fiscal Year	Investment on Share and Debenture	Total Working Fund	Ratio (%)
2005/06	39.91	29460.39	0.1746
2006/07	73.42	33519.14	0.1926
2007/08	89.56	36174.53	0.2065
2008/09	93.88	39330.13	0.1071
2009/10	78.88	42717.12	0.1045
Mean		0.21	
S.D		0.041	
C.V		19.52%	

ANNEX 9

Return on Total Working Fund Ratio

Everest Bank Limited

Fiscal Year	Net Profit	Total Working Fund	Ratio (%)
2005/06	237.29	15959.28	0.0149
2006/07	297.99	21432.57	0.0139
2007/08	451.22	27149.34	0.0166
2008/09	638.73	36916.85	0.0173
2009/10	831.76	41382.76	0.0201
Mean		1.66%	
S.D		0.214	
C.V		12.89%	

Himalayan Bank Limited

Fiscal Year	Net Profit	Total Working Fund	Ratio (%)
2005/06	457.46	29460.39	0.0155
2006/07	491.82	33519.14	0.0147
2007/08	635.87	36174.53	0.0176
2008/09	752.83	39330.13	0.0191
2009/10	508.79	42717.12	0.0119
Mean		1.57%	
S.D		0.247	
C.V		15.73%	

Annex 10

Return on Loan and Advances Ratio

Everest Bank Limited

Fiscal Year	Net Profit	Loan and Advances	Ratio (%)
2005/06	237.29	9801.31	0.0242
2006/07	297.99	13664.08	0.0218
2007/08	451.22	18339.08	0.0246
2008/09	638.73	23884.67	0.0267
2009/10	831.76	27556.35	0.0302
Mean		2.55%	
S.D		0.282	
C.V		11.06%	

Himalayan Bank Limited

Fiscal Year	Net Profit	Loan and Advances	Ratio (%)
2005/06	457.46	14642.56	0.0312
2006/07	491.82	16997.99	0.0289
2007/08	635.87	19497.52	0.0326
2008/09	752.83	24793.15	0.0304
2009/10	508.79	27980.62	0.0182
Mean		2.83%	
S.D		0.517	
C.V		18.27%	

ANNEX 11

Liquidity Risk (Cash and Bank Balance to Total Deposit Risk)

Everest Bank Limited

Fiscal Year	Cash and Bank Balance	Total Deposit	Ratio (%)
2005/06	1552.97	13802.69	0.1125
2006/07	2391.42	18186.25	0.1315
2007/08	2667.97	23976.29	0.1113
2008/09	6164.40	33322.95	0.1849
2009/10	7818.80	36932.31	0.2117
Mean		15.04%	
S.D		4.07%	
C.V		27.06%	

Himalayan Bank Limited

Fiscal Year	Cash and Bank Balance	Total Deposit	Ratio (%)
2005/06	1717.35	26490.85	0.0648
2006/07	1757.34	30048.42	0.0585
2007/08	1448.14	31842.78	0.0455
2008/09	3048.53	34682.31	0.0879
2009/10	3866.49	37611.20	0.1028
Mean		7.19%	
S.D		2.07%	
C.V		28.79%	

Annex 12

Credit Risk (Loan and Advances to Total Assets) Ratio

Everest Bank Limited

Fiscal Year	Loan and advances	Total Assets	Ratio (%)
2005/06	9801.31	15959.28	0.6141
2006/07	13664.08	21432.57	0.6375
2007/08	18339.08	27149.34	0.6755
2008/09	23884.67	36912.85	0.6469
2009/10	27556.35	41382.76	0.6659
Mean		64.80%	
S.D		2.16	
C.V		3.33%	

Himalayan Bank Limited

Fiscal Year	Loan and Advances	Total Assets	Ratio (%)
2005/06	14642.56	29460.39	0.4970
2006/07	16997.99	33519.14	0.5017
2007/08	19497.52	36175.53	0.5389
2008/09	24793.15	39330.13	0.6304
2009/10	27980.62	42717.12	0.6550
Mean		56.57%	
S.D		6.48%	
C.V		11.45%	

Annex 13

a. Growth Rate of Total Deposit

Fiscal Year	Total Deposit	
	EBL	HBL
2005/06	13802.69	26490.85
2006/07	18186.25	30048.42
2007/08	23976.29	31842.78
2008/09	33322.95	34682.31
2009/10	36932.31	37611.20
Growth %	27.89%	9.16%

b. Growth Rate of Total Investment

Fiscal Year	Total Investment	
	EBL	HBL
2005/06	4200.52	10889.03
2006/07	4984.31	11822.98
2007/08	5059.56	13340.17
2008/09	5948.48	8710.69
2009/10	5008.30	8444.91
Growth %	4.49	-6.15

Growth Rate can be calculated as

$$D_n = D_0 (1+g)^{n-1}$$

$$D_{2009/10} = D_{2005/06} (1+g)^{5-1}$$

eg. For Total Deposit of EBL

$$D_{2009/10} = D_{2005/06} (1+g)^{5-1}$$

$$36932.31 = 13802.44(1+g)^4$$

$$g = 27.89\%$$

Where,

D= Total Deposit of year 2009/10

D= Total Deposit of year 2005/06

g= Growth Rate

n= No. of Observation.

Annex 14

a. Growth Rate of Loan and Advances

Fiscal Year	Loan and Advances	
	EBL	HBL
2005/06	9801.31	14642.56
2006/07	13664.08	16997.99
2007/08	18339.08	19497.52
2008/09	23884.67	24793.15
2009/10	27556.35	27980.62
Growth %	29.49	17.59

b. Growth Rate of Net Income

Fiscal Year	Net Income	
	EBL	HBL
2005/06	237.29	457.46
2006/07	297.99	491.82
2007/08	451.22	635.87
2008/09	638.73	752.83
2009/10	831.76	508.79
Growth %	36.83	2.69

Growth Rate can be calculated as

$$D_n = D_0 (1+g)^{n-1}$$

$$D_{2009/10} = D_{2005/06} (1+g)^{5-1}$$

eg. For Loan and Advances of EBL

$$D_{2009/10} = D_{2005/06} (1+g)^{5-1}$$

$$27556.35 = 9801.31(1+g)^4$$

$$g = 29.49\%$$

Where,

D= Total Loan and Advances of year 2009/10

D= Total Loan and Advances of year 2005/06

g= Growth Rate

n= No. of Observation.

Annex- 15

Coefficient of Correlation between Total Deposit and Loan & Advances of Everest Bank Limited

F/Y	Total Deposit (X)	Loan & Advance (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$
2005/06	13802.44	9801.31	-11441.61	-8847.79
2006/07	18186.25	13664.08	-7057.8	-4985.02
2007/08	23976.29	18339.08	-1267.76	-310.02
2008/09	33322.95	23884.67	8078.9	5235.57
2009/10	36932.31	27556.35	11688.26	8907.25
N = 5	$\sum X = 126220.24$	$\sum Y = 93245.49$		

x^2	y^2	xy
130910439.39	78283387.88	101232962.54
49812540.84	24850424.40	35183274.16
1607215.42	96112.40	393030.96
65268625.21	27411193.22	42297646.47
136615421.83	79339102.56	104110253.89
$\sum X^2$ =384214242.69	$\sum Y^2 =$ 209980220.47	$\sum xy = 283217168.01$

$$\bar{X} = \frac{\sum X}{N} = \frac{126220.24}{5} = 25244.05$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{93245.49}{5} = 18649.10$$

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

$$= \frac{283217168}{\sqrt{384214242.69} \times \sqrt{209980220.47}} = \frac{283217168}{19601.38 \times 14490.69}$$

$$= \frac{283217168}{284037521.20} = 0.99$$

Calculation of Probable error

$$\begin{aligned}\text{P. Er} &= \frac{0.6745 \times (1 - r^2)}{\sqrt{N}} \\ &= \frac{0.6745 \times [1 - (0.99)^2]}{\sqrt{5}} = \frac{0.6745 \times 0.0199}{2.236} \\ &= 0.01342 \\ &= 0.013 \\ 6 \text{ P. Er} &= 6 \times 0.013 = 0.078\end{aligned}$$

Annex 16

Coefficient of Correlation between Total Deposit and Loan & Advance of EBL

F/Y	Total Deposit (X)	Loan & Advance (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$
2005/06	26490.85	14642.56	-5644.26	-6139.81
2006/07	30048.42	16997.99	-2086.69	-3784.38
2007/08	31842.78	19497.52	-292.33	-1284.85
2008/09	34682.31	24793.15	2547.2	4010.78
2009/10	37611.2	27980.62	5476.09	7198.25
N = 5	$\sum X = 160675.56$	$\sum Y = 103911.84$		

x^2	y^2	xy
31857670.95	37697266.84	34654683.99
4354275.16	14321531.98	7896827.90
85456.83	1650839.52	375600.20
6488227.84	16086356.21	10216258.82
29987561.69	51814803.06	39418264.84
$\sum X^2$ =72773192.46	$\sum Y^2$ =121570797.61	$\sum xy = 92561635.75$

$$\bar{X} = \frac{\sum X}{N} = \frac{160675.56}{5} = 32135.11$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{103911.84}{5} = 20782.37$$

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

$$= \frac{92561635.75}{\sqrt{72773192.46} \times \sqrt{121570797.61}} = \frac{92561635.75}{8530.72 \times 11025.91}$$

$$= 0.98$$

Calculation of Probable error

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

$$= \frac{0.6745 \times [1 - (0.98)^2]}{\sqrt{5}} = \frac{0.6745 \times 0.0396}{\sqrt{5}} = 0.012$$

$$6 P. Er = 6 \times 0.012 = 0.072$$

Annex 17

Coefficient of Correlation between Total Deposit and Total Investment of EBL

F/Y	Total Deposit (X)	Total Investment (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$
2005/06	13802.44	4200.52	-11441.61	-839.71
2006/07	18186.25	4984.31	-7057.80	-55.92
2007/08	23976.29	5059.56	-1267.76	19.33
2008/09	33322.95	5948.48	8078.90	908.25
2009/10	36932.31	5008.3	11688.26	-31.93
N = 5	$\sum X = 126220.24$	$\sum Y = 25201.17$		

x^2	y^2	xy
130910439.39	705112.88	9607634.33
49812540.84	3127.05	394672.18
1607215.42	373.65	-24505.80
65268625.21	824918.06	7337660.93
136615421.83	1019.52	-373206.14
$\sum X^2$ =384214242.69	$\sum y^2 = 1534551.17$	$\sum xy = 16942255.49$

$$\bar{x} = \frac{\sum X}{N} = \frac{126220.24}{5} = 25244.05$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{25201.17}{5} = 5040.23$$

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

$$= \frac{16942255.49}{\sqrt{384214242.69} \times \sqrt{1534551.17}} = \frac{16942255.48}{24281606.37} = 0.6977 = 0.70$$

Calculation of Probable error

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

$$= \frac{0.6745 \times [1 - (0.70)^2]}{\sqrt{5}} = \frac{0.6745 \times 0.51}{\sqrt{5}} = 0.15$$

$$6 P. Er = 6 \times 0.15 = 0.9$$

Annex 18

Correlation Coefficient between Total Deposit and Total Investment of HBL

F/Y	Total Deposit (X)	Total Investment (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$
2005/06	26490.85	10889.03	-5644.26	247.47
2006/07	30048.41	11822.98	-2086.70	1181.42
2007/08	31842.78	13340.17	-292.33	2698.61
2008/09	34682.31	8710.69	2547.20	-1930.87
2009/10	37611.2	8444.91	5476.09	-2196.65
N = 5	$\sum X = 160675.55$	$\sum Y = 53207.78$		

x^2	y^2	xy
31857670.95	61241.40	-1396785.02
4354316.89	1395753.22	-2465269.11
85456.83	7282495.93	-788884.66
6488227.84	3728258.96	-4918312.06
29987561.69	4825271.22	-12029053.10
$\sum X^2$ =72773234.19	$\sum Y^2$ =17293020.73	$\sum xy = -$ 21598303.96

$$\bar{X} = \frac{\sum X}{N} = \frac{160675.55}{5} = 32135.11$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{53207.78}{5} = 10641.56$$

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

$$= \frac{-21598303.96}{\sqrt{72773234.19} \times \sqrt{17293020.73}} = \frac{-2158303.96}{35474907.3} = -0.060$$

Calculation of Probable error

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

$$= \frac{0.6745 \times [1 - (0.98)^2]}{\sqrt{5}} = \frac{0.6745 \times 0.0396}{2.236} = 0.012$$

$$6 P. Er = 6 \times 0.012 = 0.072$$

Annex-19

Correlation between Total Outside Assets and Net Profit of EBL.

F/Y	Total Outside Assets (X)	Net Profit (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$
2005/06	14001.83	237.29	-11258.99	-253.79
2006/07	18648.39	297.99	-6612.43	-194.67
2007/08	23398.63	451.22	-1862.19	-39.86
2008/09	33322.94	638.73	8062.12	147.65
2009/10	36932.31	831.76	11671.49	340.68
N = 5	$\sum X = 126304.10$	$\sum Y = 2456.99$		

x^2	y^2	xy
126764855.82	64409.36	2857419.07
43724230.50	37896.41	1287241.75
3467751.60	1588.82	74226.89
64997778.89	21800.52	1190372.02
136223678.82	116062.86	3976243.21
$\sum X^2 = 375178295.64$	$\sum y^2 = 241757.98$	$\sum xy = 9385502.94$

$$\bar{X} = \frac{\sum X}{N} = \frac{126304.10}{5} = 25260.82$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{2456.99}{5} = 491.40$$

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

$$= \frac{9385502.94}{\sqrt{375178295.64} \times \sqrt{241757.98}} = \frac{9385502.94}{9523799.29} = 0.98$$

Calculation of Probable error

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

$$= \frac{0.6745 \times 0.36}{\sqrt{5}} = 0.012$$

$$6 P. Er = 6 \times 0.012 = 0.072$$

Annex 20

Correlation between Total Outside Assets and Net Profit of HBL

F/Y	Total Outside Assets (X)	Net Profit (Y)	$x = x - \bar{x}$	$y = Y - \bar{Y}$
2005/06	25531.59	457.46	-6365.16	-111.89
2006/07	28820.96	491.82	-3075.79	-77.53
2007/08	32837.70	635.87	940.95	66.52
2008/09	34682.30	752.83	2785.55	183.48
2009/10	37611.20	508.79	5714.45	-60.56
N = 5	$\sum X = 159483.75$	$\sum Y = 2846.77$		

X^2	y^2	xy
40515261.83	12519.37	712197.75
9460484.12	6010.90	238466.00
885386.90	4424.91	62591.99
7759288.80	33664.91	511092.71
32654938.80	3667.51	-346067.09
$\sum X^2 = 91275360.46$	$\sum y^2 = 60287.61$	$\sum xy = 1178281.37$

$$\bar{x} = \frac{\sum X}{N} = \frac{159483.75}{5} = 31896.75$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{4846.77}{5} = 569.35$$

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

$$= \frac{1178281.37}{\sqrt{91275360.46} \times \sqrt{60287.61}} = \frac{1178281.37}{23455842.51} = 0.50$$

Calculation of Probable error

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

$$= \frac{0.6745 \times [1 - (0.50)^2]}{\sqrt{5}} = \frac{0.6745 \times 0.75}{2.236} = 0.226$$

$$6 P. Er = 6 \times 0.226 = 1.356$$

Annex 21

Correlation between Deposit and Net Profit of EBL

F/Y	Total Deposit (X)	Net Profit (Y)	$x = x - \bar{x}$	$y = Y - \bar{y}$
2005/06	13802.44	237.29	-11441.61	-253.99
2006/07	18186.25	297.99	-7057.80	-193.87
2007/08	23976.29	451.22	-1267.76	-40.06
2008/09	33322.94	638.73	8078.89	147.45
2009/10	36932.31	831.76	11688.26	340.48
N = 5	$\Sigma X = 126220.23$	$\Sigma Y = 2456.99$		

X^2	y^2	Xy
130910439.39	64510.92	2906054.52
49812540.84	37585.58	1368295.69
1607215.42	1604.80	50786.47
65268463.63	21741.50	1191232.33
136615421.83	115926.63	3979618.76
ΣX^2 =384214081.11	Σy^2 =241369.43	Σxy = 9495987.77

$$\bar{x} = \frac{\Sigma X}{N} = \frac{126220.23}{5} = 25244.05$$

$$\bar{y} = \frac{\Sigma Y}{N} = \frac{2456.99}{5} = 491.40$$

$$r = \frac{\Sigma XY}{\sqrt{\Sigma X^2} \sqrt{\Sigma Y^2}}$$

$$= \frac{9495987.77}{\sqrt{384214081.11} \times \sqrt{241369.43}} = \frac{9495987.77}{9629961.98} = 0.99$$

Calculation of Probable error.

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

$$= \frac{0.6745 \times [1 - (0.99)^2]}{\sqrt{5}} = \frac{0.6745 \times 0.0199}{2.236} = 0.006$$

$$6 P. Er = 6 \times 0.006 = 0.036$$

Annex-22

Correlation between Deposit and Net Profit of HBL

F/Y	Total Outside Assets (X)	Net Profit (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$
2005/06	26490.85	457.46	-5644.26	-111.89
2006/07	30048.42	491.82	-2086.70	-77.53
2007/08	31842.78	635.87	-292.33	66.52
2008/09	34682.31	752.83	2547.20	183.48
2009/10	37611.20	508.79	5476.09	-60.56
N = 5	$\sum X = 160675.56$	$\sum Y = 2846.77$		

x^2	y^2	xy
31857670.95	12519.37	631536.25
4354316.89	6010.90	161781.85
85456.83	4424.91	-19445.79
6488227.84	33664.91	467360.26
29987561.69	3667.51	-331632.01
$\sum X^2 = 72773234.19$	$\sum y^2 = 60287.61$	$\sum xy = 909600.56$

$$\bar{X} = \frac{\sum X}{N} = \frac{160675.56}{5} = 32135.11$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{2846.77}{5} = 569.35$$

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

$$= \frac{909600.56}{\sqrt{72773234.19} \times \sqrt{60287.61}} = \frac{909600.56}{2091542.77} = 0.43$$

Calculation of Probable error

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

$$= \frac{0.6745 \times [1 - (0.43)^2]}{\sqrt{5}} = \frac{0.6745 \times 0.8151}{2.236} = 0.25$$

$$6 P. Er = 6 \times 0.25 = 1.5$$

Annex-23

Coefficient of Correlation between Deposit and interest earned of EBL.

F/Y	Total Deposit (X)	Interest earned (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$
2005/06	13802.44	903.41	-11441.61	-873.74
2006/07	18186.25	1144.41	-7057.80	-632.74
2007/08	23976.29	1548.65	-1267.76	-228.50
2008/09	33322.94	2186.81	8078.89	409.66
2009/10	36932.31	3102.45	11688.26	1325.30
N = 5	$\Sigma X = 126220.23$	$\Sigma Y = 8885.73$		

x^2	y^2	xy
130910439.39	763421.59	9996992.32
49812540.84	400359.91	4465752.37
1607215.42	52212.25	289683.16
65268463.63	167821.32	3309598.08
136615421.83	1756420.09	15490450.98
ΣX^2 =384214081.11	Σy^2 =3140235.15	Σxy =33552476.91

$$\bar{X} = \frac{\Sigma X}{N} = \frac{126220.23}{5} = 25244.05$$

$$\bar{Y} = \frac{\Sigma Y}{N} = \frac{8885.73}{5} = 1777.15$$

$$r = \frac{\Sigma XY}{\sqrt{\Sigma X^2} \sqrt{\Sigma Y^2}}$$

$$= \frac{3352476.91}{\sqrt{384214081.11} \times \sqrt{3140235.15}} = \frac{3352476.91}{3735017.46} = 0.96$$

Calculation of Probable error

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

$$= \frac{0.6745 \times [1 - (0.96)^2]}{\sqrt{5}} = \frac{0.6745 \times 0.0784}{2.236} = 0.024$$

$$6 P. Er = 6 \times 0.024 = 0.144$$

Annex-24

Coefficient of Correlation between Deposit and interest earned of HBL.

F/Y	Total Deposit (X)	Interest earned (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$
2005/06	26490.85	1626.44	-5644.26	-544.85
2006/07	30048.41	1775.58	-2086.70	-395.71
2007/08	31842.78	1963.64	-292.33	-207.65
2008/09	34682.31	2342.19	2547.20	170.90
2009/10	37611.2	3148.6	5476.09	977.31
N = 5	$\sum X = 160675.55$	$\sum Y = 10856.45$		

x^2	y^2	xy
31857670.95	296861.52	3075275.06
4354316.89	156586.40	825728.06
85456.83	43118.52	60702.32
6488227.84	29206.81	435316.48
29987561.69	955134.84	5351837.52
$\sum X^2$ =72773234.19	$\sum Y^2$ =1480908.10	$\sum xy$ =9748859.44

$$\bar{X} = \frac{\sum X}{N} = \frac{160675.55}{5} = 32135.11$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{10856.45}{5} = 2171.29$$

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

$$= \frac{9748859.44}{\sqrt{72773234.19} \times \sqrt{1480908.10}} = \frac{9748859.44}{10381264.75} = 0.94$$

Calculation of Probable error

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

$$= \frac{0.6745 \times [1 - (0.94)^2]}{\sqrt{5}} = \frac{0.6745 \times 0.1164}{2.236} = 0.035$$

$$6 P. Er = 6 \times 0.035 = 0.21$$

Annex 25
Correlation of Coefficient between Loan &
Advances and Interest Paid of EBL

F/Y	Loan & Advances (X)	Interest Paid (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$
2005/06	9801.31	401.39	-8847.79	-425.98
2006/07	13664.08	517.17	-4985.02	-310.20
2007/08	18339.08	632.61	-310.02	-194.76
2008/09	23884.67	1012.9	5235.57	185.53
2009/10	27556.35	1572.8	8907.25	745.43
N = 5	$\sum X = 93245.49$	$\sum Y = 4136.87$		

x^2	y^2	xy
78283387.88	181458.96	3768981.58
24850424.40	96224.04	1546353.20
96112.40	37931.46	60379.50
27411193.22	34421.38	971355.30
79339102.56	555665.88	6639731.37
$\sum X^2$ =209980220.47	$\sum Y^2$ =905701.72	$\sum xy$ =12986800.95

$$\bar{X} = \frac{\sum X}{N} = \frac{93245.49}{5} = 18649.10$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{4136.87}{5} = 827.37$$

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

$$\frac{12986800.95}{\sqrt{209980220.47} \times \sqrt{905701.72}} = \frac{12986800.95}{13790499.86} = 0.94$$

Calculation of Probable error

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

$$= \frac{0.6745 \times [1 - (0.94)^2]}{\sqrt{5}} = \frac{0.6745 \times 0.1164}{2.236} = 0.035$$

$$6 P. Er = 6 \times 0.035 = 0.21$$

Annex 26

Correlation of Coefficient between Loan & Advances and Interest Paid of EBL

F/Y	Loan & Advances (X)	Interest Paid (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$
2005/06	14642.56	648.84	-6139.81	-296.82
2006/07	16997.99	767.41	-3784.38	-178.25
2007/08	19497.52	823.74	-1284.85	-121.92
2008/09	24793.15	934.77	4010.78	-10.89
2009/10	27980.62	1553.53	7198.25	607.87
N = 5	$\Sigma X = 103911.84$	$\Sigma Y = 4728.29$		

x^2	y^2	xy
37697266.84	88102.11	1822418.40
14321531.98	31773.06	674565.74
1650839.52	14864.49	156648.91
16086356.21	118.59	-43677.39
51814803.06	369505.94	4375600.23
ΣX^2 =121570797.61	ΣY^2 =504364.19	Σxy =6985555.88

$$\bar{X} = \frac{\Sigma X}{N} = \frac{103911.84}{5} = 20782.37$$

$$\bar{Y} = \frac{\Sigma Y}{N} = \frac{4728.29}{5} = 945.66$$

$$r = \frac{\Sigma XY}{\sqrt{\Sigma X^2} \sqrt{\Sigma Y^2}}$$

$$= \frac{6985555.88}{\sqrt{121570797.61} \times \sqrt{504364.19}} = \frac{6985555.88}{7830380.76} = 0.89$$

Calculation of Probable error

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

$$= \frac{0.6745 \times [1 - (0.89)^2]}{\sqrt{5}} = \frac{0.6745 \times 0.2079}{2.236} = 0.06$$

$$6 P. Er = 6 \times 0.06 = 0.36$$

Annex 27

Correlation between Total Working Fund and Net Profit of EBL

F/Y	Total Working Fund (X)	Net Profit (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$
2005/06	15959.28	237.29	-12608.88	-254.11
2006/07	21432.57	297.99	-7135.59	-193.41
2007/08	27149.34	451.22	-1418.82	-40.18
2008/09	36916.85	638.73	8348.69	147.33
2009/10	41382.76	831.76	12814.60	340.36
N = 5	$\sum X = 142840.80$	$\sum Y = 2456.99$		

x^2	y^2	xy
158983854.85	64571.89	3204042.50
50916644.65	37407.43	1380094.46
2013050.19	1614.43	57008.19
69700624.72	21706.13	1230012.50
164213973.16	115844.93	4361577.26
$\sum X^2 = 445828147.57$	$\sum y^2 = 241144.81$	$\sum xy = 10232734.90$

$$\bar{x} = \frac{\sum X}{N} = \frac{142840.80}{5} = 28568.16$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{2456.99}{5} = 491.40$$

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

$$= \frac{10232734.90}{\sqrt{445828147.57} \times \sqrt{241144.81}} = \frac{10232734.90}{10368661.63} = 0.99$$

Calculation of Probable error

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

$$= \frac{0.6745 \times [1 - (0.99)^2]}{\sqrt{5}} = \frac{0.6745 \times 0.0199}{2.236}$$

$$= 0.006$$

$$6 P. Er = 6 \times 0.006 = 0.036$$

Annex 28

Correlation between Total Working Fund and Net Profit of HBL

F/Y	Total Working Fund (X)	Net Profit (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$
2005/06	29460.39	457.46	-6780.07	-111.89
2006/07	33519.14	491.82	-2721.32	-77.53
2007/08	36175.53	635.87	-64.93	66.52
2008/09	39330.13	752.83	3089.67	183.48
2009/10	42717.12	508.79	6476.66	-60.56
N = 5	$\sum X = 181202.31$	$\sum Y = 2846.77$		

x^2	y^2	xy
45969349.20	12519.37	758622.03
7405582.54	6010.90	210983.94
4215.90	4424.91	-4319.14
9546060.71	33664.91	566892.65
41947124.76	3667.51	-392226.53
$\sum X^2 = 104872333.12$	$\sum y^2 = 60287.61$	$\sum xy = 1139952.95$

$$\bar{X} = \frac{\sum X}{N} = \frac{181202.31}{5} = 36240.46$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{2846.77}{5} = 569.35$$

$$r = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

$$= \frac{1139952.95}{\sqrt{104872233.1} \times \sqrt{60287.60}} = \frac{1139952.95}{2514506.39} = 0.45$$

Calculation of Probable error

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

$$= \frac{0.6745 \times [1 - (0.45)^2]}{\sqrt{5}} = \frac{0.6745 \times 0.7975}{2.236} = 0.24$$

$$6 P. Er = 6 \times 0.24 = 1.44$$

Annex 29

Trend Analysis of Deposit of EBL

Let 2005/06 = 2006 and so on.

F/Y(T)	Total Deposit (Y)	X = T-2008	x ²	xy
2005/06	13802.44	-2	4	-27604.88
2006/07	18186.25	-1	1	-18186.25
2007/08	23976.29	0	0	0.00
2008/09	33322.95	1	1	33322.95
2009/10	36932.31	2	4	73864.62
N = 5	ΣY=126220.24		ΣX ² =10	Σ xy = 61396.44

$$a = \frac{\sum y}{N} = \frac{126220.44}{5}$$

$$= 25244.08$$

$$b = \frac{\sum xy}{\sum x^2}$$

$$= \frac{61396.44}{10}$$

$$= 6139.64$$

Trend value of Deposit of EBL

F/Y(T)	X = T-2008	y = a+bx
2005/06	-2	12964.80
2006/07	-1	19104.44
2007/08	0	25244.08
2008/09	1	31383.72
2009/10	2	37523.36
2010/11	3	43663.00
2011/12	4	49802.64
2012/13	5	55942.28
2013/14	6	62081.92
2014/15	7	68221.56

Annex - 30

Trend Analysis of HBL

F/Y(T)	Total Deposit (Y)	X = T-2008	x ²	xy
2005/06	26490.85	-2	4	-52981.70
2006/07	30048.42	-1	1	-30048.42
2007/08	31842.78	0	0	0.00
2008/09	34682.31	1	1	34682.31
2009/10	37611.20	2	4	75222.40
N = 5	ΣY=160675.56		ΣX ² =10	Σ xy = 26874.59

$$a = \frac{\sum Y}{N} = \frac{160675.56}{5}$$

$$= 32135.11$$

$$b = \frac{\sum xy}{\sum x^2}$$

$$= \frac{26874.59}{10}$$

$$= 2687.45$$

Trend Value of Deposit of HBL

F/Y(T)	X = T-2008	y = a+bx
2005/06	-2	26760.21
2006/07	-1	29447.66
2007/08	0	32135.11
2008/09	1	34822.56
2009/10	2	37510.01
2010/11	3	40197.46
2011/12	4	42884.91
2012/13	5	45572.36
2013/14	6	48259.81
2014/15	7	50947.26

Annex 31

Trend Analysis of Loan and Advances of EBL

F/Y(T)	Loan and Advance (Y)	X = T-2008	x ²	xy
2005/06	9801.31	-2	4	-19602.62
2006/07	13664.08	-1	1	-13664.08
2007/08	18339.08	0	0	0.00
2008/09	23884.67	1	1	23884.67
2009/10	27556.35	2	4	55112.70
N = 5	ΣY= 93245.49		ΣX ² =10	Σ xy =45730.67

$$a = \frac{\sum Y}{N} = \frac{93245.49}{5}$$

$$= 18649.09$$

$$b = \frac{\sum xy}{\sum x^2}$$

$$= \frac{45730.06}{10}$$

$$= 4573.06$$

F/Y(T)	x = T-2008	y = a+bx
2005/06	-2	9502.97
2006/07	-1	14076.03
2007/08	0	18649.09
2008/09	1	23222.15
2009/10	2	27795.21
2010/11	3	32368.27
2011/12	4	36941.33
2012/13	5	41514.39
2013/14	6	46087.45
2014/15	7	50660.51

Annex 32

Trend Analysis of Loan and Advances of HBL

F/Y(T)	Loan and Advance (Y)	X = T-2008	x ²	xy
2005/06	14642.56	-2	4	-29285.12
2006/07	16997.99	-1	1	-16997.99
2007/08	19497.52	0	0	0.00
2008/09	24793.15	1	1	24793.15
2009/10	27980.62	2	4	55961.24
N = 5	ΣY= 103911.84		ΣX ² =10	Σ xy = 34471.28

$$a = \frac{\sum y}{N} = \frac{103911.84}{5}$$

$$= 20782.36$$

$$b = \frac{\sum xy}{\sum x^2}$$

$$= \frac{34471.28}{10}$$

$$= 3447.12$$

F/Y(T)	x = T-2008	y = a+bx
2005/06	-2	13888.12
2006/07	-1	17335.24
2007/08	0	20782.36
2008/09	1	24229.48
2009/10	2	27676.60
2010/11	3	31123.72
2011/12	4	34570.84
2012/13	5	38017.96
2013/14	6	41465.08
2014/15	7	44912.20

Annex-33

Trend Analysis of Total Investment of EBL

F/Y(T)	Total Investment (Y)	x = T-2008	x ²	xy
2005/06	4200.52	-2	4	-8401.04
2006/07	4984.31	-1	1	-4984.31
2007/08	5059.56	0	0	0.00
2008/09	5948.48	1	1	5948.48
2009/10	5008.3	2	4	10016.60
N = 5	ΣY= 25201.17		ΣX ² =10	Σ xy = 2579.73

$$a = \frac{\sum y}{N} = \frac{25201.17}{5}$$

$$= 5040.23$$

$$b = \frac{\sum xy}{\sum x^2}$$

$$= \frac{2579.73}{10}$$

$$= 257.97$$

F/Y(T)	x = T-2008	y = a+bx
2005/06	-2	4524.29
2006/07	-1	4782.26
2007/08	0	5040.23
2008/09	1	5298.20
2009/10	2	5556.17
2010/11	3	5814.14
2011/12	4	6072.11
2012/13	5	6330.08
2013/14	6	6588.05
2014/15	7	6846.02

Annex 34

Trend Analysis of Total Investment of HBL

F/Y(T)	Total Investment (Y)	x = T- 2008	x ²	xy
2005/06	10889.03	-2	4	-21778.06
2006/07	11822.98	-1	1	-11822.98
2007/08	13340.17	0	0	0.00
2008/09	8710.69	1	1	8710.69
2009/10	8444.91	2	4	16889.82
N = 5	ΣY= 53207.78		ΣX ² =10	Σ xy = -8000.53

$$a = \frac{\sum Y}{N} = \frac{53207.78}{5}$$

$$= 10641.55$$

$$b = \frac{\sum xy}{\sum x^2}$$

$$= \frac{-8000.53}{10}$$

$$= -800.05$$

F/Y(T)	x = T-2008	y = a+bx
2005/06	-2	12241.65
2006/07	-1	11441.60
2007/08	0	10641.55
2008/09	1	9841.50
2009/10	2	9041.45
2010/11	3	8241.40
2011/12	4	7441.35
2012/13	5	6641.30
2013/14	6	5841.25
2014/15	7	5041.20

Annex 35

Trend Analysis of Net Profit of EBL

F/Y(T)	Net Profit (Y)	x = T-2008	x ²	xy
2005/06	237.29	-2	4	-474.58
2006/07	297.99	-1	1	-297.99
2007/08	451.22	0	0	0.00
2008/09	638.73	1	1	638.73
2009/10	831.76	2	4	1663.52
N = 5	ΣY= 2456.99		ΣX ² =10	Σ xy = 1529.68

$$a = \frac{\sum Y}{N} = \frac{2456.99}{5}$$

$$= 491.39$$

$$b = \frac{\sum xy}{\sum x^2}$$

$$= \frac{1529.68}{10}$$

$$= 152.96$$

F/Y(T)	x = T-2008	y = a+bx
2005/06	-2	185.47
2006/07	-1	338.43
2007/08	0	491.39
2008/09	1	644.35
2009/10	2	797.31
2010/11	3	950.27
2011/12	4	1103.23
2012/13	5	1256.19
2013/14	6	1409.15
2014/15	7	1562.11

Annex-36

Trend Analysis of Net Profit of HBL

F/Y(T)	Net Profit (Y)	x = T-2008	x ²	xy
2005/06	457.46	-2	4	-914.92
2006/07	491.82	-1	1	-491.82
2007/08	635.87	0	0	0.00
2008/09	752.83	1	1	752.83
2009/10	508.79	2	4	1017.58
N = 5	ΣY= 2846.77		ΣX ² =10	Σ xy = 363.67

$$a = \frac{\sum Y}{N} = \frac{2846.77}{5}$$

$$= 569.35$$

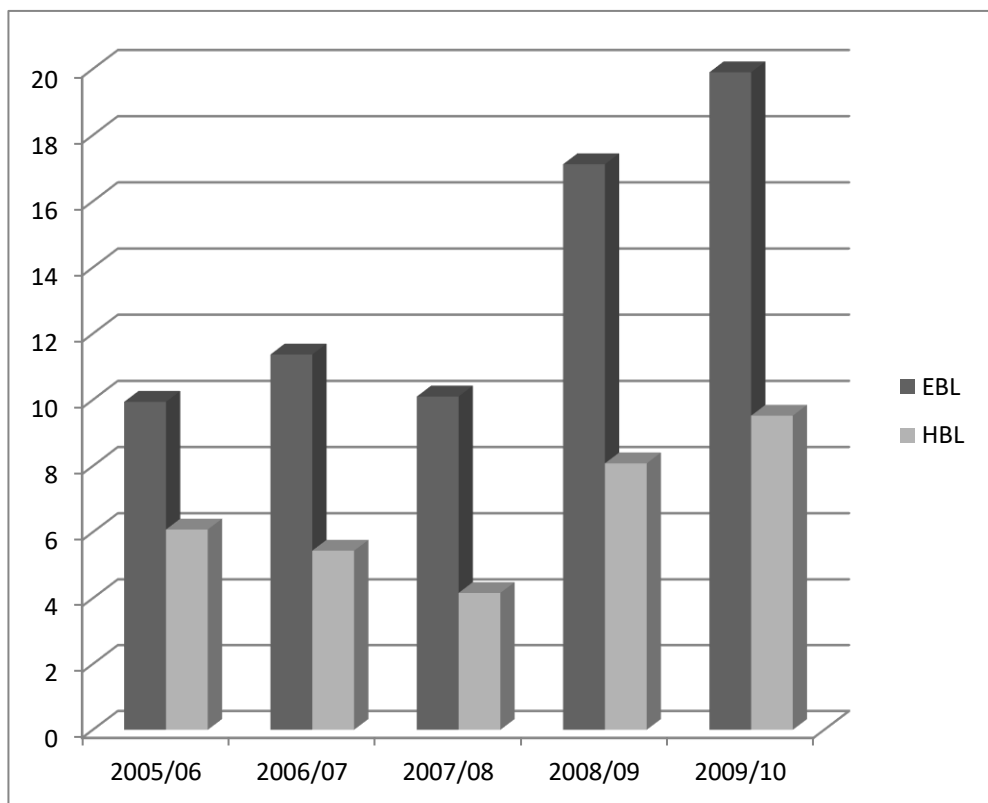
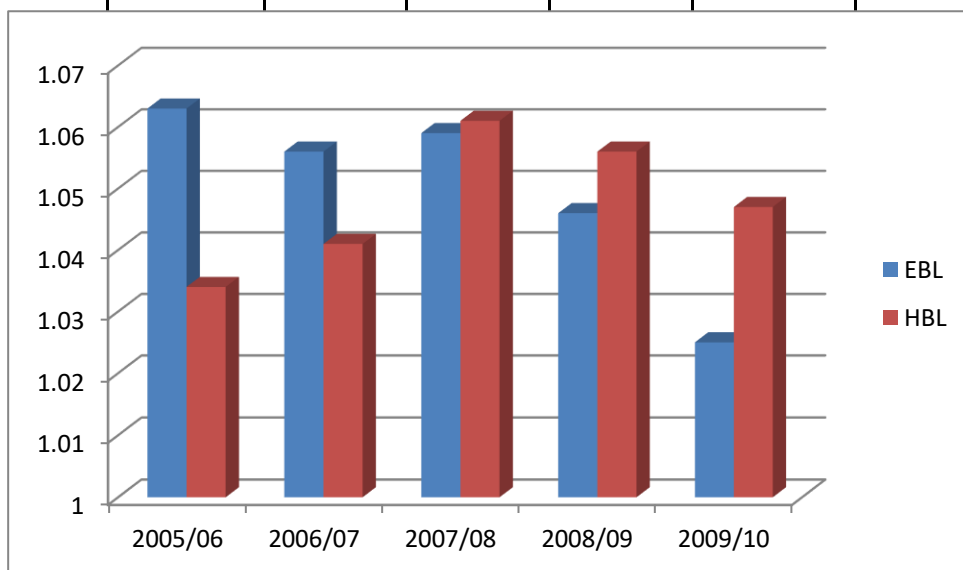
$$b = \frac{\sum xy}{\sum x^2}$$

$$= \frac{363.67}{10}$$

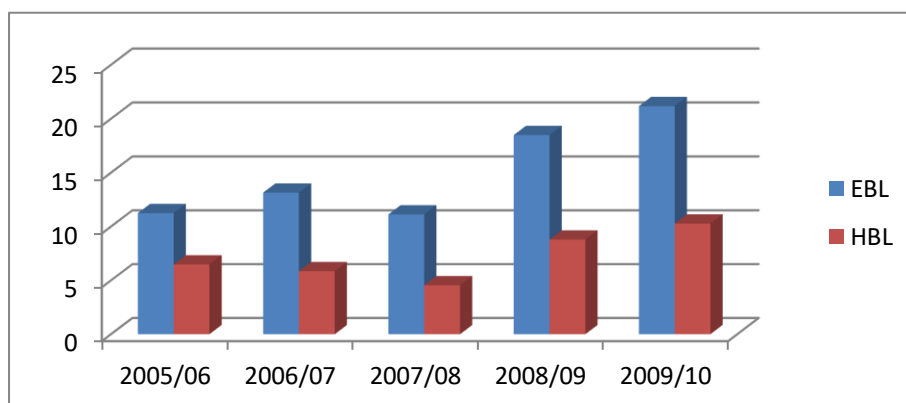
$$= 36.36$$

F/Y(T)	x = T-2008	y = a+bx
2005/06	-2	496.63
2006/07	-1	532.99
2007/08	0	569.35
2008/09	1	605.71
2009/10	2	642.07
2010/11	3	678.43
2011/12	4	714.79
2012/13	5	751.15
2013/14	6	787.51
2014/15	7	823.87

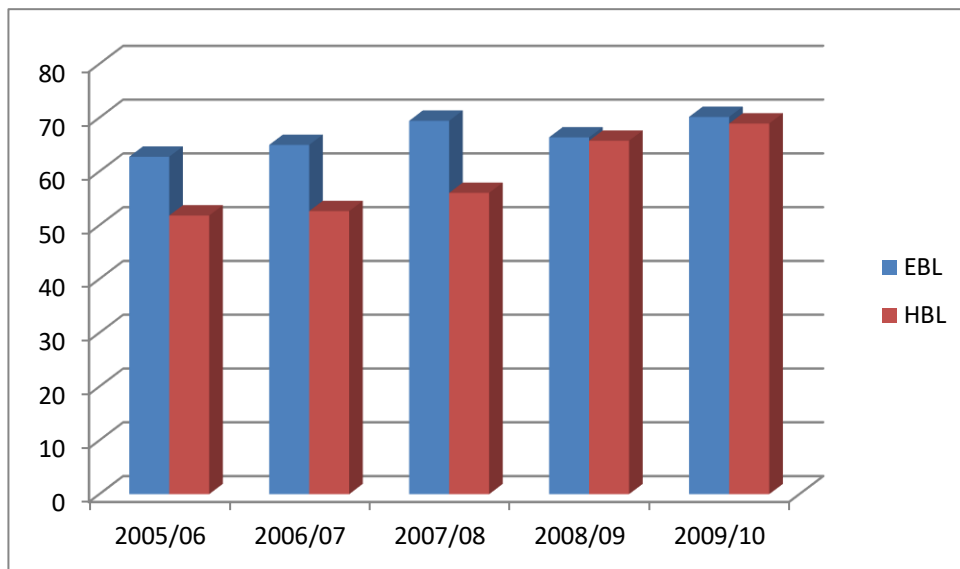
Banks	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10



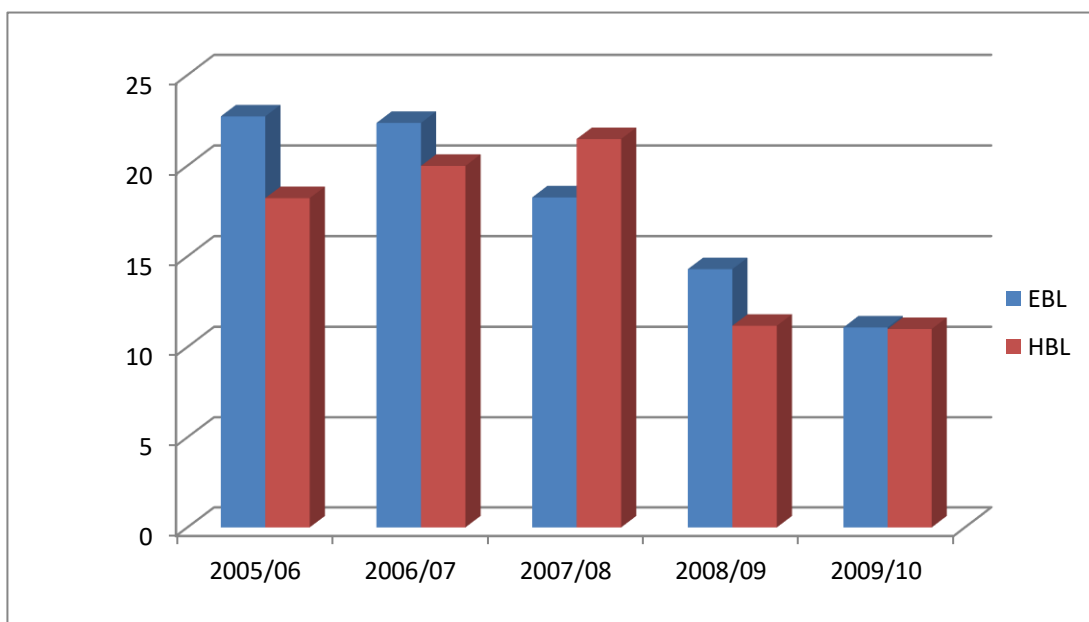
Banks	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
EBL	11.25	13.15	11.13	18.49	21.17
HBL	6.48	5.85	4.55	8.79	10.28



Banks	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
EBL	62.74	64.94	69.43	66.35	70.15
HBL	51.82	52.64	56.02	65.72	68.92



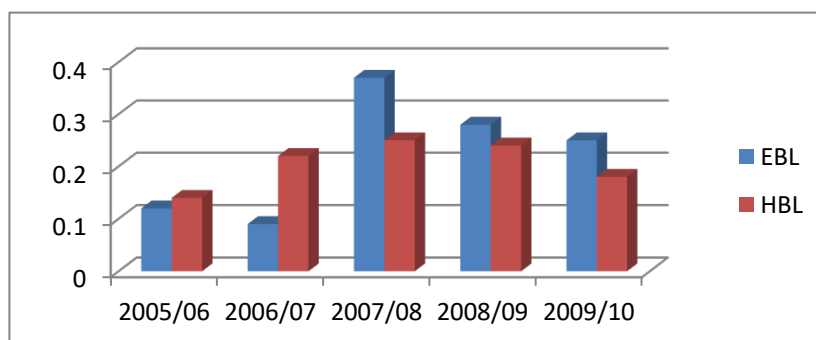
Banks	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
EBL	22.72	22.36	18.25	14.29	11.08
HBL	18.21	19.99	21.47	11.17	10.99



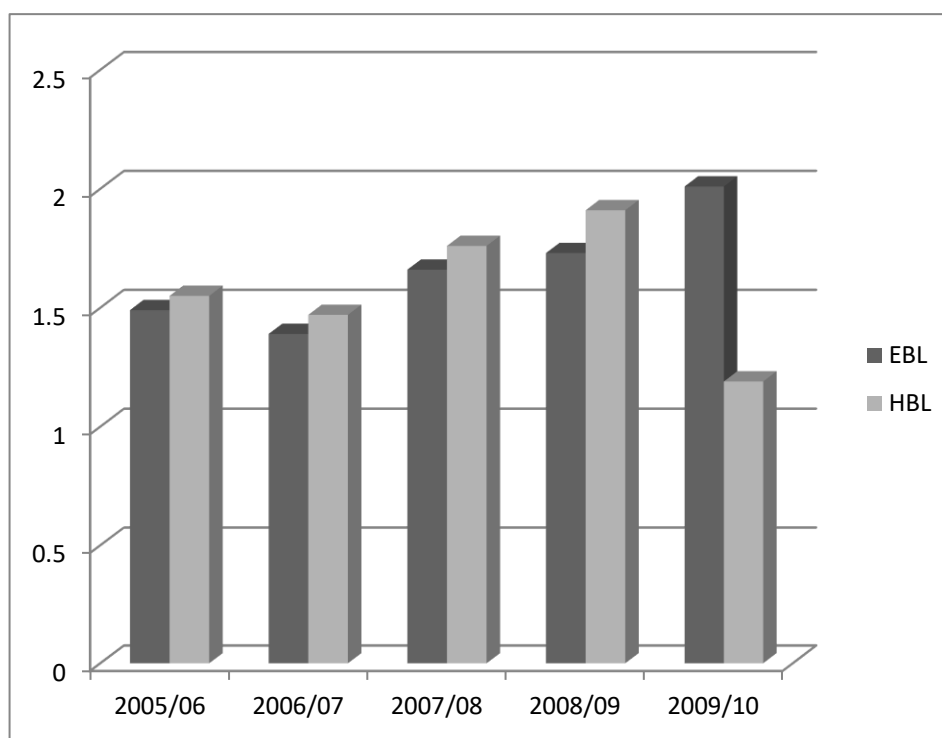
	Fiscal Year				
Banks	2005/06	2006/07	2007/08	2008/09	2009/10
EBL	30.43	27.41	21.1	17.85	13.56
HBL	41.1	39.35	41.89	25.12	22.45

	Fiscal Year				
Banks	2005/06	2006/07	2007/08	2008/09	2009/10
EBL	22.24	21.95	17.76	13.94	10.52
HBL	17.64	19.26	20.65	10.71	10.45

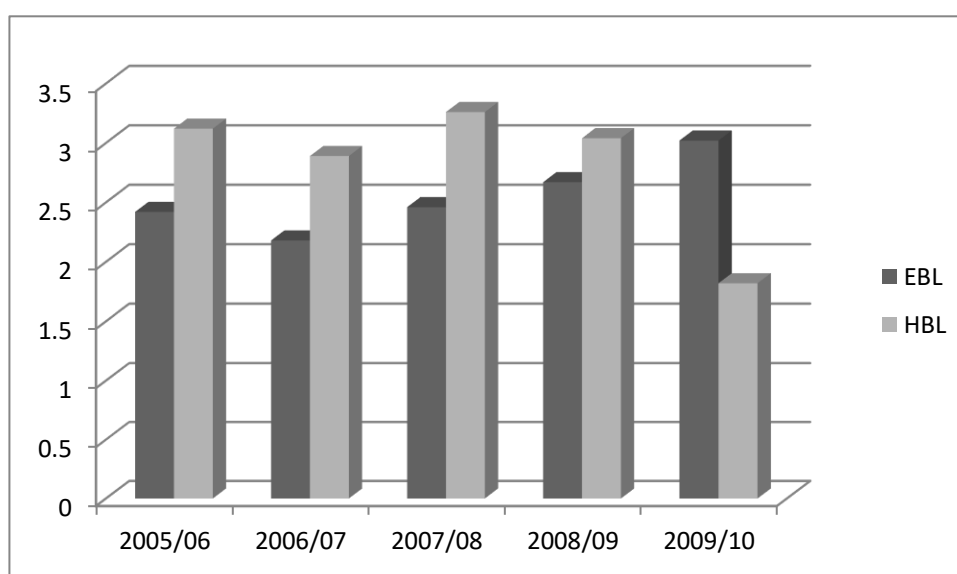
Banks	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
EBL	0.12	0.09	0.37	0.28	0.25
HBL	0.14	0.22	0.25	0.24	0.18



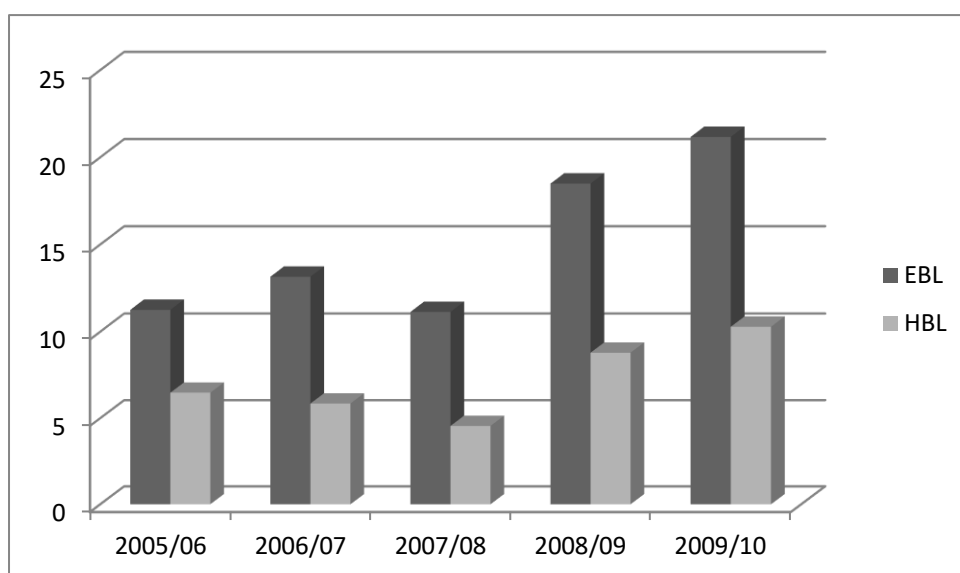
Fiscal Year				
2005/06	2006/07	2007/08	2008/09	2009/10
1.49	1.39	1.66	1.73	2.01
1.55	1.47	1.76	1.91	1.19



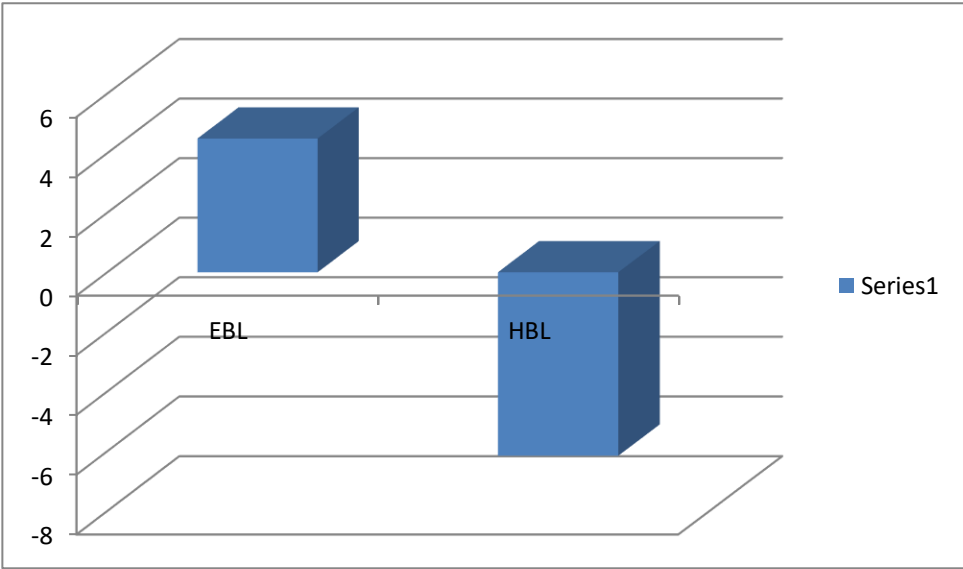
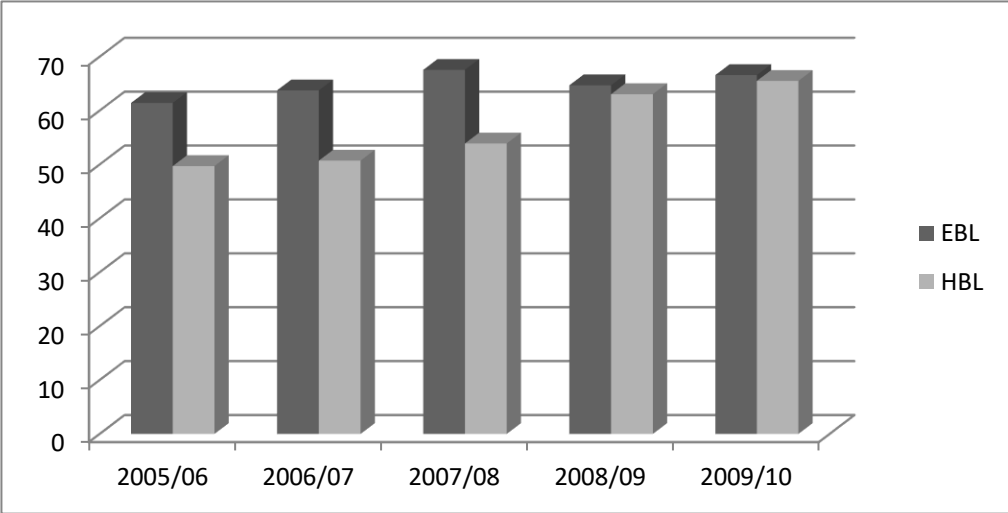
Fiscal Year				
2005/06	2006/07	2007/08	2008/09	2009/10
2.42	2.18	2.46	2.67	3.02
3.12	2.89	3.26	3.04	1.82



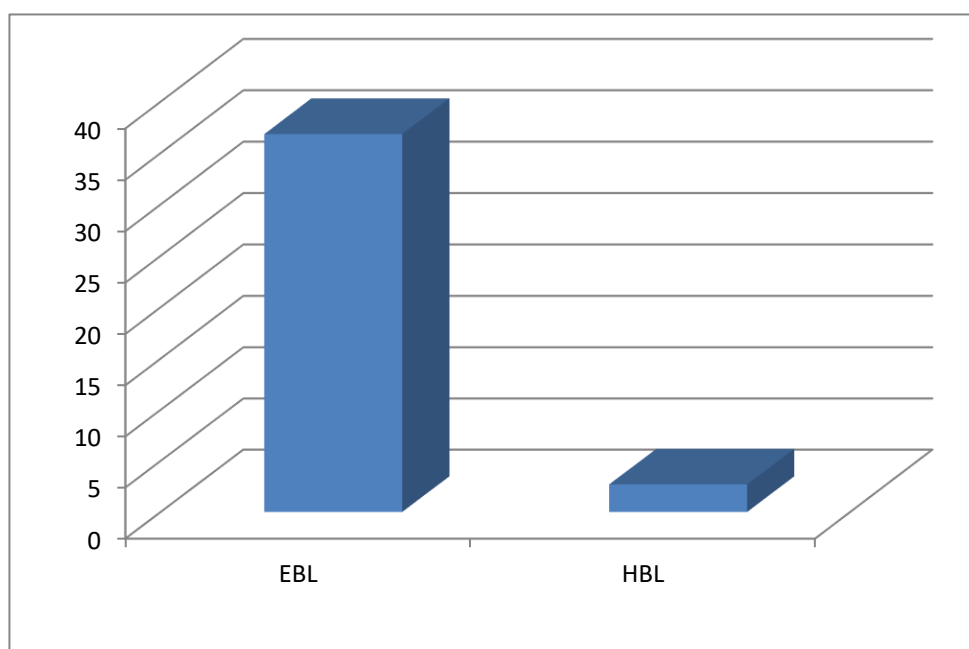
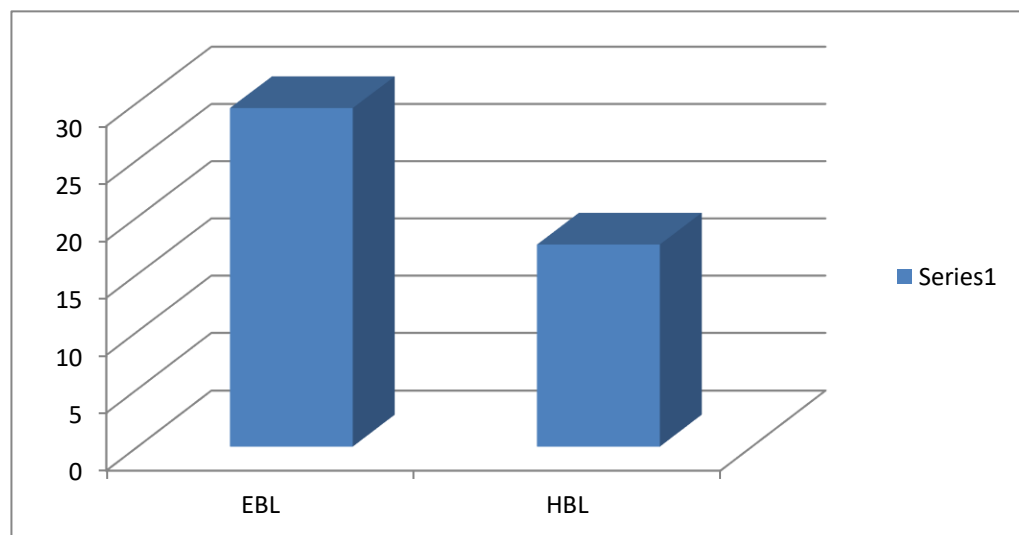
Banks	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
EBL	11.25	13.15	11.13	18.49	21.17
HBL	6.48	5.85	4.55	8.79	10.28



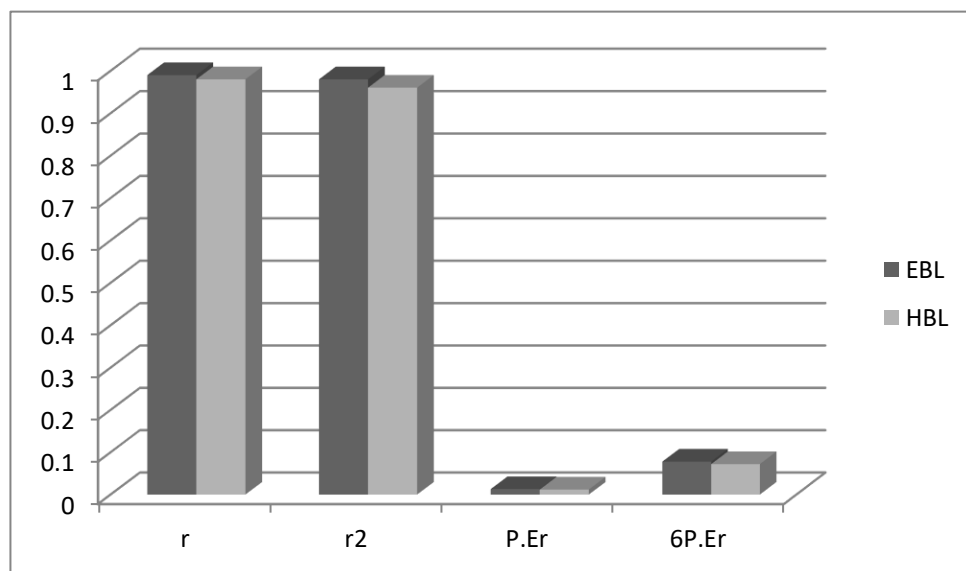
Banks	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
EBL	61.41	63.75	67.55	64.69	66.59
HBL	49.7	50.71	53.89	63.04	65.5



Banks	Fiscal Year				
EBL	4.49				
HBL	-6.15				

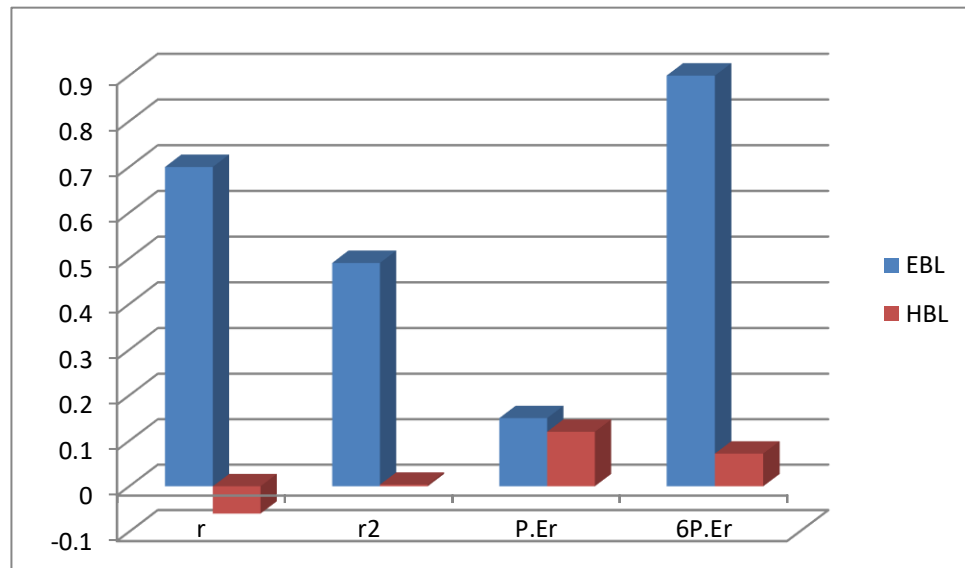


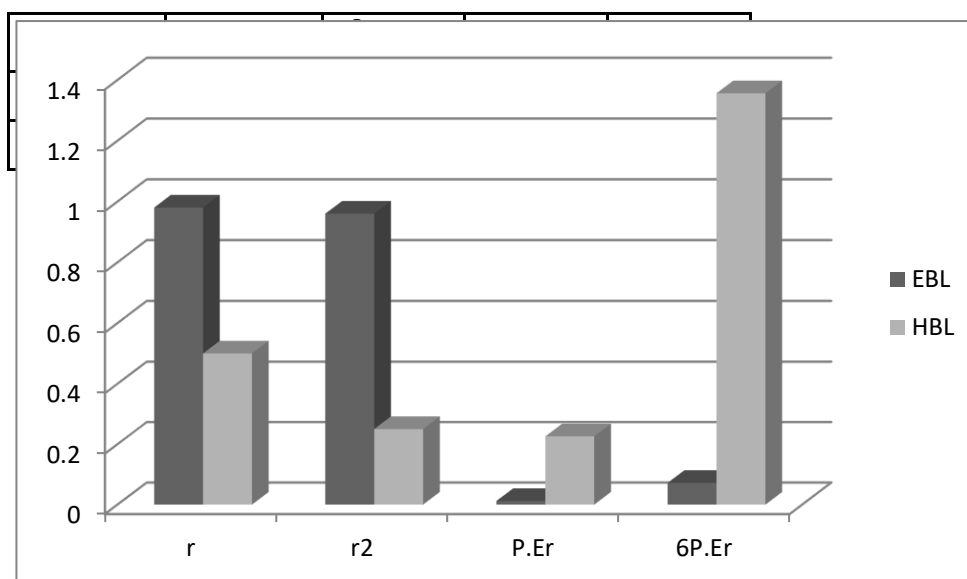
Banks	Fiscal Year					Growth
EBL	36.83					
HBL	2.69					



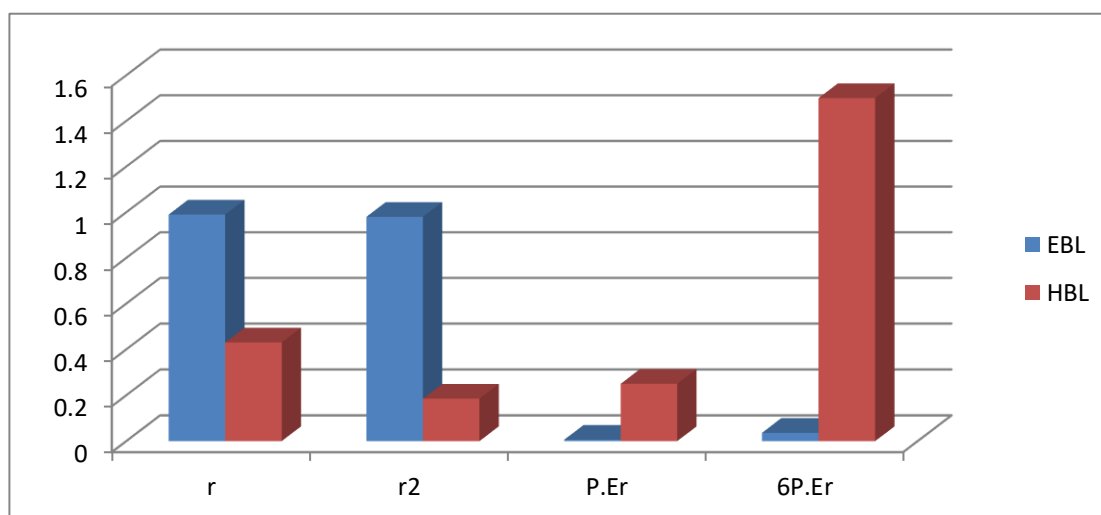
Banks	r	r^2	P.Er	6P.Er
EBL	0.99	0.9801	0.013	0.078
HBL	0.98	0.9604	0.012	0.072

Banks	r	r²	P.Er	6P.Er
EBL	0.7	0.49	0.15	0.9
HBL	-0.06	0.0036	0.12	0.072

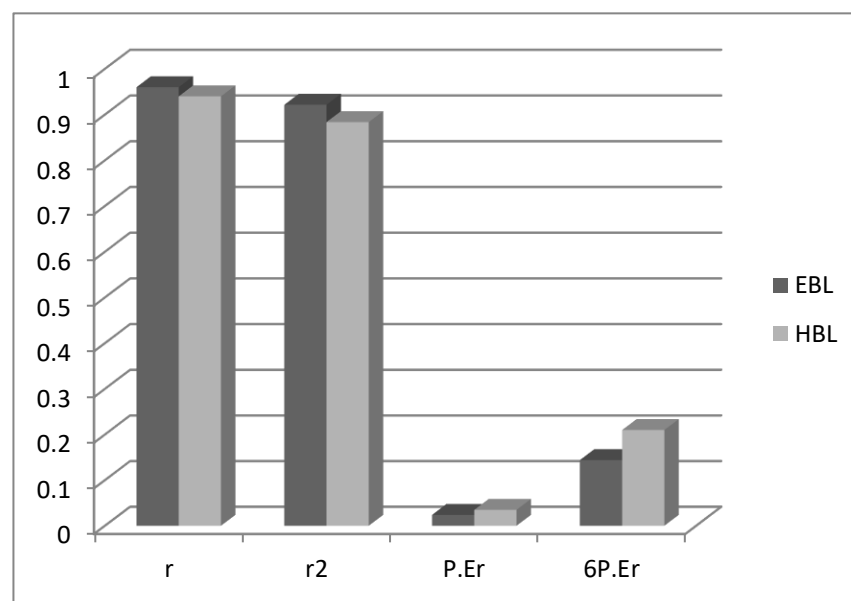


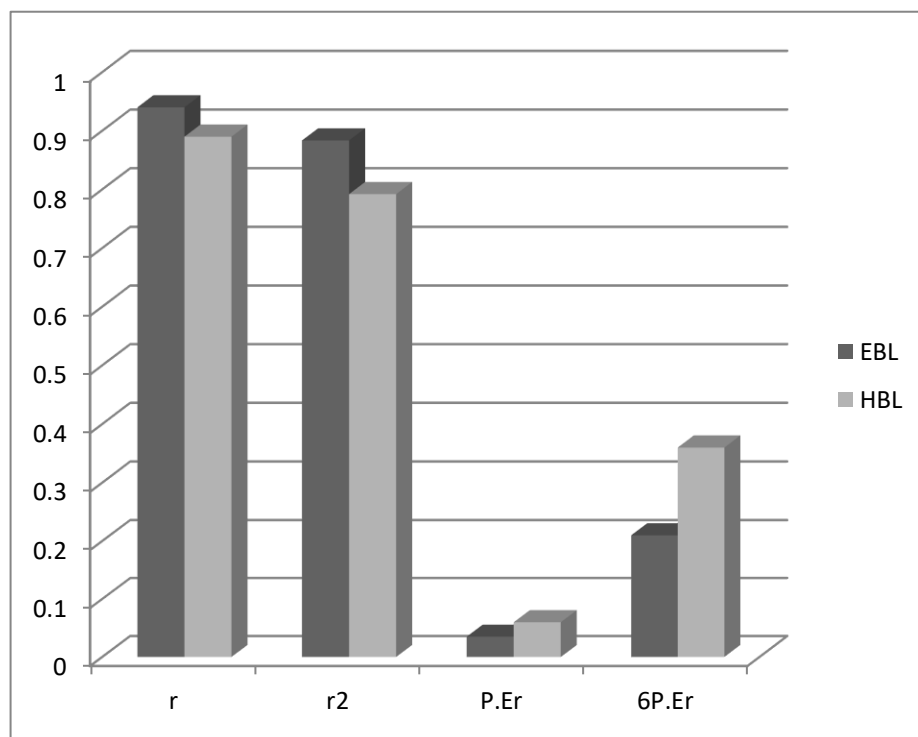


Banks	r	r ²	P.Er	6P.Er
EBL	0.99	0.98	0.006	0.036
HBL	0.43	0.1849	0.25	1.5



Banks	r	r ²	P.Er	6P.Er	Remarks
EBL	0.96	0.9216	0.024	0.144	r>6P.Er
HBL	0.94	0.8836	0.035	0.21	r>6P.Er





Banks	r	r ²	P.Er	6P.Er
EBL	0.94	0.8836	0.035	0.21
HBL	0.89	0.7921	0.06	0.36

Banks		r^2	P.Er	6P.Er
	r			
EBL	0.99	0.9801	0.006	0.036
HBL	0.45	0.2025	0.24	1.44

