

**A STUDY ON
ASSETS AND LIABILITIES MANAGEMENT OF
JOINT VENTURE BANKS IN NEPAL**

A THESIS

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DECLARATION

I hereby declare that the work reported in this thesis entitled “**A Study on Assets and Liabilities Management of Joint Venture Banks in Nepal**” Submitted to the Nepal Commerce Campus, Faculty of Management, Tribhuvan University is my work, which is prepared as the partial fulfillment of the requirement of the Degree of Master of Business Studies (MBS) under the Supervision of **Keshab Nath Wagle**.

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ABBREVIATIONS USED

AMC	:	Assets Management Company
EBL	:	Everest Bank Ltd.
FY	:	Fiscal Year
Govt.	:	Government
HBL	:	Himalayan Bank Ltd.
L/C	:	Letter of Credit
NABIL	:	Nepal Arab Bank Limited
NBBL	:	Nepal Bangladesh Bank Ltd.
NBL	:	Nepal Bank Limited
NCC	:	Nepal Credit and Commerce Bank
NPLs	:	Non-performing Loans
NRB	:	Nepal Rastra Bank
PNB	:	Punjab National Bank of India
RBB	:	Rastriya Banijya Bank
RDB	:	Rural Development Banks

Chapter-1

INTRODUCTION

1.1 General Background

Banks are among the most important financial institution in the economy. They are the principal source of credit for million of individual and families and for many units of government (Schools, districts, cities etc.). Moreover, for small local businesses ranging from grocery stores to automobile dealers, banks are often the major sources of credit to stock the shelves with merchandise or to fill a dealer's showroom with new cars. When businesses and consumers must make payments for purchase of goods and services, more often than not they use bank-provided checks, credit or debit cards or electronic accounts connected to a computer network. And when they need financial information and financial planning, it is the banker to whom they turn most frequently for advice and counsel.

Worldwide, Banks grant more installment loans to consumer than any other financial intuition. In most years, they are among the leading buyers of bond and notes issued by government to finance public facilities, ranging from auditorium and football stadiums to airport and highway. Banks are among the most important source of short term working capital for businesses and have become increasingly active in recent years in making long term business loans for new plant and equipment. The assets held by U.S. Banks represent about one-third of the total assets and a roughly equal proportion of the earnings of all U.S.-based financial institutions. In other countries, such as Japan, banks hold the majority of assets possessed by all financial institutions. Moreover, bank reserves are the principal channel for government economic policy to

stabilize the economy. For all these reasons and more, banks are one of the most important of society's institutions for us to study and understand.

Nepal, being a developing country is carrying to embark upon the path of economic development by economic growth rate. Even though the process of economic development depends upon various factors, however, economists are now convinced the capital formation and its proper utilization plays a paramount role.

1.1.1 Evolution of Banking Industry

The banking industry had started a long time back, during ancient times. There was reference of the activities of moneychangers in the temple of Jerusalem in the New Testament. In ancient Greece the famous temples of Delphi and Olympia served as the great depositories for people's surplus funds and these were the centers of money lending transactions. Indeed the traces of "rudimentary banking" were found in the Chaldean, Egyptian and Phoenician history. The Development of banking in ancient Rome roughly followed the Greek pattern. Banking suffered oblivion after the fall of the Roman Empire after the death of Emperor Justinian in 565 AD, and it was not until the revival of trade and commerce in the Middle Ages that the lessons of finance were learnt anew from the beginning. Money lending in the Middle Ages was, however, largely confined to the Jews since the Christians were forbidden by the Canon law to indulge in the sinful act of lending money to others on interest. However, as the hold of the Church loosened with the development of trade and commerce about the thirteenth century Christians also took to the lucrative business of money-lending, thereby entering into keen competition with the Jews who had hitherto monopolized the business.

As a public enterprise, banking made its first beginning around the middle of the twelfth century in Italy and the Bank of Venice, founded in 1157 was the public banking institution. Following it were established the Bank of Barcelona and the Bank of Genoa in 1401 and 1407 respectively. The bank of Venice and the Genoa continued

to operate until the end of the eighteenth century. With the expansion of commercial activities in Northern Europe there sprang up a number of private banking houses in Europe and slowly it spread throughout the world. In Nepal, Modern banking starts from the establishment of Nepal Bank Ltd.

Earlier banks were different from modern commercial banks in many aspects. The banks, which operated in the past, combined central banking functions such as issue of currency, with commercial banking operations like accepting deposits and financing business. In course of time this practice was abandoned and specialized institutions for the central banking functions were created. Now, a central bank can be easily distinguished from a commercial bank due to their objectives and unique functions.

As the commercial bank grew, they stopped entertaining small projects. Thus, a scope for opening finance companies emerged in 1992 A.D. The first break came in the month of July of that year, when first company Nepal Housing and Development Finance Company came. The second came in the January in 1993 A.D., Nepal Finance and Saving Company. And now they are altogether 79 finance companies operating in Nepal.

1.1.2 Banking Industry in Nepal

In the country, the development of banking is relatively recent. The record of banking system in Nepal gives detail account of mixture of slow and steady evolution in the financial and global economy of Nepalese life. Involvement of landlords, rich merchants, shopkeepers and other individual moneylender has acted as fence to institutional credit in presence of unorganized money market.

Though establishment of banking industry was very recent, some crude bank operations were in practice even in the ancient times. In the Nepalese Chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shakhadhar, a Sudra merchant of Kantipur in 879 A.D. after having paid all the outstanding debts in the

country. This shows the basis of money lending practice in ancient Nepal. Towards the end of 8th century, Gunkam Dev had borrowed money to rebuild the Kathmandu Valley. In 11th century, during Malla regime there was an evidence of professional moneylenders and bankers. It is further believed that money-lending business, particularly for financing the foreign trade with Tibet, became quite popular during reign of Mallas. However, in the absence of any regulatory measures, the unscrupulous moneylenders were known to have charged exorbitant rates of interest and other extra dues of loans advanced.

In the year 1937 A.D., the establishment of NBL, with the Imperial Bank of India came into existence under "Nepal Bank Act, 1937" as the first commercial bank of Nepal, inaugurated by this Majesty king Tribhuwan on November 1937. Prior to the establishment of NBL, a Government financial institution called Tejarath operated in the country. Tejarath used to extend credit to the people but it did not accept deposits from them. It performed banking function partially. With the establishment of NBL, Tejarath was abolished and inconveniences caused by the absence of formal banking sector were finally removed.

The modern banking sector in Nepal Started with the establishment of Nepal Bank Limited. Today, we have 25 commercial banks in operation. The commercial banks of Nepal can be categorized into two types Public sector and Private sector.

The Nepal Bank Limited was incorporated in 1937 AD under the Nepal Bank Act of 1937 with an authorized capital of Rs. 10 million. It was established with 51% ownership of then His majesty's government and 49% of equity participation from private sector. Now government owns only 40% share with the suggestion of World Bank to transfer the ownership to the private sector for better functioning of financial sector. NBL had difficult responsibility of attracting peoples for toward banking sector from predominant sahu mahajan's transaction and of introducing other banking service as well. Being a commercial bank it was natural that Nepal Bank Limited paid more

attention to profit generating business but it is the duty of the government to look into neglected sector too.

Even after the establishment of NBL, there was no general banking legislation in Nepal up to 1964 and the Nepal Bank Act, 1937 itself required thorough revision to suit the changed circumstances. Hence, a new commercial bank act was enacted in 1964 and it replaced the Nepal Bank Act, 1937 in April 1965.

Since, the private sector did not take any initiative to establish another commercial bank. In 1956, the central bank of Nepal, *Nepal Rastra Bank* (NRB) was established by the government. Since, then the two national banks, Nepal Bank Ltd. and Nepal Rastra Bank, had then extended their area of operation to every nook and corner of the country under Banking Development Scheme. It has been functioning as the government's bank and contributed to the growth of financial sector. It was established with the purpose of developing banking system in the country to promote industry, trade and agriculture as well as to circulate Nepalese currency all over the country. Being the central bank, NRB had its own limitation and reluctance of NBL to go to the unprofitable sectors are not illogical. To cope with these difficulties government set up *Rastriya Banijya Bank* in 1965 A.D. as fully government owned commercial bank. Therefore, RBB is the largest commercial bank and plays a major role in the economy.

In the fiscal year 1982/83, new banking policy was introduced for the establishment of new banks by the joint investment of foreign nature. Its objective was to create healthy, competitive banking system to provide cheap banking facilities to the people and to meet the shortage of funds needed for investment in the development work.

With an objective to enhance efficiency, healthy competition and quality banking service by introduction of foreign investment and technology in banking sector. The banking sectors remained still for a long period time but as the time passed on many developments occurred. In the present scenario, Nepal's Banking System is evolving itself as a powerful instrument of planning and economic growth of all the developed

and underdeveloped sector. The scope and scale of banking too have undergone substantial change in response to the saving and credit needs of people.

1.1.3 Nepal's Financial System

	Organization	No. Of Institutions
1.	Central Bank	1
2.	Commercial Banks	25
3.	Finance Companies	79
4.	Development Banks	16
5.	Rural Development Banks (RDB)	12
6.	Micro Credit Development Banks	6
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1.2 Joint Venture Banks

In global perspectives, joint ventures are a mode of trading through partnership among nation and also a form of negotiation between various groups of industries and trader to achieve mutual exchange of goods and services for sharing comparative advantage.

A joint venture is defined as "The joining of force between two or more enterprises for the purpose of carrying out a specific operation (Industrial or commercial investment production or trade)²

A joint venture is an association of two or more person or parties having exceptional advantage in a specific operation undertaken to make the operation highly remunerative with their collective effort. In 1980s government introduced financial

1. Gorkha Patra 27 May, 2008.

2. Saran Shrestha, **Assets and Liabilities Management of joint venture banks in Nepal**. unpublished financial research.

sector reforms which facilitated the establishment of joint venture banks which gave a new horizon to the Nepalese banking sector.

1.2.1 Development of Joint Venture Banks in Nepal

In the fiscal year 1982/83, new banking policy was introduced for the establishment of new banks by the joint investment of foreign nature. Its objective was to create healthy, competitive banking system to provide cheap banking facilities to the people and to meet the shortage of funds needed for investment in the development work.

After the introduction of new banking policy, *Nepal Arab Bank* (NABIL) was established in 1984 A.D. with a paid up equity of Rs. 30 million. NABIL is the first joint venture bank in Nepal. It was established under the collaboration with Dubai Bank of United Arab Emirates. NABIL is the pioneer bank to introduce computerized banking system, to establish PC-LAN network with locally developed software packages and to adopt modern banking concepts such as scientific credit evaluation, investment on projects, co-financed loan etc.

The second joint venture bank was *Nepal Indosuez Bank Ltd.* It was established in 1985 A.D. under the collaboration with Indosuez bank of Paris. Currently, it is known as a *Nepal Investment Bank Ltd.* (NIBL) after fully owned by Nepalese investors. It was established with computerized programs and techniques to adopt modern banking concepts. Now, it is not a joint venture bank, but only a commercial bank.

Nepal Grindlays Bank Ltd. came into existence in 1987 A.D. as a joint venture between ANZ Grindlays and Nepal Bank Ltd. It started its business with Rs. 30 million paid up capital. After acquiring of the ANZ operation in the region by the Standard Chartered, it has become a subsidiary of SC Grindlays, which holds 50% of shareholdings in the bank. Now, from the date July 2001, it is named as *Standard Chartered Bank Nepal Ltd.* (SCBNL) after takeover by Standard Chartered.

Himalayan Bank Ltd. (HBL) is a joint venture with Habib Bank of Pakistan, started its operation in early 1993 A.D. with paid up capital of Rs. 60 million. Himalayan Bank was established under company act 1964 by the distinguished business personalities of Nepal in the Partnership with employees Provident Fund and Habib Bank Ltd., one of the largest commercial bank of Pakistan, It is the first commercial bank of Nepal with maximum share holding by the Nepalese sectors. Besides Commercial activities, the bank also offers Industrial and Merchant Banking Services. Himalayan Bank Ltd. has introduced Tele-Banking System and credit cards.

Nepal SBI Bank Ltd. is a joint venture between Employees Provident Fund and State Bank of India. Indian Bank holds 50% of the equity. Initial paid up capital was Rs. 119.95 Million in 1993 A.D.

Nepal Bangladesh Bank Ltd. (NBBL) was established in 1993 A.D. in technical collaboration with I.F.I.C. Bank Ltd. of Bangladesh. Now, this bank face some kind of problem.

Everest Bank Ltd. (EBL) started its operation in 1994 A.D. It entered into joint venture with Punjab National Bank of India (PNB) in January 1997 only. PNB holds 20% equity shares in the bank.

Bank of Kathmandu Ltd. was started as a Joint Venture with Syam Bank of Thailand during the year 1994.

Bank of Cylon is a joint venture with leading bank of Srilanka. Currently, it is known as *Nepal Credit and Commerce Bank* (NCCB) after it is fully owned by Nepalese investors.

List of Current Joint Venture Banks in Nepal

Joint Venture Banks	Established Date (B.S.)	Operation Date (B.S.)
Nepal Arab Bank	2041/03/29	2041/03/29

Standard Chartered Bank Nepal Ltd.	2043/10/16	2043/10/16
Himalayan Bank Ltd.	2049/10/05	2049/10/05
Nepal SBI Bank Ltd.	2050/03/23	2050/03/23
Nepal Bangladesh Bank Ltd.	2050/02/23	2050/02/23
Everest Bank Ltd.	2051/07/01	2051/07/01

Source : NRB Publication

1.2.2 Function of Joint Venture Banks

Joint Venture Banks play a major role in the proper functioning of an economy. These Banks

- Acts as an intermediary between the individuals who lend and who borrow.
- Accepts deposits and in turn lend it to people who are in need of financial resources.
- Makes the flow of investment easier.
- Issues bank guarantee on the behalf of its customers, have such customers execute necessary bonds in the consideration thereof, obtain security, and acquire their movable or immovable assets as collateral or on mortgage, or the assets of the third individual as the collateral.
- Remits or transmit amount to different to different places within or outside of the Kingdom of Nepal through bills of exchange, cheques, or hundis, arrange for the sales or purchases of the bullion, shares, debenture etc. of companies, and collects dividends accruing on shares of companies, and interest or promissory notes, debentures etc.
- Issue or endorses letter of credit, drafts and the traveler cheque.
- Issue, accept, redeem, discount, or deal in bills of exchange, promissory notes, cheques, drafts and hundis.

- Operates transactions in foreign exchange.
- Grant overdraft to the person trusted by the bank.
- Operates transaction in such bonds, promissory notes or bills of exchange relating to commerce or crops as are redeemable with in the Nepal.
- Operates transaction in bill of exchange regarding export commodities produced in the Kingdom of Nepal.
- To provide loans against the guarantee provided by any local or foreign banks or financial institutions trusted by the bank.

1.3 Liabilities and Assets Management

Total Assets

It is total Property of the bank. It includes all the cash and other bank balances, investments and other assets as land, building, furniture and stationery at hand. Its structure indicates how the resources of the bank are utilized.

Total Liabilities/Capital

It is total capital of the bank. It includes all the share capital, reserves generated by the bank, borrowings from other banks and institutions as well as all the deposits accepted by the bank from its customer and other liabilities accepted from customer.

Capital and assets structure management of commercial bank is the key to short the intermediate term decision-making in today's dynamic and volatile banking environment. Broadly defined capital and assets structure management includes all polices and approaches designed to obtain funds from deposits and investment.

The banking sector has to play development role to boost the economy by adopting the growth oriented capital and assets structure management policy and building up the financial structure for economic development. Formulation of sound capital and

assets structure management policies, co-ordination and planned efforts pushes forward the forces of economic growth.

1.4 Statement of the Problems

The joint venture banks have been operating well from their very establishment. Their experience on international banking, prompt and computerized services, professional attitude are factors for their rapid progress. They have been growing from weaknesses and inefficiency of domestic commercial banks. These banks have succeeded to capture a remarkable market share of Nepalese banking sector or financial services industry in relatively short period of time.

In spite of the above, the problems are as follows:

- Inefficiency and weakness can be traced with the analysis of financial statements in some aspects of the bank's financial performance.
- Banks provide only short term credit while demand for long and medium term credit has to be met in the process of development.
- The margin ratio for providing loans is too high, which makes deposits unutilized.

However, Nepal is facing lot's of national as well as international problems as: instability of politics, difficulty in collecting resources, declining of tourism industry, falling of manufacturing companies and garments etc.

In the light of above, the study will be conducted to obtain the answer of the following.

-) How far joint venture banks have been able to convert the mobilized deposits into investment?
-) How efficiently joint venture banks are managing their assets and liquidity ratio?
-) What is the relationship of investment with deposit and total net profit?

) To what extent these banks have been able to raise their profitability?

1.5 Objectives of the Study

This research work is concerned with studying the assets and liabilities management of joint venture banks. The main objective is to study and analyze the liabilities and assets structure of joint venture banks. Following are the subsidiary objectives to assist the basic objective.

- To analyze the composition of total assets & liabilities of joint venture banks.
- To find out the growth of investment situation of various joint venture banks.
- To evaluate the trend of deposits and loans of joint venture banks in Nepal.
- To evaluate the liquidity, profitability, capital structure activity and capital adequacy position of joint venture banks in Nepal.
- To identify the relationship of investment with deposit and total profit.
- To analyze the profitability situation of Joint venture banks.

1.6 Significance of the Study

The importance's of the study is as :

-) The study will have great significance since the study focus on financial performance of selected joint venture banks.
-) This study will be valuable for the shareholders, management of the banks and board of directors of the respective banks, as they will be told the position where they stand in the market.
-) The study will give a clear picture on how the banks are performing their important functions of loan disbursement and repayment.

) This study will provide information to the general public regarding success of these joint venture banks on the investments they have made.

1.7 Limitations of the Study

This study has certain limitations. The main limitations and constraints of the study are as follows:

) The study is based on three joint venture banks.

) Since, the study is upon the management of assets and liabilities of various joint venture banks through deposit and ratio analysis, most of the data are extracted from the secondary sources. The reliability and validity of this work mostly depend upon the accuracy of those data.

) The study covers a period of five years only. i.e from F.Y.2002/03 to 2006/07.

) As the research has been conducted as per the objectives, it may not be sufficient to draw conclusions beyond the objectives.

1.8 Organization of the Study

The Study has been organized into five chapters each denoted to some aspect of the management of assets and liabilities. The title of each of these chapters is as follows:

Chapter One	Introductory
Chapter Two	Review of Literatures
Chapter Three	Research Methodology
Chapter Four	Presentation and Analysis of Data
Chapter Five	Summary, Conclusion, and Recommendations

The rational behind this kind of organization is to follow a simple research methodology approach. The contents of each of the chapters of the study are briefly mentioned below.

Chapter One: It contains the introduction of the study and will include introduction, commercial banks, joint venture banks, capital and assets management, statement of the problems, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter Two: It states the theoretical review of the study and review of previous studies collected from different books, research paper, websites, discussion papers etc.

Chapter Three: It explains the methodology used in this research to find the result for meeting the objectives set in the chapter one.

Chapter Four: It deals with the analysis of primary as well as secondary data. First part of the chapter will include the analysis of deposits, second part includes analysis of ratios, third part includes economical analysis, fourth part includes statistical analysis and last part includes major findings of the study.

Chapter Five: It states the summary, conclusion and recommendations of the study.

Chapter-2

REVIEW OF LITERATURE

This chapter deals with the literature, relevant to this study. This part of thesis is essential to know about the concept of the topic and findings of other researchers which are appropriate to the study. The first part consists conceptual framework and the remaining parts consist the review of previous related studies.

2.1 Theoretical Review

"Banking is the business of collecting and safeguarding money as deposits and lending of same. The banker's business is then to take the debt of other people to offer his own in exchange and there by to create money. He may be a dealer in debts, but in distress is only the observer of wealth and it would be equally permissible to describe the banker as a liquefier of wealth."³

As a system approach, asset/liability management is likely to become an approach important to goal achievement because of the increasing scope and complexity of banking. Asset/Liability management incorporates features of other approaches to funds management and liability management. Equally important, it incorporates management experience and judgment into the decision process. Successful asset/liability management requires managers to take an overall rather than narrow functional view of the bank, provides the means to break down complex problems for decision making, allows for changes in the banking environment and provides decisions perceived consistent with wealth maximization.

Interactive nature of bank decisions is to break down this system of interrelationship into key variables, which affects the attainment of wealth maximization. While each

3. Geoffrey Crowther, **An outline of Money**, London Thomas Nelson and Sons Ltd, 1945, p 81

decision affects the goal, practical day to day decisions making should focus on the key variables attesting the wealth maximization, (1) Spread management (2) Liquidity management (3) overhead cost control, and (4) capital management. Of these variables, the first two are probably most appropriate for relatively short decisions horizon of asset/liability management.

The key variables assist management in establishing and carrying out policy in the major banking management, to obtain funds and maintain adequate liability, investment and capital.⁴

Mr. Bradley and Crane express the views, "Potentially the most important use of management science is in banking system oriented approaches to balance sheet management".⁵ Balance sheet management is concerned with the coordinated management of the entire balance sheet and its interring relationship. It incorporates the concept of asset/liability management approaches. Balance sheet management facilities improves overall profit planning and performance, while maintaining liquidity solvency and deposit safety in an uncertain world consistent with management policy and bank regulations.

The application of management science to bank funds management may be more appropriately called "dynamic" refers to the face that bank planning and decisions making should not be made in a single period context. The dynamic nature of the banking environment requires an assessment of the multi period implications of today's forecasts and decisions.

The financial soundness and its strength of a bank depend to a large extent of the composition of capital and assets structure. Capital structure of a bank presents its resource capacity and viability whereas its assets structure presents its worthiness.

Sunity Shrestha published "A study of portfolio behavior of commercial banks in Nepal" with the basic objective of performing financial strategy in the commercial

4. Sollenberger and Connell Olson, **A model for commercial bank**, Houston: Dame publication, 1975,p.89

5. Bradley and Crane, **Management of bank portfolios**, New York: John Wiley and sons, 1975,p.51

sector, to analyze the investment pattern of commercial banks of securities and loans, to observe the relationship of bank portfolio variables with national income and the fiscal variables and major findings on the financial aspects of commercial banks. The performances of the commercial banks have been assessed by analyzing their financial description, their resource structure and the assets structure. It first assessed the financial descriptions its asset holdings and the growth, analysis of the sources and the uses of the funds of the commercial banks. It discussed the debt-equity ratios and risk & return ratios, based on the financial statements of the commercial banks.

Finally the management achievement index for all the banks was computed to analyze their performance against the target set. Next findings of investment operation of commercial banks on the securities and the loans are the main asset portfolio to be stressed. The allocation of funds among the assets has been and objective of the management by maximizing profits and minimizing loss (cost). Return from the investments and the risk involved in the loan made by the commercial banks in Nepal for investment in various sectors, priority sectors and secured loans the "loan loss ratio" and the "default" has been computed. The investment planning of commercial banks in Nepal is highly regulated by the central Bank.⁶

Balance Sheet

"The assets and liabilities of a modern bank are continued in its Balance Sheet which a bank is required to issue every week. We can know good deal of working of a bank by carefully examining its assets and liabilities".⁷

"Balance Sheet is the most significant financial statement. It indicates the financial condition or the state of affairs of a business at a particular moment of time. More specially, Balance Sheet contains information about resource and obligations of a

6. Sunity Shrestha, **A study of portfolio behavior of commercial banks in Nepal**, Kathmandu:Taleju Prakashan, 1995,p.18

7. Chanman Lal Dosajh, **Money and Banking and public finance**, West Patel Nagar, New Delhi-110008: Delhi Publication House, 1972,p.145

business entirely and about its owner's interest in the business at a particular point of time. In the language of accounting, Balance Sheet communicates information about asset, liabilities and owner's equity for a business firm as on a specific date. It provides a snapshot of the financial position of the firm at the close of the firm's accounting period."⁸

This discussion discovered the two cardinal principles of banking, one of them is the principle of ratios, which is encountered in the form of the minimum ratio of cash to deposit, is permitted by law or custom.

The other principle is equal of assets and liabilities. A bank's business is, in a very special sense, is balancing of assets and liabilities. A bank acquires assets by increasing its liabilities, indirectly as a result of trading. The bank's assets are directly exchanged for its liabilities.

The liability side of the Balance Sheet is comparatively simple. It consists in the first place of the bank's liabilities to the shareholders-the capital originally paid in and any accumulation of undistributed profits. The largest liability items are liability to the public, represented by notes (if any) and deposits.

The assets side of the Balance Sheet is both more complicated and more interesting. In distributing its resources among the different types of assets open to it, the bank has to bear two considerations in mind. First of all, it must be able to meet any claims upon it in cash on demand. For this purpose bank should have to keep certain reserve of cash. In addition to make it more secure, it lends out another part of its resources on very short loan, some of them repayable on a day's notice.

The second consideration, which the banker must bear in mind, is income. He must arrange his assets in such a way that the return on them is sufficient to pay the wages of his staff, pay interest on his borrowings, accumulate reserves and leave a little over

8. IM Pandey, **Financial Management**, New Delhi: Vikas Publication House Pvt Ltd, 1995,p.31

for dividends for the shareholders. The bankers can never afford to forget that he has liabilities against every one of its assets and he must not therefore, place them where they cannot be liquidated. That at least is the ideal. In practical, it cannot be attained. Some of bank's assets might take years to realize. But in his own defense, the bankers keeps up the form of making only temporary loans, even though in facts a great many loans are renewed whenever they mature.

Liquidity and profitability therefore are opposing considerations. Cash has perfect liquidity but yields no return at all. At the other end are some loans, which yield high rate of interest, but are hardly liquid at all. The secret of successful banking is to distribute resources between the various forms of assets in such away as to get a sound balance between liquidity and profitability.

The banker is a merchant of debt, and his assets as well as his liabilities consist merely of debts; the whole system is built up of promises to pay erected on a narrow basis of cash.

Within the limits set by liquidity and by the needs for keeping a proportionate reserve of cash a bank (or strictly, a banking system) can make the total of its balance sheet precisely what it wants.⁹

Statement of assets and liabilities

If a balance sheet shows the financial position of a concern the question arises: How the financial position of a concern ascertained?

The financial position or financial worth of a concern is indicated by its assets on a given date and its liabilities (excluding capital) on that date. Excess of assets over liabilities (other than capital) represents capital and is indicative of the financial soundness of a concern.¹⁰

9. Geoffrey, op. cit,p.50

10. A.N. Agarwal, **Accountancy**, Allahabad: Allahabad University, 1963, p. 657.

Functions of the Balance sheet.

The three important functions served by the Balance Sheet are

1. It gives a concise summary of the bank's resources (assets) and obligation (liabilities).
2. It measures the firm's liquidity.
3. It is the measure of the firm's solvency.¹¹

Assets

The right hand column in the balance sheet shows assets of a bank. Assets representing economic resources are the valuable possessions owned by the firm. These possessions should be capable of being measured in monetary terms.

Assets are the future benefits that represent:

- a) Stored purchasing power (eg. Cash)
- b) Money claims (eg. receivable, stock)
- c) Tangible and intangible items that can be sold or used in business to generate earnings.

Tangible items include land, building, plant, equipment or stocks of materials and finished goods and all such other items, which have physical substance.

Intangible items do not have physical existence but they have value to a firm. They include patents, copyrights, trade name or good will.

Assets may be classified as (a) Current assets and (b) Long term assets

(a) Current Assets

Current assets, sometime also called liquid assets. They are resources of a firm, which are either held in the form of cash or are expected to be converted into cash within the

11. Pandey, op. cit,p.40

accounting period or the operating cycle of the business. The accounting period is for one-year duration. The operating cycle is the time taken to convert raw material into finished goods, sell finished goods and convert receivables (goods sold on credit) into cash. Therefore, operating cycle is equal to or less than the (account receivable) and stock of raw materials; work in process and finished goods.

"Cash is the most liquid form of asset. A bank holds it to meet the demand of its customers and so it is the first line of defense".¹²

Each bank knows from its experience how much deposit should be in reserve? "The banks in western countries generally keep a reserve of 10 percent of their deposits. In India however, this reserve is between 20 to 25 percent of the deposits. It is because the people are not developed in banking habits."¹³

Cash is the current purchasing power in the hands of bank and can be used for the purposes of acquiring some resources paying some obligations. Cash includes actual money in hand and cash deposit in bank account.

Marketable securities are the temporary or short-term investments in shares, debentures, bank and other securities. These securities are readily, marketable and can be converted into cash within the accounting period. A firm usually invests in marketable securities when it has temporary surplus cash.¹⁴

Money at call and short-notice represents loans given by the bank to businessmen etc for the short periods. Bank can call upon them to repay loans immediately. These loans are generally backed by adequate first class bills or securities.

Next comes the investment of a bank. Bank mostly invests in government securities or municipal bond etc.

12. Pandey, op.cit.p.32

13. Dosajh, op,p. 146.23

14. Pandey, op. cit. p. 32

These investments give a fixed income and steady profit to a bank. Bank can sell these securities when the demand for loans increases and buys them when the demand for loans decreases. These securities are considered to be less liquid than bills. Some of these can be easily sold at the time of need, hence it can be consider as current assets while others may fall in value and so current be sold in a crisis. Thus a bank should keep its reserve as liquid as possible.

The other term or assets is the loans and advances which the bank has granted to its customers. These loans may take three forms- loans, cash credit or overdrafts. Usually, loans are advanced on the basis of approved securities and shares. Cash credit or overdrafts are advanced to customers of strong financial position of their personal security. Such overdrafts are for very shot periods. So they are automatically adjusted when the customers pay in money. Usually loans and advance are also included in current assets in India and Nepal. Except for the advance payment for current supplies, it is not proper to include loans and advances in current assets.

Discounting of bills is the most important form in which bank lends money without any collateral security. Such bills mature after a fixed period (not more than 90 days in any cash). Investment on them is very safe.

Bills receivable represent the promise made in writing by debtors to pay definite sums of money after a specified period of time. Bills are written by the firm and become effective when accepted by debtors.

Book debt (or account receivables) are the amounts due from debts (customers) to whom goods or services have been sold on credit. These amounts are generally realizable into within the accounting period. Debts, which will be never collected is called bad debts.

Prepaid expresses and accrued income- are also included in a current asset. Prepaid expenses are the expenses of future period paid in advance. Examples of prepaid expenses are prepaid insurance, prepaid rent or taxes paid in advance.

They are current assets because their benefits will be received within the accounting period. Accrued incomes are the benefits, which the firm has earned but they have not been received in cash yet. They include items such as accrued dividend, accrued commission or accrued interest.

Other non Current Assets

All other assets which cannot be included in any of the above categories are grouped as other assets, usually they represent deferred charges. Prepayments for services or benefits for period longer than the accounting period are referred to as deferred charges and include advertising, preliminary expenses etc.

(b) Long Term Assets

Long term assets are held for periods longer than accounting period. They are held for use in business, and not for the purpose of sale. Long term assets would normally include fixed assets, long term investment and other non current assets. Fixed assets would generally form a major group in the manufacturing firms.

Tangible fixed assets include land building, machinery, equipment, furniture etc. These are normally recorded at cost. Costs of tangible fixed assets are allocated over their useful lives. The amount so allocated each year is called depreciation. Costs of tangible fixed assets are reduced every year by the amount of depreciation. Depreciating the assets is a process of allocating cost and doesn't involve any cash outlay.

Investments: Long term investment represents the firm's investment in shares, debentures and bonds of other firms or government bodies for profits and control. These investments are held for a period of time greater than the accounting period.

Liabilities

The left-hand column in the balance sheet shows liabilities. These liabilities refer to the total claims that the depositors, shareholders and others can make on the bank.

Liabilities are debt payable in future by the banks to its creditors. They represent economic obligations to pay cash or provide goods or services in some future period. Generally liabilities are created by borrowing money or purchasing goods or services on credit.

Examples of liabilities are creditors, bills payable, wages and salaries payables, interest payable, taxes payable, bonds, debentures, shares, borrowing from banks and financial institutions, public deposits etc.

Liabilities are two types:

- (a) Current Liabilities
- (b) Long-Term Liabilities
- (a) Current Liabilities

Current liabilities are debts payable within an accounting period. Current assets are converted into cash to pay current liabilities. The typical examples of current liabilities are creditors, bills payable, borrowing, deposits, expenses payable and incomes received in advance.

Bills payable

The unpaid drafts and telegraphic transfers issued by a bank are known as bills payable. Any draft or telegraphic transfer issued by a bank but which have not been paid up to the date when the balance sheet is made would be treated as liability on the issuing bank.

Bills for collection

They are drawn by the seller of goods on their customers and sent to the bank for collection against railway receipt etc. This item is put on both sides in the balance sheet because they are both assets and liabilities.

Deposits

Deposits are also a bank liability. All the deposits except 40-50 percentages of fixed deposits are considered as short-term obligation. They are of two kinds current or demand deposits and fixed or time deposits.

The current deposits can be withdrawn without any notice to the bank while the time deposits are able to withdraw only after giving notice to the bank.¹⁵

Provisions

Provisions are other types of current liabilities. They included provision for taxes or provision for dividends. Every business has to pay taxes on its income. Usually it takes some time to finalize the amount of tax so an amount of tax is estimated and shown as provision for taxes or tax liability in the balance sheet. Similarly provision for paying dividends to shareholders may be created and shown as current liability.

Expenses payable (or outstanding expenses) are also current liabilities. The firm may one payment to its employees and others at the end of accounting period for the services received in the current year. These payment are payable within a very short period. Examples of outstanding expenses are wages, payable, rent payable or commission payable.

(b) Long- term Liabilities

Long-term liabilities, sometimes also called fixed liabilities are the obligation or debts payable in a period of time greater than accounting period. Long-term liabilities usually represent borrowing for a long period of time.

Capital

On this side capital is the first item, paid up capital is the actual cash capital of the bank. It is the amount, which the shareholders have invested in the bank. Authorized

15. Dosajh. op. cit. p. 148.

capital is the maximum capital, which the bank is permitted to issue, and the subscribed capital is what has actually been subscribed for.

Reserve fund

Capital and reserve funds ultimately belong to the shareholders. The reserve fund is not subscribed by the shareholders but it is built out of the profits of the bank.

India Company's Act says that every bank must transfer not less than 20% of the net profits of each year (before distributing the dividends) to the reserve fund until the amount of the reserve fund is equal to paid up capital. Thus the reserve fund is another safeguard for the customers. The bank can draw upon its reserve fund in case of heavy losses to it.

Profit and Loss Account

Profit and loss account or the income statement is summary of revenue, expenses and net income, loss of the company for a particular period of time. Profit and Loss account in one hand provides a concise summary of the company's profitability.

Profit and loss account and balance sheet are closely interrelated financial statement. Increase in revenue means increase in total assets and decrease in total liabilities. In other words, net income increases net assets. Similarly, net loss decreases assets and increases liabilities. Thus, with the help of profit and loss account and balance sheet it is a possible to see the impact of profit or loss in the total assets and liabilities.

Financial Analysis

Financial Analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of balance sheet and profit and loss account. Financial analysis can be undertaken by management of the firm or by parties outside the firm viz. owners, creditors, investors and others.

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as "the indicated quotient of two mathematical expressions and as the relationship between two things".

Ratio analysis is the process of determining and interpreting numerical relationships based on financial statement. A ratio is a statistical yardstick that provides measures of the relationship between two variables of figures.

Webster's new collegiate Dictionary defines a ratio as "the indicated quotient of two mathematical expressions and as the relationship between two or more things".¹⁶ In financial analysis a ratio is used as a benchmark for evaluating the financial position and performance of a firm.

Standard of Comparison

The ratio analysis involves comparison for a useful interpretation of financial statements. A single ratio in itself doesn't indicate favorable or unfavorable condition. It should be compared with some standard. Standard of comparison may consist of:

- (1) Past ratios- i.e. ratios calculated from the past financial statement of the same firm.
- (2) Projected ratios- i.e. ratios developed using the projected or estimated financial statement of the same firm.
- (3) Competitor's ratios- i.e. ratios of some selected firms, especially the most progressive and successful competitor, at the same point in time.
- (4) Industry ratios- i.e. ratios of the industry to which the firm belongs.

Types of ratios

Several ratios calculated from the accounting data can be grouped into various classes. Accordingly to financial activity or function are to be evaluated. The parties interested in financial analysis are short and long term creditors, owners and management. Short-term creditor's main interest is in the liquidity position or the short-term solvency of the firm. Long term creditors or the other investor are more

16. **Webstars, New Collegiate Dictionary**, 8th Edition Supering Field Mass. 2000

interested in the long term solvency and profitability of the firm. Similarly owners concentrate on the firm's profitability and financial condition. Management is interested in evaluating every aspect of firm's performance. They have to protect the interests of all parties and see that the firm grows profitability. In view of the requirement of various ratios they may be classified into following four groups.

(A) Liquidity Ratios

The liquidity ratios measure the liquidity position and short term solvency indicating the firm's ability to meet short-term obligation. A firms should ensure that it does not suffer from the liquidity crunch, and also that it is not too much highly liquidity. There should be proper balance between liquidity and lack of liquidity. The very high degree of liquidity results in and idleness of assets whereas low degree of liquidity results in a poor creditworthiness, loss of creditor's confidence and even shutdown of the firm.

A bank must ensure that it has a sound liquidity position to face the instant claim by its creditors. Therefore, in order to protect bank's solvency and to honor its short-term obligations or liabilities, adequate liquidity are must. Regarding this N RB has directed all banks to maintain adequate Cash Reserve Ratio (CRR).

In the following section, Current ratio and Cash and Bank Balance to Deposit ratios are calculated for the various commercial banks for the review period.

I. Current Ratio:

The ratio is calculated by below formula:

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

Components:

Current Assets includes cash and those assets which can be converted into cash within the year, such as cash in hand or at bank, money at call, investment in the government securities, short-term loans and advances, bills for collection, balance with banks and other assets.

II. Cash and Bank Balance to Total Deposit Ratio

Like current ratio, banks have to maintain certain amount of cash in order to ensure enough liquidity to face heavy deposit withdraws. Cash and Bank balance to Deposit ratio indicates the ability of the banks to immediately fund the withdrawals of their various deposits. This ratio is computed by cash and bank balance divided by total deposits to meet their daily requirements and deposits and vice versa.

Banks have to be prepared for the high amount of withdrawal situation, but some banks had the very less amount of cash and bank balance is also disadvantageous because it will lack up the capital since it return back nothing. This also shows the inability of bank to invest in more productive sector like government securities, treasury bills etc. to enhance its profitability.

The ratio is calculated by follow formula:

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

(B) Activity (Utilization) Ratios

The funds of creditors and owners of the banks, which are reflected under liabilities side of the Balance Sheet form the sources of fund, whereas the loans & advances, and investments, reflected under the Assets side of the Balance Sheet are the uses of Funds. These funds are invested by the banks in various assets to generate profit margins. The better the management of assets, the larger the amount of utilization of

the available funds. Activity ratios are employed to evaluate the efficiency with which the bank manages and utilizes the funds.

Activity ratios indicates the degree of efficiency in Assets Management, hence they are often referred to as efficiency ratios. In this section, some of the efficiency ratios are calculated to assess the banks efficiency in utilizing the available resources.

I. Loan and Advances (Total Credit) to Total Deposit Ratio

The core banking function is to mobilize the funds from the depositors to the borrowers. Banks makes profit by lending or utilizing the deposited funds by charging a higher rate of interest to the borrowers than they pay to the depositors. Hence, they are known to be efficient in utilizing the funds they can advance a greater proportion of the deposited funds into Risk Assets. Loans and advance to Total Deposit or Total Credit to Total Deposit ratio measures the extent to which the banks are successful to mobilize the outsiders' fund.

Loan and Advances to Total Deposit ratio is calculated by dividing Total Credit by Total Deposits :

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

II. Investment to Total Deposit Ratios

Investment function is gaining a widespread importance in the banking sector. Treasury of the bank is involved in investing the surplus fund in the income generating investment. Banks cannot utilize whole of its' fund, raised through deposits and borrowing into loans and advances. In order to fill this gap between borrowings and lending, bank rather goes for investment such as government scurrilities, development bonds, shares and debentures and inter-bank lending. These investments earn a lower rate of return in comparison of loans and advances, but under most of the circumstances they generate higher return than their cost of funds, hence prove to be

beneficial for the bank investment. Investment to total deposit ratio is calculated by dividing total investment by Total Deposits.

Investment to Total Deposit ratio is calculated by dividing Total Investment by Total Deposit :

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

III. Performing Assets to Total Assets

Performing assets for the purpose include those assets, which have been invested in loans and advances, investment and money at call. Higher ratio indicates the higher utilization of resources in relation to the total Assets and yields a higher return for the banks. Whereas non-performing assets are very harmful for the banks, so they should try to reduce their proportion in the asset structure.

Performance Assets to Total Assets Ratio is calculated by dividing performing assets by Total Assets:

$$\text{Performing Assets to Total Assets Ratio} = \frac{\text{Performing Assets}}{\text{Total Assets}}$$

(C) Profitability Ratios

Profit maximization and wealth maximization are the primary objectives of any organization. Therefore, all organization tries to maximize its profit. It is very important for their survival in this competitive market and for their future growth. Profit indicates the present condition of the organization and where they stand in this market. In this section various profitability ratios, which reflect the operating efficiency of the bank, have been analyzed.

I. Return on Total Assets

The return on total assets ratio is calculated by dividing profit before tax by the total assets. This ratio measures the profitability of all resources invested in the bank's assets. Higher the ratio, higher the efficiency of the banks in utilizing its overall resources and lower the volume of non-performing assets. Non-performing assets reduce the profit because it returns nothing.

Return on total assets can be calculated by using following formula :

$$\text{Return on Total Assets} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

II. Return on Total Deposit

One of the major sources of fund to the banks is from deposits and this fund has to be utilized properly in order to maximize their return on deposits. Higher return on deposit ratio signifies better utilization of deposits. The return on Total Deposit Ratio is calculated by dividing profit before tax by the Total Deposits.

Return on Total Deposit can be calculated by using following formula:

$$\text{Return on Total Deposit} = \frac{\text{Net Profit}}{\text{Total Deposit}}$$

III. Return on Risky Assets i.e. Loan and Advances

Return on Risky Assets ratio measures the percentage of profit before tax earned in relation to the volume of loans and advances. The ratio shows the capacity of the commercial banks to mobilize risky assets in the income generating purpose. Higher the ratio better is the situation because it shows that bank is able to disburse good loans in a higher proportion.

The return on risk assets ratio is calculated by dividing profit before tax by risky assets i.e. Total Loans and Advances :

$$\text{Return on Risky Assets} = \frac{\text{Net Profit}}{\text{Total Risk Assets}}$$

IV. Interest Earned to Total Assets

Banks main sources of income are from interest earned from loans, advances and investment. Hence, higher the proportion of risk assets and investment in total assets, higher the interest earned to total assets ratio. Interest earned to total assets ratio measures the percentage of interest earned in relation to total assets of the banks and shows the efficiency of banks in earning assets.

The Interest Earned to Total Assets Ratio is calculated by dividing Total Interest Earning by Total Assets :

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Total Interest Earning}}{\text{Total Assets}}$$

(D) Capital Adequacy Ratios

Capital Adequacy ratio shows whether banks are maintaining sufficient amount of capital fund or shareholder's fund in comparison to the total amount of their deposits. According to capital adequacy ratio principle, safety and stability of the fragile financial system ultimately rest upon the confidence of the depositors and creditors. NRB has directed all banks to keep Capital Adequacy ratio of at least 10% of total weighted risk assets.

Capital Adequacy Ratio is calculated by dividing Total Capital Fund (Net Worth) by Total Deposits

$$\text{Capital Adequacy Ratio} = \frac{\text{Total Capital Fund}}{\text{Total Deposits}}$$

I. Shareholder's Fund to Total Deposit Ratio:

The ratio is calculated by using the following formulae:

$$\text{Shareholder's fund to Total Deposit Ratio} = \frac{\text{Shareholder's Fund}}{\text{Total Deposit}}$$

II. Shareholder's Fund to Total Asset Ratio

The ratio is calculated by using the following formulae:

$$\text{Shareholder's Fund to Total Asset Ratio} = \frac{\text{Shareholder's Fund}}{\text{Total Asset}}$$

Utility of Ratio Analysis

The ratio analysis is the most powerful tool of the financial analysis. Many diverse groups of peoples are interested in analyzing the financial information to indicate the operating and financial efficiency and growth of the firm. These people use ratios to determine those financial characteristics of the firm in which they are interested. With the help of ratios one can determine.

- 1) The ability to the firm to meet its current obligations.
- 2) The extent to which the firm has used its long- term solvency by borrowing funds.
- 3) The efficiency with which the firm is utilizing its assets in generating sales revenue.
- 4) The overall operating efficiency and performance of the firm.

Deposits and Investment Trend

Deposits are the main sources of funds. By providing certain rate of interest bank calls for the deposit from the customer. Usually fixed deposits are used for lending the money to different sector such as hire purchase, housing, leasing, industry and trade. The deposits will lead to increase the working capital of the company. The bank is authorized to receive deposits from the public and to transfer to economic enlistment of the country by offering loan and advances to the needy people. Bank is that institution which receives the saving from the public, usually in fixed deposit to pay some rate of interest therefore it draws money from the people who do not use it at the time and lend it to those who are in position to use it for productive purpose.

The investment or lending is one of the main functions of the company. Only the acceptance of deposits is not sufficient for the company but it should refund the deposit including certain rate of interest. So it is a significant task of the company to utilize the deposit in proper way where it can earn more profit. Without the proper utilization of deposit, it will not be in position to return the money to the customer. But the investment or lending is not simple and easy rather it is very risky.

Modern commercial banks have various kinds of assets in their possession. Generally the size & volume of the assets depend on the scientific and rational management of assets.

A successful performance of the bank in the economy is determined by size of market, the development of trade and commerce and the existence of capital and money market for assuring the safety and liquidity of assets.

With regard to the distribution of bank's assets the theory of commercial loan and industrial loan has been an issue of controversy between bankers and economist. The commercial bank holds the view that the bank should confine them to advancing short-term loan of self-liquidating nature, where as industrialist hold their activities also to granting long term loans for development of country's industry. Economist upholds their

views for granting of long-term advance side by side with the short-term loans. There are three main principles which the commercial banks adhere to. They are:

1. Profitability
2. Safety
3. Liquidity

Profitability

It is the objectives are earning maximum profit; banker naturally likes to use a high percentage of its total resources in loans & advances.

Safety

Here safety means stability of volume of assets over a particular period of time and credit worthiness of debtors in payments of interest & repayment of the principles. If the interest rate is raised above the expected level, we say the assets are risky and vice versa. The credit worthiness of the debtors is another measure for degree of safety in the assets.

Liquidity

Liquidity means protection against the risk. The latter might occur if the banks are forced to sell the credit worthy assets in adverse market to meet the demand of depositors. That is liquidity means not only the bank's ability to meet the possible withdrawals of demand depositors but also to provide the legitimate credit needs of the community as well.¹⁷

Likewise, Mr. Khem Ranjan Baral, the senior officer of Rastriya Banijya Bank said in his writing "Deposit Mobilization in commercial banks" that branch expansion, increase in deposit interest rates, proper facilities to customers, deposits insurance policy, deposits from semi-government origination can help to collect more deposits

17. Laxman P. Aryal, **Commercial Bank and Proper Management of Assets**, Nepal Bank Ltd. Vol. 1/12, 1967-1970, P. 63

and by expanding commercial bank branches and suitable rates play an important role in mobilization of the collected deposits.¹⁸

Dr. Govenda Bahadur Thapa has expressed his view that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise loans and advances of these banks are also increasing. But compared to the huge credit needs particularly by the newly emerging industries the bank still seems to lack adequate funds. The banks are increasing their lending to non-traditional sectors along with the traditional sectors.¹⁹

A provision requiring the commercial banks established to operate in the Kathmandu valley are required to maintain compulsory a minimum capital fund of Rs 500 million by the end of the fiscal year 2006/07. The amount under the headings of paid up capital, general reserve, share premium, non- redeemable preference share and retained earning would be considered for calculating the minimum capital funds.

The commercial banks could not use the retained earning included in the core capital funds to the extent of the minimum capital funds falling short of Rs 500 million. If the commercial banks could not maintain capital fund of Rs 500 million till the end of fiscal year 2006/07, they were not allowed to declare and distribute the dividend and bonus.

Directives on money at call

With effect from November 2,2000 a directive issued to treat investment with other banks (domestic as well as foreign) of the maturity of 7 days at the maximum or deposit that could be demanded at short notice (48 hours) as money at call. Other interest receivable lending with more than 7 days maturity period was required to keep in other headings.

18. Khem Raj Baral, **Banking Development in Nepal**, Research and Statistical development, Nepal Rastra Bank, 2005 P. 81.

19. G.B. Thapa, **Financial system of Nepal**, Development vision, Patan Multiple Campus Lalitpur Vol-3, 1994, P. 15

Deprived sector credit

Commercial banks were required to extend the following proportion of their total outstanding loans to deprived sector based on their aging during the fiscal year 2005/06.²⁰

Banks	Required deprived sector lending (as % of total outstanding loan)
1. Nepal Arab Bank Limited	3.00
2. Himalayan Bank Limited	4.00
3. Nepal Bangladesh Bank Limited	2.50
4. Everest Bank Limited	2.50

Mr. Bhisma Raj Dungana states "why Assets Management Company (AMC) is considering the Best Option to resolve the non-performing Loan (NPLs) Problem?" Assets Management Company is the financial intermediary to manage the none performing and distressed loans of banks and non bank financial institutions. The function of AMC is to buy NPLs from the financial institutions and to take necessary steps to recover maximum value from the acquired assets.

The concept is a new to the Nepalese financial system. A high level of NPLs can be regarded as a serious burden to the financial system and to the economy as well.

Basically, there are two approaches available to deal with problems:

1. The traditional options focus on negotiation with the borrowers to restructure the loans into a separate Loan Recovery Unit within the bank. The traditional option is especially useful in dealing with small business loans or consumer loans

20. Economic Report, **Deprived sector credit**, Nepal Rastra Bank, 2006/07, P. 23.

where the personal touch is adopted and the borrower may not feel heavy burden in paying back the loan.

2. AMC seems a catch-all phrase that describe agencies establishment to deal with NPL problems in the financial system by removing NPLs from the financial intermediaries with the objectives of recovering value from the resolution or disposal of these loans or assets.²¹

2.2 Review of Previous related Studies

It is found that different researcher had conducted different studies regarding the assets and liabilities management of joint venture banks and evaluation of commercial banks and companies. Prior to this study, some researchers had already conducted studies about many aspects of commercial banks and companies. An attempts have been made to review some of them.

Mr. Prem Bahadur Baniya in his study on "Capital and Assets structure Management of Commercial Bank in Nepal", on the basis of financial and statistical analysis, remarked that the existence of a commercial bank in today's competitive banking environment largely depends upon its financial strength and sound internal management. Negligence in designing, efficient organization structure, capital and assets structure, plans and programs could be the main cause of various crises in the bank and one of the main reason of a bankruptcy.

Motivation, training programs and other co-ordination programmer's may be the significant ingredients for the conceptual development and for adequate knowledge, which may lead to innovate in policy formulation.

21. Bhisma Raj Dhungana, **Why Assets management company is considering the Best Option to Resolve the non-performing loan Problem ?**, Banking praverdhan-13, Nepal Rastra Bank, 2006, P. 125.

Finally better performance through capital control and efficient internal and external management will ensure the effectiveness of bank capital and assets structure management policy.²²

Mr. Khanal in "A Study on Utilization of Assets and its Impact on Capital Structure (A Comparative Study of Selected Joint venture banks)" has concluded that the trends of total deposit collection of all joint venture banks are highly fluctuated over the study period. Therefore, all joint venture banks are strongly recommended to provide incentive for attracting deposit. They neglect the small deposit. All joint venture banks should adopt the liberal lending policy and invest more percentage amount of total deposit in loan and advances to earn interest which is the main sources of the bank. Mr Khanal has come out with various recommendations which are summarized below:

-) The current ratios of selected joint venture banks are not satisfactory. It is below the standard level of 2:1. Therefore all joint venture banks are suggested to improve current ratios.
-) The net worth of the joint venture banks was low as compared to the total deposit and total liabilities. So the banks need to increase its net worth to reduce the risk. An increase in net worth will help to reduce the fluctuation on net profit.
-) Total deposit is the major sources of joint venture banks fund. The trend of deposit collection of all joint venture banks are highly fluctuated over the study period. Therefore, all joint venture banks are strongly recommended to provide incentive for attracting deposit.
-) Joint venture banks deal with big industries, corporate, houses, multinational companies, large NGO and INGO. They neglect the small depositors. The minimum level bank balance needed to open an account in these banks is very

22. Prem Bahadur Baniya, **Capital and Assets Structure Management of commercial banks in Nepal**, Unpublished Master's Dissertation submitted to TU, 1999

high. So all joint venture banks are suggested to set a more convenient minimum balance requirement to open an account. Joint venture banks should encourage the small depositors for promoting small investors.

-) Profitability ratios of all joint venture banks such as return on investment, return on total assets are not satisfactory. If resources held idle, banks have to bear more cost and result would be lower margin. So it is recommended to utilize its resources in more profitable sector.²³

Mr Devkota, in "Comparative SWOT Analysis of Nepalese Commercial Joint Venture Banks" has concluded that the dept financing has always almost exceeded 90% of the total assets over the review period, which indicates the excessively generated capital structure of these banks. The shows the excessive use of dept to finance total assets. Nevertheless, extensive use of debts coupled with the failure in advancing good loan can jeopardize the solvency position of these banks. Therefore, he suggested to the joint venture banks to assets the risk assets portfolio cautiously before accepting higher volume of deposit. He had come out with some major recommendations some of them are as follow:

-) Banks are with excessive loan loss provisions. Therefore, they are suggested to evaluate the financials of their borrowers in a more proficient way thereby identifying possibilities of risks prior granting the loans. This will help to decrease the volume of downgraded loans and finally the provisions will go down.
-) In order to generate more capital for the development of the economy, more deposit needs to be collected by the financial institutions. For this the selected joint venture banks are suggested to quote higher deposit interest rate as far as possible. Though this situation reduces their profit prospects in the short run, it will enhance the economic condition of the country in the long run.]

23. Lal Prasad Khanal , **Utilization of Assets and its Impact on Capital Structure**, Unpublished Master's Dissertation submitted to TU, 2007

) Sample joint venture banks are also suggested to include their interest rate structure in their annual report. Further they are requested for the co- operation and sincere support to the research students.²⁴

Research gap:

Research gap is the difference between previous works done and the present research work. There are various studies carried on assets and liabilities of various state owned and public limited companies of Nepal. Most of the studies indicate that the banks in Nepal have not followed a sound principle of assets and liabilities and its management. The research may feel comfort, if the gap created by the previous studies as well as, it will be helpful to the interested groups in the selected companies such as investors, creditors etc. to analyze their position at present and search for the prospective investment.

Since this thesis is about a structure of assets and liabilities management of joint venture banks in Nepal. I have tried to add something new to make it different than others. In this research I have also calculate the trend analysis. It helps in forecast the expected net profit, total deposit and total credit for coming years.

24. Bipul Devkota **Comparative SWOT Analysis of Nepalese Commercial Joint Venture Banks**, Unpublished Master's Dissertation submitted to TU, 2007

Chapter-3

RESEARCH METHODOLOGY

This chapter describes the methodology employed in this study. Research methodology is a way to systematically solve the research problem. In other words research methodology describes the methods and processes applied in the entire aspect of the study. This chapter describes research design, population, sampling procedure, sources of data and method applied for the analysis of data.

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. This research design used for the study is descriptive as well as analytical. The study is based on the wide range of variables and factors influencing assets and liabilities management of selected companies and data relating to financial analysis are presented in such manner that the research becomes more informative.

3.2 Population

There are 25 commercial banks in the country as of June 2008. Out of these 25 commercial banks, currently there are 6 joint venture banks, two government banks i.e. Nepal Bank Limited and Rastriya Banijya Bank and rest are domestic commercial banks all over the Nepal.

3.3 Sampling Procedure

To make the study feasible, sampling technique has been used to select the banks for study. Out of 6 joint venture banks, three joint venture banks are selected as sample for the evaluation. They are:

1. Himalayan Bank Ltd.

2. Nepal Bangladesh Bank Ltd.

3. Everest Bank Ltd.

3.4 Data Gathering Procedure

Secondary data as well as primary data are used for analysis. Secondary data are taken from the annual reports of the banks containing its balance sheet, profit and loss account, cash flows statement and others, direct information from respective joint venture banks, economic journals, NRB's reports and other sources. Economic survey of different years published by Ministry of Finance, Banking and Financial Statistics published by NRB, previous dissertation and publication and reports relating to commercial banks has been used. Primary data has been collected through observation of respective banks and informed discussion with the various personality working at different levels in the banks.

3.5 Methods for Analysis

The data collected has been analyzed by the following tools.

a. Analysis by Tabular and Graphical Presentation

Tabular presentation usually depicts the data of different period of time presented in attractive manner and graphical presentation means presenting those data in the graph. Here in this section, it has been tried best of present data relating to balance sheet and income expenditure account in very precise manner. There are many items in these account but few items like loans and advances, investment and deposit are few of those important variable balance sheet. Operating profit is the other important variable of income and expenditure account. So in order to analyze the asset and liabilities management of selected joint venture banks, first the tabular presentation has been done and later presented in graph.

B. financial Tools

Financial tools are used to examine the financial performance i.e. strength & weakness of a bank. In this study, financial tool like ratio analysis has been used.

Ratio analysis

The ratio analysis involves comparison for a useful interpretation of financial statement. The quantitative judgment regarding financial performance of a firm can be done with the help of ratio analysis.

Several ratios calculated from the accounting data can be grouped into various classes according to financial activity to be evaluated. In the view of requirement of various users ratios may be classified into following four groups.

- 1 Liquidity Ratio
- 2 Activity Ratio
- 3 Profitability Ratio
- 4 Capital Ratio

Liquidity ratio- it measures the firm's ability to meet current obligation.

The following ratios are evaluated under liquidity ratio.

- a. Current ratio
- b. Cash and bank balance to total deposit ratio

The current ratio is computed as

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

Cash and Bank balance to Total Deposit ratio is calculated as:

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

Activity ratio- Reflect the firm's efficiency in utilizing its assets. They comprise:

- a. Loan and advances (total credit) to total deposit ratio
- b. Total investment to total deposit ratio
- c. Performing assets to total assets ratio

Loan and advances (total credit) to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to mobilize the outsider's funds (total deposit) in loan and advances for the purpose of profit generation. This ratio is calculated as :

$$\text{Total Credit to Total Deposit ratio} = \frac{\text{Total Credit}}{\text{Total Deposit}}$$

Total Investment to Total Deposit Ratio

This ratio measures the mobilization of percentage amount of total deposit on investment. Thus, it is calculated by dividing the amount of total investment by total deposit as:

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

Performing Assets to Total Assets Ratio

Performing assets for the purpose include those assets which have been invested in loans and advances, bill purchased and discounted, investment and money at call. Higher ratio indicates the higher utilization of resources in relation to total assets and yield a higher return for the banks. The ratio can be calculated as :

$$\text{Performing Assets to Total Assets} = \frac{\text{Performing Assets}}{\text{Total Assets}}$$

Profitability ratio- It measures over all performance and effectiveness of the firm. Profitability position of commercial banks can be evaluated through following ratios:

- a. Return on total assets (ROA)
- b. Return on total deposit (ROD)
- c. Return on risky assets i.e. loan and advances
- d. Interest earned to total assets.

Return on Total Assets

This ratio is calculated to reveal the over all operating efficiency of a firm. It indicates the earning power of the banks. It is calculated by dividing the amount of net profit by amount of total assets.

$$\text{Return on Total Assets} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

Return on Total Deposits

This ratio is calculated to reveal the over all operating efficiency of a firm. It indicates the earning power of the banks. It is calculated by dividing the amount of net profit by amount of total assets.

$$\text{Return on Total Deposits} = \frac{\text{Net Profit}}{\text{Total Deposit}}$$

Return on Risky Assets

This ratio measures profitability of the banks, which shows the percentage of net profit against risky assets (loan and advances plus bills purchased and discounted). It can be calculated by dividing net profit by risky assets:

$$\text{Return on Risky Asset} = \frac{\text{Net Profit}}{\text{Total Risky Assets}}$$

Interest Earned to Total Assets

Banks main source of income are the interest earned from loans, advances and investments. Hence higher the proportion of risk assets and investment in total assets, higher the interest earned to total asset ratio. Interest earned to total assets ratio measures the percentage of interest earned in relation to total assets of the banks and shows the efficiency of banks in earning assets. It can be calculated by dividing total interest earning by total assets:

$$\text{Interest Earned to Total Assets ratio} = \frac{\text{Total Interest}}{\text{Total Assets}}$$

Capital Adequacy ratio- It maintains sufficient amount as capital fund. The following ratios are evaluated under capital adequacy ratio:

- a. Shareholders' fund to total deposit ratio
- b. Shareholders' fund to total asset ratio

Shareholders' Fund to Total Deposit ratio

This ratio shows whether commercial banks are maintaining sufficient amount as capital fund or shareholders' fund in comparison to the amount of their total deposits. It is calculated by dividing total shareholders' fund by deposits:

$$\text{Shareholders' Fund to Total Deposit ratio} = \frac{\text{Total Shareholders' Fund}}{\text{Total Deposits}}$$

Shareholders' Fund to Total Asset Ratio

This ratio is very essential for every financial institution to have a balance of required percentage of total assets as shareholders' fund i.e. Capital Fund; Shareholders' Fund to assets ratio measures the relative claims of owners of the bank over the bank's asset. It is calculated by dividing total shareholders' fund by total assets ratio:

$$\text{Shareholders' Fund to Total Assets Ratio} = \frac{\text{Total Shareholders' Fund}}{\text{Total Assets}}$$

C) Statistical Tools

Statistics is a body of methods of obtaining and analyzing data in order to base decision on them. It is a branch of scientific method used in dealing with phenomena that can be described numerically either by counts or by measurements. Thus the words statistics refer to a method of dealing with quantitative information.

Webster defines statistics as 'the classified facts represented by the condition of the people in state especially those facts which can be stated in numbers or in tables of number or in any tabular or classified arrangement.'²⁵

Yale and Kendall define statistics as 'By statistics we mean quantitative data affected to a market extend by multiplicity of causes.'²⁶

The coefficients of correlation, calculation of probable error, trend analysis are applied on statistical analysis to achieve the objective of study.

25. S. Shrestha, op. cit. p. 21

26. Ibid

Coefficient of Correlation

Coefficient of correlation is defined as the 'relationship' or (association) between (among) the one dependent variable or factor and one (or more than one) independent variable(s) or factor(s).

Of the several mathematical methods of measuring correlation, the Pearson's method popularly known as Personian coefficient of correlation is denoted by the symbol r .

$$r = \frac{N \sum xy - \sum x \sum y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Probable Error (PE) of Correlation Coefficient:

The probable error of the correlation coefficient is applicable for the measurement of reliability of the computed value of the correlation coefficient " r ". The probable error (PE) is defined by

$$PE = 0.6745 \sqrt{\frac{1-r^2}{N}}$$

Where,

r = correlation coefficient

N = number of pairs of observation

If $r < PE$, the value of r is not significant

If $r > PE$, the value of r is significant i.e. correlation is significant.²⁷

27. Sunity Shrestha & Dhurba Prasad Silwal, **Statistical Methods in Management**, Kathmandu : Taleju Prakashan, 2000, P. 315.

Trend Analysis

Trend analysis is very useful in terms of both commercial banks and to the shareholders. Though analysis bank can estimate the future investments, opportunities, rate of return, deposit liabilities etc, whether to stick in the present growth rate or to invent on the bank or to leave as per the satisfaction of the growth rate. For depositors it provides degree of safety in the form of financial credit the worthiness of the bank in the future and the borrowers. It assures about the financial capability of the banks to furnish their loans and advance in the future provided that the present tend continues.

Trend analysis can be calculated by following steps :

N = no. of years

X = deviation from base year

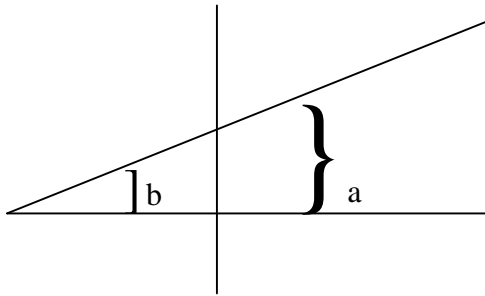
Y = financial variables of which trend analysis to be done

The regression equation of Y on X

$$Y = a + bX$$

a = Numerical constants measures the distance of the fitted line directly above or below the origin or Y intersect.

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



Note that 'a' and 'b' are also called parameters of the line. The following two normal equations are solved simultaneously to find out the values of a and b.²⁸

$$Y = Na + b \quad x \quad \dots\dots\dots \text{(eq.1)}$$

$$XY = Xa + X \Gamma b \quad x^2 \quad \dots\dots\dots \text{(eq.2)}$$

28. Shrestha & Silwal, op. cit. P. 339.

Chapter-4

PRESENTATION AND ANALYSIS OF DATA

This chapter deals with the presentation, analysis and interpretation of data in order to fulfill the objectives of this study. This Chapter includes analysis of deposits, analysis of ratios, economical analysis and statistical analysis. The motto of this chapter is to study, evaluation and analysis of financial performance which are related to capital and assets structure of commercial banks.

4.1 Analysis of Deposits

Deposits represent the liability of the bank. Since deposits are borrowed amount from depositor's i.e. from general public. It is the largest portion of liabilities of a bank.

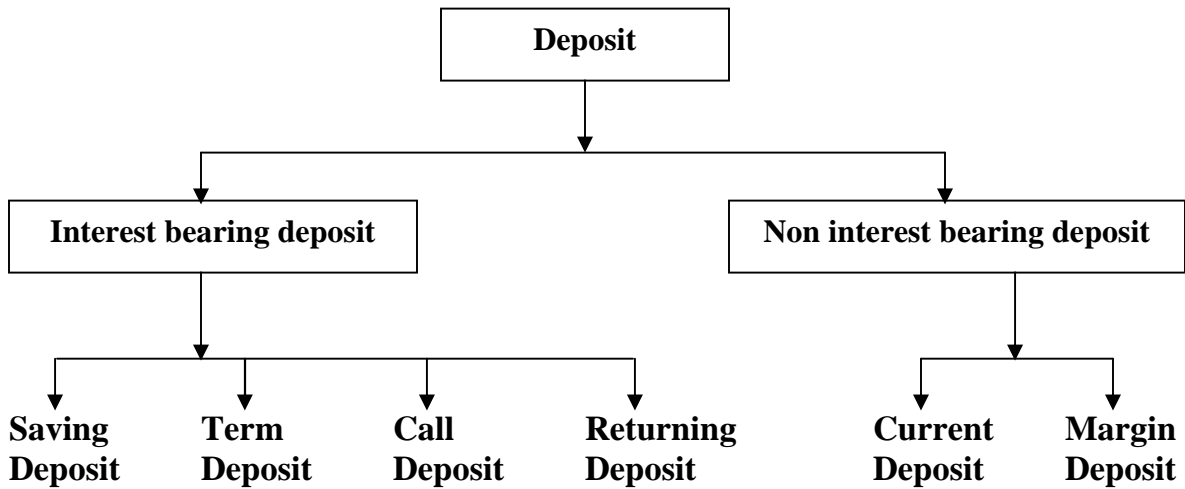
Commercial banks activity creates money in the process of acquiring earning assets. Since additional earning assets results in increased income, banks have an intensive to expand their deposits because banks deposits are also one of the main sources for loans and investments. In a developed country in case of banks, the capital subscribed by the owner trends to play distantly subordinate role. Banks are highly leveraged institution that depends heavily on attracting deposits as the basis for their assets acquisition.

The core function of any banking industry is to mobilize the funds from the depositors to the borrowers. This is the main principal of banking industry and this will happen only if it can effectively channels the saving of the community.

Commercial banks usually accept deposits from the public and institutions.

Deposits are classified into two types:

1. Interest bearing deposits
2. Non Interest bearing deposits



I. Fiscal Year 2002/03

Comparative Deposit Analysis of various joint venture banks for the period ending 15th July 2003 (Ashadh 31st 2060).

Table 1 : Analysis of Deposit- 2002/03

Bank/ Deposits	NBBL		EBL		HBL		Average Deposit
	% B	% D	% B	% D	% B	% D	
Current	18	7.8	11.5	10.6	70.5	13	10.47
Saving	11.1	16.7	7.3	23.1	81.6	52	30.6
Fixed	44	63.1	19.1	58.1	36.8	22.4	47.87
Call	21.7	6.5	3.8	2.3	74.5	9.5	6.1
Margin	100	5.8	0	0	0	0	1.93
Other	0.0	0.0	27.9	5.9	72.1	3	2.97
Total		100		100		100	

% B = Percentage of total bank's deposits.

% D = Percentage of individual bank's deposits.

Current Deposit, Saving, Fixed, Call, Margin and Other Deposit of NBBL for the year are 7.8%, 16.7%, 63.1%, 6.5%, 5.8% and nil respectively and the bank has highest on Fixed account and lowest of Margin account.

Current Deposit, Saving, Fixed, Call, Margin and Other Deposit of EBL for the year are 10.6%, 23.1%, 58.1%, 2.3%, nil and 5.9% respectively and the bank has highest on Fixed and lowest on Call account.

Current Deposit, Saving, Fixed, Call, Margin and Other Deposit of HBL for the year are 13.0%, 52.0%, 22.4%, 9.5%, nil and 3.0% respectively and the bank has highest on Saving lowest on Other account.

HBL has highest Current Deposit followed by EBL and NBBL respectively. Similarly, HBL has highest Saving Deposit followed by EBL and NBBL respectively.

NBBL has highest Fixed Deposit followed by EBL and HBL respectively. Similarly, HBL has highest Call Deposit followed by NBBL and EBL respectively.

NBBL has highest Margin Deposit, EBL and HBL had nil Margin Deposit respectively. Similarly, the Other Deposit of EBL is highest followed by HBL and NBBL respectively.

The Current Deposit of NBBL is below the average deposits of three banks and EBL & HBL are above the average deposits. Similarly, in Saving Deposit, HBL is above the average and NBBL & EBL are below the average. In Fixed Deposit, NBBL and EBL are above average and HBL is below average. In Call Deposit, NBBL and HBL are above average and EBL is below average. In Margin Deposit, NBL is above average and EBL & HBL have nil Margin Deposit. In Other Deposit, EBL and HBL are above average, NBBL is nil in Other Deposit.

Fixed Deposit is maximum in average among all the deposits during the year 2002/03. Hence, Fixed Deposits are being the most important source of business of all above banks during the year 2002/03.

II. Fiscal Year 2003/04

Comparative Deposit Analysis of various joint venture banks for the period ending 15th July 2004 (Ashadh 31st 2061).

Table 2 : Analysis of Deposit- 2003/04

Bank/ Deposits	NBBL		EBL		HBL		Average Deposit
	% B	% D	% B	% D	% B	% D	
Current	19	7.4	11	9	70	12.4	9.6
Saving	12.7	17.3	10	29.2	77.1	48.7	31.7
Fixed	44.5	67.4	15.3	48.3	40.1	27.9	47.9
Call	17.5	4.5	11.1	6	71.5	8.5	6.33
Margin	100	3.4	0	0	0	0	1.13
Other	0	0	38.8	7.4	61.2	2.5	3.13
Total		100		100		100	

Current Deposit, Saving, Fixed, Call, Margin and Other Deposit of NBBL for the year are 7.4%, 17.3%, 67.4%, 4.5%, 3.4% and nil respectively and the bank has highest on Fixed account and lowest of Margin account.

Current Deposit, Saving, Fixed, Call, Margin and Other Deposit of EBL for the year are 9%, 29.2%, 48.3%, 6%, nil and 7.4% respectively and the bank has highest on Fixed and lowest on Call account.

Current Deposit, Saving, Fixed, Call, Margin and Other Deposit of HBL for the year are 12.4%, 48.7%, 27.9%, 8.5%, nil and 2.5% respectively and the bank has highest on Saving lowest on Other account.

HBL has highest Current Deposit followed by EBL and NBBL respectively. Similarly, the Saving Deposit of HBL is highest followed by EBL and NBBL respectively.

The Fixed Deposit is highest of NBBL followed by EBL and HBL respectively. Similarly, HBL has highest Call Deposit followed by NBBL and EBL respectively.

The Margin Deposit is highest of NBBL followed by EBL and HBL respectively. Similarly, the Other Deposit is highest of EBL followed by HBL respectively.

The Current Deposit of NBBL and EBL are below the average deposits of three banks and HBL is above the average deposits. Similarly, in Saving Deposit, HBL is above the average and NBBL & EBL are below the average. In Fixed Deposit, NBBL and EBL are above average and HBL is below average. In Call Deposit, HBL is above average and NBBL & EBL are below average. In Margin Deposit, NBBL is above average and EBL & HBL has nil Margin Deposit. In Other Deposit, EBL is above average, HBL is below average and NBBL is nil in Other Deposit.

Fixed Deposit is maximum in average among all the deposits during the year 2003/04. Hence, Fixed Deposits are being the main source of investment of all above banks during the year 2003/04.

III. Fiscal Year 2004/05

Comparative Deposit Analysis of various joint venture banks for the period ending 15th July 2005 (Ashadh 31st 2062).

Table 3 : Analysis of Deposit- 2004/05

Bank/ Deposits	NBBL		EBL		HBL		Average Deposit
	% B	% D	% B	% D	% B	% D	
Current	18.9	7.6	14.1	10.2	67	10.2	9.33
Saving	14.1	20.7	11.2	30.2	74.7	30.2	27.03
Fixed	42.4	63	18.5	49.9	39.8	49.9	54.27
Call	41.4	8.2	13.7	4.9	45	4.9	6
Margin	6.7	0.4	0	0	93.3	0.2	0.2
Other	0.8	0.2	99.2	4.6	0	0	1.6
Total		100		100		100	

Current Deposit, Saving, Fixed, Call, Margin and Other Deposit of NBBL for the year are 7.6%, 20.7%, 63%, 8.2%, 0.4% and 0.2% respectively and the bank has highest on Fixed account and lowest of Other account.

Current Deposit, Saving, Fixed, Call, Margin and Other Deposit of EBL for the year are 10.2%, 30.2%, 49.9%, 4.9%, nil and 4.6% respectively and the bank has highest on Fixed and lowest on Other account.

Current Deposit, Saving, Fixed, Call, Margin and Other Deposit of HBL for the year are 10.2%, 30.2%, 49.9%, 4.9%, 0.2% and nil respectively and the bank has highest on Fixed lowest on Other account.

HBL and EBL have highest Current Deposit followed by NBBL. Similarly, the Saving Deposit is highest of both HBL and EBL followed by NBBL.

The Fixed Deposit is highest in NBBL followed by EBL and HBL respectively. Similarly, Call Deposit is highest in NBBL followed by HBL and EBL respectively.

The Margin Deposit is highest in NBBL followed by HBL. Similarly, the Other Deposit is highest in EBL followed by HBL.

The Current Deposit of NBBL is below the average deposits of three banks and EBL & HBL are above the average deposits. Similarly, in Saving Deposit EBL and HBL are above the average and NBBL is below the average. In Fixed Deposit, NBBL is above average and EBL & HBL are below average. In Call Deposit, NBBL is above average EBL and HBL below average. In Margin Deposit, HBL and NBBL are above average and EBL is nil. In Other Deposit only EBL is above average, EBL is below average and NBBL is nil in Other Deposit.

Fixed Deposit is Maximum in average among all the deposits during the year 2004/05. Hence, Fixed Deposits are being the major source of business of all above banks during the year 2004/05.

IV. Fiscal Year 2005/06

Comparative Deposit Analysis of various joint venture banks for the period ending 15th July 2006 (Ashadh 31st 2063).

Table 4 : Analysis of Deposit- 2005/06

Bank/ Deposits	NBBL		EBL		HBL		Average Deposit
	% B	% D	% B	% D	% B	% D	
Current	21.6	11.3	12.3	8.9	66.1	14.1	11.53
Saving	0.2	2.7	5.7	31.7	82	49.2	27.86
Fixed	40	71.5	19.7	49.3	40.02	29.4	50.06
Call	36.5	10	21.1	8.1	42.3	4.7	7.6
Margin	43.2	4.3	0	0	55.8	2.3	2.2
Other	0	0	82.5	19	17.5	0.1	6.37
Total		100		100		100	

Current Deposit, Saving, Fixed, Call, Margin and Other Deposit of NBBL for the year are 11.3%, 2.7%, 71.5%, 10%, 4.3% and nil respectively and the bank has highest on Fixed account and lowest of Saving account.

Current Deposit, Saving, Fixed, Call, Margin and Other Deposit of EBL for the year are 8.9%, 31.7%, 49.3%, 8.1%, nil and 19% respectively and the bank has highest on Fixed and lowest on Call account.

Current Deposit, Saving, Fixed, Call, Margin and Other Deposit of HBL for the year are 14.1%, 49.2%, 29.4%, 4.7%, 2.3% and 0.1% respectively and the bank has highest on Saving lowest on Other account.

Current Deposit is highest in HBL followed by EBL and NBBL respectively. Similarly, the Saving Deposit is highest in HBL followed by EBL and NBBL respectively.

The Fixed Deposit is highest in NBBL followed by EBL and HBL respectively. Similarly, Call Deposit is highest in NBBL followed by EBL and HBL respectively.

The Margin Deposit is highest in NBBL followed by HBL and EBL respectively. Similarly, the Other Deposit in highest in EBL followed by NBBL and HBL respectively.

The Current Deposit of NBBL and EBL are below the average deposits of three banks and HBL is above the average deposits. Similarly, in Saving Deposit EBL and HBL are above the average and NBL is below the average. In Fixed Deposit, NBBL and EBL are above average and HBL below average. In Call Deposit, NBBL and EBL are above average, HBL is below the average. In Margin Deposit, NBBL and HBL are above average. In Other Deposit, only EBL is above average, HBL is below average and NBBL is nil.

Fixed Deposit is maximum in average among all the deposits during the year 2005/06. Hence, Fixed Deposits are being the key source of economics of all above banks during the year 2005/06.

IV. Fiscal Year 2006/07

Comparative Deposit Analysis of various joint venture banks for the period ending 15th July 2007 (Ashadh 31st 2064).

Table 5 : Analysis of Deposit- 2006/07

Bank/ Deposits	NBBL		EBL		HBL		Average Deposit
	% B	% D	% B	% D	% B	% D	
Current	17.7	8.4	11.3	8.4	70	16.7	11.17
Saving	17.8	27.8	16.6	41.2	65.5	51.7	40.23
Fixed	45.6	47.4	25.3	41.7	29.1	15.3	34.8
Call	29.5	13.8	8.7	6.4	61.8	14.5	11.57
Margin	34.3	2.6	17.7	2.1	47.9	1.8	2.17
Other	0	0	100	0.1	0	0	0.03
Total		100		100		100	

Current Deposit, Saving, Fixed, Call, Margin and Other Deposit of NBBL for the year are 8.4%, 27.8%, 47.4%, 13.8%, 2.6% and nil respectively and the bank has highest on Fixed account and lowest of Other account.

Current Deposit, Saving, Fixed, Call, Margin and Other Deposit of EBL for the year are 8.4%, 41.2%, 41.7%, 6.4%, 2.1% and 0.1% respectively and the bank has highest on Fixed and lowest on Other account.

Current Deposit, Saving, Fixed, Call, Margin and Other Deposit of HBL for the year are 16.7%, 51.7%, 15.3%, 14.5%, 1.8% and nil respectively and the bank has highest on Saving lowest on Other account.

Current Deposit is highest in HBL followed by EBL and NBBL respectively. Similarly, the Saving Deposit is highest in HBL followed by EBL and NBBL respectively.

The Fixed Deposit is highest in NBBL followed by EBL and HBL respectively. Similarly, Call Deposit is highest in HBL followed by NBBL and EBL respectively.

The Margin Deposit is highest in NBBL followed by HBL and EBL respectively. Similarly, the Other Deposit is highest in EBL.

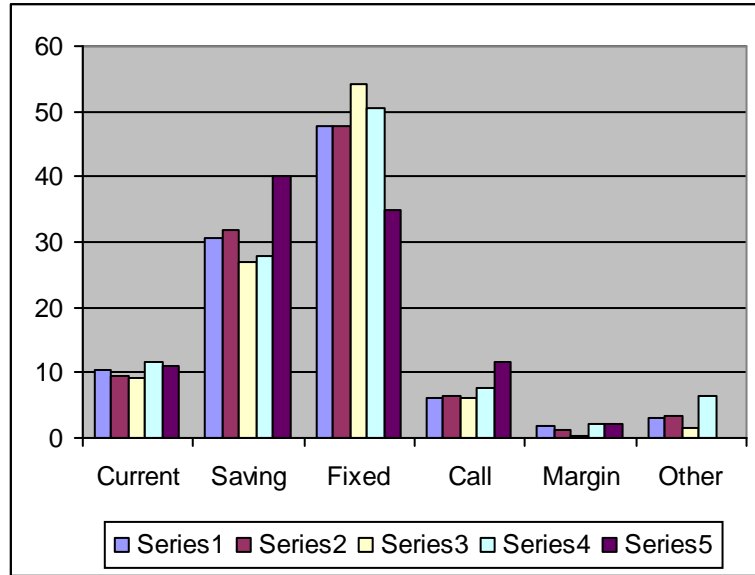
The Current Deposit of NBBL and EBL are below the average deposits of three banks and HBL is above the average deposits. Similarly, in Saving Deposit EBL and HBL are above the average and NBBL is below the average. In Fixed Deposit, NBBL and EBL are above average and HBL below average. In Call Deposit, NBBL and HBL are above average, EBL is below the average. In Margin Deposit, NBBL and EBL are above average and HBL is below average. In Other Deposit, only EBL is above average, NBBL and EBL are nil.

Saving Deposit is maximum in average among all the deposits during the year 2006/07. Hence, Saving Deposits are being the main source of financial side of all above banks during the year 2006/07.

Graphical presentation of Average Deposits of various joint venture banks for various period.

Graph 1

Analysis of Average Deposits from period ending 15th July 2003 to 2007



Now in below section, detail Analysis of Deposits are done separately. This will help to know the growth or fall in the rate of the deposits.

I. Current Deposit

Comparative current Deposit Analysis of various joint venture banks for the period ending 15th July 2003 to 2007.

Table 6 : Current Deposit Analysis

Years/Banks	NBBL	EBL	HBL	Average of Current Deposit
2002/03	7.8	10.6	13	10.3
2003/04	7.4	9	12.4	9.6
2004/05	7.6	10.2	12.8	10.2
2005/06	11.3	8.9	14.1	11.4
2006/07	8.4	8.4	16.7	11.2

The above table shows, Current Deposit of three banks for the five years, in 2002/03 Current Deposit is 10.3 in average. In 2003/04, it falls to 9.6% and in 2004/05, again it rises to 10.3%, again in 2005/06, it raised to peak 11.4%. And in 2006/07, it falls to 11.2%.

Based on the above, average Current Deposit, from the year 2002/03 to 2003/04, Current Deposit is decreasing but it increases from the year 2004/05 and it is higher in 2005/06, it seems that banks are in growing condition.

II. Saving Deposit

Comparative Saving Deposit Analysis of various joint venture banks for the period ending 15th July 2003 to 2007.

Table 7 : Saving Deposit Analysis

Years/Banks	NBBL	EBL	HBL	Average of Saving Deposit
2002/03	16.7	23.1	52	30.6
2003/04	17.3	29.3	47.7	31.7
2004/05	20.7	30.2	52.1	34.3
2005/06	2.7	31.7	49.2	27.86
2006/07	27.8	41.2	51.7	40.23

The above table shows, Saving Deposit of three banks for the five years, in 2002/03 Deposit is 30.6% in average. In 2003/04, it increases to 31.7%, and in 2004/05, again it increases to 34.3% but in 2005/06, it slightly decreases to 27.86%. And in 2006/07, it is in peak i.e. 40.23%.

Above table shows that average Saving Deposit, from the year 2002/03 to 2004/05, it is in increasing trend but in the year 2005/06 it decreases and again it increases in 2006/07 by 40.23%. Thus 40.23% is higher than 2002/03 so, it seems that banks are in rising condition.

III. Fixed Deposit

Comparative Fixed Deposit Analysis of various joint venture banks for the period ending 15th July 2003 to 2007.

Table 8 : Fixed Deposit Analysis

Years/Banks	NBBL	EBL	HBL	Average of Fixed Deposit
2002/03	63.1	58.1	22.4	47.87
2003/04	67.4	48.3	27.9	47.87
2004/05	63	49.9	28.1	47
2005/06	71.5	49.3	29.4	50
2006/07	47.4	41.7	15.3	34.7

The above table shows, Fixed Deposit of three banks for the five years, in 2002/03 Deposit is 47.87% in average. In 2003/04, it is similar to 47.87%, and in 2004/05, it decreases to 47% but in 2005/06, it increases to 50%. And in 2006/07, it decreases to 34.7%.

The table presented about reveals that average Fixed Deposit, from the year 2002/03 to 2003/04, it is in similar trend but in the year 2004/05 and 2006/07 it decreases. In year 2005/06 it is in peak i.e. 50%. As a result it seems that banks' Fixed Deposit is declining.

IV. Call Deposit

Comparative Call Deposit Analysis of various joint venture banks for the period ending 15th July 2003 to 2007.

Table 9 : Call Deposit Analysis

Years/Banks	NBBL	EBL	HBL	Average of Call Deposit
2002/03	6.5	2.3	9.5	6.1
2003/04	4.5	6	8.5	6.33
2004/05	8.2	4.9	4.2	5.77
2005/06	10	8.1	4.7	7.6

2006/07	13.8	6.4	14.5	11.56
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The above table shows, Call Deposit of three banks for the five years, in 2002/03. Deposit is 6.1% in average. In 2003/04, it is slightly increase to 6.33%, and in 2004/05, it decreases to 5.77% but in 2005/06 to 2006/07, it increases to 7.6%, 1.56% respectively.

According to Call Deposit, it is in increasing trend for whole five years. The highest Call Deposit is in 2006/07 but little bit lower in 2004/05. Therefore, above table shows that bank is in expanding condition.

V. Margin Deposit

Comparative Margin Deposit Analysis of various joint venture banks for the period ending 15th July 2003 to 2007.

Table 10 : Margin Deposit Analysis

Years/Banks	NBBL	EBL	HBL	Average of Margin Deposit
2002/03	5.8	0	0	1.93
2003/04	3.4	0	0	1.13
2004/05	0.4	0	2.6	1
2005/06	2.3	4.3	2.3	2.97
2006/07	2.6	2.1	1.8	2.17

The above table shows, Margin Deposit of three banks for the five years, in 2002/03 Deposit is 1.93% in average. In 2003/04 and 2004/05 it insignificantly decreases to 1.13% and 1%. But it slightly increases in 2004/05 to 2006/07 from 1% to 2.17%.

Based on the above, average Margin Deposits, are in fluctuating trend but insignificantly. Though deposit of 2006/07 is high than deposit of 2002/03 but differences are irrelevant. However, Margin Deposit occupied very little percentage among all deposits. As a result, Margin Deposit doesn't play important role on financing.

VI. Other Deposit

Comparative Other Deposit Analysis of various joint venture banks for the period ending 15th July 2003 to 2007.

Table 11 : Other Deposit Analysis

Years/Banks	NBBL	EBL	HBL	Average of Other Deposit
2002/03	0	5.9	3	2.97
2003/04	0	7.4	2.5	3.3
2004/05	0.2	4.6	0	1.6
2005/06	0	19	0.1	6.37
2006/07	0	0.5	0	0.03

The above table shows, Other Deposit of three banks for the five years are in fluctuating trend. In 2002/03 Deposit is 2.97% in average. In 2003/04, it increases to 3.3% and in 2004/05 it decreases to 1.6% but in 2005/06, again it highly increases to 6.37%. And in 2006/07, it decreases to 0.03%.

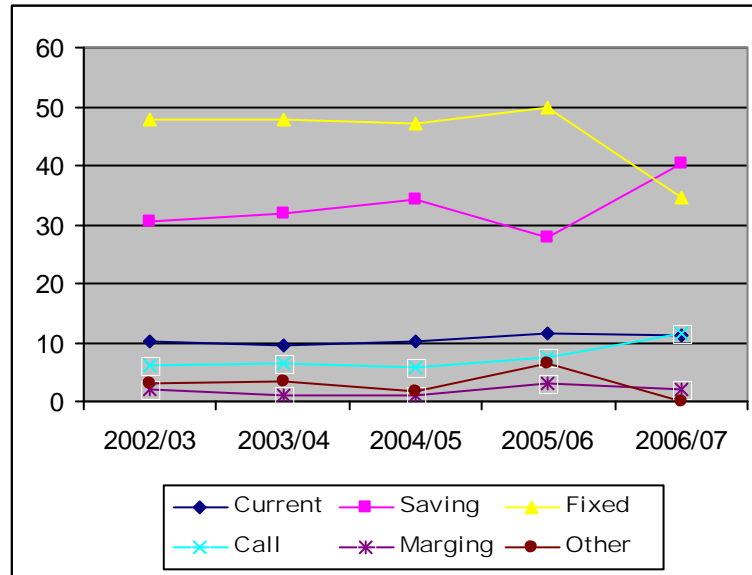
the above table shows that average Other Deposit, is very unstable. As a result, the deposit of 2006/07 is very less that deposit of 2005/06. However, Other Deposit occupies very little proportion among all deposit. Accordingly, Other Deposit doesn't play vital role on investment.

**Graphical Presentation of Average Deposits of
various Joint Venture Banks Analysis of Average Deposits for the period
ending 15 July 2003 to 2007**

Graph # 2

Analysis of Average Deposit

In Percentage



4.2 Analysis of Ratios

Ratio analysis is one of the most commonly used techniques and most powerful tools of financial analysis. In financial analysis, a ratio is a benchmark for evaluating the financial position and performance of a firm. It is a simple but meaningful technique of measuring operating performance and evaluating managerial performance of a firm. The ratio analysis provides a basis to examine different accounting parameters, which reflect the norms of business operation. Ratios are calculated and compared with relevant firm those of competitors in order to see whether or not the operating results are at a satisfactory level. Ratios help to summarize large quantities of financial data and to make qualitative judgment about the firm's financial performance.

The ratio analysis includes a wide range of examination from a specific aspect of a division or unit of the overall firm. The main objective of ratio analysis is to examine various aspects of business and make sure that the operating results have not deviated

from the stated norms. Specially, the objective of ratio analysis is to examine (a) liquidity position (b) operating efficiency (c) financial leverage (d) earning power and (e) market value of the firm. Different ratios can be calculate to examine each of these aspects; however, as to which aspect to examine and which ratios to calculate depends on the concerns of analysis based on the different operating and financial aspects and need for their examination; ratios are classified in the following four sets.

- A. Liquidity Ratios to examine liquidity position,
- B. Activity (Utilization) Ratios to examine efficiency and utilization,
- C. Profitability Ratios to examine earning power,
- D. Capital Adequacy Ratios to examine the strength of the capital adequacy of the available capital.

The ratios calculated on the basis of grouping and regrouping of the figures appearing on either profitability statement or balance sheet or both might not all by themselves mean anything, unless they can be compared with some yardstick. The yardstick with which the ratios can be compared may be in following three forms.

- (1) Comparison of ratios within same organization for various years.
- (2) Comparison with other organization in the same industry.
- (3) Comparison with some standards.

In the present section, and analysis and interpretation of financial performance of the various commercial banks selected for the study have been presented. For this purpose, based on the financial statements of these banks, various ratios have been calculated.

(A) Liquidity Ratios

I. Current Ratio:

Some Adjustments were made while calculating current ratio. They are as follows:

-) 20% of loans, advances and investment are considered as long term obligations.
-) 50 percents of fixed deposits are considered as long term obligation.
-) Loan loss provision, provision for gratuity are excluded from other liabilities.

The Idle standard of the current ratio is 2:1.

Computation of Current Ratio of Various Joint Venture banks for the period ending 15th July 2003 to 15th July 2007

Table 12 : Current Ratio Analysis

(Amt in '000)

Years/Banks	NBBL	EBL	HBL	Average of Ratios
2002/03				
Current Assets	4,073,635	2,077,320	9,993,897	16,144,852
Current Liabilities	3,100,297	2,127,090	9,412,133	14,639,520
Ratios	1.31	0.97	1.06	1.1
2003/04				
Current Assets	6,155,065	3,334,590	14,133,123	23,622,778
Current Liabilities	4,608,456	3,204,270	12,996,284	20,809,010
Ratios	1.34	1.04	1.09	1.13
2004/05				
Current Assets	9,333,502	5,049,850	19,042,600	33,425,952
Current Liabilities	7,158,550	4,874,790	17,154,000	29,187,340
Ratios	1.30	1.03	1.11	1.14
2005/06				
Current Assets	11,010,723	6,359,660	20,353,590	37,723,973
Current Liabilities	10,475,729	6,063,870	19,714,318	36,253,917
Ratios	1.05	1.05	1.03	1.04
2006/07				
Current Assets	11,851,875	7,942,619	23,125,350	42,919,844
Current Liabilities	11,180,559	7,439,384	21,646,250	40,266,193
Ratios	1.06	1.07	1.07	1.06

Source: Websites of the annual Reports and company concerned

Above table indicates that Current Ratio of all the banks current ratios are highly fluctuating. All the banks are increasing only from the year 2005/06 with the exception of EBL which started increasing from 2004/05. The highest ratio pointed at 1.34 of NBBL during the year 2003/04 and the lowest ratio pointed to 0.97 of EBL during the year 2002/03.

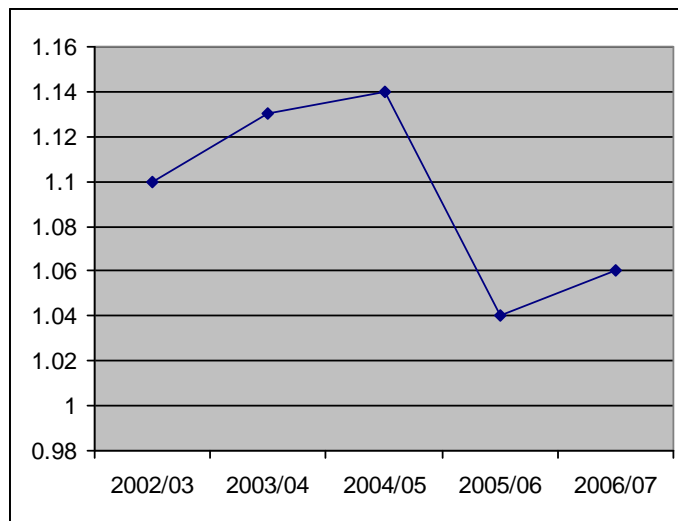
The current ratio of each banks are more than one except EBL during the year 2002/03. Therefore, in the case of current assets all the banks under study contained more than its liabilities. This signifies that all the banks had inadequate current assets to pay its short-term obligations. Though the idle standard of the current ratio is 2:1 but none of the banks meet the standard.

Moreover, from the liquidity point of view, all the banks seems better for the reason average of deposits shows that fixed deposit is high in the total deposit. Similarly, from the point of view of working capital policy, all the banks have increasing current liabilities (current and saving) by which they can apply them into liquid sectors.

**Graphical Presentation of Current Ratios of Various Joint Venture Banks
Average of Current Ratio for the Period ending 15th July 2003 to 2007**

Graph # 3

Current Ratio Analysis



Average of Ratios

Graphical Presentation of current ratios of various joint venture banks shows that current ratios of almost all banks are highly fluctuating. During the year 2002/03. Current Ratio is 1.1 after that it increases to 1.13 in 2003/04 again, it increases to 1.14 in the year 2004/05 again, it decreases to 1.04 in 2005/06 and again it increases to 1.06 in 2006/07. Therefore this trend signifies that current ratio is in increasing trend but it is less in the year 2006/07 comparing to 2002/03.

II. Cash and Bank Balance to Total Deposit Ratio

Assumption:

50 percents of fixed deposits are considered as long-term obligation therefore it is not included in total Deposits.

Computation of Cash and Bank Balance to Total Deposit Ratio of Various Joint Venture Banks for the period ending 15th July 2003 to 15th July 2007.

Table 13 : Cash and Bank Balance to Total Deposit

(Amt in '000)

Years/Banks	NBBL	EBL	HBL	Average of Ratios
2002/03				
Total Cash and Bank Balance	619427	460710	802208	1882325
Total Deposit	2841901	1382940	8677545	12902386
Ratios	21.80%	33.31%	9.24%	14.59%
2003/04				
Total Cash and Bank Balance	645750	278600	901907	1826257
Total Deposit	4288903	2317985	12084528	18691416
Ratios	15.06%	12.01%	7.46%	9.77%
2004/05				
Total Cash and Bank Balance	998970	834990	1287000	3120960
Total Deposit	5826840	3432190	15364000	24623030
Ratios	17.14%	24.32%	8.38%	12.67%

2005/06				
Total Cash and Bank Balance	1759304	809200	1264671	3833175
Total Deposit	6789644	4113800	15878954	26782398
Ratios	26%	7.96%	7.96%	14.31%
2006/07				
Total Cash and Bank Balance	899511	1139568	1979209	4018288
Total Deposit	10569707	6694959	21007376	38272042
Ratios	8.51%	17%	9.42%	10.5%

Source: Websites

The Above table shows that all the banks are in fluctuating trend. The range of Cash and Bank Balance of EBL is high among all the Banks in Fiscal Year 2002/03 with a ratio of 33.31% and the lowest is 7.46% of HBL in the year 2003/04.

NBBL has highest 26.00% in the year 2005/06 and lowest in the year 2006/07 which is 8.51%. Similarly, EBL is highest in the year 2002/03 with 33.31% and lowest in the year 2003/04 with 12.01% Again, HBL is highest in the year 2006/07 with 9.42% and lowest in the year 2003/04 with 7.46 %.

NBBL and EBL has decreased from 2005/06 26.00% to 8.51% and 19.67% to 17.))% respectively during the year 2006/07 and HBL has increased from 7.96% to 9.42% respectively.

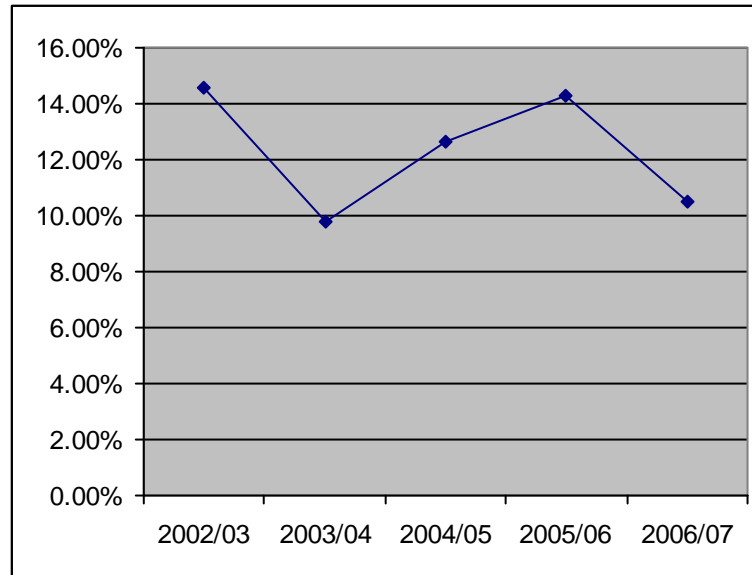
According to above table, it may conclude that the cash and bank balance position with respect to total deposit has better performance in the case of EBL because EBL is almost double in ratio comparing to other rest of the banks. On the contrary, the lowest ratio of cash and bank balance signifies that the bank has burden more idle money. Thus, NBBL and HBL could invest more.

Graphical presentation of Cash & Bank Balance to Total Deposit of Various Joint Venture Banks :

Average of Cash and Bank Balance to Total Deposit Ratio for the period ending 15th July 2003 to 2007

Graph # 4

Cash and Bank Balance to Total Deposit



Average of Ratios

Graphical presentation of cash and bank balance to total deposit ratio of various joint venture banks shows that cash and bank balance to total deposit ratio of almost all banks are highly fluctuating. During the year 2002/03 average cash and bank balance to total deposit ratio is 14.59% after that it decreases to 12.67% in 2003/04 again, it increases to 14.31% in the year 2005/06 and again it decreases to 10.53% in 2006/07. Therefore this trend indicates that cash and bank balance to total deposit ratio is in decreasing trend because it is very less in the year 2006/07 comparing to 2002/03.

(B) Activity (Utilization) Ratios

I. Loan and Advances (Total Credit) to Total Deposit Ratio

Assumption:

Total Credit = Bill Purchase & Discount + Loans and Advances & Overdraft

**Computation of Total Credit to Total Deposit Ratio of Various Joint Venture
Banks for the Period ending 15th July 2003 to 15th July 2007**

Table 14 : Total Credit to Total Deposit

(Amt in '000)

Years/Banks	NBBL	EBL	HBL	Average of Ratios
2002/03				
Total Credit	31,64,732	1364890	5245975	9775597
Total Deposit	41,52,704	1948940	9772736	15874380
Ratios	76.21%	70.03%	53.68%	61.58%
2003/04				
Total Credit	4617097	2270180	7224727	14112004
Total Deposit	6467194	3057430	14043097	23567721
Ratios	71.39%	74.27%	51.45%	59.87%
2004/05				
Total Credit	7347140	3005760	9177000	19529900
Total Deposit	8567840	4574510	17614000	30756350
Ratios	85.66%	65.70%	52.10%	63.5%
2005/06				
Total Credit	7632418	3982700	9557137	21172255
Total Deposit	9514457	5461100	18619375]	33594932
Ratios	80.22%	72.92%	53.10%	63%
2006/07				
Total Credit	7247980	4908460	10844599	23001039
Total Deposit	10569707	6694959	21007376	38272042
Ratios	68.57%	73.32%	51.62%	60%

Source: Websites

The above table shows that all the banks are in fluctuating trend. The range of Total Credit to Total Deposit of NBBL is highest among all the banks in fiscal year 2004/05 with a ratio of 85.66% and the lowest in 51.45% of HBL in the year 2003/04.

NBBL has highest 85.66% in the year 2004/05 and lowest in the year 2006/07 which is 68.57%. Similarly, EBL is highest in the year 2003/04 with 74.27% and lowest in

the year 2004/05 with 65.70%. Again, HBL is highest in the year 2002/03 with 53.68% and lowest in the year 2003/04 with 51.45%.

NBBL is in fluctuating trend. In the year 2002/03 it is 76.21% but in 2003/04 it decreased to 71.39% again in 2004/05 it increased to 85.66% again it decreased from 2004/05 to 2006/07 till 68.57%. In the case of EBL, it is in increasing trend. EBL has increased from the year 2004/05 to 2006/07 which is 65.70% to 73.32%. HBL is in fluctuation trend. In 2002/03 it is 53.68% but in 2003/04 it decreases to 51.45% and till 2005/06 it has increased from 51.45% to 53.10% but it has decreased in 2006/07 to 51.62%.

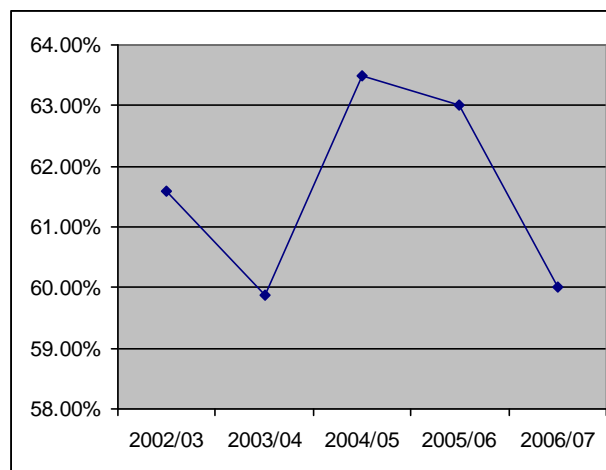
Above analysis reveals that NBBL has highest ratio comparing to other banks therefore NBBL seems to be successful to maintain highest credit ratio. Similarly, deposit utilization ratio of EBL is also seemed to be satisfactory as compared to other banks. HBL is slightly weak to mobilize its total deposit as loan and advances hence these banks need to mobilize their deposits in most secure loans.

Graphical Presentation of Total Credit to Total Deposit Ratio of Various Joint Venture Banks :

**Average of Total Credit to Deposit Ratio for the period
Ending 15th July 2003 to 2007**

Graph # 5

Loan and Advances to Total Deposit



Graphical presentation of average of loan and advances to total deposit ratio of various joint venture banks shows that ratios are in decreasing trend. During the year 2002/03, average loan and advances to total deposit ratio is 61.58% after that it slightly increases to 63.5% in 2004/05 after that it decreases from 2004/05 to 2006/07 till 60%. Therefore this trend signifies that loan and advances to total deposit ratio is in decreasing trend.

II. Investment to Total Deposit Ratios

Assumption:

- a. For the calculation of total investment both investment and money at call is taken into consideration.
- b. 50% of bank balance is considered as money at call.

Computation of Total Investment to Total Deposit Ratio of various joint venture banks for the period ending 15th July 2003 to 15th July 2007.

Table # 15 Total Investment to Total Deposit

(Amt in '000)

Years/Banks	NBBL	EBL	HBL	Average of Ratios
2002/03				
Total Investment	808703	187400	4594799	5590902
Total Deposit	4152704	1948900	9772736	15874340
Ratios	19.47%	9.61%	47.02%	35.22%
2003/04				
Total Investment	1724559	260100	6899179	8883838
Total Deposit	6467194	3057400	14043097	23567691
Ratios	26.67%	8.50%	49.13%	37.7%
2004/05				
Total Investment	1088720	826700	8141000	10056420
Total Deposit	8576840	4574500	17614000	30756340
Ratios	12.69%	18.07%	46.22%	32.68%

2005/06				
Total Investment	1108642	1628600	9509456	12246698
Total Deposit	9514457	5461100	18619375	33594932
Ratios	11.65%	29.82%	51.07%	36.45%
2006/07				
Total Investment	2168923	1653977	10175435	13998335
Total Deposit	10569707	6694959	21007376	38272042
Ratios	20.52%	24.71%	48.44%	36.58%

Source: Websites

The above table shows the ratios of total investment to total deposits of all banks are in fluctuating trend. HBL has recorded the highest ratio i.e. 51.07% in the fiscal year 2005/06 and EBL has recorded the lowest ratio i.e. 8.50%.

During the fiscal year 2002/03, NBBL, EBL are below the average and HBL is above the average. In 2003/04, NBBL, EBL are below the average and only HBL is above the average. In 2004/05 NBBL, EBL are below the average and only HBL is above the average. In 2005/06 NBBL and EBL are below the average and HBL is above the average. In 2006/07, NBBL and EBL are below the average and HBL is above the average.

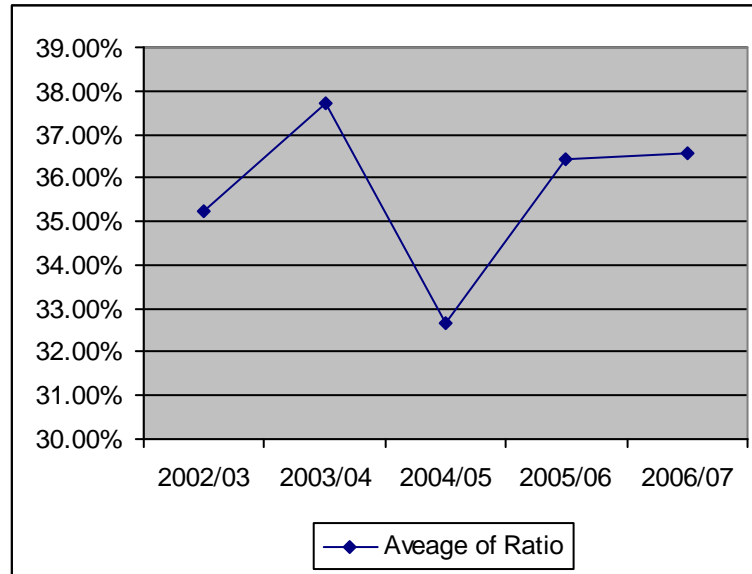
According to above analysis it may be conclude that HBL only has performed very well than other banks. It means HBL has the capacity to mobilize its deposits on total investment is preferable and achieved better position. Similarly, NBBL and EBL have weak ratio therefore these two banks are performing quite bad.

Graphical Presentation of Total Investment to Total Deposit Ratio of various Joint venture banks :

**Average of Total Investment to Total Deposit Ratio for the period ending 15th
July 2003 to 2007**

Graph # 6

Total Investment to Total Deposit



Graphical presentation of various joint venture banks shows that average of total investment to total deposit are in fluctuation trend because during the year 2002/03 it is 35.22% and it rises to 37.7% in the year 2003/04 after that it decreases from the year 2003/04 to 2000/07 .

III. Performing Assets to Total Assets

Computation of Performing Assets to Total Assets Ratio of various joint venture banks for the period ending 15th July 2003 to 15th July 2007.

Table 16 : Performing Assets to Total Assets Ratio

(Amt in '000)

Years/Banks	NBBL	EBL	HBL	Average of Ratios
2002/03				
Performing Assets	3973436	1549800	984077	6507313
Total Assets	4904169	2275010	1130677	8309856
Ratios	81.02%	68.12%	87.03%	78.31%

2003/04				
Performing Assets	6341656	2938140	1412390	10692186
Total Assets	7585874	3411700	1595755	12593329
Ratios	83.60%	86.11%	88.51%	84.90%
2004/05				
Performing Assets	8435860	4068840	1731800	14236500
Total Assets	10802930	5202580	2087800	18093310
Ratios	78.09%	78.20%	82.95%	78.71%
2005/06				
Performing Assets	8741066	5748300	18423179	32912545
Total Assets	11102233	6774200	20672433	38548866
Ratios	78.73%	84.85%	89.11%	85.37%
2006/07				
Performing Assets	9516903	6562437	20327388	36406723
Total Assets	11932611	8052209	23355223	43340093
Ratios	79.76%	81.50%	87.34%	84%

Source: Websites

The above table shows the ratios of performing assets to total assets of all banks are in fluctuating trend. HBL has recorded the highest ratio i.e. 89.11% in the fiscal year 2005/06 and EBL has recorded the lowest ratio i.e. 68.12% in the year 2002/03.

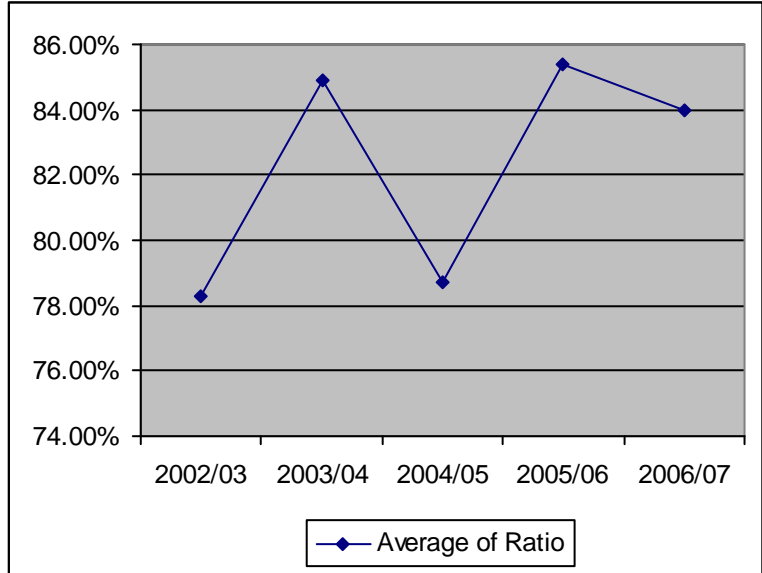
During the fiscal year 2002/03, EBL is below the average and HBL and NBBL are above the average. In 2003/04 only NBBL is below the average and HBL and EBL are above the average. In 2004/05, NBBL and EBL are below the average and only HBL is above the average. In 2005/06 NBBL and EBL are below the average and HBL is above the average. In 2006/07 NBBL and EBL are below the average and HBL is above the average.

According to above analysis it may conclude that the ratio of HBL is higher than two banks. Similarly EBL has standard Ratio therefore this bank also performing quite well. Hence these two banks are in good position because of higher utilization of resources in relation to the total assets which yield higher return for the banks. At the same time the ratio of NBBL is below the average during whole five years.

**Graphical Presentation of Performing Assets to Total Assets Ratio of
Various Joint Venture Banks:
Average of Performing Assets to Total Assets Ratio for the period ending 15th
July 2003 to 2007**

Graph # 7

Performing Assets to Total Assets



Graphical presentation of various joint venture banks shows that average of performing assets to total assets are in fluctuating trend because during the year 2002/03 it is 78.3% and in the year 2003/04 it raise to 84.9% again it decreases to 78.7% in the year 2004/05 after that again in increases to 85.37%. Because of this changeable nature, future performance of the performing assets to total assets is unpredictable.

(C) Profitability Ratios

I. Return on Total Assets

**Return on Total Assets Ratio of various joint venture banks for the period
ending 15th July 2003 to 15th July 2007.**

Table 17 : Return on Total Assets Ratio

(Amt in '000)

Years/Banks	NBBL	EBL	HBL	Average of Ratios
2002/03				
Net Profit	82728	25240	165248	273216
Total Assets	4904169	2275010	11130677	18309856
Ratios	1.69%	1.11%	1.46%	1.49%
2003/04				
Net Profit	139535	41270	199380	344185
Total Assets	7585874	3411700	15957558	26955102
Ratios	1.83%	1.21%	1.24%	1.27%
2004/05				
Net Profit	198752	69700	280697	549145
Total Assets	10802930	5202580	19454340	35549850
Ratios	1.84%	1.34%	1.44%	1.54%
2005/06				
Net Profit	65783	85330	235023	386136
Total Assets	11202233	6607180	20672433	38481846
Ratios	0.59%	1.29%	1.13%	1%
2006/07				
Net Profit	71495	94181	212128	377840
Total Assets	11932611	8052209	23355223	43340043
Ratios	0.60%	1.17%	0.91%	0.87%

The above table shows the ratios of return on total assets ratio of all banks are in fluctuating trend NBBL has recorded the highest ratio i.e. 1.84% in the fiscal year 2004/05 and same bank has recorded the lowest ratio i.e. 0.59% in the year 2005/06.

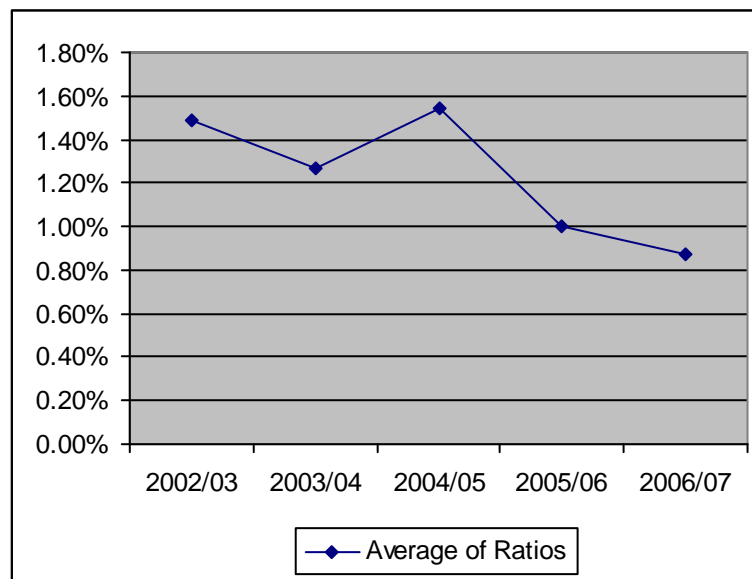
During the fiscal year 2002/03, only NBBL is above the average and rest two banks are below the average. In 2003/04, again only NBBL is above the average and EBL and HBL are below the average. In 2004/05, NBBL is above the average and EBL and HBL are below the average. In 2005/06 EBL and HBL are above the average and

NBBL is below the average. In 2006/07, EBL and HBL are above the average and NBBL is below the average.

According to above analysis it indicates that all the banks follows the fluctuating trend, This is because of its conservative lending procedure. This proves that the increase in profit before tax alone is not sufficient for the consistent return on assets ratio, thus banks must increase their performing assets. Therefore, all the banks need to change its portfolio in order to increase return on assets ratio and they must increase their performing assets to generate income and this helps to earn proportionately in order to achieve a healthy return on assets ratio.

Graphical presentation of Return of Total Assets Ratio of various Joint venture banks:

**Average of Return to Total Assets Ratio for the period
ending 15th July 1999 to 2003**
Graph # 8
Return on Total Assets



Graphical presentation of various joint venture banks shows average of return on total assets are in decreasing trend because during the year 2002/03 it is 1.49% and from the year 2002/03 to 2006/07 it falls to 0.87% but during the year 2004/05 it slightly

rise to 1.54%. Therefore it is concluded that comparing to year 2002/03 to 2006/07 it is in decreasing trend.

II. Return on Total Deposit

Return on Total Deposit Ratio of Various Joint Venture Banks for the period ending 15th July 2003 to 15th July 2007

Table 18 : Return on Total Deposit

(Amt in '000)

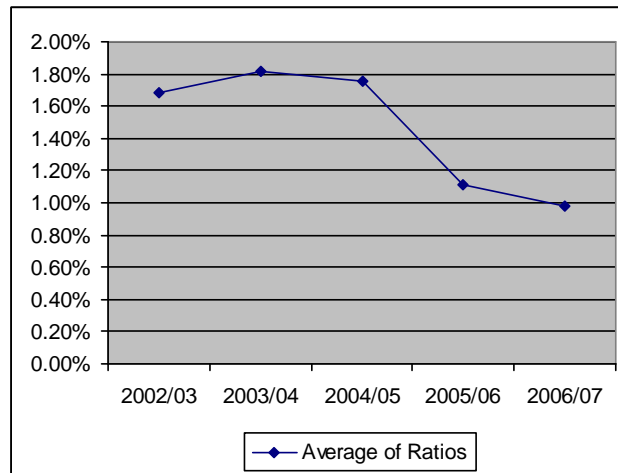
Years/Banks	NBBL	EBL	HBL	Average of Ratios
2002/03				
Net Profit	82728	25240	165248	273216
Total Deposit	4152704	2275010	9772735	162000449
Ratios	1.99%	1.11%	1.69%	1.68%
2003/04				
Net Profit	139535	41270	199380	344185
Total Deposit	6467194	3411700	140443097	20851460
Ratios	2.15%	1.21%	1.41%	1.82%
2004/05				
Net Profit	198752	69700	280697	549145
Total Deposit	8600812	5202580	17532404	31335796
Ratios	2.13%	1.34%	1.60%	1.75%
2005/06				
Net Profit	65783	85330	235023	386136
Total Deposit	9514457	6607180	18619375	34741012
Ratios	0.69%	1.29%	1.26%	1.11%
2006/07				
Net Profit	71495	94181	212128	377840
Total Deposit	10569707	6694959	21007376	38272042
Ratios	0.68%	1.40%	1%	0.98%

The above table shows the ratios of return on total deposit ratio of all banks are in fluctuating trend. NBBL has recorded the highest ratio i.e. 2.31% in the fiscal year 2004/05 and same bank has recorded the lowest ratio i.e. 0.68% in the fiscal year 2006/07.

During the fiscal year 2002/03, NBBL and HBL are above the average and rest one bank is below the average. In 2003/04 only NBBL is above the average and rest two banks are below the average. In 2004/05 NBBL is above the average and EBL and HBL are below the average. In 2005/06 EBL and HBL are above the average and NBBL is below the average. In 2006/07 EBL and HBL are above the average and NBBL are below the average.

According to above analysis it indicates that NBBL has earned more profits than other banks in first three year by appropriate and perfect utilization of total deposits for next two year EBL earned more profit. Among all the banks NBBL have able to maintain highest ratio i.e. 2.31% and in the year 2004/05 by mobilizing the total deposit properly in the productive sectors. But in the case of EBL and HBL these banks have lower ratios compared to NBBL for first three year after that these banks have higher ratios compared to NBBL. Therefore all banks need to improve their lending management and utilization of deposits properly in order to increase their ratio. They should inspire depositors and mobilize it to credit sector properly.

**Graphical presentation of Return on Total Deposit Ratio of various Joint Venture Banks :
Average of Return to Total Deposit Ratio for the period ending 15th July 2003 to 2007
Graph # 9
Returns on Total Deposit**



Graphical presentation of various joint venture banks shows average of return on total deposit are in decreasing trend because during the year 2003/04 it is 1.82% and from the year 2003/04 to 2006/07 it falls to 0.98%. Therefore it is concluded that comparing to year 2002/03 to 2006/07 it is in decreasing trend.

III. Return on Risky Assets i.e. Loan and Advances

Return on Risk Assets Ratio of various joint venture banks for the period ending 15th July 2003 to 15th July 2007.

Table 19 : Return on Risk Assets Ratio

(Amt in '000)

Years/Banks	NBBL	EBL	HBL	Average of Ratios
2002/03				
Net Profit	82728	25240	165248	273216
Risky Assets	3164732	1364890	5245973	9775595
Ratios	2.61%	1.84%	3.15%	2.8%
2003/04				
Net Profit	139535	41270	199380	344185
Risky Assets	4617097	2270180	7224727	14112004
Ratios	3.02%	1.81%	2.76%	2.7%
2004/05				
Net Profit	198752	69700	280697	549145
Risky Assets	7347140	3005760	9015346	15368246
Ratios	2.71%	2.32%	3.11%	2.83%
2005/06				
Net Profit	65783	85330	235023	386136
Risk Assets	7632418	3948480	8913723	20494621
Ratios	0.86%	2.16%	2.64%	1.88%
2006/07				
Net Profit	71495	94181	212128	377840
Risky Assets	2747980	5707030	10844599	23799609
Ratios	0.99%	1.65%	1.96%	1.58%

The above table shows the ratios of return on risky assets of all banks are in fluctuating trend. HBL has recorded the highest ratio i.e. 3.15% in the fiscal year 2002/03 and NBBL has recorded the lowest ratio i.e. 0.86% in the fiscal year 2005/06.

During the whole five fiscal year, only HBL is above the average and rest three banks NBBL and EBL are below the average.

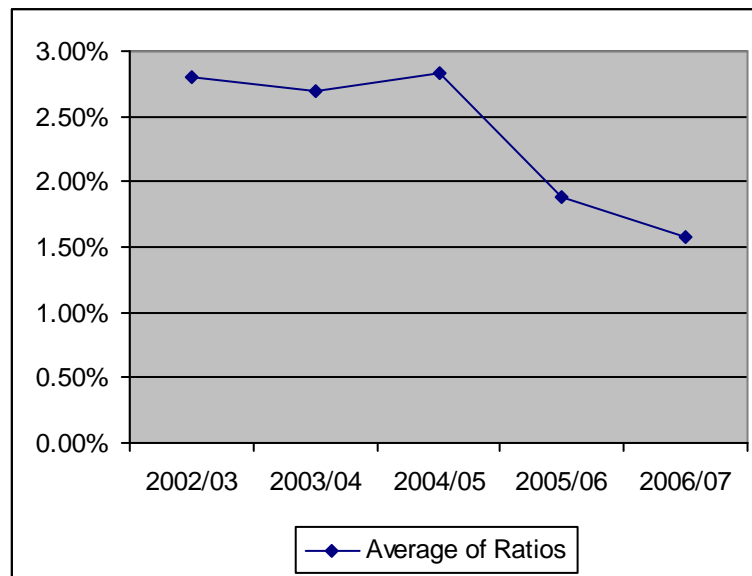
According to above analysis it signifies that only HBL is succeed to maintain high ratio in all period and EBL is in second position and above average during the whole five fiscal year. It means these two banks are successful to earn more profit by mobilizing their funds in the productive sector. Therefore, NBBL need to improve their portfolio management and credit policy in order to increase their profit.

Graphical Presentation of Return on Risky Assets Ratio of various Joint Venture Banks :

Average of Return to Risky Assets Ratio for the period ending 15th July 2003 to 2007

Graph # 10

Return on Risky Assets



Graphical Presentation of various joint venture banks shows average of return on risky asset are in decreasing trend because from the year 2002/03 to 2006/07 it decreases from 2.8% to 1.58%.

IV. Interest Earned to Total Assets

Interest Earned to Total Assets Ratio of Various Joint venture banks for the period ending 15th July 2003 to 15th July 2007

Table 20 : Interest Earned to Total Assets

(Amt in '000)

Years/Banks	NBBL	EBL	HBL	Average of Ratios
2002/03				
Interest Earned	398569	175940	962045	1536563
Total Assets	4904169	2275010	11306770	8309846
Ratios	8.13%	7.73%	8.51%	8.12%
2003/04				
Interest Earned	609272	267440	1033660	1910372
Total Assets	7585874	3411700	15957550	26955124
Ratios	8.03%	7.84%	6.48%	7.45%
2004/05				
Interest Earned	810050	385020	1326378	2521448
Total Assets	10802930	5202580	19544340	35549850
Ratios	7.50%	7.40%	7.02%	7.09%
2005/06				
Interest Earned	850525	443820	1148998	2443343
Total Assets	11102233	6607180	20672433	38381846
Ratios	7.66%	6.71%	5.55%	6.36%
2006/07				
Interest Earned	1013711	520173	1201233	2735117
Total Assets	11932611	8052209	23355223	43340043
Ratios	8.50%	6.46%	5.14%	6.31%

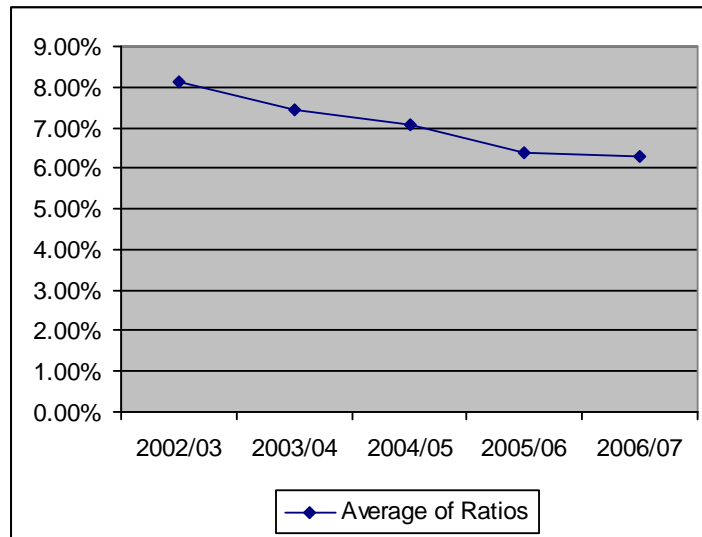
The above table shows the ratios of interest earned on total asset ratio of all banks are in fluctuating trend. HBL has recorded the highest ratio i.e. 8.15% in the fiscal year 2002/03 and EBL has recorded the lowest ratio i.e. 6.46% in the fiscal year 2006/07.

During the fiscal year 2002/03 NBBL and HBL are above the average and EBL is below the average. In 2003/04, NBBL and EBL are above the average and HBL is

below the average. In 2004/05 NBBL and EBL are above the average and only HBL is below the average in 2005/06 NBBL and EBL are above the average and HBL is below the average in 2006/07 NBBL and EBL are above the average and HBL is below the average.

According to above analysis it reveals that only EBL's ratio is increasing and the ratio of other two banks are decreasing. Therefore these decreasing performance shows that banks have inefficiency in earning interest as well as inefficiency in utilizing the resources in interest generating sectors.

Graphical Presentation of Interest Earned to Total Assets Ratio of Various Joint Venture Banks :
Average of Interest Earned to Total Assets Ratio for the period ending 15th July 2003 to 2007
Graph # 11
Interest Earned to Total Assets



Graphical presentation of various joint venture banks shows average of return on total deposit are in decreasing trend because from the year 2002/03 to 2006/07, it decreases from 8.12% to 6.31%.

(D) Capital Adequacy Ratios

I. Shareholder's Fund to Total Deposit Ratio:

**Shareholder's Fund to Total Deposit Ratio of Various Joint Venture Banks for
the period ending 15th July 2003 to 15th July 2007**

Table 21 : Shareholder's Fund to Total Deposit Ratio

Years/Banks	NBBL	EBL	HBL	Average of Ratios
2002/03 Shareholder's Fund Total Deposit Ratios	177400 4152704 4.27%	128300 1948900 6.58%	314900 9772735 3.22%	620000 15910339 3.19%
2003/04 Shareholder's Fund Total Deposit Ratios	251300 6467194 3.88%	127600 3057400 4.17%	397100 14043096 2.82%	776000 23567690 3.30%
2004/05 Shareholder's Fund Total Deposit Ratios	299700 8600812 3.18%	249400 4574500 5.45%	501600 17532404 2.86%	1050700 30707716 3.42%
2005/06 Shareholder's Fund Total Deposit Ratios	595600 9514457 6.26%	497800 5461100 9.11%	651600 18619375 3.49%	1745000 33594932 5.19%
2006/07 Shareholder's Fund Total Deposit Ratios	574158 10569707 5.43%	566735 6694959 8.47%	880672 21007376 4.19%	2021565 38272042 5.28%

The above table shows the ratios of shareholder's fund to total deposit of all banks which are in fluctuating trend. EBL have recorded the highest ratio i.e. 9.11% in the fiscal year 2005/06 HBL has recorded the lowest ratio i.e. 2.82% in the fiscal year 2003/04.

During the fiscal year 2002/03, EBL and NBBL are above the average and HBL is below the average. In 2003/04 EBL is above the average and rest two banks are below the average. In 2005/06, EBL and EBL are above the average and HBL is below the

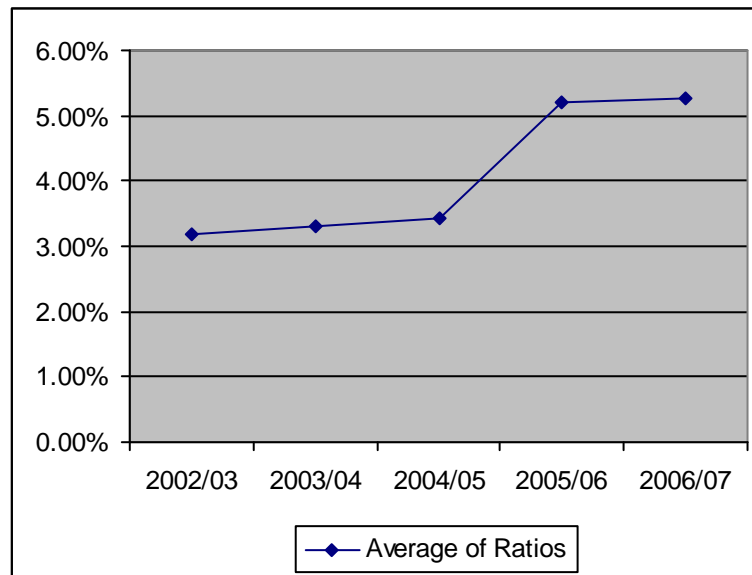
Average. In 2006/07, only after is below the average and NBBL and EBL are above the average.

According to above analysis it reveals that HBL's ratio is increasing from the year 2003/04. Although HBL's ratio is in increasing trend, it has very lower collection compared to other banks. Therefore, HBL needs to add more funds for maintaining sufficient amount of shareholder's funds in comparison to the amount of total deposits.

Graphical Presentation of Shareholders' Fund to Total Deposit Ratio of Various Joint Venture Banks :

Graph # 12

Shareholders' Fund to Total Deposit Ratio



Graphical Presentation of Various Joint Venture Banks shows average of Shareholders' fund to total deposit ratios are in increasing so far because from the year 2002/03 to 2004/05 it is decreasing from 3.9% to 3.42% but from the year 2004/05 it is increasing from 3.42 to 5.28. Therefore, it proves that shareholder's fund to total deposit ratios are in increasing trend.

II. Shareholder's Fund to Total Asset Ratio

Shareholder's Fund to Total Asset Ratio of Various Joint Venture Banks for the period ending 15th July 2003 to 15th July 2007

Table 22 : Shareholder's fund to Total Asset Ratio

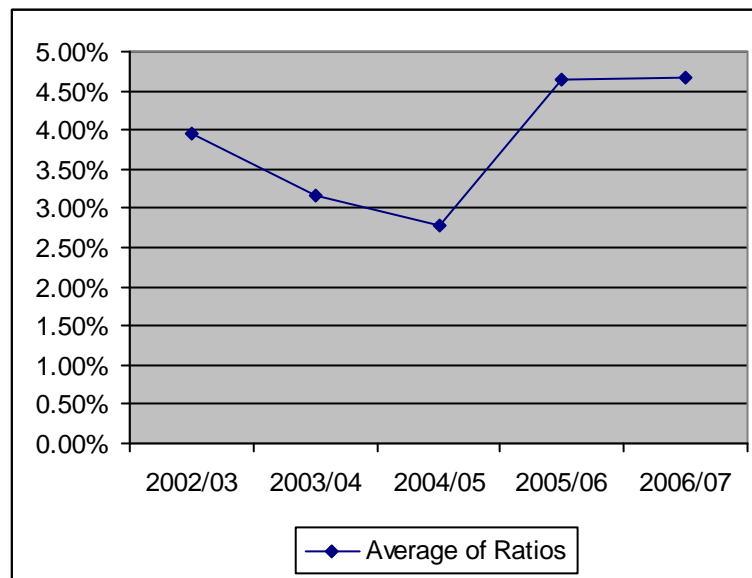
Years/Banks	NBBL	EBL	HBL	Average of Ratios
2002/03				
Shareholder's Fund	177400	128300	314900	620000
Total Assets	4904169	2275010	1130677	8309856
Ratios	3.61%	5.63%	2.78%	3.95%
2003/04				
Shareholder's Fund	251300	127600	397100	776000
Total Assets	7585874	3411700	1595755	24479495
Ratios	3.31%	3.71%	2.48%	3.17%
2004/05				
Shareholder's Fund	299700	249400	501600	1050700
Total Assets	10802930	5202580	19544340	35567850
Ratios	2.77%	4.79%	2.056%	2.77%
2005/06				
Shareholder's Fund	595600	497800	651600	1745000
Total Assets	11102233	5774200	20672433	37548866
Ratios	5.38%	8.56%	3.15%	4.65%
2006/07				
Shareholder's Fund	574158	566735	880672	2021565
Total Assets	11932611	8052209	23355223	44340043
Ratios	4.81%	7.04%	3.77%	4.66%

The above table shows the ratios of shareholder's fund to total assets of all banks are in fluctuating trend. EBL has recorded the highest ratio i.e. 8.56% in the fiscal year 2005/06 and HBL has recorded the lowest ratio i.e. 2.48% in the fiscal year 2003/04. During the fiscal year 2002/03 to 2006/07 only EBL and NBBL are above the average and HBL is below the average.

According to above analysis it is concluded that beside the recorded in fiscal year 2005/06 of EBL, all the ratios are below 8% hence it conclude that the banks need to add more shareholder's funds for maintaining sufficient amount of shareholder's fund.

NBBL and HBL perform lowest ratio among the banks. NBBL and EBL are in satisfactory level while other need to add more shareholders funds.

Graphical Presentation of Shareholder's Fund to Total Asset Ratio of Various Joint Venture Banks :
Average of Shareholders fund to Total Assets Ratio for the period ending 15th July 2003 to 2007
Graph # 13
Shareholder's fund to Total Asset



Graphical presentation of various joint venture banks shows average of shareholder's fund to total asset ratios are in decreasing trend from the year 2002/03 to 2004/05, it is decreasing from 3.95% to 2.95% but from the year 2004/05 it is increasing from 2.95% to 4.66%. Therefore, it proves that shareholder's fund to total asset ratios are in decreasing trend because the ratio 4.66% to 2006/07 is less than the ratio 3.95% to 2002/03.

4.3 Statistical Analysis

This part of analysis deals with the statistical analysis of data. Under the statistical analysis coefficient of correlation, probable error and trend analysis have been done.

Coefficient of Correlation Between Total Deposit and Total Investment

The main function of a commercial bank is the collection of deposits and the efficient utilization of the deposits collected. Deposit collection shows a bank's efficiency in performance and reliability and efficient utilization of the same indicates its success and profitability as well as service orientation. Banks have to pay high interest on deposits and also pay dividends to their shareholders. So earning more and more interest through deposit utilization is very crucial task of banks.

In correlation analysis of total deposits and total investments, total deposit is independent variable (X) and total investment is dependent variable (Y). The main purpose of computing correlation of coefficient is to justify whether there is any relation between these two variables.

To find out the correlation various calculations are made for the reason (detailed in Appendix- II). The following table shows the coefficient of correlation between total deposit and total investment i.e. PEr, 6PEr and coefficient of Determination (r^2) of commercial banks during the study period.

Coefficient of Correlation Analysis between Total Deposit and Total Investment

Table # 23 : Total Deposit and Total Investment

Banks/Evaluation	r	r²	PEr	6PEr
NBBL	0.5493	0.3025	0.1155	0.6930
EBL	0.9511	0.9025	0.2584	1.5504
HBL	0.6678	0.4489	0.1112	0.6672

The above table shows that coefficient of correlation between Total Deposit and Total Investment which is denoted by the symbol 'r' has a value that range from 0.5493 to 0.9511. All the value of banks are greater than Zero thus these banks have positive relation between its independent variable (Total Deposit) and dependent variable (Total Investment) That means if the value of Total Deposit will increase or decrease

the value of Total Investment will also increase or decrease. In addition, the above value 'r' shows NBBL has utilized very less amount of deposit comparing to other banks and EBL has utilized more amount of deposit. However by the application of coefficient of determination, the value of 'r²' range from 0.3025 to 0.9025, which means 30.25% and 90.25% are the total change in dependent variable (Total Investment) is due to effect of independent variable (Total Deposit). Furthermore, in case of HBL, by considering the probable error, the value of 'r' i.e. 0.6678 is greater than six times of PEr i.e. 0.6672, it means the value of 'r' is significant i.e. there is significant relationship between Total Deposit and Total investment. Except HBL the coefficient of correlation of NBBL and EBL 0.5593, 0.9511 are lower than six times of probable error i.e. 0.6930 and 1.5504 which means the value of 'r' is not significant with a relationship between Total Deposits and Total Investment.

Finally, it can be concluded that in both HBL has performed positive correlation with a closer value to 1 and the value of 'r' is also more that six times of probable error which means that HBL has efficiently utilized their deposits on investment. Comparing to other banks under study HBL has performed better position because of its higher correlation and determination values than others.

Therefore, NBBL and EBL needs to improve its strategy for the better utilization of its deposit on investment for maximizing the profits.

Calculation of correlation between Total Deposits and Total Performing Assets

Table 24 : Total Deposits and Performing Assets

Banks/Evaluation	r	r²	PEr	6PEr
NBBL	0.9925	0.9801	0.0050	0.0297
EBL	0.9925	0.9801	0.0050	0.0297
HBL	0.7778	0.6084	0.0920	0.5522

(Detail in Appendix III)

The above table shows that coefficient of correlation between Total Performing Assets and Total Deposits which is denoted by the symbol 'r' has a value that range from 0.7778 to 0.9925. All the value of banks are greater than zero thus these banks have positive relation between its independent variable (Total Deposit) and dependent variable (Performing Assets) that means if the value of Total Deposit will increase or decrease the value of performing Assets will also increase or decrease. Moreover, the above value of 'r' shows HBL has utilized very less amount of deposit comparing to other banks and NBBL and EBL have utilized more amount of deposit. However by the application of coefficient of determination, the value of 'r²' range from 0.6084 to 0.9801, which means 60.84% and 98.01 are the total change in dependent variable (Performing Assets) is due to effect of independent variable (Total Deposit). Furthermore, by considering probable error, the value of 'r' of all banks which are 0.9925, 0.9925 and 0.7778 are greater than six times of PEr which are 0.0297, 0.0297 and 0.5522 respectively it shows the value or 'r' is significant it means there are significant relationship between, total Deposit and Total Performing Assets of all banks.

Finally, it can be concluded that in both all the banks have performed positive correlation with a closer value to 1 and the value of 'r' is also more than six times of probable error which means that all the banks have efficiently utilized their deposits on performing assets. Comparing to other banks under study NBBL and EBL have performed better because of higher correlation and determination values than others.

Therefore, HBL is also good comparing to NBBL and EBL.

Trend Analysis

Under this topic, an effort has been made to calculate, analyze and interpretation of the trend values of Net Profit, Total Deposit and Total Credit of certain joint venture banks under study i.e. NBBL, EBL, HBL respectively for 5 years from mid July 2003 to mid July 2007. Similarly, forecast for next 5 years till 2012 has also been made.

The trend values of 10 years from mid July 2003 to 2012 of Joint venture banks are tabulated below.

Trend Values of Net Profit (2003 to 2012)

Table 25 : Trend Values of Net Profit

(In million)

Fiscal Year 2003-2012	NBBL	EBL	HBL
2003	116.89	26.76	192.61
2004	114.27	44.95	205.55
2005	111.65	63.14	218.49
2006	109.03	81.33	231.43
2007	106.41	99.52	244.37
2008	103.79	117.71	257.31
2009	101.17	135.90	270.25
2010	98.55	154.09	283.19
2011	95.93	172.28	296.13
2012	93.31	190.47	309.07

(Detail in Appendix IV)

The above table shows that in 2012, expected net profit of NBBL, EBL and HBL are likely to be 93.31, 190.47 and 309.07 respectively. Among all the banks HBL has highest net profit followed by EBL and NBBL respectively. The expected net profit of all above is in increasing trend except the NBBL. NBBL will have decreased net profit from the year 2010 to 2012. Therefore, the trend value recorded by mid July 2012 will be approximately 309.07 million of HBL which is the highest under the study period.

Trend Values of Total Deposit (2003 to 2012)

Table 26 : Trend Values of Total Deposit

(In million)

Fiscal Year 2003-2012	NBBL	EBL	HBL
2003	4684.71	1968.21	10785.87
2004	6272.84	3157.79	13490.43
2005	6860.97	4347.37	16194.99
2006	9449.10	5536.95	18899.55
2007	11037.23	6727.53	21604.11
2008	12625.36	7916.11	24308.67
2009	14213.49	9105.69	27013.23
2010	15801.62	10295.27	29717.97
2011	17389.75	11484.85	32422.35
2012	18977.88	12674.43	35126.91

(Detail in Appendix V)

The above table shows in 2012 expected total deposit of NBBL, EBL and HBL will be 18977.88, 12674.43 and 35126.91 respectively. Among all the banks HBL has highest Total Deposit followed by NBBL and EBL respectively. The expected total deposit of all above banks is in increasing trend. The trend value recorded by mid July 2012 will be approximately 35126.91 million of HBL which is the highest under the study period.

In accordance with above trend analysis and growth rate, it can be stated that HBL seems to be in good position.

Trend Values of Total Credit (2003 to 2012)

Table 27 : Trend values of Total Credit

(In million)

Fiscal Year 2003-2012	NBBL	EBL	HBL
2003	3765.51	1346.47	5703.94
2004	4883.69	2226.43	7056.91
2005	6001.87	3106.39	8409.88
2006	7120.05	3986.35	9762.85
2007	8238.23	4866.31	11115.82
2008	9356.41	5746.27	12468.97
2009	10474.59	6626.23	13821.76
2010	11592.77	7506.19	15174.73
2011	12710.95	8386.15	16527.70
2012	13829.13	9266.11	17860.67

(Detail in Appendix VI)

The above table shows that in 2012 expected Total Credit of NBBL, EBL and HBL will be Rs 13829.13, Rs 9266.11 and Rs 17880.67 million respectively. Among all the banks HBL will have the highest total Credit followed by NBBL and EBL respectively. The expected Total Credit of all above banks are in increasing trend. The trend value recorded by Mid July 2012 will be approximately 17880.67 million which is the highest under the study period.

In accordance with above trend analysis and growth rate it can be stated that HBL seems to be in good position while NBBL is in satisfactory position.

4.4 Major Findings of the Study

The major findings of the study are presented below:

-) The Current Deposit of HBL is in increasing trend and NBBL AND EBL are in decreasing trend. HBL is in top position during the period.

HBL is above the average during the whole five years period and NBBL AND HBL are below the average during the whole five years period.

-) The Saving Deposit of all banks are in increasing trend but it has decreased in 2005/06 than 2004/05 in NBBL. Here HBL holds top position for five consecutive years.

HBL is above the average during the whole five years period and EBL is below the average during the three years period. But NBBL is below the average during the whole five years period.

-) In the case of Fixed Deposit, NBBL has highest deposit throughout the whole five years and EBL is in second position throughout the whole five years.

NBBL and EBL are above the average during the whole five years period and only HBL is below the average for the period.

-) NBBL and HBL have satisfactory Call Deposit during the review period. The trend of Call Deposit is not so good as compared to Current, Saving and Fixed Deposit. Although NBBL and HBL are in increasing trend it covers only small proportion of deposit in the market.

In the year 2002/03, NBBL and HBL are above the average and EBL is below the average. In the year 2003/04, NBBL and EBL are below the average and HBL is above the average. In the year 2004/05 only NBBL is above the average. And in 2005/06 and 2006/07, NBBL and HBL are above the average and EBL is below the average

-) Margin Deposit also covers very small proportion of deposit in the market. However, NBBL is able to hold highest position in Margin Deposit than other banks.

In 2002/03 and 2003/04 only NBBL is above the average and EBL and HBL have nil. In 2004/05, HBL is above the average and NBBL, EBL are below the average. In 2005/06 only EBL is above the average and NBBL and EBL are below the average. In 2006/07, NBBL and EBL are above the average and HBL is below the average.

-) During the reviewed period, NBBL has highest Other Deposit whereas HBL has very poor collection. Different banks treat Other Deposit in different ways. Some banks treat it as Call Deposit and Margin Deposit while some treat it as a different independent deposit.

Finally, from the Deposit Analysis HBL have performed best in collecting the total deposit consequently they had more funds to utilize for maximum of profit. Therefore, they could get profit by mobilizing their deposits in productive sector.

-) Though the idle standard of the Current Ratio is 2:1 but none of the banks under study could perform that standard though the banks have more current assets than current liabilities thus banks are willingness to serve its consumers deposits. Moreover, from the liquidity point of view, NBBL, EBL and SCBNL seems better which is possibly the result of higher portion of fixed deposit.

From 2002/03 to 2004/05 NBBL's current ratio is above the average and EBL, HBL's are below the average. In 2005/06 and 2006/07, EBL and HBL's current ratio are above the average.

-) NBBL and EBL have better performance in the case of Cash and Bank Balance to Total Deposit due to readiness to serve the deposits to its consumers than HBL.

In 2002/03, 2004/05 and 2005/06 only NBBL and EBL are above the average. In 2003/04m only NBBL is above the average and in 2006/07, only EBL is above the average.

The position of NBBL is better than other banks from this point of view.

-) NBBL seems to be successful to maintain highest Total Credit to Total Deposit Ratio in the fiscal year 2004/05 i.e. 85.66%. The deposit utilization ratio of EBL is also seemed to be good as compared to other banks in study. Thus the analysis reveals that HBL be satisfactory in mobilizing its total deposit as loan and advances hence that bank need to mobilize its deposits in most secure loans.

From 2002/03 to 2004/05 and in 2006/07 NBBL and EBL are above the average and HBL is below the average. Only in the year 2005/06, NBBL, EBL and HBL are above the average.

-) In the case of Total Investment to Total Deposit Ratio HBL has very good ratio comparing to other banks. It means HBL's capacity to mobilize its deposits on total investment is better and NBBL and EB's are good.

Only, HBL is above the average during the whole five years period. NBBL and EBL are below the average.

-) Performing Assets to Total Assets Ratio of all banks are very good therefore all the banks are in better position because of higher utilization of resources in relation to the total assets which yield higher return for the banks.

Though HBL failed to utilize its funds in loan and advances it succeeded in utilizing funds in investment and performing assets to maximize the returns in the competitive market of banking.

-) NBBL is able to maintain the highest Return on Total Assets ratio among all banks i.e. 1.83% only in the fiscal year 2004/05 but the ratio is in fluctuating trend. This shows that NBBL, EBL and HBL are losing their market position.

NBBL's ratio is above the average in 2002/03 to 2004/05. In 2005/06, EBL and HBL's ratio are above the average. In 2006/07 EBL and HBL's ratio are above the average.

) Among all the banks NBBL is able to maintain high Return on Total Deposit ratio i. e. 2.3% in the year 2004/05. NBBL has performed better at first but later on the ratio decreases to 0.68% during the year 2006/07 because of its bad lending management and unsuccessful in utilizing the funds in generating sectors.

) The Return on Risk Assets Ratio of HBL is very good compared to other banks. Only HBL is ratio is above the average during the whole five years period.

) HBL is able to maintain highest Interest Earned to Total Assets Ratio i.e. 8.51% during the year 2002/03 but later on it starts to decrease till 5.14% in 2006/07. This shows that HBL is inefficient in earning interest or utilizing the resources in interest generating sectors.

In 2002/03, NBBL and HBL is ratios are above the average. From 2003/04 to 2004/05 NBBL and EBL's ratio are above the average. In 2005/06 and 2006/07, NBBL and EBL's ratio are above the average.

Finally, it can be concluded that the position of EBL is better than other banks.

) Finally, a conclusion can be drawn that EBL has performed good results regarding the Shareholder's Funds to Total Deposit. NBBL and EBL are not able to with good results. NBBL and HBL do not have above 8% thus these banks need to add more funds for maintaining sufficient amount of shareholder's fund in comparison to the amount of total deposits.

In 2002/03, 2004/05 and 2006/07, EBL and HBL's ratios are above the average. In 2003/04, NBBL and HBL's ratios are above the average.

) Though HBL have lowest ratio among all banks it has appeared as a stable bank regarding to attain stable Shareholder's Fund to Total Assets. On comparing to these banks under shareholder's fund to total assets ratio EBL and NBBL are in satisfactory level while other banks need to add more shareholder's funds.

Finally, it can be concluded that Capital Adequacy position of EBL and HBL seem to be better than NBBL.

) Except HBL the coefficient of correlation of NBBL and EBL is 0.5493 and 0.9511 respectively are lower than six times of probable error i.e. 0.6930 and 1.550 respectively which means that value of 'r' is not significant with a relationship between Total Deposit and Total Investment. HBL have performed positive correlation with a closer value '1' and value of 'r' i.e. 0.6678 is also more than six times of probable error i.e. 0.6672 which means that HBL has efficiently utilized its deposits on investment. Comparing the banks under study, HBL has performed better because of its higher correlation and determination values than others.

) The case of correlation between Total Deposit and Total Performing Assets, by considering probable error, the value or 'r' of all banks which are 0.9925, 0.9925 and 0.7778 are greater than six times of PEr which are 0.0297, 0.0297 and 0.5552 respectively. It shows the value of 'r' is significant. It means there are significant relationship between Total Deposit and Total Performing Assets of all banks. This means that these banks have efficiently utilized their deposits on performing assets. On comparison NBBL and EBL have performed better because of higher correlation and determination values than HBL

) Except NBBL, the expected Net Profit of all banks under study are in increasing trend. According to trend analysis and the growth rate, HBL is in satisfactory position.

) The expected Total Deposit of all bank are in increasing trend but the growth rate of trend of total deposit of HBL is highest. Thus, HBL will collect more deposits in the future.

) The expected Total Credit of all bank are in increasing trend but the growth rate of trend of credit of HBL is highest.

Finally, in statistical analysis, HBL seems better compared to other banks under study.

Chapter-5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Commercial Banks are one of the vital aspects of economic 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. It is the pillar of the economic system of the country. They utilize the idle resources to the market, returns back to the shareholder by the way of dividend, returns back to the depositors by way of interest and returns back to the country by way of corporate tax. Though other commercial banks are gaining its position day by day, there is more share of banks like EBL and HBL. They have a high rate of deposits, credit as well investment.

The banks should have customer service like credit cards, debit cards, ATM, 24 hrs banking, SWIFT, Tele banking. Net banking etc in order to attract potential customers. This will increase in the deposit rate and there will be the perfect monetary transition in the country.

Commercial banks play an important role in the economic development of the country. Being a soul of the economic development, Nepalese commercial banks face several problems related to maintain efficient capital and assets structure management. They are still working with traditional approach. They need to achieve innovative approach of banking, thereby, bringing professionalism in their business. At the same time it should target not only the urban sector, it should go to the rural sector also. They have to explore all the potential sectors like tourism etc. in order to generate high rate of profits.

Some statistical and financial tools have been applied to examine the facts and descriptive techniques have been adopted to evaluate the structure of commercial banks.

After completion of the basic analysis required for the study, the final and most important task of the researcher is to enlist conclusion of the study and give suggestions for further improvement. The main objective of this research is not only to point out faults and errors but also to provide sound directions for further improvement.

5.2 Conclusion

Commercial banks are proved as a resource for achieving rapid economic development of any country. Being a soul economic development, Nepalese commercial banks face several problems to maintaining efficient capital and assets structure management. They are still working with traditional approach. They need to achieve innovative approach of banking, thereby, bringing professionalism in their business. It is better for commercial banks to follow above suggestions. They can certainly have better achievement to the modern innovative and competitive banking scenario. From the above analysis we can give the following conclusions.

From the deposit analysis it may be concluded that HBL perform best in collecting the total deposits thus could get profit by mobilizing their deposits in productive sector.

The average standard of the current ratio of three different selected banks is 1.09:1 but none of the banks under study can perform the ideal standard that is 2:1. The bank contained more current assets than current liabilities thus banks are readiness to serve its consumers deposits. Moreover, form the liquidity point of view NBBL and EBL seems better, is the result of higher portion of fixed deposit in total deposits.

The cash and bank balance position with respect to total deposit has better performance in the case of EBL and NBBL due to readiness to serve its consumer deposit than other banks.

NBBL seems to be successful to maintain highest credit ratio in the fiscal year 2004/05 i.e. 85.66%. The deposit utilization of EBL is also seems to be satisfactory. Thus the analysis reveals that HBL seem to be slightly weak to mobilize its total deposit as loan and advances hence this bank need to mobilize their deposits in most secure loans.

On the basis of calculation, it can observe that only HBL perform very good ratio in terms of total investment to total deposit ratio than that of other banks. It means HBL's capacity to mobilize its deposits on total investment is preferable and performed better position.

The performing assets to total deposits ratio on HBL is higher than other banks. Hence this bank is in better position because of higher utilization of resources in relation to the total assets which yield higher return for the banks.

During the reviewed period the NBBL is able to maintain the highest ROA ratio among all banks with the ratio 1.84% in the fiscal year 2004/05. But the lowest ratio was recorded in the fiscal year 2005/06 by NBBL with the ratio of 0.56%.

All the banks follows the fluctuation trend, this is because of its conservative lending procedure.

Among all banks under study, NBBL has able to maintain high return on total deposit ratio i.e. 2.15% by mobilizing the total deposit properly in the productive sectors. Both HBL and EBL maintain low return on total deposit because of its bad loans and unsuccessful to utilize its funds in productive sectors.

From the above analysis we can say that the return on risky assets of HBL, NBBL and EBL are relatively fluctuation, which means they can make more profit by mobilizing its funds in the productive sector.

While observing the capital adequacy ratio we can conclude that NBBL and EBL have performed satisfactory results regarding the shareholder's funds to total deposit. HBL cannot perform the better results in the comparison. Hence, HBL need to add more funds for maintaining sufficient amount of shareholder's funds in comparison to the amount of total deposits.

HBL perform lowest ratio among all bank and also it appeared as a fluctuating bank regarding to attain stable shareholder to assets ratio. On comparison to banks under shareholder to assets ratio both NBBL and EBL are in satisfactory level while other needs to add more shareholder funds.

Finally it may conclude that the capital adequacy position of NBBL seems to be better than other banks.

5.3 Recommendations

A clear financial picture each of NBBL, EBL, HBL can be viewed from all above presentation. Now, some valuable and timely suggestions and recommendation can be put forward on the basis of findings and financial pictures to overcome weaknesses and inefficiency and to improve present financial position.

NBBL

-)] The Total Deposit of NBBL seems lower as compared to other banks hence it needs to increase its funds and make it utilize appropriately in the market.
-)] The Current Ratio of NBBL is better than other banks but bank should try to meet the standard of Current ratio. In the case of NBBL, the bank has high ratio of Cash and Bank Balance which indicates that the bank has burden more idle money.

Therefore bank should invest idle cash balance in more productive sectors i.e. in marketable securities, treasury bills etc. to improve its profitability position.

- J NBBL has highest ratio to Total Credit to Total Deposit Ratio while it has lowest ratio in Total Investment and Total Deposit therefore it shows that NBBL seems to be successful to maintain highest credit ratio but failed to utilize the funds in investment. The performing Asset to Total Asset Ratio is slightly lower than 80%. Therefore, NBBL should try to increase the ratio because non-performing assets returns back nothing and will lock-up the capital.
- J NBBL has relatively lower Return on Total Assets ratio thus the bank has to concentrate little bit on performing assets. NBBL has also lower Return on Total Deposits ratio therefore bank should improve its lending management and utilize the bank needs to be aggressive in exploiting a new credit area. The ratio of Interest Earned to Total Assets of NBBL is satisfactory hence; there should be proper balance between credit and investment.
- J In Capital Adequacy Ratios, NBBL is good in Shareholder's fund to Total Deposit Ratio but Shareholder's Fund to Total Assets is not good therefore bank have to generate more profit so as to make a healthy relation between shareholder's .
- J In Correlation of Coefficient Analysis, correlation of Total Deposit and Total Investment of NBBL is not significant thus NBBL needs to invest more deposits properly in profitable sectors. The relation between Total Performing Assets and Total Deposit of NBBL is significant and it has utilize highest deposits as performing assets than other banks but NBBL should try to expand business in new sector.
- J The trend values of Net profit of NBBL is in decreasing trend from the year 2000 to 2002 therefore NBBL should work hard and try to develop new sector to gain more profit. Total Deposit and Total Credit of NBBL are in increasing trend but in

satisfactory level therefore NBBL should try to utilize its non-performing asset properly.

EBL

-) The Total Deposit of EBL seems much lower as compared to total deposit of NBBL, HBL, hence it needs to increase its funds and make it utilize appropriately in the market.
-) The Current Ratio of EBL is poor compared to other banks thus the bank should try to meet the standard of current ratio. In the case of EBL also, Cash and Bank Balance of the company is relatively higher which need to be invested for more return.
-) EBL is quite good in Total Credit to Total Deposit Ratio but it has lower ratio of Total Investment and Total Deposit therefore it shows that EBL seems to be quite successful in utilize the funds in loans and advances but failed to utilize the funds in investment. The Performing Asset to Total Asset Ratio is slightly lower than other banks. It is suggested to increase little more so that non-performing asset ratio will be lower.
-) EBL has relatively lower in Return on Total Assets Ratio thus the bank has to concentrate little bit on performing assets. EBL has also lower in Return on Total Deposits ratio therefore bank should improve its lending management and utilize the deposits properly. The Return on Risk Asset Ratio of EBL is also lower therefore it is advisable to increase in the credit sector to boost the credit facilities to the potential customers. The ratio of Interest Earned to Total Assets of EBL is satisfactory hence, it should be improved by exploiting a credit market and have to generate more profit.

-) EBL has satisfactory Shareholder's Fund to Total Deposit Ratio as well as Shareholder's Fund to Total Assets ratio therefore bank needs to add more funds for shareholder's and try to generate more profits.
-) In Correlation of Coefficient Analysis, correlation of Total Deposit and Total Investment of EBL is not significant thus EBL needs to invest more in profitable sectors and try to invest more deposits properly. The relation between Total Performing Assets and Total Deposits of EBL is significant and it has utilize highest deposits as performing assets than other banks hence EBL should try to spread out business in new sector.
-) The trend values of Net profit, Total Deposit and Total Credit of EBL all are in increasing trend but not good compared to banks therefore EBL should try to utilize it's deposits properly and try to explore new market to compete with other banks.

HBL

-) Total Deposit of HBL is seems best in collecting the total deposits comparing to other banks, thus it could make more profit by mobilizing their deposits properly in productive sector.
-) Current Ratio of HBL is good but this ratio must be increased order to back it's short-term obligations. HBL has to increase Cash and Bank Balance in order to prepare for high amount of withdrawals.
-) HBL has satisfactory Total Credit to Total Deposit Ratio as well as Total Investment and Total Deposit Ratio. Therefore, HBL has to properly utilize the funds on loan and advances as well as on investment. But Performing Asset to Total Asset Ratio of HBL is highest. It means HBL has very less non-performing asset hence HBL should try explore to new business to utilize non-performing asset.

- J The Return on Total Assets ratio and Return on Total Deposits Ratio of HBL is in satisfactory level but needs to be improved. The Return on Risk Asset Ratio of HBL is relatively lower thus this needs to be improved by exploiting a new market. The ratio of interest Earned to Total Assets of HBL is satisfactory hence, this must be improved and new area of credit must be searched.
- J HBL has very poor Shareholder's Fund to Total Deposit Ratio as well as Shareholder's Fund to Total Assets Ratio therefore bank needs to add more funds for maintaining sufficient amount of shareholder's funds in comparison to the amount of total deposits and bank have to generate more profit so as to make a healthy relation between shareholder's.
- J In Correlation of Coefficient Analysis, correlation of Total Deposit and Total Investment of HBL is significant hence HBL should try to invest more deposits in profitable sectors. The relation between Total Performing Assets and Total Deposits of HBL is significant but it has utilize less amount of deposits therefore HBL should utilize more deposits on performing assets.

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APPENDIX- I

1. Fiscal Year 2002/03

**Comparative Deposits of various joint venture banks for the period
ending 15th July 2003**

(Amt in 000)

Banks/Deposits	NBBL	EBL	HBL
	Amt	Amt	Amt
Current	325,760	206,070	1,266,664
Saving	692,231	448,000	5,089,662
Fixed	2,621,604	1,132,080	2,190,381
Call	270,344	47,950	928,996
Margin	242,725	-	-
Other	37	114,840	297,031
Total	4,152,703	1,948,940	9,772,735

2. Fiscal Year 2003/04

**Comparative Deposits of various joint venture banks for the period
ending 15th July 2004**

(Amt in 000)

Banks/Deposits	NBBL	EBL	HBL
	Amt	Amt	Amt
Current	478,079	274,390	1,743,978
Saving	1,113,438	891,750	6,833,158
Fixed	4,356,583	1,478,890	3,917,137
Call	295,231	185,350	1,192,283
Margin	223,864	-	-
Other	-	227,050	356,539
Total	6,467,195	3,057,430	14,043,095

3. Fiscal Year 2004/05

Comparative Deposits of various joint venture banks for the period ending 15th July 2005

(Amt in 000)

Banks/Deposits	NBBL	EBL	HBL
	Amt	Amt	Amt
Current	632,473	470,070	2,252,134
Saving	1,716,840	1,384,060	9,144,465
Fixed	5,226,138	2,284,640	4,927,374
Call	682,159	225,650	740,722
Margin	33,906	-	467,706
Other	1,664	210,090	-
Total	8,293,160	4,574,510	17,532,401

4. Fiscal Year 2005/06

Comparative Deposits of various joint venture banks for the period ending 15th July 2006

(Amt in 000)

Banks/Deposits	NBBL	EBL	HBL
	Amt	Amt	Amt
Current	864,489	489,600	2,634,369
Saving	208,688	1,733,300	9,163,946
Fixed	5,453,626	2,694,600	5,480,843
Call	766,045	439,400	883,599
Margin	329,990	-	434,752
Other	-	104,200	21,862
Total	7,622,838	5,461,100	18,619,371

5. Fiscal Year 2006/07

Comparative Deposits of various joint venture banks for the period ending 15th July 2007

(Amt in 000)

Banks/Deposits	NBBL	EBL	HBL
	Amt	Amt	Amt
Current	884,242	562,394	3,503,143
Saving	2,933,352	2,757,952	10,870,542
Fixed	5,031,582	2,794,741	3,205,372
Call	1,452,717	428,081	3,041,489
Margin	267,814	143,123	386,830
Other	-	8,668	-
Total	10,569,707	6,694,959	21,007,376

APPENDIX – II

Calculation of correlation between Total Deposits and Total Investment of NBBL

(In million)

Year	Total Deposits(X)	Total Investment(Y)	X Y	X ²	Y ²
2002/03	4152.70	808.70	3358288.49	17244917.29	653995.69
2003/04	6467.19	1724.55	11152992.51	41824546.49	2974072.70
2004/05	8576.84	1088.72	9337777.24	73562184.38	1185311.23
2005/06	9514.45	1108.64	10548099.84	90524758.80	1229082.64
2006/07	10569.7	2168.92	22924833.73	111718558.1	4704213.97
N=5	X= 39280.88	Y= 6899.53	XY= 57321991.8	X²= 334874965.06	Y²= 10746676.23

Correlation coefficient can be calculated by using following formula:

$$\begin{aligned}
 r &= \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5(57321991.8) - (39280.88)(6899.53)}{\sqrt{5(334874965.06) - (39280.88)^2} \sqrt{5(10746676.23) - (6899.53)^2}} \\
 &= \frac{15590349.01}{28379371.93} \\
 &= 0.5493
 \end{aligned}$$

Calculation of probable error (PEr)

$$\begin{aligned}
 PE &= 0.6745 \left| \frac{1 - r^2}{\sqrt{N}} \right| \\
 &= 0.6745 \left| \frac{1 - (0.5493)^2}{\sqrt{5}} \right| \\
 &= 0.6745 \left| 0.3119 \right| \\
 &= 0.210
 \end{aligned}$$

Calculation of correlation between Total Deposits and Total Investment of EBL

(In million)

Year	Total Deposits(X)	Total Investment(Y)	X Y	X ²	Y ²
2002/03	1948.94	187.40	365231.35	3798367.12	35118.76
2003/04	3057.43	260.10	795237.54	9347878.2	67652.01
2004/05	4574.51	826.7	3781747.42	20926141.74	683432.96
2005/06	5461.1	1628.6	8893947.46	29823613.21	2652337.96
2006/07	6694.95	1653.97	11073246.45	44822355.5	2735616.76
N=5	X= 21736.93	Y= 4556.77	XY= 24909410.22	X²= 108718355.77	Y²= 6174158.38

Correlation coefficient can be calculated by using following formula:

$$\begin{aligned}
 r &= \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5(24909410.22) - (21736.93)(4556.77)}{\sqrt{5(108718355.77) - (21736.93)^2} \sqrt{5(6174158.38) - (4556.77)^2}} \\
 &= \frac{25496860.1}{26805896.13} \\
 &= 0.9511
 \end{aligned}$$

Calculation of probable error (PEr)

$$\begin{aligned}
 PE &= 0.6745 \left| \frac{1 - r^2}{\sqrt{N}} \right| \\
 &= 0.6745 \left| \frac{1 - (0.95)^2}{\sqrt{5}} \right| \\
 &= 0.6745 \left| 0.4036 \right| \\
 &= 0.272
 \end{aligned}$$

Calculation of correlation between Total Deposits and Total Investment of HBL

(In million)

Year	Total Deposits(X)	Total Investment(Y)	X Y	X ²	Y ²
2002/03	9772.73	4594.79	44903642.07	95506251.65	21112095.14
2003/04	14043.09	6899.17	96885665.23	197208376.74	47598546.68
2004/05	17614.00	8141.00	143395574.00	310252996.0	66275881.0
2005/06	18619.37	9509.45	177059968.04	346680939.31	90429639.3
2006/07	21007.37	10175.43	213759022.91	441309594.31	103539375.68
N=5	X= 81056.56	Y= 39319.84	XY= 676003872.3	X²= 1390958158.00	Y²= 328955537.8

Correlation coefficient can be calculated by using following formula:

$$\begin{aligned}
 r &= \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5(676003872.3) - (81056.56)(39319.84)}{\sqrt{5(1390958158) - (81056.56)^2} \sqrt{5(328955537.8) - (39319.84)^2}} \\
 &= \frac{130145189.34}{194866871.7} \\
 &= 0.6678
 \end{aligned}$$

Calculation of probable error (PEr)

$$\begin{aligned}
 PE &= 0.6745 \left| \frac{1 - r^2}{\sqrt{N}} \right| \\
 &= 0.6745 \left| \frac{1 - (0.67)^2}{\sqrt{5}} \right| \\
 &= 0.6745 \left| 0.2465 \right| \\
 &= 0.166
 \end{aligned}$$

APPENDIX – III

Calculation of correlation between Total Deposits and Total Performing Assets of NBBL

(In million)

Year	Total Deposits(X)	Total Performing Assets(Y)	X Y	X ²	Y ²
2002/03	4152.7	3973.43	16500462.76	17244917.29	15788145.96
2003/04	6467.19	6341.65	41012655.41	41824546.49	40216524.72
2004/05	8576.84	8435.86	72353021.48	73562184.36	71163733.93
2005/06	9514.45	8741.06	83166378.31	90524758.8	76406129.96
2006/07	10569.7	9516.9	100590777.9	111718558.1	90571385.61
N=5	X= 39280.88	Y= 37008.9	XY= 313623295.6	X²= 334874965.06	Y²= 294145920.1

Correlation coefficient can be calculated by using following formula:

$$\begin{aligned}
 r &= \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5(313623295.6) - (39280.88)(37008.9)}{\sqrt{5(334874965.06) - (39280.88)^2} \sqrt{5(294145920.1) - (37008.9)^2}} \\
 &= \frac{114374319.61}{115236393.73} \\
 &= 0.9925
 \end{aligned}$$

Calculation of probable error (PEr)

$$\begin{aligned}
 PE &= 0.6745 \left| \frac{1 - r^2}{\sqrt{N}} \right| \\
 &= 0.6745 \left| \frac{1 - (0.99)^2}{\sqrt{5}} \right| \\
 &= 0.6745 \left| 0.0088 \right| \\
 &= 0.005
 \end{aligned}$$

**Calculation of correlation between Total Deposits and
Total performing Assets of EBL**

(In million)

Year	Total Deposits(X)	Total Performing Assets(Y)	X Y	X ²	Y ²
2002/03	1948.9	1549.8	3020405.22	3798211.21	2401880.04
2003/04	3057.08	2938.06	8983069.24	9347694.76	8632666.6
2004/05	4574.05	4068.02	18612908.58	20926050.05	16555458.95
2005/06	5461.1	5748.2	31392041.13	29823613.23	33042952.89
2006/07	6694.95	6562.43	43935140.73	44822355.5	43065487.5
N=5	X= 21736.58	Y= 20867.5	XY= 105943564.9	X²= 108717924.9	Y²= 103698446

Correlation coefficient can be calculated by using following formula:

$$\begin{aligned}
 r &= \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5(105943564.9) - (21736.58)(20867.5)}{\sqrt{5(108717924.9) - (21736.58)^2} \sqrt{5(103698446) - (20867.5)^2}} \\
 &= \frac{76123889.81}{76837541.13} \\
 &= 0.9925
 \end{aligned}$$

Calculation of probable error (PEr)

$$\begin{aligned}
 PE &= 0.6745 \left| \frac{1 - r^2}{\sqrt{N}} \right| \\
 &= 0.6745 \left| \frac{1 - (0.99)^2}{\sqrt{5}} \right| \\
 &= 0.6745 \left| 0.0088 \right| \\
 &= 0.005
 \end{aligned}$$

**Calculation of Correlation between Total Deposit and
Total Performing Assets of HBL**

(In million)

Year	Total Deposits(X)	Total performing(Y)	X Y	X ²	Y ²
2002/03	9772.73	984.07	9617050.41	95506251.65	968393.76
2003/04	14043.09	1412.39	19834319.88	197208376.74	1994845.51
2004/05	17614	1731.8	30503925.2	310252996	299131.24
2005/06	18619.37	184223.17	343027818.8	346680939.19	3394131192.84
2006/07	21007.37	20327.38	427024792.5	441309594.3	413202377.07
N=5	X= 81056.56	Y= 42878.81	XY= 830007907.1	X²= 1390958158	Y²= 758577941

Correlation coefficient can be calculated by using following formula:

$$\begin{aligned}
 r &= \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5(830007907.1) - (81056.56)(42878.81)}{\sqrt{5(1390958158) - (81056.56)^2} \sqrt{5(758577941) - (42878.81)^2}} \\
 &= \frac{674430700}{866990124.24} \\
 &= 0.7778
 \end{aligned}$$

Calculation of probable error (PEr)

$$\begin{aligned}
 PE &= 0.6745 \left| \frac{1 - r^2}{\sqrt{N}} \right| \\
 &= 0.6745 \left| \frac{1 - (0.78)^2}{\sqrt{5}} \right| \\
 &= 0.6745 \left| 0.1751 \right| \\
 &= 0.118
 \end{aligned}$$

APPENDIX IV

Trend value of Net Profit for the period ending 2003 to 2007 of NBBL

(In million)

Fiscal year (t)	Net Profit (Y)	t-2006	x ²	XY	yc=a+bx yc=111.65+ (-2.62)x
2003	82.72	-2	4	-165.44	116.89
2004	139.53	-1	1	-139.53	114.27
2005	198.75	0	0	0	111.65
2006	65.78	1	1	65.78	109.3
2007	71.49	2	4	142.98	106.41
N=5	<i>y X</i> 558.27	<i>x X</i> 0	<i>x² X</i> 10	<i>xy X</i> Z96.21	558.25

The equation of straight- line trend is:

$$yc=a+bx \dots\dots\dots(\text{eq. 1})$$

By solving following equation we can get the value of a and b:

$$\sum Y = Na + \sum b x \dots\dots\dots(\text{eq.2})$$

$$\sum XY = Xa + \sum b x^2 \dots\dots\dots(\text{eq.3})$$

Putting the value of $\sum X$, $\sum Y$, $\sum XY$ and $\sum X^2$ in the equation no. 2 and 3, we will give the value of a and b:

Since, $\sum X = 0$

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

$$= \frac{558.27}{5}$$

$$= 111.65 \text{ million}$$

Again,

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

$$= \frac{226.21}{10}$$

$$= -2.62 \text{ million}$$

Trend value of Net Profit ending 2008 to 2012

(In million)

Fiscal Year (t)	t-2006 (X)	yc=a+bx yc=111.65+(-2.62)x
2008	3	103.79
2009	4	101.17
2010	5	98.55
2011	6	95.93
2012	7	93.31

Trend value of Net Profit for the period ending 2003 to 2007 of EBL

(In million)

Fiscal year (t)	Net Profit (Y)	t-2006	x ²	XY	yc=a+bx yc=64.14+18.19x
2003	25.24	-2	4	-50.48	26.76
2004	41.27	-1	1	-41.27	44.95
2005	69.7	0	0	0	63.14
2006	85.33	1	1	85.33	81.23
2007	94.18	2	4	188.36	99.52
N=5	$\sum Y = 315.27$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = 181.94$	315.7

The equation of straight- line trend is:

$$yc=a+bx \text{(eq. 1)}$$

By solving following equation we can get the value of a and b:

$$\sum Y = Na + b \sum x \text{(eq.2)}$$

$$\sum XY = a \sum X + b \sum x^2 \text{(eq.3)}$$

Putting the value of $\sum X$, $\sum Y$, $\sum XY$ and $\sum X^2$ in the equation no. 2 and 3, we will give the value of a and b:

Since, $X = 0$

$$a = \frac{Y}{N}$$

$$= \frac{315.77}{5}$$

$$= 63.14 \text{ million}$$

Again,

$$b = \frac{XY}{X^2}$$

$$= \frac{181.91}{10}$$

$$= 18.19 \text{ million}$$

Trend value of Net Profit ending 2008 to 2012

(In million)

Fiscal Year (t)	t-2006 (X)	yc=a+bx yc=63.14+(18.19)x
2008	3	117.71
2009	4	135.9
2010	5	154.09
2011	6	172.28
2012	7	190.54

Trend value of Net Profit for the period ending 2003 to 2007 of HBL

(In million)

Fiscal year (t)	Net Profit (Y)	t-2006	x²	XY	yc=a+bx yc=218.49+12.94x
2003	165.24	-2	4	-330.48	192.61
2004	199.82	-1	1	-199.38	205.55
2005	280.36	0	0	0	218.49
2006	235.6	1	1	235.02	231.43
2007	212.12	2	4	424.24	244.37
N=5	y X1092.45	x X0	x ² X10	xy X129.4	1092.45

The equation of straight- line trend is:

$$y_c = a + bx \dots\dots\dots(\text{eq. 1})$$

By solving following equation we can get the value of a and b:

$$\sum Y = N a + b \sum x \dots\dots\dots(\text{eq.2})$$

$$\sum XY = a \sum X + b \sum x^2 \dots\dots\dots(\text{eq.3})$$

Putting the value of $\sum X$, $\sum Y$, $\sum XY$ and $\sum X^2$ in the equation no. 2 and 3, we will give the value of a and b:

Since, $\sum X = 0$

$$\begin{aligned} a &= \frac{\sum Y}{N} \\ &= \frac{1092.457}{5} \\ &= 218.49 \text{ million} \end{aligned}$$

Again,

$$\begin{aligned} b &= \frac{\sum XY}{\sum X^2} \\ &= \frac{129.41}{10} \\ &= 12.94 \text{ million} \end{aligned}$$

Trend value of Net Profit ending 2008 to 2012

(In million)

Fiscal Year (t)	t-2006 (X)	yc=a+bx yc=218.49+12.94x
2008	3	257.31
2009	4	270.25
2010	5	283.19
2011	6	296.13
2012	7	309.07

APPENDIX-V

Trend value of Total Deposit for the period ending 2003 to 2007 of NBBL
(In million)

Fiscal year (t)	Total Deposit (Y)	t-2006	x ²	XY	yc=a+bx yc=7860.97+1588.13X
2003	4152.7	-2	4	-8305.4	4684.71
2004	6467.19	-1	1	-6467.19	6272.84
2005	8600.81	0	0	0	7860.9
2006	9514.45	1	1	9514.45	9449.1
2007	10569.7	2	4	21139.4	11037.23
N=5	y X 39304.85	x X 0	x ² X 10	xy X 15881.2	39304.85

The equation of straight- line trend is:

$$yc=a+bx \dots\dots\dots(\text{eq. 1})$$

By solving following equation we can get the value of a and b:

$$\sum Y = Na + b \sum x \dots\dots\dots(\text{eq.2})$$

$$\sum XY = a \sum X + b \sum x^2 \dots\dots\dots(\text{eq.3})$$

Putting the value of $\sum X$, $\sum Y$, $\sum XY$ and $\sum X^2$ in the equation no. 2 and 3, we will give the value of a and b:

Since, $\sum X = 0$

$$\begin{aligned}
 a &= \frac{\sum Y}{N} \\
 &= \frac{39304.85}{5} \\
 &= 7860.97 \text{ million}
 \end{aligned}$$

Again,

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

$$= \frac{15881.26}{10}$$

$$= 1588.13 \text{ million}$$

Trend value of Total Deposit for the ending 2008 to 2012

(In million)

Fiscal Year (t)	t-2006 (X)	yc=a+bx yc=7860.97+1588.14x
2008	3	12625.36
2009	4	14213.49
2010	5	15801.62
2011	6	17389.75
2012	7	18977.88

Trend value of Total Deposit for the period ending 2003 to 2007 of EBL

(In million)

Fiscal year (t)	Total Deposit (Y)	t-2006	x ²	XY	yc=a+bx yc=4347.37+1189.58X
2003	1948.9	-2	4	-3897.8	1968.21
2004	3057.4	-1	1	-3057.4	3157.79
2005	4574.5	0	0	0	4347.37
2006	5461.10	1	1	5461.1	5536.95
2007	6694.95	2	4	13389.9	6726.53
N=5	$\sum Y = 21736.85$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = 11895.8$	21736.85

The equation of straight- line trend is:

$$yc=a+bx \text{(eq. 1)}$$

By solving following equation we can get the value of a and b:

$$\sum Y = Na + b \sum x \text{(eq.2)}$$

$$\sum XY = a \sum X + b \sum x^2 \text{(eq.3)}$$

Putting the value of $\sum X$, $\sum Y$, $\sum XY$ and $\sum X^2$ in the equation no. 2 and 3, we will give the value of a and b:

Since, $\sum X = 0$

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

$$= \frac{21736.85}{5}$$

$$= 4347.37 \text{ million}$$

Again,

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

$$= \frac{11895.8}{10}$$

$$= 1189.58 \text{ million}$$

Trend value of Total Deposit for the ending 2008 to 2012

(In million)

Fiscal Year (t)	t-2006 (X)	yc=a+bx yc=4347.37+1189.58x
2008	3	7916.11
2009	4	9105.69
2010	5	10295.27
2011	6	11484.85
2012	7	12674.43

Trend value of Total Deposit for the period ending 2003 to 2007 of HBL

(In million)

Fiscal year (t)	Total Deposit (Y)	t-2006	x ²	XY	yc=a+bx yc=16194.89+2704.56X
2003	9772.73	-2	4	-19545.5	10785.87
2004	14043.09	-1	1	-14043.1	13490.43
2005	17532.40	0	0	0	16194.99
2006	18619.378	1	1	18619.37	18899.55
2007	21007.37	2	4	42014.74	21604.11
N=5	$\sum Y = 80974.96$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = 27045.56$	80974.95

The equation of straight- line trend is:

$$y_c = a + bx \dots\dots\dots(\text{eq. 1})$$

By solving following equation we can get the value of a and b:

$$\sum Y = Na + b \sum x \dots\dots\dots(\text{eq.2})$$

$$\sum XY = a \sum X + b \sum x^2 \dots\dots\dots(\text{eq.3})$$

Putting the value of $\sum X$, $\sum Y$, $\sum XY$ and $\sum X^2$ in the equation no. 2 and 3, we will give the value of a and b:

Since, $\sum X = 0$

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

$$= \frac{80974.96}{5}$$

$$= 16194.99 \text{ million}$$

Again,

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

$$= \frac{27045.56}{10}$$

$$= 2704.56 \text{ million}$$

Trend value of Total Deposit for the ending 2008 to 2012

(In million)

Fiscal Year (t)	t-2006 (X)	yc=a+bx yc=16194.89+2704.56X
2008	3	24308.67
2009	4	27013.23
2010	5	29717.79
2011	6	32422.35
2012	7	35126.91

APPENDIX VI

Trend value of Total Credit for the period ending 2003 to 2007 of NBBL

(In million)

Fiscal year (t)	Total Credit (Y)	t-2006	x ²	XY	yc=a+bx yc=6001.87+1118.18X
2003	3164.56	-2	4	-6329.46	3765.51
2004	4617.09	-1	1	-4617.09	4883.69
2005	7347.14	0	0	0	6001.87
2006	7632.41	1	1	7632.41	7120.05
2007	7247.98	2	4	14495.96	8238.23
N=5	y X30009.35	x X0	x ² X10	xy X11181.82	30009.35

The equation of straight- line trend is:

$$yc = a+bx \dots\dots\dots(\text{eq. 1})$$

By solving following equation we can get the value of a and b:

$$\sum Y = Na + \sum bx \dots\dots\dots(\text{eq.2})$$

$$\sum XY = a \sum X + b \sum x^2 \dots\dots\dots(\text{eq.3})$$

Putting the value of $\sum X$, $\sum Y$, $\sum XY$ and $\sum X^2$ in the equation no. 2 and 3, we will give the value of a and b:

Since, $\sum X = 0$

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

$$= \frac{3009.35}{5}$$

$$= 6001.87 \text{ million}$$

Again,

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

$$= \frac{11181.82}{10}$$

= 1118.18 million

Trend value of Total Credit for the ending 2008 to 2012

(In million)

Fiscal Year (t)	t-2006 (X)	yc=a+bx yc=6001.87+1118.18X
2008	3	9356.14
2009	4	10474.59
2010	5	11592.77
2011	6	12710.95
2012	7	13829.13

Trend value of Total Credit for the period ending 2003 to 2007 of EBL

(In million)

Fiscal year (t)	Total Credit (Y)	t-2006	x ²	XY	yc=a+bx yc=3106.39+879.96X
2003	1364.89	-2	4	-2729.89	1346.56
2004	2270.18	-1	1	-2270.18	2226.43
2005	3005.76	0	0	0	3106.39
2006	3982.70	1	1	3982.70	3986.35
2007	4908.46	2	4	9816.92	4866.31
N=5	$\sum Y = 15531.99$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = 8799.66$	15531.95

The equation of straight- line trend is:

yc=a+bx(eq. 1)

By solving following equation we can get the value of a and b:

$$\sum Y = Na + b \sum x \text{(eq.2)}$$

$$\sum XY = a \sum X + b \sum x^2 \text{(eq.3)}$$

Putting the value of $\sum X$, $\sum Y$, $\sum XY$ and $\sum X^2$ in the equation no. 2 and 3, we will give the value of a and b:

Since, $\sum X = 0$

$$a = \frac{Y}{N}$$

$$= \frac{15531.99}{5}$$

$$= 3106.39 \text{ million}$$

Again,

$$b = \frac{XY}{X^2}$$

$$= \frac{8799.66}{10}$$

$$= 879.96 \text{ million}$$

Trend value of Total Credit for the ending 2008 to 2012

(In million)

Fiscal Year (t)	t-2006 (X)	yc=a+bx yc=3106.39+879.96X
2008	3	5746.27
2009	4	6626.23
2010	5	7506.19
2011	6	8386.15
2012	7	9266.11

Trend value of Total Credit for the period ending 2003 to 2007 of HBL

(In million)

Fiscal year (t)	Total Credit (Y)	t-2006	x2	XY	yc=a+bx yc=8409.88+135 2.96X
2003	5245.97	-2	4	-10419.12	5703.90
2004	7224.72	-1	1	-7224.72	7056.91
2005	9177.00	0	0	0	8409.84
2006	9557.13	1	1	9557.13	9762.85
2007	10844.53	2	4	21689.18	11115.82
N=5	y X42049.41	x X0	x2 X10	xy X13529.65	42049.40

The equation of straight- line trend is:

$$y_c = a + bx \dots\dots\dots(\text{eq. 1})$$

By solving following equation we can get the value of a and b:

$$\sum Y = Na + b \sum x \dots\dots\dots(\text{eq.2})$$

$$\sum XY = a \sum X + b \sum x^2 \dots\dots\dots(\text{eq.3})$$

Putting the value of $\sum X$, $\sum Y$, $\sum XY$ and $\sum X^2$ in the equation no. 2 and 3, we will give the value of a and b:

Since, $\sum X = 0$

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

$$= \frac{42049.41}{5}$$

$$= 8409.88 \text{ million}$$

Again,

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

$$= \frac{13529.65}{10}$$

$$= 1352.97 \text{ million}$$

Trend value of Total Credit for the ending 2008 to 2012

(In million)

Fiscal Year (t)	t-2006 (X)	yc=a+bx yc=8409.88+1352.96X
2008	3	12468.79
2009	4	13821.76
2010	5	15174.73
2011	6	16527.40
2012	7	17880.67