CHAPTER-I

INTRODUCTION

1.1 Background of the Study

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

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

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

The bank draws surplus money from the public, who cannot use the money at the time and lends to those who give attention to use for productive purposes. Bank lends the loan to the customers in various uses for capital formation. Banking institutions collect scattered financial resources from the mass and invest them among those who are associated with the economic, commercial, and social activities of the country.

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

Newly organized financial institutions, commercial banks and other financial intermediaries play an important role for the development of a country.

1.2 Development of Banks

1.2.1 In Worldwide Context

"The concept of banking developed from the very beginning of the economic activities. Gold smith, merchant & village money lenders play the significant role for the development of bank. First of all, the effort was made by the ancient people by depositing gold and valuables. Under such arrangements, the depositors would have their gold for safekeeping and in turn were given a receipt. Whenever receipt was presented, the depositors would return back their gold and valuable after receiving a small payment as fee". *(Samulson; 1998: 1)*

The word **"Bank"** is oriented in medieval age in 1171 AD from an Italian word "**Banko**.**"** That means the place (bench) where people come together for different monitory transaction. The **"Bank of Vanice"** was the first bank, which established in Italy in 1157 AD as a first modern bank. Then after in 1401 AD **"Bank of Barcelona"** is established in Spain, **Bank of Geneva** established in 1407 AD, **Bank of Amsterdam** established in 1609 AD. But the credit of the development of modern banks goes to **"The Bank of England"** which was established in 1694 AD in London. The growth of banking accelerated only after the introduction of the banking Act 1883 in United Kingdom as it allowed opening joint stock company banks.

1.2.2 In Nepalese Context

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

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

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

A part from this, Nepal Industrial and Development Corporation was established in 2016 B.S under NIDC act 2016, Agricultural Development Bank established in 2024 B.S. and other development bank and financial institutions were established & continually establishing and contributing to the economy and banking tradition in Nepal. In 2047 B.S., after reestablished of democracy, the government took the liberal policy in banking sector. As an open policy of Nepal Government to get permission to invest in banking sector from private and foreign investor under Commercial Bank Act 2031 BS, different private bank are getting permission to establish with the joint venture of other countries.

1.3 Introduction of Commercial Bank

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

The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development; it maintains economic confidence of various segments and extends credit to people.

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

"Commercial bank is a corporation which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services." *(The American Bankers Association; 1972 :345)*

1.3.1 Commercial Banking Scenario in Nepal

Nepal Bank Ltd is the first bank of Nepal which was established on 1994 B.S. Rastriya Banijjya Bank Ltd was the another old commercial bank of Nepal established in 2022 B.S. Nepal Arab Bank Ltd. (NABIL Bank Ltd.) was the 1st joint venture bank established in 2041 B.S., joint ventured with United Arab Emirates Bank. Then two other banks, Nepal Indosuez Bank Ltd. (Nepal Investment Bank Ltd.) with Indosuez Bank of Finance and Nepal Grindlays Bank of London were established in 2042 BS. Himalayan Bank Ltd. joint ventured with Habib Bank of Pakistan and SBI Bank Ltd. with State Bank of India was established in 2050BS. Everest Bank Ltd. joint ventured with Punjab National Bank, India (early it was joint ventured with United State Bank of India, Calcutta) and Nepal Bangladesh Bank Ltd. were established in 2051BS., Bank of Kathmandu, was established in 2051 BS. Besides this, Nepal Industrial and commercial Bank in 2053, Lumbini Bank and NIC Bank in 2055, Kumari Bank Ltd in 2056, Machhapuchre Bank Ltd. in 2057, Laxmi Bank in 2058, Siddhartha Bank Ltd. in 2059, Global Bank in 2063, Citizen Bank, Prime Bank, Sunrise Bank and Bank of Asia in 2064 BS. Nepal Merchant Bank Ltd. served as a new commercial bank of Nepali financial market.

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

Nowadays there are 25 commercial banks operating in Nepali financial market along with 9 joint ventures with foreign investors. Lists of licensed commercial banks are presented below:

Table 1.1
List of Licensed Commercial Banks

S.N	Commercial Banks	Date of Establishment	Branch	Head Office
1	Nepal Bank Ltd.	1994/07/30	98	Kathmandu
2	Rastriya Banijya Bank	2022/10/10	114	Kathmandu
3	NABIL Bank Ltd.	2041/03/29	16	Kathmandu
4	Nepal Investment Bank Ltd.	2042/11/16	12	Kathmandu
5	Standard Chartered Bank Ltd.	2043/10/16	7	Kathmandu
6	Himalayan Bank Ltd.	2049/10/05	14	Kathmandu
7	Nepal SBI Bank Ltd.	2050/03/23	11	Kathmandu
8	Nepal Bangladesh Bank Ltd.	2050/02/23	16	Kathmandu
9	Everest Bank Ltd.	2051/07/01	14	Kathmandu
10	Bank of Kathmandu Ltd.	2051/11/28	8	Kathmandu
11	Nepal Credit & Commerce Bank Ltd.	2053/06/28	16	Siddarthanagar
12	Lumbini Bank Ltd.	2055/04/01	4	Narayangadh
13	Nepal Industrial & Commercial Bank Ltd	2055/04/05	6	Biratnagar
14	Machhapuchhre Bank Ltd.	2057/06/17	5	Pokhara
15	Kumari Bank Ltd.	2056/12/21	3	Kathmandu
16	Laxmi Bank Ltd.	2058/12/21	3	Birgunj
17	Siddhartha Bank Ltd.	2059/09/09	7	Kathmandu
18	Global Bank Ltd	2063/02/15	6	Birgunj
19	Citizen Bank Ltd	2064/01/07	9	Kathmandu
20	Prime Bank Ltd	2064/0607	1	Kathmandu
21	Sunrise Bank Ltd.	2064/06/25	12	Kathmandu
22	Bank of Asia Ltd.	2064/06/25	2	Kathmandu
23	Nepal Merchant Bank Ltd	2065/01/26	1	Kathmandu
24	Agricultural Development Bank	2024/11/07		Kathmandu
25	Development Credit Bank Ltd.	2057/09/07		Kathmandu

(Source: Banking and Financial Statistics, NRB, No. 50)

1.4 Focus of the Study

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

"Deposit mobilization means, to invest the cash in different sectors for profit motives. Investment in its broadest sense means the sacrifice of certain present value for

(possibly uncertain) future value. In pure financial sense, the subsequent use of the term investment will be in the prevalent financial sense of the placing of money in the hands of other for their use, in return for a proper instrument entitling the holders to fixed income payment or the participation in expected profits. It can define the terms of investment at manufacturing and trading forms those long term expenditures that aim at increasing plant capacity of efficiency or at building up goodwill, there by producing an increased return over a period. Experts define the terms of investment from economic view point that investment as a productive process by means of which additional are made to capital equipment's. It is finding to clear the terms of investment at different points of view. But it needs to clear the terms of investment in financial point of view as related to this study." *(Swami and Basudevan; 1979:123)*

This research focuses on the comparative study of deposit mobilization of two commercial banks Himalayan Bank ltd. and Everest Bank ltd. These banks are compared as per their deposit mobilization procedure by taking 5 years data from the year 2059/60 to 2063/64.

1.5 Profile of the Concerned Banks

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

1.5.1 Himalayan Bank Limited

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

It is the first commercial bank of Nepal with maximum share holding by the Nepalese private sector. Besides commercial activities, the Bank also offers industrial and merchant banking. Its ownership is composed of founder shareholders 51%, Habib bank of Pakistan 20%, Karmachari Sanchaya Kosh 14% and general public 15%. It is the first bank having domestic ownership more than 50%.HBL has been operating in high profit for the establishment's period till now. It accepts deposit through current deposit, saving deposit, fixed deposit and call deposit.

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

- Tele- Banking
- 24 hours banking
- Debit & Credit card facilities
- Automatic Teller Machine(ATM)
- Visa card
- Letter of credit service
- Safe deposit locker
- Himalayan SMS(Short Message Service)
- Internet Banking Service
- Foreign currency transaction etc.

Table 1.2
The ownership of HBL is composed as:

Subscription	% Holding
Promoter Share Holders	51%
Habib Bank Ltd., Pakistan	20%
Financial Institution (Employees Provident Fund)	14%
Nepalese Public share holder	15%
Total	**100%**

Table 1.3
The present capital structure of HBL is shown below:

Share Structure	Amount (Rs.)
Authorized Capital	1,000,000,000
Issued Capital	650,000,000
Paid- Up Capital(5,362,500 equity shares of NRS 100.00 each, fully paid)	536,250,000

Source: http://www.himalayan bank.com

1.5.2 Everest Bank Limited

Everest Bank Ltd. was registered under the Company Act 1964 in 19th November 1993 (2049/09/03) and started banking transaction in 16th October 1994 (2051/07/01). The promoter of the bank decided to join hands with an Indian bank and entered into joint venture agreement in January 1997 AD with Punjab National Bank (PNB), which is one of the leading commercial bank of India, having over 100 years of successful banking experience and known for its strong system and procedure. A team of professionals deputed by PNB are under this arrangement. Now, the bank 14 branches including main branch (i.e. head office) in Nepal. The bank has been conferred with ***"Bank of the Year 2006, Nepal"*** by the banker, a publication of financial times, London.

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

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

Table 1.4

The ownership of EBL is composed as:

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

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

Table : 5

The present capital structure of EBL is shown below:

Share Structure	Amount (Rs.)
Authorized Capital	75,00,00,000
Issued Capital	46,68,00,000
Paid- Up Capital	45,50,00,000

(Source: http://www.everestbank.com)

1.6 Statement of the Problems

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

If the deposit are wrongly invested without thinking any financial risk, business risk and other related facts, the bank cannot obtain profitable return as well as it should

sometimes lose its principle. Deposit mobilization policy may differ from one joint venture banks to another but there is no optimum utilization of shareholders fund to have greater return in any bank. Nepal Rastra Bank has also played significant role to make commercial bank mobilize their fund in good sector. For this purpose, NRB imposed many rules and regulation so that commercial bank can have sufficient liquidity and security. Though most of the joint-venture banks have been successful to earn profit from deposit mobilization, none of them seem to be capable to invest their entire fund in more profitable sectors.

To meet the requirement of NRB, joint venture banks must have 5.5% deposits of total current account and fixed deposit account of local currency with NRB. They should have 3% minimum cash balance in their own vault of total currency of all types of accounts. Except this, they have fund from current, saving and fixed deposits borrowing, from other banks, cash margin for different purpose, amount of bills payable and retained earning, reserves share capital and other liabilities.

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

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

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

1.7 Objectives of the Study

For any kind of research work or study, first of all the objectives should be determined. It shows the way to achieve desired goals. Likewise, the main objectives of this research work is to examine, interpret and analysis the deposit mobilization procedures adopted by two commercial banks Himalayan Bank Ltd and Everest Bank Ltd. This study is concerned with whether HBL and EBL are adopting efficient deposit mobilizing policy or not. The main objectives related to this study are presented below:

- To evaluate the trend in deposit collection and mobilization.
- To compare the growth and risk ratio of loan and advances and total investment with respective to growth rate of total deposit and net profit of HBL and EBL.
- To compare flow of cash on operating, financial and investment sectors of two commercial banks.
- To carryout the relationship between deposits and total investment, deposits and loan and advance and net profits of HBL and EBL.
- To evaluate and forecast the trend of deposit utilization for the next five years.
- To analyze the sources and uses of funds and analysis of cash flow of these two commercial banks.
- To suggest and recommend some measures for improvement of financial performance of HBL and EBL.

1.8 Significance of the Study

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

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

- The depositor's general public can make decision to deposit their money in the bank after analyzing the deposit mobilization of the bank.
- By the help of this study, general public can know the deposit mobilizing activities of banks.

- It is also beneficial for the government while formulating policies and rules regarding commercial bank.
- From the study of deposit mobilizing policy about bank, shareholders and companies would get information related to the deposit mobilizing scheme of the bank and they may know how banks are mobilizing their fund and resources. And it is fruitful to make investment on shares of various banks.
- The study of deposit mobilizing policy would provide information to the management of the bank that would be helpful to take corrective action in the bank activities.
- Effective deposit mobilization activities are the cause to increase earnings of the banks.
- This study will serve to be a guide to the management of banks, financial institutions, related parties, shareholders, general public (customer, depositors and creditors).

1.9 Limitation of the Study

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

- This study is based on secondary data and accuracy depends upon the data collected and provided by the organization.
- The whole study is based on the data of 5 years period (i.e. from F.Y. 2059/60 to 2063/64).
- This study has been only of two commercial banks as sample i.e. HBL and EBL.
- Non availability of the various references of sources acts as constraints for the study.
- Only the deposit mobilization aspects are analyzed. Other performance of the organizations is fully neglected, while providing suggestions.

1.10 Organization of the Study

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

Chapter 1 : Introduction
Chapter 2 : Review of Literature
Chapter 3 : Research Methodology
Chapter 4 : Presentation and Analysis of data
Chapter 5 : Summary, Conclusions and Recommendation

1. Introduction It is an introductory chapter which contains background of the study, introduction of commercial banks, focus of the study, statement of the problems, significant of study, objectives of the study, limitation of the study and organization of the study.

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

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

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

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

CHAPTER-II

REVIEW OF LITERATURE

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

2.1 Conceptual Review

Banks are that kind of institutions, which deals with money and substitutions for money. They deal with credit and credit instrument. Effective circulation of credit is more significant for the banks. Collected fund should be invested and mobilized into the right sector. An investment of fund decides the life and death of the banks.

Nepal Bank Ltd. is the first modern bank of Nepal. It is taken as the milestone of modern banking of Nepal. This was established in 1994 B.S. Nepal Rastra Bank act 2012 formulated in 2012 B.S. for the view to establish the leading bank to create banking environment with in the country. As a result Nepal Rastra Bank established in 2013 B.S. as the centre bank of Nepal. Industrial development bank was established in 2016 B.S to promote the industrialization in Nepal, which was later converted into Nepal Industrial Development Corporation (NIDC). Rastriya Banijjya Bank was established in 2022 B.S. as the second commercial bank of Nepal. The financial shapes of these two commercial banks have a tremendous important on the economy. That is the reason why these banks still exits in spite of they are in traditional situation. As the agriculture is the major occupation of Nepalese people, the development of this sector play the prime role in the economy. So, separate Agriculture Development bank was established in 2024 B.S.

For more than two decades, no more banks have been established in the country. After declaring free economy and privatization policy, Government of Nepal encouraged the foreign banks for joint venture in Nepal; as a result, NABIL was established in 2041 B.S. This is the first modern bank with latest banking technology. Then after so many banks emerge in Nepal, as a result at present one central bank, 25 commercial banks, are conducting their services to the Nepalese people.

2.1.1 Concept of Commercial Banks

A bank is a business organization that receives and holds deposits of funds from others make loan or extents credits and transfer funds by written order of deposits.
Commercial bank is a financial institution which transfers monetary sources to users. In the process of such intermediation, commercial bank deploys funds raised from different sources into different assets with a prime objective of profit generation an administrative assistance. Commercial banks are those banks which are established under this act to perform commercial function. The commercial banks pool together the savings of the community and arrange for their productive uses. They supply financial needs of modern business.

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

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

"Commercial bank is a corporation which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services. *(The American Bankers Association; 1972:345)*

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

2.1.2 Functions of Commercial Banks

Banks collect unused money from the public by providing attractive sound interest and can earn profit by lending it mainly in business organization, industrial and agriculture sectors and investing in government bonds. So, the main function of commercial banks is to mobilize idle resources in productive area by collecting it from scattered sources

and generating profit. There are many functions performed by commercial banks some of them are summarize below:

a) Accepting Deposit: - The main function of commercial bank is to collect deposit. Commercial banks accept deposit from the public who has surplus funds under three main headings namely current deposit, saving deposit and fixed deposit.

(i) Current Deposit: - Current deposits are also known as demand deposits. The demand deposit is which an amount is paid immediately at the time account holder's demand is called demand deposit. Though the bank can't gain profit by investing it in new sector after taking from customer, this facility is given to the customer. Therefore, the bank does not give interest on this account.

(ii) Saving Deposit: - In saving deposit, there is restriction on the maximum amount that can be deposited and also withdrawals from the account. This deposit is suitable and appropriate for the people of middle class who have low income and small saving. The bank usually pays small interest to the depositors on their deposited sum.

(iii) Fixed Deposit: -Fixed deposit is the one, which a customer is required to keep a fixed amount with the bank for a specific period, generally by those who do not need money for the stipulated period. Depositor is not allowed to withdraw the amount before the expiry of the period. The rate of interest is higher than other deposit. The bank pays a higher interest in it as bank got chance to invest that money in productive sector freely.

b) Advancing Loan: - Commercial banks collect funds from the various deposit accounts then, mobilize by providing loan and advances. Direct loan and advances are given to all types of person against the personal security of the borrowers or against the security of movable and immovable properties. There is various method of advancing loans e.g. overdraft, cash credit, direct loan on short term, midterm and long term, discounting bills etc.

c) Agency services:- A commercial bank provides a range of investment services. It undertakes to buy and sell securities on behalf of its clients. The banks undertake the payment of subscriptions, premium, rent, interest etc. It collects cheques, bills, promissory notes, dividends, interest etc on behalf of customers. The bank charge a small amount of commission for those services. It also acts as correspondent or representative of its customers, on other banks and financial institutions.

d) Credit Creation: - Commercial banks create credit on the basis of deposit. They hold a certain amount of cash reserve to meet obligations and maintain the cash

reserve ratio of central bank. The rest of the deposit amount is invested in loan finance that yields higher rates of interest as compared to those payable on deposits. When the bank advances loans, it opens an account to draw the money by cheque according to borrower's needs.

e) Other Functions:- Besides the above mentions functions the commercial banks performs the other functions likes remits money, exchange foreign currencies under prevailing rate of central bank, discount bills, assist foreign trade, provide locker services, encourage saving, financial advising, security brokerage services etc.

2.1.3 Concept of Deposit

The excess of income over consumption requirement is saved. Such savings are deposited in commercial banks, even amounts to be spent for consumption purposes are also deposited in commercial banks. Payment for goods and services is made by issuing cheque from the bank. Banking habit is growing faster in city area. People deposit their earnings in commercial banks because bank deposit is safer than home deposit and they will get interest benefit according to the nature of the deposit.

It is important that the commercial bank's deposit policy is the most essential policy for its existence. The growth of banks depends primarily upon the growths of its deposits. The volume of funds that management will use for creating income through loans and investment is determined largely by the bank's policy governing deposits. In other words, when the policy is restrictive, the growth of bank is restated or accelerated with the liberalization in the deposit policy. In banking business, the volume of credit extension much depends upon the deposit base of a bank. The deposit creating powers of commercial banks forces to raise the assets along with the liabilities side of the balance sheet. In other words, assets give rise to liabilities. Traditionally, the deposit structure of commercial bank was thought to be determined by the depositors and not by bank management. There are regular changes in this view in the modern banking industries. Thus bank have evolved from relatively passive acceptors of depositors to achieve bidders for funds. Deposits are one of the aspects of the liabilities that management has been influencing through deliberate action.

Thus, bank deposit is subject to various form of classification. The deposits are generally classified based on ownership, security and the availability of funds. There are two types of deposits which are as follows.

a) Interest Bearing Deposit: - Deposit in which banks are required to pay interest is known as interest bearing deposit. Saving, Term (Fixed), Call and Recurring deposit are interest bearing deposit.

(i) Saving Deposit: - A saving deposit is one in which middle class people and general saver open a limited amount of money that can be withdrawn and low level of interest will be provided by bank. This is a very common and general deposit account, which is suitable for those classes of people who want to save some portion of their earnings or the money left after the consumption. There are some restrictions in withdrawing money at the same time the limitation depends as per nature of economy and from one country to another country or even one bank to another.

(ii) Fixed Deposit or Time Deposit:- This is a kind of deposit in which amount will be deposited for a fixed period of time that money can cot be withdrawn before the expiry of time. So, the money deposited in this account can be utilized by banks for medium or ling term credit freely being confident that the depositor will not come to claim until the time lapses. The time deposit is the main source of commercial bank for their credit operation. Investment in medium term and long purposes is possible only through this type of deposit. However, the depositor can take loan under security. In this context of Nepal, fixed deposit has been classified according to the following durations: -

- Quarterly
- Semi-annually
- Annually
- Annually and above

(iii) Call Deposit:- Call deposit incorporates the characteristics of current and saving deposit in the sense of current, deposit is withdrawn at call and saving, the deposit earn interest. The companies not entitled to open saving account can open saving account can open the call account. Interest rate on call deposit is negotiable between the bank and the depositors and hence, is normally not published in public. Interest rate is applied on daily average balance. Withdrawal restriction is not imposed on call deposit but the balance should not go below an agreed level.

(iv) Recurring Deposit: - Concept of recurring deposit was developed to encourage the thrift among people of fixed regular earning. In recurring deposit scheme, the depositor is required to deposit the fixed amount in each installment and is repaid fixed amount at maturity.

b. Non Interest Bearing Deposit: - It is the deposit in which the banks need not to pay interest for the customer of their savings. It is because in this types of deposit customers can withdraw the money at any time or can withdraw daily and the bank could not employ the money in profitable projects that's why it does not pay any interest in this type of account. Current and margin deposit are non interest bearing deposit.

(i) Current Deposit: - The current deposit account generally opened by the business person. They are allowed to withdraw and deposit the money according to their needs. There is no limitation of withdrawing the money. Therefore, these types of depositors are those people who may need money at uncertain time.

(ii) Margin Deposit: - Banks issue letter of credit, guarantee and indemnity etc. on behalf of the customer for a specified sum of money. These amounts have to be paid to the beneficiaries of aforesaid instruments provided, they claim as per the terms and conditions agreed upon. Thus banks are exposed to contingent liability. To reduce the liability banks ask customer to deposit a certain amount as the margin deposit. Banks open. Banks open fictitious margin account in the mane of the borrower to put much amount an interest is not paid in such deposit. Margin deposit is required to the customer if the claim is not lodged by the beneficiary. In the case of claim, the amount is utilized to honor the claim. The customer is asked to cover the shortfall if any.

2.1.4 Concept of Deposit Mobilization

Collecting scattered small amount of capital through different media and investing the deposited fund in productive sector with a view to increase the income of the depositors is meant deposit mobilization. In the other words, investing the collecting fund in the productive sectors and increasing the income of the depositors, also supports increase in the saving through the investment of increased extra amount.

When we discuss about deposit mobilization, we are concerned with increasing the income of the low income group of people and to make them able to save more and invest the collected amount in the development activities.

Saving refers to that part of the total income which is more than the expenditure of the individual. In other words, saving = total income – total expenditure. Basically, saving can be divided into parts voluntary saving and compulsory savings. Among deposit in

different accounts of commercial bank, investment in government securities are some examples of voluntary saving. A commercial bank collects deposit through different accounts like fixed, saving and current.

In developing countries there is always shortage of the capital for developmental activities. There is need of development in all sectors. It is not possible to handle and develop all the sectors by the government alone at a time, private people also can not under take large business because the per capita income of the people is very low while their propensity to consume is very high. Due to the low income, their saving is very low and capital formation is also very low. So, their saving is not sufficient for carving on developmental work.

Commercial banks are set up with a view to mobilize national resources. The first condition of national Economic Development is to be able to collect more and more deposit. In these contexts, the yearly increasing rate of commercial bank deposit clearly shows the satisfactory progress of deposit mobilization.

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

As commercial bank they are expected to make profit. If there is no profit, there will be adverse criticism against public sector banking, both in and outside the parliament when these banks are asked to open new branches in areas which do not allow profits for years, or asked to grant loan to the priority sectors such as small industries and agriculture with a high incidence of bad debts, there is need for counter balancing profit from elsewhere. Therefore, these banks will have to show an ascending order of profits in order to ensure growth with stability. For this purpose the bank will have to allocate land able resources to different segments in such a manner these banks can ensure adequate profitability while at the same time responding to policies laid down in accordance with national objectives.

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

a. Liquid Funds

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

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

b. Investment

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

- Share and debenture
- Government securities
- NRB bond
- Joint-venture

c. Loan and Advances

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

- To government enterprises
- To provide enterprises

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

d. Fixed Assets

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

e. Administrative and Miscellaneous Expenses

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

- Salary of Employee
- Allowances
- Pension
- Advertisement
- Stationery
- Provident Fund
- Rent
- Income tax
- Donation
- Insurance
- Tour expenses
- Commission

The miscellaneous expenses are:

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

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

fund as well as own funds in all banking activities by performing effective deposit mobilization procedure.

2.1.5 Requirement for Deposit Mobilization

The following are some reasons why deposit mobilization is needed in the developing country like Nepal: -

- Capital is needed for the development of any sector of the country. The objective of deposit mobilization is to collect the scattered capital in different forms with the country.

- The need of deposit mobilization is felt to control unnecessary expenditure, if there is no saving, the extra money that the people have, can flow forwards buying unnecessary and luxury goods. So, the government also should help to collect more deposit, steeping legal procedures to control unnecessary expenditures.

- Commercial banks are playing a vital role for National Development. Deposit mobilization is necessary to increase these activities. Commercial banks are granting loan not only in productive sectors but also in other sectors like food grains, housing, hire purchase etc.

- It is much more important to analyze the collected deposit in one priority sectors of a country. In our developing country's we have to promote out business and other sectors by investing the accumulated capital towards productive sectors.

2.1.6 Advantages of Deposit Mobilization

Deposit mobilization plays a vital role in over all development of the country. Some of the advantages of deposit mobilization are as follows:

(**i) Circulation of Idle Money:** - Deposit mobilization helps to circulate idle money. The meaning of deposit mobilization is to convert idle saving into active saving. Deposit mobilization helps the depositor's habits of saving one side and it

also helps to circulate the idle saving in productive sector on the other. This helps to create incentives to depositors.

(ii) Supports Fiscal and Monetary Policy:- Fiscal policy of the government and monetary policy of the central bank for economic development of a country can be supported by deposit mobilization. Deposit mobilization helps to canalize idle money in productive sector. Again, it helps in money supply, which saves the country from deflation and helps central banks objective of monetary policy.

(iii) Capital Formation:- Capital plays a vital role for the development of industries. But in an under developed country, there is always lack of capital to support such industries. Capita formation and industrialization is possible through deposit mobilization.

(iv) Development of Banking Habits:- One important side of economic development of a country is to increase banking habit in the people. Deposit mobilization helps in these aspects. If there is proper deposit mobilization, people believe on the bank and banking habit will develop on the people.

(v) Supports Government Development Projects:- Every underdeveloped countries government needs a huge amount of money for development projects. The deposit collected by the commercial banks can fulfill to some extent the need of money to the government.

(vi) Promote cottage industries: - Deposit mobilization is needed to facilitate cottage industries located in rural and urban areas. If the bank utilizes the collected deposit in the same rural or urban sectors for the development of cottage industries, it is helpful not only to promote cottage industries in the area, but also support in the development of the locality as a whole increasing employment and income of the local people.

(vii) Check up Miss- utilization of Money:- Mostly our customs and habits are supported by social and religious believe. There is also tendency of copying others and to show their superiority buying unnecessary and luxury items in our society. In such society, deposit mobilization proves a tool to check up the miss utilization of money.

(viii) Others:- Deposit mobilization supports small savers by earning interest helps to the development of rural economic, protests villagers form being exploitation of

indigenous bankers, increase investment incentives, provides facilities to the small farmers to purchase tools and fertilizers etc. So, commercial banks play an important role for the economic development not only in a developed country but also in a developing country.

2.1.7 Features of Sound Lending and Deposit Mobilization Policy

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

a) Safety and Security

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

Where,

M = Marketability

A = Ascertain ability

S = Stability

T = Transferability

b) Legality

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

c) Liquidity

Liquidity is the position of the firm to meet current or short-term obligations. General public or customers deposit their savings at the banks in different accounts having full confidence of repayment by the banks whenever they require. To show a good current position and maintain the confidence, every firm must keep proper cash balance with them while investing in different securities and granting loan for excess fund.

d) Profitability

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

e) Tangibility

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

f) Purpose of loan

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

g) Diversification

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

2.1.8 Meaning of Some Important Terminologies

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

a) Deposits

Deposit is the most important source of the liquidity for each and every commercial bank. For financial strength of banks, it is treated as a barometer. In the word of Eugene, "a bank's deposits are the amount that it owes to its customers." A deposit is the lifeblood of the commercial banks. Even though, they constitute the great bulk of bank liabilities, the success of a bank greatly depends upon the extent to which it may attract more and more deposits, for accounting and analyzing purpose, deposits are categorized in three headings. They are:

- Current Deposits
- Saving Deposits
- Fixed Deposits

b) Loan and Advances

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

c) Investment on Government Securities, Shares and Debentures

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

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

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

d) Investment on other Company's Shares and Debentures

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

e) Off- Balance Sheet Activities

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

f) Other use of Fund

A commercial bank must maintain the minimum bank balance with NRB i.e.5.5% of deposit account in local currency. Likewise, 3% cash balance of local cash balance, in local currency, accounts must be maintained in the vault of the bank. Again a part of the fund should be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computers, stationery etc.

2.2 Review of Related Studies

2.2.1 Review of Journals and Articles, Research Papers and Previous Studies

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

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

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

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

Shekhar Bahadur Pradhan (2053) in his articles, "*Deposit Mobilization, its Problem and Prospects"*

He has presented the following problems in the context of Nepal:

- People do not have knowledge and proper education for saving in institutional manner. They so now know financial organizational process, withdrawal system, depositing system etc.
- Financial institutions do not want to operate and provide their services in rural areas.
- He has also recommended about how to mobilize the deposit collection by the financial institutions by rendering their services in rural areas, by adding various services.

- By operating rural banking programs and unit
- Nepal Rastra Bank must organize training programs to develop the skilled human resources
- By spreading a numbers of co-operative societies to develop mini banking services and improves the habits of public on deposit collection to the rural areas.

Sunity Shrestha (1997) has analyzed in her article, "*Financial Performance of Commercial Banks Using Both Descriptive and Diagnostic Approach*.**"**
In her studies she has concluded the following points:

a. The structural ratio of commercial banks show that banks invest on the average 75% of their total deposit on the government securities and the shares.
b. The analysis of resources position of commercial banks should quit high percentage of deposit as cash reserve.
c. Return ratio of all the banks show that most of the time foreign banks have higher return as well as higher risk than Nepalese banks.
d. The debt-equity ratios of commercial banks are more than 100% in most of the time period under study period. It led to conclude that the commercial banks are highly leveraged and highly risk. Joint venture banks had higher capital adequacy ratio but has been dealing every day.
e. In case of the analysis of the management achievement foreign banks have comparatively higher total management achievement index.

Mr. Shiva Raj Shrestha (2055 B.S) has presented a short scenario of investment management from his article "*Portfolio Management in Commercial Bank, Theory and Practice*."

He has stressed in the following issues, in case of investors having lower income, portfolio management may be limited to small saving incomes. But, on the other hank, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore, portfolio management becomes very important both for an individuals as well as institutional investors. Large investors would like to select a best mix of investment assets and subject to the following aspects:

a. Higher return which is comparable with alternative opportunities available according to the risk class of investor.

b. Good liquidity with adequate safety on investment.
c. Certain capital gains
d. Maximum tax concession
e. Flexible investment
f. Economic and efficient investment

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

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

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

1. To find out the investing assets (generally securities) having scope for better returns depending upon individual characteristics like age, health, need deposition, liquidity and tax liquidity etc.
2. To find out the risk of securities depending upon the attitude of investor towards risks.
3. To develop alternative investment strategies for selecting a better portfolio this will ensure a trade-off between risk and return so as to attain the primary objective of wealth maximization at lowest risk.
4. To identify variety of securities for investment to refuse volatility of returns and risk.

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

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

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

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

Radhe Shyam Pradhan (2004) has done a research for which he carried out a survey of 78 enterprises. Through his research entitled, "*Financial Management Practices in Nepal."* He found some of the major features of the Nepalese financial management. According to him "the most important one appeared to be maintaining good relation with stockholder. The finding reveals that banks and retained earning are most widely used financing sources. Most enterprises do not borrow from one bank only and they do switch between banks to banks whichever offers best interest rates. Most enterprises find that banks are faxable in interest rate. Among the banks loan, bank loan of less than one year are more popular in public sector where as banks loan of 1-5 years are more popular in private sector. In period of light money, the majority of private sector enterprises fell that bank will treat all firms equally while public sector does not feel so. Similarly, he concluded that the majority of enterprises in traded sector find that bank's interest rate is just right while the majority of non-traded sector find that the some is one higher side."

2.2.2 Review of Theses

Before this study, various studies regarding the various aspects of commercial banks such as fund mobilizing policy, financial performance, investment policy, lending policy, interest rate structure, resource mobilization and capital structure have conducted several thesis works. Some of them, which are relevant for this study, are presented below:

Krishana Karki (2001) conducted research on "*An Analysis of Deposit Mobilization of RBB, Lahan Branch*" has tried to see the impact of interest rate on deposit mobilization also to know the effective utilization of the accumulate deposit. This study is mainly concerned with the RBB Lanan branch. The data presentation, analysis of deposits and loan advance is limited to the period of ten years from the year 1990 to 1999. Most of the data are secondary types and applied the correlation coefficient as statistic tool. In the study, the researcher has found that RBB Lahan branch is less

successful to collect maximum deposit and also the deposits cannot efficiently utilized and there is negative correlation exists between interest rate and total credit.
For so, the researcher has recommended that bank should extend long term credit, the bank should not very much conscious about its security. The person, who has skill but not security, does not get loan from this bank. The bank should decrease interest on credit side and staffs should be trained. Finally, the researcher has suggested that there should be frequently communication between staffs and key customers, particularly business.

Prakash Agrawal (2002) conducted a research on "*A Study on Deposit and Investment Policy of Yeti Finance Company Ltd.*" has tried to examine the trend the deposit position and investment position of the Yeti finance ltd. The study was conducted on he basis of secondary data and use various financial tools to analyze the data. Study just covered only period of 5 years (i.e. 1996-2000). The researcher has found that the deposit policy is not suitable but has highly fluctuating trend and investment is gradually in increasing trend. The researcher found there is highly positively correlation between total deposit and total investment. The researcher concluded that finance companies have been found profit oriented, ignoring the social responsibility, which is not a fair a strategy to sustain in long rum. Therefore, it is suggested the company should involve in social program which helps the deprive people who are depended helps in agriculture. Agriculture is the paramount of Nepalese economy so that any finance company should not forger to invest in this sector. In order to do so, they must open their branches in remote area with an objective of providing cheaper financing services.

The minimum amount to open account and interest a\rate on credit should be reduced which ultimately intensify the profit and goodwill of the company in future. But in his research there is not clearly mentioned the effect of interest in deposit collection as well as in investment.

Pravakar Dhungana (2002) conducted a study on "*Investment Policy of Nepal Bangladesh Bank Ltd. & Other Joint Venture Banks (Himalaysn Bank ltd and Nepal state bank of India bank ltd.)* " with the objectives of

- To study deposit mobilization and investment policy.
- To evaluate the liquidity efficiency of assets management and profitability position.
- To evaluate the growth ratio of loan and advance and total investment with respect to growth ratio of total deposit and net profit.

- To evaluate the trend of deposit utilization towards total investment and loan and advances and its projection for next five years.
- To study the various risk in investment

The study was conducted on secondary data

The research finding of the study are:

- The liquidity position on NSBL is not betted than of HBL and NBBL
- NSBL is in better position regarding its on balance sheet activities. But it is not better on off balance sheet activities.
- The credit risk ratio and interest rate risk ratio on NSBL is higher than of HBL.
- NSBL has maintained high growth rate.

Samiksha Thapa, (2002) in her thesis paper "*A Comparative Study on Investment Policy of Nepal Bangladesh Bank Ltd. and Other Joint Venture Bank of Ne*pal" she has compared the investment activities of NBBL with only two joint venture bank i.e. Nepal Arab Bank Ltd. and Nepal Grindlays Bank Ltd. by taking five years data. She has recommended in two ways:
She has suggested about investment in government securities, sound credit collection policy, and project oriented approach, effective portfolio management, and innovative approach to bank marketing and banking facilities. She has suggested about liberal policy and coat management strategy.

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

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

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

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

Umesh Tandukar (2003) conducted research on the topics of "*Role of NRB in Deposit Mobilization of Commercial Bank*" has tried to examine role of NRB in deposit collection by commercial banks and to analyze the trends of deposits mobilization towards total investment and loan and advances. Projection is for 5 years (1998 to 2002). The data used in that study is both primary and secondary nature. The researcher used different financial tools such as liquidity ratio, activity ratio, profitability ratio, risk ratio and coefficient of correlation, trend analysis as statistic tools. The researcher took 17 commercial banks as population and three banks NABIL, EBL and HBL as sample banks. The researcher has found that it can be said that all new NRB of commercial banks are effective and it is good for both nation and the future of the banks but the loan classification and provisioning seems to be little bit uncomfortable to the commercial banks. And deposit and loan and advances of NBBL are higher then EBL but incase of investment EBL is able to mobilize more funs than NABIL in this sector.

Kishor Kumar Rayamajhi (2004) has conducted on his thesis work *"A Study on Deposit Mobilization of Six Commercial Banks"* has conducted that commercial banks play a crucial accelerating the growth in the country. The banks mobilize the saving of the people and divert them in productive channels. The expansion of branches as more as possible to encourage the saving i.e. to increase the saving habit of the people and thereby to mobilize the available financial resources efficiently and effectively in a productive way and concluded that the branch expansion helps to collect more deposit and utilize the available resources.

The view of above relevant thesis has no doubt enhanced the fundamental understanding and foundation knowledge base which s prerequisite to make this study meaningful and positive. Although numbers of articles have not been published and various research work have not been conducted in commercial bank deposit mobilization, so here effort is made to do.

Dilip Poudel (2007) has conducted a thesis work on "*Credit Management*". A Comparative study of Himalayan bank and Nepal Arab bank ltd. The objectives of the studies are:

- To analyze the volume of contribution made by sample banks in credit and advance.
- To analyze the deposit collection and utilization trend of sample banks.
- To study relationships of deposit, loan and advance and net profit of sample bank.
- To provide suitable and beneficial suggestions based on finding of the thesis.

Mr. Poudel used financial tools as well as statistic tool to analyze the simple banks and it is based on secondary data of the sample banks. From the study he, has got the following findings.

- HBL has more cash reserve than that of NAB ltd.
- NAB ltd has sound lending policies so that it is able to mobilize its resources more than HBL.
- Both the banks have credit related problems

Sarita Maharjan (2008) has conducted a thesis work on "*Mobilization of Deposit of Himalayan Bank Ltd*." She has conducted this thesis work with the objectives of :

- To analyse the trends of deposit of Himalayan Bank Ltd.
- To evaluate the current deposit policy of HBL and its effects.
- To study the strength of the existing deposit policy.
- To study the performing and non performing loan of HBL
- To provide the suggestions and recommendations for improvement of the deposit mobilization of the bank.

Miss. Maharjan analyzed current, saving and fixed deposit and credit position of HBL as well as find the 3 years trend analysis. Financial tools as well as statistic tool are used in her studies. It is based on secondary data of the sample banks. From the study she, has got the following findings.

- Banks needs to expand its branches in rural area
- For its competition in international market new products, debit card, mobile banking, home banking services need to be added.
- To make customer service charge and interest charge transparent.
- HBL lunch the scheme of lottery of 10 lakh for the public.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

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

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

3.2 Research Design

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

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.

The research examines the facts and postulates in certain frameworks on details and supplies the important information on subject matter. Summary of the study, major findings of the study, recommendations, conclusion etc. are the most significant information among them. Some financial and statistical tools were adapted to evaluate the deposit mobilization of joint venture banks viz. EBL and HBL.

This research followed descriptive and analytical research design. Descriptive research design is applied because the study concern with present condition, strength and weakness of the selected bank. Similarly analytical research design is chosen because various aspects of the selected banks are analyses by using financial and statistical tools.

3.3 Sources of Data

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

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

3.4 Nature of Data

In case of primary data, some personal views and ideas of individual's are collected. But in case of entire study secondary data used are basically of the following nature.

- Most of the data taken for the analysis is collected in the form of published by the concerned banks through their annual reports.
- Since all the banks which are taken into account for the study are listed in NEPSE, the figures are all most reliable and suitable too.

3.5 Population and Sample

There are altogether 25 commercial banks functioning all over the kingdom and most of their stocks are traded actively in the stock market. Among them 9 are JVBs and 16 are domestic commercial banks from public and private. In this study two joint venture banks are to be taken for research work. These banks are compared as per deposit mobilizing activities. EBL and HBL are selected from population and population is presented below:

1. Nepal Bank Ltd.
2. Rastriya Banijya Bank Ltd.
3. Nabil Bank Ltd.
4. Nepal Investment Bank Ltd.
5. Standard Chartered Bank Ltd.
6. Himalayan Bank Ltd.

7. Nepal SBI Bank Ltd.
8. Nepal Bangladesh Bank Ltd.
9. Everest Bank Ltd.
10. Bank of Kathmandu Ltd.
11. Nepal Credit and Commercial Bank Ltd.
12. Lumbini Bank Ltd.
13. Nepal Industrial and Commercial Bank Ltd.
14. Machhapuchhre Bank Ltd.
15. Kumari Bank Ltd.
16. Laxmi Bank Ltd.
17. Siddhartha Bank Ltd.
18. Global Bank Ltd.
19. Citizen Bank Ltd.
20. Prime Bank Ltd.
21. Sunrise Bank Ltd.
22. Bank of Asia Ltd.
23. Nepal Merchant Bank Ltd.
24. Agricultural Development Bank
25. Development Credit Bank Ltd.

Among all the banks which are presented above only two banks are taken as a sample for comparative study. They are:

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

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

3.6 Data Analysis Tools

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

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

1. Financial Tools
2. Statistical Tools

3.6.1. Financial Tools

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

I. Ratio Analysis
II. Sources and Uses of Funds
III. Cash flow Analysis

I. Ratio Analysis

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

"A ratio is a mathematical relationship between two variables. It is significant for financial analysis. It also helps us to predict the future performance of a company based on study of ratios of earlier years." ***(****Benerjee, 1995:95*)

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

A. Liquidity Ratios

i) Cash and bank balance to total deposit ratio
ii) Cash and bank balance to current assets ratio
iii) Investment on government securities to current assets ratio

B. Assets Management Ratios

i) Loan and advances to total deposit ratio
ii) Total investment to total deposit ratio
iii) Loan and advances current assets ratio
iv) Investment on government securities to total assets ratio
v) Investment on shares and debenture to total assets ratio

C. Profitability Ratios

i) Return on loan and advances ratio
ii) Return on total assets ratio
iii) Total interest earned to total assets ratio

D. Risk Ratios

i) Liquidity risk ratio
ii) Credit risk ratio

E. Growth Ratios

i) Growth ratio of total deposits
ii) Growth ratio of total investment
iii) Growth ratio of loan and advances
iv) Growth ratio of net profit

A. Liquidity Ratios

Liquidity ratios are applied to measure the ability of the firms to meet short term obligations. It measures the speed of firms to convert the firms asset into cash to meet deposit withdraws and other current obligations. This is quick measure of the liquidity and financial strength of the firm. "Liquidity ratios examine the adequacy of funds, the solvency of the firms ability to pay its obligation when due." *(Hampton, 1999 :139)*

Various types of liquidity ratios are applied in these studies, which are explained below:

i) Cash and Bank Balance to Total Deposit

Cash and bank balance are the most liquid current assets of a firm, cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositors immediately. This ratio is computed dividing the amount of cash and bank balance by the total deposits. It can be presented as,

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

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

ii) Cash and Bank Balance to Current Assets Ratio

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

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

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

iii) Investment on Government Securities to Current Assets Ratio

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

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

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

B. Assets Management Ratios (Activity Ratio)

The asset management ratios, measures how effectively the firm is managing its assets. These ratios are designed to answer this question: does the total amount of each type of asset as reported on the balance sheet seem reasonable or not. If a firm has excessive investments in assets then its capital costs will be unduly high and its stock price will suffer. *(Brigham., 1998 :74)*

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

i) Loan and Advances to Total Deposit Ratio

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

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

ii) Total Investment to Total Deposit Ratio

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

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

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

iii) Loan and Advances to Total assets Ratio

The main element of total assets is loan and advances. This ratio indicates the ability of selected banks in terms of earning high profit from loan and advances. Loan and advances to total assets ratio can be obtained dividing loan and advances amount by total assets. That is formulized as,

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

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

iv)Investment on Government Securities to Total assets Ratio

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

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

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

v) Investment on Shares and Debentures to Total assets Ratio

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

$$\textbf{Invt. on Shares and Debn. to TWF Ratio} = \frac{\textbf{Invt. on Shares and Debn.}}{\textbf{Total assets}}$$

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

C. Profitability Ratios

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

i) Return on Loan and Advances Ratio

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

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

ii) Return on Total assets Ratio

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

$$\textbf{Return on Total assets Ratio} = \frac{\textbf{Net Profit}}{\textbf{Total assets}}$$

iii) Total Interest Earned to Total assets Ratio

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

$$\textbf{Total Interest Earned to TWF Ratio} = \frac{\textbf{Total Interest Earned}}{\textbf{Total assets}}$$

iii) Total Interest paid to Total assets Ratio

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

$$\textbf{Total Interest paid to Total assets Ratio} = \frac{\textbf{Total Interest paid}}{\textbf{Total assets}}$$

D. Risk Ratios

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

i) Liquidity Risk Ratio

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

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

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

ii) Credit Risk Ratio

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

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

E. Growth Ratios

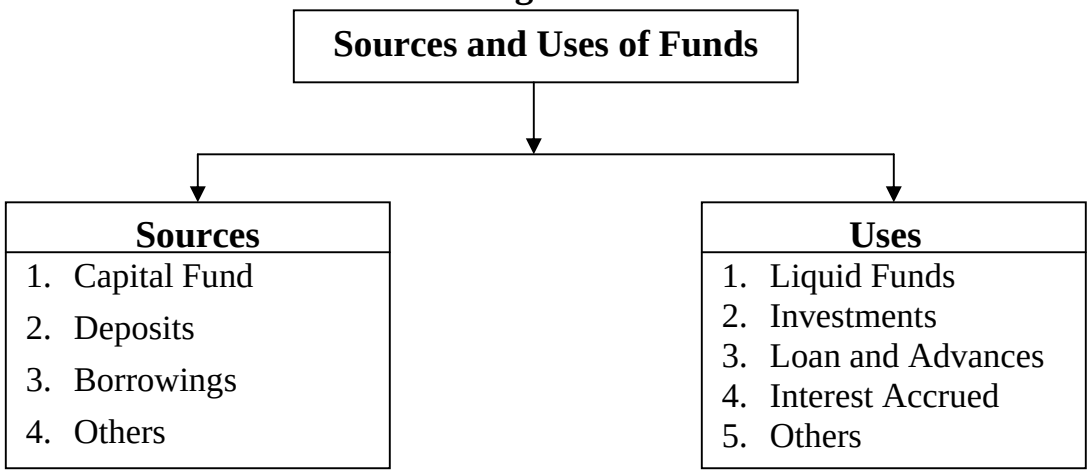
The growth ratios represent how well the commercial banks are maintaining their economic and financial position. The higher ratios represent the better performance of the selected firms to calculate, check and analyze the expansion and growths of the selected banks the following growth ratios are calculated.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

i) Growth ratio of total deposits
ii) Growth ratio of total investment
iii) Growth ratio of loan and advances
iv) Growth ratio of net profit

II. Sources and Uses of Funds

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

Figure 3.1



III. Cash Flow Analysis

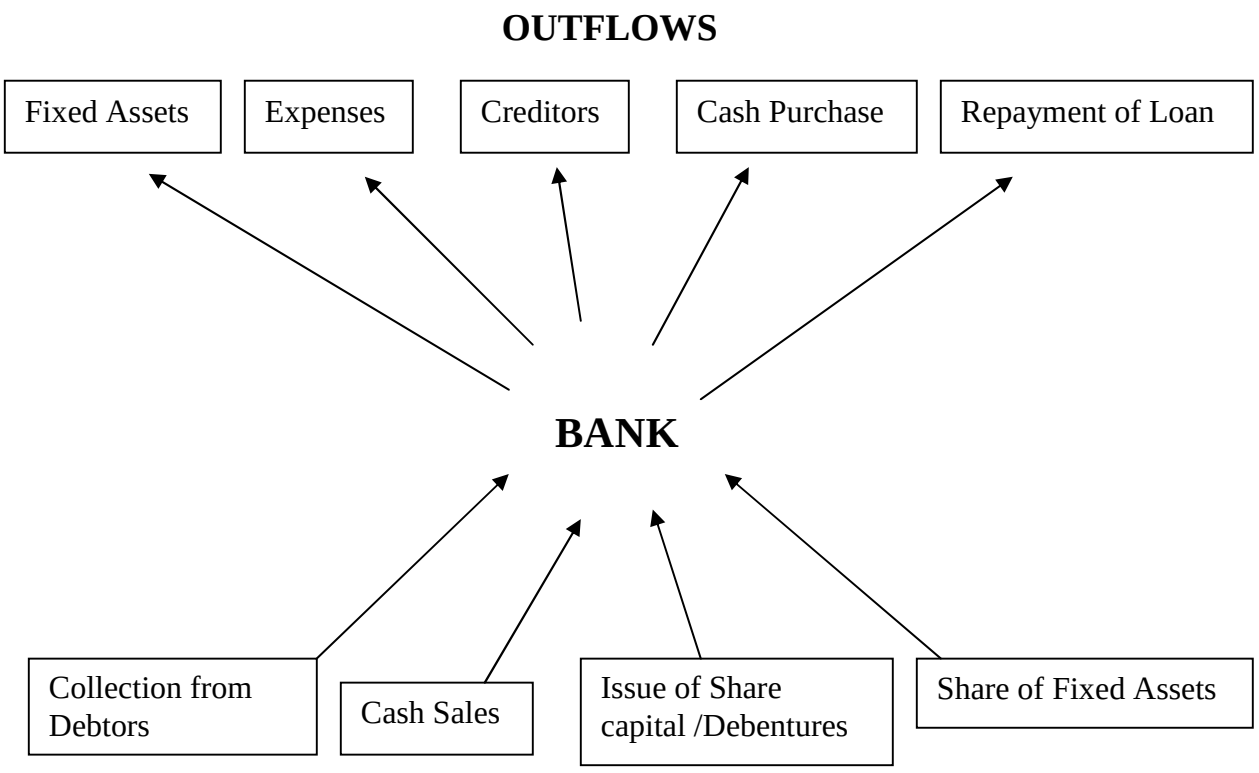
Cash is the lifeblood of an organization. No business can be satisfactorily managed unless careful attention is paid to its requirements of cash. Without it a business will cease to operate. Therefore, an analysis of cash flows is useful for short-run planning. A firm needs sufficient cash to pay debts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

The analysis of events and transactions that affects the cash position of company is termed as cash flow analysis. Cash flow analysis is done through statement of cash flows. A cash flow statement is a statement of company's ability to generate cash from various activities such as **operating, investing, and financing** and their need of cash. It is a statement which shows the inflows and outflows of cash and cash equivalents during the year. *(Wagle & Dahal 2003 :11.2)*

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

Figure 3.2

Flow of Cash in a business



3.6.2 Statistical Tools

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

i) Karl Pearson's of Coefficient of Correlation Analysis
ii) Coefficient of Variation (C.V)
iii) Standard Deviation (S.D)
iv) Probable Error (P.E)
v) Trend Analysis
vi) Testing of Hypothesis
vii) T-test

i) Karl Pearson's Coefficient of Correlation Analysis

This statistical tool has been used to analyze, identify and interpret the relationship between two or more variables. It interprets whether two or more variables are

correlated positively or negatively. Statistical tool analyses the relationship between those variables and helps the selected banks to make appropriate investment policy regarding to profit maximization and deposit collection; deposit mobilization through providing loan and advances.
For the purpose of decision-making, interpretation is based on following term:

- When r = 1, there is perfect positive correlation.
- When r = -1, there is perfect negative correlation.
- When r = 0, there is no correlation.
- When 'r' lies between 0.7 to 0.999 (-0.7 to 0.999), there is a high degree of positive (or negative) correlation.
- When 'r' lies between 0.5 to 0.699, there is moderate degree of correlation.
- When 'r' is less than 0.5, there is low degree of correlation.

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

a) Coefficient of correlation between deposit and loan and advances

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

b) Coefficient of correlation between deposit and total investment

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

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

$$R = \frac{N \quad XY \; Z \quad X \quad Y}{\{ \quad X^2 - (\quad X^2)\} \{N \quad Y^2 - (\quad Y^2)\}}$$

Where,

n = number of observations in series X and Y

X = sum of observations in series X

Y = sum of observations in series Y

X^2 =sum of squared observations in series X

Y^2 = sum of squared observations in series Y

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

ii) Coefficient of Variation (C.V)

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

$$\textbf{C.V} = \frac{\textbf{Standard deviation } (\pm)}{\textbf{Expected Return } (\overline{X})} \times \textbf{100}$$

iii) Standard Deviation (S.D)

The standard deviation is an important and widely used measure of dispersion. The measurement of the scatter ness of the mass of figure in a series about an average is known as dispersion. The greater the amount of dispersion, greater the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposites it is denoted by the letter**±.**

$$\text{S.D } (\pm) = \sqrt{\frac{1}{N} \quad (X \; Z\overline{X})^2}$$

Where,

N = Number of observations

X = Expected return of the historical data

iv) Probable Error (P.E)

Probable error is measured for testing the reliability of an observed value of correlation coefficient. It is computed to find the extent to which it is dependable. If correlation coefficient is greater than 6 times P.E the observed value of r is said to be significant, otherwise nothing can be concluded with certainty. But if the calculated (r) is less than the P.E correlation is not at all significant. It is calculated by using following formula:

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

Where,

P.E. (r) = Probable error of correlation coefficient
r = Correlation coefficient
n = Number of observations

v) Trend Analysis

The easiest way to evaluate the performance of a firm is to compare its current ratios with past ratios. When financial ratios over a period of time are compared it is known as the trend analysis. It gives an indication of the direction of change and reflects whether the firm's financial performance has improved, deteriorated or remain constant over time. This type of statistical analysis interprets the trend of deposits, loan and advances, investments and net profit of EBL and HBL from 1998/99 to 2003/2004. It is necessary to calculate the forecasting for next five years till 2008/09. The projections are based on the following assumptions:

i) Other things will remain unchanged.
ii) The bank will run in present position.
iii) The economy will remain in the present stage.
iv) NRB will not change its guidelines to commercial banks.

The trend values used in this study are presented below:

a) Trend Analysis of total investment to total deposits ratio
b) Trend Analysis of loan and advances to deposit ratio

vi)Test of Hypothesis

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

a) Formulating hypothesis
   i) Null Hypothesis (H_0)
   ii) Alternative Hypothesis (H_1)
b) Computing the t- statistic
c) Fixing the significance level
d) Finding critical region

e) Deciding two-tailed or one-tailed test
f) Decision making

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

Null Hypothesis (H_0): $\mu_1 = \mu_2 = \mu_3$ i.e., there is no significant difference between mean ratios of loan and advances to total deposit of HBL and EBL.

Alternative Hypothesis (H_1): $\mu_1 \neq \mu_2 \neq \mu_3$ i.e., there is significant difference between mean ratios of loans and advances to total deposits of HBL and EBL.

vii) t- test

If we draw a large number of small samples i.e. ($n < 30$) and compute the mean for each sample and then plot the frequency distribution of these means, the resulting sampling distribution would be t-test. On these study sample are taken only for five years i.e. ($5 < 30$).

Assumptions:

a) The present population from which the sample is drawn is normal or approximately normal.
b) The given sample is drawn by random sampling method.
c) The population standard deviation ($\pm$) is not known.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

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

4.1 Deposit Collection and Mobilization

The main objectives of a commercial bank are to safe guard the money of depositors and deposit mobilizations. The following table shows the situations of commercial banks with relation to deposit collection.

Table 4.1

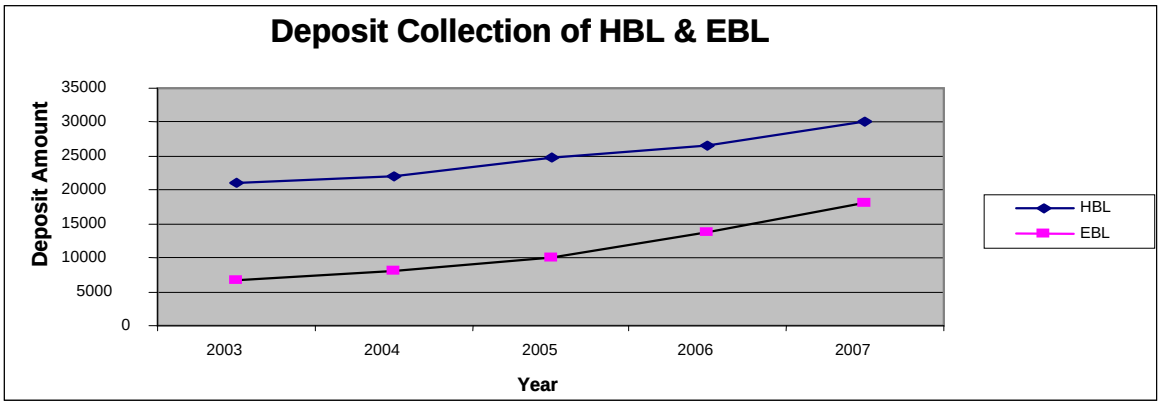
Change based Index of deposit collection of HBL and EBL (Rs. In million)

Year	Deposit			
	HBL	Percentage Change	EBL	Percentage Change
2003	21045.20	100.00	6695.00	100.00
2004	22010.33	104.77	8063.90	120.45
2005	24814.01	112.74	10097.70	125.22
2006	26490.85	106.76	13802.40	136.69
2007	30048.42	113.43	18186.20	131.76

(Source: Annual reports of HBL and EBL 2003-2007)

From the above table no 4.1, it is obvious from the change based index of deposit collections of EBL is increasing every year as compared to the preceding years, except 2007. The minimum increment is 20.45% where as the maximum increment is 36.69%. But the deposit collection of HBL is not consistently increase during the study period. The minimum increment is 4.77% where as the maximum increment is 13.43%. The increase percent on deposit collection of EBL is better than HBL. This deposit collection is also expressed on the following graph.

Graph 4.1



From the above graph 4.1 It shows that the deposit collection trend of HBL is higher than the EBL. But growth trend of EBL is better than HBL.

Table 4.2

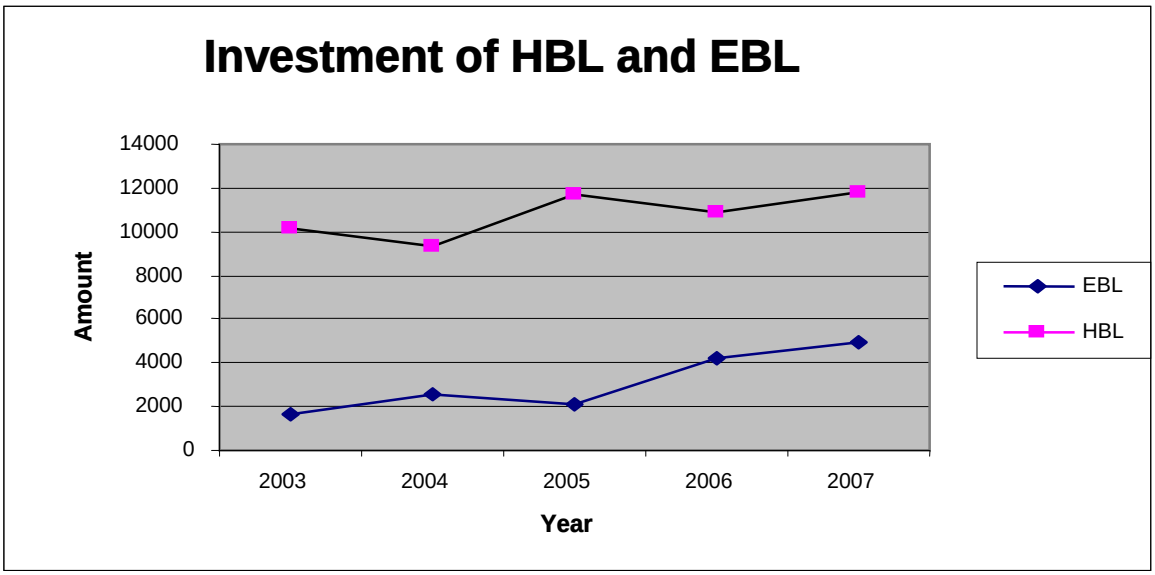
Change based Index of Total investment of HBL and EBL (Rs. In million)

Year	Investment			
	EBL	Percentage Change	HBL	Percentage Change
2003	1653.97	100.00	10175.43	100.00
2004	2535.66	153.31	9292.10	91.32
2005	2128.94	83.96	11692.34	125.83
2006	4200.51	197.31	10889.03	93.13
2007	4984.33	118.66	11823.00	108.58

(*Source: Annual reports of HBL and EBL 2003-2007)*

From the above table no 4.2, it is obvious from the change based index of investment of both the banks is in irregular trend. In case of EBL the maximum increment is 97.31% where as the maximum decrement is 16.04%. But the deposit collection of HBL maximum increment is 25.83% where as the maximum decrement is 6.87%. The fluctuation trend of EBL is more than HBL. This investment is also expressed on the following graph.

Graph 4.2



From the above graph 4.2 It shows that the investment trend of both the bank is not so good there is great fluctuation in investment of both the bank, though it is increased than the based year. The increment of EBL is better than HBL, though it is below.

Table 4.3

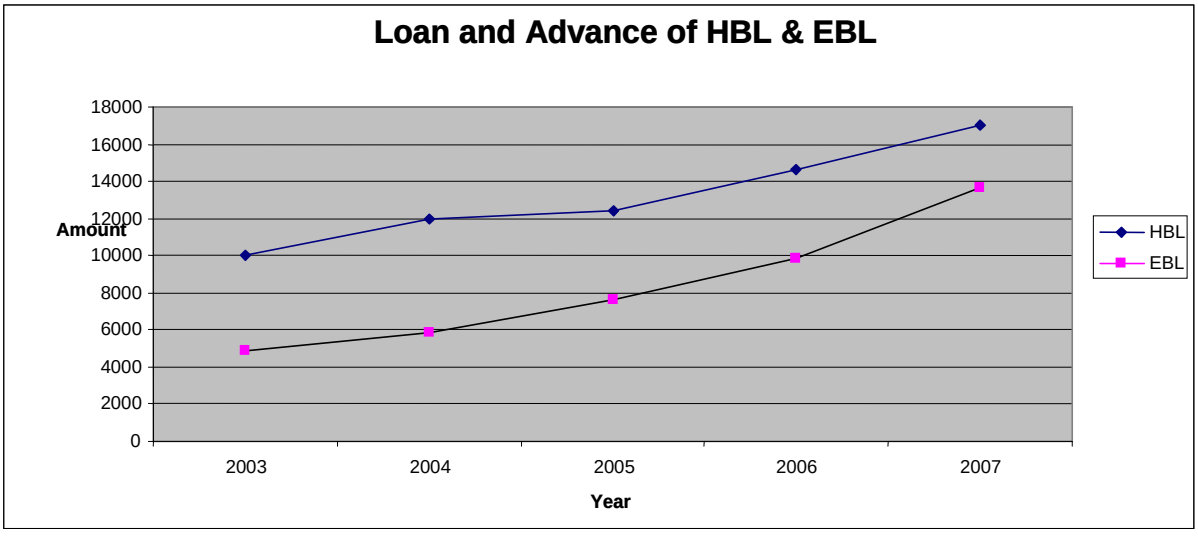
Change based Index of loan and advance of HBL and EBL (Rs. In million)

Year	Loan and advance			
	HBL	Percentage Change	EBL	Percentage Change
2003	10001.85	100.00	4908.4	100.00
2004	11951.87	119.50	5884.1	119.88
2005	12424.52	103.95	7618.7	129.48
2006	14642.56	117.85	9801.3	128.65
2007	16997.99	116.09	13664.1	139.41

(Source: Annual reports of HBL and EBL 2003-2007)

From the above table no 4.3, it is obvious from the change based index of loan and advance of both the banks is in increasing trend. In case of HBL the maximum increment is 19.50% where as the minimum increment is 3.95%. But the deposit collection of EBL maximum increment is 39.41% where as the minimum increment is 19.88%. The change trend of EBL is in constant increasing trend. This loan and advance is also expressed on the following graph.

Graph 4.3



From the above graph 4.3 It shows that the loan and advance trend of both the bank is increased. Trend line of HBL is more fluctuated than the EBL. Though the loan and advance trend of EBL is below than HBL, it increases in constant ratio. So, loan and advance trend of EBL is better than HBL.

4.2 Ratio Analysis

4.2.1 Liquidity Ratios

4.2.1.1 Cash and Bank Balance to Total Deposit

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

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

Table 4.4

Comparative Cash and Bank Balance to Total Deposit Ratios

Year	Ratio (%)	
	HBL	**EBL**
2003	9.40	17.02
2004	9.09	7.82
2005	8.12	10.40
2006	6.48	11.25
2007	5.85	13.15
Mean($\overline{X}$)	**7.79**	**11.39**
S.D. (±)	**1.415**	**3.069**
C.V.	**0.1817**	**0.2694**

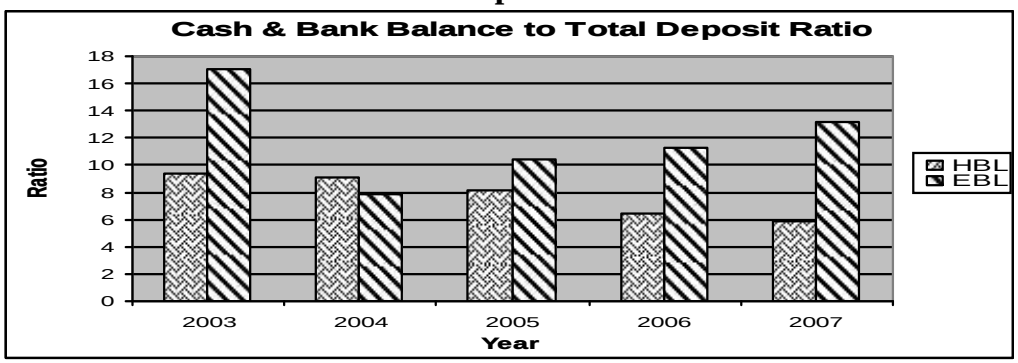
Source: Appendix –1

From the above comparative table, cash and bank balance to total deposit ratio of the two banks followed a fluctuating trend. EBL has maintained the higher ratio i.e. 17.02% of cash and bank balance to total deposit in the year 2003 during the study period.

The average ratio of EBL is higher than HBL. The variability of the ratio is lower in HBL. It states that HBL is more consistent than EBL. Similarly, the variability of the ratio is higher in EBL than HBL.

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

Graph 4.4



4.2.1.2 Cash and Bank Balance to Current Assets

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

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

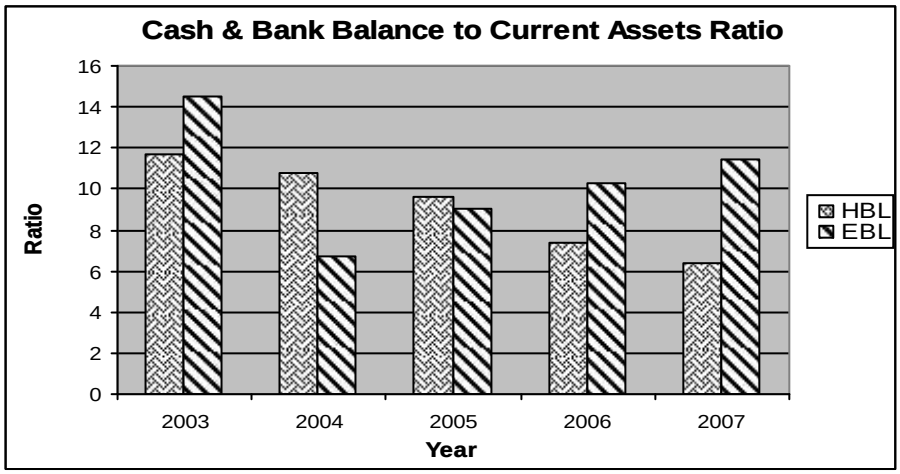
Table 4.5
Comparative Cash and Bank Balance to Current Assets Ratios

Year	Ratio (%)	
	HBL	**EBL**
2003	11.73	14.44
2004	10.76	6.71
2005	9.64	9.03
2006	7.41	10.25
2007	6.37	11.40
Mean($\overline{X}$)	**9.18**	**10.38**
S.D. (±)	**2.01**	**2.72**
C.V.	**21.89**	**24.95**

Source: Appendix -2

From the above comparative table, it reveals that cash and bank balance to current assets ratios of HBL has less fluctuating trend. The highest ratio of HBL is 11.73% in the year 2003 and lowest ratio is 6.37 % in the year 2007. Where as EBL, the highest ratio is 14.44% in the year 2003 and lowest ratio is 6.71% in the year 2004. Similarly, C.V. ratio of HBL is less than EBL i.e. 24.95%. It indicates that ratio of HBL is more stable than that of EBL. This ratio can be presented in the following graph.

Graph 4.5



4.2.1.3 Investment on Government Securities to Current Assets

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

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

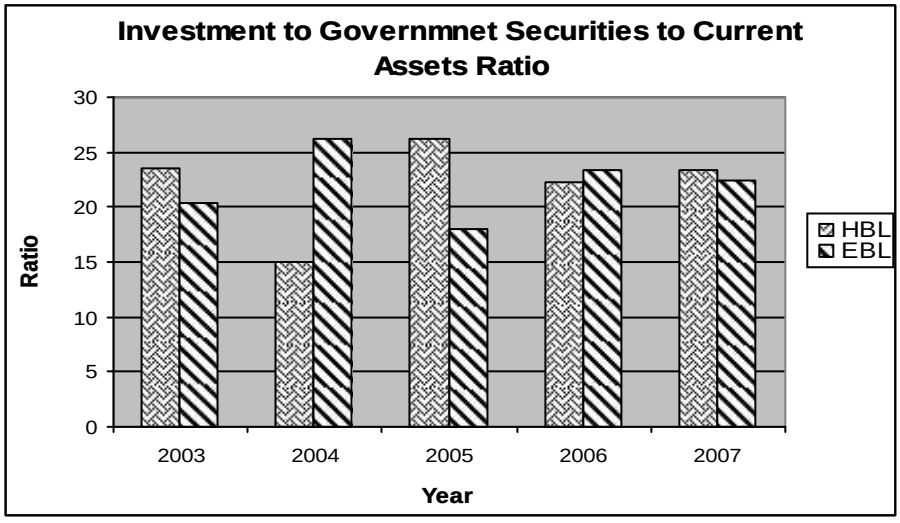
Table 4.6
Comparative Investment on Government Securities to Current Assets Ratios

Year	Ratio (%)	
	HBL	**EBL**
2003	23.69	20.27
2004	18.45	26.18
2005	26.17	18.06
2006	22.20	23.42
2007	23.41	22.42
Mean($\overline{X}$)	**22.06**	**22.10**
S.D. (±)	**3.78**	**2.74**
C.V.	**17.15**	**12.42**

Source: Appendix -3

The above comparative table shows their investment in government securities to current assets in fluctuating trend but trend of HBL is more than EBL. EBL has invested more portions of current assets in government securities i.e. 26.17% in the year 2004 in comparison to HBL during the study period. The mean ratio of EBL is the highest i.e.22.10% than that of HBL. Coefficient of variation of HBL is 17.15% & EBL is 12.42%. It seems that EBL is more consistent to make investment in government securities than HBL. This ratio can be presented in the following graph.

Graph 4.6



4.2.2 Assets Management Ratios

The following financial ratios related to deposit mobilization are calculated under asset management ratio and interpretation is made by these calculations:

4.2.2.1 Loan and Advances to Total Deposit

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

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

Table 4.7
Comparative Loan and Advances to Total Deposit Ratios

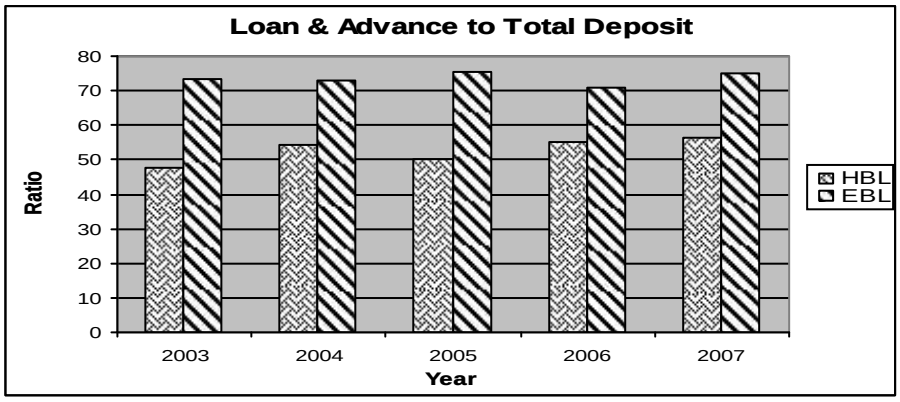
Year	Ratio (%)	
	HBL	**EBL**
2003	47.53	73.31
2004	54.30	72.97
2005	50.07	75.45
2006	55.27	71.01
2007	56.57	75.13
Mean($\overline{X}$)	**52.75**	**73.58**
S.D. (±)	**3.40**	**1.61**
C.V.	**6.44**	**2.19**

Source: Appendix -4

The above comparative table shows that these two banks have mobilized their collected deposits in fluctuating trend as loan and advances during the study period. The highest ratio of loan and advances to total deposit of HBL & EBL are 56.57% and 75.13% respectively.

HBL has mobilized 52.75% of its collected deposit in loan and advances which is less than that of EBL in average. Coefficient of variation of EBL is 2.19%, which shows that EBL is more stable than HBL in mobilizing collected deposit. This ratio can be presented by the help of graph:

Graph 4.7



4.2.2.2 Total Investment to Total Deposit

This ratio is computed by using following formula:

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

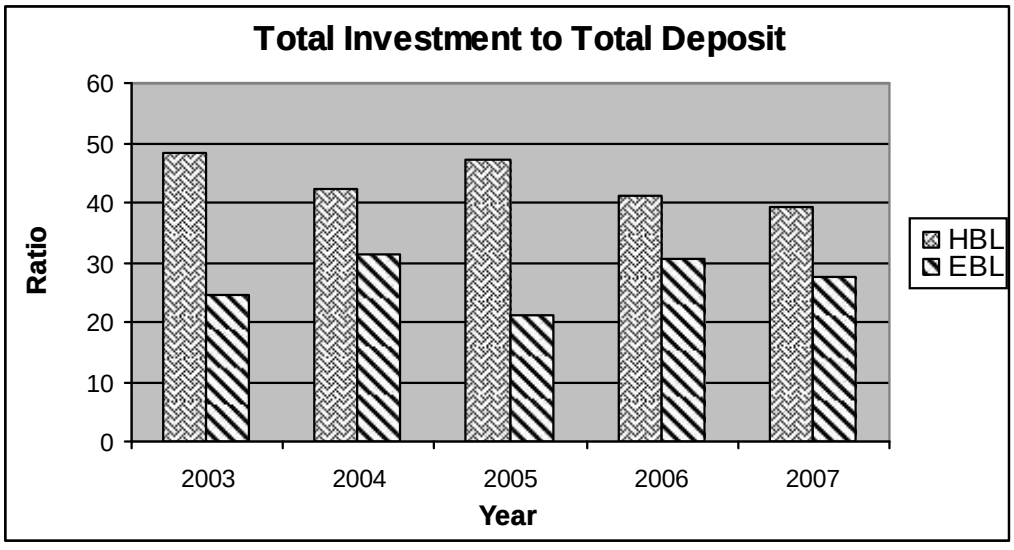
Table 4.8
Comparative Total Investment to Total Deposit Ratios

Year	Ratio (%)	
	HBL	**EBL**
2003	48.35	24.70
2004	42.22	31.44
2005	47.12	21.08
2006	41.10	30.43
2007	39.35	27.41
Mean($\overline{X}$)	**43.63**	**27.01**
S.D. (±)	**3.49**	**3.79**
C.V.	**8.02**	**14.05**

Source: Appendix -5

From the above comparative table, it can be concluded that both the banks have the ratios of fluctuating trend during the study period. In average HBL has invested more amount of its total deposit in comparison to EBL i.e. 43.63%. The coefficient of variation of HBL is 8.02%. It indicates that HBL is more consistent to make investment of total deposits than EBL. This ratio can be presented by the help of graph:

Graph 4.8



4.2.2.3 Loan and Advances to Total assets

Loan and advances to total assets ratio can be obtained dividing loan and advances amount by total assets. That is formulized as,

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

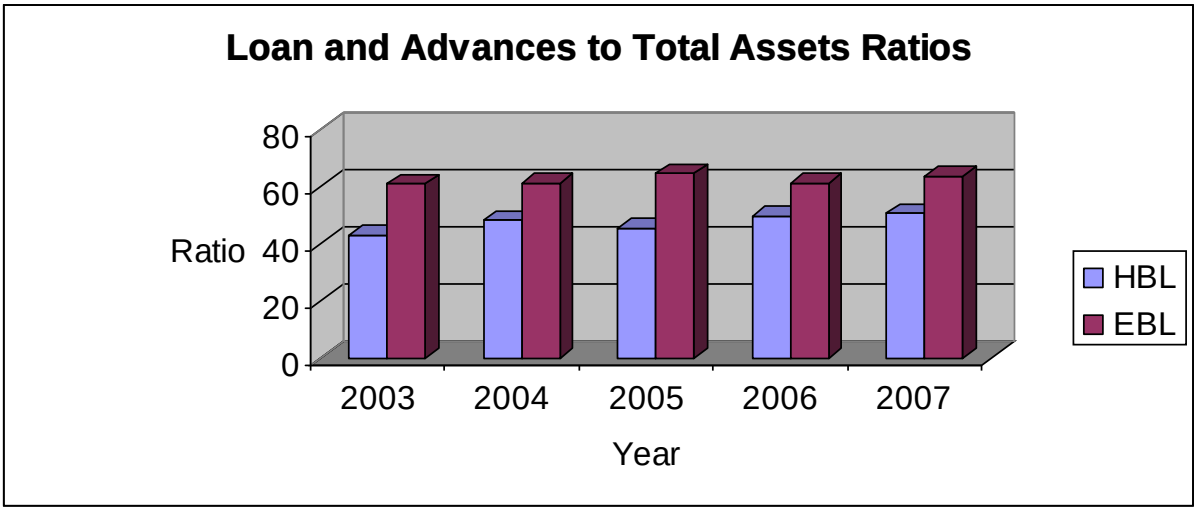
Table 4.9
Comparative Loan and Advances to Total assets Ratios

Year	Ratio (%)	
	HBL	**EBL**
2003	42.96	60.96
2004	48.27	61.24
2005	45.31	64.61
2006	49.70	61.41
2007	50.71	63.75
Mean ($\overline{X}$)	**47.39**	**62.39**
S.D. (±)	**2.87**	**1.49**
C.V.	**6.05**	**2.39**

Source: Appendix -6

Above table describes the loan and advances to total assets ratio of HBL & EBL in fluctuating trend. During the study period HBL and EBL have highest ratio of 50.71% and 64.61% in year 2007 and 2005 respectively. On average, EBL maintains highest ratio of 62.39% than HBL of 47.39%. The coefficient of variation of EBL is more consistent than HBL because it has the ratio of lowest variation i.e.2.39%. This ratio can be presented by the help of graph:

Graph 4.9



4.2.2.4 Investment on Government Securities to Total Assets

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

$$\text{Invt. on Govt. Securities to total assets Ratio} = \frac{\text{Invt. on Government Securities}}{\text{Total assets}}$$

Table 4.10
Comparative Investment on Government Securities to Total assets Ratios

Year	Ratio (%)	
	HBL	**EBL**
2003	17.18	19.86
2004	13.86	25.67
2005	19.95	17.81
2006	17.46	22.24
2007	19.26	21.95
Mean($\overline{X}$)	**17.54**	**21.50**
S.D. (±)	**2.12**	**2.62**
C.V.	**12.08**	**12.20**

Source: Appendix-7

Above comparative table shows the investment on government securities to total assets of HBL and EBL in increasing and decreasing trend. HBL and EBL have the highest ratio of 19.26% and 25.67% in the year 2007 and 2004 respectively. EBL has highest mean ratio than HBL i.e. 21.50%. The coefficient of variation indicates HBL (i.e. 12.08%) has more stable ratio than that of EBL. This ratio can be presented by the help of graph:

Graph 4.10

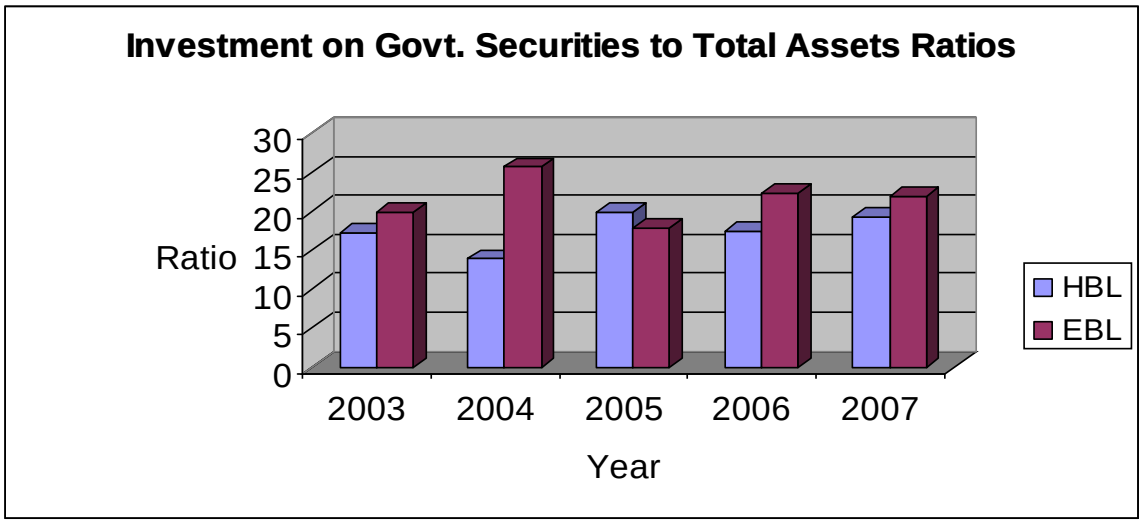


Diagram showing total deposits, total investment, total loan & advances and cash and bank balance of HBL and EBL

Banks have no provision to analyze the deposit only. They analyze total source of funds received from various source and their utilization in various sectors. Mostly the deposits accepted by them are used in investment, loan and advance and to maintain cash and bank balance with them and Nepal Rastra Bank.

Table 4.11

Total Deposits, Total Investment, total Loan & Advances and Cash and bank balance of HBL

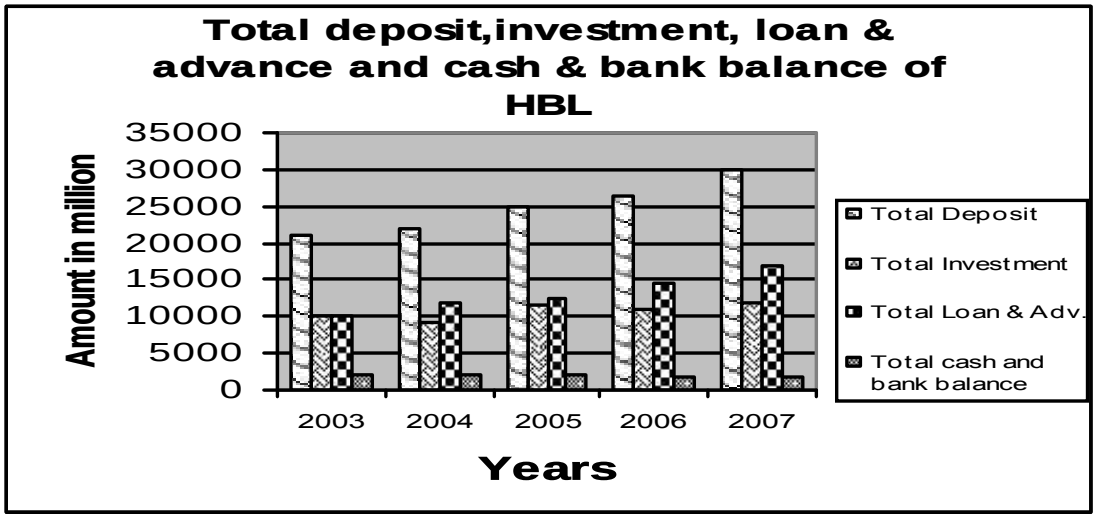
(Rs. in million)

Years	Total Deposit	Total Investment	% of Total Inv. On Total Deposit	Total Loan & Adv.	% of Total Loan & adv. On Total Deposit	Cash & Bank balance	% of Cash & Bank balance on Total Deposit
2003	21045.1	10175.4	48.35%	10002	47.53%	1979.21	9.40%
2004	22010.3	9292.1	42.22%	11952	54.30%	2001.18	9.09%
2005	24814	11692.3	47.12%	12425	50.07%	2014.47	8.12%
2006	26490.9	10889	41.10%	14643	55.27%	1717.35	6.48%
2007	30048.4	11823	39.35%	16998	56.57%	1757.34	5.85%

Source: Appendix-2,4&5

The above comparative table shows that total deposit, total investment, total loan & advance and cash and bank balance of HBL. Bank utilizes its most of the deposit in investment and loan and advance. In the recent year bank emphasizes on loan and advance than the investment. The compulsory cash reserve ratio is 5.5%. The bank maintains its cash reserve ratio.

Graph 4.11



Total Deposits, Total Investment, total Loan & Advances and Cash and bank balance of EBL

Table 4.11

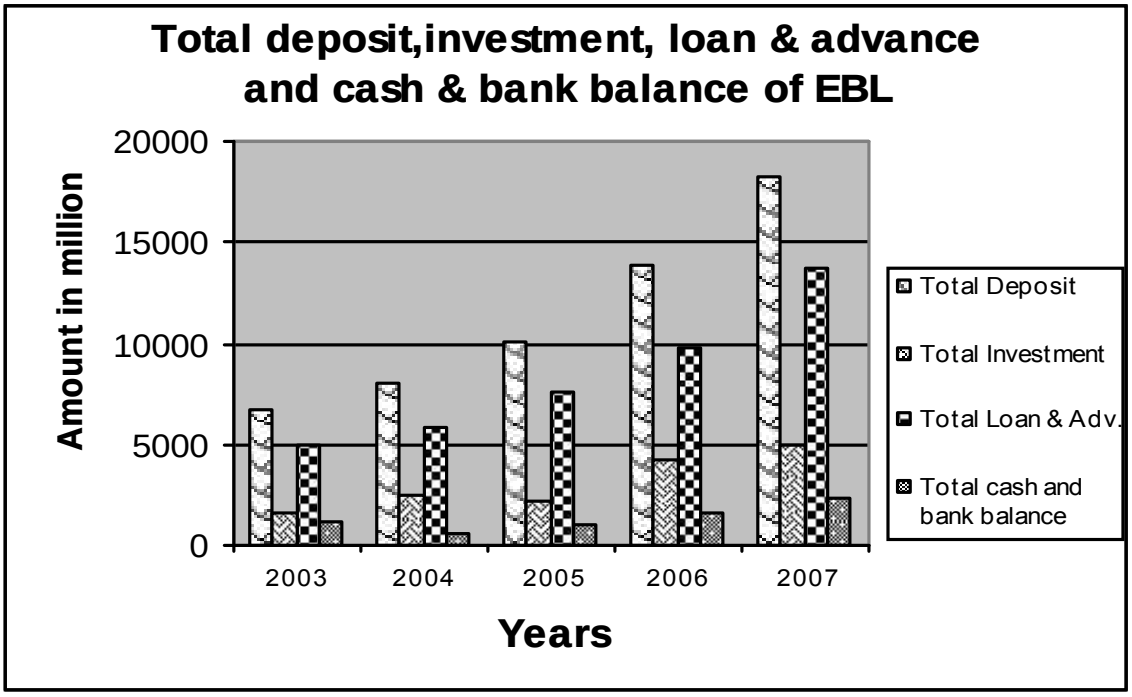
(Rs. in million)

Years	Total Deposit	Total Investment	% of Total Inv. On Total Deposit	Total Loan & Adv.	% of Total Loan & adv. On Total Deposit	Cash & Bank balance	% of Cash & Bank balance on Total Deposit
2003	6695	1653.9	24.7%	4908.4	73.31%	1139.6	17.02%
2004	8063.9	2535.7	31.45%	5884.1	72.97%	631.8	7.83%
2005	10098	2128.9	21.08%	7618.7	75.45%	1050	10.40%
2006	13802	4200.5	30.43%	9801.3	71.01%	1552.9	11.25%
2007	18186	4984.3	27.41%	13664	75.13%	2391.3	13.15%

Source: Appendix-2,4&5

The above comparative table shows that total deposit, total investment, total loan & advance and cash and bank balance of EBL. Bank utilizes its most of the deposit loan and advance then after in investment. Bank emphasizes on loan and advance than the investment. The compulsory cash reserve ratio is 5.5%. The bank maintains its cash reserve ratio.

Graph 4.12



4.2.2.5 Investment on Shares and Debentures to Total assets

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

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

Table 4.13

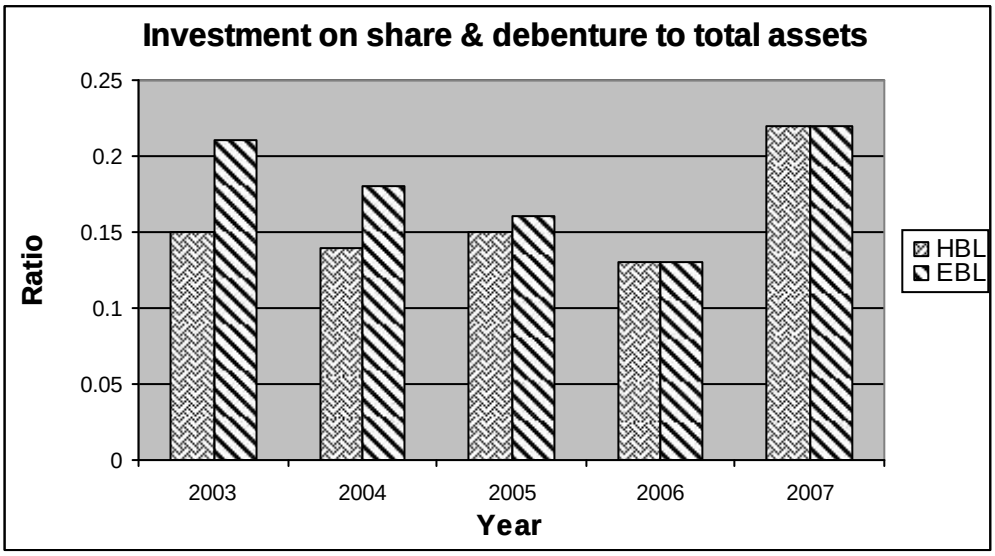
Comparative Investment on Shares and Debentures to Total assets Ratios

Year	Ratio (%)	
	HBL	EBL
2003	0.15	0.21
2004	0.14	0.18
2005	0.15	0.16
2006	0.13	0.13
2007	0.22	0.22
Mean($\overline{X}$)	**0.158**	**0.18**
S.D. (±)	**0.032**	**0.033**
C.V.	**20.17**	**18.26**

Source: Appendix -8

From the above analysis, investment on shares and debentures to total assets ratio of HBL is in fluctuating trend during the five years study period. The investment on share and debenture to total assets ration of EBL is decreased each and every year except 2007during the study period. The Coefficient of variation shows more stable ratio of HBL than EBL. This ratio can be presented by the help of graph:

Graph 4.13



4.2.3 Profitability Ratios

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

4.2.3.1 Return on Loan and Advances

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

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

Table 4.14

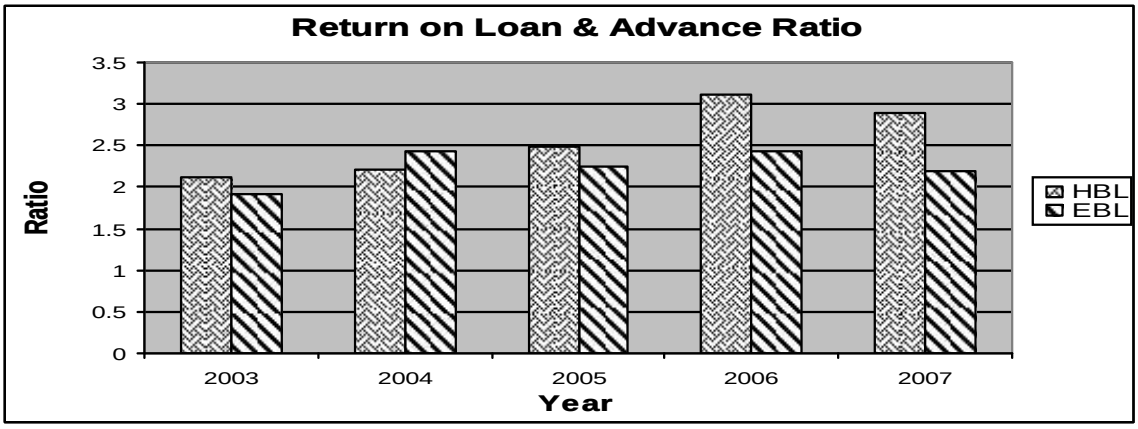
Comparative Return on Loan and Advances Ratios

Year	Ratio (%)	
	HBL	**EBL**
2003	2.12	1.92
2004	2.20	2.44
2005	2.48	2.24
2006	3.12	2.42
2007	2.89	2.17
Mean($\overline{X}$)	**2.56**	**2.25**
S.D. (±)	**0.39**	**0.19**
C.V.	**15.05**	**8.56**

Source: Appendix-9

In the above analysis the return on loan and advances of HBL and EBL have the ratio of fluctuating trend. During the study period HBL has the highest ratio of 3.12% than that of EBL 2.44%. In average HBL has the highest mean ratio of 2.56% where as EBL has the mean ratio of 2.25%. Coefficient of variation indicates that EBL has no more variance in five years study period than HBL. This ratio can be presented by the help of graph:

Graph 4.14



4.2.3.2 Return on Total assets

Return on total assets ratio is computed as:

$$\text{Return on Total assets Ratio} = \frac{\text{Net Profit (Loss)}}{\text{Total assets}}$$

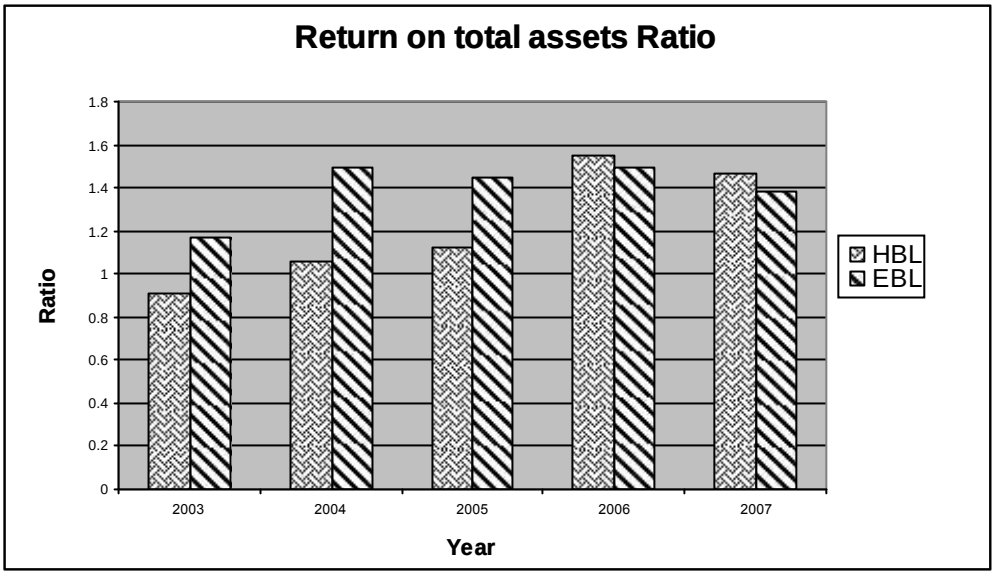
Table 4.15
Comparative Return on Total assets Ratios

Year	Ratio (%)	
	HBL	**EBL**
2003	0.91	1.17
2004	1.06	1.49
2005	1.12	1.45
2006	1.55	1.49
2007	1.47	1.38
Mean($\overline{X}$)	**1.22**	**1.40**
S.D. (±)	**0.24**	**0.12**
C.V.	**20.01**	**8.65**

Source: Appendix-10

As per the above comparative table the return on total assets of HBL and EBL have the ratio of rising and falling trend. During the study period, HBL has the highest ratio of 1.55% than that of EBL, i.e. 1.49%. HBL has the lowest ratio of 0.91% in year 2003; EBL has the lowest ratio of 1.17% in year 2003. EBL has highest return on total assets i.e. 1.40% than HBL 1.22% in two banks in average. In case of coefficient of variation, EBL has the lowest C.V. of 8.65%, than that of HBL 20.01%. This ratio can be presented by the help of graph:

Graph 4.15



4.2.3.3 Total Interest Earned to Total assets

This ratio actually reveals the earning capacity of commercial banks by mobilizing its total assets. Higher the ratio higher will be the income as interest. We have,

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

Table 4.16

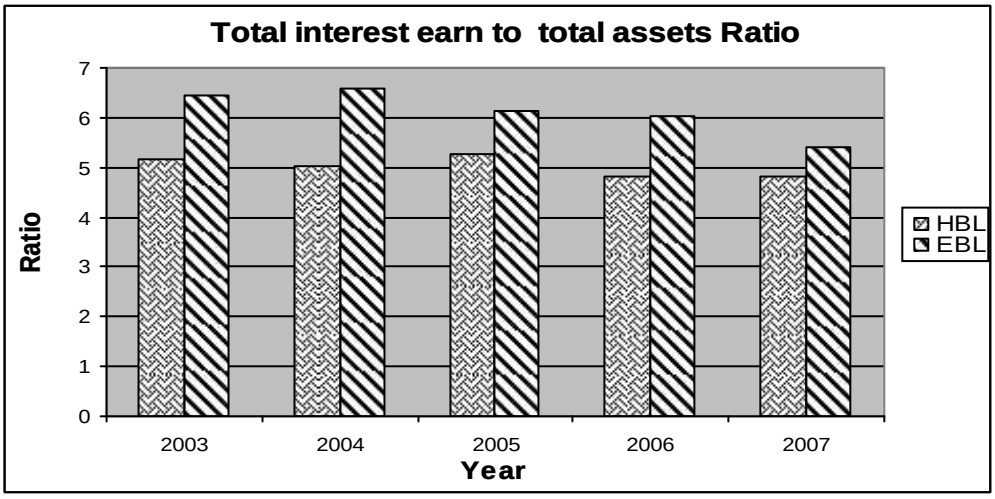
Comparative Total Interest Earned to Total assets Ratios

Year	Ratio (%)	
	HBL	EBL
2003	5.16	6.46
2004	5.03	6.59
2005	5.28	6.15
2006	4.82	6.02
2007	4.82	5.40
Mean($\overline{X}$)	**5.022**	**6.124**
S.D. (±)	**0.183**	**0.416**
C.V.	**3.64**	**6.79**

Source: Appendix-11

The above analysis shows the EBL has highest interest earned to total assets ratio of 6.84% in the year 2004 and lowest ratio of 5.34% in the year 2007. Likewise HBL has the highest ratio of 5.52% in year 2006. EBL has 6.08% mean ratio, but HBL and has only 5.26%. The coefficient of variation of HBL is less than EBL i.e. 3.10%.It indicates that interest earning power of HBL is more consistent than EBL. This ratio can be presented by the help of graph as following:

Graph 4.16



4.2.3.4 Total Interest paid to Total assets

Total interest paid to total assets ratio is calculated as:

$$\text{Total Interest paid to Total assets Ratio} = \frac{\text{Total Interest paid}}{\text{Total assets}}$$

Table 4.17

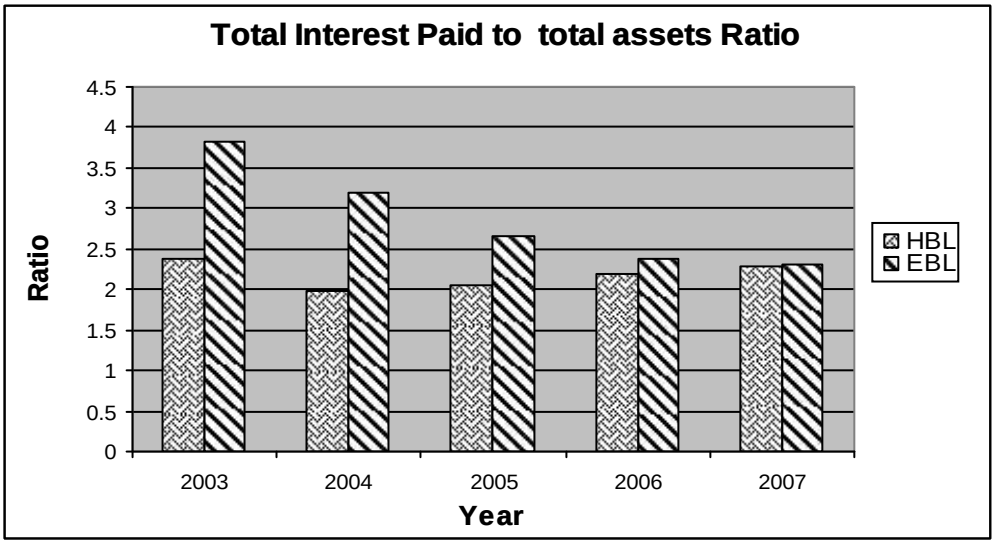
Comparative Total Interest paid to Total assets Ratios

Year	Ratio (%)	
	HBL	**EBL**
2003	2.38	3.82
2004	1.99	3.20
2005	2.05	2.65
2006	2.20	2.37
2007	2.29	2.30
Mean($\overline{X}$)	**2.18**	**2.92**
S.D. (±)	**0.15**	**.55**
C.V.	**6.66**	**18.85**

Source: Appendix -12

From the above comparative table, HBL has interest paid to total assets ratio in fluctuating trend. Similarly, EBL has the ratio of decreasing trend. EBL has 3.82% highest ratio in the year 2003 and lowest ratio of 2.417% in the year 2007. And HBL has the highest ratio of 2.38% in year 2003 and. EBL has 2.92% mean ratio, which is greater than that of HBL 2.18%. The coefficient of variation of HBL is more stable than HBL 6.66%. This ratio can be presented by the help of graph as following:

Graph 4.17



4.2.4 Risk Ratios

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

4.1.4.1 Liquidity Risk Ratio

This ratio is calculated by dividing cash and bank balance to total deposit.

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

Table 4.18

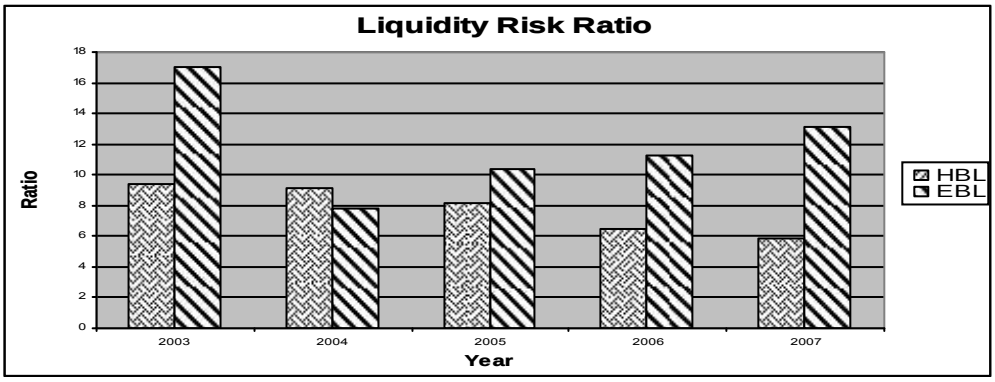
Comparative Liquidity Risk Ratios

Year	Ratio (%)	
	HBL	**EBL**
2003	9.40	17.02
2004	9.09	7.84
2005	8.12	10.40
2006	6.48	11.25
2007	5.85	13.15
Mean($\overline{X}$)	**7.80**	**11.93**
S.D. (±)	**1.40**	**3.06**
C.V.	**18.04**	**25.68**

Source: Appendix-13

The above table shows that EBL has highest cash and bank balance to total deposit ratio of 17.02% in the year 2003 and lowest ratio of 7.84% on 2004. Where as HBL has highest ratio of 9.40% on 2003 and lowest ratio of 5.85% on 2007. The ratio of EBL is in fluctuating trend and HBL in continuous decreasing trend. The mean ratio of HBL is lower than that of EBL i.e. 7.80% < 11.93%. It means that HBL has maintained the lower liquidity risk ratio which means it operates with higher risk for higher profit. This ratio can be presented by the help of graph as following:

Graph 4.18



4.2.4.2 Credit Risk Ratio

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

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

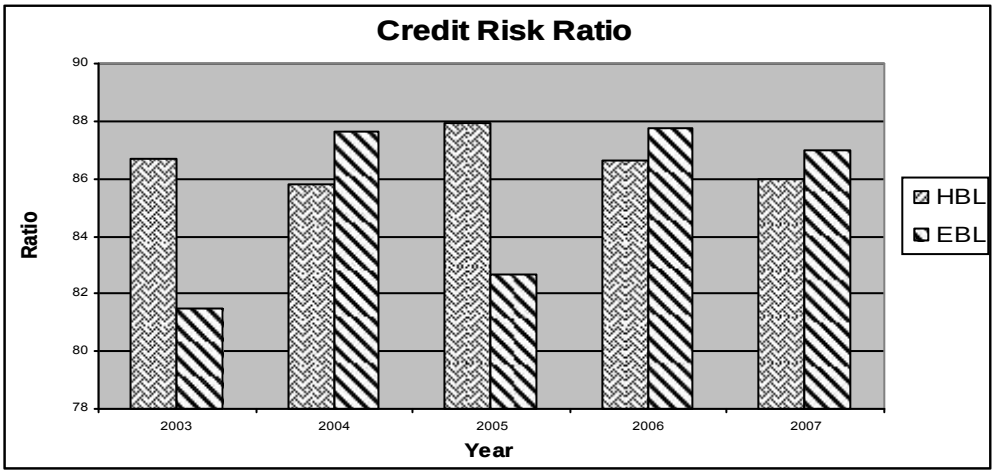
Table 4.19
Comparative Credit Risk Ratios

Year	Ratio (%)	
	HBL	EBL
2003	86.67	81.50
2004	85.79	87.63
2005	87.96	82.66
2006	86.66	87.73
2007	85.98	87.01
Mean($\overline{X}$)	**86.61**	**85.31**
S.D. (±)	**0.76**	**2.67**
C.V.	**0.88**	**3.13**

Source: Appendix-14

The above comparative table shows that HBL and EBL have the credit risk ratio is no more fluctuating trend. HBL and EBL have the highest ratio of 87.96% and 87.73% in the year 2005 and 2006 respectively whereas they have lowest ratio of 85.79% and 81.50% in year 2004 and 2003 respectively. On the basis of mean ratio, it can be said that the credit risk of EBL is lowest than that of HBL. EBL has the highest coefficient of variation than that of HBL i.e. 3.13%. This ratio can be presented by the help of graph as following:

Graph 4.19



4.2.5 Growth Ratios

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

4.2.5.1 Growth Ratio of Total Deposits

Table 4.20

Growth Ratio of Total Deposits

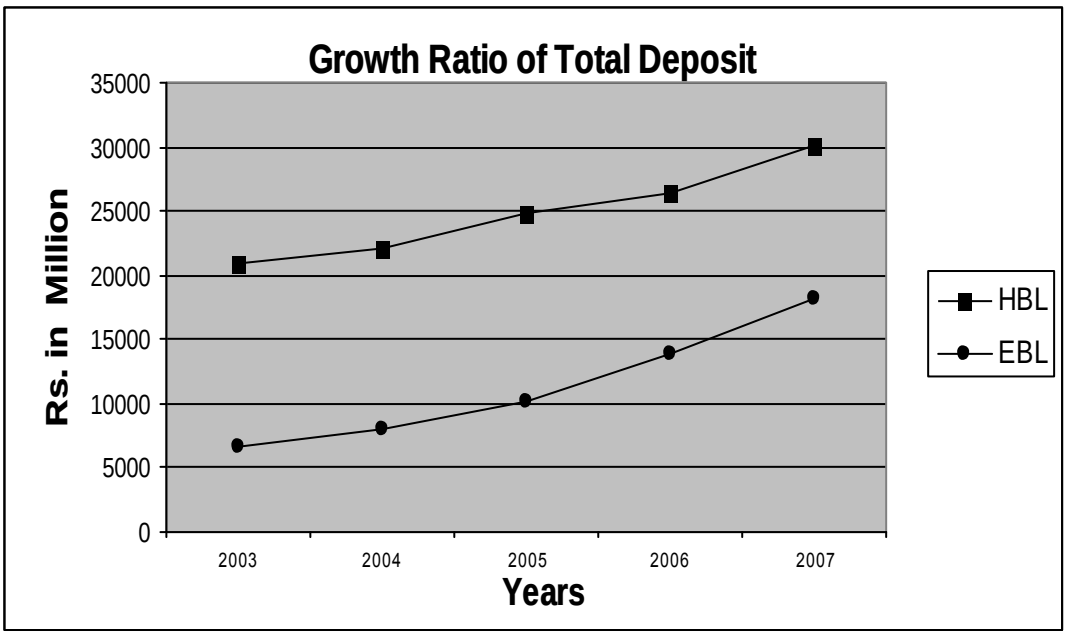
(Rs. in million)

Banks	Total Deposit					Growth Rate (%)
	2003	2004	2005	2006	2007	
HBL	21045.09	22010.33	24814.01	26490.85	30048.42	**9.31**
EBL	6695.0	8063.9	10097.7	13802.4	18186.2	**28.38**

Source: Appendix-II 'a'

The table presented above shows that HBL and EBL are increasing their deposit collection during study period. The growth ratio of HBL and EBL are 9.31% and 28.38% respectively. The growth ratio of total deposits of HBL seems lower than EBL. Growth ratio of total deposit of HBL and EBL are also shown in the following line chart.

Graph 4.20



4.2.5.2 Growth Ratio of Total Investment

Table 4.21

Growth Ratio of Total Investment

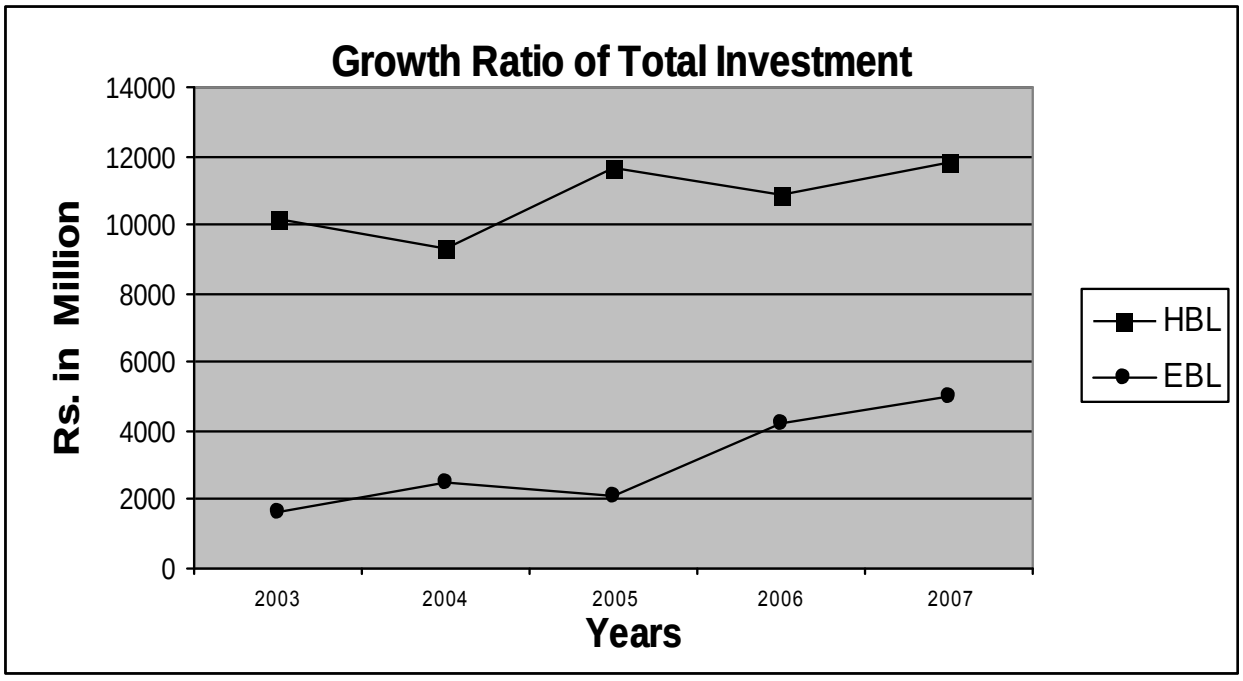
(Rs. in million)

Banks	Total Investment					Growth Rate (%)
	2003	2004	2005	2006	2007	
HBL	10175.43	9292.1	11692.34	10889.03	11823.00	**3.82**
EBL	1653.97	2535.66	2128.94	4200.51	4984.33	**31.76**

Source: Appendix-II 'b'

The above table shows that both the banks have fluctuating trend in their investment from the year 2003 to 2007. HBL and EBL have the growth rate of 3.82% and 31.76% respectively. Among them EBL has the highest growth rate than HBL because it has Rs 1653.97 Million in 2003 and become Rs. 4984.33 Million in 2007. Growth ratio of total investment of HBL and EBL are also shown in the following line chart.

Graph 4.21



4.2.5.3 Growth Ratio of Loan and Advances

Table 4.22
Growth Ratio of Loan and Advances

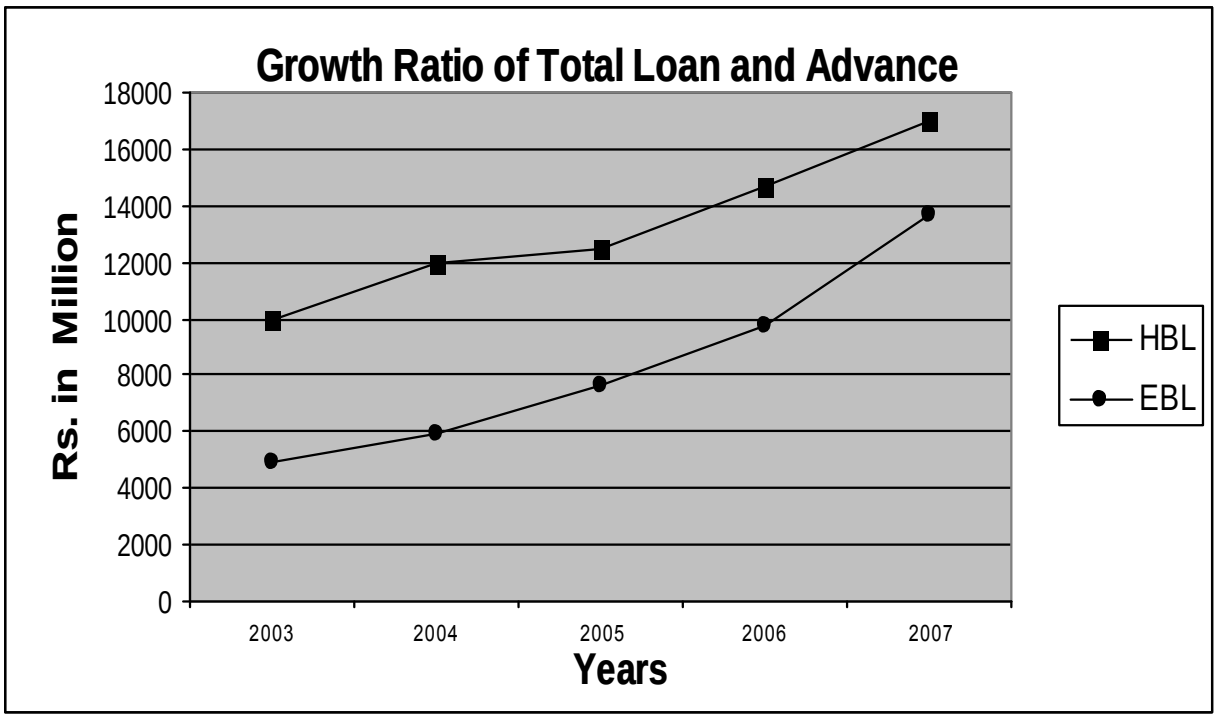
(Rs. in million)

Banks	Total Loan and Advance					Growth Rate (%)
	2003	2004	2005	2006	2007	
HBL	10001.85	11951.87	12424.52	14642.56	16997.99	**14.18**
EBL	4908.46	5884.12	7618.67	9801.31	13664.08	**29.17**

Source: Appendix-II 'c'

The above table describes the growth ratio of loan and advances of HBL and EBL under five years study period. The table shows the high growth ratio of EBL 29.17% and low growth ratio of HBL 14.18%. Yearly growth on loan and advance of both the banks is in increasing trend. Growth ratio of total loan and investment of HBL and EBL are also shown in the following line chart.

Graph 4.22



4.2.5.4 Growth Ratio of Net Profit

Table 4.23
Growth Ratio of Net Profit

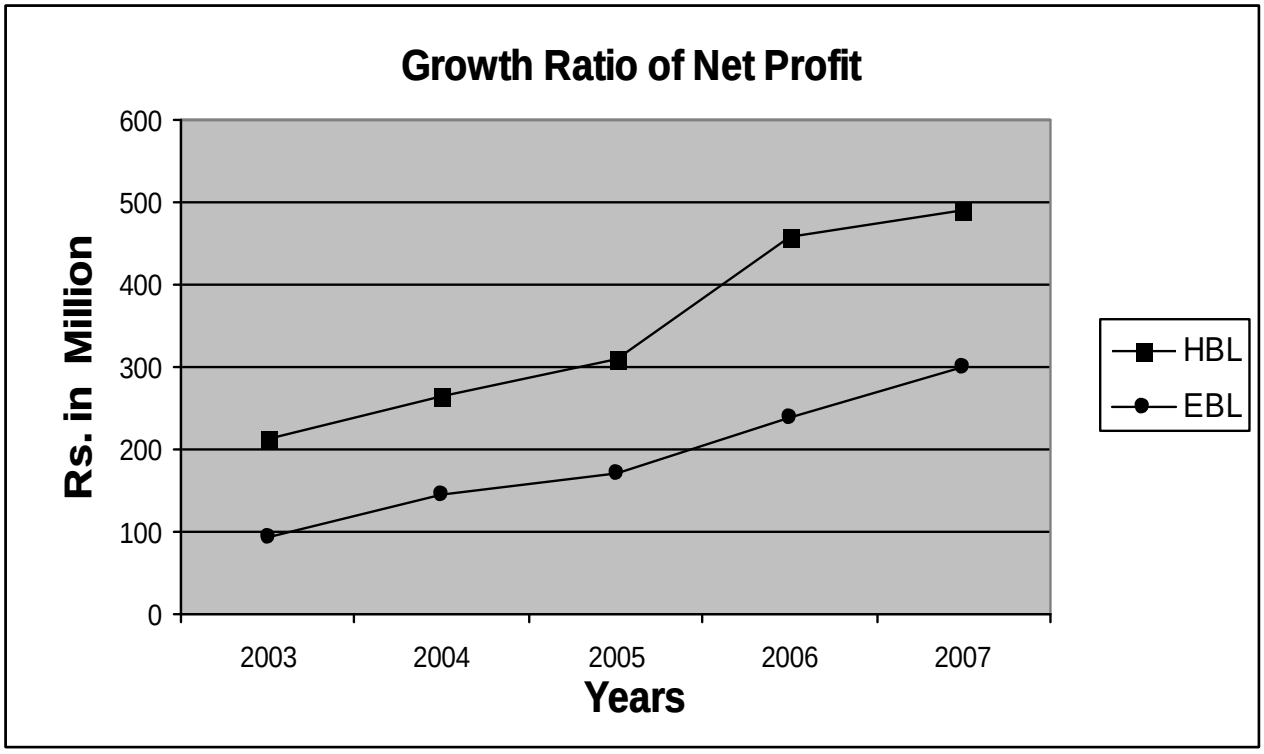
(Rs. in million)

Banks	Net Profit					Growth Rate (%)
	2003	2004	2005	2006	2007	
HBL	212.12	264.05	308.27	457.45	491.82	**23.40**
EBL	94.18	143.56	170.8	238.86	299.45	**33.53**

Source: Appendix-II 'd'

The above table represents the growth ratio of net profit of HBL and EBL during five years study period. It shows that EBL has the highest ratio of 33.53% and HBL has the low ratio of 23.40%. Yearly growth on net profit of both the banks is in increasing trend. Growth ratio of net profit of HBL and EBL are also shown in the following line chart.

Graph 4.23



4.3 Analysis of Sources and Uses of Funds

4.3.1 Analysis of Sources and Uses of Funds of HBL

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

Table 4.24

Percentage of Various Sources of Funds from Total Sources of HBL

Particulars	Year					Total	Average
	2003	2004	2005	2006	2007		
1. Capital Fund	4.41	5.15	5.42	5.78	6.26	**27.00**	**5.40**
2. Deposits	87.24	85.54	87.24	86.63	87.57	**434.22**	**86.84**
3. Borrowings	0.00	0.00	1.27	1.18	1.05	**3.49**	**0.70**
4. Other lia. With provision for loan & adv.	8.35	9.31	6.08	6.42	5.13	**35.28**	**7.06**
Total	100	100	100	100	100	**500**	**100**

Source: Appendix-15

Table 4.25

Percentage of Various Uses of Funds from Total Uses of HBL

Particulars	Year					Total	Average
	2003	2004	2005	2006	2007		
1.CASH AND BANK BALANCE	8.20	7.78	7.08	5.62	5.12	**33.80**	**6.76**
2. INVESTMENTS	42.18	36.11	41.11	35.61	34.45	**189.47**	**37.89**
3. LOANS & ADVANCES RESERVE	44.96	50.21	47.29	51.54	51.85	**245.86**	**49.17**
4.AMT. REC. AT SHORT NOTICE	0.62	1.43	1.55	3.29	4.98	**11.88**	**2.38**
5. OTHER	4.03	4.46	2.97	3.94	3.59	**19.00**	**3.80**
Total	**100**	**100**	**100**	**100**	**100**	**500**	**100**

Source: Appendix-15

From the above analysis**,** contribution of capital fund in total sources of funds of HBL is 5.40%. Similarly deposits contribute more funds in total sources of funds is 86.84 %. Borrowings occupy only 0.70% of the total sources. And other liabilities with provision for loan & advance remaining contribute 7.06%. It can be said that deposits is the main sources of funds.

These above sources of funds are used for different purposes. HBL has maintained cash and bank balance 6.76% out of total sources. It makes average investment of 37.89 %. It provides loans and advances of 49.17 % to its customer. Out of total uses, percentage covered by amount receivable at short notice and others are 2.38% & 3.80% respectively of the total uses of funds.

4.3.2 Analysis of Sources and Uses of Funds of EBL

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

Table 4.26
Percentage of Various Sources of Funds from Total Sources of EBL

Particulars	Year					Total	Average
	2003	2004	2005	2006	2007		
1. Capital Fund	7.48	6.93	6.90	5.91	5.50	**32.71**	**6.54**
2. Deposits	81.71	82.11	83.64	84.71	83.23	**415.40**	**83.08**
3. Borrowings	0.00	0.00	2.48	1.84	1.37	**5.70**	**1.14**
4. Other lia. With provision for loan & adv.	10.81	10.96	6.98	7.54	9.90	**46.19**	**9.24**
Total	100	100	100	100	100	**500**	**100**

Source: Appendix-16

Table 4.27
Percentage of Various Uses of Funds from Total Uses of EBL

Particulars	Year					Total	Average
	2003	2004	2005	2006	2007		
1.CASH AND BANK BALANCE	13.91	6.43	8.70	9.53	10.94	**49.51**	**9.90**
2. INVESTMENTS	20.19	25.82	17.63	25.78	22.81	**112.23**	**22.45**
3. LOANS & ADVANCES RESERVE	61.63	62.07	65.43	62.21	64.45	**315.79**	**63.16**
4.AMT. REC. AT SHORT NOTICE	0.00	1.91	4.72	0.41	0.00	**7.04**	**1.41**
5. OTHER	4.28	3.76	3.52	2.07	1.80	**15.42**	**3.08**
Total	**100**	**100**	**100**	**100**	**100**	**500**	**100**

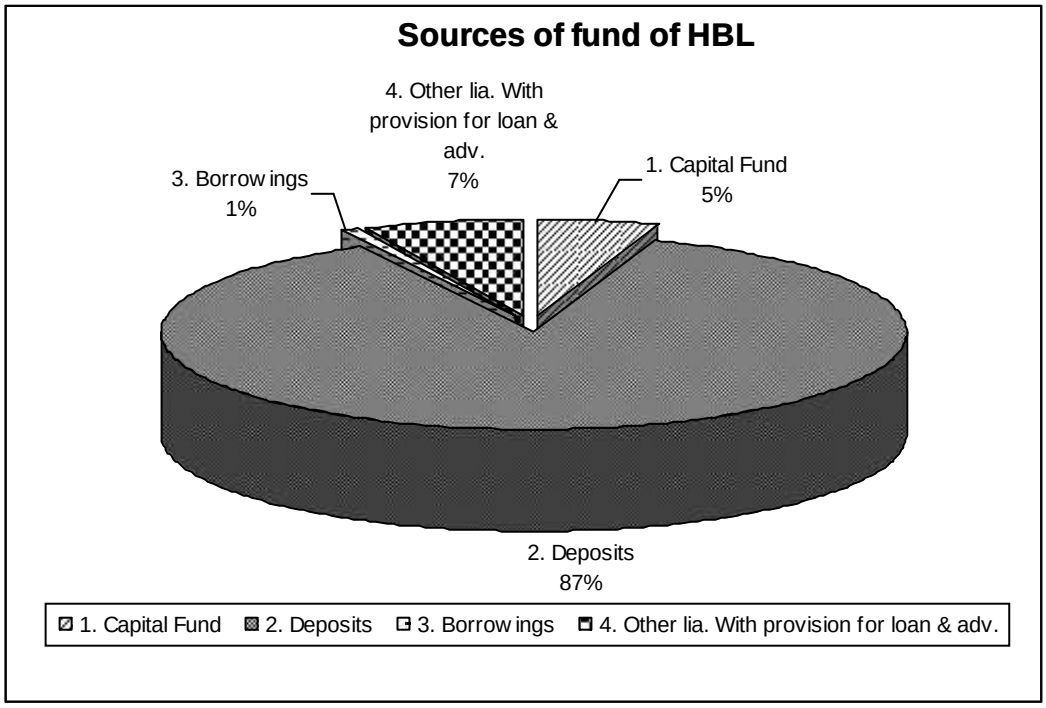
Source: Appendix-16

From the above analysis, contribution of capital fund in total sources is 6.54%. Likewise, deposits contribute more funds out of total sources of funds i.e. 83.08%. Considering the contribution of borrowings to total sources, it is approximately 1.14%, Bills payable is 9.24%. Deposit is the only one reliable source of funds of EBL.

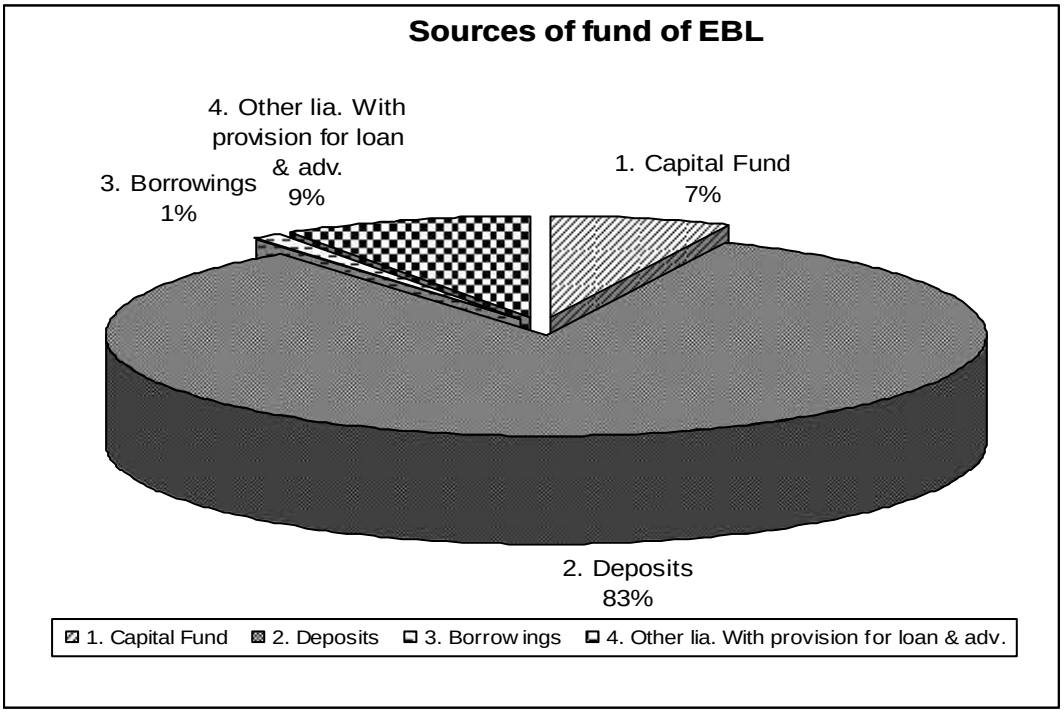
These above sources of funds are used for different purposes. EBL maintained cash and bank balance of 9.90 %. It has maintained sufficient liquid funds in the starting period of the study. It makes average investment of 22.45%. Similarly, it provides loan and advances of 63.16% for its customers to fulfill their daily cash requirements. Similarly amount receivable at short notice and other uses covers 1.41% and 3.08% respectively.

Sources of Funds of HBL and EBL based on Mean Ratio

Graph 4.24

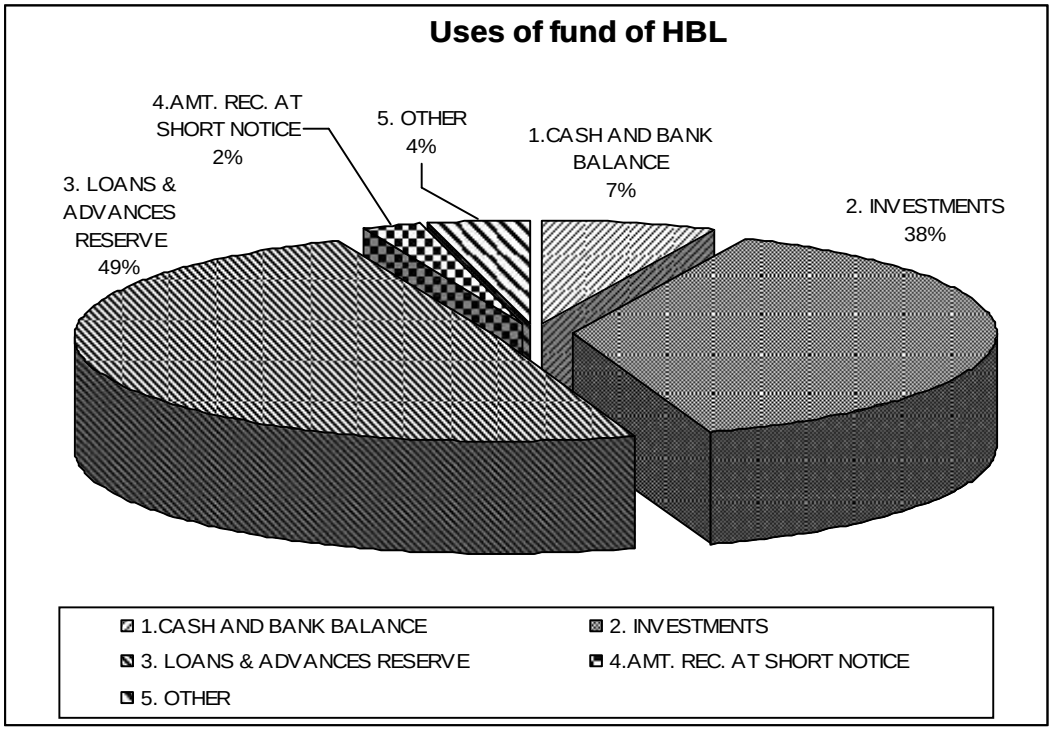


Graph 4.25

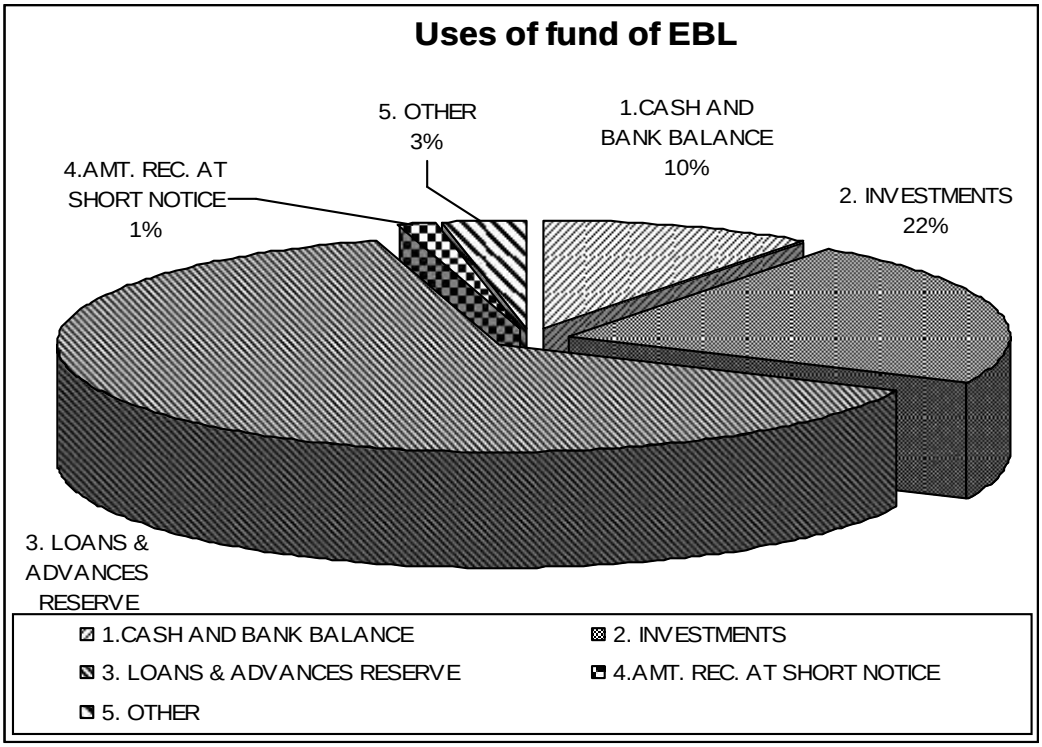


Uses of Funds of HBL and EBL based on Mean Ratio

Graph 4.26



Graph 4.27



4.4 Cash Flow Analysis

The cash flows of the banks are grouped into three categories according to the nature of business activities, namely cash flows from operating activities, investing activities and financing activities. Cash flow from operating activities includes the cash income form interest, commission, discount, exchange, recovery of loan and other, cash payment for interest, staffs, office overhead and income tax and change in current assets and current liabilities. Like wise cash flow form investment activities includes dividend income and change in investment, fixed assets and other assets. Cash flow from financing activities includes change in share capital, bond and debentures, dividend and interest on loan paid. These activities show the movements of cash in the two banks. They are summarized in the following table.

4.4.1 Cash Flow Analysis of HBL

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

Table 4.28
Cash Flow from different Banking Activities of HBL

(Rs. in million)

Year	HBL		
	Cash Flow from Operating Activities	Cash Flow from Investing Activities	Cash Flow from Financing Activities
2003	1186.86	-472.33	0.00
2004	126.55	-104.57	0.00
2005	44.6	-31.31	0.00
2006	-9.71	-287.41	0.00
2007	103.55	-63.56	0.00

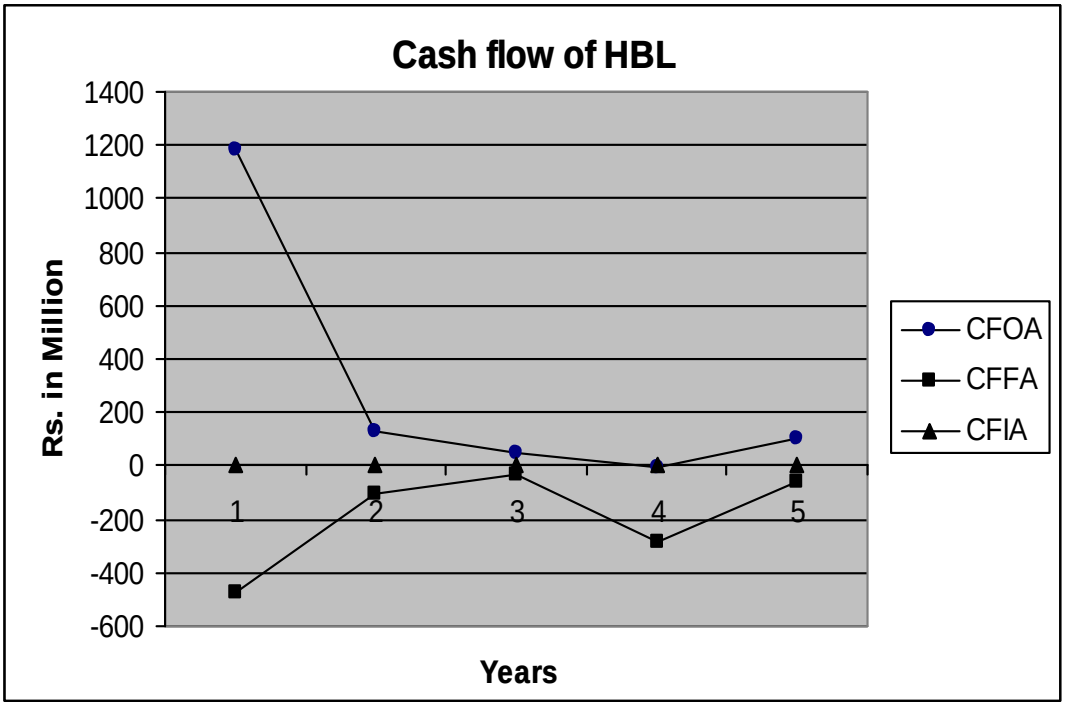
Source: Appendix-17

The above analysis shows the positive and negative cash flow of HBL during five years study period. The positive cash flow is cash inflow and the negative cash flow is cash out flow. Cash flow from operating activities of HBL is in fluctuating trend.. HBL has the maximum cash inflow from operating activities in year 2003 i.e. Rs.1186.86 million and cash outflow from operating activities in the year 2006 i.e. Rs. 9.71 million.

Cash flow form investing activities of HBL is also in fluctuating trend. HBL has the maximum investment of (Rs.472.33) million in year 2003. By investing more cash in investing activities it can achieve profitable opportunity. There in no cash flow of HBL in financial activities during the study

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

Graph 4.28



4.4.2 Cash Flow Analysis of EBL

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

Table 4.29

Cash Flow from different Banking Activities of EBL

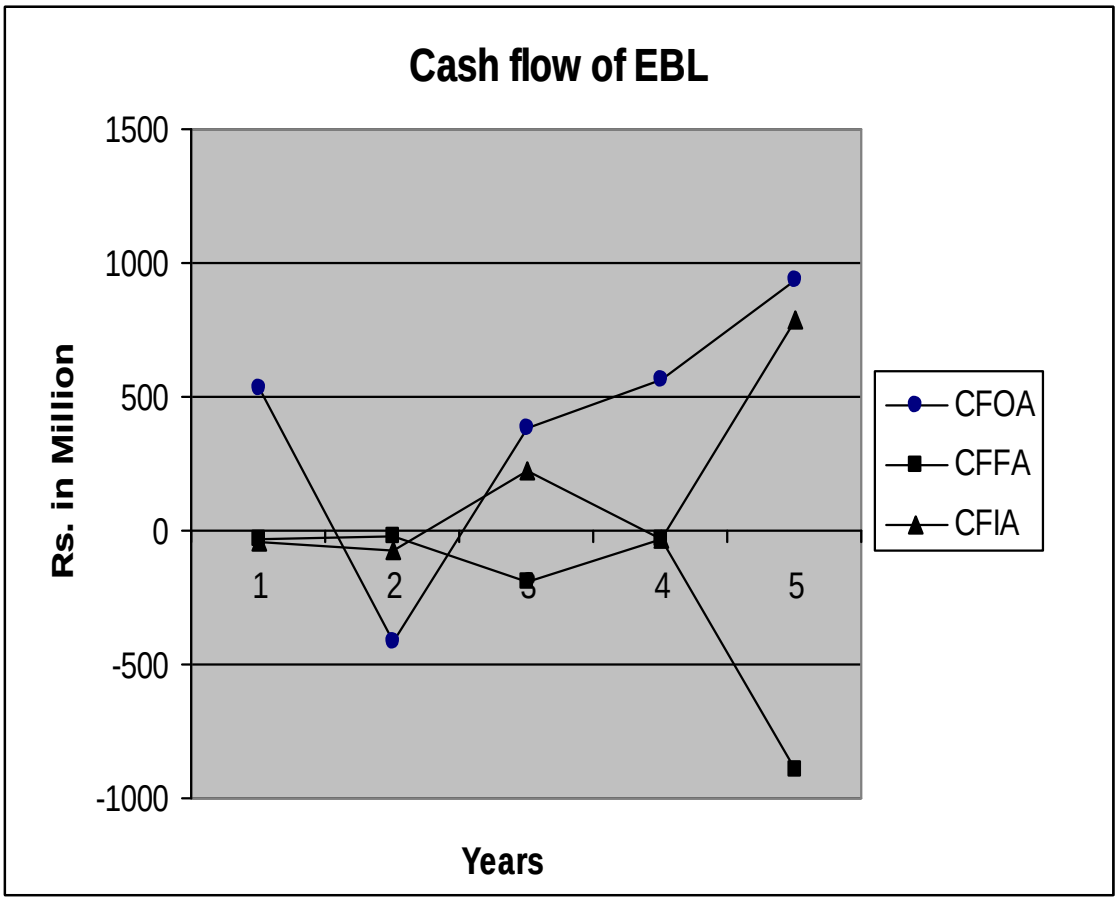
(Rs. in million)

Year	EBL		
	Cash Flow from Operating Activities	Cash Flow from Investing Activities	Cash Flow from Financing Activities
2003	536.5	-33.3	-41.2
2004	-413.6	-24.7	-69.5
2005	383.7	-193.5	228
2006	561.7	-32.5	-29.5
2007	935.7	-888.8	790.2

Source: Appendix-18

Above analysis shows the positive and negative cash flow of EBL. The positive cash flow is cash inflow and the negative cash flow is cash out flow. The cash flows of EBL in different activities are in fluctuating trend. Cash inflow from operating activities is the maximum in the year 2007 i.e. (Rs935.7). Cash outflow from investing activities is the maximum in the year 2007 i.e. (Rs888.8) million. Cash inflow from financing activities is maximum in the year 2007 i.e. (Rs790.2), because of the issue of shares. Cash flows of these different activities of EBL are also shown in the following figure.

Graph 4.29



4.4.4 Cash Flow Analysis from Operating Activities (CFOA)

Following comparative table shows the cash flow from operating activities.

Table 4.30

Comparative Cash Flow from Operating Activities of HBL and EBL

(Rs. in million)

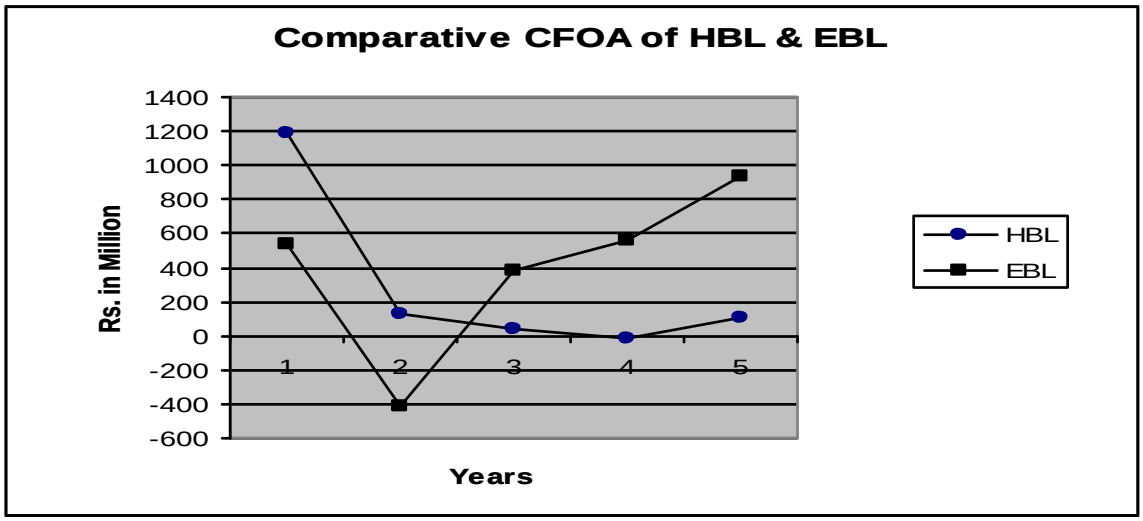
Year	Cash Flow from Operating Activities	
	HBL	EBL
2003	1186.86	536.5
2004	126.55	-413.6
2005	44.6	383.7
2006	-9.71	561.7
2007	103.55	935.7

Source: Appendix-17 & 18

From the above analysis cash flow from operating activities of both the banks are in fluctuating trend during five years study period. In the above analysis we can see the positive as well as negative changes in cash flow from operating activities of both the banks due to fluctuations in operating activities. We observed, the highest cash inflow of HBL is Rs.1186.86 million in FY 2003 and cash outflow of Rs.9.71 million in FY 2006, the highest cash inflow of EBL is Rs.935.7 million in FY 2007 and cash outflow of Rs413.6 million in FY 2004.

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

Graph 4.30



4.4.5 Cash Flow Analysis from Investing Activities (CFIA)

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

Table 4.31

Comparative Cash Flow from Investing Activities of HBL and EBL

(Rs. in million)

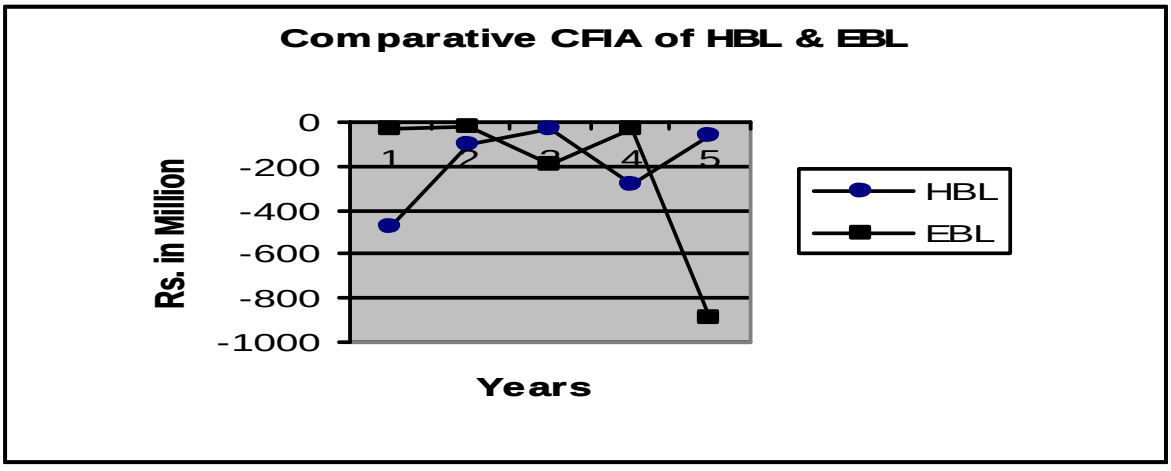
Year	Cash Flow from Investing Activities	
	HBL	EBL
2003	-472.3	-33.3
2004	-104.6	-24.7
2005	-31.31	-193.5
2006	-287.4	-32.5
2007	-63.56	-888.8

Source: Appendix-17 & 18

The cash flow from investing activities of HBL have incurred cash outflows throughout the study period. Where as EBL has fluctuation trend. In comparison EBL has the highest cash outflow than HBL. Study shows that EBL has the highest cash outflow of (Rs.888.8) million in FY 2007. Cash flow from financing activities of two banks in all FYs verifies the fact that there never occurred cash inflow from investing activities.

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

Graph 4.31



4.4.6 Cash Flow Analysis from Financing Activities (CFFA)

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

Table 4.32

Comparative Cash Flow from Financing Activities of HBL and EBL

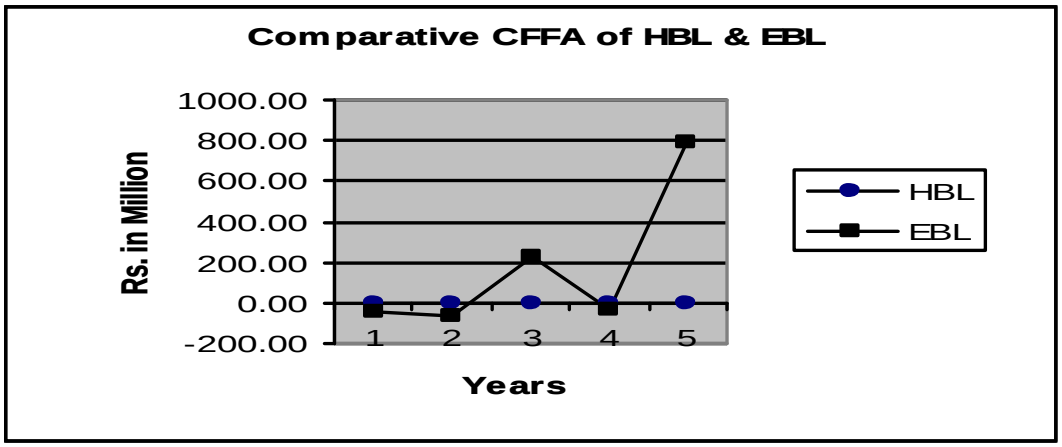
(Rs. in million)

Year	Cash Flow from Financing Activities	
	HBL	EBL
2003	0.00	-41.2
2004	0.00	-69.5
2005	0.00	228
2006	0.00	-29.5
2007	0.00	790.2

Source: Appendix-17 & 18

The above analysis shows that cash flow of financing activities of EBL is in fluctuating trend. There is no cash flow of HBL in financial activities during the study period. Cash from financing activities of two banks is also shown by the help of following figure.

Graph 4.32



4.5 Correlation Analysis

Correlations between the important variables are analyzed under this heading.

4.5.1 Analysis of Correlation Coefficient between Deposits and Total Investment

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

Table 4.33
Correlation Coefficient between Deposits and Total Investment

Banks	Base of Evaluation			
	r	R^2	P.E.	6×P.E.
HBL	0.788	0.621	0.114	0.684
EBL	0.910	0.828	0.052	0.312

Source: Appendix -23 & 24

From the above table, it is found that coefficient of correlation between deposits and total investment of HBL is 0.788 i.e. high degree of positive correlation between these two variables. And the value of coefficient of determination (R^2) is also 0.621which means 62.1% of investment decision is depend upon deposit and only 37.9% investment is depend upon other variables. Similarly probable error (P.E.) is 0.114 and 6P.E. is 0.684 which shows that 'r' is greater than 6P.E. Therefore it reveals that relationship between deposit and investment is significant.

Likewise in case of EBL, coefficient of correlation between investment and deposit is 0.910 i.e. there is high degree of positive correlation between two variables. Coefficient of determination (R^2) is 0.828, which means 82.8% of investment decision is depend upon deposit and only 17.2% investment is depend on other variables. And its P.E. is 0.0.52 and similarly 6P.E. is 0.312 which is below than 'r i.e. 0.910. It means correlation of coefficient between deposit and Investment of EBL is significant.

4.5.2 Analysis of Correlation Coefficient between Deposits and Loan and Advances

The following table describes the relationship between deposit and loan and advances of HBL and EBL with comparatively under five years study period. In the following case, deposit is independent variables(X) and loan and advances is dependent variables(Y).

Table 4.34
Correlation Coefficient between Deposits and Loan and Advances

Banks	Base of Evaluation			
	r	R^2	P.E.	6×P.E.
HBL	0.974	0.949	0.015	0.090
EBL	0.993	0.985	0.004	0.024

Source: Appendix –25 & 26

From the above table, it is found that coefficient of correlation between deposits and total loan and advance of HBL is 0.974 i.e. high degree of positive correlation between these two variables. And the value of coefficient of determination (R^2) is also 0.949 which means 94.9 % of loan and advance decision is depend upon deposit and only 5.1% loan and advance is depend upon other variables. Similarly probable error (P.E.) is 0.015 and 6P.E. is 0.090 which shows that 'r' is greater than 6P.E. Therefore it reveals that relationship between deposit and loan and advance is significant.

Likewise in case of EBL, coefficient of correlation between loan and advance and deposit is 0.993 i.e. there is high degree of positive correlation between two variables. Coefficient of determination (R^2) is 0.985, which means 98.5% of loan and advance decision is depend upon deposit and only 2.5% investment is depend on other variables. And its P.E. is 0.0.04 and similarly 6P.E. is 0.024 which is below than 'r i.e. 0.993. It means correlation of coefficient between deposit and Investment of EBL is significant.

4.6 Trend Analysis

4.6.1 Trend Analysis of Total Investment to Total Deposits Ratio

Under this topic, an effort has been made to calculate the trend values of total investment to total deposit ratio of HBL and EBL with comparatively during five years study period and projects the trend for next five years. The following table describes the trend values of total investment to total deposit ratio of HBL and EBL for ten years.

Table 4.35

Trend Values of Total Investment to Total Deposit Ratio of HBL & EBL (2003-2012)

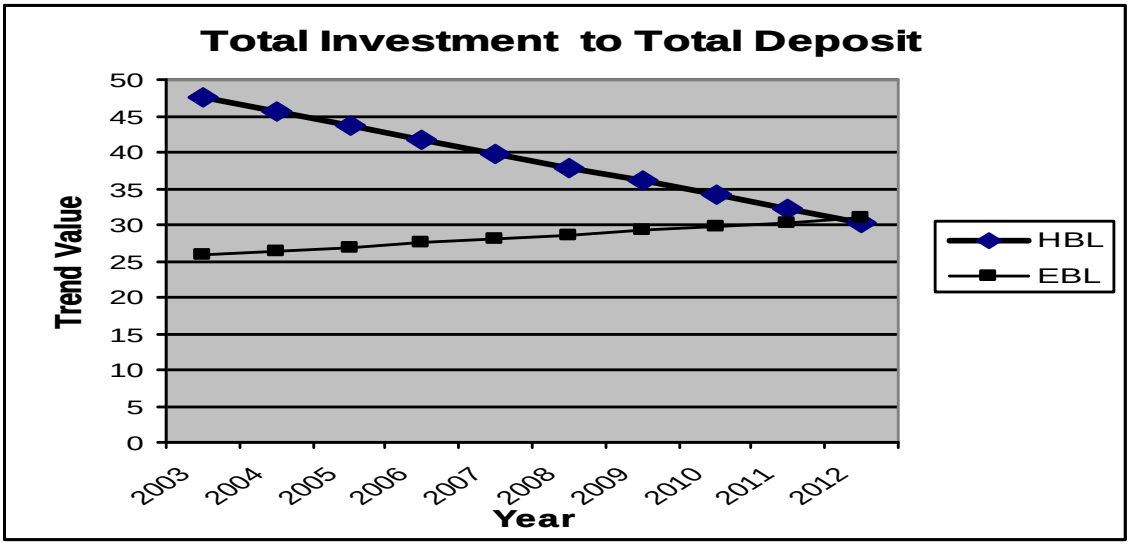
Years	Banks (Trend Value)	
	HBL	EBL
2003	47.452	25.752
2004	45.540	26.319
2005	43.628	26.886
2006	41.715	27.453
2007	39.804	28.020
2008	37.892	28.587
2009	35.980	29.154
2010	34.068	29.721
2011	32.156	30.288
2012	30.244	30.855

Source: Appendix-27& 28

From the above comparative table, it has been found that the total investment to total deposit ratios of EBL is in increasing trend but HBL is in decreasing trend. Other things remaining the same, the ratio of total investment to total deposits of HBL and EBL will

be 30.224 and 30.855 respectively in the year ended 2012. Trend Line of Total Investment to Total Deposit Ratio of HBL & EBL is shown below:

Graph 4.33



4.6.2 Trend Analysis of Loan and Advances to Total Deposits Ratio

Under this topic an attempt has been made to analyze the trend of loan and advances to total deposits ratio of HBL and EBL with comparatively during five years study period and projects the trend for next five years. The following table describes the trend values of loan and advances to total deposit ratio of HBL and EBL for twelve years.

Table 4.36

Trend Values of Loan and Advances to Total Deposit Ratio of HBL & EBL (2003-2013)

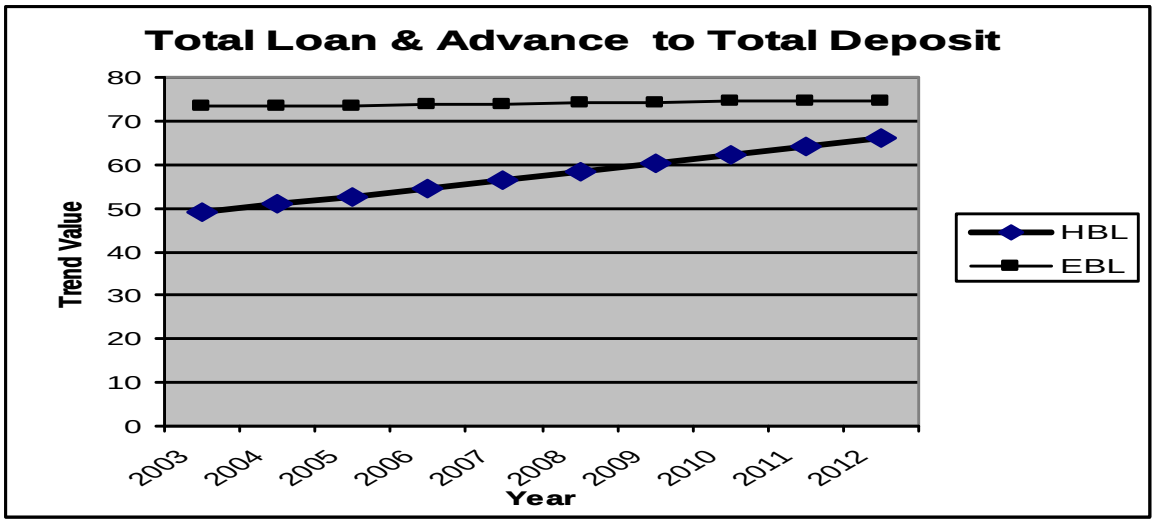
Years	Banks (Trend Value)	
	HBL	EBL
2003	48.986	73.244
2004	50.875	73.410
2005	52.764	73.576
2006	54.653	73.742
2007	56.542	73.908
2008	58.431	74.074
2009	60.3320	74.240
2010	62.209	74.406
2011	64.098	74.572
2012	65.987	74.738

Source: Appendix-27& 28

From the above comparative table, it has been found that the loan and advances to total deposits ratio of HBL and EBL are increasing trend. Other things remaining the same,

the loan and advances to total deposit of HBL will be 66.083 where as EBL will be 74.738 in the year 2013. Trend Line of Loan and Advances to Total Deposit Ratio of HBL and EBL is shown below:

Graph 4.34



4.7 Test of Hypothesis

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

4.7.1 Test of Hypothesis on Loans and Advances to Total Deposit Ratio

In this analysis ratios of loan and advances to total deposits of HBL and EBL are taken and are carried out under t-test of significance difference.

Table 4.37

Test of Hypothesis on Loans and Advances to Total Deposit ratios between HBL and EBL

Fiscal Year	HBL			EBL		
	X_1	x_1	x_1^2	X_2	x_2	x_2^2
2003	47.53	5.22	27.23	73.31	0.26	0.07
2004	54.30	-1.55	2.41	72.97	0.61	0.37
2005	50.07	2.68	7.17	75.45	-1.87	3.51
2006	55.27	-2.52	6.36	71.01	2.57	6.58
2007	56.57	-3.82	14.61	75.13	-1.55	2.41
	263.74		**57.78**	**367.88**		**12.94**

Here,

$\overline{X_1} = \frac{X_1}{n_1} X \frac{263.74}{5}$ $\overline{X_2} = \frac{X_2}{n_2} X \frac{367.88}{5}$

= 52.75 = 73.57

Again, $x_1 = X_1 - \overline{X_1}$ $x_2 = X_2 - \overline{X_2}$

a) Test of Significance of difference between HBL and EBL

Here,

Null Hypothesis (H_0): $\overline{X_1} = \overline{X_2}$ i.e. there is no significant difference between mean ratios of loans and advances to total deposit of HBL and EBL.

Alternative Hypothesis (H_1): $\overline{X_1} \neq \overline{X_2}$ i.e. there is significant difference between mean ratios of loans and advances to total deposit of HBL and EBL (Where $\overline{X_1}$ is mean ratio of HBL and $\overline{X_2}$ is mean ratio of EBL).

Under H_0, the test statistic is given by,

$$t = \frac{\overline{X_1} - \overline{X_2}}{\sqrt{S^2\left(\frac{1}{n_1} + \frac{1}{n_2}\right)}}$$

Where,

$S^2 = \frac{1}{n_1 + n_2 - 2}\left[\sum x_1^2 + \sum x_2^2\right] = \frac{1}{5+5-2}[57.78 + 12.94] = 8.84$

Now,

$$t = \frac{\overline{X_1} - \overline{X_2}}{\sqrt{S^2\left(\frac{1}{n_1} + \frac{1}{n_2}\right)}}$$

$= \frac{52.75 - 73.57}{\sqrt{8.84\left(\frac{1}{5} + \frac{1}{5}\right)}} = -11.07$

Hence, $|t| = 11.07$

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

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

Conclusion:

Since, the calculated value of $|t|$ i.e. 11.07 is greater than the tabulated value i.e. 2.306. It is significant, null hypothesis is rejected hence alternative hypothesis is accepted which means that there is significant difference between mean ratios of loan and advances to total deposit of HBL and EBL.

4.7.2 Test of Hypothesis Total Investment to Total Deposit Ratio

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

Table 4.38
Test of Hypothesis on Total Investment to Total Deposit ratios between HBL and EBL

S.N.	Fiscal Year	HBL			EBL		
		X_1	x_1	x_1^2	X_2	x_2	x_2^2
1	2003	48.35	-4.72	22.30	24.70	2.31	5.35
2	2004	42.22	1.41	1.98	31.44	-4.43	19.61
3	2005	47.12	-3.49	12.19	21.08	5.93	35.19
4	2006	41.10	2.53	6.39	30.43	-3.42	11.68
5	2007	39.35	4.28	18.30	27.41	-0.40	0.16
		218.14		**61.17**	**135.06**		**71.98**

Here,

$$\overline{X_1} = \frac{X_1}{n_1} X \frac{218.14}{5} \qquad \overline{X_2} = \frac{X_2}{n_2} X \frac{135.06}{5}$$

$$= 43.63 \qquad = 27.01$$

$$\text{Again, } x_1 = X_1 - \overline{X_1} \qquad x_2 = X_2 - \overline{X_2}$$

a) Test of Significance of difference between HBL and EBL

Here,

Null Hypothesis (H_0): $\overline{X_1} = \overline{X_2}$ i.e. there is no significant difference between mean ratios of total investment to total deposit of HBL and EBL.

Alternative Hypothesis (H_1): $\overline{X_1} \neq \overline{X_2}$ i.e. there is significant difference between mean ratios of total investment to total deposit of HBL and EBL (Where $\overline{X_1}$ is mean ratio of HBL and $\overline{X_2}$ is mean ratio of EBL)

Under H_0, the test statistic is given by,

$$t = \frac{\overline{X_1} - \overline{X_2}}{\sqrt{S^2\left(\frac{1}{n_1} + \frac{1}{n_2}\right)}}$$

Where,

$S^2 = \frac{1}{n_1 + n_2 - 2}\left[\sum x_1^2 + \sum x_2^2\right]$ $= \frac{1}{5+5-2}[61.17 + 71.98]$ = 16.64

Now,

$$t = \frac{\overline{X_1} - \overline{X_2}}{\sqrt{S^2\left(\frac{1}{n_1} + \frac{1}{n_2}\right)}}$$

$= \frac{43.63 - 27.01}{\sqrt{16.64\left(\frac{1}{5} + \frac{1}{5}\right)}}$ = 6.44

Degree of freedom = $n_1+n_2-2 = 5+5-2 = 8$
The tabulated value of t for 8 d.f. at 5% level of significance for two tailed test is 2.306

Conclusion:

Since, the calculated value of $|t|$ i.e. 6.44 is greater than the tabulated value i.e. 2.306.

It is significant, null hypothesis is rejected hence alternative hypothesis is accepted which means that there is significant difference between mean ratios of loan and advances to total deposit of HBL and EBL.

4.8 Major Findings of the Study

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

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

1 Finding from Deposit Collection and Mobilization

i. The change based index of deposit collections of EBL is increasing every year as compared to the preceding years than HBL. The increase percent on deposit collection of EBL is better than HBL. It shows that EBL give more consideration on deposit collection.

ii. The change based index of investment of both the banks is irregular. HBL has very high and low investment figure than EBL. So, HBL taking more risk in investment and has better than EBL

iii. The change based index of loan and advance of both the banks is increased. The change on EBL is increased year by year but HBL in fluctuating trend. But also HBL has great increment than EBL.

2 Liquidity Ratios

i. The mean ratio of cash and bank balance to total deposit ratio of EBL is higher than HBL. It states that liquidity position of EBL is better in this regard. It also indicates that EBL has the higher capacity to meet the cash demand of its customer deposit than HBL.

ii. The average cash and bank balance to current assets ratios of HBL has less fluctuating trend. It indicates that ratio of HBL is more stable than that of EBL. It shows EBL is taking high risk in this regard.

iii. The average ratio of investment in government securities to current assets is irregular. EBL has invested more portions of current assets in government securities It seems that EBL is more consistent to make investment in government securities than HBL.

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

3 Finding from Assets Management Ratios

i. The mean ratio of loan and advances to total deposit of EBL is greater than HBL. The variability ratio of EBL is lower than that of other HBL. So, EBL seems more consistent than HBL

ii. The average ratio of total investment to total deposit ratio of HBL is higher than that of EBL. The variability ratio HBL is lower than that of EBL It seems more consistent than EBL.

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

iv. The average ratio of investment on government securities to total assets of EBL is higher than that of HBL. But the variability ratio of EBL is higher than HBL. It seems less consistent to make investment on government securities.

v. The mean ratio of investment on shares and debentures to total assets of HBL is greater than EBL. Where as HBL has the lower variability of the ratio. It shows the stable investment on shares and debentures.

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

4. Finding from Profitability Ratios

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

ii. The mean ratio of return on total assets of EBL is greater than HBL. Where as the variability ratio of EBL is lower than HBL. It indicates that the return on total assets of EBL is stable.

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

iv. The mean ratio of total interest paid to total assets of EBL is lower than HBL. It reveals that EBL has not paid high interest as HBL. The ratio of EBL is more consistent than that of HBL.

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

5. Finding from Risk Ratios

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

ii. On the basis of mean ratio, the credit risk of EBL is lowest than that of HBL. HBL has the lower coefficient of variation than that of EBL It indicates that the credit risk ratio is consistent.

From the above analysis, HBL has maintained the lower liquidity risk lower credit risk than EL. And lower liquidity risk means higher risk for higher profit.

6. Finding from Growth Ratios

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

ii. The growth rate of total investment of EBL is higher than that of HBL. Although HBL is investing more funds but it seems weak in comparison to EBL because of lowest growth ratio.

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

iv. The growth ratio of net profit of both the banks is in increasing trend the during study period. EBL has the highest growth ratio of net profit among two banks.

From the above findings it can be observed that the EBL has maintained the high growth ratio in total deposits, loan and advances and net profit but it has moderate position in investment.

7. Finding from Cash Flow Analysis

i) Findings from Operating Activities

Overall operating activities of HBL and EBL have been occurred cash inflows throughout the study period. Operating efficiency of HBL is in increasing trend during the study period. It indicates that HBL operating efficiency is increasing during the study period.

ii) Findings from Investing Activities

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

iii) Findings from Financing Activities

The above analysis shows that cash flow of financing activities of EBL is in fluctuating trend. HBL flow more cash for financing activities than EBL. It shows that cash acquisition efficiency of HBL is more than EBL. In the analysis of proportionate changes of cash flow from financing activities, we observed that HBL has positive and EBL has the positive and negative changes.

8. Finding from Correlation Analysis

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

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

9. Finding from Trend Analysis

i. From the above comparative table, it has been found that the loan and advances to total deposits ratio of HBL and EBL are increasing trend. Other things remaining the same, the loan and advances to total deposit of HBL will be 66.083 where as EBL will be 74.738 in the year 2013. Trend Line of Loan and Advances to Total Deposit Ratio of HBL and EBL is shown below:

ii. The total deposit to total investment ratio of EBL are in increasing trend but HBL is in decreasing trend. It indicates that EBL is more successful to utilize its deposit in investment.

iii. The trend value of loan and advances to total deposit ratio of HBL, EBL is in increasing trend. Loan and advances to total deposit ratio of HBL is proportionately better than EBL though is lower than HBL.

10. Finding from Test of Hypothesis

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

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

CHAPTER-V
SUMMARY, CONCLUSION & RECOMMENDATIONS

5.1 Summary

Basically the entire research work focuses on the comparative study on deposit mobilization of two joint venture banks; Himalayan Bank Ltd. and Everest Bank Ltd.. These two joint venture banks are composed as per their deposit mobilization activities by taking five years data from the year 2003 to 2007.

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

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

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

5.2 Conclusion

From the analysis of deposit collection and mobilization, the deposit collection and mobilization of HBL is high since it begins its service three years before than EBL but the incremental position of EBL is better than the HBL.

From the analysis of liquidity ratio, the liquidity position of EBL is comparatively better than HBL. EBL has the higher cash and bank balance to total deposit, cash and bank balance to current assets and investment on government security to current assets ratio. Liquidity position of HBL is comparatively lower than EBL. EBL has made enough investment on government securities. HBL has invested less part of current assets in government securities.

Considering asset management aspect of banks, EBL is relatively successful to invest in productive sector and has mobilized its collected deposits to provide loan and advances for the purpose of earning profit. HBL has weaker condition in mobilizing its collected deposits in loan and advances. HBL appears to be more successful to earn profit on loan and advances than EBL. Profit earning capacity of EBL is weaker than HBL. The average ratio of return on total assets indicates that assets of HBL is well managed and efficiently utilized. Alternatively total asset of EBL has not well managed.

The liquidity risk ratio of EBL is higher than that of HBL. On the other hand liquidity risk ratio of HBL has the lower, which specified that HBL has kept idle funds in the form of cash and bank balance but this reduces profitability. HBL has the lowest credit risk ratio than EBL. Credit risk involved in loan and advances and total investment of banks with total assets. It may arise due to default risk or non-repayment of loan.

Growth ratio of total deposits, total investment, loan and advance and net profit of HBL seem weaker in comparison to EBL. EBL has maintained high growth ratios in total deposit, total investment, loan and advances and net profit. Therefore, we must say that the bank is successful to increasing its sources of funds and its mobilization.

Deposit is the strongest sources of fund whereas others cover fewer portions of sources of fund. EBL has kept fewer amounts in deposits in comparison to HBL. Among the uses of funds, loan and advances covers maximum portion and interest accrued covers less portion. HBL has invested fewer amounts into loan and advances in comparison to EBL but invested more in investment.

The operating activities of HBL and EBL have been occurred cash inflows throughout the study period. Operating efficiency of EBL is in increasing trend during the study period except one year. The investing activities of banks have deserved cash outflows throughout the study period. By the help of investing activities, these banks are able to increase long term assets as well as carry out profitable opportunity. It shows that cash

acquisition capacity of HBL is more than EBL except the year 2007. During the study period HBL has no cash flow from financing activities. EBL has negative and positive cash flow from financial activities since it paid dividend in regular basis and issue share capital as well as positive change in bond and debenture.

Correlation coefficient between deposit and total investment of HBL and EBL elucidates the positive relationship or there is high degree of positive correlation. Most of the investment decision of these banks depends upon deposits and only few decisions are depend upon other variables. Moreover by considering the probable error (6 P.E), the value of coefficient of determination (r) is higher, which shows significant relationship between deposits and total investment of both banks.

Correlation coefficient between deposits and loan and advances indicates the positive relationship between the variables of HBL, and EBL. In most of the cases it has been found that investment decision depends upon the deposits and only few decisions depend upon other variables. By considering the probable error, the value of coefficient of determination of both the banks is greater than that of 6 P.E. so it can be concluded that the value of correlation coefficient is significant i.e. there is significant relationship between total deposits and loan and advances.

By considering the trend values, EBL is more successful to utilize its total collected deposit in investment than HBL. Deposit utilization position in relation to loan and advances to total deposit, ratio of EBL is proportionately better than HBL.

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

5.3 Recommendations

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

- **To maintain effective liquidity position**

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

- **To increase deposit collection**

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

- **To make more investment in government securities**

From the study, it has been revealed that investment on those securities issued by government i.e. treasury bills, development bonds, saving certificates are free of risk and highly liquid in nature and such securities yield the low interest rates of a particular maturity due to lowest risk in future, it is more better in regard to safety than other means of investment. So, banks are strongly recommended to give more importance to invest more funds in government securities instead of keeping them idle.

- **To make more investment on share and debentures**

To get success in a competitive market and to raise financial and economic development of the country a commercial bank must mobilize its fund in different sectors such as purchase of share and debenture of other financial and non-financial companies and other government and non-government companies. It is also genuine means of utilization of resource. Thus these companies may get chances to rise and that help to development of the country. Out of current assets, investment on shares

and debentures of EBL is lower than HBL. EBL is suggested to invest more of its fund in share and debentures of different companies.

- **To make profitable return**

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

- **To prefer aggressive-defensive policy**

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

- **To invest deprive and priority sector**

NRB has directed to commercial banks to invest their certain percentage in deprives and Priority sector and it is also responsibility of banks. Banks are recommended to thoroughly follow the directives issued by NRB and invest in priority and deprive sector and also to invest on other small-scale industries like, public utilities, health, sanitation and drinking water, education and agricultural etc.

- **To make effective portfolio management**

The total fund of a bank is the aggregation of different portfolios such as deposits, capital fund, borrowings and other deposit liabilities. It is need not to state that deposit liability is the major contributing source. Considering the position of HBL and EBL, the contribution of deposit to total sources of funds is high. It is definitely not a good sign. EBL and HBL are therefore, recommended to enhance its capital base and operational resources of funds in order to have an appropriate combination to the total funds of the bank. High contribution of deposits to the total sources of funds demands high level of liquid assets and it is the threat of withdrawals.

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

- **Liberal lending policy and sound credit collection policy**

To get success in competitive banking market, commercial bank must utilize their deposit as loan and advances. Loan and advances are the main source of income and also means of utilization resources of commercial banks. Negligence in administrating these assets could be the cause of liquidity crisis in bank and one of the main reasons of the bank failure. Collection of loan has been most challenging task of commercial banks these days, increasing on non-performing assets discloses the failure of commercial banks in recovery of loan. Therefore, it is recommended to HBL and EBL to follow liberal lending policy when sensations loan and advances with sufficient guaranty and implement a sound collection policy including procedure which rapid identification of bad debtor loans, immediate contact with borrower, continual follow up and as well as legal procedure if require.

- **To adopt innovative approach to bank marketing**

In the light of growing competition in the banking sector, the business of the bank should be customer oriented. Marketing is an effective tool to attract and retain the customers. Without effective marketing strategy any one be along behind in today's competitive environment. Different marketing techniques like advertisement through audio-visual, published web site, documentary etc. are flowed. Similarly, draw

attentions of customers through new technologies like, E-banking, increase investment through their wide international banking network should be introduced.

- **To extend branches all over the country**

  Economic development of the country depends upon the growth of commercial banks. If the service of commercial banks expands all over the country it collects idle money from every corner of the country and can be utilized for income generation purpose. Government of Nepal has also encouraged the joint venture banks to expand banking service in rural areas and communities without making unfavorable impact in their profit. Therefore, all banks are recommended to expand their branch and providing banking service and facilities to the rural areas and communities to accelerate the economic development of the country.

Being a developing country, economic environment of Nepal is not in a good condition. The strong economic structure is needed for the rapid overall development. Commercial banks play vital role in the developing country like Nepal. Commercial banks are facing several problems related to deposit mobilization. They have to rush with modern banking technology so that, they would be a professional institutions. If commercial banks follow above- mentioned suggestions, they would be successful in reaching to the modern innovative and competitive banking market.

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APPENDIX-I

Table No.1
Cash and Bank Balance to Total Deposits Ratio

(Rs. in million)

S.N.	Name of the Banks	Years				
		2003	**2004**	**2005**	**2006**	**2007**
1	**HBL**					
	Cash & Bank Balance	1979.20	2001.18	2014.47	1717.35	1757.34
	Total Deposits	21045.09	22010.33	24814.01	26490.85	30048.42
	Ratio (%)	**9.40**	**9.09**	**8.12**	**6.48**	**5.85**
2	**EBL**					
	Cash & Bank Balance	1139.6	631.8	1050.0	1552.9	2391.3
	Total Deposits	6695.0	8063.9	10097.7	13802.4	18186.2
	Ratio (%)	**17.02**	**7.82**	**10.4**	**11.25**	**13.15**

Sample Calculation of Expected Return ($\overline{X}$), standard deviation (±) and Coefficient of variation (C.V.) is Presented below:

For HBL,

Here,

Total Return = X =9.42+9.09+8.12+6.48+5.85

= 38.96

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

Where,

N = Number of observations

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

X = Return of the historical data

= $\frac{38.96}{5}$

= 7.79

Return(X)	**Expected Return ($\overline{X}$)**	X- $\overline{X}$	$(X-\overline{X})^2$
9.42	7.79	1.63	2.657
9.09	7.79	1.3	1.690
8.12	7.79	0.33	0.189
6.48	7.79	-1.31	1.716
5.85	7.79	-1.94	3.764
$(X-\overline{X})^2$			**10.016**

$$\text{S.D } (\pm) = \sqrt{\frac{1}{N} \quad (X \text{ Z} \overline{X})^2}$$

$$= \sqrt{\frac{1}{5} \mid 10.016}$$

$$= \sqrt{2.0032}$$

$$= 1.415$$

Where,

N = Number of observations

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

$$\text{C.V} = \frac{\text{Standard deviation } (\pm)}{\text{Expected Return } (\overline{X})} \times 100$$

$$= \frac{1.415}{7.79}$$

= 0.1817 0r 18.17%

For EBL,

Here,

Total Return = X =17.02+7.82+10.40+11.25+13.15

= 59.64

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

Where,

N = Number of observations

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

X = Return of the historical data

$$= \frac{59.64}{5}$$

= 11.39

Return(X)	Expected Return ($\overline{X}$)	$X-\overline{X}$	$(X-\overline{X})^2$
17.02	11.39	5.09	25.9081
7.82	11.39	-4.11	16.8921
10.40	11.39	-1.53	2.3409
11.25	11.39	-0.68	0.4624
13.15	11.39	1.22	1.4884
$(X-\overline{X})^2$			**47.0919**

$$\text{S.D}(\pm) = \sqrt{\frac{1}{N} \quad (X \; Z\overline{X})^2}$$

$$= \sqrt{\frac{1}{5} \mid 47.0919}$$

$$= \sqrt{9.4184}$$

$$= 3.069$$

Where,

N = Number of observations

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

$$\text{C.V} = \frac{\text{Standard deviation } (\pm)}{\text{Expected Return } (\overline{X})} \times 100$$

$$= \frac{3.069}{11.39}$$

= 0.2694 0r 26.94%

Table No.2
Cash and Bank Balance to Current Assets Ratio

(Rs. in million)

S.N.	Name of the Banks	Year				
		2003	**2004**	**2005**	**2006**	**2007**
1	**HBL**					
	Cash & Bank Balance	1979.20	2001.18	2014.47	1717.35	1757.34
	Current Assets	16872.9	18602.01	20899.72	23174.85	27576.96
	Ratio (%)	**11.73**	**10.76**	**9.64**	**7.41**	**6.37**
2	**EBL**					
	Cash & Bank Balance	1139.6	631.8	1050.0	1552.9	2391.3
	Current Assets	7888.0	9420.9	11629.4	15155.2	20982.7
	Ratio (%)	**14.44**	**6.71**	**9.03**	**10.25**	**11.40**

Table No. 3
Investment on Government Securities to Current Assets Ratio

(Rs. in million)

S.N.	Name of the Banks	Year				
		2003	2004	2005	2006	2007
1	**HBL**					
	Investment on govt. Securities	3998.87	3431.73	5469.71	5144.40	6454.87
	Current Assets	16872.90	18602.01	20899.71	23174.85	27576.96
	Ratio (%)	**23.69**	**18.45**	**26.17**	**22.20**	**23.41**
2	**EBL**					
	Investment on govt. Securities	1599.4	2466.4	2100.3	3548.6	4704.6
	Current Assets	7888.0	9420.9	11629.4	15155.2	20982.7
	Ratio (%)	**20.27**	**26.18**	**18.06**	**23.42**	**22.42**

Table No.4
Loan and Advances to Total Deposit Ratio

(Rs. in million)

S.N.	Name of the Banks	Year				
		2003	2004	2005	2006	2007
1	**HBL**					
	Loan and Advances	10001.85	11951.87	12424.52	14642.56	16997.99
	Total Deposits	21045.09	22010.33	24814.01	26490.85	30048.42
	Ratio (%)	**47.53**	**54.30**	**50.07**	**55.27**	**56.57**
2	**EBL**					
	Loan and Advances	4908.4	5884.1	7618.7	9801.3	13664.1
	Total Deposits	6695	8063.9	10097.7	13802.4	18186.2
	Ratio (%)	**73.31**	**72.97**	**75.45**	**71.01**	**75.13**

Table No.5
Total Investment to Total Deposit Ratio

(Rs. in million)

S.N.	Name of the Banks	Year				
		2003	2004	2005	2006	2007
1	**HBL**					
	Total Investment	10175.44	9292.1	11692.34	10889.03	11822.99
	Total Deposits	21045.09	22010.33	24814.01	26490.85	30048.42
	Ratio (%)	**48.35**	**42.22**	**47.12**	**41.10**	**39.35**
2	**EBL**					
	Total Investment	1653.9	2535.7	2128.9	4200.5	4984.3
	Total Deposits	6695.0	8063.9	10097.7	13802.4	18186.2
	Ratio (%)	**24.70**	**31.44**	**21.08**	**30.43**	**27.41**

Table No.6
Loan and Advances to Total assets Ratio

(Rs. in million)

S.N.	Name of the Banks	Year				
		2003	2004	2005	2006	2007
1	**HBL**					
	Loan and Advances	10001.85	11951.87	12424.52	14642.56	16997.99
	Total assets	23279.34	24762.02	27418.15	29460.38	33519.14
	Ratio (%)	**42.96**	**48.27**	**45.31**	**49.70**	**50.71**
2	**EBL**					
	Loan and Advances	4908.4	5884.1	7618.7	9801.3	13664.1
	Total assets	8052.2	9608.5	11792.1	15959.2	21432.5
	Ratio (%)	**60.96**	**61.24**	**64.61**	**61.41**	**63.75**

Table No.7
Investment on Government Securities to Total assets Ratio

(Rs. in million)

S.N.	Name of the Banks	Year				
		2003	2004	2005	2006	2007
1	**HBL**					
	Investment on govt. Securities	3998.87	3431.73	5469.73	5144.32	6454.87
	Total assets	23279.34	24762.02	27418.15	29460.38	33519.14
	Ratio (%)	**17.18**	**13.86**	**19.95**	**17.46**	**19.26**
2	**EBL**					
	Investment on govt. Securities	1599.4	2466.4	2100.3	3548.6	4704.6
	Total assets	8052.2	9608.5	11792.1	15959.2	21432.5
	Ratio (%)	**19.86**	**25.67**	**17.81**	**22.24**	**21.95**

Table No. 8
Investment on Shares and Debentures to Total assets Ratio

(Rs. in million)

S.N.	Name of the Banks	Year				
		2003	2004	2005	2006	2007
1	**HBL**					
	Investment on Shares and Debentures	34.26	34.26	39.91	38.57	73.43
	Total assets	23279.34	24762.02	27418.15	29460.38	33519.14
	Ratio (%)	**0.15**	**0.14**	**0.15**	**0.13**	**0.22**
2	**EBL**					
	Investment on Shares and Debentures	17.1	17.1	19.4	651.9	279.7
	Total assets	8052.2	9608.5	11792.1	15959.2	21432.5
	Ratio (%)	**0.21**	**0.18**	**0.16**	**4.08**	**1.3**

Table No.9
Return on Loan and Advances Ratio

(Rs. in million)

S.N.	Name of the Banks	Year				
		2003	**2004**	**2005**	**2006**	**2007**
1	**HBL**					
	Net Profit	212.12	263.05	308.27	457.45	491.82
	Loan and Advances	10001.85	11951.87	12424.52	14642.56	16997.99
	Ratio (%)	**2.12**	**2.20**	**2.48**	**3.12**	**2.89**
2	**EBL**					
	Net Profit	94.2	143.6	170.8	237.4	296.4
	Loan and Advances	4908.4	5884.1	7618.7	9801.3	13664.1
	Ratio (%)	**1.92**	**2.44**	**2.24**	**2.42**	**2.17**

Table No.10
Return on Total assets Ratio

(Rs. in million)

S.N.	Name of the Banks	Year				
		2003	**2004**	**2005**	**2006**	**2007**
1	**HBL**					
	Net Profit	212.12	263.05	308.27	457.45	491.82
	Total assets	23279.34	24762.02	27418.15	29460.38	33519.14
	Ratio (%)	**0.91**	**1.06**	**1.12**	**1.55**	**1.47**
2	**EBL**					
	Net Profit	94.2	143.6	170.8	237.4	296.4
	Total assets	8052.2	9608.5	11792.1	15959.2	21432.5
	Ratio (%)	**1.17**	**1.49**	**1.45**	**1.49**	**1.38**

Table No.11
Total Interest Earned to Total assets Ratio

(Rs. in million)

S.N.	Name of the Banks	Year				
		2003	**2004**	**2005**	**2006**	**2007**
1	**HBL**					
	Interest Earned	1201.23	1245.89	1446.47	1419.90	1617.04
	Total assets	23279.34	24762.02	27418.15	29460.38	33519.14
	Ratio (%)	**5.16**	**5.03**	**5.28**	**4.82**	**4.82**
2	**EBL**					
	Interest Earned	520.2	632.9	725	960.9	1157.4
	Total assets	8052.2	9608.5	11792.1	15959.2	21432.5
	Ratio (%)	**6.46**	**6.59**	**6.15**	**6.02**	**5.40**

Table No.12
Total Interest Paid to Total assets Ratio

(Rs. in million)

S.N.	Name of the Banks	Year				
		2003	**2004**	**2005**	**2006**	**2007**
1	**HBL**					
	Interest Paid	554.13	491.54	561.96	648.84	767.41
	Total assets	23279.34	24762.02	27418.15	29460.38	33519.14
	Ratio (%)	**2.38**	**1.99**	**2.05**	**2.20**	**2.29**
2	**EBL**					
	Interest Paid	307.6	307.5	312.9	378.5	492.3
	Total assets	8052.2	9608.5	11792.1	15959.2	21432.5
	Ratio (%)	**3.82**	**3.20**	**2.65**	**2.37**	**2.30**

Table No.13
Liquidity Risk Ratio

(Rs. in million)

S.N.	Name of the Banks	Year				
		2003	**2004**	**2005**	**2006**	**2007**
1	**HBL**					
	Cash & Bank Balance	1979.20	2001.18	2014.47	1717.35	1757.34
	Total Deposits	21045.09	22010.33	24814.01	26490.85	30048.42
	Ratio (%)	**9.40**	**9.09**	**8.12**	**6.48**	**5.85**
2	**EBL**					
	Cash & Bank Balance	1139.6	631.8	1050.0	1552.9	2391.3
	Total Deposits	6695.0	8063.9	10097.7	13802.4	18186.2
	Ratio (%)	**17.02**	**7.84**	**10.40**	**11.25**	**13.15**

Table No.14
Credit Risk Ratio

(Rs. in million)

S.N.	Name of the Banks	Year				
		2003	**2004**	**2005**	**2006**	**2007**
1	**HBL**					
	Total Investment plus Loan and Advances	20177.29	21243.97	24116.86	25531.59	28820.98
	Total Assets	23279.34	24762.02	27418.15	29460.38	33519.14
	Ratio (%)	**86.67**	**85.79**	**87.96**	**86.66**	**85.98**
2	**EBL**					
	Total Investment plus Loan and Advances	6562.3	8419.8	9747.6	14001.8	18648.4
	Total Assets	8052.2	9608.5	11792.1	15959.2	21432.5
	Ratio (%)	**81.50**	**87.63**	**82.66**	**87.73**	**87.01**

APPENDIX-II

a. Sample Calculation of Growth Ratio of Total Deposits

We have,

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

Where,

D_n = Total Deposits in the n^{th} Year
D_o = Total Deposit in the initial Year
g = Growth Rate
n = Total number of Year

For HBL
D_{2007} = 30048.42
D_{2003} = 21045.09
n = 5 years

Now,
$D_n = Do\ (1+g)^{n-1}$
$30048.42 = 21045.09(1+g)^{5-1}$
Or, $(1+g)^4 = 30048.42/21045.09$
Or, $(1+g) = (1.4278)^{1/4}$
Or, g = 1.0931-1
…g = 0.0931 i.e. 9.31%

For EBL
D_{2007} = 18186.2
D_{2003} = 6695.0
n = 5 years

Now,
$D_n = Do\ (1+g)^{n-1}$
$18186.2 = 6695.0(1+g)^{5-1}$
Or, $(1+g)^4 = 18186.2/6695.0$
Or, $(1+g) = (2.7164)^{1/4}$
Or, g = 1.2838-1
…g = 0.2838 i.e28.38%

b. Sample Calculation of Growth Ratio of Total Investment

We have,

$I_n = Io\ (1+g)^{n-1}$

Where,

I_n = Total Investment in the n^{th} Year
I_o = Total Investment in the initial Year
g = Growth Rate
n = Total number of Year

For HBL
I_{2007} = 11822.99
I_{2003} = 10175.44
n = 5 years

Now,
$I_n = Io\ (1+g)^{n-1}$
$11822.99 = 10175.44\ (1+g)^{5-1}$
Or, $(1+g)^4 = 11822.99/10175.44$
Or, $(1+g) = (1.162)^{1/4}$
Or, g = 1.0382-1
…g = 0.0382 i.e. 3.82%

For EBL
I_{2007} = 4984.3
I_{2003} = 1653.9
n = 5 years

Now,
$I_n = Io\ (1+g)^{n-1}$
$4984.3 = 1653.9\ (1+g)^{5-1}$
Or, $(1+g)^4 = 4984.3/1653.9$
Or, $(1+g) = (3.014)^{1/4}$
Or, g = 1.3176-1
…g = 0.3176 i.e31.76%

c. Sample Calculation of Growth Ratio of Loan and Advance

We have,

$L \& ADV._n = L \& ADV.o (1+g)^{n-1}$

Where,

$L \& ADV._n$ = Loan and Advance in the n^{th} Year
$L \& ADV._o$ = Loan and Advance in the initial Year
g = Growth Rate
n = Total number of Year

For HBL
$L \& ADV._{2007}$ = 16997.99
$L \& ADV._{2003}$ = 10001.85
n = 5 years

Now,
$L \& ADV._n = L \& ADV.o (1+g)^{n-1}$
$16997.99 = 10001.85(1+g)^{5-1}$
Or, $(1+g)^4 = 16997.99/10001.85$
Or, $(1+g) = (1.6994)^{1/4}$
Or, g = 1.1418-1
…g = 0.1418 i.e. 14.18%

For EBL
$L \& ADV._{2007}$ = 13664.1
$L \& ADV._{2003}$ = 4908.4
n = 5 years

Now,
$L \& ADV._n = L \& ADV.o (1+g)^{n-1}$
$13664.1 = 4908.4 (1+g)^{5-1}$
Or, $(1+g)^4 = 13664.1/4908.4$
Or, $(1+g) = (2.7838)^{1/4}$
Or, g = 1.2917-1
…g = 0.2917 i.e29.17%

d. Sample Calculation of Growth Ratio of Net Profit

We have,

$NP_n = NPo\ (1+g)^{n-1}$

Where,

NP_n = Net Profit in the n^{th} Year
NP_o = Net Profit in the initial Year
g = Growth Rate
n = Total number of Year

For HBL
NP_{2007} = 491.82
NP_{2003} = 212.12
n = 5 years

Now,
$NP_n = NPo\ (1+g)^{n-1}$
$491.82 = 212.12\ (1+g)^{5-1}$
Or, $(1+g)^4 = 491.82/212.12$
Or, $(1+g) = (2.3186)^{1/4}$
Or, g = 1.2340-1
…g = 0.2340 i.e. 23.40%

For EBL
NP_{2007} = 296.4
NP_{2003} = 94.2
n = 5 years

Now,
$NP_n = NPo\ (1+g)^{n-1}$
$296.4 = 94.2\ (1+g)^{5-1}$
Or, $(1+g)^4 = 296.4/94.2$
Or, $(1+g) = (3.1455)^{1/4}$
Or, g = 1.3318-1
…g = 0.3318 i.e 33.18%

APPENDIX-III
Table No. 15
Sources and uses of Funds of Himalayan Bank Limited

(Rs. in million)

Particulars	Mid-July				
	2003	2004	2005	2006	2007
1. CAPITAL FUND	**1063.13**	**1324.17**	**1541.75**	**1766.17**	**2146.50**
a. Paid-up capital	429.00	536.25	643.50	772.20	810.81
b. Reserve & fund	634.13	787.92	898.25	993.97	1335.69
2. DEPOSITS	**21045.09**	**22010.33**	**24814.01**	**26490.85**	**30048.42**
a. Current	3927.68	4570.47	5631.20	5516.18	5964.61
b. Savings	10870.55	11759.60	12852.42	14582.86	15784.77
c. Fixed	3205.37	4710.18	6107.43	6350.20	8201.13
d. Call Deposits	3041.49	970.08	222.96	41.61	97.91
3.BORROWINGS	**0.00**	**0.00**	**360.00**	**360.00**	**360.00**
a. Debenture			360.00	360.00	360.00
4.Oter lia. with provision for loan & adv.	**2013.87**	**2395.28**	**1729.04**	**1962.78**	**1759.94**
Bills Payable	46.73	64.38	68.40	73.58	91.30
Borrowing	608.13	659.00	146.05	144.62	235.97
Misc. current liabilities	516.26	704.14	487.94	625.16	636.95
Loan and adv. with provision	842.75	967.76	1026.65	1119.42	795.72
SOURCES OF FUNDS	**24122.09**	**25729.78**	**28444.80**	**30579.80**	**34314.86**

1.CASH AND BANK BALANCE	**1979.20**	**2001.18**	**2014.47**	**1717.35**	**1757.34**
a. Cash in hand	397.19	274.23	286.53	305.43	177.24
b. Balance with NRB	1582.01	1727.0	1604.2	1096.3	1272.5
c. Bal. with other Bank & financial ins.			123.8	315.7	307.6
2. INVESTMENTS	**10175.44**	**9292.10**	**11692.34**	**10889.03**	**11822.99**
a. Govt. Securities	3998.87	3431.73	5469.73	5144.32	6454.87
b. Share and Debenture	34.26	34.26	39.91	39.91	73.42
c. Other	6142.31	5826.11	6182.70	5704.80	5294.70
3. LOANS & ADVANCES RESERVE	**10844.60**	**12919.63**	**13451.17**	**15761.98**	**17793.71**
4.AMT. REC. AT SHORT NOTICE	**150.10**	**368.90**	**441.08**	**1005.28**	**1710.02**
5. OTHER	**972.8**	**1148.0**	**845.7**	**1206.2**	**1230.8**
a. Fixed Assets	229.87	299.64	295.82	540.82	574.06
b. Other	742.88	848.33	549.92	665.34	656.74
USES OF FUNDS	**24122.09**	**25729.78**	**28444.80**	**30579.80**	**34314.86**

Source: Banking and Financial Statistics, Mid – July 2007, No. 49

Table No. 16

Sources and uses of Funds of Everest Bank Limited

(Rs. in million)

Particulars	Mid-July				
	2003	2004	2005	2006	2007
1. CAPITAL FUND	**612.8**	**680.3**	**832.6**	**962.8**	**1201.5**
a. Paid-up capital	455.0	455.0	518.0	518.0	518.0
b. Reserve & fund	157.8	225.3	314.6	444.8	683.5
2. DEPOSITS	**6695.0**	**8063.9**	**10097.7**	**13802.4**	**18186.2**
a. Current	714.2	869.7	1182.5	1337.6	1956.8
b. Savings	2757.9	3730.6	4806.8	6929.2	9029.2
c. Fixed	2794.7	2898.0	3404.0	4242.3	5626.7
d. Call Deposits	428.2	565.6	704.4	1293.3	1573.5
3.BORROWINGS	**0.0**	**0.0**	**300.0**	**300.0**	**300.0**
a. Debenture	0.0	0.0	300.0	300.0	300.0
4.Oter lia. with provision for loan & adv.	**885.6**	**1076.1**	**843.2**	**1228.8**	**2163.4**
Bills Payable	22.1	22.0	17.7	15.8	26.8
Misc. current liabilities	722.3	842.3	544.1	878.2	1718.0
Loan and adv. with provision	141.2	211.8	281.4	334.8	418.6
SOURCES OF FUNDS	**8193.4**	**9820.3**	**12073.5**	**16294.0**	**21851.1**
1.CASH AND BANK BALANCE	**1139.6**	**631.8**	**1050.0**	**1552.9**	**2391.3**
a. Cash in hand	136.6	128.8	192.6	259.3	534.9
b. Balance with NRB	730.4	442.2	779.7	1139.5	1178.2
c. Bal. with other Bank & financial ins.	272.6	60.8	77.7	154.1	678.2
2. INVESTMENTS	**1653.9**	**2535.7**	**2128.9**	**4200.5**	**4984.3**
a. Govt. Securities	1599.4	2466.4	2100.3	3548.6	4704.6
b. Share and Debenture	17.1	17.1	19.4	651.9	279.7
c. Other	37.4	52.2	9.2		
3. LOANS & ADVANCES RESERVE	**5049.6**	**6095.8**	**7900.0**	**10136.2**	**14082.7**
4.AMT. REC. AT SHORT NOTICE	**0.0**	**187.4**	**570.0**	**66.9**	
5. OTHER	**350.3**	**369.6**	**424.6**	**337.5**	**392.8**
a. Fixed Assets	109.6	118.4	134.1	152.1	170.1
b. Non Banking Assets				7.4	
c. Other	240.7	251.2	290.5	178.0	222.7
USES OF FUNDS	**8193.4**	**9820.3**	**12073.5**	**16294.0**	**21851.1**

Source: Banking and Financial Statistics, Mid – July 2004, No. 49

APPENDIX-IV
Table No. 17
Comparative Cash Flow Analysis (HBL)
From 17th July, 2003 to 15th July, 2007) **(Rs. in million)**

Particular	Year				
	2003	**2004**	**2005**	**2006**	**2007**
A) Cash Flow from Operating Activities	**1186.86**	**126.55**	**44.6**	**-9.71**	**103.55**
1. Cash Receipts	**1454.3**	**1519.61**	**1760.34**	**1897.76**	**2102.48**
1.1 Interest Income	1201.23	1245.89	1446.47	1419.90	1617.04
1.2 Commission and Discount Income	102.56	123.93	132.81	165.44	193.22
1.3 Exchange Gain	109.6	112.42	137.30	198.13	151.64
1.4 Non-Operating Income	10.76	3.3			
1.5 Recovery of Loan Written off				-2.90	-315.89
1.6 Other Income	30.15	34.07	43.76	117.19	456.47
2. Cash Payments	**-817.74**	**-793.92**	**-1174.79**	**-1307.16**	**-1401.70**
2.1 Interest Expenses	-554.13	-491.54	-561.96	-648.84	-767.41
2.2 Staff Expenses	-120.14	-152.51	-178.59	-191.64	-268.21
2.3 Office Overhead Expenses	-143.47	-149.87	-223.23	-235.88	-168.27
2.4 Income Tax			-211.01	-230.80	-197.81
2.5 Exchange Loss					
2.6 Other Expenses					
3. Change in Current Assets	**-1881.82**	**-1672.13**	**-3364.96**	**-2249.20**	**-4267.32**
3.1Change in money at call and short notice	202.25	-218.80	-72.18	-564.19	-704.74
3.2 Change in short term investment	-1018.33	883.33	-2400.24	801.96	-933.95
3.3 Change in Loan and advance	-1088.12	-2136.24	-619.79	-2318.90	-2354.10
3.4 change in other assets	22.38	-200.42	-272.75	-168.07	-274.53
4. Change in Current Liability	**2432.12**	**1072.99**	**2824.01**	**1648.89**	**3670.09**
4.1 Change in customer deposit	2388	965.25	2803.68	1676.84	3557.57
4.2 Change in short term borrowing	111.82	50.87	9.00	-1.42	91.34
4.3 Change in other short term liability	-67.7	56.87	11.33	-26.53	21.18
B) Cash Flow from Investing Activities	**-472.33**	**-104.57**	**-31.31**	**-287.41**	**-63.56**
1. Change in investment					
2.Changes in fixed Assets	65.69	-102.29	-31.64	-288.02	-64.28
3.Interenst from long term investment					
4. Dividend Income			0.33	0.61	0.72
5.Changes in Other Assets	-538.02	-2.28			
(C) Cash Flow from Financing activities	**0**	**0**	**0.00**	**0.00**	**0.00**
1.Changes in bond and debenture					
2.Changes in capital					
3.Amount receive from share application					
4.Paid interest on loan					
5.Dividend Paid					
(D) Income/ expenditure from change in exchange rate on cash bank balance					
(E) Net Cash Flow of the Year	**714.53**	**21.98**	**13.29**	**-297.12**	**39.99**
(F) Opening Cash Balance	**1264.67**	**1979.2**	**2001.18**	**2014.47**	**1717.35**
(G) Closing Balance (D+E)	**1979.2**	**2001.18**	**2014.47**	**1717.35**	**1757.34**

Source: Annual Report of HBL

Table No. 18
Comparative Cash Flow Analysis (EBL)
(From 17th July, 2003 to 15th July, 2007)

(Rs. in million)

Particular	Year				
	2003	**2004**	**2005**	**2006**	**2007**
A) Cash Flow from Operating Activities	**536.5**	**-413.6**	**383.7**	**561.7**	**935.7**
1. Cash Receipts	**635.3**	**760.6**	**864.5**	**1119.8**	**1372.7**
1.1 Interest Income	520.2	632.9	725	960.9	1157.4
1.2 Commission and Discount Income	61.5	74.3	78.1	88.1	117.7
1.3 Exchange Gain	32.2	27.8	27.1	19.8	27.1
1.4 Non-Operating Income	1.2	1.8	2.8		
1.5 Recovery of Loan Written off					
1.6 Other Income	20.2	23.8	31.5	51	70.5
2. Cash Payments	**-496.3**	**-502.9**	**-594.6**	**-704.2**	**-892.1**
2.1 Interest Expenses	-307.6	-307.5	-312.9	-378.5	-492.3
2.2 Staff Expenses	-81.5	-63.6	-84.1	-68.4	-78.1
2.3 Office Overhead Expenses	-66.2	-78.9	-105.2	-115.1	-146.6
2.4 Income Tax	-41	-52.9	-92.4	-114.1	-140.6
2.5 Exchange Loss					
2.6 Other Expenses				-28.1	-34.5
3. Change in Current Assets	**-932.5**	**-2107.9**	**-1685**	**-3844.4**	**-3872.5**
3.1Change in money at call and short notice	86.1	-187.4	-382.6	503	66.9
3.2 Change in short term investment	39.1	-867.1	561.2	-2072.3	80.1
3.3 Change in purchase in bills	-1026.1	-1051	-1828.2	-2236.1	-3947.2
3.4 change in other assets	-31.6	-2.4	-35.4	-39	-72.3
4. Change in Current Liability	**1330**	**1436.6**	**1798.8**	**3990.5**	**4327.6**
4.1 Change in customer deposit	1228.3	1368.9	2033.8	3704.7	4383.8
4.2 Change in certificate deposit					
4.3 Change in other short term liability	101.7	67.7	-235	285.8	-56.2
B) Cash Flow from Investing Activities	**-33.3**	**-24.7**	**-193.5**	**-32.5**	**-888.8**
1. Change in investment		-14.6	-154.5	-0.1	-863.9
2.Changes in fixed Assets	-37.5	-20.5	-38.8	-46.5	-49
3.Interenst from long term investment				12.3	12.3
4. Dividend Income				0.2	0.2
5.Changes in Other Assets	4.2	10.4	-0.2	1.6	11.6
(C) Cash Flow from Financing activities	**-41.2**	**-69.5**	**228**	**-29.5**	**790.2**
1.Changes in bond and debenture			300		
2.Changes in capital	10.7				
3.Amount receive from share application					911.5
4.Paid interest on loan				-13.6	-17.1
5.Dividend Paid	-51.9	-69.5	-72	-15.9	-104.2
(D) Income/ expenditure from change in exchange rate on cash bank balance				3.3	1.3
(E) Net Cash Flow of the Year (A+B+C)	**462**	**-507.8**	**418.2**	**503**	**838.4**
(F) Opening Cash Balance	**677.7**	**1139.6**	**631.8**	**1050**	**1553**
(G) Closing Balance (D+E)	**1139.7**	**631.8**	**1050.0**	**1553**	**2391.4**

Source: Annual Report of EBL

APPENDIX-V
Table No. 19
Himalayan Bank Limited
Comparative Balance Sheet for FY (2003-2007)

(Rs. in million)

Particulars	Fiscal Year				
	2003	2004	2005	2006	2007
ASSETS					
Current Assets					
Cash and Bank Balance	1979.20	2001.18	2014.47	1717.35	1757.34
Money at call and short notice	150.10	368.90	441.08	1005.28	1710.02
Loan & advances	10001.85	11951.87	12424.52	14642.56	16997.99
Invt. on govt. securities	3998.87	3431.73	5469.73	5144.32	6454.87
Miscellaneous Current Assets	742.88	848.33	549.92	665.34	656.74
Total Current Assets	**16872.90**	**18602.01**	**20899.72**	**23174.85**	**27576.96**
Fixed Assets					
Fixed Assets	229.87	299.64	295.82	540.82	574.06
Investment on Shares	34.26	34.26	39.91	39.91	73.42
Other investment	6142.31	5826.11	6182.70	5704.80	5294.70
Total Fixed Assets	**6406.44**	**6160.01**	**6518.43**	**6285.53**	**5942.18**
Total Assets(Working Fund)	**23279.34**	**24762.02**	**27418.15**	**29460.38**	**33519.14**
LIABILITIES					
Current Liabilities					
Deposits and other A/C's	21045.09	22010.33	24814.01	26490.85	30048.42
Bills Payable	46.73	64.38	68.40	73.58	91.30
Borrowing	608.13	659.00	146.05	144.62	235.97
Misc. current liabilities	516.26	704.14	487.94	625.16	636.95
Total Current Liabilities	**22216.21**	**23437.85**	**25516.40**	**27334.21**	**31012.64**
Capital & reserve					
Share Capital	429.00	536.25	643.50	772.20	810.81
Shareholder's Reserves	634.13	787.92	898.25	993.97	1335.69
Debenture and Bond			360.00	360.00	360.00
Net Worth	**1063.13**	**1324.17**	**1901.75**	**2126.17**	**2506.50**
Total Liabilities	**23279.34**	**24762.02**	**27418.15**	**29460.38**	**33519.14**

Source: Annual Report of HBL

Table No. 20

Everest Bank Limited
Comparative Balance Sheet for FY (2003-2007)

(Rs. in million)

Particulars	Fiscal Year				
	2003	**2004**	**2005**	**2006**	**2007**
ASSETS					
Current Assets					
Cash and Bank Balance	1139.6	631.8	1050.0	1552.9	2391.3
Money at call and short notice	0.0	187.4	570.0	66.9	0.0
Loan & advances	4908.4	5884.1	7618.7	9801.3	13664.1
Invt. on govt. securities	1599.3	2466.4	2100.3	3548.6	4704.6
Miscellaneous Current Assets	240.7	251.1	290.5	185.5	222.7
Total Current Assets	**7888.0**	**9420.9**	**11629.4**	**15155.2**	**20982.7**
Fixed Assets					
Fixed Assets	109.6	118.4	134.1	152.1	170.1
Investment on Shares	17.1	17.1	19.4	19.9	19.9
Other investment	37.5	52.1	9.3	632.0	259.8
Total Fixed Assets	**164.2**	**187.6**	**162.7**	**804.0**	**449.8**
Total Assets(Working Fund)	**8052.2**	**9608.5**	**11792.1**	**15959.2**	**21432.5**
LIABILITIES					
Current Liabilities					
Deposits and other A/C's	6695.0	8063.9	10097.7	13802.4	18186.2
Bills Payable	22.1	22.0	17.7	15.8	26.8
Misc. current liabilities	722.3	842.3	544.1	878.2	1718.0
Total Current Liabilities	**7439.4**	**8928.2**	**10659.5**	**14696.4**	**19931.0**
Capital & reserve					
Share Capital	455.0	455.0	518.0	518.0	518.0
Shareholder's Reserves	157.8	225.3	314.6	444.8	683.5
Debenture and Bond			300.0	300.0	300.0
Net Worth	**612.8**	**680.3**	**1132.6**	**1262.8**	**1501.5**
Total Liabilities	**8052.2**	**9608.5**	**11792.1**	**15959.2**	**21432.5**

Source: Annual Report of EBL

APPENDIX-VI

Table No. 21

Himalayan Bank Limited

Comparative Profit and Loss Account for FY (2003-2007)

(Rs. in million)

Particulars	Fiscal Year				
	2003	**2004**	**2005**	**2006**	**2007**
Operating Income					
1.Interest (Earned)	1201.23	1245.89	1446.47	1626.47	1775.58
2. Commission	102.56	123.93	132.81	165.45	193.22
3. Exchange Income	109.60	112.42	137.30	198.13	151.64
4. Other	30.15	34.07	41.30	52.32	40.33
A. Operating Income	**1443.54**	**1516.31**	**1757.88**	**2042.37**	**2160.77**
B. Income from other source	**10.76**	**3.30**	**2.79**	**58.45**	**416.14**
C. Total Income	**1454.30**	**1519.61**	**1760.67**	**2100.82**	**2576.91**
Cost of Services					
1. Interest Paid	554.13	491.54	561.96	648.84	767.41
2. Salaries, Allowances & P.F.	120.14	152.51	178.59	234.59	272.22
A. Cost of Services	**674.27**	**644.05**	**740.55**	**883.43**	**1039.63**
B. Administrative Expenses	**177.13**	**211.05**	**196.85**	**235.56**	**73.96**
C. Other Expenses	**202.89**	**197.21**	**80.52**	**94.14**	**267.60**
D. Provision for Bonus	**40.00**	**46.73**	**58.06**	**67.24**	**71.74**
E. Provision for possible loss	**0.00**	**0.00**	**162.16**	**148.06**	**406.58**
F. Total Expenditure	**1094.29**	**1099.04**	**1238.14**	**1428.43**	**1859.51**
G. Profit before tax (C-F)	**360.01**	**420.57**	**522.53**	**672.39**	**717.40**
H. Provision for Taxes	**147.89**	**157.52**	**214.26**	**214.94**	**225.58**
I. Net Profit(G-H)	**212.12**	**263.05**	**308.27**	**457.45**	**491.82**

Source: Annual Report of HBL

Table No. 22

Everest Bank Limited
Comparative Profit and Loss Account for FY (2003-2007)

(Rs. in million)

Particulars	Fiscal Year				
	2003	**2004**	**2005**	**2006**	**2007**
Operating Income					
1.Interest (Earned)	520.2	657.3	719.3	903.4	1144.4
2. Commission	61.5	74.3	78.1	96.8	117.7
3. Exchange Income	32.2	27.8	27.1	14.4	28.4
4. Other	20.2	23.8	31.5	48.9	67.9
A. Operating Income	**634.1**	**783.2**	**856.0**	**1063.6**	**1358.4**
B. Income from other source	**1.2**	**1.9**	**3.0**	**3.0**	**12.3**
C. Total Income	**635.3**	**785.1**	**859.0**	**1066.5**	**1370.7**
Cost of Services					
1. Interest Paid	307.6	316.4	299.6	401.4	517.2
2. Salaries, Allowances & P.F.	37.4	48.5	60.6	70.9	86.1
A. Cost of Services	**345.0**	**364.9**	**360.2**	**472.3**	**603.3**
B. Administrative Expenses	**93.6**	**103.8**	**129.1**	**143.5**	**177.5**
C. Other Expenses	**45.8**	**81.8**	**88.9**	**70.5**	**89.7**
D. Provision for Bonus	**15.1**	**23.5**	**28.1**	**34.6**	**45.5**
E. Total Expenditure	**499.4**	**574.0**	**606.2**	**720.8**	**916.0**
F. Profit before tax (C-F)	**135.9**	**211.1**	**252.7**	**345.7**	**454.7**
G. Provision for Taxes	**41.7**	**67.6**	**81.9**	**108.3**	**158.3**
H. Net Profit(G-H)	**94.2**	**143.6**	**170.8**	**237.4**	**296.4**

Source: Annual Report of EBL

APPENDIX-VII

Table No. 23

Sample Calculation of Correlation Co-efficient between deposit and Total Investment of HBL

Year	Deposit(X)	Total investment (Y)	$x = X - \overline{X}$	$y = Y - \overline{Y}$	X^2	Y^2	xy
2003	21045.09	*10175.44*	-3836.65	-599.01	14719883.22	358812.9801	2298191.717
2004	22010.33	*9292.10*	-2871.41	-1482.34	8244995.388	2197331.876	4256405.899
2005	24814.01	*11692.34*	-67.73	917.9	4587.3529	842540.41	-62169.367
2006	26490.85	*10889.34*	1609.11	114.9	2589234.992	13202.01	184886.739
2007	30048.42	*11822.99*	5166.68	1048.56	26694582.22	1099478.074	5417573.981
Total	**124408.7**	*53872.21*	**0**	**0**	**X^2 = 52253283.18**	**Y^2 = 4511365.35**	**xy = 12094888.97**

We have,

$$\text{Correlation Co-efficient(r)} = \frac{xy}{\sqrt{x2 \quad y2}}$$

$$= \frac{12094888.97}{\sqrt{52253283.18 \mid 4511365.35}}$$

$$= 0.788$$

$r^2 = 0.621$

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

$$= 0.6745 \times \frac{1 Z 0.621}{\sqrt{5}}$$

$$= 0.114$$

$6 \times (\text{P.E.}) = 6 \times 0.114$

$= 0.684$

Table No. 24

Sample Calculation of Correlation Co-efficient between deposit and Total Investment of EBL

Year	Deposit(X)	Total Inv. (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	X^2	Y^2	xy
2003	6695.0	1653.9	-3836.7	-1446.7	14719883.2	2092975.6	5550527.6
2004	8063.9	2535.7	-2871.4	-565.0	8244995.4	319249.9	1622409.8
2005	10097.7	2128.9	-67.7	-971.7	4587.4	944282.5	65816.1
2006	13802.4	4200.5	1609.1	1099.8	2589235.0	1209621.6	1769744.2
2007	18186.2	4984.3	5166.7	1883.6	26694582.2	3548129.8	9732206.4
Total	**56845.2**	**15503.3**	**0.**	**0.**	**x^2= 52253283.2**	**y^2= 8114259.4**	**xy= 18740704.2**

We have,

$$\text{Correlation Co-efficient(r)} = \frac{xy}{\sqrt{x2 \quad y2}}$$

$$= \frac{18740704.2}{\sqrt{52253283.2 x 8114259.4}}$$

$$= 0.910$$

$r^2 = 0.828$

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

$$= 0.6745 \times \frac{1 Z 0.828}{\sqrt{5}}$$

$$= 0.052$$

$$6 \times (\text{P.E.}) = 6 \times 0.052$$

$$= 0.312$$

Table No. 25

Sample Calculation of Correlation Co-efficient between deposit and Loan & Advances of HBL

Year	Deposit(X)	Loan & Adv. (Y)	$x = X - \overline{X}$	$y = Y - \overline{Y}$	X^2	Y^2	xy
2003	21045.09	10001.85	-3836.65	-3201.908	14719883.22	10252214.84	12284600.33
2004	22010.33	11951.87	-2871.41	-1251.888	8244995.388	1567223.565	3594683.722
2005	24814.01	12424.52	-67.73	-779.238	4587.3529	607211.8606	52777.78974
2006	26490.85	14642.56	1609.11	1438.802	2589234.992	2070151.195	2315190.686
2007	30048.42	16997.99	5166.68	3794.232	26694582.22	14396196.47	19603582.59
Total	**124408.7**	**66018.79**	**0**	**0**	**x^2= 52253283.18**	**y^2= 28892997.9**	**xy= 37850835.12**
Mean	$\overline{X}$ **=24881.74**	$\overline{Y}$ **=13203.76**					

We have,

$$\text{Correlation Co-efficient(r)} = \frac{xy}{\sqrt{x2 \quad y2}}$$

$$= \frac{37850835.12}{\sqrt{52253283.18 \mid 28892997.9}}$$

$$= 0.974$$

$r^2 = 0.949$

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

$$= 0.6745 \times \frac{1 Z 0.949}{\sqrt{5}}$$

$$= 0.015$$

$$6 \times (\text{P.E.}) = 6 \times 0.015$$

$$= 0.090$$

Table No. 26

Sample Calculation of Correlation Co-efficient between deposit and Loan & Advances of EBL

Year	Deposit(X)	Loan and adv(Y)	$x = X-$	$y = Y-$	X^2	Y^2	xy
2003	6695.0	4908.4	*-3836.65*	*-3466.87*	14719883.22	12019173.73	13301159.11
2004	8063.9	5884.1	*-2871.41*	*-2491.21*	8244995.39	6206117.30	7153279.56
2005	10097.7	7618.7	*-67.73*	*-756.66*	4587.35	572531.33	51248.45
2006	13802.4	9801.3	*1609.11*	*1425.98*	2589234.99	2033424.66	2294561.90
2007	18186.2	13664.1	*5166.68*	*5288.75*	26694582.22	27970897.72	27325289.18
Total	**56845.2**	**41876.6**	***0***	***0***	**x^2= 52253283.18**	**y^2= 48802144.74**	**xy= 50125538.20**

We have,

Correlation Co-efficient(r) = $\frac{xy}{\sqrt{x2 \quad y2}}$

$$= \frac{50125538.20}{\sqrt{52253283.18 x 48802144.74}}$$
$$= 0.993$$

$r^2 = 0.985$

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

$$= 0.6745 \times \frac{1Z0.985}{\sqrt{5}}$$
$$= 0.004$$

$6 \times (P.E.) = 6 \times 0.004$
$= 0.024$

APPENDIX-VIII

Table No.27

Sample Calculation of Trend Value of Total Investment to Total Deposit Ratio of HBL

Year(t)	Ratio(y)	x = t-2005	x^2	xy	$Y_c = a+bx$
2003	48.35	-2	4	-96.7	Y_c =43.628-1.912 ×-2 = 47.452
2004	42.22	-1	1	-42.22	Y_c =43.628-1.912 ×-1 = 45.54
2005	47.12	0	0	0	Y_c =43.628-1.912 ×0 = 43.628
2006	41.1	1	1	41.1	Y_c =43.628-1.912 ×1 = 41.715
2007	39.35	2	4	78.7	Y_c =43.628-1.912×2 = 39.804
Total	**y =218.14**		**x^2 = 10**	**xy =-19.12**	

We Have,

The equation of the straight line,
$Y_c = a+bx$

Where, $a = \frac{y}{n} = \frac{218.14}{5} = 43.628$ $\quad$ $b = \frac{xy}{x^2} = \frac{Z19.12}{10} = -1.912$

Trend Value of Total Investment to Total Deposit Ratio for next five years

Table No.28

Year(t)	x = t-2005	$Y_c = a+bx$
2008	3	Y_c =43.628 -1.912 ×3 = 37.892
2009	4	Y_c =43.628 -1.912 ×4 = 35.98
2010	5	Y_c =43.628 -1.912 ×5 = 34.068
2011	6	Y_c =43.628 -1.912 ×6 = 32.156
2012	7	Y_c =43.628 -1.912 ×7 = 30.244

Table No.29

Sample Calculation of Trend Value of Total Investment to Total Deposit Ratio of EBL

Year(t)	Ratio(y)	x = t-2005	x^2	xy	$Y_c = a+bx$
2003	24.7	-2	4	-48.14	Y_c =26.886 + 0.567 ×-2 = 25.752
2004	31.44	-1	1	-31.44	Y_c =26.886 + 0.567 ×-1 = 26.319
2005	21.08	0	0	0	Y_c =26.886 + 0.567 ×0 = 26.886
2006	30.43	1	1	30.43	Y_c =26.886 + 0.567 ×1 = 27.453
2007	27.41	2	4	54.82	Y_c =26.886 + 0.567 ×2 = 28.02
Total	**y =134.43**		**x^2 = 10**	**xy =5.67**	

We Have,

The equation of the straight line,
$Y_c = a+bx$

Where, $a = \frac{y}{n} = \frac{134.43}{5} = 26.886$ $\quad$ $b = \frac{xy}{x^2} = \frac{5.67}{10} = 0.567$

Trend Value of Total Investment to Total Deposit Ratio for next five years

Table No.30

Year(t)	x = t-2005	$Y_c = a+bx$
2008	3	Y_c =26.886 + 0.567 ×3 = 28.587
2009	4	Y_c =26.886 + 0.567 ×4 = 29.154
2010	5	Y_c =26.886 + 0.567 ×5 = 29.721
2011	6	Y_c =26.886 + 0.567 ×6 = 30.288
2012	7	Y_c =26.886 + 0.567 ×7 = 30.855

Table No.31

Sample Calculation of Trend Value of Loan and advance to Total Deposit Ratio of HBL

Year(t)	Ratio(y)	x = t-2005	x^2	xy	$Y_c = a+bx$
2003	47.53	-2	4	-95.22	Y_c =52.764+1.889×-2 = 48.986
2004	54.30	-1	1	-54.30	Y_c =52.764+1.889×-1 = 50.875
2005	50.07	0	0	0	Y_c =52.764+1.889×0 = 52.764
2006	55.27	1	1	55.27	Y_c =52.764+1.889×1 = 54.653
2007	56.57	2	4	113.14	Y_c =52.764+1.889×2 = 56.542
Total	**y =263.82**		**x^2 = 10**	**xy =-18.89**	

We Have,

The equation of the straight line,
$Y_c = a+bx$

Where, $a = \frac{y}{n} = \frac{263.82}{5} = 52.754$ $\quad b = \frac{xy}{x^2} = \frac{18.89}{10} = 1.889$

Trend Value of Loan and advance to Total Deposit Ratio for next five years

Table No.32

Year(t)	x = t-2005	$Y_c = a+bx$
2008	3	Y_c =52.764+1.889×3 = 58.431
2009	4	Y_c =52.764+1.889×3 = 60.320
2010	5	Y_c =52.764+1.889×3 =62.209
2011	6	Y_c =52.764+1.889×3 =64.098
2012	7	Y_c =52.764+1.889×3 =65.987

Table No.33

Sample Calculation of Trend Value of Loan and advance to Total Deposit Ratio of EBL

Year(t)	Ratio(y)	x = t-2005	x^2	xy	$Y_c = a+bx$
2003	73.31	-2	4	-146.64	Y_c =73.576 + 0.166 ×-2 = 73.244
2004	72.97	-1	1	-72.97	Y_c =73.576 + 0.166 ×-1 = 73.410
2005	75.45	0	0	0	Y_c =73.576 + 0.166 ×-0 = 73.576
2006	71.01	1	1	71.01	Y_c =73.576 + 0.166 ×1 = 73.742
2007	75.13	2	4	150.26	Y_c =73.576 + 0.166 ×2 = 73.908
Total	**y =367.88**		**x^2 = 10**	**xy =1.66**	

We Have,

The equation of the straight line,
$Y_c = a+bx$

Where, $a = \frac{y}{n} = \frac{367.88}{5} = 73.576$ $\quad$ $b = \frac{xy}{x^2} = \frac{1.66}{10} = 0.166$

Trend Value of Loan and advance to Total Deposit Ratio for next five years

Table No.34

Year(t)	x = t-2005	$Y_c = a+bx$
2008	3	Y_c =73.576 + 0.166 ×3 = 74.074
2009	4	Y_c =73.576 + 0.166 ×4 = 74.240
2010	5	Y_c =73.576 + 0.166 ×5 = 74.406
2011	6	Y_c =73.576 + 0.166 ×6 = 74.572
2012	7	Y_c =73.576 + 0.166 ×7 = 74.738