

**INVESTMENT POLICY OF COMMERCIAL BANKS IN
NEPAL**

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DECLARATION

I hereby declare that the work reported in this thesis entitled “**Investment of Commercial Banks in Nepal**”, submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements for Master’s Degree in Business Studies under the supervision of Mr. BishnuGopalKhimbaja of Patan Multiple Campus.

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ABBREVIATIONS

B.S.	:	BikramSambat
C.V.	:	Coefficient of Variation
e.g.	:	Example
Etc.	:	Extra
FY	:	Fiscal Year
Govt.	:	Government
HBL	:	Himalayan Bank Limited
i.e.	:	That is
JVB's	:	Joint Venture Banks
Ltd.	:	Limited
EBL	:	Everest Bank Limited
No.	:	Number
NRB	:	Nepal Rastra Bank
P.Er.	:	Probable Error
r.	:	Coefficient of Correlation
r^2	:	Coefficient of determinants
Rs.	:	Rupees
S.D.	:	Standard Deviation
T.U.	:	Tribhuvan University

CHAPTER- I

INTRODUCTION

1.1 General Background of the Study

The well-organized financial system of a country plays a great role in the economic development of that country, as it transfers financial resources from savers to those who need them. As part of the financial system, financial institutions such as commercial banks, finance companies and financial cooperative societies are important vehicles for the development of economy, trade and business and other productive sectors that contribute to the economic growth of the nation. The mobilization of financial resources, capital formation, and their proper utilization play key role in the economic development of the country. Among them, the role of commercial banks is perhaps the most important in the economic development in the country.

Commercial banks provide capital for the development of industry, trade and business by investing the saving collected as deposits from the public. They render various other services to their customers facilitating to improve their economic and social life. They are the most important instruments for the country's development. Therefore, a competitive and reliable banking system is essential to every country to develop.

The word 'investment' connotes the investment of income, saving or other collected funds. Investment is possible only when there is adequate saving. If all the incomes are consumed now for fulfilling basic needs, then there is nothing to investment. Therefore, both the saving and investment are interrelated. A distinction is often made between investments and saving, saving is defined as foregone consumption; investment is restricted to real investment of the sort that increases national output in the futures. It is always true that all people want to invest their money in the most profitable opportunities for good return, but there is always risk associated with it.

Jack C. Francis, (1983:5) states, "Investing involves making a current commitment of funds in order to obtain an uncertain future return. It is a risky business that demands information. To process information effectively and select the best investment requires goals that are clear cut and realistic. In simple term investment is making a current commitment of funds that is expected to generate additional money in future. Nevertheless, in the broadest sense it means the sacrifice of current rupees for future rupees that take place at present and certain time. Similarly, William Sharpe (1986:9) defines "Investment in the actual sense refers to the sacrifice of current dollars for future dollars". Investment involves two attributes, time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all and the magnitude of which is uncertain. In some cases, the element of time predominates (for example, call option on common stock). In yet others, both time and risk play a dominant role (for example, share of common stock).

Therefore, it can be said that investment is concerned with the management of the investor's wealth. Funds to be invested come from trade assets already owned, borrowed money, and saving or foregone consumption. By foregoing consumption today and investing the saving, investors expect to enhance their future consumption possibilities, i.e. they are invested to increase wealth. Investors also seek to manage their wealth effectively by obtaining the most profit while protecting it from inflation, taxes and other factors. Thus investment policies are the strategies of finding out the answers of where to invest? How much to invest? When to invest? However, there are no specific rules regarding investment policy of a bank and thus it has to keep increasing the safety and liquidity of its resources to meet the potential demand of its costumers. Since the objective of profitability conflicts with those of safety and liquidity, the wise investment policy is to strike a judicious balance between them. Therefore, a bank has to lay down its investment policy in such a manner to ensure the safety and liquidity of its funds and at the same time maximizing its profits.

Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in the saving account of a bank, the bank may invest by lending

the funds to various business firms. These firms in return may invest the money in new factories and equipment to increase their production. In addition to borrowing from banks, most companies issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issues bonds to obtain funds to invest its projects, such as the construction of dams, roads and schools. Nepal Rastra Bank on behalf of the Government of Nepal issues bonds, treasury bills to finance the long-term and short-term needs of the government. All such investments by individuals, firms and government involve present sacrifice of income to get an expected future benefit. As a result of which, investment raises a nation's standard of living.

History of Banking

The term 'bank' derives from the Latin 'Bancus', which refers to the bench on which the bankers would receipts money and his records. Some persons trace its origin to the French 'Benquee' or to the Italian 'Benca', which means a bench for keeping lending and exchanging of money or coins in the market place by moneylenders moneychangers. With the gradual development of bank, its functions are also increasing. It only dealt with the exchanges of money in its preliminary phase, but later it started accepting deposits from the public against interest and providing them in the form of loans to the needy persons were the basic functions defined. Today, however, banks cover wide range of activities.

The Bank of Venice", the first public banking institution was established in Italy in 1157 A.D. Subsequently, "Bank of Barcelona" of Spain, the world's second bank was established in 1401 A.D., and "Bank of Geneva" of Switzerland was established in 1407 A.D. "Bank of Amsterdam" The Netherlands was set up in 1609 A.D. was among the very popular commercial banks in the world. The Bank of 'Hindustan', regarded as India's first commercial bank, was established in 1770. As so in 1694 A.D., "The Bank of England" was established, which changed the process of establishing the banking institutions remarkably. This was a big landmark in the history of banking development. The idea of commercial banks was rapidly spread to all over the world only after the establishment of this bank.

In course of time, banks are among the most important financial institutions in the economy and essential business in thousands of local town and cities. In this context, there is much confusion about exactly what a bank is? Certainly, banks must be identified by the functions they perform in the economy. However, the word bank is generally used to denote a certain kind of trading in money, which mainly consists the exchanging of money, the lending of money, the depositing of money and the transmitting of money.

Due to the rapid modernization and industrialization of the world, banking institutions have been indispensable for the resource mobilization and all round development of the country as they are important to individuals and institutions such as the public, businesses, organizations, government and other institutions. It provides resources for economic development that maintains economic confidence of various segments and expands credit to people. The bank accumulates surplus money form the public, who cannot use the money at the time and lends to those who are in need of that to use for productive purposes. It refers to any institution that deals in money. However, today banks are established for specific purpose such as commercial bank, industrial bank, merchant bank, development bank, rural bank, and so on. When the bank lends the loan to the customers for earning interest, the bank draw the money from institution or individual or people pay the interest amount by the certain interest rate. There are different types of bank focus on different types of service to their customers although the basic principle is sane i.e. mobilize idle resources from productive sectors to the growth of trade, industry and commerce. Today, banks in different countries render various different services to the people for strengthening the whole country's economy.

Banking in Nepal

The history of organized banking in Nepal is not very old. In the past, however, indigenous individuals, wealthy agriculturists, lenders, merchants and traders conducted some banking activities along with their other business occupations. These

activities were fragmented and mostly localized. The creation of "KaushiToshaKhana" as a banking agency during the regime of King Prithvi Narayan Shah could be regarded as first step towards development of banking in Nepal. However, the establishment of "TejarathAdda" around 1877 A.D., during the Prime Ministership of Ronoddip Singh to provide credit facilities to public at a very concessional rate of interest could be regarded as a primer foundation of modern banking in Nepal. The TejarathAdda was set up to provide credit; it did not accept deposits from the public. Therefore, the concept of saving was loan existence in Nepal until the establishment of the first ever commercial bank, i.e. "Nepal Bank Limited" under the Nepal Bank Act, 1937 with Rs.10 million Authorized Capital.

Thereafter, then government felt the need for a central bank and established "Nepal Rastra Bank (NRB) as the central bank of the country under the Nepal Rastra Bank Act 1956 A.D. in 1956 A.D. It played important role in the monetization and the development of banking sector in the country. Likewise, due to the increasing popularity of the banking functions and rising needs of banking operations in different areas of the country, NRB suggested for the establishment of another commercial bank and in 1966 A.D., RastriyaBanijya Bank was established as a fully government-owned commercial bank whose branches are scattered all over country.

Apart from the commercial banks, NRB also initiated the incorporation of some development banks in the country. As a result, Nepal Industrial Development Corporation was established in 1959 A.D. and Agricultural Development Bank established in 1976 A.D. After the then government adopted the liberalization and privatization economic policy during 1980s, Nepal welcomed the foreign banks to operate joint venture banks in the country. Consequently, Nepal Arab Bank Ltd. (NABIL) was the first joint venture bank established in 1984 A.D., a joint venture of United Arab Emirates Bank. Then two other banks Nepal Indosuez Bank Ltd. with Indosuez Bank of France and Nepal Grindlays Bank Ltd. with Grindlays Banks of London were established in 1986 A.D., but recently these banks' name have been changed as Nepal Investment Bank Ltd. and Standard Chartered Bank Nepal Ltd.

respectively. And other commercial banks, development banks and financial institutions are continued to establish and are contributing to the economy and the banking sector in Nepal.

After the restoration of democracy in Nepal in 1990 A.D., the government took a liberal policy in the banking sector. As an open policy of the government to get permission to invest in banking sector from private and foreign investors under Commercial Bank Act 1975 A.D. (2031 B.S.), different private banks were provided permission to establish the joint venture with banks of other countries. Nowadays, there are 31 commercial banks, 87 development banks and 5 rural development banks, 79 finance companies, 21 micro credit development banks, 16 saving and credit co-operatives and 47 NGOs are operating in Nepalese Financial market under the rules and regulations of Nepal Rastra Bank (NRB; Banking and Financial Statistics, mid July 2011).

The Commercial Bank

The most important kind of banks is the commercial bank. Besides it is the most common kind of Bank with which almost every one of us comes so often in contact. As its very epithet suggests this bank has its connection with the commercial class of people. It collects their floating capital and finances, the temporary needs of commercial transaction. Its deposits are purely demand obligation and hence it is by nature quite incompetent to offer any long-term accommodation. It has, rather need a rule amongst this class of bank not to grant permanent loan and provide capital for investment purpose. Nor does it furnish the whole fixed capital for trading purposes but it supplies as much as is occasionally needed for carrying on business or making investment in it. It has to distinguish between a genuine borrower and speculative investor as well.

Commercial banks deal with other people's money. They have to find ways of keeping their assets liquid so that they could meet the demands of their customers. In their anxiety to make profit, the banks cannot afford to lock up their funds in assets,

which are not easily realizable. The depositor's confidence could be secured only if the bank is able to meet the demand for cash promptly and fully. The banker has to keep adequate cash for this purpose. Cash is an idle asset and hence the banker cannot afford to keep a large portion of his assets in the form of cash. Cash brings no income to the bank. Therefore, the banker has to distribute his assets in such a way that they can have adequate profits without sacrificing liquidity.

The commercial banks in Nepal are one of the two components in financial sector basically known as the banking sector component. The other component, non-banking sector, includes co-operative, regional rural development banks, development banks, financial companies and NGOs. Banks play predominant role in under developed economy in many ways as they promote capital formation by developing banking habit of people and collection saving. People have mobilized them in productive channels. Thus, their role in the economic development is to remove the deficiency of capital by stimulating saving and investment.

Commercial bank in current year presents a new picture - a picture of innovation in practice of wider horizon and of new enterprises. The most remarkable diversification of banking function is increasing participation in medium- and long-term financial industries and other sectors; so, they are not only financial institution of finance agricultural and industry and other economic activities but are more than financial institution in the sense that they help saving create deposits and make the subsequent distribution of such accumulated funds.

Functions of Commercial Banks

The commercial banks in every nation of the world have key role in the pursuit of attaining the goal of rapid economic development. Commercial banks are the heart of financial sector, which occupy important place in the framework of the economy. They hold deposits of the people, government and business units. They make funds available through their lending and investing activities to borrowers like individual, business and government sector. Therefore, as they provide capital for the

development of the industry, trade, business and services they contribute large portion on the economic growth of the nation commercial banks make sound investment in various sectors of the economy, which boost the quality of investment as well as achieves, its own objectives of profit maximization. Thus, well-formulated and sound investment policies- coordinated and planned efforts accelerate the pace of economic growth.

Commercial banking as we have seen grew but of the need for a safe place of deposit when the people of London entrusted their savings to the goldsmiths. It did not take much time for them to realize that the business could be made profitable by re-lending what was receives, provided it could be returned before it was required. Gradually, they learnt that the daily payments were more than counter balanced by the daily receipts and hence there was no necessity of this stipulation. It is obvious that borrowing and lending are two leading functions of banking business. There are a few other functions as well which are now performed by these banks. They include the following:

1. Receiving Deposits

Deposits are received under different heads of accounts, the most important of which is the current account, others being the fixed deposit account, the saving bank account, the home safe account, etc. The first deposits received were, however, under fixed deposit account but "the goldsmith found by experience that they could take deposits withdrawal not at a fixed future date, if such deposits were on a large scale, a sufficient proportion of them would always be left untouched for a certain period to enable the holder to lend up to something like that proportion. These have become the foundation of the 'current account' on which the depositor can draw at his will".

2. Lending Money

The second major function of a commercial bank is to lending of money, which it receives by way of deposits. Direct loans and advances are given to all types of persons against the personal security of the borrowers of against the security of

movable and immovable properties. Loans are granted by banks in four forms i.e. overdrafts, cash credit, direct loans and discounting bills of exchange.

3. Agency Functions

Bankers also act as agents of their customers in various ways. They collect and pay their cheques, bills, promissory notes, coupons, dividend warrants, subscriptions, rents, income tax, insurance premium and other periodical receipts and payments. They purchase and sell on their behalf shares, stocks, debentures and bonds; etc, on the stock exchanges, and other valuables in other markets. They also act as administrators, trustees, executors and attorneys.

4. Miscellaneous Functions

Under miscellaneous functions may be included a number of functions performed by the bankers.

- They receive their customers' valuables ornaments and jewels, documents and deeds, etc. for safe custody and also act as their referee.
- They also make confidential enquiries about the creditworthiness of a prospective customer to enable their customers to enter into important business dealings with them.
- They issue letters of credit of various kinds and bank drafts to their customers for the transfer of money from one place to another.

The name and the year of establishment of the commercial banks operating in Nepal have been listed below:

<u>Name of the bank</u>	<u>Year of Estd.(A.D)</u>
1. Nepal Bank Limited	1937
2. RastriyaBanijya Bank	1965
3. Agriculture Development Bank Limited	1968
4. Nabil Bank Limited	1984
5. Nepal Investment Bank Limited	1985

6. Standard Chartered Bank Limited	1986
7. Himalayan Bank Limited	1993
8. Nepal SBI Bank Limited	1993
9. Nepal Bangladesh Bank Limited	1994
10. Everest Bank Limited	1994
11. Bank of Kathmandu Limited	1995
12. Nepal Credit & Commerce Bank Limited	1996
13. Nepal Industrial and Commercial Bank Limited	1998
14. Lumbini Bank Limited	1998
15. Machhapuchchhre Bank Limited	1999
16. Kumari Bank Limited	2001
17. Laxmi Bank Limited	2002
18. Siddhartha Bank Limited	2003
19. Global Bank Limited	2007
20. Citizen Bank Limited	2007
21. Prime Bank Limited	2007
22. Bank of Asia Limited	2007
23. Sunrise Bank Limited	2007
24. Development Credit Bank Limited	2008
25. NMB Bank Limited	2008
26. Kist Merchant Bank Limited	2009
27. Janata Bank Limited	2010
28. Mega Commercial Bank Limited	2010
29. Commerz and Trust Bank Limited	2010
30. Civil Bank Limited	2010
31. Century Commercial Bank Limited	2011

Profile of Concerned Banks

As there has been number of commercial banks established, the research has taken into consideration of Himalayan Bank Limited and Everest Bank Limited. Therefore short glimpses of these Commercial Banks are given as:

HIMALAYAN BANK LIMITED

(A Joint- venture with Habib Bank Limited of Pakistan)

Himalayan Bank Limited” (HBL) has been established with the objectives of providing the quality financial services to various sections of the society in the country and thereby contributes in the economic development of the country. The bank had come into formal operations from 18th January 1993(15thMagh 2049 B.S). HBL is a Joint Venture with Habib Bank Limited of Pakistan, one of the largest and oldest banks in Pakistan having over 1700 domestic and 65 overseas branches covering all continents and over 1800 foreign correspondents worldwide. HBL has access to the worldwide correspondent network of Habib Bank for fund transfer, letter of credit or any banking business anywhere in the world. Besides, HBL has correspondent arrangement with 178 internationally renowned banks like Citibank, ABN Amro.e.t.c. currently with 38 branches in various partsof the Nepal, HBL operated with the objectives of providing quality financial services to both the business and the common people.

Present Capital Structure of HBL

<u>Share Capital & Reserves</u>	<u>(NPRs. In million)</u>
Authorized Capital	3000
Issued Capital	160
Paid up Capital	160
Proposed Bonus Share	40
<u>Share holding pattern</u>	<u>Percent</u>
General Public	15
Other entities	65
Habib Bank of Pakistan (Joint Venture Partner)	20

The following activities and services are provided by HBL, including normal functions:

- Deposit Products
- Loans

- L.C facilities
- Safe Deposit Locker
- Himal Remit
- Card services
- SMS Banking
- Internet Banking

EVEREST BANK LIMITED

(A Joint-Venture with Punjab National Bank, India)

“Everest Bank Limited” EBL has been established with the objectives of expanding professionals banking services to various sections of society in Nepal and thereby contributes in the economic development of the country. The bank had come into formal operations from 18th October 1994 (1stKartik, 2051 B.S.). EBL is a joint venture with Panjab National Bank (PNB), one of the largest commercial Banks in India having over 3700 branches and more than 300 foreign correspondents around the globe. PNB has a century old tradition of successful banking and is known for its financial strength and will laid down modern banking systems and procedures. PNB is providing the top management services to EBL under a technical services agreement signed between the two institutions. EBL, thus, has advantage of the banking expertise and financial strength of its partner. Currently with 44 branches in various parts of Nepal, EBL is operating its services with the objectives of providing the full range of quality banking services to both the business community and the lay man.

Present capital structure of EBL

<u>Share capital and reserves</u>	<u>(NPRs. In millions)</u>
Authorized Capital	1250
Issued Capital	1050
Paid up Capital	1030.47
Propose Bonus Share	249.14
<u>Share holding Pattern</u>	<u>Percent</u>
Nepalese Promoters	50
Punjab National Bank (Joint venture partner)	20

The following activities and services are provided by EBL, including normal functions:

- SWIFT transfer
- TT transfer
- L.C facilities
- Deposit Locker
- Drawing Arrangement
- International Trade and Bank Guarantee
- Everest remittance
- Branchless Banking Service

1.2 Statement of the Problem

After the restoration of democracy, the first elected government in 1991 adopted liberalized and market-oriented economic policies followed by liberalization in the financial sector and its reforms. As a consequence, many commercial banks, development banks, financial institutions, financial cooperative societies and NGOs operating in micro finance have mushroomed in the country. There are substantial numbers of commercial banks, development banks and other financial institution that is operating to assist the process of economic development of the country.

All commercial banks play vital role in the mobilization of financial resources by accepting deposits from the public and providing loans and advances to industrial and trading organizations, and as such they gear up the development of business in the country. The economic development of the country thus depends on the volume of investments made by the commercial banks. However, due to the growing competitions among the commercial banks themselves and with other financial institutions they seem to be unable to enhance their investments *vis-à-vis the* large amount of deposits raised from the public. In other words, commercial banks seem to be unable to formulate and implement strategic investment policy to invest their funds. Meanwhile, they are also facing some criticism that these banks serves only

richer community of limited urban areas and not the poor communities in the vast rural areas of the country, and thus they do not seem to be able to invest their funds in vast areas of the country. Their investment policies generally seem to be guided by the philosophy of “be less risky and high liquid”. Therefore, all banks and financial institutions tap the same market for their investment of funds, which is really a risky as well as less profitable affair. They have to redesign their investment policy and strategy to explore new markets for investment.

Effective utilization of fund is possible only through the formulation and implementation of sound investment policy and strategy of these banks. Due to the lack of formulation of sound investment policy and strategy, Due to the lack of sound investment policy of commercial banks, however, these banks seem to be fallen in the trap of risk. They seem to be failed to make proper analysis of various types of risk such as financial risk, interest rate risk, liquidity risk, business risk, and so on.

Besides, it seems that the most of Nepalese commercial banks have not formulated their investment policy in an organized manner. They simply seem to be complying the instructions and guidelines issued by Nepal Rastra Bank. It seems that they do not have clear view of their investment policy. Commercial banks seem to have prompted to invest their funds in limited areas for higher profits. This may be regarded as very risky affair, which may lead them to lose profits as well as their investment. Although profit is important, however, the investment must be safe in the first place and then profitability. Therefore, the formulation of an appropriate investment policy is a must in all the commercial banks, joint venture and other financial institutions.

Financial system of Nepal is still in its preliminary stage of development. Small and fast growing financial sector comprises of commercial banks and other financial institutions like development banks, finance companies, cooperatives, insurance etc. So, for development of financial services in the country is uneven commercial bank are more emphasized to be making loan in short term basis against movable merchandise. There is less interest to invest on long-term project because they are

much more safety minded. Therefore, they follow conservative loan policy, which is based on strong security.

The present study has sought to answer the following research questions about the selected joint venture banks:

- Are HBL's and EBL's investment strategy successful to utilize its available fund?
- Is the liquidity, profitability, risk positions in asset management of these commercial banks satisfactory?
- How are the growth ratios of loan and advances and total investment with respect to growth rates of total deposits and net profit of these banks?
- Is there any relationship between the banks' total deposits and loans and advances, total deposit and total investment and total outside assets and net profit?
- What are the trends of their deposits, loans and advances, investment and net profits?

1.3 Objectives of the Study

The main objective of the study is to assess the investment policy and strategy adopted by the banks selected for the study, point out their shortcomings, and offer suggestions for the improvement in their investment policy and strategy. Besides, the following specific objectives seek to pursue the basic objective of the study, which are as follows:

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

1.4 Significance of the Study

A sound investment policy of a bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provide maximum safety and security to the depositors and banks on the other hand. So the investment policy of commercial banks should be in accordance with the spirit of the economic advancement of the people and also called it as the life-blood of any financial institution because only deposit collection carries no meaning, there should a proper policy of investment also. If it is utilized in a proper investment then only better return and sustainability is possible. Therefore, to this significance on account this study on behalf of the firm's investment policy and its relationship is justified as a specified subject matter.

Nepal is one of the least developed countries with poorest economic condition of the world. As the financial services industry becomes more complex, the financial information is more difficult to understand. Quality governance is impossible with effective analysis and evaluation of financial information. In the context of Nepal, there are less availability of research work, articles and journals in investment policy of commercial banks and their financial institutions. The study will certainly help to the management of the concerned banks to improve their performance and would help them to take corrective actions.

Thus, this study lies mainly in filling a research gap on the study of investment policy of commercial banks. The study is basically confined to reviewing the investment policy of commercial banks in the six years periods. This study is expected to definitely provide a useful feedback to the policy makers of commercial banks of Nepal and also to the government and the NRB in formulating appropriate strategies for the improvement in the financial performance. This study is also expected to be beneficial for the related persons in the field of investment and institution. And also help to find out the causes of failure and success of the bank by using the various financial and statistical tools. This research reports helps to gain and share some practical knowledge of banking and management of the commercial banks in the perspective of improving financial performance.

Similarly, depositors can take decision to deposit on their money, also useful to more people and organization such as trade creditors, investors, academicians, general public, stockbrokers etc. It will prove to be an important value for the entire individual interested in commerce and banking field.

1.5 Limitations of the Study

The study suffers from some limitations. The main limitations of the study have been as follows:

- The study is carried out only period of six years of trend of concerned commercial banks.
- Mostly secondary data have been analyzed.
- Only two joint venture banks are selected for the study, which are HBL and EBL.
- The study focuses only on investment aspect of banks' performance.
- Out of numerous affecting factors, only those factors related with investment policy are considered.
- This study deals with limited financial and statistical tools. Hence, the drawbacks and weakness of those tools are the limitations of the study as well.

1.6 Organization of the Study

The first chapter, Introduction, introduces the main topic of the study like general background, history of banking, banking in Nepal, commercial bank, statement of problem, objectives and significance with limitation of the study and other introductory frame work. The second chapter, Review of Literature, reviews of available relevant studies. It includes the conceptual review and review of the related books, journals and the published and unpublished research works as well as thesis. It also includes the investment policy of commercial bank. The third chapter, Research Methodology, presents research methodology of the study i.e. research carried out in this size and shape. For this purpose various financial tool and statistical tool are defined which will be used for the analysis of the presented data. The fourth chapter, Data Presentation and Analysis, deals with the presentation and analysis of the

relevant collected data. Analysis is done as per described in chapter III. This chapter is the heart of the study. The fifth and last chapter, Summary, Conclusion and Recommendations, summarizes the study, lists the major findings and conclusions, and offers recommendations and suggestions based on the analysis and interpretation of the data. Finally, an extensive bibliography and appendices are also presented at the end of the thesis work.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Introduction

The purpose of this chapter is to review the relevant literature regarding the investment policy of commercial banks in Nepal so as to formulate the appropriate research problem, hypotheses, and the research gap between the previous research studies and the present study. Such a review has been made from various sources of literature available in different libraries, documentation centre, Nepal Stock Exchange Ltd., other information bureaus and the concerned commercial banks, i.e., HBL and EBL. This chapter first presents the conceptual review, review of articles, research papers and previous research studies relevant to this study, and concluding research.

2.2 Conceptual Review

Conceptual review of various different literature provided by different authors, research scholars, practitioners, etc. have been presented in the following sections:

Concept of Investment

Investment is concerned with the management of an investors wealth which are the sum of current income and the present value of all future income funds to invested come from assets already owned, borrowed money and saving or forgone consumption by forgoing today and investing the saving, investors expects to enhance their future consumption possibilities i.e., they are invested to increase wealth. Investors also seek to manage their wealth effectively obtaining the most from it while protecting it from inflation, taxes and other factors.

The development of a country is always measured by its economic indices. Therefore, every country has given emphasis on enlistment of its economy. The banks are such types of institutions, which deal with money and substitute for money. They deal with deposit, credit and credit instruments. Good circulation of credit is very much important for financial institutions and banks. Unsteady and unevenly flow of credit

harms the economy and the profitability of the commercial banks. Thus to collect fund and utilize it in good investments is the prime objective of commercial banks. Diverse and safe investment of fund is the question of stability and existence of the bank. Nowadays, the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country.

Banking industry has acquired a key position in mobilizing resources for finance and social economic development of the country. No function is more important to the economy and it constitutes than financing. "Bank assists both the flow of goods and service from the products to the consumers and financial activities of the government. Banking provides the country with a monetary system of payment and it is important part of the financial system, which makes loans to maintain and increase the level of consumption and production in the economy" (American Institute of Banking; 1972:1162). Generally, investment means to flow cash in different sector with profit motive. In a broad sense, however, investment means to sacrifice current rupee in the present and certain for the future purpose rupees, which comes later and is uncertain. The concept of investment and profitability mentioned by different authors in their books and paper are summarized in the paragraphs that follow:

(Chandler, 1973:46) says in this regard, "A banker seeks optimum combination of earning liquidity and safety, while formulating investment policy." Emphasizing the importance of investment policy puts the importance of investment policy in this way, "Lending is essence of commercial banking, and consequently the formulation and the implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceives lending function effectively and minimize the risk inherent in any extension of credit". He further adds, the formulation of sound lending policies for all bank should have adequate and careful consideration over community needs, size of loan portfolio, character of loan, credit worthiness of borrower and assets pledged to security borrowing interest rate.

(Radhaswami, 1979:24) says that a bank must strike a balance sheet between liquidity, profitability and safety. "The secret of successful bank is to distribute resource between the various forms of assets in such a way as to get a sound balance between liquidity and profitability so that there is cash (on hand quickly realizable) to meet every claim and at the same time, enough income for the bank to pay its way and earn profits for its shareholders".

In the words of (Valla and Tutesa, 1983:2) "There are basically three concepts of investment.

- Economic investment that is an economist's definition of investment,
- Investment in a more general or extended sense, which is used by 'the man on the street', and
- The sense in which we are going to be very much interested namely financial investment".

They further mention, "Banks are those institutions which accepts deposit from the public and in turn provide credit to trade, business and industry that directly makes a remarkable impact on the economic development of a country. To collect fund and collect as a good investment is very risky job. *Ad hoc* investment decision leads the bank out of the business thereby drawn the economic growth of a country. Hence, sound investment policy is another secret of a successful bank"

In the words of (Singh and Singh, 1983) "The investment (credit) policies of bank are conditioned, to great extent, by the national policy framework, every banker has to apply his own judgment for arriving at a credit decision, keeping of course his banker's credit policy also in mind". As per the above definition, government and central bank have to make a sound policy about the investment policies of commercial banks. Singh et al. (1983) further state, "The field of investment is more challenging as it offers relatively greater scope to bank or for judgment and discretion in selecting their loan portfolio. But this higher degree of freedom in the field of credit

management is also accompanied by greater risk. Particularly, during recent years, the credit function has become more complex".

Investment management of bank is guided by the investment policy adopted by the bank. Investment policies can be varied from bank to bank. Few banks accept higher risk on investment and other is more conservative for their investment decision. The investment policy of the bank helps the investment function of the bank, which makes the investment efficient and profitable by minimizing the inherent risk. Therefore, that an investment word is attached to economics risk and return theory of future result (Frank &Reily, 1986:92).

According to (Jones,1991:92) "Investment is the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with managing an investor's wealth, which is the sum of current income and present value of all future incomes".

(Cheney and Mosses,1995:13)are concerned with the objective of investment and indicate that the risk is in proportion with the degree of returns. They write, "The investment objective is to increase systematically the individual wealth, defined as assets minus liabilities. The higher level of desired wealth, the higher must be received. An investor seeking higher return must be willing to face higher level of risk"

(Shrestha, 1995:42) in her book "Portfolio behavior of commercial bank in Nepal" holds that "The commercial banks fulfill the credit needs of various sectors and the lending policy of commercial bank is based on profit maximizing of the institution as well as the economic enhancement of country".

(Baidya,1997:44)has given his view on sound investment policy. He has said that, "A sound investment policy of a bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provides maximum safety

and security to the depositors and bank on the other hand, Moreover risk in banking sectors trends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually spring from significant amounts of loan that have become uncollectible due to mismanagement, illegal manipulation of loan misguided lending policy or unexpected economic downturn. So the bank investment policy must be such that it is sound & prudent in order to protect public funds."

In view of (Chone, 1997:1)"Investment has many factors. It may involve putting money into bond treasury bills, or notes or common stocks, or paintings of real estate, or mortgage or oil ventures, or cattle or the theater. It may involve specially in bull markets or selling short in bear markets. It may involve options; rights, warrants, convertibles, margin, gold, silver, mutual funds, money market funds, index funds and result in accumulation of wealth or dissipation of resources diversity and challenge characterize the field. For the able or lucky, the rewards may be substantial. For the uniformed results can be disastrous".

(Sharpe and Gorden,1999:5)define investment in this way: "Investment in its broadest sense, means the sacrifice of certain present value for (possible uncertain) future value". In the view of Sharpe and Gorden, the investment is the venture that the return is uncertain. Therefore, they have presented their view in the books that bank should look for the safe and less risky investment.

(Pandey,1999:407)defines in this way, "In investment decision expenditure and benefits should be measured in cash. In investment analysis, cash flows are more important than accounting profit. It may also be pointed out that investment decision affects the firm's value. The firm's value will increase if investments are profitable and add to the shareholders wealth. Thus, investment should be evaluated on the basis of a criterion, which is compatible with the objectives of the shareholder's fund maximization. Investments will add to the shareholder's wealth if it yields benefit in excess on the minimum benefit as per the opportunity cost of capital".

From the above definitions and views of various authors it is clear that an investment means to trade, a known rupee amount today for some expected future stream of payments or benefits. That will exceed the current outlay by an amount that will compensate the investor for the time the fund are committed for the expected change in prices during the period of uncertainty involve in expected future cash flows. Thus, investment is the most important function of commercial banks. Therefore, a bank has to be very cautious while investing funds in various sectors. The success of a bank heavily depends upon the proper management of its investable funds.

Principles of Sound Investment Policy of Banks

The commercial banks are inspired with the goal of earning profit. There are many reasons for having profit as their goal. A bank is like a legal person where shareholders are the owners of the bank, the board of directors is the agent of the bank that operates the bank. There are many employees who were appointed to run the banks and, it needs a great amount of expenses, whether it is direct or indirect, there is continuous expense in the bank. The main aim of any person or institution to invest the money in the bank is to earn more profit only. There is only one bank i.e. central bank which is established without the aim of gaining profits. Other banks are inspired with the objective of earning profit and helping the economic development and finally to take the social responsibility. They should have the ability to use the policy of banking investment and to implement it much more carefully otherwise a bank may be unsuccessful in its goal. (Bhandari, 2003:126).

Without investment, a bank cannot gain profit. The bank cannot be successful until it gains profit. Therefore after the establishments of bank it collects many deposits get the deposits from the current, saving and fixed deposit account. In this way, the bank apart from the amount deposited from such accounts, collects the capital by selling its shares. The bank can take loans thus; a great capital fund is formed in the bank from different sources. It is not better to keep such capital fund inactive. The bank should able to clear the policy of its investment by making a deep study on the subject that which sector would be the more trust worthy and dependable to invest the amount

collected in the bank. If the bank applies following investment policies or principles it can be successful in its goal. Hence these principles or policies or theories are as follows:

Principle of Liquidity

Liquidity means the whole stock in the economy. In the case of Nepal the money in use, the money in the accounts of current, saving and fixed period and the money in margin account refer to liquidity. The liquid property means cash stock of the commercial banks, the amount of short term, current account and short-term government and business security and the Treasury bill.

A bank should not forget the principle of liquidity while it is following its investment policy. The commercial banks are considered to be as financial mediators. They have liability to deposit and also quick delivery of the money at the time when depositors asked. For this purpose, the bank should deep adequate liquid fund. And also they should gain profit by utilizing the deposit as a loan and advances. If bank cannot keep their promises such as cannot return the deposits at the time of demand then it may loose the customer and their trust. And if adequate liquid fund is kept, then they can return the deposits as per the demand but such bank cannot run for a long time. In a same way, if they invest the whole deposit as loan and advances, they cannot give it at the time of demand by the depositors. So, the commercial banks try to maintain the liquidity and profit together. It is a great challenge for the manager of the bank.

The commercial banks should attract their customer to deposit because a deposit is called raw materials of banking, without which bank cannot run. It is important thing in which sectors the amount of each deposit is to be invested. There is no interest in current account but as it has to give payment immediately, plenty of liquidity is necessary for it. From the viewpoint of property, loan and advances are more income generating sectors but they are less liquidable. The amount would not be recovered at the time of want. Similarly keeping more money in the bank is very more liquid able, but does not generate income to the bank. The quantity of liquidity is less for

investment so maintenance of coordination between the property and the liquidity properly to provide loan and to invest it is the success of the commercial banks. The Central bank pays attention to this reality to give direction on liquidity to the commercial banks.

Principle of Profitability

The main objective of any commercial bank is to earn profit. The bank should follow the objective by focusing it on the sectors in which it can earn much profit. The investments or granting loan and advances by the bank is highly influenced by profit margin. The bank should not keep its means and materials inactive; it should keep on investing the means and materials in appropriate and safe area. The bank can gain much profit from the safe and long-term investment. But there is less liquidity in such investment. It may lose the investment in the sector where profit is not gained. Where there is more risk, there is more profit. But sometimes it may create a situation where the bank should face the great economic loss. So, the profit and liquidity are the two opposite principles. If the bank pays its attention only for profit, the liquidity becomes less, and if it pays its attention towards liquidity then it cannot be a loan-term investment and cannot get profit. So, it should be maintained. The profit of the bank estimates interest rate and the bank charge. So, the bank should always think to apply an appropriate investment policy in such sector from which can earn much.

Principle of Safety

A bank should pay special emphasis on safety. Why people are encouraging to deposit their valuable ornaments, jewelry, important document, and money in the bank for the sake of safety. So, if the invested area is unsafe, it isn't good sign for the bank. So, the bank should pay much emphasis on the principles of safety, to follow the investment policy. There will be no doubt of loss whether it is great or little if the bank has not invested in a safe sector. The bank should think it with much sensibility. To invest in an unsafe sector with the hope of gaining much profit is to accept the security of low quality. To invest large loan against less securities by receiving commission, to invest in new places without care, observation and to flow the loan-term loan including these

all various reasons will make unsafe of the banks investment. They should be avoided as much as they can. There will be no loss, if the banks invest in profitable sector. So, the bank should seriously study whether they are as a possibility of investment or not. It should invest in a safe sector. If the property held as security is ruined, a security is low in standard or low valued and if there is no possibility of sale of the security, the bank suffer from loss. Therefore, the bank should follow the principle of safety, short-term loan and invest in profitable sector. In such conditions there will be no possibility of loss. The secured sectors mean the securities of the domestic and foreign company's share debentures and government bonds, etc.

Principle of Diversification

The principle of diversification means, the banking policy of investing the money in the various sectors. The bank should not follow the policy of investment only in one or two sectors. If it follows such policy, then its investment policy will not be successful one. The bank should invest only after the studying and analyzing the different sectors of different alternatives to earn more profit from little investment. If it invests in many sectors it becomes successful to keep it in balance. There will be less profit from investment of some sector and there will be maximum profit from some another sector. And there may be loss too in some sector. On the whole a bank should be able to be a competent. If it happens, the banking transaction does not go up and down. It can run the bank comfortably and smoothly. In the case of earning profit, the bank should follow the policy of investing various fields. So, there is a statement: "A bank should not lay all its egg in the same basket." By following this principles, on the basis of gold, silver, diamond, development bond, shares of company, debentures, goods. Imports and export, bills and other appropriate securities, the bank has to move a head of their investment policy. The banks always get success in their working capacity from such investment and the bank becomes successful in its goal.

Principle of Marketability

A bank should adopt the principle of marketability in investment policy. In certain way, the bank moves its investment of flows loan against security. To invest the

money, the bank should follow the policy of taking the security of high quality as far as possible, the market if Nepal is small, in such market in order to livingness to its banking transaction, a bank should flow its loan by taking first class securities. The bank should keep in mind, the main principle of marketability while doing investment. And the goods which are taken as securities will be saleable in the market or not? Can the loan be recovered by selling it in the market or not? The bank should adopt the investment policy by paying attention to the different aspects; it should be study how the market will evaluate the goods which is taken as security. The bank should not invest money by taking the securities of goods, which are not saleable in the market and though they are sold but not fetch the reasonable price, and there is no value of such things. As far as possible the bank should take such goods which can be keep safely and freshly in the market and the loan will be recovered like gold, silver, diamond, company's shares certificates, debentures, development bond and other similar types of securities of immovable property like house, land cannot be sold in time. Therefore, if the bank provides loan by taking reasonable goods as security, then make sure that they are easily saleable in the market and the bank feels secured as well.

Some Important Terms

The study in this section comprises of some important banking terms for which efforts have been made to clarify the meaning, which are frequently used in this study, which are given below.

Loan and Advances

Loan, advances and overdraft are the main source of income for a bank. Bank deposits can cross beyond a desired level but the level of loans, advances and overdraft will never cross it. The facilities of granting loan, advances and overdrafts are the main service in which customers of the bank can enjoy.

Funds borrowed from banks are much cheaper than those borrowed from unorganized moneylenders. The demand for loan has excessively increased due to cheaper interest rate. Furthermore, an increase in an economic and business activity always increases

the demand for funds. Due to limited resources and increasing loans, there is some fear that commercial banks and other financial institutions too may take more preferential collateral while granting loans causing unnecessary botheration to the general customers. Such loan from these institutions would be available on special request only and there is a chance of utilization of resources in economically less productive fields. There lies the undesirable effect, of low interest rate.

In addition to this, some portion of loan, advances and overdraft includes that amount which is given to staff of the bank for house loan, vehicle loan, personal loan and others in mobilization of commercial banks fund; loan, advances and overdraft have occupied a large portion.

Investment on government Securities, Shares and Debentures

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

It may want to space its maturates so that the inflow of cash coincide with expected withdraws by depositors or 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 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 that is 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.

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 Nepal Rastra Bank's directives many

commercial banks have to utilize their funds to purchase shares and debentures of many other financial and non-financial companies. Nowadays most of the commercial banks have purchased regional development bank's NIDC and other development bank's shares.

Other use of fund

A commercial bank must maintain the minimum bank balance with REB i.e. 6% for fixed deposits and 8% for each of current and saving deposit account in local currency. Similarly 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.

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 examples of these items are letter of credit (L/C), letter of guarantee, bills of collections etc. Nowadays, such activities are stressfully highlighted by some economists and finance specialists to expand the modern transaction of bank.

Deposits

For a commercial bank, deposit is the most important source of the liquidity. For bank's financial strength, it is treated as a barometer. In the word of Eugene," A bank's deposits are the amount that it owes to its customers." Deposit is the lifeblood of the commercial bank. Though they constitute the great bulk of bank liabilities, the success of a bank greatly depend 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 Deposit

Saving Deposit

Fixed Deposit

2.3 Review of books

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

In words of Gitman and Jochnk(1990), “Investment is any vehicle into which funds can be placed with the expectation they will preserve or increase in value and generate positive returns.”

“Investments, in its broadest sense, mean the sacrifice of certain present value for (positive uncertain) future value” (Sharpeetal, 1999).

“Default risk arises because firms may eventually go bankrupt. Some default risk is undiversifiable because it is systematically related to the business cycle, which affects almost all investments. However, some default risk may be diversified away in a portfolio of independent investments” (Francis, 1983).

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

“Financial Investment is a form of this general or extended sense of the term. It means an exchange of financial claims, stocks and bonds (collectively termed securities), real estate mortgages etc. The term financial investment’ is often used by investors to differentiate between the pseudo-investment concept of the consumer and

the real investment of businessman. Semantics aside, there is still a difference between an “investment” in a ticket on a horse and the construction of a new plant; between the pawning of watch and the planting of a field of corn. Some investments are simple transaction among people, other involve nature. The later are “real “investment. The former is “Financial” Investment. We now turn to a closer examination of finance and investment decisions themselves” (Bhalla, 1983)

James B. Baxley expresses his views as “Investment policy fixed responsibilities for the investment disposition of the bank’s assets in term of allocating funds for Investment and Loan and establishing responsibility for day to day management of those assets”(Baxley,1987)

Frank K. Reilly defines investment as,” An investment may be defined as the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time the funds are committed, for the expected rate of inflation and also for the uncertainty involved in the future flow of the funds.”

According to S.P. Singh, “The investment (credit) policies of banks are conditional, to great extent, by the national policy framework, every banker has to apply his own judgment for arriving at a credit decision, keeping of course, his bank’s credit policy also in mind” (Singh and Singh, 1983).

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

According to Reed, Cotter, Gill and Smith (1980), "Commercial banks still remain the heart of our financial system holding the deposits of millions of persons, governments and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and governments. Commercial banks are the most important type of financial institutions in the nation in terms of aggregate assets." The primary function of commercial banks is the extension of credit to worthy borrowers. In making credit available, commercial banks are rendering a great social service. Through their action, production is increased, capital investments are expanded, and a higher standard of living is realized. Although the investment activities of commercial banks are usually considered separately from lending, the economic effects and social results are the same.

The rate of return on assets is a valuable measure when comparing the profitability of one bank with another or with the commercial banking system. A low rate might be the result of conservative lending and investment policies or excessive operating expenses. Banks could, of course, attempt to offset this by adopting more aggressive lending and investment policies to generate more income.

2.4 Review of Articles

In this section, attempt has been made to review some relevant articles in different economic/finance journals, The World Bank Bulletins, dissertation papers, magazines, newspapers and other related literature.

Shrestha (1988) article, "A study on deposits and credits of commercial bank in Nepal" concluded the credit deposit ratio would be 51.30%, other things remaining the same in 2004 AD, which was the lowest under the period of review. Therefore, he had strongly recommended that the commercial banks should try to give more credit earning to new field as far as possible. Otherwise, they might not be able to absorb even its total expenses

F. Morrios, (1990) in his discussion paper, "Latin America's banking system in the 1980s" has concluded that most of the banks concentrated on compliance with central banks rules on reserve requirements, credit allocation and interest rates. While

analyzing loan, portfolio quality, operating efficiency and soundness of bank investment management have largely been over looked. The huge losses now found in the bank's portfolio in many developing countries are testimony to the poor quality of their oversight investment function. He further adds that management in financial institutions has involved inadequate and over-optimistic loan appraisal, tax loan recovery, high-risk diversification of lending and investment, high-risk concentration, connected and lending loan mismatching. This has led many banks of developing countries to the failure in 1980s.

Bajracharya (1990) article entitled “Monetary policy and deposit mobilization in Nepal”, he has conducted that mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal and commercial banks and the more active financial intermediary generating resource in the form of deposits from private sector and providing credit to the investor in different sectors of the economy..

Pradhan, (1996)has presented a short glimpse of banks’ investment in different sectors, its problem and prospects through his article, "Deposit mobilization, its problem and prospects". In his article, he has expressed that "For any financial institution it may be commercial bank, finance company, cooperative or non-government organization, deposit is like a life blood". He also added in consideration of 10 commercial banks and nearly three dozen finance companies, the latest figure does produce a strong feeling that a serious review must be made of problems and prospects of deposit sector. Except few joint venture banks other organizations rely heavily on the business deposit receiving and credit disbursement.

In regarding this, Pradhan has pointed out following problems of deposit mobilization in Nepalese perspective.

- Due to the lesser office hours of banking system people prefers for holding the cash in the personal possession.
- Unavailability of the institutional services in the rural areas.

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

Pradhan mentioned that deposit mobilization carried out effectively is in the interest of depositors, society, financial sectors and the nation. Lower level of deposit rising allows squeezed level of loan delivery leaving more room to informal sector. That is why higher priority to deposit mobilization has all the relevance.

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

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

- The structures of commercial banks shows that banks invest on the average 75% of their total deposit on the government securities and the resources.
- The analysis of resources position of commercial banks showed quite high percentage of deposit as cash reserve.
- Return ratio of all the banks show that most of the time foreign banks have higher risk of Nepalese banks.
- The debt equity ratios of commercial banks are more than 100% in the most of the period under study period. It led to 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.
- Income of analysis of the management achievement foreign banks has comparatively higher total management achievement index.
- Thus comparing all the banks through the time period financial condition and performance are better in joint venture banks than local banks.

Shiva Raj Shrestha has highlighted following issues in the article. The portfolio management becomes very important for individuals as well as institutional investors. Investors would like to select a best mix of investment assets subject to the following aspects:

- Higher return, which is comparable with alternative opportunities available according to the risk class of investors.
- High liquidity with adequate safety and profitability of investment.
- Maximum tax concession.
- Economic, efficient and effective investment mix.
- Flexible investment.
- Certain capital gains.

According to above aspects, some following strategies are adopted:

- Do not hold any single security i.e. try to have a portfolio of different securities.
- Do not put all the eggs in one basket i.e. to have a diversified investment.

- Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower return but with added objective of wealth maximization.

However, Shrestha has also presented following approach to be adopted for designing a good portfolio and its management:

- To find out instable assets (Like Securities) having scope for better returns depending upon individual characteristics like age, health, need, disposition, liquidity, tax liability etc.
- To find out the risk of the securities depending upon the attitude of investor toward risk.
- To develop alternative investment strategies for selecting a better portfolio that will ensure a tradeoff between risk and return, So as to attach the primary objective of wealth maximization at lower risk.
- To identify securities for investment to reduce volatility of return and risk.

Shrestha has presented two types of investment analysis techniques one is fundamental analysis and another is technical analysis. And this analysis technique is necessary to consider any securities such as equity, debenture or bonds and other money and capital market instruments. He has stressed the requirements of skilled manpower, research and analysis team and proper management information system (MIS) in any commercial bank to get success in portfolio management and customer's confidence. At last, Shrestha has put out the following remarks:

- For the survival of every bank it has to depend upon its own financial health and various activities.
- Portfolio manager of investment management methodology have to reflect.
- High standard in order to develop and expand the portfolio management activities successfully and have to give their clients the benefits of global strength, local insight and prudent philosophy.
- To always earn superior return, a portfolio managers have to enhance the opportunity for each investor (client) with disciplined and systematic approach to

the selection of appropriate countries, financial assets and the management of various risk.

- The Nepalese banks having greater network and access to national and international capital market have to go for portfolio management activities.
- The increment of their fee based income as well as to enrich the client based and to contribute in national economy.

2.5 Review of Research Papers

There are not many research papers or articles published on the investment policy of commercial banks in Nepal. In the context of Nepal, there is a need of research of investments in commercial banks and financial institutions as their routine work. And some of the author who did research on relevant topic (investment policy) is given below:

One of the research papers entitled “Financial Management and Practices in Nepal” of Pradhan, (1992) has inquired about financial functions, sources and types of financing, financing decisions involving debt effect of change in taxes on capital structure, financial distress, dealing with banks and dividend policy. The major findings of the study related to financial management are presented below:

- Bank and retained earnings are the two most widely used financing sources.
- The enterprises have a definite performance for bank loans at a lower level of debts.
- Generally, there is no definite time to borrow and issue stocks, that is, majorities of respondents are unable to predict when interest rate will low or go up or are unable to predict when the stock will go down or up.
- Most enterprises do not borrow from one bank only and they do switch over between banks whichever offer most attractive interest rates.
- Most enterprises find that banks are flexible in interest rates as per their convenience.

To sum up, it can be said that out of numerous studies in the capital market in Nepal, this study is established itself as a milestone and an outstanding one.

In the research of Shrestha (1993) entitled “Investment planning of commercial banks in Nepal”, Shrestha has made remarkable efforts to examine the investment planning of commercial banks in Nepal. Based on her study, she concludes that bank portfolio (loans and investment) of commercial banks has been influenced by the variable securities rates. Investment planning of commercial banks in Nepal is directly traced to fiscal policy of the government and heavy regulatory procedure of Nepal Rastra Bank. Therefore, the investments are not made in professional manner. Investment planning and operation of commercial banks in Nepal has not been found satisfactory in terms of profitability, liquidity, safety, productivity and social responsibility. To overcome this problem, she has suggested that “...commercial banks should take their investment function with proper business attitude and should perform lending and investment operation efficiently with proper analysis of the projects”.

Thapa (1994) expressed his view that the commercial banks including foreign joint venture banks seems to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds. The banks are increasing their lending to non-traditional sectors along with the traditional sectors.

Among various commercial banks, Nepal Bank Ltd. and RastriyaBanijya Bank are operating with a nominal profit and also turning towards negative from time to time. Because of non-recovery of accrued interest, the margin of interest income is declining. These banks have not been able to increase their income from commission and discount, through traditional off-balance sheet operations. On the contrary, they have got heavy burden of personnel and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected.

On the other hand, the foreign venture banks have been functioning in an extremely efficient way. They are making huge profit year after year and have been distributing large amount of loans and dividends to its employees and shareholders. Because of their effective persuasion for loan recovery, overdue and defaulting loans have been limited resulting in high margins between interest income and interest expenses. Similarly, concentration of these banks to modern off-balance sheet activities and efficient personnel management has added to the maximization of their profits.

At the end of article, he concludes that by its varying nature of the public sector the domestic banks couldn't compete with the private sector banks. Therefore, only remedy to the problem of these banks, as the government decided, is to hand over the ownership as well as the management of these banks to the private hands.

Rastra Bank has given a short glimpse on the "Portfolio management in commercial banks - theory and practice".

2.6 Review of Previous Thesis

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

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

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

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

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

Shrestha, (2007) conducted a study on "A Comparative Analysis on investment performance of commercial banks in Nepal" with the following objectives:

- To analyze the investment activities and fund mobilization with respect to fund based on-balance sheet transactions and fee based off-balance sheet transactions
- To study the asset utilization system, profitability and risk position of commercial banks under study
- To assess the deposit utilization trends and its projection for the future

- To evaluate the growth ratios of loan and advance and total investment and respective growth rate of total deposit and net profit
- To appraise the suggestion on the basis of findings for further growth of the banks under study

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

The liquidity position of NIBL was stronger than NABIL and HBL. At the same time, liquidity position of NIBL was highly fluctuating, which showed that NIBL bore higher risk than other two banks. NIBL had the least investment in Government Securities, which considered the least risky asset. From the analysis of assets, management ratio of NIBL in comparison to NABIL and HBL was more successful regarding asset management and deposit mobilization. NIBL's investment on shares and debentures was high in comparison to the other two banks but its performance regarding total investment has been very poor. In the profitability analysis, none of the three banks' profitability position was clearly better. However, NABIL was slightly better profitability. Therefore, their profitability ratios were in moderate position. From the risk point of view, NABIL and NIBL were facing higher risk than HBL, but the risk level of all three banks seemed almost the same. From the analysis of growth ratios, NIBL's collection of deposit, granting of loans and advances and net profit were better but in terms of investment, HBL is better. The coefficient of correlation analysis between different variables of NABIL, NIBL and HBL revealed that NABIL was weaker regarding mobilization of deposits as loans and advances and NIBL was performing extremely well regarding earning profits from outside assets. From the trend analysis study, it was found that all banks were mobilizing their total deposits into loans and advances in increasing trend, which was the indication of efficient mobilization.

Thapa (2007) entitled “A Study of Non-performance Assets of Nepalese commercial Banks in Nepal” of the period from FY 2000 to FY 2006.

The objectives of the study are as below:

- a) To highlight Loans and Advances trend in commercial banks.
- b) To point out the amount of NPAs in Nepalese commercial banks.
- c) To make the suggestions to overcome the problems of commercial banks regarding the NPAs.

The major findings of his study are as follows:

- The status of non-performing loan of commercial banks shows that they are making positive improvement over it. By the end of mid July 2007, the ratio of non-performing loans to total loan and advances declined to 9.65 percent. Total amount of non-performing loan remained to Rs. 22182.9 million in the same year. In the last year the percent and amount of non-performing loan were 14.22 percent and Rs. 26770.42 million respectively.
- Loans and advances, the major component of assets, constituted the 46.66 percent of total assets in mid July 2006. Similarly, investment and liquid funds, another component of assets, registered the 19.06 percent and 8.98 percent of total assets in the same year. In the preceding year the respective share of loan and advances, investment and liquid funds were 40.44 percent, 19.15 percent and 9.06 percent. In the current year the loan and advances increased by higher rate of 32.05 percent compare to 8.61 percent in the last year. By the end of mid July 2006 the total outstanding amount of loan and advances of commercial bank reached to Rs. 228951.9 million. It was Rs. 173383.4 million in mid-July 2005.
- In the current fiscal year deposit mobilization of commercial bank marginally increased by 15.88 percent compare to 15.39 percent growth in the previous year. By the end of mid July 2006 it reached to Rs. 337497.2 million from Rs. 297245.6 in the last year. Of the component of deposit, current deposit celebrated by higher rate of 20.45 percent compared to 7.91 percent in last year. Fixed deposit increased slightly

higher of 13.89 percent compared to 13.75 percent in the previous year. However, saving and call deposit growth rate slipped to 5.23 percent and 18.62 percent compare to 16.65 percent and 28.51 percent respectively.

- Liquid funds increased by 14.45 percent and reached to Rs. 44089.7 million in mid-July 2006 from Rs. 38842.1 million in mid-July 2005.
- In the current fiscal year the net profit of the banking system grew by slower rate of 10.20 percent compared to 53.38 percent in the last year. By the end of mid July 2007 the net profit amounted to Rs. 8797.9 million from Rs. 7983.5 in mid July 2006.

Yadav (2007) conducted a study on “A Study on Non-performing Assets with Special Reference to Nepal Bank Limited and RastriyaBanijya Bank Limited”

The objectives are specified as below:

- a) To study the general reasons for assets become NPA in RBB and NBL.
- b) To point out the level of NPAs in NBL and RBB banks after financial sector reform program.
- c) To find out the problems of banks due to NPAs.
- d) To make the recommendations to overcome the problems of two banks regarding the NPAs.

The major findings are as follows:

- The shares of RBB and NBL in the assets and liabilities of the banking sector is around 50%. Although international financial experts have been managing these banks, the performance especially for reducing NPA is not satisfactory.
- The management teams were supposed to bring NPA level to 5% level. The NPA total credit ratios of RBB increased from 20.17% in FY 1997/98 to 60.15% in FY 2002/03. It increased by 5% points in FY 2002/03 than the previous year. Likewise, the NPA / total credit ratio of NBL also increased from 27.46% to 60.47% in FY 2002 / 03, which shows the rising trend.

- Both of them has negative net worth since FY 1998/99 and the net worth figures continuously increased in the last five years. Although financial performance of both the management teams is totally unsatisfactory, they have improved in other areas. People are questioning the returns of such a huge expense. Is it going to be a futile exercise, suppose they brought down the NPA level to a satisfactory level? But what will happen after the management teams leave the banks? Questions are still remaining unanswered.
- The net profit trend of NBL and RBB is highly negative in first three fiscal year because more than 60% nonperforming asset. But now, NBL and RBB is earning profit from last two years.
- After the implementation of financial sector reform NBL and RBB is able to earn profit from 2060/61 and also able to decreasing volume of non-performing assets. But NBL and RBB have to more focus to improve the credit management because NBL and RBB are not able to maintain NPA as the specified standard of NRB i.e. 5%.
- Various acts and regulations are enacted for the financial sector reform but implementation of policies and directives like directed sector credit, sufficient provision for loan loss, volume of NPA is vital because of the increasing trend of NPA in commercial banks.

Basnet (2008) conducted a study on “Investment Policy of Commercial Bank (A Comparative study of NABIL Bank Ltd. And Himalayan Bank Ltd.)” with the following objectives:

- To examine the fund mobilization fund and investment policy of HBL and NABIL selected for the study.
- To assess the liquidity, profitability, risk positions in asset management of these commercial Banks.
- To evaluate the growth ratios of loan and advances, total investment with respect to growth rates of total deposits and net profit of these banks.

- To find out the relationship between the banks' total deposits and loans and advances, total deposit and total investment and total outside assets and net profit.
- To examine, interpret and forecast the trend of their deposits and loan and advances, investment and net profit.

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

The liquidity position of HBL is better than NABIL. The ratios of HBL were more consistent and NABIL had made lesser investment in government securities as it has injected more funds on other productive sectors. NABIL is strong in terms of mobilization of its total deposit as loan & advances when compared to HBL. The mean ratio of loan and advances to total working fund of NABIL was highest than HBL but in case of C.V., HBL has the lowest C.V. than NABIL. The investment on government securities to total working fund of NABIL had highest mean ratio than HBL. Which shows that the ratios of HBL is more consistent than NABIL but NABIL being highest mean ratio, it was successful to mobilize the fund as investment on government securities. NABIL had better policy on security investment in share and debenture but in case of C.V., HBL had lower ratio. So, it revealed that investment ratio of NABIL was stable and consistent than HBL. Overall analysis of profitability ratio showed that NABIL was successful in utilization of its working fund for profit generating activities, maintaining its higher return on loan and advances and earning higher amount of interest on its outside assets in comparison to HBL. Interest earning of NABIL was better than that of HBL. NABIL was in a better position from interest payment point of view than HBL. From the risk ratio analysis, the mean of capital risk ratio of NABIL was higher than that of HBL which indicated that NABIL was successful to attract the deposit and interbank funds that helped to increase the volume of profit. From the viewpoint of risk, NABIL had more credit risk than HBL. The growth ratio of deposit of HBL was higher than that of NABIL which showed that HBL has

been successful in collecting deposit over the six year period. The growth ratio of NABIL's loan and advances was higher than HBL which indicated that the performance of NABIL to grant loan and advances was better in comparison to HBL. The growth ratio of total investment of HBL was greater than that of NABIL which reveal that HBL was successful to take higher investment policy over the six years period in comparison to NABIL. The growth ratio to total net profit was higher than that of HBL which reveal that NABIL had maintained better profit than HBL.

Dhakal(2008) conducted a study on "Investment Policy of Commercial Banks in Nepal" with the objectives that follow:

- To find out the relationships between total investment, loan and advances, deposit, net profit and outside assets
- To identify the investment priority sectors of sampled commercial banks
- To assess the impact of investment on profitability
- To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial banks
- To provide suggestions and possible guidelines to improve investment policy and its problems.

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

The liquidity position of Everest Bank Ltd. (EBL) was comparatively better than that of Nabil Bank Ltd. (NABIL) and Bank of Kathmandu Ltd. (BOK). All the three banks had met the normal standard current asset ratio to meet the short-term obligations of their customers. EBL had invested the most in Government Securities, followed by BOK and NABIL. BOK had mobilized a huge sum its funds to earn the profit. From the analysis of assets management ratio, EBL was in better position than NABIL and BOK. The loans and advances to total deposit ratio, loan and advances to total working fund ratio of EBL lied in between those of NABIL and BOK. EBL had invested the highest portion of its total working fund on government securities as compared to NABIL and BOK. Investment on shares and debentures to total working

fund ratio was higher in BOK. Overall analysis of profitability ratios showed that EBL was on an average profitable in comparison to other bank i.e. NABIL and BOK. The return on loan and advances ratio and return on assets of EBL was lowest of all. The degree of risk was average on EBL. EBL had shown its good performance by increasing earnings by providing loan to clients. The trend of the total investment, total deposit, loan and advances and net profit of EBL showed better position than that of NABIL and BOK.

Shrestha (2010) conducted a study on “Investment Policy of Commercial Banks in Nepal (A comparative study of Everest Bank Ltd. with Nabil Bank Ltd. And Bank of Kathmandu Ltd.)” with the objectives that follow:

- To discuss fund mobilization and investment policy of EBL, NABIL and Bank of Kathmandu Ltd.
- To evaluate the liquidity, efficiency and profitability and risk position.
- To evaluate the growth ratios of loan and advances, total investment with other financial variables.

The study was conducted based on secondary data. The major research findings of his study were the following:

- The liquidity position of EBL was comparatively better than NABIL and BOK. It has the highest cash & bank balance to total deposit, cash & bank balance to current assets ratio. EBL had good deposit collection, it had made enough investment on government securities but it had maintained moderate investment policy on loan & advances.
- Overall analysis of assets management ratio of EBL, NABIL and BOK showed that EBL was comparatively average successful in its on balance sheet operation in compared to NABIL and BOK. The assets management ratio of EBL was very less stable than that of other compared banks.
- Overall analysis of profitability ratios showed that EBL was average profitable in comparison to NABIL and BOK. The bank must maintain its high profit margin for the well-being in future.

- The risk ratios of EBL, NABIL and BOK showed that EBL had moderate risk in between NABIL and BOK regarding various aspects of the banking functions.
- From the analysis of growth ratios of EBL, NABIL and BOK, it showed that EBL had maintained high growth ratios in total deposit, loan & advances and net profit but it had moderate position in investment.

2.7 Concluding Research:

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

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

Not much more research study has been conducted in this topic. A very few study based on only one bank has been conducted before 2003, but this study is based on comparative analysis of two joint venture listed commercial banks namely HBL and EBL up to the financial year 2009/10. So, this research work is very much centered to identify responsible causes, to analyze them and recommend improvement measures for the betterment of the banks under study and to analyze the investment position of the two leading banks.

CHAPTER- III

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with the research methodology employed in the entire aspect of the study. Research methodology is the process of arriving at solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of facts and figures (Kothari, 1992:8). In other words, research methodology refers to the various methods of practices applied by the researcher in the entire aspect of the study. In order to achieve the objective of the study, certain method of research has to be used. This chapter is, therefore, devoted to describe the methods used for carrying out the research. This chapter includes the research design, nature and sources of data, population and sampling and analysis of data.

3.2 Research Design

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

3.3 Nature and Source of Data

To carry out the research, mainly secondary data have been used in the study. These secondary data are collected mainly from the published sources like annual report, prospectus, balance sheet, newspaper, journal, internet and other sources. Besides this in some case, primary data can be used if needed. They are collected through direct interview and observation. For data collection, personal visit on respected organization, bulletin of NRB and website can be used more frequently.

Primary Data

The primary data are those that are collected a fresh and for the first time and thus happen to be original in character. Primary data has been collected through questionnaire distributed to the respondents and the response has been collected from the questionnaire duly filled by them.

Secondary Data

The secondary data, on the other hand are those, which have already been collected by someone else for some other purposes and already published for that matter.

The study is mainly based on secondary data. The secondary sources of data collections are balance sheet, profit and loss accounts, and loans and advances respectively, which are obtained from the annual reports and financial statements of the concerned banks. Some supplementary data and information have been collected from the source like Tribhuvan University Central Library, Patan Multiple Campus Library, different journals, magazines, reports and unpublished masters' degree theses. All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives of the present study. Formal and informal talks with the concerned authorities of the banks were so helpful to obtain the additional information of the related problem.

The data for the study are also collected from record available from the Security Board of Nepal and Annual Reports of the concerned banks. Moreover, various Stock Exchange publications formed and important supplementary source of the data for this project study particularly on investment policy.

3.4 Population and Sampling

Since new commercial banks are being incorporated every year, the number of commercial banks in Nepal has been increasing rapidly. Some have already been started and others are in the process of starting their business. Currently, however,

there are 31 commercial banks functioning all over the country and most of their stocks are traded actively in the stocks market. In this study, all the listed joint venture commercial banks form population the study. The population for the study has been as follows:

- i. Nabil Bank Ltd. (NABIL)
- ii. Standard Chartered Bank Ltd. (SCBNL)
- iii. Himalayan Bank Ltd. (HBL)
- iv. Nepal SBI Bank Ltd. (NSBIB)
- v. Nepal Bangladesh Bank Ltd. (NBBL)
- vi. Everest Bank Ltd. (EBL)

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

3.5 Data Presentation and Analysis Techniques

The data presentation and analysis are focal part of the study. A number of financial, statistical and accounting tools are used to analyze the collected data and to achieve the objectives of the study. The analysis of the data has been done according to pattern of data available. Because of limited time and resources, simple analytical statistical tools such as graph, percentage, Karl Pearson's coefficient of correlation, regression analysis and the technique of least square are adopted in this study. In the same way, some useful financial tools such as ratio analysis and trend analysis have also been used for financial analysis. The data extracted from annual reports, financial statements and other available information are processed and tabulated in various tables and charts under different headings according to their nature.

3.6 Tools for Analysis

Financial as well as the statistical tools are used to make the analysis more convenient, reliable and authentic. Their ratios, percentages, mean, standard deviations and coefficients of variations are then calculated and presented in the tables. To study the

relationship between two or more variables, correlation coefficients are also calculated. Likewise, trend analysis is also used to know the trend of various ratios. Following are the brief introductions of the financial and statistical tools used in this study.

3.6.1 Financial Tools

Financial ratios have been calculated to ascertain the financial condition of the firm. Financial tools have been used to examine the financial strength and weakness of bank. It is the relationship between financial variables contained in the financial statements (i.e., balance sheet, profit and loss account and income statements). There are several financial to spot out the financial strength and weakness of the firm. There are several financial tools, which could be applied in order to analyze the investment policy of commercial banks. The financial tools used in this study are as follows: Liquidity Ratio, Activity Ratio, Profitability Ratio, Risk Ratio and Growth Ratio.

A. Liquidity Ratio

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

Liquidity of any business organization is directly related to working capital or current assets and current liabilities of that organization. A high degree of liquidity shows inability of proper utilization of funds whereas the lack of liquidity shows the signal of poor credit worthiness loss of creditors confidence or even in legal tangles resulting in the closure of the company. Therefore, commercial banks need liquidity to meet loan demand and deposit with draws. Without good liquidity, bank is not able to operate

its function. To measure the bank's solvency position or ability meet its short-term obligation, various liquidity ratios are calculated.

A. 1 Current Ratio

Current ratio shows the short-term solvency and the relationship between current asset and current liabilities. Current ratio reflects the strength of current assets available with the company over its current liabilities into cash in one accounting year. This ratio indicates the current short- term solvency position of the bank. The current ratios are the ratios of total current assets to current liabilities. Higher current ratio indicates better liquidity position. In other words, current ratio represents a margin of safety. The higher the current ratio the greater the margin of safety, and the larger the amount of current assets in relation to current liabilities, the more the bank's ability to meet its current obligations. Current asset includes cash and bank balance, Money at call of short notice, loan and advances, Investment on government securities and other interest, overdraft, bills purchase and discount, receivable and miscellaneous current assets whereas current liabilities includes deposit and other accounts.

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

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

A. 2 Cash and Bank Balance to Current Assets Ratio

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

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

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

A. 3 Cash and Bank Balance to Total Deposits Ratio

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

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

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

A. 4 Loans and Advances to Current asset Ratio

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

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

Loan & advances are the current assets, which is the general income to the bank. It shows the percentage of loan & advances in the total current assets. In the present study loans and advances represent to local and foreign bills discounted and purchased

and loans, cash credit and overdraft in local currency as well as inconvertible foreign currencies.

A.5 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. This ratio can be calculated by dividing the amount of investment on government securities by the total amount of current assets and can be stated as follows.

$$\begin{aligned} & \text{Investment on Government Securities to Current Assets Ratio} \\ & = \frac{\text{Investment on Government Securities}}{\text{Current Assets}} \end{aligned}$$

Where, investment on Government Securities involves treasury bills and development bonds etc.

B. Assets Management Ratio

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

B.1 Loans and Advances to Total Deposits Ratio

This ratio assesses to what extent the banks are able to utilize the depositor's fund to earn profit by providing loans and advances. In other words, the ratio shows how quickly total collected deposits are converted into loan and advances given to the client to earn income. It is computed by dividing the total amount of loan and

advances to total deposits fund. Higher ratio indicates higher/proper utilization of funds and low ratio is the signal of inefficiency or remaining idle.

$$\text{Loans \& advances to Total Deposit Ratio} = \frac{\text{Loans and Advances}}{\text{Total Deposits}}$$

B.2. Loans and Advances to Total Working Fund

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

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

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

B.3 Total Investment to Total Deposit Ratio

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

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

B.4 Investment on Government Securities to Total Working Fund Ratio

Investment on government securities to total working fund ratio shows how much part of total investment is there on government securities in percentage. This ratio is computed by dividing investment on government securities by total working fund. This can be calculated as follows:

Investment on Government Securities to Total Working Fund Ratio

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

B.5 Investment on shares and debentures to Working Fund Ratio

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

$$\text{Investment on Shares and Debentures to Working Fund Ratio} = \frac{\text{Investment on Shares and Debentures}}{\text{Total Working Fund}}$$

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

C. Profitability Ratio

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

C.1 Return on Total Working Fund Ratio

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

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

$$\text{ROI} = \frac{\text{Net Profit}}{\text{Total Working Fund}}$$

C.2 Return on Loans and Advances Ratio

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

$$\text{Return on Loan and Advances Ratio} = \frac{\text{Net Profits}}{\text{Loans and Advances}}$$

C.3 Total Interest Earned to Total outside Assets Ratio

The main assets of a bank are its outside assets, which include loan & advances, bills purchased and discounted investment and government securities, investment and debentures and other all types of investments. This ratio reflects the extent on which the banks are successful to earn interest on all the outside assets; a high ratio indicates high earning on such assets and vice versa. This ratio is calculated by dividing total assets earned by total outside assets.

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

C.4 Total Interest Earned to Total Asset Ratio

It is calculated to find the percentage of interest earned to total assets. Higher ratio indicates the better performance of the bank in terms of earning interest on its total assets. This ratio is calculated by dividing total interest earned by total assets.

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

C.5 Total Interest Paid to Total Working Fund Ratio

This ratio shows the percentage of total interest expenses against working funds (total assets). A high ratio reflects high interest expenses on total working fund and vice versa. The ratio is computed by dividing total interest paid by total working fund. Total interest paid includes total expenses on deposits liabilities, loan & advances and other deposits.

Mathematically,

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

D. Risk Ratios

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

D.1 Capital Risk Ratio

The capital risk ratio of ratio of a bank how much asset values may decline before the position of depositors and other creditors jeopardize. The capital risk is directly related to the return on equity (ROE). Higher the ratio, lower is the capital risk. This ratio is computed by dividing (paid up capital + reserves) by risk – weighted assets as computed under BASEL Committee's formula this can be mentioned as:

$$\text{Capital Risk Ratio} = \frac{\text{Capital (Paid up + Reserves)}}{\text{Risk Weighted Assets (RWA)}}$$

D.2 Credit Risk Ratio

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

$$\text{Credit Risk Ratio} = \frac{\text{Total Loans And Advances}}{\text{Total Assets}}$$

E. Growth Ratio

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

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

3.6.2. Statistical Tools

Various statistical tools mentioned above were used to analyze and interpret the investment policy of concerned bank. Similarly, statistical tools help to find out the trends of financial position of the bank and to analyze the relationship between variables that helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan & advances or investment on other companies. In this study, statistical tools such as coefficient of correlation between different variables, trend analysis of important

variables as well as hypothesis test have been used for analyzing and interpreting the financial data. The basis of statistical analysis related to this study is discussed below:

A. Arithmetic Mean

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

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

Where,

\bar{X} = Arithmetic average

$\sum x$ = Sum of values of all items, and

N = Number of terms

B. Standard Deviation

The standard deviation is the measure that is most often used to describe variability in data distributions. It can be thought of as a rough measure of the average amount by which observations deviate on either side of the mean. Denoted by Greek letter σ {read as sigma}, standard deviation is extremely useful for judging the representatives of the mean.

Standard deviation is represented as:

$$\sigma = \sqrt{\frac{\sum d^2}{n-1}}$$

Where

σ = Standard deviation

n= Number of items, and

$\sum d^2$ = Sum of the squares of the deviations measured from the arithmetic average

C. Coefficient of Variation

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

Mathematically,

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

Where,

C.V = Coefficient of Variation

σ = Standard deviation, and,

\bar{X} = Arithmetic average

D. Coefficient of Correlation

Correlation is a statistical tool, which is used to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1. When r, the coefficient of correlation +1, there is perfect relationship between two variables and vice versa. When r is 0, there is no relationship between two variables. The formula for the calculation of coefficient of correlation between X and Y is given below:

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

Also, the test of significance of correlation coefficient has been in this study. In order to test whether the correlation coefficient is significant to the correlation between the two variables, probable error of the correlation coefficient has been applied. If $r < P.E.$, the value of 'r' is not significant, i.e. there is no evidence of correlation between the variables. If $r > 6P.E.$ the value of 'r' is significant i.e. there is evidence of correlation between the variables. The probable error is defined by:

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

Where,

r= Correlation coefficient

N = Number of pairs of observations

E. Trend Analysis

Under this topic we analyze and interpret the trend of deposits, loan and advances, investment and net profit of HBL and EBL that helps to make forecasting for next five years. The following trend value analyses have been used in this study.

- i. Trend analysis of total deposit
- ii. Trend analysis of loan and advances
- iii. Trend analysis of total investment
- iv. Trend analysis of net profit

The trends of related variables can be calculated as,

$$y = a + bx \dots \dots \dots \text{i)}$$

Where, a, b = constant coefficient

y = Estimating variable

x = Explained variable (Time variable)

Using the least square method

$$\sum y = na + b \sum x \dots \dots \dots \text{ii)}$$

Again multiplying eqⁿ.i) by x, we get

$$\sum xy = a \sum x + b \sum x^2 \dots \dots \dots \text{iii)}$$

When Deviation from mean (mid-year)

i.e. x and sum $\sum x = 0$

From the eqn. ii)

$$\sum y = na + 0$$

$$a = \frac{\sum y}{n} \dots \dots \dots \text{iv)}$$

From the eqn. iii)

$$\sum xy = 0 + b\sum x^2$$

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

From the eqn.(iv) and (v), the values of (a) and (b) have been found, the required trend line $y = a + bx$ with the help of given time, i.e. the value of y can be estimated.

F. Test of Hypothesis

Test of hypothesis means a statistical statement about the values of one or more parameters of the population. After setting the hypothesis, it is necessary to test the reliability of such statistical statements. Under this analysis the effort has been made regarding the parameter of the population of the basis of sample drawn from the population. The following steps have been followed from the test hypothesis:

- i. Formulating hypothesis {Null hypothesis and Alternative hypothesis}
- ii. Computing the test statistic
- iii. Fixing the level of significance
- iv. Decision making

3.7 Method of Presentation

The techniques of presentation used herein are most of descriptive and analytical nature and the data have been presented in tabular form. Thereafter some of important tabulated information of the data has been graphically represented. The graphic presentation being self-explanatory depicts various facts in the simplest and convenience manner.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This is analytical chapter, where the researcher has analyzed and evaluated those major financial items, which mainly effect the investment management and fund mobilization of HBL in comparison to EBL. There are many types of financial ratios but only those ratios are calculated and analyzed which are very important to evaluate fund mobilization of commercial banks. This chapter is devoted to the presentation and analysis of the collected data by using various statistical tools so as to summarize them and obtain results thereof. The statistical results are then interpreted to find their meaning and implications.

4.1 Data Presentation

Most of the data used in the study are secondary in nature. The data were collected, processed and then were presented in different tables and figures with a view to systematically analyze them.

4.2 Analysis of Data

The data collected and presented for the purpose of analysis were analyzed in absolute rupee values, ratios in terms of percentages, number of times, etc., and statistical tools such as arithmetic mean, standard deviation, coefficient of variation, coefficient of correlation, etc.

Table 4.1
Composition of Investment Pattern of HBL and EBL
(Rs. in million)

Banks	FY	Loans and Advances	Fixed Assets	Govt. Securities	Shares and Debentures	Others
HBL	04/05	13451.2	478.5	5469.7	39.9	976.5
	05/06	15762.0	763.2	5144.3	39.9	643.6
	06/07	17793.7	829.1	6454.9	73.4	644.0
	07/08	20179.6	882.6	7471.7	89.6	634.8
	08/09	25519.5	713.3	4212.3	93.9	632.1
	09/10	29123.8	808.7	4465.4	78.9	1054.4
EBL	04/05	7900.0	187.0	2100.3	19.4	206.3
	05/06	10136.3	220.6	3548.6	19.9	178.1
	06/07	14082.7	259.7	4704.6	19.9	222.7
	07/08	18836.4	406.6	4821.6	101.2	376.2
	08/09	24469.6	460.7	5146.1	102.0	492.2
	09/10	28156.5	551.4	4354.4	102.0	536.2

Source: Annual Reports of HBL and EBL during 2005 and 2010

Table 4.1 shows the composition of investment pattern of two commercial banks, viz., HBL and EBL. Both the banks' investments comprised Loans and Advances, Fixed Assets, Government Securities, Shares and Debentures, and other investments. When analyzing the investment pattern of the two banks in the table, it revealed that they gave the highest priority to the investment in Loans and Advances followed by Government Securities, other investments, Fixed Assets, and Shares and Debentures during the period of the study. The investments of both the banks in Loans and Advances showed an increasing trend. HBL invested Rs.13451.2 million in year 2004/05, which was more than double i.e. Rs.29123.8 million in year 2009/10. Similarly, the investment of EBL in Loans and Advances in year 2004/05 was Rs.7900 million, while that was Rs.28156.5 in year 2009/10. In case of investment in Government Securities, HBL's investment was fluctuated every year of the study period, while EBL's investment in Government Securities

showed an increasing trend during the study period. HBL's investment in Fixed Assets increased gradually during first four years and decreased in fifth year then again increased in last year of the study period, while EBL's investment in Fixed Assets increased every year of the study period. The other investments of both the banks included certificates of deposit, mutual funds, foreign bank deposits, local bank deposits, deposits with Nepal Rastra Bank, and so on. With regard to Other Investments, of HBL decreased during the first five years and increased in last of the study period, while EBL's other investment decreased in second year and increased during the last four years of the study period.

4.2.1 Liquidity Analysis

In simple words, liquidity is the paying ability of a firm to meet its current expenses and obligations. Therefore, every firm has to maintain adequate liquidity for that purpose. However, the need and importance of liquidity in banking companies is much more than non-banking companies. The reason for this is that depositors draw their deposited amount from bank whenever they need it. In case the bank is unable to encash the cheques drawn by their customers due to the short of liquidity, it will send wrong signal to the bank's customers and as a consequence, they will panic and rush to their bank to withdraw their deposited amounts as soon as possible. This is called run to bank in the banking literature. Therefore, the regulating authority of banks such as the central bank has made provisions to ensure adequate liquidity in the bank to avoid any kind of untoward situation that the bank might face due to the shortage of liquidity.

In order to examine the liquidity position of the banking companies, some liquidity ratios, such as current ratio, cash and bank balance ratio to total current assets ratio, cash and bank balance to total deposit ratio, cash and bank balance to total deposit ratio, loans and advances to current assets ratio and investment on Government securities to current assets ratio.

Liquidity Ratios

Liquidity ratios measure the ability of the firm to meet its current obligations. Difference between current assets and current liabilities is known as working capital, which provides liquidity in business organizations. A commercial bank must maintain a fair liquidity position to satisfy the credit needs of the community, to meet demands for deposit withdrawals, pay matured obligations in time and convert non-cash into cash to satisfy immediate needs without loss to the bank and without consequential impact on long-run profitability of the bank.

Current Ratio

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

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

Current ratios of HBL and EBL from the fiscal year 2004/05 to 2009/10 are given in Table 4.2. Standard Deviation is calculated by using the formula. Mean is calculated by average of sample period and C.V by $\sigma/\bar{X} * 100\%$.

Table 4.2
Current Ratio(Times)

Banks	Fiscal years						Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09	09/10			
HBL	1.08	1.08	1.07	1.07	1.08	1.09	1.08	0.01	0.93
EBL	1.10	1.12	1.07	1.08	1.07	1.08	1.09	0.02	1.83

Source: Annexure A1

Table 4.2 exhibits fluctuating trend of Current Ratios of both HBL and EBL. HBL registered the highest Current Ratio 1.09:1 in the FY 2009/10, while EBL registered the highest ratio of 1.12:1 in the FY 2005/06. Similarly, HBL recorded the lowest current ratio of 1.07:1 in FY 2006/07 and 2007/08 and EBL also recorded the lowest current ratio of 1.07:1 in FY 2006/07 and 2008/09. The mean current ratio of HBL during the period of study was 1.08, slightly lower than that of EBL, i.e 1.09:1. Comparing the means with standard current ratio of 2:1 indicates the fact that both HBL and EBL had maintained low liquidity in terms of current ratio. Similarly, the comparison between the mean current ratios of the two banks shows that HBL had maintained even lower liquidity than that of EBL. In addition, a look at the coefficient of variation of current ratio of HBL showed 0.93%, while that of EBL was 1.83% during the study period. It indicates the fact that EBL's ratios were more instable and inconsistent than those of HBL.

Cash and Bank Balance to Total Current Assets Ratio

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

Table 4.3 shows the cash and bank balance to total current assets of HBL and EBL, and their means, standard deviations and coefficient of variation during FY 2004/05 to 2009/10.

Table 4.3

Cash and Bank Balance to Total Current Assets Ratio

Banks	Fiscal years						Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09	09/10			
HBL	7.06	5.72	5.22	3.44	7.82	9.05	6.39	2	31.3
EBL	8.71	9.19	10.95	9.69	16.48	18.67	12.28	4.22	34.4

Source: Annexure A2

Table 4.3 exhibits that cash and bank balance to current Assets ratios of HBL was declining from FY 2004/05 to FY 2007/08 then increased from FY 2008/09, while EBL's cash and bank balance to current assets ratio was in fluctuating trend during the study period. The average of the ratio in case of HBL was 6.39%, while that of EBL was 12.28%, which indicates that liquidity position of EBL is better in this regards. The coefficient of variation of the above ratios of HBL is 31.3%, which is lower than 34.4% of EBL, which shows that the ratios of HBL were more stable and consistent than that of EBL during the period.

Cash and Bank Balance to Total Deposits Ratio

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

The total deposits include current, saving and fixed deposits as well as call money deposits and certificate of deposits. Table 4.4 shows the cash and bank balance to total deposits ratio of HBL and EBL.

Table 4.4
Cash and Bank Balance to Total Deposits Ratio

Banks	Fiscal Year						Mean	S.D	C.V %
	04/05	05/06	06/07	07/08	08/09	09/10			
HBL	8.12	6.48	5.85	3.89	8.79	10.28	7.23	2.29	31.63
EBL	10.40	11.25	13.15	11.13	18.50	21.17	14.27	4.49	31.46

Source: Annexure A.3

From the table 4.4, it is apparent that ratio of cash and bank balance to total deposits ratios of both banks during the study period were fluctuating. The highest of this ratio for HBL during the period was 10.28% in the year 2009/10 and the lowest 3.89% in the FY 2007/08. Similarly EBL registered the highest ratio of 21.17% in FY 2009/10 and the lowest ratio of 10.39 % in FY 2004/05. HBL had mean ratio of 7.23%, which is lower than that of EBL (i.e. $7.23 < 14.27$). This shows EBL's more readiness to meet customer's requirement than HBL's. A comparison of coefficient of variation of the two banks' ratios shows HBL's ratios were less instable and inconsistent than those of EBL. Since the HBL had maintained lower cash reserve ratios during the study period, therefore EBL was in a better position to meet the demand of its customers any time on their deposit. That means it operates at lower risks of failing to meet customers' demand for drawing from their deposits, although high ratio shows the inefficiency in terms of the bank's profitability.

Loans and Advances to Total Current Assets Ratio

The ratio shows the relationship between loans and advances to total current assets or it shows the banks' liquid capacity of discounting and purchasing the bills and loan, cash credit and overdraft facilities to the customers. If the bank cannot grant sufficient loans and advances, it will have to pay interest on those unutilized deposits funds and at the same time may lose substantial earnings. However, too little and too high of high loans and advances may be undesirable to the bank, as too little investment in loans and advances will result in high amount of unutilized funds and too high investment in loans and advances will result in lack of liquidity and difficulty

in collecting them at the time of their maturity. Thus, the bank has to invest in appropriate level of loans and advances *vis-à-vis* current assets.

Table 4.5 shows the ratio of loan and advances to current assets ratio of HBL and EBL from the fiscal year 2004/05 to 2009/10.

Table 4.5
Loan and Advances to Current Assets Ratio

Banks	Fiscal years						Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09	09/10			
HBL	47.14	52.54	52.85	56.10	65.43	68.17	57.0	8.14	14.3
EBL	65.54	60	64.5	68.38	65.42	67.23	65.2	2.9	4.5

Source: Annexure A.5

The above table clearly shows the increasing trend of loan and advances of both HBL and EBL during the study period. The ratio is least position i.e. 47.14% in FY 04/05 and has taken the highest position 68.17% at the FY 09/10 of HBL, while in case of EBL highest is 68.38% in FY 07/08 and lowest is 60% in FY 05/06. The average mean ratio of EBL is higher in comparison to HBL i.e. 65.2>57.0. The S.D is 8.14 of HBL, which is higher than EBL. Similarly, C .V of this ratio is 14.3% of HBL which is also higher than EBL's C.V i.e. 4.5%.

Above analysis depicts that EBL is better to mobilize its fund as loan and advances with respect to current assets in comparison to HBL.

Investment on Government Securities to Current Assets Ratio

The ratios of current assets invested in Government Securities, Treasury Bills and Development Bonds, which are issued by government. These securities are regarded as safest investment for the bank in terms of its riskiness, but are not so much liquid as cash and bank balance. These securities are marketable and therefore, they are easily converted into cash and as such are risk-free.

The Table 4.6 shows the ratio of Investment on Government Securities to Current Assets Ratio of HBL and EBL from FY2004/05 to 2009/10.

Table 4.6
Investment on Government Securities to Current Assets Ratio

Banks	Fiscal years						Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09	09/10			
HBL	19.17	17.15	19.17	20.77	10.80	10.45	16.24	4.51	27.77
EBL	17.42	21	21.55	17.50	13.76	10.40	16.94	4.27	25.21

Source:Annexure A.4

From the table 4.6, it shows that the investment on Government Securities to Current assets ratios of both HBL and EBL had a fluctuating trend over the study period. From the above six years period, it is evident that the average mean ratio of EBL is higher i.e. 16.94% than that of HBL, i.e. 16.24%.This shows that greater portion of current Assets of EBL consists of Government Securities. A study of coefficient of variation shows that EBL's ratios have been more consistent. From the above analysis, it is clear that HBL had made less investment in Government Securities as it injected more funds in other productive sectors.

4.2.2. Analysis of Assets Management

Assets management is another important aspect of a commercial bank's investment policies. Unless its assets are properly and judiciously managed, it cannot have the full benefits of its investment policies. In order to assess the effectiveness of the assets management of the selected commercial joint venture banks *vis-à-vis* their investment policies, therefore, a number of ratios have been calculated and presented in table 4.7, 4.8, 4.9, 4.10 and 4.11.

Loan and Advances to Total Deposits Ratio

This ratio measures the extent to which the banks are successful to mobilize their total deposits on loan and advances for profit generation. Therefore, the higher the ratio, the better is the mobilization of total deposits in terms of loan and advances. However, higher the ratio the better only from the point of view of liquidity, as the loans and advances are not as liquid as cash and bank balance.

Table 4.7 shows the ratio of Loan and Advances to Total Deposits of HBL and EBL from the fiscal year 2004/05 to 2009/10.

Table 4.7
Loan and Advances to Total Deposits Ratio

Banks	Fiscal years						Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/09	08/09	09/10			
HBL	54.21	59.5	59.22	63.37	73.58	77.43	64.55	9.05	14.02
EBL	78.2	73.4	77.4	78.6	73.4	76.3	76.22	2.32	3.04

Source: Annexure B.1

From the table 4.7 shows that the loan and advances to total deposits ratio of HBL is in increasing trend, while the ratio of EBL had a fluctuating trend over the study period. In case of HBL, the lowest ratio was recorded 54.21% in FY 04/05, and the highest ratio was 77.43% in FY 09/10. In case of EBL, highest ratio was recorded 78.6% in FY 07/08, and the lowest ratio 73.4% in FY 05/06 and 08/09. On an average, EBL had maintained higher ratio than HBL, i.e. 76.22% of EBL compared to 64.55% of HBL. From the above study, C.V of EBL was lower than that of HBL, i.e. 2.32% of EBL compared to 9.05% of HBL. It shows that the loans and advances of EBL were more stable and consistent than those of HBL. EBL seems to be strong in terms of mobilization of its total deposits as loan and advances when compared to HBL.

Loans and Advances to Total Working Capital Ratio

Working funds play very crucial role in income generation through its fund mobilization in the form of loan and advances. The commercial banks have to be very careful in mobilizing the total assets in the form of loans and advances to an

appropriate level to generate profit. This ratio reflects the extent to which the commercial banks are successful in mobilizing their assets in the form of loans and advances for generating income. Therefore, it is higher the ratio the better in mobilization of funds as loans and advances, or *vice versa*.

Table 4.8 presents the ratio of loans and advances to total working fund of HBL and EBL from the fiscal year 2004/05 to 2009/10.

Table 4.8
Loans and Advances to total Working Capital Ratio

Banks	Fiscal years						Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09	09/10			
HBL	48.31	53.50	53.09	55.78	64.90	68.18	57.15	7.64	13.37
EBL	67.33	63.51	65.71	69.38	66.28	68.04	66.71	2.03	3.04

Source Annexure B.2

Table 4.8 reveals that loan and advances to total working fund ratios of HBL in different years of the study period were in increasing trend, while EBL registered a fluctuating trend of ratios during the study period. HBL had registered the highest ratio in year 2009/2010 and lowest in year 2004/2005 i.e. 68.18% and 48.31% respectively. EBL had registered the highest ratio of 69.38% in year 2007/2008 and lowest 63.51% in FY 20005/2006. On an average, EBL maintained higher mean ratio of 66.71%, while HBL maintained it at 57.15%. The coefficient of variation of EBL was remarkably lowest at 3.04%, HBL had highest of it at 13.37%.

Total Investment to Total Deposit Ratio

This ratio measures the extent to which the banks are able to mobilize their deposits in investments in various securities and other investments. Higher ratio indicates the success in mobilizing deposits in securities and vice versa. This ratio can be computed by dividing the total investment by total amount of deposits collections.

The table 4.9 shows the ratio of total investment to total deposits of HBL and EBL from the fiscal year 2004/2005 to 2009/10, where total investments include investment

on government securities, debentures and bonds, shares in subsidiary companies, shares in other companies and other investments.

Table 4.9
Total Investment to Total Deposit Ratio

Banks	Fiscal years						Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09	09/10			
HBL	47.12	41.10	39.35	41.89	25.12	22.45	36.17	9.97	27.57
EBL	21.08	30.43	27.41	21.10	17.85	13.56	21.91	6.17	28.17

Source: Annexure B.3

From the table 4.9, it indicates that the ratios of total investment to total deposits ratios of both banks are in decreasing trend over the study period. HBL had registered highest ratio of 47.12% in the year 2004/2005 and lowest ratio of 22.45% in the year 2009/2010 and EBL had registered highest ratio of 30.43% in the year 2005/2006 and lowest ratio of 13.56% in the FY 2009/2010. HBL had higher mean ratio than that of EBL, i.e. 36.17% of HBL compared to 21.91% of EBL. Thus, from the mean ratio perspective, HBL had been more successful in mobilizing deposits on various forms of investment. Similarly, the coefficient of variation of HBL had lower C.V than that of EBL i.e. 27.57% of HBL compared to 28.17% of EBL. In conclusion, the above analysis reveals that HBL had been more successful in mobilizing its resources on various forms of investment during the period of the study.

Investment on Government Securities to Total Working Fund Ratio

From the liquidity and security point of view, a Government Security is a safe medium of investment though it is not liquid as cash and bank balance. Therefore, this ratio is very important to know the extent to which the banks are successful in mobilizing their total funds on different types of Government Securities to maximize its income. The high ratio indicates better mobilization of funds as invest on government securities, vice versa.

The table 4.10 shows the ratio of investment on government securities to total working fund of HBL and EBL from the fiscal year 2004/2005 to 2009/2010.

Table 4.10
Investment on Government Securities to Total Working Fund Ratio

Banks	Fiscal years						Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09	09/10			
HBL	19.64	17.46	19.26	20.65	10.71	10.45	16.36	4.60	28.08
EBL	17.90	22.24	21.95	17.76	13.94	10.52	17.38	4.56	26.20

Source: Annexure B.4

Table 4.10 presents the ratio between Investments on Government Securities to total working fund(total assets) ratio. A study of the ratios of two banks show that HBL's ratios were in fluctuating trend, while EBL's ratios were in decreasing trend over the study period. The highest ratio of HBL was 20.65% in FY 2007/2008 and the lowest 10.45% in FY 2009/2010. EBL registered the highest ratio of 22.24% in FY 2005/2006 and the lowest ratio of 10.52% in FY 2009/2010. Considering the means of the ratio, HBL seemed to be given less importance to Government Securities than EBL, i.e. 16.36% of HBL compared to 17.38% of EBL in mobilizing their total assets on Government Securities. When compared coefficient of variation of both banks, they reflected that ratios of EBL were more consistent than HBL i.e. 26.20% of EBL compared to 28.08% of HBL. From the above analysis, it can be deduced that EBL had been successful in mobilizing its fund on Government Securities.

Investment on Shares and Debentures to Total Working Fund Ratio

Nowadays, a commercial bank is interested in investing its fund not only on Government Securities, but also in shares and debentures of other companies. Most of the commercial banks in Nepal have invested in the shares of Regional Rural Development Banks. However, some of these have purchased the shares of other companies too. The ratio of investment on shares and debentures to total working fund shows the investment of banks on shares and debentures of the other companies in terms of their total working funds. The higher the ratio, the more is the amount of investments on shares and debentures out of the total working fund, and vice versa.

The table 4.11 shows the ratio of investment on shares and debentures to total working fund of HBL and EBL from the fiscal year 2004/2005 to 2009/2010.

Table 4.11
Investment on Shares and Debentures to Total Working Fund Ratio

<i>Banks</i>	<i>Fiscal years</i>						<i>Mean</i>	<i>S.D.</i>	<i>C.V.</i> %
	04/05	05/06	06/07	07/08	08/09	09/10			
HBL	0.14	0.13	0.22	0.25	0.24	0.22	0.2	0.05	24.80
EBL	0.17	0.12	0.09	0.37	0.28	0.25	0.43	0.11	24.65

Source: Annexure B.5

When analyzing the ratio of investment on shares and debentures to total working fund of the two banks as presented in Table 4.11, it is revealed that the both banks have invested minimum percentage of total working fund in corporate shares and debentures. The table shows that the ratio of investment on shares and debentures to total working fund of EBL was in decreasing trend, while HBL's ratios showed the fluctuating trend throughout the study period. HBL registered the highest ratio of 0.25% in FY 2007/2008 and the lowest ratio of 0.13% in FY 2005/2006, whereas EBL registered the highest ratio of 0.37% and the lowest ratio of 0.09% in FY 2006/2007 during the period of study. Likewise, the mean ratio of the two banks reveal that EBL had invested slightly higher amount of total working fund on shares and debentures than HBL, i.e. 0.43% of EBL compared to 0.20% of HBL. It indicates that EBL had been more successful in mobilizing its fund as investment on shares and debentures than HBL. The study of coefficient of variation of the ratios of HBL was 24.80% which was slightly higher than 24.65% of EBL. It means that the ratios of EBL were more stable and consistent than HBL.

4.2.3 Analysis of Profitability

Profit is the difference between total revenue and total expenses over a period of time. Profit is the end result of a commercial bank operations and it will have no future of it if it fails to make sufficient profits. Therefore, one of the important objectives of the commercial bank is to earn profits, as all stakeholders such as stockholders,

management, and creditors of the bank expect the bank has to earn reasonable return. In addition, the bank's efficiency is also measured in terms of its profit and profitability.

In order to measure the profitability of the selected banks, therefore, profitability ratios have been calculated and analyzed, as they indicate the banks have won public acceptance of their service even in an intense competitive situation and earned profits. In this study, the profitability ratios are computed on the basis of profit of banks *vis-à-vis* their investment. To measure and analyze of profitability of HBL and EBL following ratios have been computed and presented in table 4.12, 4.13, 4.13, 4.14, 4.15 and 4.16.

Return on Total Working Fund Ratio

This ratio measures the profit earning capacity by utilizing available resources of banks. In the present study, this ratio is calculated and analyzed to measure the profitability of all financial resources invested in the bank's assets. A high ratio usually indicates the efficiency and utilization of its overall resources, and vice versa.

Table 4.12 exhibits the ratio of return on total assets of HBL and EBL from the fiscal years 2004/2005 to 2009/2010.

Table 4.12
Return on Total Working Fund Ratio

<i>Banks</i>	<i>Fiscal years</i>						<i>Mean</i>	<i>S.D.</i>	<i>C.V.</i> %
	04/05	05/06	06/07	07/08	08/09	09/10			
HBL	1.10	1.55	1.47	1.76	1.91	1.19	1.5	0.31	20.93
EBL	1.43	1.49	1.38	1.66	1.73	2.01	1.62	0.23	14.19

Source: Annexure C.1

The above table reveals that the ratio of return on total working fund of EBL registered an increasing trend except in FY 2006/2007, whereas HBL registered a fluctuating trend during the period of study. HBL registered the highest ratio of 1

.91% in FY 2008/2009 and the lowest ratio of 1.10%, while EBL registered the highest ratio of 2.01% in FY 2009/2010 and the lowest ratio of 1.38% in FY 2006/2007. Similarly, EBL registered higher mean ratio of return on total working fund than that of HBL i.e. 1.62% of EBL compared to 1.50% of HBL. This shows that EBL had been able to earn higher profit on total working fund than HBL.

The fact is also supported by the coefficient of variation of EBL's ratio is more consistent than HBL i.e. 14.49% of EBL compared to 20.93% of HBL. Both banks need to exert more effort in mobilizing its working assets even more efficiently.

Return on Loan and Advances

Return on loan and advances ratio measures how efficiently the banks have utilized their resources to earn good return on loans and advances provided. Put it another way, it measures the earning capacity of commercial banks on its deposits used in the form of loans and advances.

Table 4.13 shows the return on loans and advances of HBL and EBL during the fiscal year 2004/2005 and 2009/2010. Mostly loans and advances include loan cash credit, overdraft, bills purchased and discounted.

Table 4.13
Return on Loans and Advances

Banks	Fiscal years						Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09	09/10			
HBL	2.48	3.12	2.89	3.26	3.04	1.82	2.77	0.54	19.39
EBL	2.21	2.42	2.17	2.46	2.67	3.02	2.49	0.32	12.71

Source: Annexure C.3

Table 4.13 shows that during the period of the study, the ratios of return on Loans and Advances of EBL registered the increasing trend except in FY2006/2007, whereas HBL registered the fluctuating trend. HBL registered the highest ratio of 3.26% in FY 2007/2008 and the lowest ratio of 1.82% in FY 2009/2010, while EBL registered the highest ratio of 3.02% in FY 2009/2010 and the lowest ratio of 2.17% in FY

2006/2007 during the study period. The mean ratios of the selected banks were 2.77% in case of HBL and 2.49% in case of EBL, which means HBL was able to earn higher return on loan and advances than EBL during the study period. In case of coefficient of variation, EBL had lower C.V than that of HBL, i.e. 12.71% of EBL compared to 19.39% of HBL which means EBL had more consistency on return on loans and advances.

Total Interest and Earned to Total outside Assets Ratio

The main assets of a bank are its outside assets, which include loan and advances, bills purchased and discounted, investment on government securities, investment on shares and debentures and other all types of investments. This ratio reflects the extent on which the banks are successful to earn interest on all the outside assets; a high ratio indicates high earning on such assets and vice versa.

Table 4.14 shows the total interest earned to total outside assets ratio of HBL and EBL during the fiscal year 2004/2005 to 2009/2010.

Table 4.14
Total Interest Earned to Total outside Assets Ratio

Banks	Fiscal years						Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09	09/10			
HBL	5.75	6.10	6.00	5.86	6.84	8.38	6.49	1.0	15.47
EBL	7.17	6.30	6.00	6.48	7.12	9.35	7.07	1.21	17.10

Source: Annexure C.2

Table 4.14 shows the ratio of total interest earned to total outside assets ratio of HBL and EBL. It shows that the ratio of HBL showed the decreasing trend, while the ratio of EBL showed the increasing trend. HBL registered the highest ratio of 8.38% in FY 2009/2010 and the lowest ratio of 5.75% in FY 2004/2005, whereas EBL registered the highest ratio of 9.35% in FY 2009/2010 and the lowest ratio of 6% in FY 2006/2007 during the study period. The mean of the ratios of HBL is lower than that of EBL (i.e. 6.49 % < 7.07%). It is clear that EBL had earned the higher amount of interest on its total outside assets than HBL had. The coefficient of variation of HBL's

ratios during the study period was 15.47% which is lower than that of EBL i.e. 17.10%. It indicates that the HBL's ratios were more stable and consistent than those of EBL during the study period. From the analysis it can be deduced that EBL seemed to be more successful in earning higher interest on its total outside assets than HBL.

Interest Earned to Total Working Funds (Total Assets) Ratio

The total interest earned to total working funds ratio reveals how much interest mobilizing assets in the banks has generated. Mostly banks earn interest through provision of loans and advances, overdrafts and investments in different types of securities. A high ratio is the indicative of high earning power of the bank on its total working funds, or vice versa.

Table 4.15 shows the ratio of total interest earned on total working funds of HBL and EBL from the fiscal years 2004/2005 to 2009/2010.

Table 4.15
Interest Earned to Total Working Fund Ratio

Banks	Fiscal years						Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09	09/10			
HBL	5.19	5.52	5.30	5.43	5.96	7.37	5.80	0.82	14.08
EBL	6.13	5.66	5.34	5.70	5.87	7.50	6.03	0.76	12.64

Source: Annexure C.4

From Table 4.15, it is apparent that the ratio of total interest earned on total working fund of HBL and EBL during the period of the study registered the increasing trends. HBL registered the highest ratio of 7.37% in FY 2009/2010 and the lowest ratio of 5.19% in FY 2004/2005, while EBL registered the highest ratio of 7.50% in FY 2009/2010 and the lowest ratio of 5.34% in FY 2006/2007. The mean ratio of total interest earned to total working fund of EBL was higher than that of HBL, i.e. 6.03% of EBL compared to 5.80% of HBL. The coefficient of variation of EBL was lower than that of HBL, 12.64% compared to 14.08%, during the study period. These

revealed that the ratio of total interest earned to total working fund of EBL were more stable and consistent as compared to HBL. From the analysis, it can be concluded that the ratio of total interest earned to total working fund of EBL is satisfactory as compared to HBL.

Interest Paid to Total Working Fund Ratio

Interest paid is the expenses of every bank. This ratio measures the percentage of total interest expenses and its interest on fixed deposits, call deposits, saving deposits and interest on borrowing with respect to total working fund. A high ratio indicates higher interest expenses on total working fund and vice versa.

Table 4.16 shows the ratio of total interest paid to total working fund of HBL and EBL from the fiscal year 2004/2005 to 2009/2010.

Table 4.16
Interest Paid to Total Working Fund Ratio

Banks	Fiscal years						Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09	09/10			
HBL	2.02	2.20	2.29	2.28	2.43	3.64	2.48	0.58	23.61
EBL	2.55	2.52	2.41	2.33	2.74	3.80	2.73	0.54	19.98

Source: Annexure C.5

When analyzing Table 4.16, it can be said that the ratio of total interest paid to total working fund of HBL was in increasing trend, while the ratio of EBL was in decreasing trend from FY2004/2005 to FY 2007/2008 and increasing trend in last two years during the study period. The highest ratio of HBL is 3.64% in FY 2009/2010 and the lowest ratio is 2.02% and the highest ratio of EBL is 3.80% in FY 2009/2010 and the lowest ratio is 2.33% in FY 2007/2008. The mean ratio of HBL was lower than that of EBL i.e. 2.48% of HBL compared to 2.73% of EBL. It reveals that EBL had higher interest expenses on total working fund than HBL had, which indicates the unstable credit policy followed by the bank. The standard deviation of EBL was less than that of HBL i.e. 0.54 of EBL compared to 0.58 of HBL. And coefficient of

variation of HBL is higher than that of EBL i.e. 23.61% of HBL compared to 19.98% of EBL.

To sum up, it can be said that HBL is in better position from interest payment point of view than EBL. HBL seems to have collected its funds from cheaper sources than EBL.

4.2.4 Risk Analysis

Risk means variations in actual returns on investment than expected. There is a positive relationship between risk and return, viz. higher the risk, higher the return and vice versa. Therefore, a bank has to take high risk, if it expects high return on its investment. Thus, the banks have to face the challenge posed by the presence of risk in investment. This ratio examines the degree of risk involved in the banks' investment and other financial operations. Through the following ratios, efforts have been made to measure the banks' level of risk during the period of study.

Credit Risk Ratio

Credit risk ratio helps to check the profitability of loan non-payment or the possibility of loan to go into default or it is also said that it measures the risk behind making investment or granting loan. The ratio is calculated by dividing the total loans and advances by the total assets of the bank and is expressed in percentage.

The table 4.18 shows the credit risk ratio of HBL and EBL from the fiscal year 2004/2005 to 2009/2010.

Table 4.17
Credit Risk Ratio

Banks	Fiscal years						Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09	09/10			
HBL	48.31	53.50	53.09	55.78	64.90	68.18	57.29	7.63	13.33
EBL	67.33	63.51	65.71	69.38	66.28	68.04	66.71	2.03	3.05

Source: Annexure D.1

When analyzing Table 4.17, it is revealed from the ratio that EBL had taken highest position on credit risk during the study period. HBL registered the overall growth trend, whereas EBL registered the overall decreasing trend during the period of study. HBL registered the highest ratio of 68.18% in FY 2009/2010 and the lowest ratio of 48.31% in FY 2004/2005, while EBL registered the highest ratio of 69.38% in FY 2007/2008 and the lowest ratio of 63.51% in FY 2005/2006. The mean ratio of credit risk of HBL is lower than that of EBL i.e. 57.29% of HBL compared to 66.71% of EBL. And the coefficient of variation of HBL is higher than that of EBL i.e. 13.33% of HBL compared to 3.05% of EBL, which indicates that the ratio of HBL is less uniform than EBL.

Capital Risk Ratio

Capital risk ratio measures bank's ability to attract deposits and interbank funds. It also determines the level of profit a bank can earn it. Bank chooses to take high capital risk and it will not be higher and vice versa. Therefore, a bank must maintain adequate capital in relation to the nature and condition of its assets, its deposits liabilities and other corporate responsibilities.

Table 4.18 shows the capital risk ratio of HBL and EBL from the fiscal years 2004/2005 to 2009/2010.

Table 4.18
Capital Risk Ratio

Banks	Fiscal years						Mean	S.D.	C.V. %
	04/05	05/06	06/07	07/08	08/09	09/10			
HBL	11.01	11.26	12.11	12.70	11.02	10.72	11.47	0.77	6.69
EBL	13.57	12.32	11.19	11.44	10.55	10.77	11.64	1.13	9.69

Source: Annexure D.2

It is apparent from Table 4.18 that the capital risk ratios of HBL registered increasing trend during the first four years and thereafter registered decreasing trend whereas

EBL registered the fluctuating trend during the study period. HBL record the highest ratio of 12.70% in FY 2007/2008 and the lowest ratio of 10.72% in FY 2009/2010 while EBL had highest ratio of 13.57% in FY 2004/2005 and the lowest ratio of 10.55% in FY 2008/2009. The mean ratio of EBL was 11.64% which was greater than that of HBL i.e. 11.47%. It means EBL had higher capital risk than HBL had. In case of coefficient of variation of the ratio, it was 6.69% for HBL and 9.69% for EBL, which means the ratios of HBL were more consistent.

4.3.5. Growth Analysis

A firm seeks not only to survive by generating profits, but also to achieve growth. A growing firm is, therefore, regarded as a successful firm in the end. Therefore, in order to assess the success or potential for achieving success in the end, it is essential to analyze the growth that the bank has achieved in terms of deposits it has received, loans and advances it has provided, investments it has made, and its profitability.

Growth of Total Deposits

Table 4.19 exhibits the growth ratio of total deposits of HBL and EBL from FY 2004/2005 to FY 2009/2010.

Table 4.19
Growth Ratio of Total Deposits

Banks	Fiscal Years (Rs in millions)						Growth Ratio (%)
	04//05	05/06	06/07	07/08	08/09	09/10	
HBL	24184	26490.9	30048.4	31842.8	34681.3	37611.2	7.18
EBL	10097.7	13802.4	18186.2	23976.3	33322.9	36932.9	24.13

Source: Annexure E.1

When analyzing Table 4.19, growth ratio of HBL is 7.18%, which is lower than 24.13% of EBL. Similarly, the table shows the increasing trend of Total Deposits position of both banks. Comparatively, we can say that the position of total deposits of EBL is more satisfactory.

Growth of Total Loans and Advances

Table 4.20 shows the growth ratio of total loans and advances of HBL and EBL from the fiscal year 2004/2005 to 2009/2010.

Table 4.20
Growth Ratio of Total Loans and Advances

Banks	Fiscal Years (Rs. in million)						Growth Ratio (%)
	04/05	05/06	06/07	07/08	08/09	09/10	
HBL	13451.2	15762	17793.7	20179.6	25519.5	29123.8	13.74
EBL	7900	10136.2	14082.7	18836.4	24469.6	28156.4	23.59

Source: As Annexure E.2

When analyzing Table 4.20, the growth ratio of total loans & advances of HBL is 13.74%, which is lower than 23.59% of EBL. When analyzing the loan and advances mobilization, EBL has increased its loan and advances sharply over the study period in comparison to HBL.. It can be said that investment policy of EBL increase year by year for profit generating activities on behalf of processing loan and advances which maximize the value of the organization.

Growth of Total Investments

Investments are major activities of commercial banks. All the deposits collected by the banks are ultimately for investments whereby they generate revenues and profits for their survival and growth. If the banks are achieving steady growth in their investment activities, they can prosper in the long run, or *vice versa*. Therefore, it is essential to examine the growth of the banks selected for the purpose of study.

The table below shows the growth ratio of total investment of HBL and EBL from the fiscal year 2004/2005 to 2009/2010.

Table 4.21
Growth Ratio of Total Investments

Banks	Fiscal Years						Growth Ratio (%)
	04/05	05/06	06/07	07/08	08/09	09/10	
HBL	11692.3	10889	11823	13340.2	8710.7	8444.9	-5.28
EBL	2128.9	4200.5	4984.3	5059.6	5948.5	5008.3	15.32

Source: As Annexure E.3

Table 4.21 shows the decreasing trend of total investment position of HBL, and the increasing trend of total investment of EBL over the study period. The growth ratio of EBL is 15.32%, which is much higher than that of HBL i.e. -5.28%. The investment of EBL is increasing year by year over the period; as such, it registered the overall growth ratio of 15.32%. It reveals that HBL did not much emphasize its investment policy as compared to EBL.

Growth of Net Profit

Table 4.22 shows the growth ratio of Net Profit of HBL and EBL from FY 2004/2005 to 2009/2010.

Table 4.22
Growth Ratio of Net Profit

Banks	Fiscal Years (Rs. in million)						Growth Ratio (%)
	04/05	05/06	06/07	07/08	08/09	09/10	
HBL	308.3	457.5	491.8	635.9	752.8	508.8	8.71
EBL	168.2	237.3	296.4	451.2	638.7	831.8	30.53

Source: As Annexure E.4

When analyzing the Table 4.22, it shows that the growth ratio of net profit of EBL was 30.53%, which is higher than 8.71% of HBL. It reveals that EBL maintained the higher growth ratio of net profit in comparison to HBL.

4.4 Statistical Analysis

Statistical tools help to find out the trend of financial position of the bank and to analyze the relationship between variables that helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund mobilization through providing loan and advances or investment on other company. In this study, statistical tools such as coefficient of correlation between different variable and also hypothesis test have been used for analyzing and interpreting the financial data.

4.4.1 Correlation Analysis

It is statistical tools that can be used to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two set of figure. The variable method of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The coefficient of correlation is always between +1 and -1. When r , the coefficient of correlation is +1, there is perfect positive relationship between two variables (i.e. one dependent variables and one independent variable), when r is -1, there is perfect negative relationship between two variables, dependent and independent variable. And when r is equals to 0 there is no relationship between variables. So this topic tries to find out relationship between the following variables and helps the bank to make appropriate policies regarding deposit collection, fund utilization and profit maximization.

- Coefficient of Correlation between Total Deposits and Loan and Advances.
- Coefficient of Correlation between Total Deposits and Total Investment.
- Coefficient of Correlation between outside assets and net Profit.

Coefficient of Correlation between Total Deposits and Loan and Advances

Coefficient of correlation between total deposits and loans and advances measures the degree of relationship between dependent variable i.e. deposit and independent variable i.e. loan and advances.

The main objective of computing 'r' between these two variables is to justify whether deposit of two banks are significantly used as loan and advances in a proper way or not. The table below shows the value of r, r², P.Er. and 6 P.Er. between deposits and loan and advances of HBL and EBL for the six years study period i.e. 2004/2005 to 2009/2010 .(See Details in Annexure)

Table 4.23

Coefficient of Correlation between Total Deposits and Loan and Advances

Banks	Correlation Coefficient(r)	r ²	P.Er.	6P.Er.	Remarks
HBL	0.988	0.9761	0.0066	0.0395	r>6P.Er.
EBL	0.9980	0.9960	0.001	0.006	r>6P Er.

Sources: Annexure F.1

When analyzing Table 4.23, the correlation coefficient between Total Deposits and Loans & Advances of HBL and EBL are 0.988 and 0.9980 respectively. It is inferred that there is positive correlation between Total Deposits and Loans & Advances. Similarly, while considering the value of 'r' comparing it with 6P.Er. in both cases it is found that the value of 'r' is greater than the value of 6P.Er., i.e. 0.988>0.0395 and 0.9980>0.006 respectively. This reveals that the values of 'r' in case of HBL and EBL are significant, i.e. there is evidence of the positive correlation between Total Deposits and Loans & Advances.

Coefficient of Correlation between Total Deposits and Total Investment

When analyzing the investment policy of banks selected for the study, their deposits and total investments play very important role in that there is direct relationship between these two variables of the banks. Hence, the coefficient of correlation between total deposit and total investment measures the degree of relationship between these two variables. As is known that the investment always depends upon deposits, so in this analysis, deposit is independent variable and i.e. X and investment is dependent variable i.e. Y. The main objective of computing 'r' between these two variables is to find out whether deposits are significantly used as investment or not.

Table 4.24 shows the values of 'r', r², P.Er. and 6P.Er. between deposits and investments of HBL and EBL for the six years study period i.e. 2004/05 to 2009/10.

Table 4.24
Coefficient of Correlation between Total Deposits and Total Investment

Banks	Correlation Coefficient(r)	r ²	P Er.	6P.Er.	Remark
HBL	-0.6056	0.3667	0.174	1.044	r<6P.Er.
EBL	0.7633	0.5826	0.115	0.690	r>6P.Er.

Sources: Annexure F.2

When analyzing Table 4.24, it is found that the correlation coefficient between total deposits and investments of HBL is- 0.6056. It indicates that there was a negative relationship between the two variables deposits, i.e. independent variable, and investment, i.e. dependent variable. However, by application of coefficient of determination the value of (r²) is .3667 which indicates that 36.67% of the variation of the dependent variable (Total Investment) has been explained by the independent variable (Total Deposit). Moreover, by considering the probable error since the value of r i.e. -0.6056 is less than 6 times of P.Er. i.e.1.044. so, we can say that the value of r is not significant i.e there is no significant relationship between total deposits and total investments.

On the other hand, in case of EBL has positive correlation between total deposits and total investment. However, by application of coefficient of determination i.e. r² it indicates EBL to be 58.26% of the variation in the dependent variable i.e. total investment has been explained by the independent variable i.e. total deposits. Similarly, by considering the probable error since the value of r i.e. 0.7633 is more than 6 times of P.Er. so we can say that there is significant relationship between total deposits and total investments.

From the above analysis, the conclusion can be drawn that in case of HBL, there is no significant relationship between total deposits and total investment because 'r' i.e. -

.6056 and r^2 i.e. 36.67% are far less than 6 times of P.Er. i.e. 1.044, whereas, in case of EBL, there is significant relationship between total deposits and total investments because 'r' i.e. 0.7633 is more than 6 times of P.Er. i.e 0.690. Lastly, it can be said that EBL has followed the policy of maximizing the investment of their deposits, whereas, HBL followed no certain investment policy to invest their deposits.

Coefficient of Correlation between Total outside Assets and Net Profit

Outside asset means total assets of bank, it is referred that how much the total assets affects the volume of net profit. So, coefficient of correlation between total outside assets and net profit measures the degree of relationship between these two variables i.e. total assets (X) which is independent variables and net profit (Y) dependent variable which is dependent with volume of total outside assets. Objectives of finding out coefficient of correlation between these two variables are whether the net profit is significantly correlated to total outside assets or not.

Table 4.25 shows the value of r, r^2 , P.Er. and 6P.Er. between outside assets and net profit of HBL with comparison to EBL for the six years study period i.e. 2004/05 to 2009/10.

Table 4.25

Coefficient of Correlation between Total outside Assets and net Profit

Banks	Correlation Coefficient (r)	r^2	P. Er.	6P.Er.	Remarks
HBL	0.6860	.4706	0.1458	0.8747	$r < 6P.Er.$
EBL	0.9734	.9475	0.1020	.6121	$r > 6P.Er.$

Source: Annexure F.3

From the above table 4.25, it has been found that the coefficient correlation between total outside assets (independent variable) and net profit (dependent variable) is 0.6860 in case of HBL which indicates positive correlation between these two variables on the other hand, considering the value of coefficient of determination r^2 i.e.0.4706 indicates that 47.06% of the variation in the dependent variable (net profit) has been explained by the independent variable (total outside assets). While, considering the probable error it can be said that there is not significant relationship

between total outside assets and net profit because the value of 'r' is less than 6 P.Er. i.e. $0.6860 < 0.8747$. Thus, we can say that HBL has no significant correlation between mobilization of funds and returns i.e. net profit from such mobilized assets. On the other hand, in case of EBL the coefficient correlation (r) between total outside assets and net profit is 0.9734 this indicates positive correlation between these two variables. Similarly, while considering the value of coefficient of determination r^2 i.e. 0.9475 indicates that 94.75% of the variation in the dependent variable (net profit) has been explained by the independent variable (total outside assets). Moreover, while considering the probable error we can further say that there is significant relationship between two variables i.e. total outside assets and net profit because the value of 'r' is more than 6 P.Er. i.e. $0.9734 > 0.6121$. It indicates that EBL is capable to earn net profit by mobilizing its total outside assets.

In conclusion, we can say that in case of EBL, the value of r is significant and the value of coefficient of determinations also high. But in case of HBL, 'r' is positive correlation but 'r' and 'r²' of the both cases are less than 6 times of P.Er. so the value of r is not significant.

4.4.2 Trend Analysis

In this section, an attempt has been made to analyze and interpret the trend of deposits, loans and advances, investments and net profits of HBL and EBL to forecast them for next five years period. The projections are based on the following assumptions.

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

The following trend value analysis has been used in the study.

- Trend analysis of Total Deposits.

- Trend analysis of loans and advances.
- Trend analysis of Total investment
- Trend analysis of net profit

Trend Analysis of Total Deposits

Table 4.26 shows the trend values of total deposits of HBL and EBL for six years from FY 2004/2005 to 2009/2010 and forecasted the same for the 2014/2015.

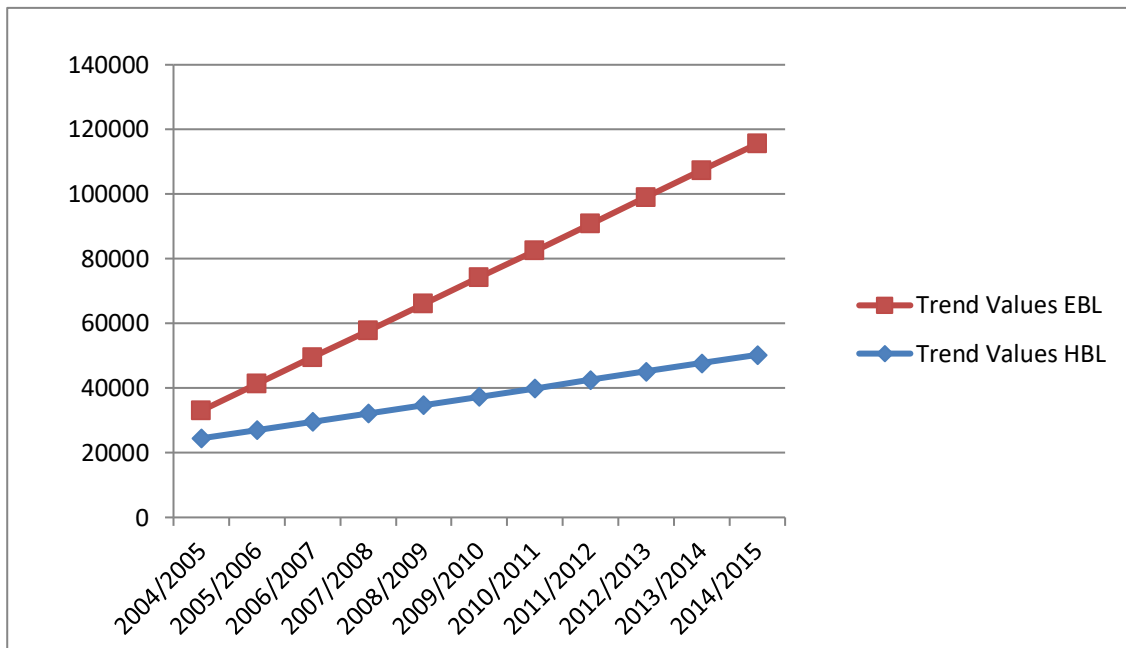
Table 4.26
Trend Values of Total Deposits of HBL and EBL

(Rs. in million)

Years	Trend Values HBL	Trend Values EBL
2004/2005	24461.10	8539.34
2005/2006	27042.57	14211.47
2006/2007	29624.04	19883.60
2007/2008	32205.51	25555.73
2008/2009	34786.98	31227.86
2009/2010	37368.45	36899.99
2010/2011	39949.92	42572.12
2011/2012	42531.39	48244.25
2012/2013	45112.60	53916.38
2013/2014	47694.33	59588.51
2014/2015	50275.80	65260.64

Figure:4.1

Trends values of total deposits of HBL and EBL



When analyzing the table 4.26, it is clear that the total deposits of HBL and EBL are in increasing trend. In other things remaining constant, the total deposits in FY 2014/2015 will be Rs.50275.87 million and Rs.65260.64 million of HBL and EBL respectively. From the above trend analysis, it is found that the deposits collection position of EBL is better than HBL.

Trend Analysis of Loan Advances

Table 4.27 shows that the trend value of total loan and advances of HBL and EBL for six years FY 2004/2005 to 2009/2010 and forecast of the same for the next five years i.e. till 2014/2015.

Table 4.27

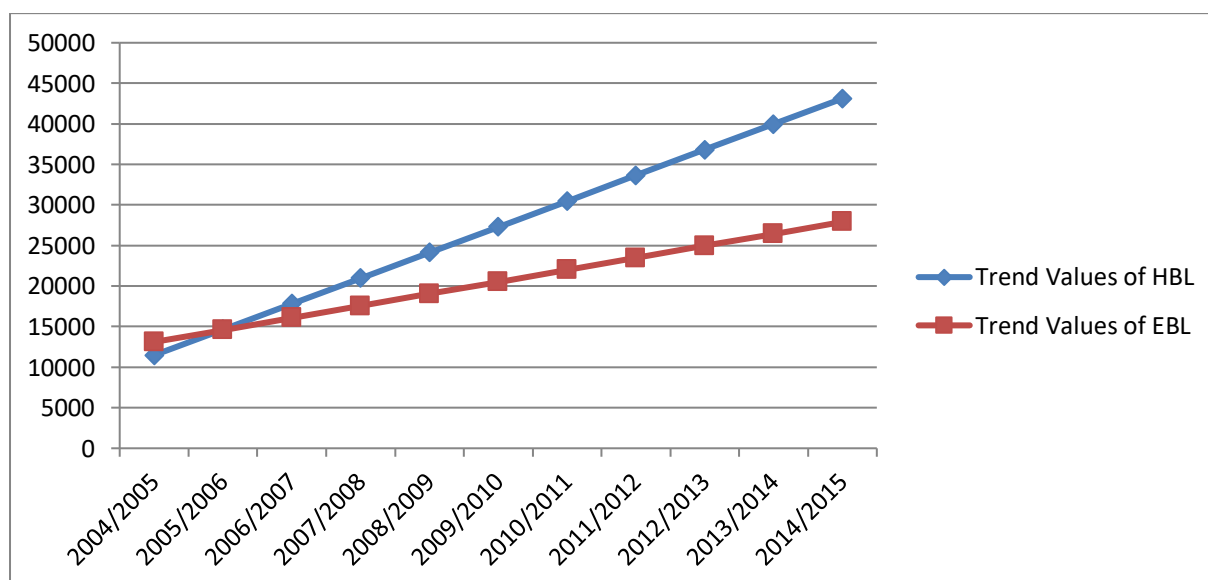
Trend Values of Loans and Advances of HBL and EBL

(Rs.in million)

Year	Trend Values of HBL	Trend Values of EBL
2004/2005	11479.98	13111.55
2005/2006	14643.75	14591.21
2006/2007	17807.52	16070.87
2007/2008	20971.29	17550.53
2008/2009	24135.06	19030.19
2009/2010	27298.83	20509.85
2010/2011	30462.60	21989.51
2011/2012	33626.37	23469.17
2012/2013	36790.14	24948.83
2013/2014	39953.91	26428.49
2014/2015	43117.68	27908.15

Figure 4.2

Trend values Loans and Advances of HBL and EBL



When analyzing Table 4.27, it is clear that the total loans and advances of HBL and EBL in increasing trend. If other things remain constant, the total deposits in FY

2014/2015 reach Rs.43117.68 million and Rs.27908.15 million of HBL and EBL respectively. According to trend analysis, EBL had better performance on loans and advances mobilization in comparison to HBL.

Trend Analysis of Total Investment

Table 4.28 shows the trend value of total investment of HBL and EBL for six years FY 2004/2005 to 2009/2010 and forecast of the same for the next five years i.e. till 2014/2015.

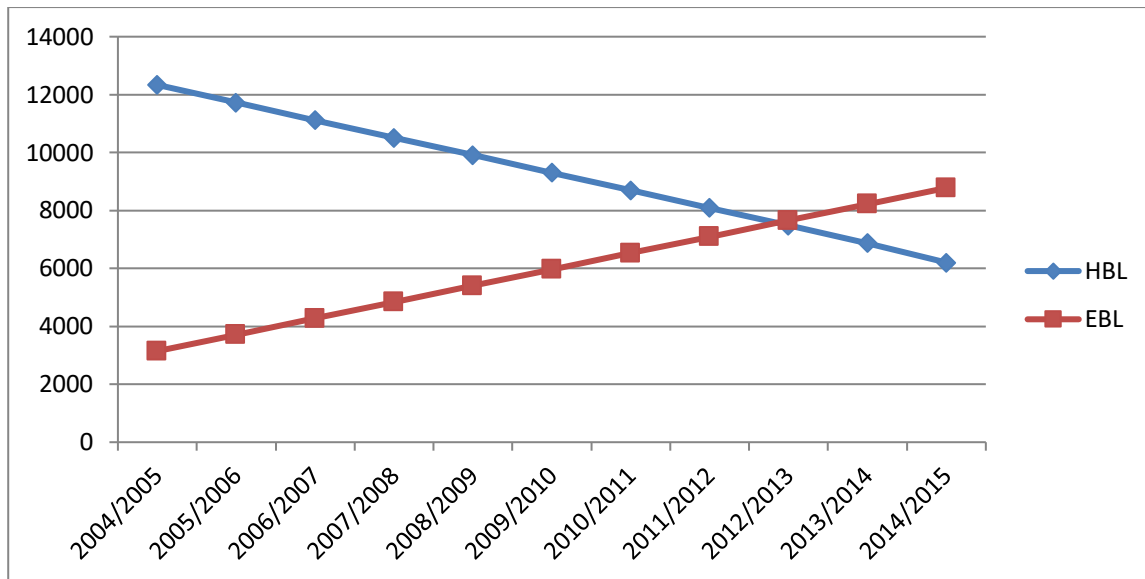
Table 4.28
Trend Values of Total Investment of HBL and EBL

(Rs. in million)

Year	Trend Values of HBL	Trend Values of EBL
2004/2005	12334.89	3146.84
2005/2006	11727.61	3709.98
2006/2007	11120.33	4273.12
2007/2008	10513.05	4836.26
2008/2009	9905.77	5399.40
2009/2010	9298.49	5962.54
2010/2011	8691.21	6525.68
2011/2012	8083.93	7088.82
2012/2013	7476.65	7651.96
2013/2014	6869.37	8215.10
2014/2015	6202.09	8778.24

Figure 4.3

Trend Values of Total Investment of HBL and EBL



When analyzing Table 4.28, it is clear that the trend value of total investment of HBL and EBL were in decreasing and increasing trend respectively. If other things remaining constant, the total investment in FY 2014/2015 reaches Rs.6202.09 million and Rs. 8778.24 million of HBL and EBL respectively. According to analysis, it was seen that total investment position of EBL was better than that of HBL.

Trend Values of Net Profit

Table 4.29 exhibits that the trend value of net profit of HBL and EBL for six years FY 2004/2005 and forecast of the same for the next five years i.e. till 2014/2015.

Table 4.29

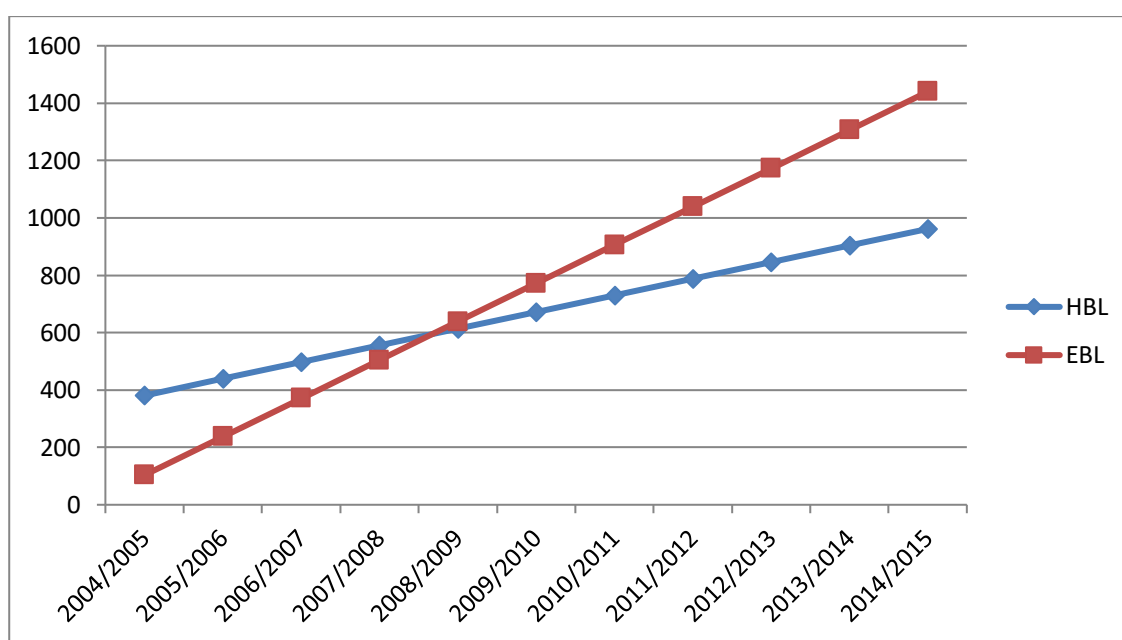
Trend values of Net Profit of HBL and EBL

(Rs. in millions)

Year	Trend Values of HBL	Trend Values of EBL
2004/2005	380.64	103.37
2005/2006	438.72	237
2006/2007	496.8	370.63
2007/2008	554.88	504.26
2008/2009	612.96	637.89
2009/2010	671.04	771.52
2010/2011	729.12	905.15
2011/2012	787.2	1038.78
2012/2013	845.28	1172.41
2013/2014	903.36	1306.04
2014/2015	961.44	1439.67

Figure4.4

Trend values of Net Profit of HBL and EBL



When analyzing Table 4.29, it is apparent that the net profit of HBL and EBL were in increasing trend. If other things held constant, the net profit in FY

2014/2015 will reach to Rs.961.44million and Rs.1439.67 million of HBL and EBL respectively. According to the trend analysis, it is seen that the net profit position of EBL was better in the study period, as the forecast trend position of net profit was more than HBL.

4.5. Testing of Hypothesis

A hypothesis is a statistical statement of the relation between two or more variables. It always in declarative sentence form and they relate either generally or specifically variables to variables. After setting the hypothesis it is necessary to test the reliability of such statistical statement. Under this analysis hypothesis test has been made to test the significance regarding the parameter of the population on the basis of sample drawn from the population. The following steps have been followed from the test of hypothesis.

1. Formulating and test of Hypothesis

H_0 – There is no significance difference between mean ratios of two variables.

(H_1) – There is significance difference between mean ratio of two variables.

2. Computing the test static

3. Fixing the level of significance

4. Finding the critical region

5. Decision Making

A. Test of Hypothesis on Total Investment to Total Deposits Ratio between HBL with EBL

Here, Ratios of Total Investment to total Deposits of HBL and EBL are taken and carried out under t- test of significance difference.

Test of significance difference between HBL and EBL

Here,

Null Hypothesis (H_0): $\bar{X}_1 = \bar{X}_2$

i.e. there is no significant difference between mean ratios of Total Investment to Total Deposit of HBL and EBL.

Alternative Hypothesis (H_1): $\bar{X}_1 \neq \bar{X}_2$ (two tailed)

i.e. there is significant difference between mean ratios of Total Investment to Total Deposit of HBL & EBL. (Where \bar{X}_1 is mean ratio of HBL and \bar{X}_2 is mean ratio of EBL)

The calculated value of $|t|=2.98$ (calculation is given in Appendix I)

Tabulated value of 't' (two tailed test) at 5% level of (n_1+n_2-2) d.f is i.e. 10 is 2.228

Decision:

Since the calculated value of $|t|$ is greater than the tabulated value of t' i.e. $2.98 > 2.228$, null hypothesis is not accepted i.e. there is significant difference between mean ratio of Total Investment to Total Deposit of HBL and EBL.

B. Testing of Hypothesis on Loan and Advances to total Deposits Ratios between HBL and EBL (See details in Appendix II)

Test of significance difference between HBL and EBL

Here,

Null Hypothesis (H_0): Null Hypothesis (H_0): $\bar{X}_1 = \bar{X}_2$

I.e. there is no significant difference between mean ratios of Loans and Advances to Total Deposit of HBL and EBL.

Alternative Hypothesis (H_1): $\bar{X}_1 \neq \bar{X}_2$ (two tailed)

i.e. there is significant difference between mean ratios of Loans and Advances to Total Deposit of HBL & EBL. (Where \bar{X}_1 is mean ratio of HBL and \bar{X}_2 is mean ratio of EBL)

The calculated value of $|t|=3.06$ (calculation is given in Appendix II)

Tabulated value of 't' (two- tailed test) at 5% level of $((n_1+n_2-2)$ d.f is i.e. 10 is 2.228

Decision:

Since the calculated value of $|t|$ is greater than the tabulated value of t' i.e. $3.06 > 2.228$, null hypothesis is not accepted i.e. there is significant difference between mean ratio of Loans and Advances to Total Deposits of HBL and EBL.

C. Test of Hypothesis on Investment on Government Securities to current Assets Ratios of HBL and EBL (See details in Appendix III)

Test of significance difference between HBL and EBL

Here,

Null Hypothesis (H_0): Null Hypothesis (H_0): $\bar{X}_1 = \bar{X}_2$

i.e. there is no significant difference between mean ratios of Investment on Government Securities to current assets of HBL and EBL.

Alternative Hypothesis (H_1): $\bar{X}_1 \neq \bar{X}_2$ (two tailed)

i.e. there is significant difference between mean ratios of Investment on Government Securities to Current Assets of HBL & EBL. (Where \bar{X}_1 is mean ratio of HBL and \bar{X}_2 is mean ratio of EBL)

The calculated value of $|t|=0.27$ (calculation is given in Appendix III)

Tabulated value of t' (two- tailed test) at 5% level of $((n_1+n_2-2)$ d.f is i.e. 10 is 2.228

Decision:

Since calculated value of students' t' is less than the tabulated value i.e. $0.27 < 2.228$, so null hypothesis is accepted. Therefore, there is no significant difference between mean ratios of Investment on Government Securities to Current Assets of HBL and EBL.

D. Test of hypothesis on loan and advances to current Assets ratios between HBL and EBL (See details in Appendix IV)

Test of Significance difference between HBL and EBL

Here,

Null Hypothesis (H_0): Null Hypothesis (H_0): $\bar{X}_1 = \bar{X}_2$

I.e. there is no significant difference between mean ratios of Loans and Advances to Current Assets of HBL and EBL

Alternative Hypothesis (H_1): $\bar{X}_1 \neq \bar{X}_2$ (two tailed)

i.e. there is significant difference between mean ratios of Loans and Advances to Current Assets of HBL & EBL. (Where \bar{X}_1 is mean ratio of HBL and \bar{X}_2 is mean ratio of EBL)

The calculated value of $|t|=2.31$ (calculation is given in Appendix IV)

Tabulated value of 't' (two- tailed test) at 5% level of $((n_1+n_2-2)$ d.f is i.e. 10 is 2.228

Decision:

Since calculated value of 't' is greater than the tabulated value i.e. $2.31 > 2.228$, so null hypothesis is not accepted i.e. there is significant difference between mean ratios of Loans and Advances to Current Assets of HBL and EBL.

E. Test of hypothesis on Return on loan and advances ratios between HBL and EBL (see details in Appendix V)

Test of significance difference between HBL and EBL

Here,

Null Hypothesis (H_0): Null Hypothesis (H_0): $\bar{X}_1 = \bar{X}_2$

i.e. there is no significant difference between mean ratios of Return on Loans and Advances of HBL and EBL

Alternative Hypothesis (H_1): $\bar{X}_1 \neq \bar{X}_2$ (two tailed)

i.e. there is significant difference between mean ratios of Return on Loans and Advances of HBL & EBL. (Where \bar{X}_1 is mean ratio of HBL and \bar{X}_2 is mean ratio of EBL)

The calculated value of $|t|=0.16$ (calculation is given in Appendix V)

Tabulated value of 't' (two- tailed test) at 5% level of $((n_1+n_2-2)$ d.f is i.e. 10 is 2.228

Decision:

Since the calculated value of 't' is less than the tabulated value i.e. $0.16 < 2.228$, so null hypothesis is accepted. Therefore, there is no significant difference between mean ratios of return on Loans and Advances of HBL and EBL.

F. Test of hypothesis on Total Interest Earned to Total outside Assets ratios between HBL and EBL(See details in Appendix VI)

Test of significance difference between HBL and EBL

Here,

Null Hypothesis (H_0): Null Hypothesis (H_0): $\bar{X}_1 = \bar{X}_2$

I.e. there is no significant difference between mean ratios of Total interest Earned to Total outside Assets of HBL and EBL

Alternative Hypothesis (H_1): $\bar{X}_1 \neq \bar{X}_2$ (two tailed)

i.e. there is significant difference between mean ratios of Total Interest Earned to Total outside Assets of HBL & EBL. (Where \bar{X}_1 is mean ratio of HBL and \bar{X}_2 is mean ratio of EBL)

The calculated value of $|t|=0.91$ (calculation is given in Appendix VI)

Tabulated value of 't' (two- tailed test) at 5% level of $((n_1+n_2-2)$ d.f is i.e. 10 is 2.228

Decision:

Since the calculated value of 't' is less than tabulated value of 't' i.e. $0.91 < 2.228$, so null hypothesis is accepted. Therefore, there is no significant difference between mean ratios of Total Interest Earned to Total outside Assets of HBL and EBL.

4.3 Major Findings of the Study

The main findings of the Study are derived on the analysis of financial data of HBL and EBL is given below.

1. Liquidity Ratio

The liquidity position of HBL and EBL reveals that:

- From the analysis of current ratio, it is found that the mean ratios of both banks are lower than the standard current ratio of 2:1. HBL had maintained even lower liquidity than that of EBL. The ratio of EBL is more variable than that of HBL.
- The mean ratio of Cash and Bank Balance to Current Assets of EBL is higher than that of HBL which indicates the liquidity position of EBL is better in this regard. And the ratio of HBL is more stable and consistent.
- The mean ratio of Cash and Bank Balance to Total Deposits of EBL is higher than that of HBL. It states that the liquidity position of EBL is better in this regard. And the ratio of EBL is more variable than that of HBL.
- The mean ratio of Loans & Advances to Current Assets of EBL is higher than that of HBL which shows that EBL is better to mobilize its fund as loans & advances with respect to current assets in comparison to HBL.
- The mean ratio of Investment on Government Securities to Current Assets of EBL is higher than that of HBL which shows that greater position of current assets of EBL consists of Government Securities. And the ratios of EBL are more stable and consistent.

The above result shows that the liquidity position of EBL is comparatively better than HBL. It has higher Cash & Bank Balance to Current Assets and Cash & Bank Balance to Total Deposits. At last, it can be concluded that EBL has good deposit collection and it has made enough investment on Government Securities.

2. Assets Management Ratio (Activity Ratio)

The assets management of HBL and EBL reveals that:

- The mean ratio of Loans Advances to Total deposit of EBL is higher than that of HBL. And the loans and advances of EBL were more stable and consistent. EBL seems to be strong in terms of mobilization of its total deposits as loan and advances when compared to HBL.
- The mean ratio of Loans and Advances to Total Working Fund of EBL is higher than that of HBL. The ratios of EBL are more stable and consistent than that of HBL. It

indicates that EBL is more successful in mobilizing its assets in the form of loans and advances for generating income.

- In case of Total Investment to Total Deposit ratio, HBL had higher mean ratio and lower coefficient of variation than that of EBL. It reveals that HBL had been more successful in mobilizing its resources on various forms of investment.
- From the analysis of Investment on Government Securities to Total Working Fund ratio, it is found that the mean ratio of HBL is lower than that of EBL and the ratios of HBL were more variable so it can be deduced that EBL had been more successful in mobilizing its fund on Government Securities.
- When analyzing the mean ratios of Investment on Shares and Debentures to Total Working Fund of HBL and EBL reveal that EBL had invested slightly higher amount of total working fund on Shares and Debentures than HBL so it can be said that EBL had been more successful in mobilizing its fund as investment on Shares and Debentures than HBL.

3. Profitability Ratio

The profitability ratios of HBL and EBL reveal that:

- The mean ratio of return on Total working fund of EBL is higher than that of HBL. The ratios of EBL were more consistent than HBL. This shows that EBL had been able to earn higher profit on total working fund than HBL.
- The mean ratio of return on Loan and advances of HBL is higher than that of EBL, which means HBL was able to earn higher return on loan and advances than EBL. EBL had more consistency on return on loan and advances.
- The mean ratio of Interest Earned to Total outside Assets of HBL is lower than that of EBL, which shows that EBL had earned the higher amount of interest on its total outside assets than HBL. The ratios of HBL were more stable and consistent than those of EBL.
- The mean ratio of Total Interest Earned to Total working Fund of EBL was higher than that of HBL and the ratios of EBL were more stable and consistent as compared to HBL. So, it can be said that EBL had higher earning power on its total working fund.

- The mean ratio of Interest Expenses to Total working Fund of HBL was lower than that of EBL which reveals that EBL had higher interest expenses on total working fund than HBL had. So, we can say that HBL is in better position from interest payment point of view. The ratios of EBL were more stable and consistent than HBL. From the above findings of profitability ratios, it can be concluded that EBL is more profitable in comparison to HBL.

4. Risk Ratio

- From the analysis, the mean of credit risk ratio of EBL is higher than that of HBL which indicates that EBL has more credit risk than HBL. The ratios of HBL were less consistent.
- From the analysis, the mean ratio of Capital Risk of EBL was greater than that of HBL. It indicates that EBL is successful to attract the deposit and interbank fund, which help to increase volume of profit. And the ratios of EBL were less consistent.

5. Growth Ratio

From the analysis of growth ratios of HBL and EBL, it reveals that:

- The growth ratio of EBL's deposit is higher than that of HBL. EBL has maintained growth rate of 24.13% whereas HBL has 7.18%. It means the performance of EBL to collect greater deposit in comparison to HBL is better.
- The growth ratio of EBL's loan & advances is higher than that of HBL. EBL has maintained growth rate of 23.59% whereas HBL has 13.74%, it shows EBL has increased its loan & advances sharply over the study period in comparison to HBL.
- The growth ratio of Total investment of EBL is greater than that of HBL. EBL has maintained growth rate of 18.32% whereas HBL has -5.28%. It reveals that the investment of EBL is increasing year by year over the study period whereas HBL did not much emphasize its investment policy as compared to EBL.
- From the analysis, it shows that the growth ratio of net profit of EBL was much higher than that of HBL i.e. 30.53% > 8.71%. It reveals that EBL has maintained better profit than HBL.

From the above analysis, it can be concluded that EBL has maintained high growth ratios in total deposits, loan & advances, total investment and net profit. Thus, we can say that the bank is successful in increasing its sources of funds and its mobilization.

6. Coefficient of Correlation Analysis

Coefficient of Correlation analysis between different variables of HBL and EBL, it reveals that:

- The coefficient of correlation between total deposit and loan and advances of EBL is very near to one which is higher than that of HBL i.e. $0.998 > 0.988$, it shows that there is a perfect correlation between mobilization of deposit as loan & advances and also bank has significantly positive value.
- The coefficient of correlation between total deposit and total investment of EBL is higher than that of HBL. It reveals that EBL is successful to mobilize its deposits in better way for profit generating activities by following the policy of maximizing the investment of its deposits.
- The coefficient of correlation between total outside assets and net profit of EBL is found highest nearly perfectly correlated. This indicates that EBL is most capable to earn net profit by mobilizing its outside assets. HBL also has the positive relationship between outside assets and net profit.

7. Trend Analysis and Projection for Next Five Years

The trend analysis of deposits, loan & advances, total investment and net profit and projection for next five years of HBL and EBL, it reveals that:

- The deposits of both banks have increasing trend. The total deposit of HBL will be Rs.50275.87 million in the mid July 2015. Similarly, the total deposit of EBL will be Rs.65260.64 million in the mid July 2015, which is the highest deposit among the study period. The deposit collection of HBL is lower than EBL.
- The loan and advances of both banks have increasing trend. The total loan & advances of HBL will be Rs.43117.68 million in the mid July 2015, which is the highest among the study period. Similarly, the total loan & advances of EBL will be

Rs.27908.15 million in the mid July 2015. The loan & advances position of HBL is higher than that of EBL.

- Investment of HBL has decreasing trend whereas EBL has increasing trend. The total investment of HBL will be Rs.6202.09 million in the mid July 2015, which is the lowest among the study period. On the other hand, the total investment of EBL will be Rs.8778.24 million in the mid July 2015, which is the highest among the study period. The total investment of EBL is better compared to HBL.
- 8. The net profits of both banks have increasing trend. The net profit of HBL will be Rs.961.44 million in the mid July 2015. Similarly, the net profit of EBL will be Rs.1439.67 million in the mid July 2015, which is the highest among the study period. The position of EBL in regard to utilization of funds to earn profit is better during the study period in comparison to HBL.

9. Testing of Hypothesis:

From the test of significance regarding the parameter of the population, it has been found that:

- There is significant difference between mean ratio of Total Investment to Total Deposit of HBL and EBL.
- There is significant difference between mean ratio of Loans & Advances to Total Deposits of HBL and EBL.
- There is no significant difference between mean ratio of Investment on Government Securities to Current Assets of HBL and EBL.
- There is significant difference between mean ratio of Loan & Advances to Current Assets of HBL and EBL.
- There is no significant difference between mean ratio of return on Loan & Advances of HBL and EBL.
- There is no significant difference between mean ratio of Total Interest Earned to Total outside Assets of HBL and EBL.

CHAPTER - V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the summary of the study, conclusions derived from the analysis of data and their interpretation and recommendations offered for the improvement of the investment policies of the banks under study. Thus, the chapter is divided into three sections. The first section of this chapter focuses on summarizing the whole study; the second section draws conclusions from the analysis of data and interpretation of the results thereof; and the third section offers recommendations for improvement of the investment policy of the concerned bank.

5.1 Summary

Commercial banks play an important role for the economic development of the country as they provide finance for the development of industry, trade and business by investing the saving collected as deposits from public. They render their various services to the customers facilitating their economic and their social life. They are the most important ingredients for integrated and speedy development of a country. So, nowadays-financial institutions are viewed as catalyst in the process of the economic growth and effective mobilization of domestic resources.

Investment operation of commercial banks is a risky affair. It is the most important factor for the shareholders and bank management. For this, commercial banks have to pay due consideration while formulating their investment policy. A healthy development of any commercial bank depends upon its investment policy. The word investment conceptualized the investment of income, saving or other collected fund. It is a well-known fact that an investment is only possible where there is adequate saving. If all the incomes and saving are consumed to the problem of hand and mouth and to other basic needs, then there is no existence of investment. So both saving and investment are interrelated. It is concerned with the management of an investor's wealth, which is the sum of current income and present values of all future incomes to

be invested come from assets already owned borrowed money and saving or foregoes consumption by the investors. The main objective of their investment is to secure financial benefit in future. Anyway the goal of investment is the maximization of owners' economic welfare.

Although several banks have been established in the country within short period of time, stable, strong and appropriate investment policy has not been followed by the commercial banks to sufficient return. They have not been able to utilize their funds more effectively and productively. Thus, proper utilization of the resources has become more relevant and current issue for the banks. The directions and guidance provided by Nepal Rastra Bank are the major policy statements for the Nepalese commercial banks. However, a long term and published policy about their operation is not found even in the joint venture banks.

Commercial bank in current year, present a new picture, a picture of innovation in practice of wider horizon and new enterprises. The most remarkable diversification of banking function is increasing participation in medium and-long term financial industries and other sector. Therefore, they are not only financial institutions of finance agriculture and industry and other economic activities, but are more than financial institution in the sense that they help saving create deposits and make the subsequent distribution of such accumulated funds.

The primary objective of these joint venture banks is always to earn profit by investing or granting loan and advances to people associated with trade, business and industry, etc. That means they are required to mobilize their sources properly to acquire profit. How well a bank manages its investment has a great deal to do with the economic health of the country because the bank loans support the growth of new business and trade empowering the economic activities of the country.

The income and profit of the bank depends upon its lending procedure, lending policy and investment of its fund in different securities. The greater the credit created by the

bank, the higher will be the profitability. A sound lending and investment policy is not significant for the promotion of commercial savings of a backward country like Nepal.

The main concentration of the study is to diagnosis the investment policy of HBL and EBL to suggest measures to improve the investment policy of the banks. The study has been constrained by various common limitations.

Himalayan Bank Limited is the fourth joint venture Bank of Nepalese banking history just because of government encouragement and open policy of joint venture bank under company Act 2011 B.S. The distinguished business personalities of Nepal in partnership with employee provident fund and Habib bank Ltd. of our SAARC country, Pakistan, established HBL in 1992 A.D. This is the first joint venture bank, which is managed by Nepali chief executive. The operation of the bank started from 1993 in the month of February, it is also the first commercial bank of Nepal with maximum shareholding of the Nepalese sectors. Besides commercial activities, the bank also offers industrial and merchant banking services.

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. EBL is a joint venture with Panjab National Bank (PNB), one of the largest commercial Banks in India. The bank is providing customer-friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries, which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Qatar, Saudi Arabia, Malaysia, Singapore and U.K.

The study is based on secondary data from FY 2004/2005 to 2009/2010. The data have been basically obtained from annual reports and financial statements, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master's degree thesis.

Financial as well as statistical tools have been deployed in order to analyze and interpret the data and information. Under financial analysis, various financial ratios related to the investment function of commercial banks i.e. liquidity ratio, assets management ratio, activity ratio, loans and advances portfolio, profitability ratio and growth ratio have been analyzed and interpreted. Under statistical analysis, some relevant tools i.e. mean, standard deviation, coefficient of correlation, trend analysis, test of hypothesis have been used for the analysis and interpretation of data. This analysis gives clear picture of the performance of the bank with regard to its investment operation.

5.2 Conclusions

Investment is the major essence of every commercial bank. The formulation and implementation of sound investment policies are among the most important responsibilities of the bank management. Therefore, the main objectives of the study are to assess and evaluate the investment policy and strategy adopted by the concerned banks. From the above analysis, we found out the major stamina of investment policy adopted by concerned bank, and concluding results are as follows:

Liquidity position of EBL was better than HBL. According to current ratio, EBL had better position than HBL. In addition, EBL had maintained better cash and bank balance ratio to meet the customers demand than HBL. Similarly, deposit collection of EBL was in better position, while HBL had lower deposit collection policy during the study period. Again, HBL was not successful to mobilize funds as loans & advances with respect to Current assets compared to EBL. When analyzing the Investment on Government Securities in respect to Current Assets, HBL had less investment on

Government Securities as it has injected more funds on other productive sectors, which shows the greater portion of current assets of EBL consist of Government Securities.

When analyzing asset management ratio, EBL occupied the highest position in comparison to HBL. From the analysis of loans & advances to Total deposit ratio of EBL was comparatively higher than HBL i.e. EBL had taken better position. Similarly, from the above analysis, of loans and advances to total working fund was comparatively higher than HBL, i.e. EBL had taken better position. Regarding total investment to total deposit ratio, HBL was better position, which indicated that HBL was successful to mobilize the funds on various investment. While analyzing the investment of government securities to total working fund, EBL had taken high investment policy in it than HBL. And lastly, regarding investment on share and debenture to total working fund, again EBL was in better position than HBL. That meant EBL had maintained highest investment policy on it in comparison to HBL.

Profit is ultimate output of a commercial bank and it will have no future if it fails to make sufficient profit. When measuring various profitability ratios, i.e. return on total assets (working fund)ratio, EBL was successful in utilization its overall working fund on profit generating activities than HBL. HBL had taken higher position than EBL with respect to return on loan & advances ratios. Interest earned to total outside assets ratio resulted that EBL was successful to collect the interest from outside assets than HBL. Total interest earned to total working fund of EBL was successful to utilize total assets to earn high interest. Lastly, regarding Interest paid to total working fund ratio, HBL had taken better position in payment of interest to fixed deposit, saving deposit, interest on borrowing with respect to total working fund. This analysis indicated that EBL was comparatively better in profitability ratio with respect to HBL.

When a firm wants to bear risk, the profitability and effectiveness of the firm increase. From the study of capital risk ratio and credit risk ratio of two banks, comparatively EBL was successful to attract the deposit and interbank fund, and utilize its loan & advances from total assets in safest way by taking high risk, which helped to increase the level of profit and maximizing the value of the firm.

The study also focused on finding out growth position of total deposits, total loan and advances, total investment and net profit of concerned banks, EBL and HBL up to 6 years period and with help of trend analysis, the study looking over the next five years growth position of above four variables. Here the growth position of total deposits of EBL was very better than HBL and forecast growth ratio of total deposits was also increasing trends. Comparatively, growth ratio of loans and advances of EBL was better than HBL, but when studying the trend analysis up to next five years growth position of HBL had best performance on loans and advances mobilization in comparison to EBL. Growth position of total investment of EBL is better than HBL and if other things remain constant, it would be positively increasing up to next five years study period. Growth position of net profit revealed that the EBL had maintained higher growth rate of total net profit in comparison to HBL, and according to trend analysis also it was seen that the net profit position of EBL was better during the period.

5.3 Recommendations

After going over the above summary and conclusion of the study, following recommendations and suggestion can be made to overcome the weakness, inefficiencies and to make better policies regarding fund utilization and investment of concern banks i.e. HBL and EBL.

1. Liquidity Position

The liquidity position of a bank can be affected by external as well as internal factors which includes overall economic scenario, saving for investment situations, interest rates, supply and demand position of deposits and loans, central bank's instruction, the lending policies, capability of management, strategic planning of funds flow situation. In this study it should try to the current liabilities to improve its liquidity position. Current ratio of all two banks is not satisfactory. It is below its standard rate 2:1. Therefore, the banks are suggested to improve current assets. As the ratios of cash and bank balance to total deposit of HBL is significantly lower than that of EBL, it is recommended to increase cash and bank balance to meet current obligations and loan demand. Since the ratios of both banks i.e. HBL and EBL are in fluctuation trend,

which indicates the high exposure to risk. Therefore, it is recommended that both banks should maintain its liquidity position with more stability.

2. Enhance Investment in Government Securities

Government securities such as treasury bills, development bonds, and national saving bonds are considered as the safest medium of investment as they are risk-free and highly liquid in nature. The study has revealed that HBL has invested fewer portions of current assets in government securities, treasury bills, and development bonds, which is safest place of investment in comparison to EBL. So, HBL is recommended to follow liberal investment policy on government securities and treasury bills and so on, which maintain more stability on the liquidity position.

3. Enhance Investment in Shares and Debentures

It is good to invest more on share & debenture as it encourages financial and economic development of the country. A commercial bank must mobilize its fund in different sector such as to purchase share and debenture of other financial and non-financial companies out of total working fund. Percentage of investment on shares and debentures of both banks is very nominal so, both banks are recommended to invest more of their fund in shares and debentures of different companies.

4. Liberal Lending Policy

To get success in this competitive environment, deposit must be utilized as loans and advances. Loan and advances is the largest item of the bank in assets side. While granting loans, it should take into account that large number of borrowing customer may benefit from banker's fund. Negligence in administering these assets could be the main cause of liquidity crisis in the bank and one of the main reasons of a bank's failure. It has found from the study that HBL had weaker position than EBL. Therefore, HBL is strongly recommended to follow the liberal lending policy, invest more and more percentage of total deposits in loans and advances, and similarly maintain stability on the investment policy.

5. Liberal Procedures

Loan and advances are the main source of income and also utilization resources of commercial banks. Therefore, commercial banks must utilize their deposits as loan and advances to get success in competitive banking market. When the bank grants loan and advances, it must be collected after a certain period. Collection of loan has been the most challenging task for financial institutions. These days increasing on non-performing assets discloses the failure of commercial banks in recovery of loan. Therefore, it is recommended for HBL to follow liberal policy when sanctioning of loan and advances with sufficient guarantee and implement sound collection policy including procedure with rapid identification of bad loans, immediate contact with the borrower, continual follow-up, and take legal actions if required.

6. Enhance Profits Through Cost Control

HBL and EBL being the banks of private sector having the shareholding by the public, it should be always careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and its customer and goodwill of the bank. Since interest income makes up the major portions of net profit, the banks should be more careful while making investment in loan and advances and other investments. The banks should have sound credit policy for better performance regarding loan and advances. Both the banks have the fluctuating total incomes and hence not been able to gain the optimum profit. Therefore, they are recommended to decrease the expenses by controlling the operating expenses as well as by collecting the interest free deposits and they are also recommended to be careful while lending.

7. Sound Credit Policy

Highest form of risk a bank faces is in the form of nonperforming assets (NPA). So, the bank should make through evaluation regarding collateral and credit worthiness of the customer. For this, the bank should have sound credit policy.

8. Optimizing Portfolio by Exploration of New, Competitive and High Yielding Investment Opportunities

Portfolio management of bank assets basically means allocation of funds into 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. Therefore, portfolio condition should be examined from time to time and attention should be given to maintain equilibrium in the portfolio condition as far as possible. The bank should make continuous efforts to explore new, competitive and high yielding investment opportunities to optimize its investment portfolio.

9. Simple Credit Procedure and Prompt Credit Decision

In the present scenario, when there is high liquidity in the market and most of the commercial banks are flooding towards the retail banking, these two banks should also come up with innovative and competitive rates to grab the market position. The most effective weapon for achieving this target would be to apply very simple procedure and prompt decision on the credit request.

10. Formulate New Strategies for Serving Customers For their High Satisfaction

HBL and EBL need to adopt innovative approach for marketing in the light of growing competition in the banking sector. The business of the bank should be customer oriented. They should strengthen and activate their marketing function, as it is an effective tool to attract and retain the customers. For this purpose, the bank should formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices.

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Appendix I

Test of hypothesis on Total Investment to Total Deposit Ratio of HBL and EBL

S.N	Fiscal Year	HBL			EBL		
		X ₁	x ₁	x ₁ ²	X ₂	x ₂	x ₂ ²
1	2004/2005	47.12	10.95	119.8447	21.08	-0.82	0.6778
2	2005/2006	41.10	4.93	24.3272	30.43	8.53	72.7065
3	2006/2007	39.35	3.17	10.0749	27.41	5.50	30.26
4	2007/2008	41.89	5.72	32.7358	21.10	-0.804	0.6461
5	2008/2009	25.12	-11.06	122.2350	17.85	-4.06	16.4447
6	2009/2010	22.45	-13.72	188.2180	13.56	-8.35	69.6481
		217.03		497.4358	131.44		190.3814

Here

$$\bar{X}_1 = \frac{\sum X_1}{n} = 217.03/6 = 36.17$$

$$\bar{X}_2 = \frac{\sum X_2}{n} = 131.44/6 = 21.9063$$

Again,

$$x_1 = (X_1 - \bar{X}_1) \quad \text{and} \quad x_2 = (X_2 - \bar{X}_2)$$

Test of significance difference of HBL and EBL

Here,

$$\text{Null Hypothesis (H}_0\text{): } \bar{X}_1 = \bar{X}_2$$

I.e. there is no significant difference between mean ratios of Total Investment to Total Deposit of HBL and EBL.

$$\text{Alternative Hypothesis (H}_1\text{): } \bar{X}_1 \neq \bar{X}_2 \text{ (two tailed)}$$

i.e. there is significant difference between mean ratios of Total Investment to Total Deposit of HBL & EBL. (Where \bar{X}_1 is mean ratio of HBL and \bar{X}_2 is mean ratio of EBL)

Under H₀ the test statistics is given by

$$T = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{s^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where,

$$\begin{aligned} s^2 &= \frac{1}{n_1 + n_2 - 2} (\sum x_1^2 + \sum x_2^2) \\ &= \frac{1}{6 + 6 - 2} (497.4358 + 190.3814) \\ &= 68.78 \end{aligned}$$

Now,

Test statistics under H₀ is,

$$T = \frac{36.17 - 21.91}{\sqrt{68.78 \left(\frac{1}{6} + \frac{1}{6} \right)}} = 2.98$$

The calculated value of $|t| = 2.98$

Appendix II

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

S.N.	FY	HBL			EBL		
		X ₁	x ₁	x ₁ ²	X ₂	x ₂	x ₂ ²
1	2004/2005	54.21	-10.34	106.9156	78.24	2.02	4.0804
2	2005/2006	59.50	-5.05	25.5025	73.43	-2.79	7.7841
3	2006/2007	59.22	-5.33	28.4089	77.44	1.22	1.4884
4	2007/2008	63.37	-1.18	1.3924	78.56	2.34	5.4756
5	2008/2009	73.58	9.03	81.5409	73.43	-2.79	7.7841
6	2009/2010	77.43	12.88	165.8944	76.24	0.02	0.0004
		387.31		409.6547	457.3		26.613

Here,

$$\bar{X}_1 = \frac{\sum X_1}{n} = \frac{387.31}{6} = 64.55 \qquad \bar{X}_2 = \frac{\sum X_2}{n} = \frac{457.3}{6} = 76.22$$

Again,

$$x_1 = (X_1 - \bar{X}_1) \qquad \text{and} \qquad x_2 = (X_2 - \bar{X}_2)$$

Test of significance difference between HBL and EBL

Null Hypothesis (H₀): $\bar{X}_1 = \bar{X}_2$

i.e. there is no significant difference between mean ratios of Loans and Advances to Total Deposit of HBL and EBL.

Alternative Hypothesis (H₁): $\bar{X}_1 \neq \bar{X}_2$ (two tailed)

i.e. there is significant difference between mean ratios of HBL and EBL (Where \bar{X}_1 is mean ratio of HBL and \bar{X}_2 is mean ratio of EBL)

Under H₀ the test statistics

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

$$= \frac{1(409.6547 + 26.613)}{6 + 6 - 2} = 43.63$$

Now,

Test statistics under H₀ is,

$$T = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

$$= \frac{64.55 - 76.22}{\sqrt{43.63 \left(\frac{1}{6} + \frac{1}{6} \right)}} = -3.06$$

The calculated value of $|t| = 3.06$

Appendix III

Hypothesis Test of Investment of Government Securities to current Assetsratio of HBL and EBL

S.N	Fiscal Year	HBL			EBL		
		X ₁	x ₁	x ₁ ²	X ₂	x ₂	x ₂ ²
1	2004/2005	19.17	2.92	8.5264	17.42	0.48	0.2304
2	2005/2006	17.15	0.9	.81	21	4.06	16.4836
3	2006/2007	19.17	2.92	8.5264	21.55	4.61	21.2521
4	2007/2008	20.77	4.52	20.4304	17.51	0.57	0.3249
5	2008/2009	10.80	-5.45	29.7025	13.76	-3.18	10.1124
6	2009/2010	10.45	-5.8	33.64	10.40	-6.54	42.7716
		97.51		101.6357	101.6		91.175

Here

$$\bar{X}_1 = \frac{\sum X_1}{n} = 97.51/6 = 16.25$$

$$\bar{X}_2 = \frac{\sum X_2}{n} = 101.6/6 = 16.94$$

Again,

$$x_1 = (X_1 - \bar{X}_1) \quad \text{and} \quad x_2 = (X_2 - \bar{X}_2)$$

Test of significance difference of HBL and EBL

Here,

$$\text{Null Hypothesis (H}_0\text{): } \bar{X}_1 = \bar{X}_2$$

I.e. there is no significant difference between mean ratios of Investment of Government Securities to Current Assets of HBL and EBL

$$\text{Alternative Hypothesis (H}_1\text{): } \bar{X}_1 \neq \bar{X}_2 \text{ (two tailed)}$$

i.e. there is significant difference between mean ratios of Government Securities to Current Assets of HBL & EBL. (Where \bar{X}_1 is mean ratio of HBL and \bar{X}_2 is mean ratio of EBL)

Under H₀ the test statistics is given by

$$T = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{s^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where,

$$s^2 = \frac{1}{n_1 + n_2 - 2} (\sum x_1^2 + \sum x_2^2)$$

$$= \frac{1}{6+6-2} (101.64 + 91.18) = 19.28$$

Now,

Test statistics under H₀ is,

$$T = \frac{16.25 - 16.94}{\sqrt{19.28 \left(\frac{1}{6} + \frac{1}{6} \right)}} = -0.27$$

The calculated value of $|t| = 0.27$

Appendix IV

Test of hypothesis on loan and advances to current Assets 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	2004/2005	47.14	-9.9	98.01	65.54	0.37	0.14
2	2005/2006	52.54	-4.5	20.25	60	-5.17	26.73
3	2006/2007	52.85	-4.19	17.56	64.50	-0.67	0.45
4	2007/2008	56.10	-0.94	0.88	68.38	3.21	10.30
5	2008/2009	65.43	8.39	70.39	65.42	0.25	0.06
6	2009/2010	68.17	11.13	123.88	67.23	2.06	4.24
		342.23		330.97	391.1		41.92

Here,

$$\bar{X}_1 = \frac{\sum X_1}{n} = 342.23/6 = 57.04$$

$$\bar{X}_2 = \frac{\sum X_2}{n} = 391.1/6 = 65.18$$

Again,

$$x_1 = (X_1 - \bar{X}_1) \quad \text{and} \quad x_2 = (X_2 - \bar{X}_2)$$

Test of significance difference of HBL and EBL

Here,

$$\text{Null Hypothesis (H}_0\text{): } \bar{X}_1 = \bar{X}_2$$

I.e. there is no significant difference between mean ratios of Loan and Advances to Current Assets ratio of HBL & EBL

$$\text{Alternative Hypothesis (H}_1\text{): } \bar{X}_1 \neq \bar{X}_2 \text{ (two tailed)}$$

i.e. there is significant difference between mean ratios of loan and Advances to Current Assets ratio of HBL & EBL. (Where \bar{X}_1 is mean ratio of HBL and \bar{X}_2 is mean ratio of EBL)

Under H₀ the test statistics is given by

$$T = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{s^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where,

$$s^2 = \frac{1}{n_1 + n_2 - 2} (\sum x_1^2 + \sum x_2^2)$$

$$= \frac{1}{6+6-2} (330.97 + 41.92) = 37.29$$

Now,

Test statistics under H₀ is,

$$T = \frac{57.04 - 65.18}{\sqrt{37.29 \left(\frac{1}{6} + \frac{1}{6} \right)}} = -2.31$$

The calculated value of $|t| = 2.31$

Appendix V

Hypothesis test of return on loans and advances ratio of HBL and EBL

S.N	Fiscal Year	HBL			EBL		
		X_1	x_1	x_1^2	X_2	x_2	x_2^2
1	2004/2005	2.48	-0.29	.08	2.21	-0.28	0.0784
2	2005/2006	3.12	0.35	0.12	2.42	-0.07	0.0049
3	2006/2007	2.89	0.12	0.01	2.17	-0.32	0.1024
4	2007/2008	3.26	0.49	0.24	2.46	-0.03	0.009
5	2008/2009	3.04	0.27	0.07	2.67	0.18	0.0324
6	2009/2010	1.82	-0.95	0.90	3.02	0.53	0.2809
		16.61		1.44	14.95		0.4999

Here

$$\bar{X}_1 = \frac{\sum X_1}{n} = 16.61/6 = 2.77$$

$$\bar{X}_2 = \frac{\sum X_2}{n} = 14.95/6 = 2.49$$

Again,

$$x_1 = (X_1 - \bar{X}_1) \quad \text{and} \quad x_2 = (X_2 - \bar{X}_2)$$

Test of significance difference of HBL and EBL

Here,

$$\text{Null Hypothesis (H}_0\text{): } \bar{X}_1 = \bar{X}_2$$

I.e. there is no significant difference between mean ratios of return on loan and advances of HBL and EBL.

$$\text{Alternative Hypothesis (H}_1\text{): } \bar{X}_1 \neq \bar{X}_2 \text{ (two tailed)}$$

i.e. there is significant difference between mean ratios of return on loan and Advances of HBL & EBL. (Where \bar{X}_1 is mean ratio of HBL and \bar{X}_2 is mean ratio of EBL)

Under H_0 the test statistics is given by

$$T = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{s^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where,

$$s^2 = \frac{1}{n_1 + n_2 - 2} (\sum x_1^2 + \sum x_2^2)$$

$$= \frac{1}{6+6-2} (1.44 + 0.4999) = 0.1939$$

Now,

Test statistics under H_0 is,

$$T = \frac{2.77 - 2.49}{\sqrt{0.1939 \left(\frac{1}{6} + \frac{1}{6} \right)}} = 0.16$$

The calculated value of $|t| = 0.16$

Appendix VI

Hypothesis Test of Total Interest Earned to Total outside Assets ratio of HBL and EBL

S.N	Fiscal Year	HBL			EBL		
		X ₁	x ₁	x ₁ ²	X ₂	x ₂	x ₂ ²
1	2004/2005	5.75	-0.74	0.5476	7.17	0.1	0.01
2	2005/2006	6.10	-0.39	0.1521	6.30	-0.77	0.5929
3	2006/2007	6.00	-0.49	0.2401	6.00	-1.07	1.1449
4	2007/2008	5.86	-0.63	0.3969	6.48	-0.59	0.3481
5	2008/2009	6.84	0.35	0.1225	7.12	0.05	0.0025
6	2009/2010	8.38	1.89	3.5721	9.35	2.28	5.1984
		38.93		5.0313	42.42		7.2968

Here

$$\bar{X}_1 = \frac{\sum X_1}{n} = 38.93/6 = 6.49$$

$$\bar{X}_2 = \frac{\sum X_2}{n} = 42.42/6 = 7.07$$

Again,

$$x_1 = (X_1 - \bar{X}_1) \quad \text{and} \quad x_2 = (X_2 - \bar{X}_2)$$

Test of significance difference of HBL and EBL

Here,

Null Hypothesis (H₀): $\bar{X}_1 = \bar{X}_2$ I.e. there is no significant difference between mean ratios of Total Interest Earned to Total outside Assets of HBL and EBL.

Alternative Hypothesis (H₁): $\bar{X}_1 \neq \bar{X}_2$ (two tailed)

i.e. there is significant difference between mean ratios of Total Interest Earned to Total outside Assets of HBL & EBL. (Where \bar{X}_1 is mean ratio of HBL and \bar{X}_2 is mean ratio of EBL)

Under H₀ the test statistics is given by

$$T = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{s^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where,

$$s^2 = \frac{1}{n_1 + n_2 - 2} (\sum x_1^2 + \sum x_2^2)$$

$$= \frac{1}{6+6-2} (5.0313 + 7.2968) = 1.23$$

Now,

Test statistics under H_0 is,

$$T = \frac{6.49 - 7.07}{\sqrt{1.23 \left(\frac{1}{6} + \frac{1}{6} \right)}} = -0.91$$

The calculated value of $|t| = 0.91$