CHAPTER - I
INTRODUCTION

1.1 Background of the Study

Banks play a significant role in the development of a country. Bank is a financial institution, which maintains the self-confidence of various segments of society and extends credit to the people. The financial institution is an indispensable part for the upliftment of a country. The financial institution is a vast field comprising of banks, financial companies, insurance companies, co-operatives, stock exchange and foreign exchange markets, mutual fund, etc. These institutions collect idle and scattered money from the general public and finally invest in different enterprises that consequently help in reducing poverty, increase in life style of people, increase employment opportunities, and thereby developing society and the country as a whole. Thus, today the financial institutions have become the base for measuring the level of economic development of a country.

Nepal is one of the least developed countries of the world. Poverty has stood as a serious challenge to the country. The country is unable to fulfill the national requirement of people. In such context, it is realized that without industrial development, it is impossible to have social and economic development. So for industrial and economic development, banks play the vital role.

Banking industry has acquired a key position in mobilizing resources for finance and social economic development of a country. Bank assists both the flow of goods and services from the producers to the consumer and the financial activities of the government. Banking provides the country with a monetary system of making payment and also makes loan to maintain production in the economy.

Commercial bank is an institution, which accepts demand deposits, subject to check and make short-term loan to business enterprises, regardless of the scope of its other services. When, commercial bank act 1974 was amended in 1984 to increase competition among

commercial bank. Hence, provision made to allow private sectors including foreign investments to open commercial banks. As a result, Nepal Arab bank (NABIL) was established on july 12, 1984 with partnership of Dubai bank limited. The numbers of commercial banks operating in Nepal are increasing every day and many more are in the pipeline to commence their business.

Commercial banks have been contributing a lot towards the promotion and expansion of both export and import trade. They provide both pre-shipment and post shipment finance to exporters. They start their operation with automated system, which could easily attract the elite group of business community due to their prompt served modern management. In this way, commercial banks are successful to bring healthy competition among banks, increase in foreign investment, promote and expand export-import trade, introduce new techniques and technologies. All these reveal the vital role and the need of banks in Nepalese banking sector or financial service industry.

The development of the country is always measured by its economic development through economic indices. Therefore, every country gives emphasis on the upliftment and prosperity of its economy. The financial institutes act as intermediaries by transferring the resources from the point of surplus to the deficit. A new organized financial institution including financial companies, commercial banks and others financial intermediaries play an important role for the development of the country. They collect scattered financial resources from the mass and invest them among those who are associated with the social, commercial, and economic activities of the country. The economic activity of the country can hardly be carried forward without the assistance of financial institutions. They are indispensable part of the development process.

Commercial banks play an important part for economic development of a country as they provide capital for the development of the industries, trade, and business by investing the saving collected as deposits from the public. They vender various service to their customers facilitating their economic and social life. Therefore, a competitive and reliable banking is essential to the nation for the development.

Nowadays, there is less opportunity in banking sector to make investment because of competition. In this condition, Banks can take initiation in search of new opportunity, so that they can survive in the competitive market and earn profit. But investment is the very risk job. For a purposeful, safe, profitable investment, banks must follow sound investment and fund mobilizing policy.

In recent times, many commercial banks are providing consumer-financing facilities. They provide direct housing loan, home equity loan, vehicle loan, education loan, loan for household appliances, etc. These all activities affect the cash flows, liquidity and profitability of the banks.

The study related to analyze the liquidity mobilization of commercial banks in Nepal. The study has been done with special reference to Nepal Investment Bank Limited (NIB) and Everest Bank Limited (EBL).

1.1.1 Profile of the Sample Banks

A. Introduction of Everest Bank Limited

Everest Bank Limited (EBL) started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer friendly services through a network of 32 branches. Punjab National Bank (PNB) is the joint venture partner (holding 20% equity in the bank). The bank has been conferred with "Bank of the Year 2006, Nepal" by the banker, a publication of financial times, London. The bank was bestowed with the "NICCI Excellence award" by Nepal India chamber of commerce for its spectacular performance under finance sector.

Recognizing the value of offerings a complete range of services, we have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals. EBL was one of the first banks to introduce Any Branch Banking System (ABBS) in Nepal. EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its

kind. The banks performance under all parameters has been outstanding during the fiscal year 2064-65 after providing for income tax and statutory provisions there was a disposal net profit of Rs. 45 crore compared to Rs. 35 crore last year- an increase of 28.57 %. The bank was able to increase its operating profit by 31.9%, deposit by more than 38% and advances by 39% during the year compared to the corresponding period last year. During the last financial year, the Bank opened the 5 branches namely Golfutar, Kritipur, Bhaktapur, Surkhet & Lagankhel. At Present, EBL has Thirty Two Branches that spread out the nation. Everest Bank is first private commercial bank having largest network.Assets quality has improved by reduction of Non Performing Asset (NPA) to 0.0.65% from 1.27% in the previous year. This is one of the lowest NPA among the commercial bank in Nepal. Against the Paid-Up Capital by shareholders of Rs. 37.80 crore, the shareholders' funds now amount to Rs. 119.87 crore – with Core Capital base of Rs. 81.67 crore. Earnings per Share have surged to Rs 62.78 from Rs 54.22. The local Nepalese Promoters hold 50% stake in the Banks equity, while 20% of equity is contributed by joint venture partner PNB whereas remaining 30% is held by the public.

Table: 1.1

Capital Structure of Everest Bank Limited

Capital as at 2007/08	Amount in Rs. '000'
Authorized Capital	20,00,000
Issued Capital	740,000
Paid up Capital	740,000

B. Nepal Investment Bank Limited (NIB)

Nepal Investment Bank Ltd. (NIB), previously known as Nepal Indosuez Bank Ltd.) Was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIB) was credit Agricole Indosuez, a subsidiary of one largest banking group in the world. With the decision of credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businesspersons has acquired on April 2002 the 50% shareholding of credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra

Bank and Company Registrar's office with the following shareholding structure. Rastriya Banijya Bank holds 15%, Rastriya Beema Sansthan holds 15%, General Public holds 20%, and the Nepalese promoters hold 50%.

We believe that NIB, 'which is managed by a team of experienced bankers and professionals having proven track record, can offer you what you're looking for. Besides commercial banking services, the bank also offers industrial and merchant banking services. The bank has six branches in Kathmandu Valley at the following locations: Putalisadak, New Road, Pulchowk (Lalitpur), Thamel, Kalimati, and Seepadol (Bhaktapur). In addition, the bank also has eleven other branches outside Kathmandu Valley in Banepa, Narayangarh, Birgunj, Janakpur, Jeetpur, Bhairawa, Biratnagar, Pokhara, Nepaljung, Butwal and Birtamod. Bank will be aggressively opening new branches at different parts of the Kingdom to serve its customers better. Recently bank has opened its new branch outside the valley in the Birtamod. Investment Bank Limited has always been committed to providing a quality service to its valued customers, being truly a Nepali Bank. All customers are treated with utmost courtesy as valued clients. The bank, wherever possible, offers tailor made facilities to its clients, based on the unique needs and requirements of different clients. To further extend the reliable and efficient services to its valued customers, Investment Bank Limited has adopted the latest banking technology. This has not only helped the bank to constantly improve its service level but has also prepared the bank for future adaptation to new technology. The Bank already offers unique services such as the pre-paid mobile recharging system through its ATM, SMS Banking and Internet Banking to customers and will be introducing more services like these in the near future. Recently it has brought a new scheme that every one can open its own saving Account in Re. 1.00.

Table No 1.2

Capital Structure of Investment Bank Limited

Capital as at 2007	Amount in Rs. '000'
Authorized Capital	2,000,000
Issued Capital	1203915.1
Paid up Capital	1203915.1

1.2 Focus of the Study

Liquidity mobilization refers to as using money to get long-term benefit. Investment in its broad sense means the sacrifice of certain percent value for (possible uncertain) future value. In pure financial sense, the subsequent use of the term investment will be in the prevalent financial sense, of the placing of money in the hands of other for their use, in return for a proper instrument entitling holder's to fixed income payment or the participation in expected profits.

The present economic position of Nepal is encouraging the savers to deposit their money in banks rather than investing in stocks, assets and new business etc., which in turn is hampering the bank's portfolio because deposits are higher and limited safe investment areas are decreasing day by day.

In spite of low interest rate, the depositors are feeling secured towards commercial banks but the highest surplus deposits are almost idle in the bank due to continuous fall in Nepalese economy because of conflict situation, changed taxation policy, and adversely affected tourism industry and agricultural industry.

The study focuses on the mobilization of deposits and reinvestment aspects of three banks viz. Everest Bank Ltd & Nepal Investment Bank Ltd. The study is mainly focused on the optimum portfolio between deposits and investment. It revolves round the concept of managing the surplus financial assets in which a way, which leads to the wealth maximization and provides a significant future source of income. It focuses on analyzing the causes of investment problems, their management and remedies, and developing the new investment areas and sectors, which can again boost the Nepalese economy.

1.3 Statement of the Problem

The need of liquidity mobilization for economic development of a country is no more to question. But we are facing an acute problem of resource mobilization. We have 26 commercial banks in Nepal, which are very much considered to be vital financial institutions to mobilize domestic resources. They have of course a good performance in the course of mobilizing idle deposits.

The problems associated with commercial banks with regard of liquidity mobilization and reinvestment aspects are highlighted below:

a. What is the deposit position of the sampled banks?
b. What is the investment position of the sampled banks?
c. What is the relationship between investment, loan and advances and total deposits?
d. Are they maintaining sufficient liquidity?
e. What is the gap between deposits and investments of the sampled banks?

1.4 Objectives of the Study

Undoubtedly, the role of commercial bank in mobilizing and utilizing scattered resources of nation is praiseworthy one. The basic objective of the study is to have true insight into the liquidity mobilization of Everest Bank and Nepal investment Bank. This aims to examine its efficiency and effectiveness in disbursing and recovery of loans as well following the directives of NRB Acts and its own policies.

- To compare and analyze of various ratios between EBL and NIB
- To analyze the deposit position of the banks under study.
- To analyze the investment position of the banks.
- To find out the relationship between deposit, investment, loans and advances and net profit.
- To provide suggestions for the improvement based on findings.

1.5 Significance of the Study

The proper mobilization and utilization of domestic resources become indispensable for any developing country aspiring for a sustainable economic prosperity of the nation. The success and prosperity of the banks relies heavily upon the successful formulation and effective implementation of investment policy.

The significances of the study are pointed out as below:

a. The study helps to know how well the banks (Everest Bank and Nepal investment Bank.) are utilizing their deposits.

b. The study is important to policy makers and academic professionals to formulate policies and plans based on the performance of these banks.
c. The study helps these banks to compare each other's performance and plan accordingly for future.
d. The study helps these banks to make sound programs and policies based on the recommendation suggested.
e. The study guides to investors, customers (depositors, loan takers as well as other types of clients), competitors, personnel of the banks, stockbrokers, dealers, market makers, etc. to take various decisions regarding deposits and borrowings.

1.6 Limitations of the Study

This study is conducted for the partial fulfillment of master's of business studies, so it possesses some limitations of its own kind. The limitations of the study are follows:

- The study is based only on secondary data so it may contain reporting errors.
- There is in total, 26 commercial banks in the financial market but this researcher takes only three from them. The sampled banks are Everest Bank and Nepal investment Bank.
- The study covers the past and present state of the commercial banks in Nepal and will not make any projection in future.
- The study is made within limited timeframe, limited data, and with lack of research experiments.
- The study covers the data of only five fiscal years from 2004 to 2008 and the conclusion drawn confines only to the above period.
- This research used only the selective tools for analysis and interpretation of data.

1.7 Chapter Plan

The whole study is divided into five different chapters. They are:

Chapter I is the introduction chapter. It includes background of the study, focus of the study, statement of problems, objectives of the study, and significance of the study, limitations of the study and chapter plan of the study.

Chapter II deals with review of literatures, which includes conceptual/theoretical review and review of related studies.

Chapter III is Research methodology which includes research design, population and sample, sources of data, data collection techniques and data analysis tools.

Chapter IV deals with the various analysis and interpretations of data like analysis of sources and uses of fund of commercial banks, analysis of deposits, loan and advances and investments of Everst Bank Ltd & Nepal Investment Bank Ltd, financial and statistical analysis and analysis of primary data. It also shows major findings of the study.

Chapter V includes summary and conclusions of the study. It also deals with recommendations suggested.

The list of bibliography and appendixes are given at the last for references.

CHAPTER – II

REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant proposition in the related area of the study so that all the past and previous studies, their conclusion and perspective of deficiency may be known and further researcher can be conducted or done. It is an integral mandatory process in research works. It is a crucial part of all dissertations. In other words it's just like fact are finding based on sound theoretical framework oriented towards discovery of relationship guided by experience, resonating and empirical investigation. It helps to find out already discovered things. Review of relevant literature implies putting new spectacle in old eyes to think in new way by posting the problem with new data and information to see that what results are derived. The focus of the review is portfolio management of commercial bank. The primary purpose of literature is to learn and it helps researcher to find out what research studies have been conducted in one's chosen field of study, and what remains to be done. For review study, the researcher uses different books and journal, reviews and abstracts, indexes, reports, and dissertation or research studies published by various institutions, encyclopedia etc.

We study the review of literature in dividing two headings:

- Conceptual Review
- Review of related Studies

2.1 Conceptual/Theoretical Review

It is concerned with the theoretical part relevant to the topic.

2.1.1 Origin of Bank

There are different opinions on the origin of the bank. According to one opinion, the term bank was originated from Italian word 'Banco' which meant bench. The money exchangers at that time kept heap of money on the bench from which came the use of

word ‘Banko’. In the opinion of Macleod, since banko means ‘heap’, it denotes the joint fund contributed by many persons.

The origin of the word ‘Bank’ is linked to:

German word ‘Bank’ means a joint stock company,

Latin word ‘Bank’ means a bench,

Italian word ‘Bank’ means a bench and

French word ‘banquet’ means a bench.

Moneylenders in the streets of major cities of Europe used benches for acceptance and payment of valuables and coins. When they are unable to meet their liabilities, the depositors used to break their benches. Hence the word ‘Bankruptcy’ is derived from there.

The term bank was first used in Italy in 1157 A.D. in 12^{th} century. The first bank was set up in Venice, Italy as a public bank, by the name ‘Bank of Venice’. Subsequently, ‘Bank of Barcelona’ in 1401 A.D. and ‘Bank of Geneva’ in 1407 A.D. were established. In 1609 A.D, “Bank of Amerterdam’, a famous bank was established. In reality, the history of modern banking had started from ‘Bank of England’ in 1694 A.D. But the modern joint stock banks were established in England only in 1833 A.D. In 1844 A.D., ‘Bank of England’ was established as a first central bank in the world. The ‘Banque De France’ was established in France in 1807 A.D. Later, the banks were established in other parts of the world.

2.1.2 Concept of Bank

Generally, an institution established by law, which deals with money and credit is called bank. It is obvious that in a common sense, an institution involved in monetary transactions is called bank.

A bank is a financial institution, which plays a significant role in the country. It facilitates the growth of trade and industry, and boost national economy. However, a bank is a resource of economic development, which maintains the self-confidence of various segments of society and extends credit to the people.

A bank is a business organization that receives and holds deposits of funds from others, makes loans or extends credits and transfers funds by written orders of depositors (The Encyclopedia America, 1984: 302).

The business of the banking is collection of funds from community and extending credit to people for useful purposes. Bank plays a vital role in making money from lenders to borrowers. Bank is a profit seeking business, not a community charity profit seeker. It is expected to pay dividend and otherwise, add to the wealth of shareholders (Encyclopedia, 1984: 6).

Hence, in concise, we can say that there is no single universally accepted definition of bank. In brief, it is an institution, which accepts deposits in different accounts, provides loans of different types, and creates credit.

2.1.3 History of Banking in Nepal

The history of banking in Nepal is not very old. It goes at least back to the Lichchhavi era. There were 'Gosthies' to work as credit banks established under the permission of Royal order and they were conducted through local legislation called 'Panchali'. Then the King Jayasthiti Malla from Malla dynasty, allowed 'Tankadhari', a class of people, to deal in depositing and lending of money and ornaments. The Banda who still worked in ornaments used to deal in lending and depositing the ornaments in that time also. Then, came the King, Ram Shah, in developing the banking system in Nepal. He found that unorganized lending was taking place in the society at very high interest rates. So, he fixed up the interest rates of lending.

Though it seemed realizing the development of banking in those early times, it could not be materialized till the end of Rana regime. The first government institutionalized credit house called 'Tejarath Adda' was established during the tenure of Prime Minister, Ranoddip Singh (1993-1994B.S.). The 'Tejarath Office' used to give loans to government employees against the securities of gold, silver, etc.

Banking in true sense started with the inception of Nepal Bank Limited on 30th Kartik, 1994 B.S. as the first commercial bank of Nepal under Nepalese Banking Law and Nepal Bank Act 1994 B.S. formulated by the Industrial Board of Nepal. After that, Nepal Rastra Bank was established as a central bank on 14th Baisakh, 2013 under Nepal Rastra Bank Act, 2012 B.S. The bank was empowered by the Act to have direct control over banking institution of the country to manage the circulation of national currency along with foreign exchange rate. Then came Rastriya Banijya Bank established on 10th Magh, 2022 B.S. established under Rastriya Banijya Bank Act, 2021 B.S.

Nepal Arab Bank Limited was established on 26th Ashar, 2041 B.S. as a first joint venture bank in Nepal opened under Banijya Bank Act, 2031 B.S. Having observed the success of Nepal Arab Bank Limited (currently named as Nabil Bank Limited) and of liberal economic policy adopted by the government, various other commercial banks including joint venture banks and privately ownership banks established in Nepal.

2.1.4 Concept of Commercial Bank

Commercial banks are that financial institutions which deal in accepting deposits of people and institutions and giving loans against securities. They provide working capital needs of trade, industry, and even to agricultural sector. Commercial banks also provide technical and administrative assistance to trade, industries, and business enterprises. Commercial bank is a corporation, which accepts demand deposits, subject to check and makes short-term loan to business enterprises, regardless of the scope of its other services.

A commercial banker is a dealer in money and substitutes for money, such as cheque or bill of exchange. It also provides a variety of financial services (The New Encyclopedia Britanica, 1985: 605).

The American Institute of Banking has laid down for functions of the commercial banks i.e. receiving and handling deposits, handling payments for its clients, granting loan and investment and creating money by extension of credit (American Institute of Banking, 1985: 609).

Principally, commercial banks accept deposits and provide loans, primarily to business firms, thereby facilitating the transfer of funds on the economy (Bhandari, 2003: 65).

In the Nepalese context, a commercial bank is one, which exchanges money, deposits money, accepts deposits, grants loans, and performs commercial banking functions (Commercial Bank Act, 2063).

Commercial banks are those banks, which pool together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand of on short notice. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short-term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant loans in the form of cash, credits and overdrafts. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuables, financial advising, etc. to their customers (Vaidya, 2001:38).

In Nepal, 26 commercial banks are operating so far. They are:

- Nepal Bank Limited
- Rastriya Banijya Bank
- Agriculture Development Bank Limited
- Nabil Bank Limited
- Standard Chartered Bank Nepal Limited
- Himalayan Bank Limited
- Nepal Bangladesh Bank Limited
- Nepal SBI Bank Limited
- Everest Bank Limited
- Lumbini Bank Limited
- Nepal Industrial and Commercial Bank Limited
- Kumari Bank Limited
- Nepal Investment Bank Limited
- Bank of Kathmandu

- Laxmi Bank Limited
- Machhapuchhre Bank Limited
- Nepal Credit and Commercial Bank Limited
- Siddhartha Bank Limited
- Global Bank Limited
- Citizen international Bank Limited
- Bank of Asia Nepal Limited
- Sunrise bank limited
- Prime commercial bank limited
- DCBL bank limited
- NMB bank Limited
- Kist Bank Limited

(Source: www. nrb. org. np)

The commercial banks in Nepal are categorized into four groups on the basis of capital owned. They are; the fully government owned bank; Rastriya Banijya Bank, the government and private sector bank; Nepal Bank Limited, the JVBs consist of Nabil Bank Limited, Standard Chartered Bank Nepal Limited, Himalayan Bank Limited, Nepal Bangladesh Bank Limited, Nepal SBI Bank Limited, Everest Bank Limited and the privately owned banks; Lumbini Bank Limited, NIC Bank Limited, Kumari Bank Limited, Nepal Investment Bank Limited, Bank of Kathmandu, Laxmi Bank Limited, Machhapuchhre Bank Limited, NCC Bank Limited,Siddhartha Bank Limited, Global Bank Ltd, Citizen International Bank Ltd, Bank Of Asia Nepal Ltd, Sunrise Bank Ltd, Prime Commercial Bank Ltd, DCBL Bank Ltd, NMB Bank Ltd & Kist Bank Limited.
However, central bank is the main bank of any nation that directs and controls all other banks. In Nepal, Nepal Rastra Bank is the central bank and all the commercial banks perform their functions under its rules, regulations, and directions.

2.1.5 Functions of Commercial Bank

Commercial banks are the most important types of financial institution for the nation in terms of aggregate assets. Traditional functions of commercial banks are only concerned

with accepting deposits and providing loans. But modern commercial banks work for overall development of trade, commerce, services, and agriculture also. The business of banking is very broad in modern business age. The number and variety of services provided by bank will probably expand. Recent innovation in banking include the introduction of credit cards, accounting services for business firms, factoring, leasing, participating in the Euro-dollar market, and lock-box banking. The main functions of commercial banks are as follows:

i. Accepting Deposits: - It is fair deduction that no person or body, corporate or otherwise, can be banker who does not take deposits, issue and pay cheques and collect cheques from his customers. Here, all functions are related with the acceptance of deposits. Therefore, accepting deposits by bank is the oldest function of bank.

A bank accepts deposits in three forms viz. saving, current and fixed. Saving deposit is one of the deposits collected from small depositors and low-income depositors. The banks usually pay small interest to depositors for their deposits. Current account is also known as demand deposits. Under this, any amount may be deposited. There are no restrictions regarding number and amount of withdrawals as contrary to saving account. The banks do not pay any interest on such account but charge small amount on the customers having current account. A fixed or time deposit is one where customers are requested to keep a fixed amount in the bank for specific period, generally by those who don't need money for stipulated time. The bank pays a higher interest on such deposits.

ii. Advancing Loans: - The second major function of a commercial bank is to provide loans and advances from the money, which it receives by way of deposits for the development of industry, trade, commerce, services, and agriculture. The main purpose of commercial bank is to boost up the development pace of communities and the economy as a whole.

iii. Agency Services: - The bank also performs number of services on behalf of the customers. The following are the agency functions provided by the bank.

- Dealing with the transaction of foreign exchange business

- Serving as an agent of correspondent on behalf of the customers
- Issuing letter of credit, circulate note, traveler's cheques, etc.
- Purchasing and selling different kinds of securities and remitting funds
- Keeping valuable article in safe custody
- providing financial advice to various persons and bodies whenever required

iv. Creating Money: - The major function of the bank that separates it from other financial institution is the ability to create money and to destroy money, which is accomplished by lending and investing activities. The power of the commercial banking is of great economic significant as it results in the elastic credit system that is necessary for the economic progress at a relatively steady growth rate (American Institute of Banking, 1985: 149).

2.1.6 Resources of Nepalese Commercial Bank

Commercial banks have mainly three sources for their advancing. They are as follows:

i. Capital: - As far as the capital fund is concerned, it is only a nominal source. Therefore, it can be used for investment purposes. This capital fund consists of two elements; paid up capital and general reserve.

ii. Deposits: - Deposits are the main resource of the banks for advancing loans. It is received from different forms and accounts. There are mainly three types of deposits viz. saving, current, and fixed. In a developing country like Nepal where the majority of people are still poor, saving deposits has played a significant role in the development of a country. Therefore, the main source of raising capital is deposits. Sudharsanam (1976) rightly says, "The deposit function of the bank is important because it has to aggregate small sums of money lying scattered here and there like twenties, fifties, and hundreds. Singling these sums has no economic efficiency what so ever but they can accomplish herculean tasks when they are aggregated and employed by the banker" (Sudharsanam, 1976: 20).

iii. Internal and External Borrowing: - Internal and external borrowing are very important for a developing country like Nepal. Commercial banks alone cannot fulfill the necessity of the society. Therefore, they are allowed to borrow from two sources, external and internal. Generally, external borrowing means the borrowing from foreign bank, foreign government, IBRD, IMF, etc. Internally, the banks can borrow from only one source, i.e. from NRB.

2.1.7 Concept of Joint Venture Bank

Joint Venture banks are the mode of trading to achieve mutual exchange of goods and services for sharing comparative advantages by performing joint investment scheme between Nepalese investors, financial, non-financial institute as well as private investors and their parent banks each supplying 50% total investment. The parent banks, which have been experiencing highly mechanized and efficient modern banking management skill and an international of banking institutions, JVBs are formed in Nepal as full-fledged commercial bank under the Economy Act, 2021 B.S. and operated under the Banijya Bank Act, 2032 B.S.

All the Nepalese JVBs are established and operated under the rules, regulations, and guidance of NRB. NRB has issued a certain direction to the banks regarding the mandatory credit allocation to the priority sector. The NRB has directed to the government owned banks to invest 3% and the JVBs to invest 0.5% of their total outstanding credit to the priority sector (Journal of NRB, 1998: 4).

Nepal Government's deliberate policy of allowing foreign JVBs to operate in Nepal is basically targeted to encourage local traditionally run commercial banks enhancing their banking capacity through competition, efficiency, modernization, and mechanization via computerization and prompt customer service (Vaidhya, 1999: 44-45).

2.1.8 Roles of Joint Venture Bank

JVBs pose a serious challenge to the existence of the inefficient native banks. But the same challenge can be taken as an opportunity by the domestic banks to modernize them

and sharpen there competitive zealous (Bhandari, 2003: 37). It is undoubtedly true that the JBVs are already playing an increasingly dynamic and vital role in the economic development of the country. In brief, the role of JVBs are presented below:

- Introducing new methods and technology in banking services: - The JVBs have invited a new era of banking in this remote Himalayan kingdom by introducing high technology and efficient methods in the banking business. Other areas of expertise are forward cover for foreign exchange transaction by importers and exporters, merchant banking, inter-bank market for money and securities, arranging foreign currency loans, etc.
- Providing new services: -Even though the JVBs so far have not provided any remarkable new services that were not offered by the domestic banks, they have drawn a large number of customers who assume that they will eventually benefit from their association with these banks when they introduce new services. At present, a speedy service than that of the domestic banks is the hallmark of the JVBs though their services are basically in traditional areas. This could highly be educative for the domestic banks.
- Offering better links with international market: - The JVBs are usually better placed to raise resources internationally for viable projects in a developing country like Nepal mainly due to their creditability and an access to international markets. In other words, it is very much essential for Nepalese business to produce international linkage through JVBs.
- Creating a competitive environment: - The JVBs have created a competitive environment in banking business in Nepal. Prior to arrival of JVBs, there was little competitive zeal between NBL and RBB as they had almost set bunch of customers, working areas, and services. This competitive environment will benefit the local people, business and industry, and the country as a whole.
- Providing more resources for investment: - The JVBs have played a significant role in channeling additional resources for investment for the development of the country. Although many that resources rose to locally in the prevailing market argue it those resources would have been mobilized net additional resources if they have tapped so far untapped resources in the local market.

2.1.9 Meaning of Deposit

It is important that the commercial bank's deposit policy is the most essential policy for its existence. The growth of bank primarily depends upon the growth of its existence. The volume of funds that management will use for creating income, through loans and investment, is determined largely by the bank's policy governing deposits. In other words, when the policy is restrictive, the growth of bank is restarted or accelerated with the liberalization in the deposit policy. In banking business, the volume of credit extension much depends upon the deposit base of a bank. The deposits creating powers of the banks forces to raise the assets along with the liabilities side of the balance sheet. In other words, assets give rise to liabilities. Traditionally, the deposit structure of a commercial bank was thought to be determined by the depositors and not by the bank's management. There are regular changes in this view in the modern banking industry. Thus, the banks have evolved from relatively passive acceptors of deposits to achieve bidders for funds. Deposit is one of the aspects of the bank liabilities that management has been influencing through deliberate action (Vaidya, 1999: 68).

Bank deposits arise in two ways. The first is when the banker receives cash and credits customer's account. It is known as a primary or a simple deposit. Such primary deposit is made from the initiative of depositors. The second, when the bank advances loans, discounts bills, provides overdraft facilities and makes investments through bonds and securities. This is called derived deposit of derivative deposit. They add to the supply of money. Banks actively create such deposits (The Encyclopedia Britanica, 1981: 700).

2.1.10 Types of Deposits

At the outset, it is necessary to know what a deposit is. Commercial Bank Act 2063, defines deposits is the amounts deposited in a current, saving or fixed accounts of a bank or financial institution. People in general, the businessmen, the industrialists, and other individuals deposit in a bank. Actually, such amount is the main source of capital for the bank. Bank, flows such amount as loan and invest in different sectors to earn profit. Usually, the bank accepts three types of deposits. They are current, saving, and fixed. But in other countries, we find more than three deposits. In Nepal, The bank grants

permission to their customers to open three types of accounts under various terms and conditions. This classification is made on different theoretical and financial basis. Therefore, deposits of the bank are classified on the following basis: -

i. Demand Deposit: - The deposit in which an amount is immediately paid at the time of any holder's demand is called demand deposit. In other words, it can also be called as current account. Current account means an account of amounts deposited in a bank, which may be drawn at any time on demand. Its transaction is continual and such deposits cannot be invested in productive sector. So, such type of amount remains as stock in the bank. Though the bank cannot gain profit by investing it in new sector after taking from the customer, this facility is given to the customers. Therefore, the bank does not give interest on this account. From such deposit, the merchants and traders are benefited more than the individuals. The bank should pay as many times as the cheque is forwarded until there is deposit in his/her account. The bank can't impose any conditions and restrictions in demand deposit. An institution or an individual, who usually needs money daily, precedes his/her acts and transactions through such deposit. The current account is very important for the customers of the bank.

ii. Saving Deposit: - The bank can collect capital through the saving deposit as well. This deposit is also important and its necessity and scope is not negligible. According to the Commercial Bank Act 2063, saving account means an account of amounts deposited in a bank for saving purposes. This account is suitable and appropriate for the people of middle class, farmers, and the labours having low income, officials, and small businessmen. This saving deposit bears the features of both the current and fixed period deposits. Generally, most accounts are opened on saving deposit in a bank. Therefore, this deposit is popular in people in general. According to internal rules of banks, some banks demand a small amount and some demand a great deal of money to open saving account. Banks give interest on it.

iii. Fixed Deposit: - Under the Commercial Bank Act 2063, fixed account means an account of amounts deposited in a bank for a certain period of time. The customers

opening such account deposit their money in this account for a fixed period. In other word, it is called time deposit because this amount is deposited for a certain period. Usually, only the person or the institution that wants to gain more interest opens such type of account. The period of time can be 3 months, 6 months, 9 months, 1 year, 2 years, 3 years, etc. more interest rate is payable in this deposit than other deposits. Both parties, the bank and the customers, can take benefit from this deposit. The bank invests this money on the productive sector gaining profit thereby and the customers too can make his financial transaction stronger by getting more interest from this deposit. The amount collected in the fixed deposit must be returned to the customer after the date is expired. The amount can't be withdrawn before the fixed time. (Bhandari, 2003: 73-76).

2.1.11 Mobilization of Deposits

Collecting scattered small amount of capital through different medias and investing the deposited or collected fund in productive sector with a view to increase the income of the depositors is meant deposit mobilization. It also supports to increase the saving through the investment of increased of extra amount (NRB, Bankers Prakashan, 1984: 12).

When we discuss about the deposit mobilization, we are concerned with increasing income of the low income group of people and to make them able to save more and to invest again the collected amount in the development activities (NRB, Bankers Prakashan, 1984: 10).

The main objective of the deposit mobilization is to covert the idle saving into active saving (Nepal Bank Patrika, 2037: 7).

In developing countries, there is always the shortage of capital for the development activities. There is the need of development in all the sectors. It is not possible to handle and develop all the sectors by the government alone at a time. Private people also can't undertake large business because the per capita income of the people is very low and their propensity to consume is very high. Due to the low income, their saving is very low

and capital formation is very low. Therefore, their saving is not sufficient for carrying out developmental works.

To achieve the higher rate of growth and per capita income, economic development should be accelerated. Economic development may be defined in a very broad sense as a process of rising income per head through the accumulation of capital (Johnson, 1985: But how capital can be accumulated in the developing countries? There are two ways of capital accumulation in the developing country, which are external and internal sources. In the first group, foreign aid, loans and grants are the main, while in the later, financial institutions operating within the country play a dominant role. In the context of Nepal, commercial banks are the main financial institutions, which can play very important role in the resource mobilization for the economic development. Trade, industry, agriculture, and commerce should be development for the economic development.

Capital formation is possible through collecting scattered unproductive and small savings from the people. This collected fund can be utilized in productive sectors to increase employment and national productivity. Deposit mobilization is the most important source of the capital formation (RBB, Upahar, 2055: 14).

Banking transaction refers to the acceptance of deposit from the people for granting loan and advances, and returning the accepted deposit at demand or after the expiry of the certain period according to the banking rules and regulations. This definition clearly states that deposit mobilization is the starting point of banking transactions. Banking activities can be increased as well as the accumulated deposit can be mobilized effectively (NRB, Nepal Bank Patrika, 2037: 7).

A commercial bank changes the scattered unproductive small savings into loan able and active savings. The bank not only collects saving, but also provides incentives to the savers and helps them to be able to save more (RBB, Uphahar, 2055: 15).

Commercial banks are set up with a view to mobilize national resources. The first condition of national economic development is to be able to collect more and more deposits. In this context, the yearly increasing rate of commercial banks deposit clearly shows the satisfactory progress of deposit mobilization (RBB, Uphahar, 2055: 20).

2.1.12 Needs for Deposit Mobilization

The following are the reasons for why deposit mobilization is needed in a developing country like Nepal. Workshop report "Deposit mobilization why and how" states the following points as the needs for deposit mobilization:

- Capital is needed for the development of any sector of the country. The objective of deposit mobilization is to collect the scattered capital in different forms within the country.
- It is much more important to canalize the collected deposit in the priority sectors of a country. In our developing country, we have to promote our business and other sectors by investing the accumulated capital towards productive sectors.
- The need for deposit mobilization is felt to control unnecessary expenditure. If there is no saving, the extra money that the people have, can be forwarded buying unnecessary and luxury goods. So, the government also should help to collect more deposit, steeping legal procedures to control unnecessary expenditures.
- Commercial banks are playing a vital role for national development Deposit mobilization is necessary to increase their activities. Commercial banks are granting loan not only in productive sectors, but also in other sectors like food grains, gold and silver, etc. However, these loans are traditional in nature and are not helpful to increase productivity, but it helps, to some extent, to mobilize bank's deposits.
- To increase saving is to mobilize deposit. It is because if the production of agriculture and industrial products increases, it gives additional income, which helps to save more, and ultimately, it plays a good role in deposit mobilization (NRB, Banker's Prakashan, Group A, 1984: 10).

Low national income, low per capita income, lack of technical know-how, vicious cycle of poverty, lack of irrigation and fertilizers, pressure of population increase, geographical condition, etc. are the main problems to bring economic development in a under development country like Nepal. Deposit mobilization helps in capital formation and thereby plays a vital role in economic development of a country.

2.1.13 Advantages of Deposit Mobilization

In that report, Group "B" states the following points as the advantages of deposit mobilization:

- **Circulation of idle money**: - Deposit mobilization helps to circulate the idle money. The meaning of deposit mobilization is to convert idle saving into active saving. It helps the depositor's habit of saving on one side, and it also helps to circulate the idle saving in productive sector on the other. This helps to create incentives to the depositors. Again, investment in productive sector helps directly in country's economic development, and increases investor's income.
- **To support in fiscal and monetary policy**: - Fiscal policy of the government and monetary policy of the central bank for economic development of a country can be supported by deposit mobilization. It helps to canalize idle money in productive sectors. Again, it helps in money supply, which saves the country from deflation and helps central bank in achieving the objective of monetary policy.
- **To promote cottage industries**: - Deposit mobilization is needed to facilitate cottage industries located in rural and urban areas. If the bank utilizes the collected deposit in the same rural or urban sector for the development of cottage industries, it is helpful not only to promote cottage industries in the area, but also supports in the development of the locality as a whole, increasing employment and income of the local people.
- **Capital formation**: - Capital plays a vital role for the development of industries. But in an underdeveloped country, there is always lack of capital to support such industries. Capital formation and industrialization is possible through deposit mobilization.

- **Developing of banking habit**: - One of the important sides of economic developing country is to increase banking habit in the people. Deposit mobilization helps in this aspect. If there is proper deposit mobilization, people believe bank and banking habit develops in people.
- **To check the miss utilization of money**: - Mostly our customs and habits are supported by social and religious beliefs. There is also tendency of copying others and to show their superiority buying unnecessary and luxury items in our society. In such society, deposit mobilization proves a tool to check the miss utilization of money.
- **To support government development projects**: - Every underdeveloped country's government needs a huge amount of money for development projects. The deposit collected by the banks can fulfill to some extent the need of money of the people.
- **Co-ordination between different sectors**: - Deposit mobilization helps to collect capital from surplus and capital hoarding sectors. The fund can be invested for the needy sectors. Thus, it helps to fulfill the gap between these two different sectors. Earning interest in their deposit and the needy sector receiving loan and advances, benefits the surplus and hoarding sectors. Thus, it helps to keep good co-ordination between different sectors.
- **Others**: - Deposit Mobilization supports small savers by earning interests, helps to the development of rural economy, protects villagers from being exploitation of indigenous bankers investment incentives, provides facilities to the small farmers to purchase tools and fertilizers, etc (NRB, Banker's Prakashan, Group B, 1984: 12-14).

On this same report, Group "C" views that:

Capital is needed for the economic development of a country. External sources are not dependable sources of capital. So, mobilization of internal resources has a great significance. This is the only way of receiving capital continuously for a long time.

Group "C" further states that there are various institutions, which mobilize internal resources. These are commercial banks, insurance companies, post offices, etc. Among

them, commercial banks are the effective and dependable sources mobilizing internal resources. This is due to the fact that commercial bank's branches are scattered all over the country. Deposit mobilization not only helps in country' economic development, it is also helpful to the depositor himself. The interest earned in the amount helps to raise the standard of living on one side and on the other, the depositor had right to draw the deposited amount at the time need (NRB, Banker's Prakashan, Group C, 1984: 17).

So, commercial banks play an important role for the economic development not only in a developing country, but also in a developing country.

2.1.14 Investment, Investment Policy and Its Principles

2.1.14.1 Investment

Investment is simply defined as the sacrifice of current consumption for future consumption whose objective is to increase future wealth. The sacrifices of current consumption take place at present with certainty and the investor expects desired level of wealth at the end of his investment horizon. The general principle is that the investment can be retired when cash is needed. The decision to invest now is a most crucial decision as the future level of wealth is not certain. Time and risk are the two conflicting attributes involved in the investment decision. Broadly, investment alternatives fall into two categories: real assets and financial assets. Real assets are tangible while financial assets involve contracts written on pieces of papers such as common stocks, bonds and debentures. Financial assts are bought and sold in organized security markets.

2.1.14.2 Investment Policy

The investment policy is the most important strategy performed by the banks. The profit and the growth of the bank totally depend upon the decision taken by the banks to grant the loan. Investment policy involves determining the investor's objectives and the amount of his/hr investible wealth. Because there is a positive relationship between risk and return for sensible investment strategies, it is not appropriate for an investor to say that his/her objective is to 'make a lot of money'. What is appropriate for an investor in this situation is to state that the objective is to attempt to make a lot of money while

recognizing that there is some chance that large lose may be incurred. Investment objectives should be stated in terms of both risk and return (Francis, 1983: 10).

Investment policy considers the three factors while investing on the projects they are time, risk, and return.

2.1.14.3 Principles of Sound Investment Policy

The principles of sound investment policy, i.e. the features of sound lending policy are explained below:

Safety and security: - A bank should be very careful while planning the investment procedure and setting policy thereto. It should always be able to avoid investing in too much volatility because a little alteration may cause a great loss. It must not invest its funs without careful analysis of the proposal of the borrower. A bank must not invest funds in the speculative business. Such business may cause bankrupt at once and earn millions in a minute. Only commercial, durable, marketable, and high marked valued securities are good for investment to the commercial banks.

Profitability: - There must be profit prospect in the project to make investment decision. It should select the most profitable investment area so that it can be able to maximize the shareholders' wealth. The profits of the commercial banks depend on the interest rate, volume of loan provide, maturity period, and the nature of investment.

Liquidity: - Liquidity is the ability of the bank pay cash in exchange of deposit. People deposit their hard earned money in the bank making in the min that they will withdraw it when they need it. So, a bank should always try to maintain the liquidity position. It should not invest all the money seeing the uncertain future profit. Once it losses the trust of the customers, the bank may be in the shortage of the funds in future. So, to have the customers' faith, banks should always maintain the liquidity.

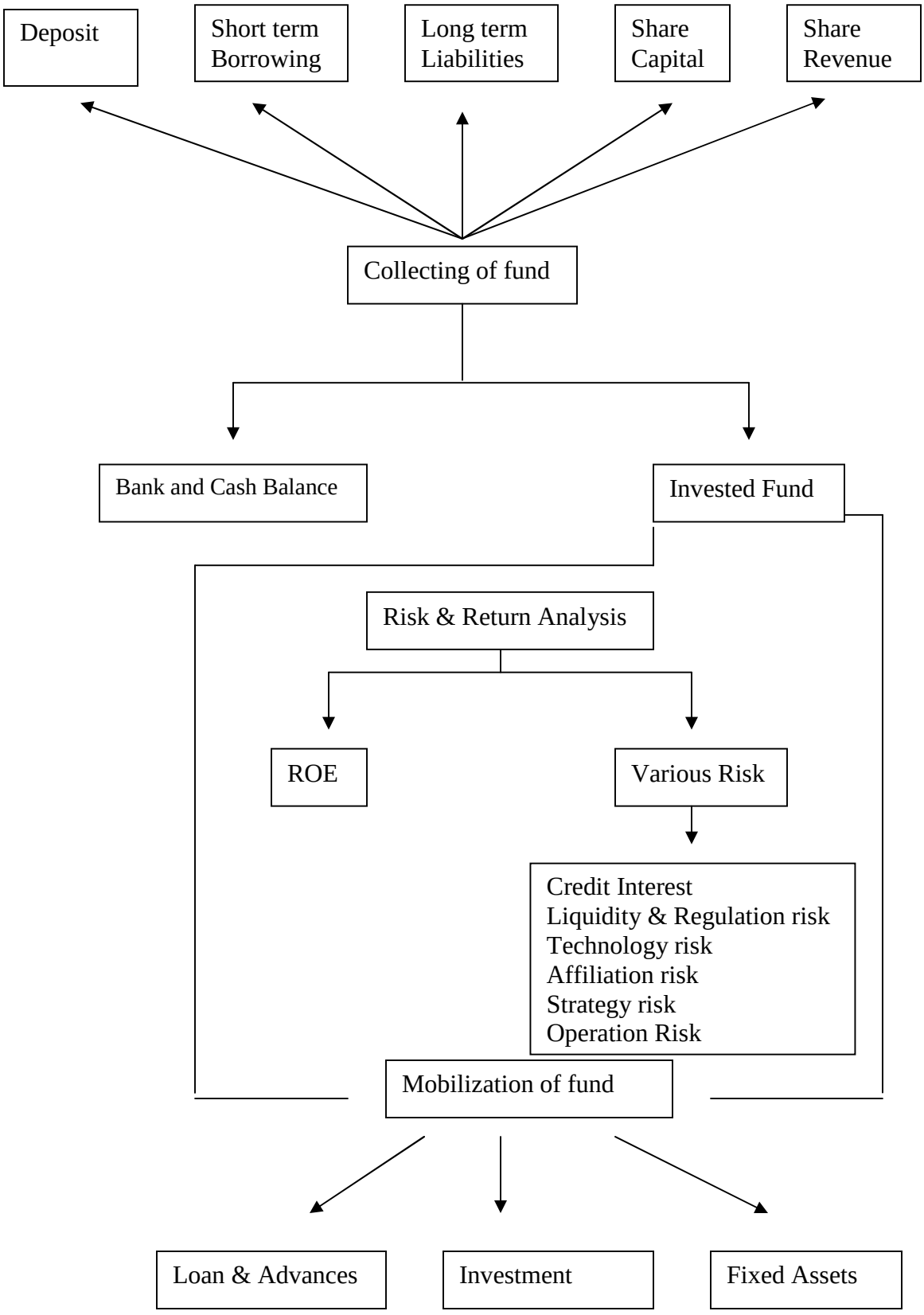
Purpose of loan: - Before sanctioning the loan to the customers, banks should learn the purpose of taking loan by the customers. If the seems to be for unproductive project

which may yield nothing for the customers or the customers misuse the then he/she can never repay it on time. Therefore, banks nee the detail intention of the customers before granting loan.

Diversification: - Diversification of the investment will reduce the risk. It can diversify the risk by investing in various sectors so that loss on one can be compensated by the profit of other. It should not lay all its eggs on the same basket.

Legality: - All the commercial banks are required to follow the directions given by NRB for the investment. Illegal method of investment seems good on short term but it will consequently hamper the bank leading towards bankruptcy as well

A General Investment Procedure of Joint Venture Banks



2.2 Review of Related Studies

This part consists of a review of past studies conducted by other researchers, which are relevant to the topic.

Bajracharya (2047) in the article, "Monetary policy and deposit mobilization in Nepal" has concluded that the mobilization of domestic saving is one of the monetary policies in Nepal. For this purpose, commercial banks stood as the vital and active financial intermediary for generating resources in the form of deposit of the private sector so for providing credit to the investor's in different aspects of the economy.

Pradhan (2053) in his article "Deposit mobilization, its problem and prospects" has presented that deposit is the life-blood of every financial institution like commercial bank, finance company, co-operative or non-government organization. He further adds consider the most of banks and finance companies that the latest figure does produce a strong feeling that serious review must be made on problems and prospects of deposit sector. Leaving few joint venture banks, other organizations rely heavily on the business deposit and credit disbursement.

The writer has highlighted following problems of Deposit Mobilization in Nepalese context:

- Most of the Nepalese do not go for saving in institutional manner, because of lack of good knowledge. However, they are very much used of saving in the form of cash or ornaments. Their reluctance to deal with institutional system is governed by the lower level of understanding about financial organization process, withdrawn system, and availability of deposing facilities and so on.
- There is unavailability of the institutional services in rural areas.
- Due to lesser office hours of banking system people prefer holding cash in the personal possession.
- There is no more mobilization and improvement of the employment of deposits and loan sectors.

- The writer has also recommended the following points for the prosperity of deposit mobilization which are as follows:
- By providing sufficient institutional services in the rural areas.
- By cultivating the habit of using rural banking unit.
- By adding service hour system to bank.
- Nepal Rastra Bank should organize training program, to develop skilled manpower.
- By spreading co-operative to the rural areas development mini branch services.

Kafle (1990) Conducted research in the topic of "Monetary and financial reports in Nepal" states that consolidation and liberalization of interest rate measure is initiated with a view to provide more option to commercial banks in the mobilization of saving and portfolio management through market determined interest and lending rates.

Investors seeking higher return must be willing to face higher level of risk. Finance company being only a financial inter me diary, we will not be able to make any profit unless we mobilize funds suitably. It is from out of the interest, finance company earns on loan and advance, further he has to pay interest on deposit meet liquidity of cash balance. Meet establishment expenses keep some balance for reserve and pay dividend to the shareholders. Investment in its broadest sense means the sacrifice of certain present value for future value (Sharpe and Alexander, 1994: 39).

Willamson (1998) Conducted research in the topic of "Personal saving in developing nations" Found that saving and investment decisions are highly interdependent in Asia sectors interest rate. Mostly household people try to save money for short period. Its influence is less in the long run saving decisions.

Sharma (2000) on his title, "Banking future on competition" found that all the commercial banks are establishing and operating in urban areas. His achievements are:

- Commercial banking are charging rate of interest on lending. Commercial banks are establishing and providing their services in urban areas only. They do not have

interest to establish in rural areas. Only the RBB and NBL have branches in rural areas.

- They do not properly analyze the credit system. The researcher further states that private commercial banks have mushroomed only in urban areas where large volume of banking transaction and activities are possible.

Shiva Raj Shrestha, (2004) has mention in his article " *Portfolio Management Plays the Vital Role in Individual as well as Institutional"* that due to slowdown in the world economy and deteriorating law and order situation of the country, many sectors if the economy is already sick. When any sector of economy catches cold, bank start sneezing. Form this perspective, the banking industry as a whole is not trust. Incase of investors having lower income, portfolio management may be limited to small saving income. But the other hand, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore, portfolio management becomes very important for both an individuals as well as institutional investors. Large investors would like to select the best mix of investment assets.

2.2.1 Review of Thesis

Shrestha (2042) Conducted research on the topics of “A study on deposit mobilization and utilization of commercial banks with reference to NBL” This study is concerned only from 2038 B.S. to 2042 B.S. and mainly based on secondary data. Various statistical tools: coefficient of correlation for testing the relationship between the deposits and loan and advances, ratio analysis to compare different factor like loan and advances and deposit, bank’s liquidity position, profitability condition etc.

with the objectives is:

- To sketch the deposit mobilization of NBL.
- To analyze the impact of interest rate in deposit mobilization.
- To analyze the impact of branch expansion on the deposit mobilization.

This study covers ten years data from the year 2031 B.S. to 2040 B.S. It is limited to deposits and loans and advances only. The study is primary based on secondary data. In this study, statistical tools like percentage changes, correlation test is done and to test its significance analysis, probable error test is carried out.

On the theses, the writer found that NBL has been much sufficient in collection of resources from the people in both urban and rural areas of the country, but in the process of utilization, the bank is still behind. The interest rate has played important role in mobilizing and utilizing the resources of the bank. So, the structure of interest rate should be changed according to the need of nation. It is also suggested that to expand availability of banking services, branch expansions policy should be continued to mobilize resources as well as accelerate lending to productive sector.

Neupane (1986) Conducted research on the topic of "Deposit mobilization of commercial banks in Nepal, comparative study of RBB and NBL, Kirtipur Branch" with the objectives of:

- To examine whether RBB, Kirtipur Branch is successful to complete with NBL, Kirtipur branch in relation to deposit and loan advanced.
- To examine how for RBB, Kirtipur Branch is successful to provide door-to-door services to its customers in the collection of more deposits.
- To examine how far the deposits of RBB, Kirtipur Branch have been efficiently mobilized.

This study covers deposit and credit during the year from mid-July 1976 to mid- July 1985 of RBB and NBL Kirtipur Branch. The study is based on both primary and secondary data. Karl's Pearson's formula of coefficient correlation has been used to compare various variables.

In thesis research, the writer has found that a comparative study of deposit between the two bank branches shows a good position of NBL branch's deposit comparison to RBB branch as well as credit position. The writer has also mentioned that the activities of the

branch for mobilizing deposits seem to be idle. The branch has taken no steps for collecting more deposits or advancing more loans except the customers they knock the door of the branch. Lastly the researcher found that RBB Kirtipur branch is not successful to collect maximum deposit from the area it covers.

So, the researcher has recommended that local staff can play an active role in deposit mobilization. For so, at least four local staffs are suggested to appoint in the RBB branch out of 8 staff in deposit counter. He has further suggested that there should be a certain budget to the branch for advertisement about its activities and interest rates must be revised.

Karki (2001) Conducted research on the topic of "An analysis of deposit mobilization of RBB, Lahan Branch" has tried to see the impact of interest rate on deposit mobilization also to know the efficient utilization of the accumulate deposit. This study is mainly concern with the RBB Lahan Branch. The data presentation analysis of deposits and loan advances is limited to the period of ten year from the year Mid-July 1990 to Mid- July 1999. Most of data are secondary type and applied the correlation coefficient as statistical tool. In the study, the researcher has found that RBB Lahan Branch is less successful to collect maximum deposit and also the deposits cannot efficiently utilized and there is negative correlation exists between interest rates and total credits.

For so, the researcher has recommended that bank should extend long-term credit, the bank should not very much conscious about its security. The person, who has skill but not security, does not get loan from the bank. The bank should decrease interest on credit side and staffs should be trained. Finally, the researcher has suggested that there should be frequently communication between staffs and key customers, particularly businessman.

Agrawal (2002), Conducted research on the topic of "A study on deposit and investment position of Yeti Finance Company Limited" has tried to examine the trend the deposit position and investment position of the Yeti Finance Company. That study was

conducted on the basis of secondary data and used various financial tools to analyze the data. Study just covered only period of 5 years (i.e. FY 1996/97 to 2000/2001). The researcher has found that the deposit policy is not stable but has highly fluctuating trend and investment is gradually in increasing trend. The researcher found there is highly positively correlation between total deposit and total investment. The researcher concluded that finance companies have been found profit oriented, ignoring the social responsibility, which is not a fair a strategy to sustain in long run. Therefore, it is suggested the company should involve in social program which helps the deprive people who are depended helps in agriculture. Agriculture is the paramount of Nepalese economy so that any finance company should not forget to invest in this sector. In order to do so, they must open their branches in remote area with an objective of providing cheaper financing services.

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

Tandukar (2003) Conducted research on the topic of "Role of NRB in deposit mobilization of commercial bank" has tried to examine role of NRB in deposit collection by the commercial banks and to analyze the trends of deposits mobilization towards total investment and loan and advances. Projection is for five years i.e. (1998 to 2002). The data used in that study is both secondary and primary nature. The researcher used different financial tools such as liquidity ratio, activity ratio, profitability ratio, risk ratio and coefficient of correlation, trend analysis as statistical tools. The researcher took 17 commercial banks as population and three banks i.e. Nepal Arab Bank Limited (NABIL), Standard Chartered Bank Nepal Limited (SCBNL) and Himalayan Bank Limited (HBL) as sample banks. The researcher has found that it can be said that all new directives of NRB of commercial banks are effective and it is good for both nation and the future of the banks but the loan classification and provisioning seems to be little bit uncomfortable to the commercial banks. And deposit and loan and advances of NBBL are higher than

EBL but in case of the investment EBL is able to mobilize more funds than NBBL in this sector.

In the study, only concentrate on two banks. The researcher has recommended to NBBL that diversification of loan and investment is highly suggested to the bank. As NBBL has given priority in investment in treasury bills, which is risk free, but it yields very low return to the bank and recommended to EBL to collect the deposit by initiating various new programs to attract the customer for this it can pay a higher interest rate than other banks recently providing.

Shrestha D. G. (2004) on his thesis, entitled **"***Role of Rastriya Banijya Bank in Priority Sector Credit & Its Recovery***"** has tried to reveal the following objectives:

To identified the compliance of the target loan limit to be invested in priority sector credit as prescribed by NRB.

To analyze the relationship of credit (loan & advances) with total deposit & also with PSC of RBB.

To examine the situation of deprived sector credit (DSC) of RBB.

To analyze the disbursement, recovery status & NPA position under Priority Sector Credit (PSC) of RBB.(Purpose wise)

The major findings made by the researcher are as follows:

Bank's total no of borrowers in PSC about 76 % to 78 % of borrowers lie under DSC & out of the total loan outstanding of RBB invested on PSC about 28 % to 29 % has been invested under DSC.

RBB is very much success in complying the NRB policy.

Bank was not able to fully utilize the collected deposits in a proper way.

The study reveals that the disbursement & recovery under DSC is in decreasing trend; however the ratio of repayment to disbursement is in increasing trend.

Loan repayment under DSC was more satisfactory from industry sector that the agriculture sector & services sector.

The trend valves of recovery of RBB under PSC shows that the recovery position of the bank is in downward sloping whereas its overdue loan under PSC is in increasing trend which brings no return to the bank.

S. Shrestha, (2005) in his thesis "Financial performance analysis of Nepal Bangladesh bank ltd" In this study, various financial research and statistical tools have been used to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

The specific objectives of his research are:
To analyze the functions, objectives procedure and activities of the NB bank
To analyze the lending practices and resources utilizations of NB bank.
To determine the impact of growth in deposit on liquidity and lending practices.
To examine the lending efficiency and its contribution to profit.
To make suitable suggestions based on the findings of this study. The financial and statistical tools are used.

The researcher found that NB bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, miniaturization has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank. On the other hand, due to political crisis, economic sectors have been fully damaged.

The research findings of the study are summarized as:
NB bank has utilized most funds in the form of credit and advances. More than 75% of total deposits of the bank have been forwarded to customers as a credit and advances.
The major part of utilizing deposits and income generating sectors. If the bank has high deposits, bank can provide money to its customers as credit and advances. Therefore,

there is highly positive correlation between total deposits and credit and advances of NB bank

Bank is providing different schemes to attract good customers. After attracting deposits from the customers, bank has issued the deposits to the needy area to make profit for the bank.

S. P. Gautam: (2006) has conduct research on "A Comparative study on financial performance of Standard Chartered Bank Limited and Nepal Bangledesh bank Limited" Financial performance is analyzed with two important tools. The first most important tools are the financial tools, which includes ratio analysis and other is a statistical tools, which is bankruptcy score.

The objectives of his research are:

To study the existing capital structure of financial position of selected joint venture commercial banks and to analyze its impact on the profitability.

To access the debt servicing of the joint venture commercial bank.

To examine the correlation and the signification of their relationship between different ratios related to capital structure.

To provide suggestions and recommendations for the optimal capital structure of the joint venture commercial bank.

To obtained the objectives, some financial, statistical and accounting tools.

He has found his study were the joint venture banks are operating in Nepal as commercial merchant banks. The growth is still going on as so many new banks are coming into existence after this study. Therefore, JVB's are operating with higher technology and new efficient methods in banking sector. However, this study has been undertaking only three JVB's viz. SCBNL and NBBL to examine and evaluation the financial data.

The research findings of the study are as follows:

- The research sample JVB's have used high percentage of total debt in raising the assets. The higher ratio constitutes that the outsider's claim in total assets of the bank is owner's claim.
- The on an average, NBBL bank constitutes 16.27 times of P/E ratio, which should be reduce as quickly as possible.
- The financial risk of the banks NBBL average degree of finance leverage constitutes 3.73 times which indicates the higher degree of financial risks 3.73 times which indicates the higher degree of financial risks.
- The average ROE of JVB's i.e. SCBNL and NBBL area 37.36% and 21.75% respectively.

Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, efficiency has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank

Pradip Sedai, (2007) in his dissertation "An Analysis on Lending Policy and Strength of Nepal Investment Bank Ltd" highlighted that aggregate performance of NIBL is satisfactory and pushing upward. Lending strength of NIBL in term of exposure of loan and advances is good and appreciable. The contribution made by bank in industrial as well as agriculture sector of the economy is highly appreciable and its bust up towards national prosperity. The ratio of loan and advances to total asset, loan and advance to shareholder's equity indicate a good performance of NIBL in its lending activities.

The main objective and target of this study is to observe the loan disbursement of Nepal Investment Bank Ltd. they are

The breakdowns of the objectives of the study are as follows:

- To evaluate various financial rations of the NIB.
- To determine the impact of deposit in liquidity and its effect on lending practices.

- To analyze trend of deposit utilization towards loan and advances and net profit.
- To offer suitable suggestions based on findings of this study

The main findings and recommendations are forwarded according to finding and conclusion. It is recommended that extend their credit and branch in rural area, continue to maintain or further increase the performance, decrease the NPL and make proper loss loan provision, required proper market analysis, diversify the investment sector etc. finally however, performance of NIBL seems to be good till the date. There are still many opportunities for further growth of the bank. NIBL is suggested to further improve current position of lending portfolio. The bank should concentrate on financial strength, pe5rsonal integrity and credibility of the borrower of loan disbursement. It should maintain high level of monitoring and control system over the disbursed loan and advances. To create opportunity of business new and attractive lending scheme would be launched to the customer.

Looking at the asset management ratio the performance of NIBL seems good in the area of lending, productivity and impact on national economy. The activity ratio also reflects to the soaring performance of NIBL. The decreasing loss loan provision ratio incate that bank is good enough to judgment in their value customer. The better activity ratio of this bank been a major contributor in managing the lending portfolio according to the demand of the profit oriented business. The high volume of lending activity of NIBL has put this bank in the top position in absolute term. Thus looking at the various summaries and findings, we can conclude that the bank has accelerated its performance in the year 2002/3 and has continued till 2004/5 and the bank has the potentiality to become a leading bank in Nepal.

Ram Limbu, (2008). In his dissertation, “Credit Management of NABIL Bank Limited” highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash

and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition.

The main objectives of the research study are as follow.

- To evaluate various financial ration of the Nabil Bank.
- To analyze the portfolio of lending of selected sector of banks
- To determine the impact of deposit in liquidity and its effect on lending practices.
- To offer suitable suggestions based on findings of this study.

The main findings and conclusions are according to calculated ratio. In the aspect of assets management ratio, assets management position of the bank shows better performance in the recent years. Non–performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank. In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio posses' higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio. In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL through loan and advances. Earning per share and The Price earning ratio of NABIL is in increasing trend. Loan loss provision to total loan and advances ratio and None-performing loan to total loan and advance ratio of NABIL is in decreasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

In the statistical tools analysis, average mean, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets shows high degree of positive correlation. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation it is concluded that increasing total deposit will have positive impact towards loan & advances. Trend analysis tools are done for future forecasting. Trend analysis for total, loan & an advance, Total asset and Net profit is done to see future prospect.

Trend analysis tools are done for future forecasting. Trend analysis for total deposit is calculated to see future deposit trend of the bank. Trend analyses for loan & an advance is done to see future loan & advances. Trend analyses for Total asset is calculate to see future total asset.

The study is conducted on credit management of Nabil Bank, which is one of the leading banks in Nepal. NABIL has been maintaining a steady growth rate over this period. In the study every aspect of banks seems to be better and steady in every year. Its all analysis indicates better future of concern bank.

2.3 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researchers conduct on lending practice, credit policy, financial performance, credit management and liquidity mobilization of various commercial banks. In order to perform those analysis researchers have used various ratio analysis. in the past research topic on liquidity mobilization the researcher has focused on the limit ratios which are incapable of solving the problems. Actually liquidity mobilization is determined by various factors. In this research various ratio are systematically analyzed and generalized. Past Researchers are not properly analyzed about investment aspect' mobilization of fund and its impact on the profitability. The ratios are not categorized according to nature. Here in this research all ratios are categorized according to their area and nature.

In this study of liquidity mobilization of Everest Bank and Nepal Investment Bank Limited is measuring by using various tools. Financial tools as well as statistical tool are used in this research. Financial tools like various liquidity ratio, activity ratio, profitability ratio, price earning ratio and lending efficiency ratio etc and in statistical tools, mean, standard deviation and correlation coefficient are analyzed. The analyzed data are only five fiscal year but all the data are current and fact. Clearly these are the

issue in Nepalese commercial bank the previous scholar could not the present facts. Thesis of S. P. Gautam: (2006) "A Comparative study on financial performance of Standard Chartered Bank Limited and Nepal Bangladesh bank Limited" has not use correlation, probable error and trend analysis. In research of Ram Limbu, (2008) “Credit Management of NABIL Bank Limited has done well research using various financial tools as well as statistical tools. This study tries to define liquidity mobilization by applying and analyzing various financial tools like liquidity ratio, activity ratio, profitability ratio and lending efficiency ratio as well as different statistical tools like mean, standard deviation, coefficient of correlation and probable error. Probably this will be the appropriate research in the area of liquidity mobilization of Bank and financial institutions.

CHAPTER - III
RESEARCH METHODOLOGY

The topic of the study has been selected as "The Comparative study on Liquidity Mobilization of Everest Bank Ltd. & Nepal Investment Bank Ltd" The sole objective of this study is to compare the Liquidity Mobilization.

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view (Kothari, 1992: 131).

In order to reach and accomplish the objectives of the study, different activities will be carried out. For this purpose, the chapter aims to present and reflect the methods and techniques that are carried out and followed during the study period. The research methodology that is adopted for the present study is mentioned in this chapter which deals with research design, sources of data, data collection, processing and tabulating procedure and methodology.

3.1 Research Design

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 1992: 133). Descriptive and analytical type of research design has been followed in this study.

3.2 Populations and Sample

The objective of the research is to explore and describe the liquidity mobilizatiom of commercial bank in Nepal from the investor's point of view. However, with regard to the availability of the financial information, two samples were identified purposively from the banking sector, which comprise of Twenty Six commercial bank. The sample banks are:

Everest Bank Limited

Nepal Investment Bank Limited

3.3 Sources and Data Collection Techniques

This study is conducted on the basis of secondary data. The data relating to the investment, deposit, loan and advances, and profit are directly obtained from the balance sheet and profit and loss account of concerned banks. Supplementary data and information are collected from number of institutions and regulating authorities like Nepal Rastra Bank, Security Board Nepal, Nepal Stock Exchange Limited, Ministry of Finance, Budget Speech of different fiscal years, Economic Survey and National Planning Commission, etc.

All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives. In other judge, the reliability of data provided by the banks and other sources, they were compiled with the annual reports' of auditor. Formal and informal talks to the concerned data of the departments of the banks were also helpful to obtain the additional information of the related problem. Similarly, various data and information are collected from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources.

3.4 Method of Analysis

To achieve the objective of the study, various financial, statistical and accounting tools have been used in this study. The analysis of data is done according to pattern of data available. Because of limited time and resources, simple analytical statistical tool such as graph, percentage, Karl Person's coefficient of correlation and the method of least square are adopted in this study. Similarly, some strong accounting tools such as ratio analysis have also been used for analysis.

The various calculated results obtained through financial, accounting and statistical tools are tabulated under different headings. Then, they are compared with each other to interpret the results.

To make the study more specific and reliable, the researcher uses two types of tool for analysis**,**

a) Financial Tools

b) Statistical Tools

3.5.1 Financial Tools

For the sake of analysis, various financial tools were used. The basic tools used were ratio analysis. Besides it, total deposit, total investment and total income analysis have been used.

3.5.1.1 Ratio Analysis

Ratio analysis is a powerful and most widely used tool of financial analysis. A ratio defined as "The indicated quotient of two mathematical expression" and as the "Relationship between two or more things" (Webster, 1975: 132).

A ratio is a figure or a percentage representing the comparison of one-dollar amount with some other dollar amount as a base (Roy, 1974: 49). Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. In financial analysis, a ratio is used as an index for evaluating the financial position and performance of a firm. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's performance (Pandey, 1994: 234).

A large number of ratios can be generated from the components of profit and loss account and balance sheet. They are sound reasons for selecting different kinds of ratios for different types of situations. For this study, ratios are categorized into the following major headings:

A. Liquidity Ratios:

Liquidity refers to the ability of a firm to meet its short-term or current obligations. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined (Van Horne, 1997: 147).

Inadequate liquidity can lead to unexpected cash short falls that must be covered at inordinate costs, thus reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. On the other hand, excessive liquidity

can lead to low asset yields and contribute to poor earnings performance (Scott, 1991: 13).

To find - out the ability of banks to meet their short-term obligations, which are likely to mature in the short period, these ratios are calculated. The following ratios are developed under the liquidity ratios to identify the liquidity position:

i. Cash and bank balance to total deposit ratio

This is the must important ratio for measuring the short-term solvency position of the commercial banks. The sound ratio indicated the strong liquid position of the bank to meet the immediate cash requirement of the customers and creditors. This ratio is obtained by dividing the total cash with the bank itself and at bank as:

$$\text{Cash and bank balance to total deposit} = \frac{\text{Cash \& bank balance}}{\text{Total Deposit}}$$

ii. Cash and bank balance to current assets ratio

This ratio measures the extent of the portion of the cash and bank balance over total current assets maintained by the bank. It also gives a good indicator of liquid assets in a bank. A moderate ratio is desirable for banks because too high ratio indicates the excess idle funds and too low ratio signifies the shortage of short-term funds of the bank. However, there is lack of perfect standard regarding this ratio. It is calculated as

$$\text{Cash and bank balance to total current assets} = \frac{\text{Cash \& bank balance}}{\text{Current assets}}$$

B. Leverage Ratios

These ratios are used to measure the presence of financial risk in a firm due to use of debt capital in its financial structure. Leverage or use of debt capital in financing acts as the two-edged sword. If there is a trend of profit, use of leverage in capital structure

stimulates the earnings per share of the firms. But if there is trend of loss, it will worsen and intensify the loss of the firms. The major ratios calculated in this part are:

i. Debt ratio

Debt ratio is used to measure the extent of the use of total debt including both long-term and short-term debt in financing total assets of the banks. The higher the amount of total assets financed with debt capital, the higher will be the financial risk and vice versa. Debt ratio is calculated by using the following formula:

$$\text{Debt ratio} = \frac{\text{Total debt}}{\text{Total assets}}$$

ii. Debt to equity ratio

This ratio provides information regarding the amount of debt part that can be covered through ownership capital. A ratio of 1.0 or more than 100% is considered of having higher degree of financial risk. Because if debt part is used more in financing assets than equity, it will lead to higher risk of default and interest. Debt to equity ratio is computed as follows:

$$\text{Debt-Equity ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

C. Turnover Ratios

The turnover ratios indicate the extent of the utilization of the total assets of the bank in credit lending schemes. In simple words, these ratios are used to detect the level of mobilization of deposits collected in lucrative sector. The main purpose of bank is to collect/accept various kinds of deposits and to mobilize them safely in profit generating sectors.

i. Total deposit turnover ratio

This ratio is calculated to identify how effectively the total deposits are mobilized in the bank. Higher ratio is desirable for all commercial banks. It is calculated by dividing the total credit (loans) and advances by total deposits as:

$$\text{Total deposit turnover ratio} = \frac{\text{Credit \& Advances}}{\text{Total Deposits}}$$

ii. Credit and advances to total assets ratio

The entire funds obtained through various sources are invested in banks in the form of various assets. In other words, these are the sectors where the funds collected using various sources are employed or mobilized so as to get respective returns. Higher and higher ratio is desirable for commercial banks. However, such lending must be safe, transparent, and performing. This ratio is calculated as:

$$\text{Credit and Advances to Total Assets} = \frac{\text{Credit \& Advances}}{\text{Total Assets}}$$

D. Profitability Ratios

Profitability ratios are used to measure the bank's overall effectiveness of operation. The ratios used in this part are one of the good indicators of best performances. These ratios are used to indicate the profitability per unit with regards to various areas of the investment and sources of funds. The major ratios that we consider in this section are:

i. Return on total assets ratio

Return on total assets measures the profitability of the total investment of a firm. The ratio is useful to measure how well management uses all the assets in the business to generate an operating surplus. Higher the ratio indicated the higher efficiency in the utilization of total assets and vice-versa. The ratio is low due to low profit. In other words, it is low utilization of bank assets and over use of higher interest bearing amount of debt and vice-versa. In this study, net profit/loss to total assets ratio is examined to measure the profitability of all the financial resources in bank-assets and is calculated by applying the following formula:

$$\text{Net profit to Total Assets} = \frac{\text{Net profit}}{\text{Total assets}}$$

ii. Return on fixed assets ratio

This ratio measures the effectiveness of banks in generating profits through the usage of available fixed assets. This ratio is calculated by dividing the net profit after taxes by net fixed assets of the banks as:

$$\text{Return on fixed assets} = \frac{\text{Net profit}}{\text{Fixed assets}}$$

iii. Return on total credit ratio

This ratio measures the overall effectiveness of credit and advances (loans and advances) in generating profit. Higher ratio is desirable for banks. The banks having higher ratio is considered of having sound credit performance and with lower bad debts. This ratio is measured by dividing the net profit after taxes by total credit and advances as:

$$\text{Return on total credit} = \frac{\text{Net profit}}{\text{Total credit \& advances}}$$

iv. Earnings per share (EPS)

EPS is one of the most widely quoted statistics when there is a discussion of a company's performance or share value. It is the profit after tax figure that is divided by the number of common shares to calculate the value of earnings per share. This figure tells us what profit the common shareholders earned for every share held. A company can decide whether to increase or reduce the number of shares on issue. This decision will automatically affect the earnings per share. The profits available to the ordinary shareholders are represented by net profit after taxes and preference dividend. Symbolic expression of EPS is given below:

$$\text{EPS} = \frac{\text{Earnings available to shareholders}}{\text{Total no. of common stocks outstanding}}$$

v. Interest earned to credit and advances ratio

Credit and advances refer to the major part of sales of the banking services. Sound credit policy with minimal amount of non-performing credit reveals the success of banks in

having better performance. In return, the banks charge interest on their amount of lending. Thus, a higher ratio is desirable for all kinds of financial institutions.

$$\text{Interest income to credit and advances} = \frac{\text{Interest Income}}{\text{Total Credit \& Advances}}$$

vi. Non-performing credit to credit and advances ratio

This ratio is used to identify the share of bad debts or useless credits in the total credit and advances of banks. In other words, this is the share or credits, which are failed to generate regular earnings. It is always expressed in percentage. Lower and lower ratio is desirable for banks. It is calculated as:

$$\text{Non-performing credit to credit and advances} = \frac{\text{Non - performing credit}}{\text{Total credit \& advances}}$$

E. Market indicator ratios:

Market indicator ratios or market value ratios are useful in detecting the position or value of the banks in the market. Under it, following ratios have been calculated:

i. Market price per share (MPS)

Market price of share is determined on the basis of demand and supply of shares in the secondary market. Various factors affect on the formation of share prices. Those factors may be both the intrinsic (company specific) factors and external factors including international economic scenarios or trends. Higher price is desirable for banks. It is also known as market value per share.

ii. Book value per share

Book value per share represents the total net worth left over to the share of each common stock after deducting all external liabilities and provisions. The more the value per share better will be the performance and stronger will be the firm's position. It is obtained by dividing the total book net worth of a firm by the number of common stocks outstanding.

$$\text{Book value per share} = \frac{\text{Book net worth}}{\text{total no of common stocks outstanding}}$$

iii. Price-Earnings ratio (P/E ratio)

It indicates the performance (efficient utilization of funds collected) of the CBs. It indicates the number of times the earnings are turnover with respect to price in the market. Higher ratio is desirable since increase in earnings is associated with the increase (growth) in stock's price. However, the high ratio obtained by dividing the low price by very low earnings is not considered good at any cost. The validity of higher P/E ratio lies only when both the market price and earnings are growing.

$$\text{Price} - \text{Earnings ratio} = \frac{\text{Market price per share (MPS)}}{\text{Earnings per share (EPS)}}$$

F. Limitations of ratio analysis:

Ratio analysis is suffered from some inherent limitations that are direct inherited from financial statements. Some of the most common weakness of ratio analysis is as follows:

i) The firm or industry although apparently comparable in respect to size, age, location, product mix and technology etc. may not be really comparable if they are following different accounting methods.

ii) Financial statement records past transactions. They are, thus an index of what happened in the past. They do not show the current position of the business. Evidently, ratio analysis is also primarily concerned with analyzing the past, which may or may not be relevant today. It is thus a sort of 'POST-MORTEM' analysis rather than a guide for decision-making.

iii) In the context of persistent price level changes, intra firm trends analysis losses much of its operational significance.

iv) The differences in the definitions of items in the balance sheet and the income statement make the interpretation of ratios difficult.

v) Sometimes, ratio analysis may suffer from what is known as fallacy of misplaced concreteness (Weston and Brigham, 1997: 109).

Although, various limitations of ratio analysis and doubt may arise about the valid measure of the financial analysis but they are used widely to measure the financial analysis of the firm.

3.5.2 Statistical Tools:

For supporting the study, statistical tool such as Mean, Standard Deviation, Coefficient of Variation, Correlation, Trend Analysis and diagrammatic cum pictorial tools have been used under it.

i. Arithmetic Mean ($\overline{X}$)

Average are statistical constants, which enable us to comprehend in a single effort of the whole (Gupta, 2000: 87). It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$\overline{X} = \frac{X}{N}$$

Where,

X = Sum of observations

N = Number of observations

ii. Standard Deviation (S.D.)

The standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by S.D. or σ (Shrestha, 1991: 43). It is used as absolute measure of dispersion or variability. It is calculated as:

$$\sigma = \sqrt{\frac{\phi\varepsilon^2}{N} - \left(\frac{\phi\varepsilon}{N}\right)^2}$$

iii. Coefficient of Variation (C.V.)

The Co-efficient of variation (C.V.) is the relative measure based on the standard deviation and is defined as the ratio of the standard deviation to the mean expressed in percentage (Shrestha, 1991: 45). It is independent of units. Hence, it is a suitable measure for comparing variability of two series with same or different units. A series with smaller

C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice versa. It is calculated as:

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

Where,

σ = Standard Deviation

$\overline{X}$ = Mean

iv. Correlation Analysis:

The popular method of statistical tool, Karl Pearson's co-efficient of correlation has been adopted to measure the significance of the relation between investment and profit of Nepal Arab Bank Limited, Standard Chartered Bank Nepal Limited and Himalayan Bank Limited. The formula for computing the correlation coefficient (r) using direct method is as follows:

$$\text{Karl Pearson's co-efficient of correlation (r)} = \frac{N \quad xy \, Z(\quad x).(\quad y)}{\sqrt{N \quad x^2 \, Z(\quad x)^2} \; | \sqrt{N \quad y^2 \, Z(\quad y)^2}}$$

Here,

N = Number of pairs of x and y observed

x = Values of Investment

y = Values of Profit

r = Karl Pearson's co-efficient of correlation

ii. Probable Error:

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

$$P.E. = 0.6745 \; \frac{1 - r^2}{\sqrt{N}}$$

Here, r = Correlation coefficient

N = Number of pairs of observations

CHAPTER - IV
PRESENTATIONS AND ANALYSIS OF DATA

This chapter presents with the analysis, presentation, interpretation and major findings of relevant data of Everest Bank Ltd & Nepal Investment Bank Ltd. in order to fulfill the objectives of research study. To obtain better result, the data have been analyzed according to the research methodology as mentioned in third chapter. The purpose of this chapter is to introduce the mechanics of data analysis and interpretation. With the help of this analysis, efforts have been made to highlight liquidity management of Everest Bank Ltd & Nepal Investment Bank Ltd as well as other cases or problems also. For analysis, different types of analytical methods and tools such as financial ratio analysis as well as statistical analysis are used. This chapter deals with the various aspects of liquidity management such as financial ratios, impact of deposit in liquidity, lending efficiency, correlation and trend analysis.

The heart of this chapter will be ratio analysis, which is the powerful financial tool to measure the financial performance of the banks. In this chapter analysis and interpretations are categorized in two headings.

i) Analysis of financial ratios

ii) Statistical tools

4.1 Analysis of Financial Rations

The techniques of ratio analysis in of considerable significance in studying the financial stability, liquidity, profitability and the quality of management of the business and industrial concerns, the important ratios that are studied for this purpose are given below.

4.1.1 Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community. Liquidity provides honor strength health and prosperity to an organization. It is extremely essential for an organization to meet its obligations as they

become due. A firm should ensure that it has not lack of liquidity and also that it is not too much highly liquid.

The following ratios are evaluated and interpreted under liquidity ratios:

i) Current Ratio

Current ratio indicates whether the concern has instant ability to payout the current liabilities as they mature. The ratio is the yardstick t judge the soundness of the short term financial position of the business unit or industry. High ratio indicates sound liquidity position of the bank and vice-versa. But too high ratio is not good for bank since it reveals the under utilization of fund. Standard of current ratio is 2:1.

In the following table, we can see the data relating to Current Ratio of EBL.

Table No 4.3

Current Ratio

(Rs In Million)

Year	EBL			NIB		
	Current Assets (Rs)	Current Liabilities (Rs)	Current Ratio (Times)	Current Assets (Rs)	Current Liabilities (Rs)	Current Ratio (Times)
2003/2004	9490.2	8085.94	1.17	11345.74	5570.92	2.04
2004/2005	11598.45	10138.99	1.14	14019.52	5580.36	2.51
2005/2006	15807.2	13932.91	1.13	19198.42	8667.23	2.22
2006/2007	21262.48	18296.45	1.16	22929.11	10545.61	2.17
2007/2008	26788.83	24276.3	1.11	31869.62	31430.69	1.01
Mean			1.14			1.99
S.D.			0.02			0.57
C.V.			0.02			0.29

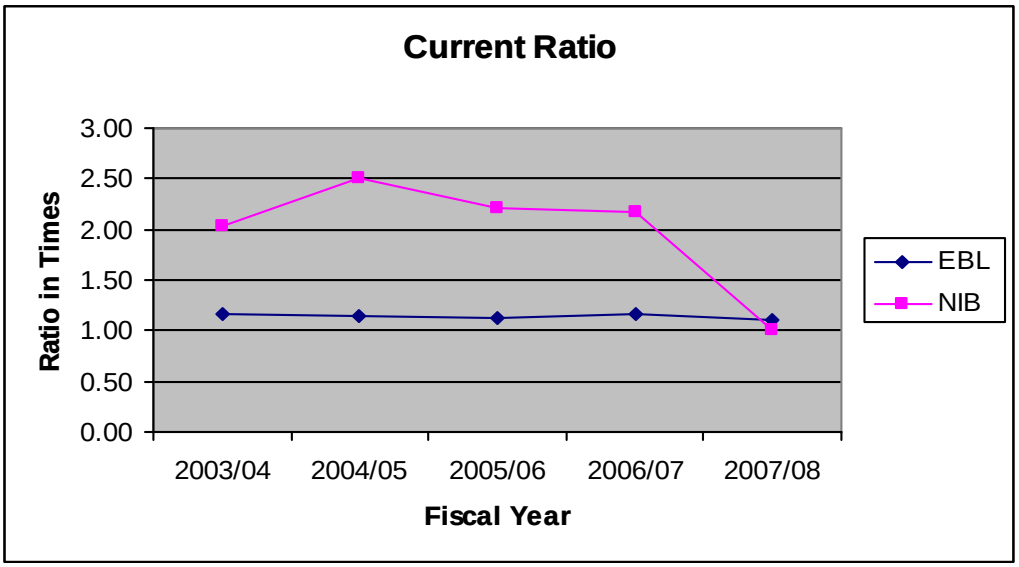
Source: Financial statement of Concerned Bank's 2003/04 to 2007/08

Above table shows that the current assets to current liabilities ratio of EBL is in decreasing trend except in 2006/07. The highest ratio is 1.17 times in year 2003/04 and lowest ratio 1.11 times in year 2007/08. The mean ratio is 1.14 times. Whereas this ratio

of NIB is in fluctuating trend. The highest ratio is 2.51 times in year 2004/05 and lowest ratio is 1.01 in 2007/08. The mean ratio is 1.99 times.

While observing the data, we notice that EBL has not met the standard ratio. How ever, in comparison NIB has sound ability to meet its short term obligation than that of EBL. The above current ratio can be presented in bar diagram also which is as follows:

Figure No 4.1



ii) <u>Cash and Bank balance to Current Assets Ratio</u>

Cash and Bank balance to current assets ratio reveals the position of cash and bank into cash and bank balance in total of current assets.

In the present study cash and bank balances includes cash on hand including foreign cheques other cash item and balance with domestic banks and abroad. Cash and bank balances are highly liquid assets than other current assets. So this ratio scans higher liquidity position than current ratio. Following table shows the data relating to cash and bank balance to current assets.

Table No. 4.4

Cash and Bank balance to Current Assets Ratio

(Rs In Million)

Year	EBL			NIB		
	Cash and Bank Balance (Rs)	Current Assets (Rs)	Ratio (%)	Cash and Bank Balance (Rs)	Current Assets (Rs)	Ratio (%)
2003/2004	631.80	9490.20	6.66	1226.92	11345.74	10.81
2004/2005	1050.00	11598.45	9.05	1340.48	14019.52	9.56
2005/2006	1553.00	15807.20	9.82	2335.52	19198.42	12.17
2006/2007	2391.42	21262.48	11.25	2441.51	22929.11	10.65
2007/2008	2667.97	26895.35	9.91	3754.94	31869.62	11.78
Mean			9.34			10.99
S.D			1.69			1.03
C.V			0.18			0.09

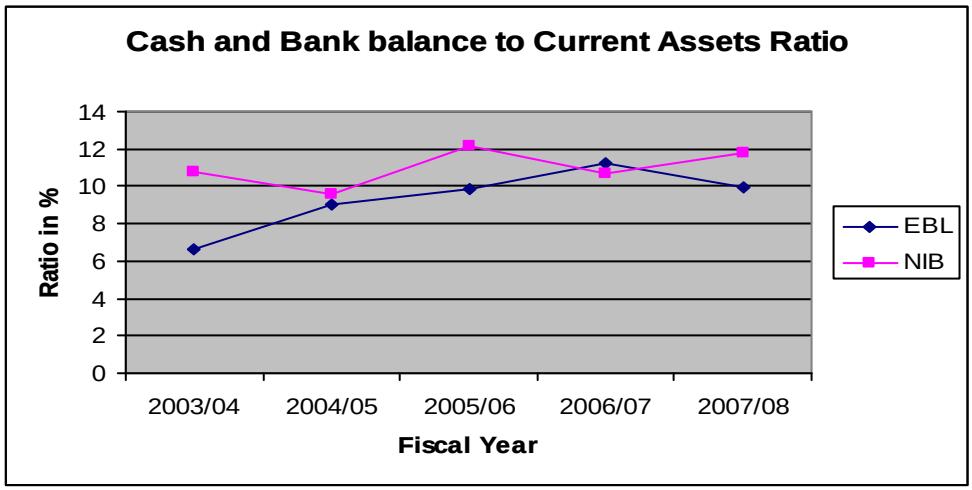
Source: Financial statement of Concerned Bank's 2003/04 to 2007/08

Above table and figure, shows that the cash and bank balance to current assets ratio of EBL in increasing trend except in 2007/08 and NIB are in fluctuating trend. The highest ratio of EBL is 11.25% in year 2006/2007 and lowest ratio 6.66% in year 2003/2004. The mean ratio is 9.34% .Similarly, the highest ratio of NIB is 12.17% in 2005/2006 and lowest ratio is 9.56% in 2004/2005.The mean ratio ratio of NIB is 10.99%. The S.D and C.V. of EBL and NIB are 1.69, 1.03 and 0.18, 0.09 respectively. It shows EBL has greater variability in the ratios and NIB has consistency in the above ratios.

While observing the data, we notice that NIB has higher mean ratio. it means NIB has slightly sound liquid assets than that of EBL.

The above cash and bank balance to current assets ratio can be presented in bar diagram also which is as follows:

Figure No 4.2



iii) <u>Investment of Government treasury bills to Current Assets Ratio</u>

Government securities are slightly liquid assets as well as confidential investment until the state is living. So it is also a very important and very near cash item of current assets. Investments on Government treasury bills to current assets ratio visualize the proportion of investment on government securities to current assets.

Table No.4.5
Investment on Government treasury bills to Current Assets

(Rs In Million)

Year	EBL			NIB		
	Investment on Government treasury bills	Current Assets	Ratio (%)	Investment on Government treasury bills	Current Assets	Ratio (%)
2003/2004	2392.10	9490.20	25.21	2001.10	11345.74	17.64
2004/2005	1873.71	11598.45	16.15	1948.50	14019.52	13.90
2005/2006	3322.44	15807.20	21.02	2522.30	19198.42	13.14
2006/2007	3614.54	21262.48	17.00	3256.40	22929.11	14.20
2007/2008	3237.98	26895.35	12.04	3155.00	31869.62	9.90
Mean			18.28			13.76
S.D.			5.02			2.76
C.V.			0.27			0.20

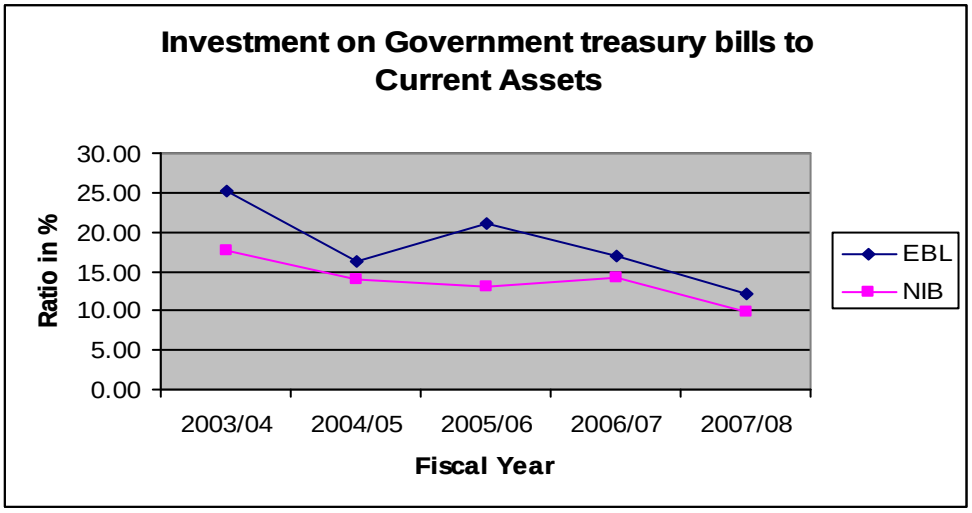
Source: Financial statement of Concerned Bank's 2003/04 to 2007/08

Above table, shows that the investment on government treasury bills to current assets of EBL and NIB are in fluctuating trend. The highest ratio of EBL is 25.21% and NIB is 17.64% in 2003/04. And the lowest ratio of EBL and NIB are 12.04% in 2007/08 and 9.90% in 2007/08 respectively. The S.D and C.V. of EBL and NIB are 5.02, 2.76 and 0.27, 0.20 respectively. It shows EBL has greater variability in the ratios and NIB has consistency in the above ratios.

From the table we notice that mean ratio of EBL and NIB is 18.28% and 13.76% respectively. EBL has higher ratio in every year and mean too. It means EBL has invested more money in risk free assets than that of NIB. In another words NIB has emphases on more loan and advances and other short term investment than investment in govt. securities. For minimization of investment risk, NIB should divert its investment in govt. securities.

The above investment on government treasury bills to current assets ratio can be presented in bar diagram also which is as follows:

Figure No 4.3



iv) <u>Loan and Advances to Current Assets Ratio</u>

Loan and advances to current assets ratio reflects the capability of bank discounting and purchasing the bill, loans and overdraft facilities to the customer to make a profit, mobilization its fund in the best way. A commercial bank should not keep its all collected

funds as cash and bank balance but they should be invested as loan and advances to the customers.

Table No 4.6

Loan and Advance to Current Assets Ratio.

(Rs in Million)

Year	EBL			NIB		
	Loan & Advances	Current Assets	Ratio (%)	Loan & Advances	Current Assets	Ratio (%)
2003/2004	5884.12	9490.20	62.00	7338.57	11345.74	64.68
2004/2005	7618.67	11598.45	65.69	10453.16	14019.52	74.56
2005/2006	9801.30	15807.20	62.01	13178.15	19198.42	68.64
2006/2007	13664.08	21262.48	64.26	17769.10	22929.11	77.50
2007/2008	18339.11	26788.83	68.46	27529.31	31869.62	86.38
Mean			64.48			74.35
S.D.			2.72			8.38
C.V.			0.04			0.11

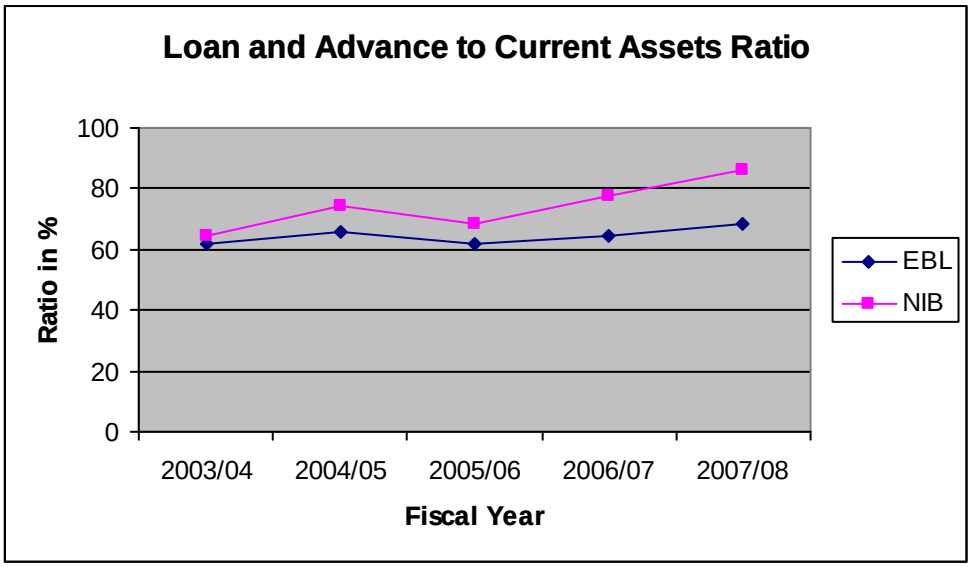
Source: Financial statement of Concerned Bank's 2003/04 to 2007/08

Above table shows that loan and advances to current of EBL is in fluctuating trend, whereas NIB is in increasing trend except F/Y 2005/06. The highest ratio of EBL is 68.46% and NIB is 86.38% in 2007/08 and the lowest ratio of EBL and NIB are 62.00% in 2003/2004 and 64.68% in 2003/04 respectively. The S.D and C.V. of EBL and NIB are 2.72, 8.38 and 0.04, 0.11 respectively. It shows NIB has greater variability in the ratios and EBL has consistency in the above ratios.

From the table we notice that mean ratio of EBL and NIB is 64.48% and 74.35% respectively. NIB has higher ratio in every year and mean too. It means NIB has invested more money in the area of interest generation sources out of the current assets. In another words NIB has emphasis on more loan and advances. On the other hand EBL has invested more money in risk free assets out of the current assets than that of NIB For minimization of investment risk, liquidity risk; NIB should divert its investment in govt. securities and in other investment sector.

The above loan and advance to current assets ratio can be presented in bar diagram also which is as follows:

Figure No 4.4



V) <u>Cash and Bank Balance to Total Deposit Ratio</u>

Cash and bank balance are the liquid current assets. This ratio measures the percentage of liquid fund with the bank to make immediate payment to the depositors. Both higher and lower ratios are not desirable. The reserve requirement below 10% of deposit liabilities is noted as fully liberalized, 10%-15% as largely liberalized, 15%-25% as partially repressed and above 25% as completely repressed, it is ranked by 3, 2, 1 and 0 respectively

The following table shows the ratio measurement of the years.

Table No.4.7

Cash and Bank Balance to Total Deposit Ratio

(Rs in Million)

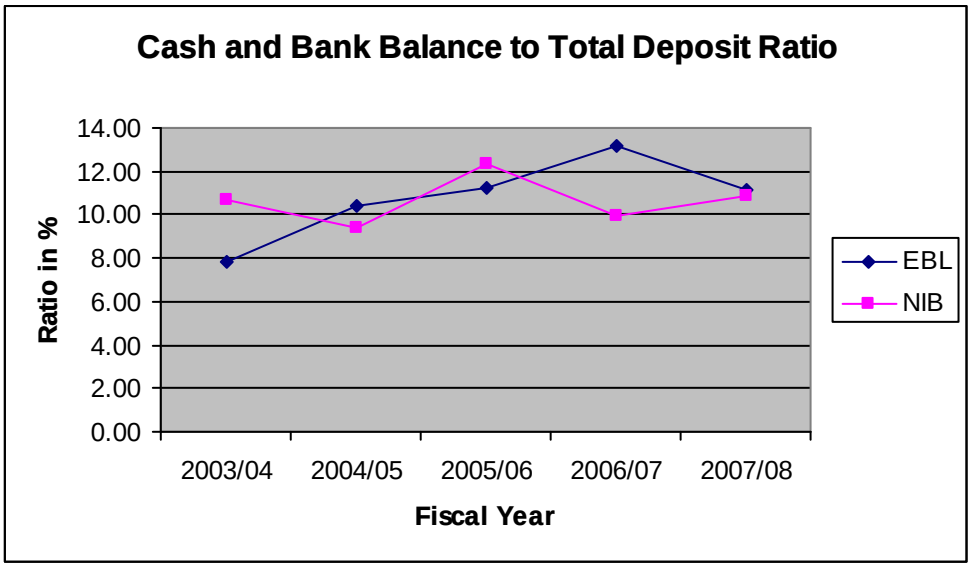
Year	EBL			NIB		
	Cash & Bank Balance (Rs)	Total Deposit (Rs)	Ratio (%)	Cash & Bank Balance (Rs)	Total Deposit (Rs)	Ratio (%)
2003/2004	631.80	8063.90	7.83	1226.92	11524.68	10.65
2004/2005	1050.00	10097.70	10.40	1340.48	14254.57	9.40
2005/2006	1553.00	13802.44	11.25	2335.52	18927.31	12.34
2006/2007	2391.42	18186.25	13.15	2441.51	24488.86	9.97
2007/2008	2667.97	23976.30	11.13	3754.94	34451.73	10.90
Mean			10.75			10.65
S.D.			1.92			1.11
C.V.			0.18			0.10

Source: Financial statement of Concerned Bank's 2003/04 to 2007/08

Above table shows that total deposit of NIB is higher than that of EBL. Similarly in all year cash and bank balance in NIB is higher. EBL has the increasing trend of ratio except in F/Y 2007/08 and NIB has fluctuating trend of ratio. The mean ratio of EBL and NIB is 10.75% and 10.65% respectively. EBL has slightly higher ratio than that of NIB. It signifies that EBL has little bit sound liquid fund to make immediate payment to the depositors but it also implies that EBL has excess liquidity rather than that of NIB because of poor investment opportunities. The S.D and C.V. of EBL and NIB are 1.92, 1.11 and 0.18, 0.10 respectively. It shows EBL has greater variability in the ratios and NIB has consistency in the above ratios.

The above cash and bank balance to total deposit ratio can be presented in bar diagram also which is as follows:

Figure No 4.5



4.1.2 Activity Ratio

Activity or turnover ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. These ratios are employed to evaluate the efficiency with which the firm manages and utilize its assets.

A commercials bank must manage its assets properly to earn high profit.

Under this chapter, following ratios are studied.

i) <u>Loan and Advance to Total Deposit Ratio</u>

This ratio measures the extent to which the bank is successful to manage its total deposit on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of collected deposit and vice-versa. However, it should be noted that too high ratio might not be better from liquidity point of view.

Table No. 4.8

Loan and Advance to Total Deposit Ratio

(Rs In Million)

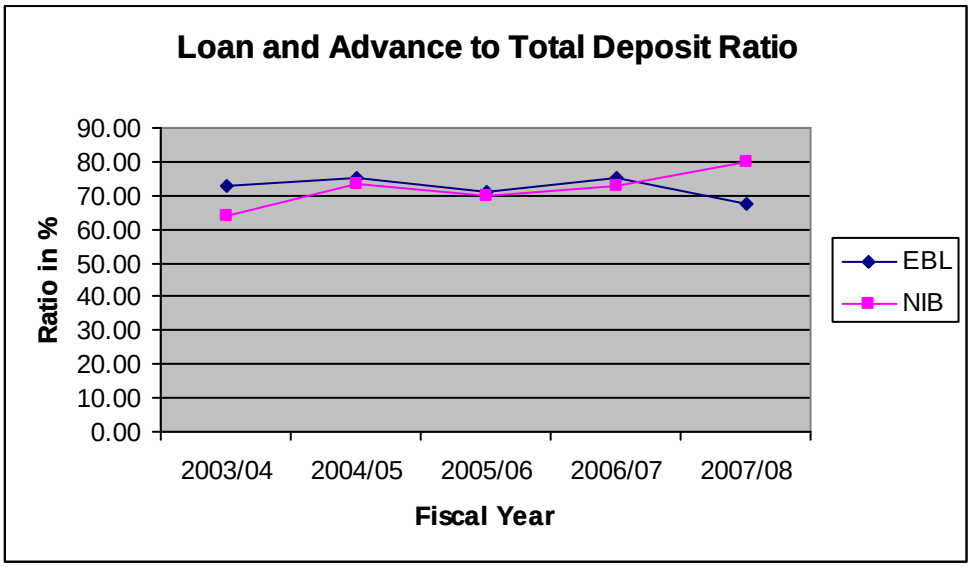
Year	EBL			NIB		
	Loan & Advances (Rs)	Total Deposit (Rs)	Ratio (%)	Loan & Advances (Rs)	Total Deposit (Rs)	Ratio (%)
2003/2004	5884.12	8063.90	72.97	7338.57	11524.68	63.68
2004/2005	7618.67	10097.70	75.45	10453.16	14254.57	73.33
2005/2006	9801.30	13802.44	71.01	13178.15	18927.31	69.63
2006/2007	13664.08	18186.25	75.14	17769.10	24488.86	72.56
2007/2008	18339.11	23976.30	67.54	27529.31	34451.73	79.91
Mean			72.42			71.82
S.D.			3.27			5.90
C.V.			0.05			0.08

Source: Financial statement of Concerned Bank's 2003/04 to 2007/08

The above table shows loan and advances and total deposit in both banks have increased in each year. From the above table we notice that EBL and NIB have successfully increased the loans and advances and deposit throughout the studied period. However loan and advances, deposit collection of NIB is satisfactory in comparison. However, while observing their ratios; EBL seems quite successful in generating higher ratio except in final year.

The mean of EBL and NIB is 72.42% and 71.82% respectively. So EBL has higher ratio than that of NIB. It reveals that the deposit of EBL is quickly converted in to loan and advances to earn income. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. So EBL has met the NRB requirement except in F/Y 207/08 or it has utilized its deposit to provide loan efficiently. But NIB has also met the NRB requirement except in F/Y 2003/04 and 2005/06. The S.D and C.V. of EBL and NIB are 3.27, 5.90 and 0.05, 0.08 respectively. It shows NIB has greater variability in the ratios and EBL has consistency in the above ratios.The above loan and advance to total deposit ratio can be presented in bar diagram also which is as follows:

Figure No 4.6



ii) Total Investment to Total Deposit Ratio.

This ratio measures the extent to which the banks are able to mobilize their deposit on investment on various securities. A high ratio indicates the success in mobilizing deposits in securities and vice versa.

Table no. 4.9

Total Investment to Total Deposit Ratio

(Rs In Million)

Year	EBL			NIB		
	Total Investment (Rs)	Total Deposit (Rs)	Ratio (%)	Total Investment (Rs)	Total Deposit (Rs)	Ratio (%)
2003/2004	2535.65	8063.90	31.45	3862.48	11524.68	33.51
2004/2005	2128.93	10097.70	21.08	3934.19	14254.57	27.60
2005/2006	4200.52	13802.44	30.43	5602.87	18927.31	29.60
2006/2007	4984.31	18186.25	27.41	6505.68	24488.86	26.57
2007/2008	5059.55	23976.30	21.10	6874.02	34451.73	19.95
Mean			26.29			27.45
S.D.			4.98			4.96
C.V.			0.19			0.18

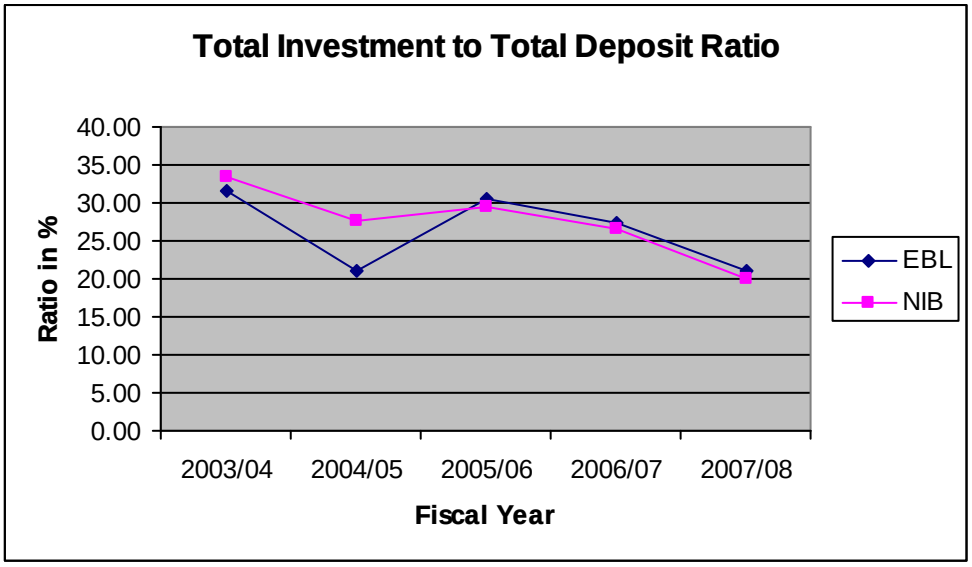
Source: Financial statement of Concerned Bank's 2003/04 to 2007/08

From the above table, it is observed that the investment trend of NIB has increased but EBL has also increased except in 2004/05. Investment volume of EBL is lower than that of NIB because more funds of EBL were used in profitable loans to achieve optimum mix of interest earning assets.

The mean of the ratio of EBL and NIB is 26.29% and 27.45% respectively so NIB has higher ratio. It signifies NIB has successfully allocated its deposit in investment portfolio. . The S.D and C.V. of EBL and NIB are 4.98, 4.96 and 0.19, 0.18 respectively. It shows EBL has greater variability in the ratios and NIB has consistency in the above ratios.

The above total investment to total deposit ratio can be presented in bar diagram also which is as follows:

Figure No 4.7



iii) <u>Loan and Advances to working Fund Ratio</u>

This ratio reflects the extent to which the commercial banks are success in the mobilizing their assets as loan and advances for the purpose of income generation. A high ratio indicates better mobilization of fund as loan and advances and vice versa.

Total working fund is the total assets. It composed up of current assets, fixed assets, miscellaneous assets, investment, loan for development bank etc.

The following table exhibits the ratio of loan & advances to total working fund.

Table No 4.10

Loan and Advances to Total Assets

(Rs In Million)

Year	EBL			NIB		
	Loan & Advances (Rs)	Total Assets (Rs)	Ratio (%)	Loan & Advances (Rs)	Total Assets (Rs)	Ratio (%)
2003/2004	5884.12	9608.57	61.24	7338.57	13463.94	54.51
2004/2005	7618.67	11732.51	64.93	10453.16	16390.65	63.78
2005/2006	9801.30	15959.28	61.42	13178.15	21330.14	61.78
2006/2007	13664.08	21432.57	63.75	17769.10	27590.84	64.40
2007/2008	18339.11	27149.34	67.54	27529.31	38873.31	70.82
Mean			63.78			63.06
S.D.			2.67			5.86
C.V.			0.04			0.09

Source: Financial statement of Concerned Bank's 2003/04 to 2007/08

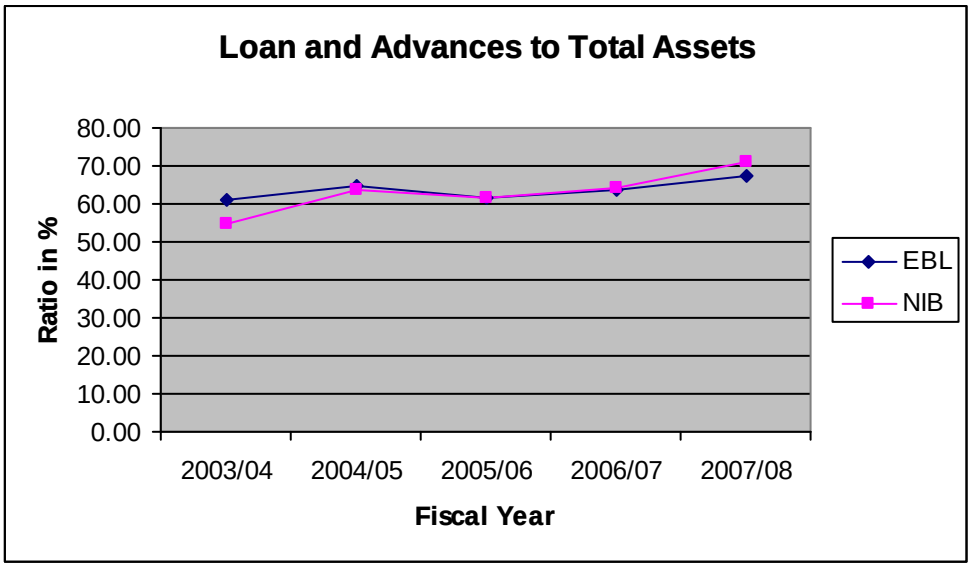
Above table shows that loan and advances to total assets ratio of EBL and NIB are in increasing trend except F/Y 2005/06. The loan and advances and total assets in both banks have increased in each year. From the above table we notice that NIB has successfully increased the loans and advances and total assets throughout the studied period. However, while observing their ratios; EBL is better mobilizing of fund as loan and advances in preceding two year. Whereas, NIB seems quite successful in generating higher ratio in succeeding

Three year.

The mean of EBL and NIB are 63.78% and 63.06% respectively. So EBL has quite higher ratio than that of NIB. It reveals that in total assets, EBL has high proportion of loan and advances. The S.D and C.V. of EBL and NIB are 2.67, 5.86 and 0.04, 0.09 respectively. It shows NIB has greater variability in the ratios and EBL has consistency in the above ratios.

The above loan and advance to total assets ratio can be presented in bar diagram also which is as follows:

Figure No 4.8



4.1.3 Profitability Ratio

Profitability ratio indicates degree of success in achieving desired profit level. Profitability ratio, which measures management overall effectiveness, are shown by the returns generated on sale and investment. A bank should be able to earn profit to survive and grow over a long period of time. Profit is the indicator of effective operation of a bank. The banks acquire profit by providing different services to its customer or by making investment of different kind.

Profitability ratio measures the efficiency of bank. Higher profit ratio shows higher efficiency of the bank. The following profitability ratios are related to study in this heading.

i) <u>Return on Equity (ROE)</u>

If banks can mobilize its equity capital properly, they can earn high profit. The return on equity capital measures the extend to which a bank is successful to mobilize its equity.

The table below shows the ROE in different years during the study period.

TableNo.4.11

Return on Equity Ratio (ROE)

(Rs In Million)

Year	EBL			NIB		
	Net Profit (Rs)	Total Equity Capital (Rs)	Ratio (%)	Net Profit (Rs)	Total Equity Capital (Rs)	Ratio (%)
2003/2004	143.66	710.31	20.22	152.67	729.05	20.94
2004/2005	170.80	832.61	20.51	232.15	1180.17	19.67
2005/2006	237.30	962.80	24.65	350.54	1415.44	24.77
2006/2007	296.41	1201.51	24.67	501.40	1878.12	26.70
2007/2008	451.20	1921.24	23.48	698.67	2686.79	26.00
Mean			22.71			23.62
S.D.			2.19			3.13
C.V.			0.10			0.13

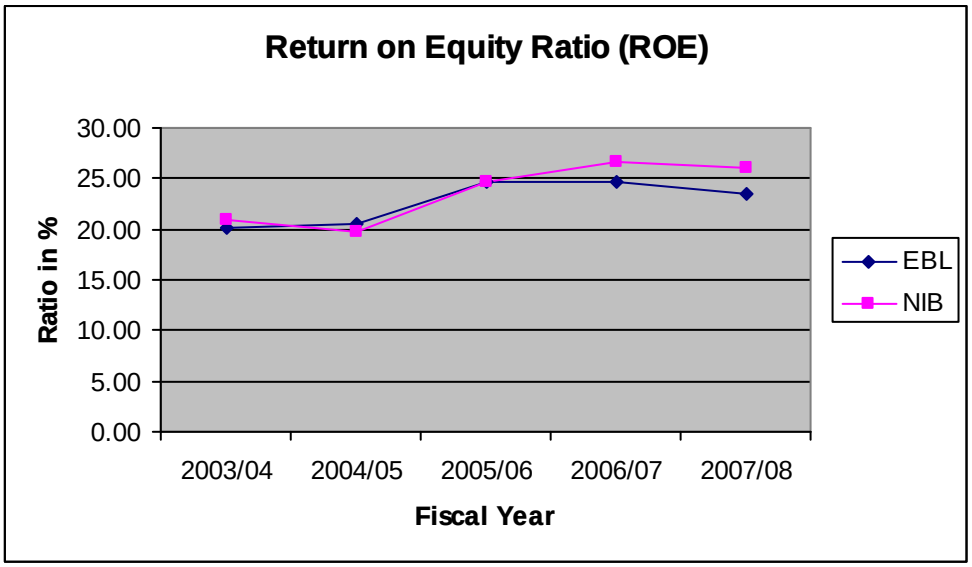
Source: Financial statement of Concerned Bank's 2003/04 to 2007/08

Above table shows that both banks have increased net worth during the studied period. The increment ratio of net worth in NIB is more rapid in each year than that of EBL. Because of increment in profit of NIB in comparison to net worth, the ROE ratio drastically went up to 20.94% to 26.00%. But because of increment in net worth in comparison to net profit, the ROE ratio of EBL could not increased in comparison with NIB. In comparison NIB has higher ratio than that of EBL except in 2004/05.

The mean ratio of EBL and NIB is 22.71% and 23.62%. It signifies that the shareholders of NIB are getting higher return but in case of EBL, they are getting lesser. It can be concluded that NIB has better utilized the equity for the profit generation. It proves to be a good strength of NIB in attracting future investment. The S.D and C.V. of EBL and NIB are 2.19, 3.13 and 0.10, 0.13 respectively. It shows NIB has greater variability in the ratios and EBL has consistency in the above ratios.

The above return on equity ratio (ROE) can be presented in bar diagram also which is as follows:

Figure No 4.9



ii) Interest Earned to Working Fund Ratio

This ratio reflects the extent to which the banks are successful in mobilizing their total assets to generate high income as interest. A high ratio is indicator for high earning power of the bank on its total working fund and vice versa.

Table No. 4.12

Interest Earned to Total Assets Ratio

(Rs In Million)

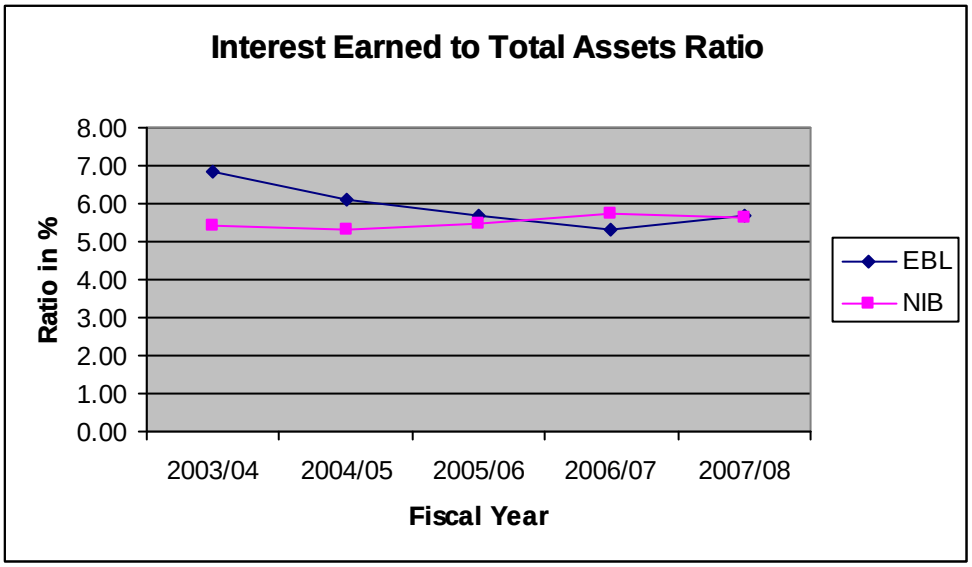
Year	EBL			NIB		
	Total Interest Earned (Rs)	Total Assets (Rs)	Ratio (%)	Total Interest Earned (Rs)	Total Assets (Rs)	Ratio (%)
2003/2004	657.25	9608.57	6.84	731.45	13463.94	5.43
2004/2005	719.29	11732.51	6.13	868.83	16390.65	5.30
2005/2006	903.41	15959.28	5.66	1172.74	21330.14	5.50
2006/2007	1144.41	21432.57	5.34	1584.99	27590.84	5.74
2007/2008	1548.66	27149.34	5.70	2198.28	38873.31	5.65
Mean			5.93			5.53
S.D.			0.58			0.17
C.V.			0.10			0.03

Source: Financial statement of Concerned Bank's 2003/04 to 2007/08

Above table shows that both banks have increased total assets in studied period. Furthermore, they both have increased total interest earned during studied period. Despite the higher Total assets and interest earned in NIB, it seems less conscious about managing its assets in order to earn more interest ratio. EBL shows the decreasing trend of the interest earned ratio except in F/Y 2007/08 and its average ratio is 5.93% whereas NIB shows fluctuating trend and it has maintained average ratio 5.53%. The mean ratio of EBL is more than that of NIB. In comparison, EBL seems effective in earning interest to some extent although it has lower earning of interest income. The S.D and C.V. of EBL and NIB are 0.58, 0.17 and 0.10, 0.03 respectively. It shows EBL has greater variability in the ratios and NIB has consistency in the above ratios.

The above interest earned to total assets ratio can be presented in bar diagram also which is as follows:

Figure No 4.10



iii) Interest Paid to Total Assets Ratio

This ratio measure the percentage of total interest paid against the total Assets. A high ratio indicates the higher interest expenses on total working fund and vice versa.

The following table shows the figures of this ratio

Table no. 4.13

Interest Paid to Working Fund Ratio

(Rs In Million)

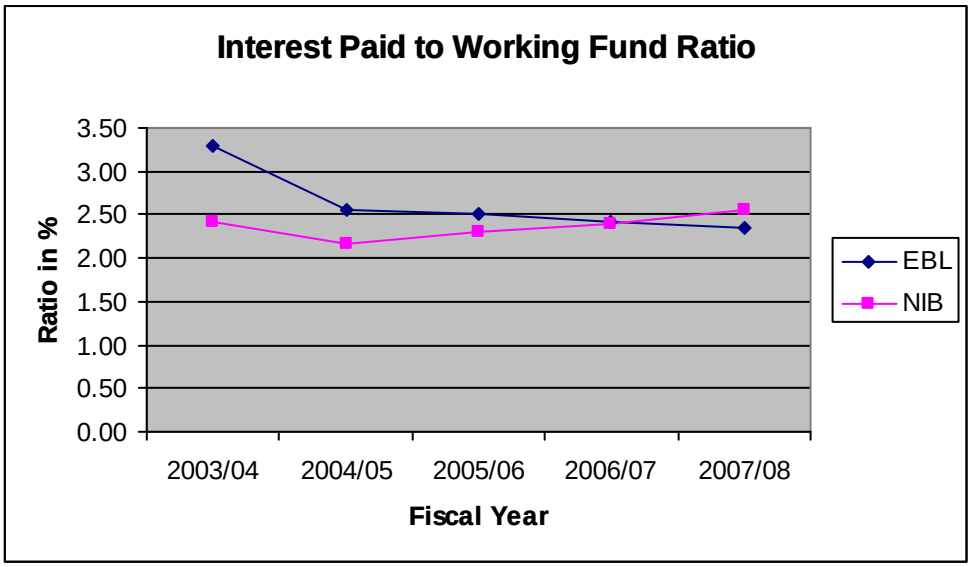
Year	EBL			NIB		
	Total Interest Paid (Rs)	Total Assets (Rs)	Ratio (%)	Total Interest Paid (Rs)	Total Assets (Rs)	Ratio (%)
2003/2004	316.36	9608.57	3.29	326.20	13463.94	2.42
2004/2005	299.57	11732.51	2.55	354.55	16390.65	2.16
2005/2006	401.39	15959.28	2.52	490.95	21330.14	2.30
2006/2007	517.17	21432.57	2.41	658.53	27590.84	2.39
2007/2008	632.61	27149.34	2.34	992.16	38873.31	2.55
Mean			2.62			2.37
S.D.			0.38			0.15
C.V.			0.14			0.06

Source: Financial statement of Concerned Bank's 2003/04 to 2007/08

Above table shows that both banks have increased total assets in studied period. Further more they both have increased total interest paid during studied period except in 2004/05 of EBL. Interest paid of NIB is higher in each year it may either due to the higher saving and fixed deposit or higher interest rate in deposit. Due to the higher ratio in each year of EBL, it seems less conscious about borrowing cheaper fund. EBL shows the decreasing trend of the interest paid ratio and its average ratio is 2.62% whereas NIB shows increasing trend in succeeding year and it has maintained average ratio 2.37%. EBL has the highest ratio in 2003/04 and NIB has the highest ratio in 2007/08. The mean ratio of EBL is more than that of NIB. In comparison, EBL seems ineffective in getting cheaper fund. From the mean point of view however, it is noted that if we see latest year data EBL is conscious for getting cheaper fund in comparison with NIB. The S.D and C.V. of EBL and NIB are 0.38, 0.15 and 0.14, 0.06 respectively. It shows EBL has greater variability in the ratios and NIB has consistency in the above ratios.

The above interest paid to working fund ratio can be presented in bar diagram also which is as follows:

Figure No 4.11



iv) <u>Interest Earned to Operating Income Ratio</u>

This ratio reflects the extent to which the banks have successfully mobilized its fund in interest bearing assets. It measures the magnitude of interest income in total income. The following table shows the figure of this ratio

Table No 4.14

Interest Earned to Operating Income Ratio

(Rs In Million)

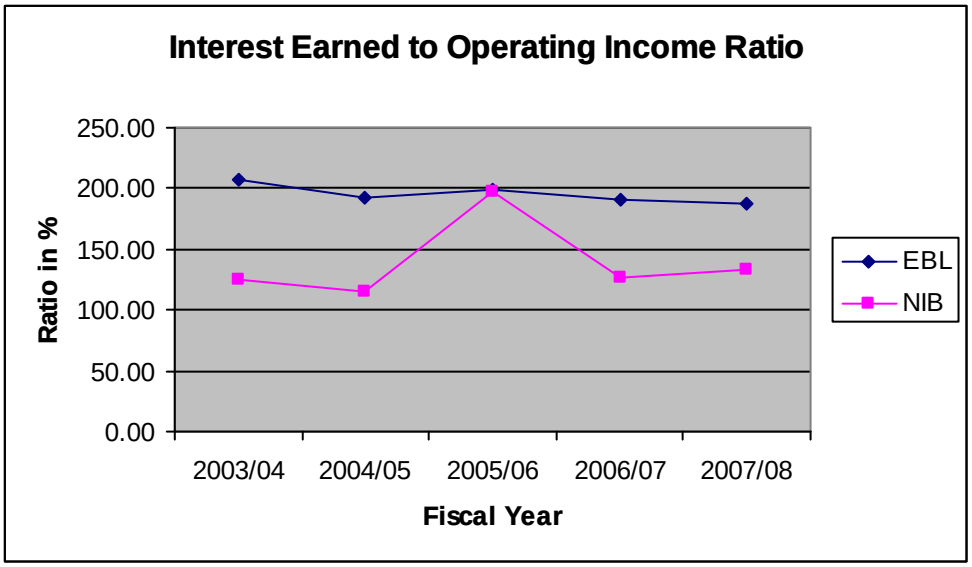
Year	EBL			NIB		
	Interest Earned(Rs)	Operating Income	Ratio (%)	Interest Earned(Rs)	Operating Income	Ratio (%)
2003/2004	657.25	316.36	207.50	731.45	587.00	124.61
2004/2005	719.29	375.23	191.69	868.83	753.89	115.25
2005/2006	903.41	453.17	199.35	1172.74	595.49	196.94
2006/2007	1144.41	597.87	191.41	1584.99	1246.03	127.20
2007/2008	1548.66	822.70	188.24	2198.28	1649.62	133.26
Mean			195.64			139.45
S.D.			7.79			32.78
C.V.			0.04			0.24

Source: Financial statement of Concerned Bank's 2003/04 to 2007/08

Above table shows that both banks have increased operating income and interest earned during studied period. The mean ratio of EBL and NIB are 195.64% and 139.45% respectively. EBL has higher ratio, it indicates the high contribution in operating income made by lending and investing activities (core banking activity).NIB has lower ratio, it indicates that high contribution in operating income do not made by lending and investing activities (core banking activity).High contribution in operating income made by lending and investing activities (core banking activity) is not good for long run but in short run it is not so bad. Thus, from short term view, EBL is in good condition but from long term view, NIB is in good condition. In overall, NIB has managed sound interest earned to operating income ratio. The S.D and C.V. of EBL and NIB are 7.79, 32.78 and 0.04, 0.24 respectively. It shows NIB has greater variability in the ratios and EBL has consistency in the above ratios.

The above interest earned to operating income ratio can be presented in bar diagram also which is as follows:

Figure No 4.12



v) <u>Return on Total Assets Ratio</u>

Its measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the banks working fund is well managed and efficiently utilized and vice versa.

Table No 4.15

Return on Total Assets Ratio

(Rs In Million)

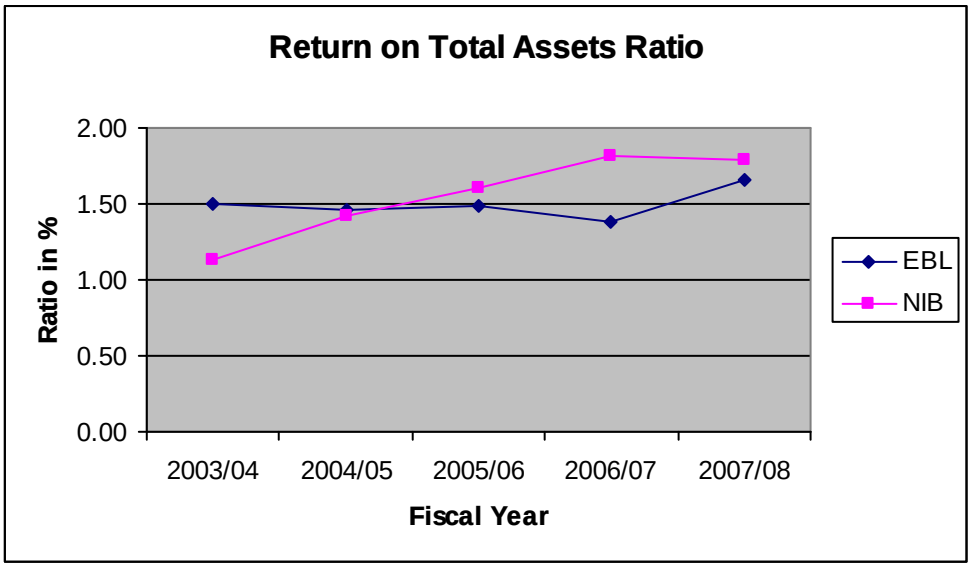
Year	EBL			NIB		
	Net Profit(Rs)	Total Assets (Rs)	Ratio (%)	Net Profit(Rs)	Total Assets (Rs)	Ratio (%)
2003/2004	143.66	9608.57	1.50	152.67	13463.94	1.13
2004/2005	170.80	11732.51	1.46	232.15	16390.65	1.42
2005/2006	237.30	15959.28	1.49	350.53	21330.14	1.61
2006/2007	296.41	21432.57	1.38	501.40	27590.84	1.82
2007/2008	451.20	27149.34	1.66	696.73	38863.31	1.79
Mean			1.50			1.55
S.D.			0.10			0.29
C.V.			0.07			0.19

Source: Financial statement of Concerned Bank's 2003/04 to 2007/08

From the above table, we notice that net profit and total assets of both banks are in increasing trend. The ROA of EBL in fluctuating trend however, NIB has in increasing trend except in F/Y 2007/08. NIB seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 1.55% of total assets in an average. The S.D and C.V. of EBL and NIB are 0.10, 0.29 and 0.07, 0.19 respectively. It shows NIB has greater variability in the ratios and EBL has consistency in the above ratios.

The above return on total assets ratio can be presented in bar diagram also which is as follows:

Figure No 4.13



vi) <u>Return on Loan and Advances Ratio</u>

Its measures the earning capacity of commercial banks on its total deposits mobilized on loan and advances.

The following table shows the figure of this ratio

Table No 4.16

Return on Loan and Advances Ratio

(Rs In Million)

Year	EBL			NIB		
	Net Profit(Rs)	Loan & Advances	Ratio (%)	Net Profit(Rs)	Loan & Advances	Ratio (%)
2003/2004	143.66	5884.12	2.44	152.67	7338.57	2.08
2004/2005	170.80	7618.67	2.24	232.15	10453.16	2.22
2005/2006	237.30	9801.30	2.42	350.53	13178.15	2.66
2006/2007	296.41	13664.08	2.17	501.40	17286.43	2.82
2007/2008	451.20	18339.08	2.46	696.73	26996.65	2.58
Mean			2.35			2.47
S.D.			0.13			0.31
C.V.			0.06			0.13

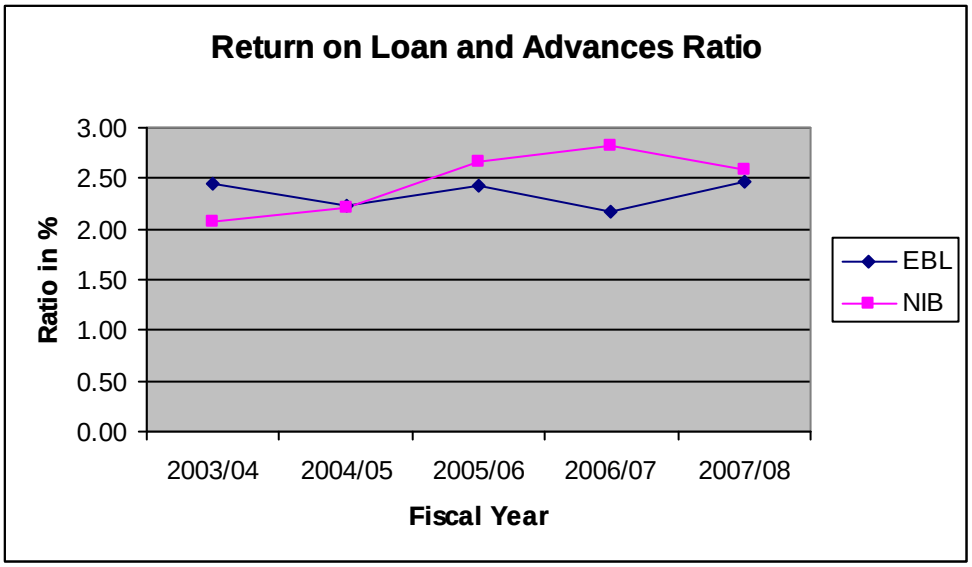
Source: Financial statement of Concerned Bank's 2003/04 to 2007/08

Above table shows that return on loan and advances ratio of EBL is in fluctuating trend but NIB has in increasing trend except in F/Y 2007/08. The highest ratio of EBL is 2.46% in the year 2007/08 and lowest ratio 2.17% in year 2006/07. The mean ratio is 2.35%. Whereas highest ratio of NIB is 2.82% in year 2006/07 and lowest ratio are 2.08 in 2003/04. The mean ratio is 2.47% of NIB. This shows that both banks have normal earning capacity in the form of loan and advance.

From the table we notice that NIB has higher ratios in many studied year and mean ratio is also higher. So it seems successful by generating higher ratio. It can be concluded that NIB has better utilized the loan and advance for the profit generation. The S.D and C.V. of EBL and NIB are 0.13, 0.31 and 0.06, 0.13 respectively. It shows NIB has greater variability in the ratios and EBL has consistency in the above ratios.

The above return on loan and advances ratio can be presented in bar diagram also which is as follows:

Figure No 4.14



vii) <u>Earning Per Share (EPS)</u>

EPS measures the profitability of common shareholder. The earning may be on a per share basis.

Table No. 4.17

Earning Per Share

(Rs In Million)

Year	EBL			NIB		
	Net Profit(Rs)	No. of Share	Rupees Per Share	Net Profit(Rs)	No. of Share	Rupees Per Share
2003/2004	143.66	3.15	45.61	152.67	2.95	51.70
2004/2005	170.80	3.15	54.22	232.15	5.88	39.50
2005/2006	237.30	3.78	62.78	350.53	5.91	59.35
2006/2007	296.41	3.78	78.42	501.40	8.01	62.57
2007/2008	451.20	4.91	91.89	696.73	12.04	57.87
Mean			66.58			54.20
S.D.			18.63			9.12
C.V.			0.28			0.17

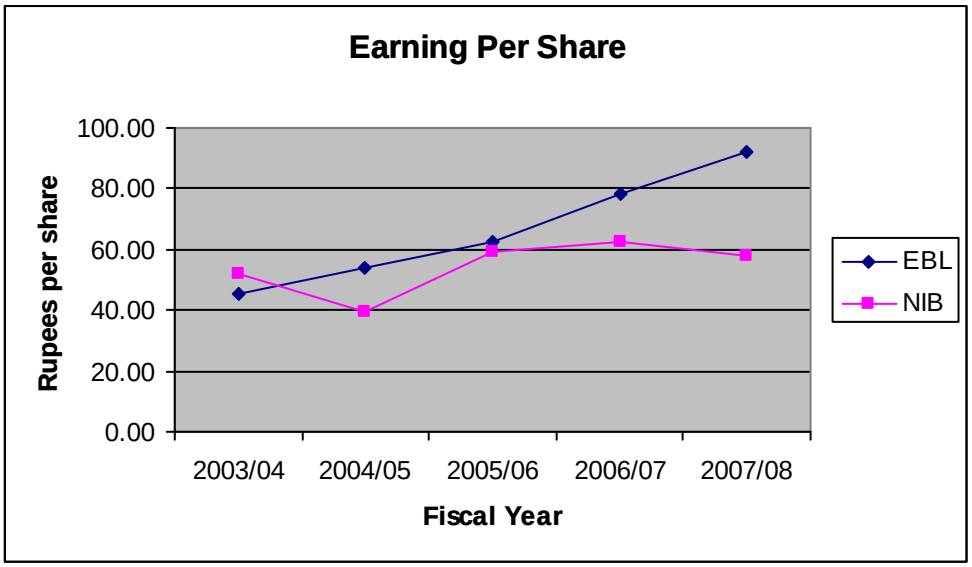
Source: Financial statement of Concerned Bank's 2003/04 to 2007/08

Above table shows that the Earning per share of EBL is in increasing trend but NIB is in fluctuating trend. Looking at the table, EBL has increased its EPS in each year. From the above table we notice that EBL is doing progress in each year whereas result of NIB is not in satisfactory condition, as it couldn't maintain the increasing trend in comparison with EBL.

While observing their ratios in overall; EBL is better mobilizing it resources to get more earning per share (EPS) and it seems quite successful and strongest in the banking sector by generating higher EPS in each year and in average too. It is quite satisfying to state that EBL has been able to maximizing shareholder wealth. The S.D and C.V. of EBL and NIB are 18.63, 9.12 and 0.28, 0.17 respectively. It shows EBL has greater variability in the ratios and NIB has consistency in the above ratios.

The above earning per share can be presented in bar diagram also which is as follows:

Figure No 4.15



viii. <u>Price Earning Ratio</u>

This ratio shows the relationship between earning per share and market value per share. This ratio measures the profitability of the firm. In the short run, Higher ratio shows the higher efficiency of the management and lower ratio shows the lower efficiency of the management. But for the sustainable fair market price, lower ratio is useful and vice versa. The ratio is computed by-

Table No 4.18

Price Earning Ratio

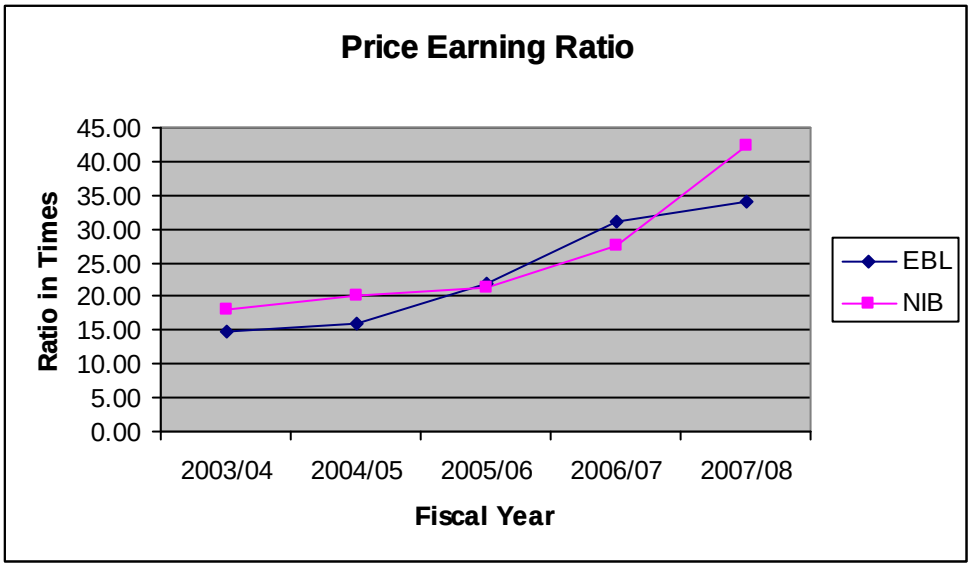
Year	EBL			NIB		
	MPS	EPS	Times	MPS	EPS	TIMES
2003/2004	680.00	45.60	14.91	940.00	51.70	18.18
2004/2005	870.00	54.20	16.05	800.00	39.50	20.25
2005/2006	1379.00	62.80	21.96	1260.00	59.35	21.23
2006/2007	2430.00	78.40	30.99	1729.00	62.57	27.63
2007/2008	3132.00	91.82	34.11	2450.00	57.87	42.34
Mean			23.61			25.93
S.D.			8.66			9.83
C.V.			0.37			0.38

Source: Financial statement of Concerned Bank's 2003/04 to 2007/08

Above figure shows that price earning ratio earning of EBL and NIB are in increasing trend. From the mean point of view, mean ratio of the EBL and NIB are 23.61 and 25.93 times respectively. It indicates that for getting Rs 1 as earning, one should invest Rs 23.61 in EBL and Rs 25.93 in NIB. Looking the mean ratio we conclude that in short run, investor of NIB are getting better profitability because they are selling their shares in high price although EPS of NIB is lower in comparison than that of EBL. But from the long term view and sustainable fair price, investor of EBL will get better profitability and they will be in safe side. The S.D and C.V. of EBL and NIB are 8.66, 9.83 and 0.37, 0.38 respectively. It shows NIB has greater variability in the ratios and EBL has consistency in the above ratios.

The above price earning ratio can be presented in bar diagram also which is as follows:

Figure No 4.16



4.1.4 Lending Efficiency Ratio

The efficiency of firm depends largely on the efficiency with which its assets are managed and utilized. This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility to available fund. The following are the various type of lending efficiency ratio:

i. Loan Loss Provision to Total Loan and Advances Ratio

Loan loss provision to total loan and advances describes the quality of assets that a bank holding. The amount of loan loss provision in balance sheet refers to general loan loss provision. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan means the profit of the banks will come down by such amount. Increase in loan loss provisions decreases in profit result to decrease in dividends but its positive impact is that strength financial conditions of the banks by controlling the credit risk and reduced the risks related to deposits. Therefore, it can be said that banks suffer it only for short-term loan while the good financial conditions and safely of loans will make bank's prosperity resulting increasing profit for long term. Loan loss provision is not more than 1.25% of risk bearing assets.

Table No 4.19

Loan Loss Provision to Total Loan and Advances

(Rs In Million)

Year	EBL			NIB		
	Loan loss provision	Loan and advances	Loan loss provision to Loan and advances ratio (%)	Loan loss provision	Loan and advances	Loan loss provision to Loan and advances ratio (%)
2003/2004	81.80	6095.80	1.34	91.09	7338.57	1.24
2004/2005	88.90	7900.00	1.13	140.41	10453.16	1.34
2005/2006	70.50	10136.20	0.70	103.81	13178.15	0.79
2006/2007	89.70	13664.10	0.66	129.72	17286.43	0.75
2007/2008	99.30	18339.08	0.54	135.99	26996.65	0.50
Mean			0.87			0.93
S.D.			0.34			0.35
C.V.			0.39			0.38

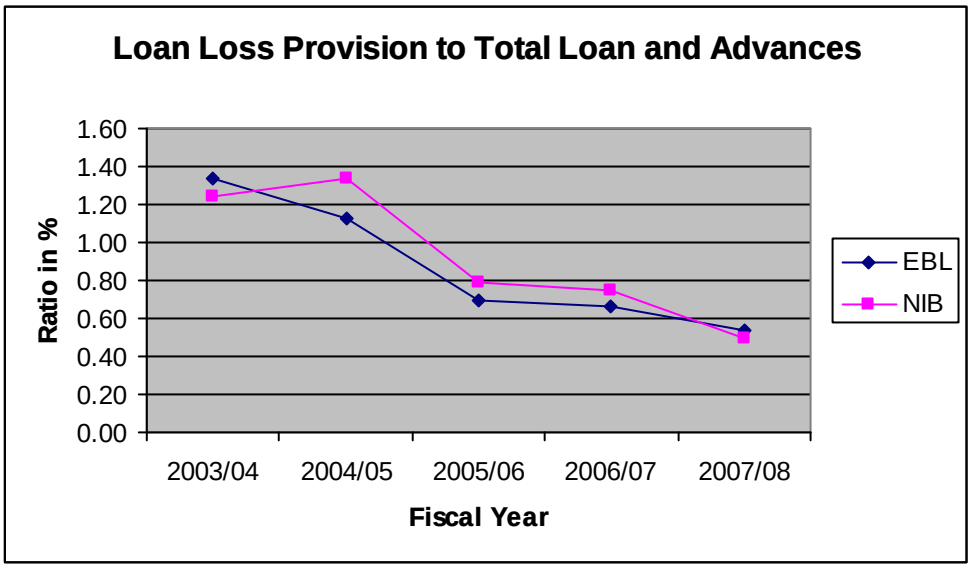
Source: Financial statement of Concerned Bank's 2003/04 to 2007/08

Above figure shows that loan loss provision to total loan and advances ratio of EBL and NIB are in decreasing trend except in 2004/05 of NIB. The mean ratio of EBL and NIB are 0.87% and 0.93% respectively.

Loan loss provision is not more than 1.25% of risk bearing assets according to NRB directives. So, in all of the year, both the bank have met the NRB requirement except in year 2003/04 of EBL and in year2004/05 of NIB. As NIB has higher mean ratio, NIB has more risky assets in total volume of loan advances. The S.D and C.V. of EBL and NIB are 0.34, 0.35 and 0.39, 0.38 respectively. It shows EBL and NIB has homogeneous in the above ratio.

The above loan loss provision to total loan and advances can be presented in bar diagram also which is as follows:

Figure No 4.17



ii. <u>Interest Expenses to Total Deposit Ratio</u>

The ratio measures the percentage of total interest against total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. The cheaper fund has more the probability of generating loans and advances and vice-versa.

Table 4.20

Interest Expenses to Total Deposit Ratio

(Rs In Million)

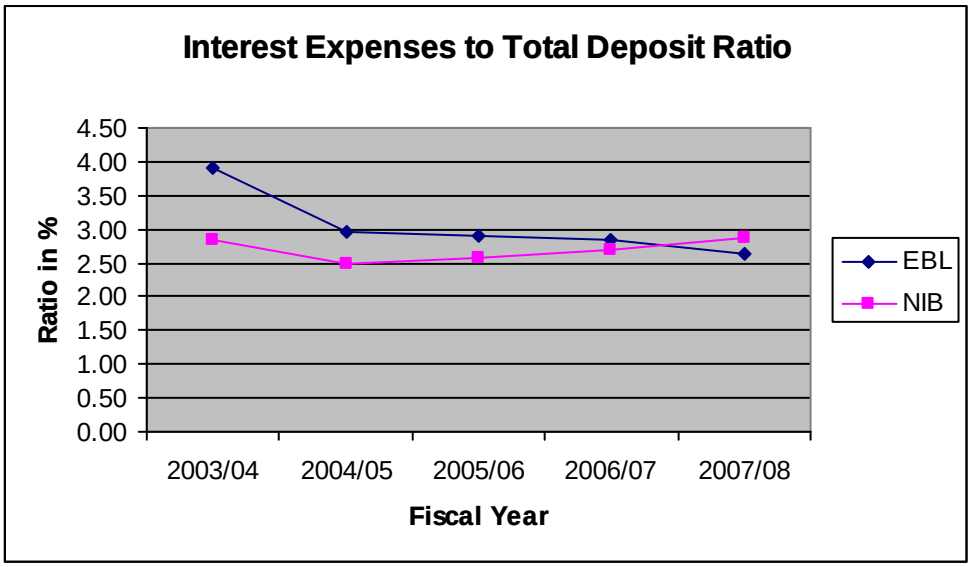
Year	EBL			NIB		
	Interest expenses	Total deposit	Interest expenses to total deposit ratio (%)	Interest expenses	Total deposit	Interest expenses to total deposit ratio (%)
2003/2004	316.36	8063.90	3.92	326.20	11524.68	2.83
2004/2005	299.57	10097.70	2.97	354.55	14254.57	2.49
2005/2006	401.39	13802.44	2.91	490.95	18927.31	2.59
2006/2007	517.17	18186.25	2.84	658.53	24488.86	2.69
2007/2008	632.61	23976.30	2.64	992.16	34451.73	2.88
Mean			3.06			2.70
S.D.			0.50			0.16
C.V.			0.16			0.06

Source: Financial statement of Concerned Bank's 2003/04 to 2007/08

Above figure shows that interest expenses to total deposit ratio of EBL is in decreasing trend. Whereas, interest expenses to total deposit of NIB is in fluctuating trend and it has the highest ratio of 2.88% in the year 2007/08. From mean point of view, interest expenses to total deposit ratio of EBL and NIB are 3.06% and 2.70% respectively. It indicates that both the bank do not have higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. So, in comparison, NIB does not have higher interest expenses on total deposit than that of EBL from the mean point of view. It is noted that if we see latest year data EBL is conscious for getting cheaper fund in comparison with NIB. The S.D and C.V. of EBL and NIB are 0.50, 0.16 and 0.16, 0.06 respectively. It shows EBL has greater variability in the ratios and NIB has consistency in the above ratios.

The above interest expenses to total deposit ratios can be presented in bar diagram also which is as follows:

Figure No 4.18



iii. <u>Non-Performing Loan to Total Loan and Advances Ratio</u>

Higher ratio shows the low efficient operating of the management and lower ratio shows the more efficient operating of credit management.

Table 4.21

Non-Performing Loan to Total Loan and Advances

(Rs In Million)

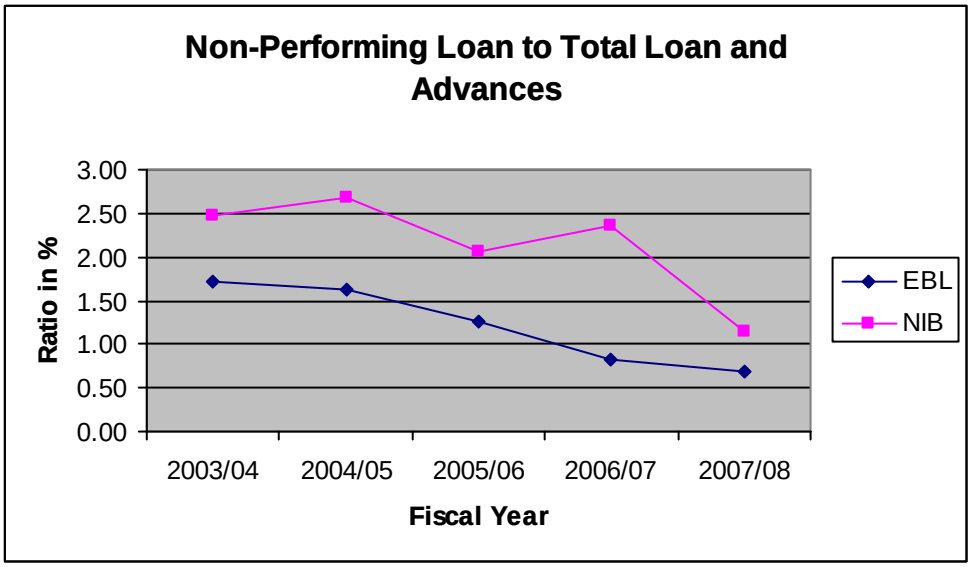
Year	EBL			NIB		
	Non-performing loan	Loan and advances	Non-performing loan to loan and advances (%)	Non-performing loan	Loan and advances	Non-performing loan to loan and advances (%)
2003/2004	104.70	6095.80	1.72	181.26	7338.57	2.47
2004/2005	128.80	7900.00	1.63	281.19	10453.16	2.69
2005/2006	129.20	10136.20	1.27	272.79	13178.15	2.07
2006/2007	113.18	13664.10	0.83	409.69	17286.43	2.37
2007/2008	127.31	18339.08	0.69	309.47	26996.65	1.15
Mean			1.23			2.15
S.D.			0.46			0.60
C.V.			0.37			0.28

Source: Financial statement of Concerned Bank's 2003/04 to 2007/08

Above table shows that NPL to total loan and advances of EBL is in decreasing trend but NIB has in fluctuating trend. Decreasing trend is the good sign of the efficient credit management. From mean point of view, non-performing loan to total loan and advances ratio of EBL and NIB are 1.23 % and 2.15% respectively during the study period. These Ratios indicate the more efficient operating of credit management of both banks according to NRB directives. However, in comparison, EBL has efficient operating of credit management than that of NIB. In another words, NIB has lower efficient operating of credit management than that of EBL. As, EBL has lower ratio, EBL has efficiently used the total loan and advances than that of NIB. The S.D and C.V. of EBL and NIB are 0.46, 0.60 and 0.37, 0.28 respectively. It shows EBL has greater variability in the ratios and NIB has consistency in the above ratios.

The above non-performing loan to total loan and advances can be presented in bar diagram also which is as follows:

Figure No 4.19



4.2 Statistical Tools

In this chapter some statistical tools such co-efficient of correlation analysis between Deposit and loan and advances, deposit and total investment, total assets and net profit, net profit and total deposit, market value per share and book value per share are used to achieve the objective of the study.

(I) Coefficient of correlation between total deposit, loan and advances.

Deposit has played a very important role in performance of a commercial bank and similarly loan & advances are important to mobilize the collected deposits. Coefficient of correlation between deposit and loan and advances measure the degree of relationship between these two variables. In this analysis, deposit is independent variables (X) and loan and advances is dependent variable(Y). The main objective of computing "r" between these two variables is to justify whether deposits are significantly used as loan and advances in a proper way or not. The below table shows the value of "r", "r^2", probable Error (P.Er) and 6 P.Er. Between deposit and loan and advances of EBL with comparison to NIB.

Table No 4.22

Coefficient of Correlation between Deposit and Loan and Advance

Banks	**Evaluation Criterions**			
	r	**r^2**	**P.Er.**	**6 P.Er.**
EBL	0.998	0.996	0.0012	0.0072
NIBL	0.997	0.994	0.0018	0.0108

Source: *Through SPSS Data Editor*

From the above table, in case of EBL, it is found that coefficient of correlation between deposit and loan and advances is 0.998. It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination(r^2), it is 0.996 and it means 99.60% of the variation in the dependent variable (loan and advances) has been explained by the independent variable (deposit)

Similarly, considering the value of (r) i.e.0.998 and comparing it with 6.P.ER. This reveals that the value of r is significant. In other words, there is significant relationship between deposit and loan and advances in case of EBL.

Like wise, between in case of NIB, it is found that coefficient of correlation between deposit and loan and advances is 0.997 it shows positive relationship these two variables. Moreover, when we consider the value of coefficient of determination(r^2), it is 0.994 and

it means 99.4% of the variation in the dependent variable (loan and advances) has been explained by the independent variable (deposit)

Similarly, considering the value of (r) i.e.0.997 and comparing it with 6.P.ER. This reveals that the value of r is significant. In other words, there is significant relationship between deposit and loan and advances in case of NIB also.

as well as higher value of r^2 than that of NIB, which indicates that it is in better condition to grant loan and advances for mobilizing the collected deposit in Above data indicates that EBL has successfully mobilized their deposit in proper way as loan and advances. Moreover, we can further conclude that EBL has higher correlation between deposit and loan and advances comparison to NIB.

(ii) Coefficient of correlation between total deposit and investment

Deposit has played a very important role in performance of a commercial bank and similarly investment is important to mobilize the collected deposits. Coefficient of correlation between deposit and investment measure the degree of relationship between these two variables. In this analysis, deposit is independent variables (X) and investment is dependent variable(Y). The main objective of computing "r" between these two variables is to justify whether deposits are significantly used as investment in a proper way or not. The below table shows the value of "r", "r^2", probable Error (P.Er) and 6 P.Er. Between deposit and investment of EBL with comparison to NIB.

Table No 4.23

Coefficient of Correlation Between deposit and investment

Banks	**Evaluation Criterions**			
	r	**r^2**	**P.Er.**	**6P.Er.**
EBL	0.897	0.8046	0.0589	0.3536
NIB	0.928	0.8612	0.0419	0.2512

Source: *Through SPSS Data Editor*

From the above table, in case of EBL, it is found that coefficient of correlation between deposit and investment is 0.897. It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination(r^2), it is 0.8046 and it means 80.46% of the variation in the dependent variable (Investment) has been explained by the independent variable (deposit).

Similarly, considering the value of (r) i.e.0.897 and comparing it with 6.P.ER. This reveals that the value of r is significant. In other words, there is significant relationship between deposit and investment in case of EBL.

Like wise, in case of NIB, it is found that coefficient of correlation between deposit and investment is 0.928 It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination(r^2), it is 0.8612 and it means 86.12% of the variation in the dependent variable (Investment) has been explained by the independent variable (deposit)

Similarly, considering the value of (r) i.e.0.928 and comparing it with 6.P.ER. This reveals that the value of r is significant. In other words, there is significant relationship between deposit and investment in case of NIB also.

Above data indicates that NIB has successfully mobilized their deposit in proper way as investment. Moreover, we can further conclude that NIB has higher correlation between deposit and investment as well as higher value of r^2 than that of EBL, which indicates that it is in better condition to grant investment for mobilizing the collected deposit in comparison to EBL.NIB has followed the policy of maximizing the investment of their deposit.

(iii) Coefficient of correlation between total assets and net profit

Coefficient of correlation between total assets and net profit measures the degree of relationship between these two variables. In this analysis, total assets are independent variables (X) and net profit is dependent variable(Y). The main objective of computing

"r" between these two variables is to justify whether net profit is significantly correlated with respective total assets or not.The below table shows the value of "r", "r^2", probable Error (P.Er) and 6 P.Er. Between total assets and net profit of EBL with comparison to NIB.

Table No 4.24

Coefficient of Correlation Between total assets and net profit

Banks	**Evaluation Criterions**			
	r	**R^2**	**P.Er.**	**6P.Er.**
EBL	0.984	0.9683	0.0096	0.0575
NIB	0.996	0.9920	0.0024	0.0145

Source: *Through SPSS Data Editor*

From the above table, in case of EBL, it is found that coefficient of correlation between total assets and net profit deposit is 0.984. It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination(r^2), it is 0.9683 and it means 96.83% of the variation in the dependent variable (net profit) has been explained by the independent variable (total assets)

Similarly, considering the value of (r) i.e.0.984 and comparing it with 6.P.ER. This reveals that the value of r is significant. In other words, there is significant relationship between total assets and net profit in case of EBL.

Like wise, in case of NIB, it is found that coefficient of correlation between total assets and net profit is 0.996 It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination(r^2), it is 0.9920 and it means 99.20% of the variation in the dependent variable (net profit) has been explained by the independent variable (total assets)

Similarly, considering the value of (r) i.e.0.996 and comparing it with 6.P.ER. This reveals that the value of r is significant. In other words, there is significant relationship between total assets and net profit in case of NIB also.

Above data indicates that NIB has higher correlation between total assets and net profit as well as higher value of r^2 than that of EBL which indicates that it is in better condition to increase profit by increasing total assets in comparison to EBL.

(iv) Coefficient of correlation between net profit and total deposit

Coefficient of correlation between net profit and total deposit measure the degree of relationship between these two variables. In this analysis, deposit is independent variables (X) and net profit is dependent variable(Y). The main objective of computing "r" between these two variables is to justify whether deposits are significantly used to get proper net profit or not. The below table shows the value of "r", "r^2", probable Error (P.Er) and 6 P.Er. Between total deposit and net profit of EBL with comparison to NIB.

Table No 4.25

Coefficient of Correlation Between net profit and total deposit

Banks	**Evaluation Criterions**			
	r	**R^2**	**P.Er.**	**6P.Er.**
EBL	0.990	0.9801	0.0060	0.0360
NIB	0.997	0.9940	0.0018	0.0108

Source: *Through SPSS Data Editor*

From the above table, in case of EBL, it is found that coefficient of correlation between deposit and net profit is 0.990. It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination(r^2), it is 0.9801 and it means 98.01% of the variation in the dependent variable (net profit) has been explained by the independent variable (deposit)

Similarly, considering the value of (r) i.e.0.990 and comparing it with 6.P.ER. This reveals that the value of r is significant. In other words, there is significant relationship between deposit and net profit in case of EBL.

Like wise, in case of NIB, it is found that coefficient of correlation between deposit and net profit is 0.997 it shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination(r^2), it is 0.9940 and it means 99.40% of the variation in the dependent variable (net profit) has been explained by the independent variable (deposit)

Similarly, considering the value of (r) i.e.0.997 and comparing it with 6.P.ER. This reveals that the value of r is significant. In other words, there is significant relationship between deposit and net profit in case of NIB also.

Above data indicates that NIB has successfully mobilized their deposit to generate better profit proper. Moreover, we can further conclude that NIB has higher correlation between deposit and net profit as well as higher value of r^2 than that of EBL, which indicates that it is in better condition for mobilizing the collected deposit to generate more profit in comparison to EBL.

4.2 Major Findings of the Study

In the preceding part, the researcher has presented and analyzed the various aspects of the study with the help of the financial and statistical tools. In this part, the researcher has enlisted the major findings in a summarized manner so that a complete picture of the data presentation and analysis can be presented. The major findings of the study, based on the financial and statistical tools can be presented as follows:

Liquidity Ratio

- Current ratio of EBL is ranging from 1.11 to 1.17 and NIB is ranging from1.01 to 2.51 over the study period. The mean ratio of EBL and NIB 1.14 are 1.99 respectively. While observing the data, we notice that EBL has not met the standard ratio. How ever, in comparison NIB has sound ability to meet its short term obligation than that of EBL.
- The mean ratio of Cash and bank balance to current assets of EBL and NIB are 9.34% and 10.99% respectively. It indicates that NIB has the slightly higher portion of cash and bank balance over current assets.

- The mean ratio of investment on government securities to total current assets ratio of EBL and NIB is 18.28% and 13.76% respectively. EBL has higher ratio in every year and mean too. It means EBL has invested more money in risk free assets than that of NIB.
- The mean ratio of loan & advances to current assets ratio of EBL and NIB is 64.48% and 74.35% respectively. NIB has higher ratio in every year and mean too. It means NIB has invested more money in the area of interest generation sources out of the current assets. In another words NIB has emphasis on more loan and advances. The ratio of EBL is low due to the greater portion invested in the government securities. The S.D and C.V. of EBL and NIB are 2.72, 8.38 and 0.04, 0.11 respectively. It shows NIB has greater variability in the ratios and EBL has consistency in the above ratios.

- Cash and bank balance to total deposit ratio of EBL and NIB erve Ratio (CRR) which is to be managed by the banks in duly manner (not too high and not too low). The minimum CRR to be maintained by the banks is 5% of the total deposit. Both the banks have maintained the NRB requirement. But above data implies that EBL has slightly sound liquid fund to make immediate payment to the depositors. The S.D and C.V. of EBL and NIB are 1.92, 1.11 and 0.18, 0.10 respectively. It shows EBL has greater variability in the ratios and NIB has consistency in the above ratios.

Assets Management Ratio

- Loans & advances to total deposit ratio of EBL and NIB are 72.42% and 71.82% respectively. So EBL has higher ratio than that of NIB. It reveals that the deposit of EBL is quickly converted in to loan and advances to earn income. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. So all of the year the both have met the NRB requirement or they have utilized its deposit to provide loan. However, while observing their ratios; EBL seems quite successful in generating higher ratio except in final year.

- Total investment to total deposit ratio of and NIB are 26.29% and 27.45% respectively. Investment volume of EBL is lower than that of NIB because more funds of EBL were used in profitable loans to achieve optimum mix of interest earning assets. NIB has successfully allocated its deposit in investment portfolio. The S.D and C.V. of EBL and NIB are 4.98, 4.96 and 0.19, 0.18 respectively.
- Loans & advances to total working fund ratio of EBL and NIB are 63.78% and 63.06% respectively. While observing their ratios; EBL is slightly better mobilizing of fund as loan and advances and it seems quite successful in generating higher ratio in each year. NIB has successfully increased the loans and advances and total assets throughout the studied period. However, while observing their ratios; EBL is better mobilizing of fund as loan and advances in preceding two year. Whereas, NIB seems quite successful in generating higher ratio in succeeding three year. The S.D and C.V. of EBL and NIB are 2.67, 5.86 and 0.04, 0.09 respectively.

Profitability Ratio

- The increment ratio of net worth in NIB is more rapid in each year than that of EBL. Because of increment in profit of NIB in comparison to net worth, the ROE ratio drastically went up to 20.94% to 26.00%. But because of increment in net worth in comparison to net profit, the ROE ratio of EBL could not increased in comparison with NIB. In comparison NIB has higher ratio than that of EBL except in 2004/05.The mean ratio of EBL and NIB is 22.71% and 23.62%. It signifies that the shareholders of NIB are getting higher return but in case of EBL, they are getting lesser. It can be concluded that NIB has better utilized the equity for the profit generation. It proves to be a good strength of NIB in attracting future investment. The S.D and C.V. of EBL and NIB are 2.19, 3.13 and 0.10, 0.13 respectively.
- Despite the higher Total assets and interest earned in NIB, it seems less conscious about managing its assets in order to earn more interest ratio. EBL shows the decreasing trend of the interest earned ratio except in F/Y 2007/08 and its average ratio is 5.93% whereas NIB shows fluctuating trend and it has maintained average

ratio 5.53%. The mean ratio of EBL is more than that of NIB. In comparison, EBL seems effective in earning interest to some extent although it has lower earning of interest income.

- Due to the higher ratio in each year of EBL, it seems less conscious about borrowing cheaper fund. Due to the higher ratio in each year of EBL, it seems less conscious about borrowing cheaper fund. EBL shows the decreasing trend of the interest paid ratio and its average ratio is 2.62% whereas NIB shows increasing trend in succeeding year and it has maintained average ratio 2.37%. EBL has the highest ratio in 2003/04 and NIB has the highest ratio in 2007/08. The mean ratio of EBL is more than that of NIB. In comparison, EBL seems ineffective in getting cheaper fund. From the mean point of view however, it is noted that if we see latest year data EBL is conscious for getting cheaper fund in comparison with NIB. The S.D and C.V. of EBL and NIB are 0.38, 0.15 and 0.14, 0.06 respectively.
- Mean ratio of Interest earned to operating income ratio of EBL and NIB are 195.64% and 139.45% respectively. EBL has higher ratio, it indicates the high contribution in operating income made by lending and investing activities (core banking activity).NIB has lower ratio, it indicates that high contribution in operating income do not made by lending and investing activities (core banking activity).High contribution in operating income made by lending and investing activities (core banking activity) is not good for long run but in short run it is not so bad. Thus, from short term view, EBL is in good condition but from long term view, NIB is in good condition. In overall, NIB has managed sound interest earned to operating income ratio. The S.D and C.V. of EBL and NIB are 7.79, 32.78 and 0.04, 0.24 respectively.
- We notice that net profit and total assets of both banks are in increasing trend. The ROA of EBL in fluctuating trend however, NIB has in increasing trend except in F/Y 2007/08. NIB seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 1.55% of total assets in an average. The S.D and C.V. of EBL and NIB are 0.10, 0.29 and 0.07, 0.19

respectively. It shows NIB has greater variability in the ratios and EBL has consistency in the above ratios.

- Return on loan and advances ratio of EBL is in fluctuating trend but NIB has in increasing trend except in F/Y 2007/08. The highest ratio of EBL is 2.46% in the year 2007/08 and lowest ratio 2.17% in year 2006/07. The mean ratio is 2.35%. Whereas highest ratio of NIB is 2.82% in year 2006/07 and lowest ratio are 2.08 in 2003/04. The mean ratio is 2.47% of NIB. This shows that both banks have normal earning capacity in the form of loan and advance. NIB has higher ratios in many studied year and mean ratio is also higher. So it seems successful by generating higher ratio. It can be concluded that NIB has better utilized the loan and advance for the profit generation. The S.D and C.V. of EBL and NIB are 0.13, 0.31 and 0.06, 0.13 respectively.
- Earning per share of EBL is in increasing trend but NIB is in fluctuating trend. Looking at the table, EBL has increased its EPS in each year. From the above table we notice that EBL is doing progress in each year whereas result of NIB is not in satisfactory condition, as it couldn't maintain the increasing trend in comparison with EBL. While observing their ratios in overall; EBL is better mobilizing it resources to get more earning per share (EPS) and it seems quite successful and strongest in the banking sector by generating higher EPS in each year and in average too. It is quite satisfying to state that EBL has been able to maximizing shareholder wealth. The S.D and C.V. of EBL and NIB are 18.63, 9.12 and 0.28, 0.17 respectively.
- Price earning ratio earning of EBL and NIB are in increasing trend. From the mean point of view, mean ratio of the EBL and NIB are 23.61 and 25.93 times respectively. It indicates that for getting Rs 1 as earning, one should invest Rs 23.61 in EBL and Rs 25.93 in NIB. Looking the mean ratio we conclude that in short run, investor of NIB are getting better profitability because they are selling their shares in high price although EPS of NIB is lower in comparison than that of EBL. But from the long term view and sustainable fair price, investor of EBL will get better profitability and they will be in safe side. The S.D and C.V. of EBL and

NIB are 8.66, 9.83 and 0.37, 0.38 respectively. It shows NIB has greater variability in the ratios and EBL has consistency in the above ratios.

Lending efficiency ratio

- Loan loss provision to total loan and advances ratio of EBL and NIB are in decreasing trend except in 2004/05 of NIB. The mean ratio of EBL and NIB are 0.87% and 0.93% respectively. Loan loss provision is not more than 1.25% of risk bearing assets according to NRB directives. So, in all of the year, both the bank have met the NRB requirement except in year 2003/04 of EBL and in year2004/05 of NIB. As NIB has higher mean ratio, NIB has more risky assets in total volume of loan advances. The S.D and C.V. of EBL and NIB are 0.34, 0.35 and 0.39, 0.38 respectively. It shows EBL and NIB has homogeneous in the above ratio.
- Interest expenses to total deposit ratio of EBL is in decreasing trend. Whereas, interest expenses to total deposit of NIB is in fluctuating trend and it has the highest ratio of 2.88% in the year 2007/08. From mean point of view, interest expenses to total deposit ratio of EBL and NIB are 3.06% and 2.70% respectively. It indicates that both the bank do not have higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. So, in comparison, NIB does not have higher interest expenses on total deposit than that of EBL from the mean point of view. It is noted that if we see latest year data EBL is conscious for getting cheaper fund in comparison with NIB. The S.D and C.V. of EBL and NIB are 0.50, 0.16 and 0.16, 0.06 respectively. It shows EBL has greater variability in the ratios and NIB has consistency in the above ratios.
- NPL to total loan and advances of EBL is in decreasing trend but NIB has in fluctuating trend. Decreasing trend is the good sign of the efficient credit management. From mean point of view, non-performing loan to total loan and advances ratio of EBL and NIB are 1.23 % and 2.15% respectively during the study period. These Ratios indicate the more efficient operating of credit management of both banks according to NRB directives. However, in

comparison, EBL has efficient operating of credit management than that of NIB. In another words, NIB has lower efficient operating of credit management than that of EBL. As, EBL has lower ratio, EBL has efficiently used the total loan and advances than that of NIB. The S.D and C.V. of EBL and NIB are 0.46, 0.60 and 0.37, 0.28 respectively. It shows EBL has greater variability in the ratios and NIB has consistency in the above ratios.

- The correlation coefficient between loan and advances and deposit of EBL and NIB are 0.998 and 0.997 respectively. There are positive correlation between loan and advances and deposit of two sampled banks. Correlation coefficient of EBL and NIB are greater than 6 P.E. thus correlation coefficient are said to be significant As a whole It seems both banks is seem significant and reliable Above figures shows that loan and advances is perfectly positive with total deposit in the case of both banks
- Correlation coefficient between deposit and total investment of EBL and NIB are 0.897 and 0.928 respectively. There are positive correlation between total deposit and loan and advances of three sampled banks. Correlation coefficient of EBL and NIB are greater than 6 P.E. thus correlation coefficient are said to be significant .As a whole It seems NIB is some more significant and reliable than EBL as it has greater correlation coefficient than P.E.
- Correlation coefficient between total assets and net profit of EBL and NIB are 0.984 and 0.996 respectively. There are positive correlation between total deposit and loan and advances of three sampled banks. Correlation coefficient of EBL and NIB are greater than 6 P.E. thus correlation coefficient are said to be significant .As a whole It seems NIB is some more significant and reliable than EBL as it has greater correlation coefficient than P.E.
- Correlation coefficient between net profit and total deposit of EBL and NIB are 0.990 and 0.997 respectively. There are positive correlation between net profit and total deposit of sampled banks. Correlation coefficient of EBL and NIB are greater than 6 P.E. thus correlation coefficient are said to be significant .As a whole It seems NIB is some more significant and reliable than EBL as it has greater correlation coefficient than P.E.

CHAPTER -V
SUMMARY, CONCLUSION AND RECOMMENDATION

There are two aspects included in this chapter. The first aspect focuses on the summary and the conclusion of the study while the second aspect focuses on the suggestions and recommendations that are useful to improve the financial performance of EBL and NIB.

5.1 Summary

Economic development is essential for the development of the country. For this, it is required to transform savings into actual investment. Economic development is supported by the financial infrastructure of the country. The financial institutions transfer funds from surplus spending units to deficit units.

The basic task of financial institutions is to mobilize the saving of the community and ensure efficient allocation of the savings to high yielding investment projects to offer attractive and secured returns to different sectors of the economy according to the planned priorities of the country. On the other hand, this process of financial institutions gives rise to the money and other financial assets which therefore have a central place in the development process of the economy. Banking sector plays an important role in the economic development of the country. It provides an effective payment and credit system, which facilitates the channeling of funds from the surplus (savers) units to the deficit units (investors) in the economy.

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

In most years, banks are the leading buyers of bonds and notes issued by the government to finance public facilities, ranging from hospitals and football stadium to airport and highways. Moreover, bank reserves the principal channel for government economic policy to stabilize the economy. And banks are also the most important sources of short-term working capital needed for the businesses. They have increasingly become active in recent years in making long-term business loans for new plant and equipments. When businesses and consumers must make payments for the purchase of goods and services, more often they use bank provided cheques, credit or debit cards, or electronic accounts connected to a computer network. It is the bankers, to whom they turn most frequently for advice and counsel when they need financial information and financial planning.

A bank always puts in effort to maximize its profitability. The profit is excess of income over expenses. To maximize profit, income should be reasonably excess over expenses. The major source of income of a bank is interest income from loans, investments and fee based income. As loan and advances dominate the asset side of the balance sheet of any bank; similarly, earnings from such loan and advances occupy a major space in income statement of the bank. However, it is very important to be reminded that most of the bank failures in the world are due to the shrinkage in the value of loan and advances. Hence, loan is known as risky asset and investment operation of commercial banks, is a very risky one. Risk of non-performing loans erodes even existing capital. Considering the importance of lending to the individual banks and also to the society it serves, it is imperative that the bank meticulously plans its credit operations as well as liquidity management.

Commercial banks in the developing countries like Nepal have the greatest responsibility towards the economic development of the country. In modern times, since credit or bank money constitutes bulk is of the economy’s aggregate money supply, it mostly changes the volume of the bank money or credit rather than changes in the total supply of the high-powered money issued by the

reserves held by the bank against their deposit liabilities that account for the changes in the aggregated money supply. The main goal of the bank as a commercial organization is to maximize the surplus by the efficient use of its funds and resources. In spite of being a commercial institution, it has a responsibility (obligation) to provide social service oriented contribution for the social economic upliftment of the country by providing specially considered loans and advances towards less privileged sectors.

A bank's marketing starts with a proper relationship with customers either to attract savings or for the loan disbursement. Both the depositors and the creditors are customers of the bank. Banks offer various products for deposit mobilization and disburse the credit products as per the portfolio management. Customers as per their need purchase different types of product offered in the market. Deposit products offered to the customers are categorized into general products and special products, and credit products can be bifurcated into fund based products and non-fund based products. The fund based products in practice are developed from the credit products generally known as overdraft, working capital loan, Term loan, bills purchase or negotiation, export and import bills, import/trust receipt loan, export credit, loan against fixed deposit receipt, loan against shares, loan against securities, and loan against bank guarantee and deprived sector loan. The term loan used in practice generally addresses short term loam medium term loan and long term loan to be advanced in various forms such as housing loan, hire purchase loan and bridge financing. The non-fund based product is composed of letter of credit (LC) and bank guarantees with different forms (bid bonds, performance bonds, etc.)

Among the different banking products available in the market, the product with high demand are consumer credit, export and import credit, term loan, Project loan and syndicate loan. All banks and financial institution on the basis of their capital base and liquidity position offer these credit products but none of them so far have been found to have expertise in any one of them for marketing. Relying on any one of the product by

portfolio seems more risky. Banks in foreign countries are known to bring out numerous products. As an example, the bank of America has a vast range of banking business serving individuals and small firms and a big share of the loan syndicate market. It means markets are there for some products and it is created for others. Banks in Nepal are weak in locating the existing market and in creating new markets too

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Loan disbursement is a trade of win-win game lenders and borrowers both get benefited out of it. Customers are the ultimate source of income not products. For the analysis of customers several questions need to be answered. These include questions such as which customer buys the product and how do they use it? Where do customers buy the product, when do customer buy, how do customers choose, why do they preferred that product, how do they respond, and will they buy it again. All these data available in the respective files of the customer make the marketing activities quite easier and effective.

5.2 Conclusions

Current assets to current liabilities ratio of EBL is in decreasing trend except in 2006/07. The highest ratio is 1.17 times in year 2003/04 and lowest ratio 1.11 times in year 2007/08. The mean ratio is 1.14 times. Whereas this ratio of NIB is in fluctuating trend. The highest ratio is 2.51 times in year 2004/05 and lowest ratio is 1.01 in 20007/08. The mean ratio is 1.99 times. While observing the data, we notice that EBL has not met the standard ratio. How ever, in comparison NIB has sound ability to meet its short term obligation than that of EBL.

Cash and bank balance to current assets ratio of EBL in increasing trend except in 2007/08 and NIB are in fluctuating trend. The highest ratio of EBL is 11.25% in year 2006/2007 and lowest ratio 6.66% in year 2003/2004. The mean ratio is 9.34% .Similarly, the highest ratio of NIB is 12.17% in 2005/2006 and lowest ratio is 9.56% in 2004/2005.The mean ratio ratio of NIB is 10.99%. The S.D and C.V. of EBL and NIB are

1.69, 1.03 and 0.18, 0.09 respectively. It shows EBL has greater variability in the ratios and NIB has consistency in the above ratios.

The investment on government treasury bills to current assets of EBL and NIB are in decreasing trend except in year 2005/06 of EBL and in year 2006/07 of NIB. The highest ratio of EBL is 25.21% and NIB is 17.64%. And the lowest ratio of EBL and NIB are 16.15% and 9.90% respectively. Mean ratio of EBL and NIB are 18.28% and 13.76% respectively. EBL has higher ratio in every year and mean too. It means EBL has invested more money in risk free assets than that of NIB. In other words NIB has emphases on more loan and advances and other short term investment than investment in govt. securities. For minimization of investment risk, NIB should divert its investment in govt. securities.

Loan and advances to current of EBL and NIB are in fluctuating trend. The highest ratio of EBL is 68.45% and NIB is 86.38%. And the lowest ratio of EBL and NIB are 62.00% and 64.68 respectively. Mean ratio of EBL and NIB are 64.480% and 74.35% respectively. NIB has higher ratio in every year and mean too. It means NIB has invested more money in the area of interest generation sources out of the current assets. In another words NIB has emphases on more loan and advances. on the other hand EBL has invested more money in risk free assets out of the current assets than that of NIB For minimization of investment risk, NIB should divert its investment in govt. securities other investment sector.

Total deposit of NIB is higher than that of EBL. Both the bank has increasing trend of ratio. The mean ratio of EBL and NIB are 10.75% and 10.65% respectively. EBL has higher ratio than that of NIB. It signifies that EBL has sound liquid fund to make immediate payment to the depositors but EBL has excess liquidity rather than that of NIB because of poor investment opportunities.

The loan and advances and total deposit in both banks have increased in each year. From the above table we notice that EBL and NIB have successfully increased the loans and

advances throughout the studied period. However deposit collection of NIB is satisfactory in comparison. While observing their ratios; EBL seems quite successful in generating higher ratio in succeeding year. The mean of EBL and NIB are 72.42% and 71.82% respectively. So EBL has higher ratio than that of NIB. It reveals that the deposit of EBL is quickly converted in to loan and advances to earn income. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. So all of the year the EBL and NIB have met the NRB requirement except in year 2003/04 and 2005/06 of NIB or it has utilized its deposit to provide loan.

It is observed that the investment trend of both bank have increased except in 2004/05 of EBL. Investment volume of EBL is lower than that of NIB because more funds of EBL were used in profitable loans to achieve optimum mix of interest earning assets. The mean of the ratio of EBL and NIB are 26.29% and 27.45% respectively so NIB has higher ratio. It signifies NIB has successfully allocated its deposit in investment portfolio.

Loan and advances to total assets ratio of EBL and NIB are in increasing trend except in year 2005/06. From the study we notice that NIB has successfully increased the loans and advances throughout the studied period in comparison. However total assets of NIB is satisfactory in comparison. While observing their ratios; EBL is better mobilizing of fund as loan and advances and it seems quite successful in generating higher ratio in each year. The mean of EBL and NIB are 63.78% and 63.06% respectively. So EBL has higher ratio than that of NIB. It reveals that in total assets, EBL has high proportion of loan and advances.

Both banks have increased net worth during the studied period. The increment ratio of net worth in NIB is more rapid in each year than that of EBL. Because of increment in profit of NIB in comparison to net worth, the ROE ratio drastically went up to 19.67% to 26.70%. But because of increment in net worth in comparison to net profit, the ROE ratio of EBL could not increased in comparison with NIB. In comparison NIB has higher ratio than that of EBL except in 2004/05.

The mean ratio of EBL and NIB is 22.71% and 23.62%. It signifies that the shareholders of NIB are getting higher return but in case of EBL, they are getting lesser. It can be concluded that NIB has better utilized the equity for the profit generation. It proves to be a good strength of NIB in attracting future investment.

Both banks have increased total assets in studied period. Furthermore, they both have increased total interest earned during studied period. Despite the higher Total assets and interest earned in NIB, it seems less conscious about managing its assets in order to earn more interest ratio. EBL shows the decreasing trend of the interest earned ratio except in F/Y 2007/08 and its average ratio is 5.93% whereas NIB shows fluctuating trend and it has maintained average ratio 5.53%. The mean ratio of EBL is more than that of NIB. In comparison, EBL seems effective in earning interest to some extent although it has lower earning of interest income. The S.D and C.V. of EBL and NIB are 0.58, 0.17 and 0.10, 0.03 respectively. It shows EBL has greater variability in the ratios and NIB has consistency in the above ratios.

Both banks have increased total assets in studied period. Further more they both have increased total interest paid during studied period except in 2004/05 of EBL. Interest paid of NIB is higher in each year it may either due to the higher saving and fixed deposit or higher interest rate in deposit. Due to the higher ratio in each year of EBL, it seems less conscious about borrowing cheaper fund. EBL shows the decreasing trend of the interest paid ratio and its average ratio is 2.62% whereas NIB shows increasing trend in succeeding year and it has maintained average ratio 2.37%. EBL has the highest ratio in 2003/04 and NIB has the highest ratio in 2007/08. The mean ratio of EBL is more than that of NIB. In comparison, EBL seems ineffective in getting cheaper fund. From the mean point of view however, it is noted that if we see latest year data EBL is conscious for getting cheaper fund in comparison with NIB.

Both banks have increased operating income and interest earned during studied period. The mean ratio of EBL and NIB are 195.64% and 139.45% respectively. EBL has higher ratio, it indicates the high contribution in operating income made by lending and investing activities (core banking activity).NIB has lower ratio, it indicates that high

contribution in operating income do not made by lending and investing activities (core banking activity).High contribution in operating income made by lending and investing activities (core banking activity) is not good for long run but in short run it is not so bad. Thus, from short term view, EBL is in good condition but from long term view, NIB is in good condition. In overall, NIB has managed sound interest earned to operating income ratio.

We notice that net profit and total assets of both banks are in increasing trend. The ROA of EBL in fluctuating trend however, NIB has in increasing trend except in F/Y 2007/08. NIB seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 1.55% of total assets in an average.

Return on loan and advances ratio of EBL is in fluctuating trend but NIB has in increasing trend except in F/Y 2007/08. The highest ratio of EBL is 2.46% in the year 2007/08 and lowest ratio 2.17% in year 2006/07. The mean ratio is 2.35%. Whereas highest ratio of NIB is 2.82% in year 2006/07 and lowest ratio are 2.08 in 2003/04. The mean ratio is 2.47% of NIB. This shows that both banks have normal earning capacity in the form of loan and advance. From the table we notice that NIB has higher ratios in many studied year and mean ratio is also higher. So it seems successful by generating higher ratio. It can be concluded that NIB has better utilized the loan and advance for the profit generation.

Earning per share of EBL is in increasing trend but NIB is in fluctuating trend. Looking at the table, EBL has increased its EPS in each year. From the above table we notice that EBL is doing progress in each year whereas result of NIB is not in satisfactory condition, as it couldn't maintain the increasing trend in comparison with EBL. While observing their ratios in overall; EBL is better mobilizing it resources to get more earning per share (EPS) and it seems quite successful and strongest in the banking sector by generating higher EPS in each year and in average too. It is quite satisfying to state that EBL has been able to maximizing shareholder wealth.

Price earning ratio earning of EBL and NIB are in increasing trend. From the mean point of view, mean ratio of the EBL and NIB are 23.61 and 25.93 times respectively. It indicates that for getting Rs 1 as earning, one should invest Rs 23.61 in EBL and Rs 25.93 in NIB. Looking the mean ratio we conclude that in short run, investor of NIB are getting better profitability because they are selling their shares in high price although EPS of NIB is lower in comparison than that of EBL. But from the long term view and sustainable fair price, investor of EBL will get better profitability and they will be in safe side.

loan loss provision to total loan and advances ratio of EBL and NIB are in decreasing trend except in 2004/05 of NIB. The mean ratio of EBL and NIB are 0.87% and 0.93% respectively. Loan loss provision is not more than 1.25% of risk bearing assets according to NRB directives. So, in all of the year, both the bank have met the NRB requirement except in year 2003/04 of EBL and in year2004/05 of NIB. As NIB has higher mean ratio, NIB has more risky assets in total volume of loan advances.

Interest expenses to total deposit ratio of EBL is in decreasing trend. Whereas, interest expenses to total deposit of NIB is in fluctuating trend and it has the highest ratio of 2.88% in the year 2007/08. From mean point of view, interest expenses to total deposit ratio of EBL and NIB are 3.06% and 2.70% respectively. It indicates that both the bank do not have higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. So, in comparison, NIB does not have higher interest expenses on total deposit than that of EBL from the mean point of view. It is noted that if we see latest year data EBL is conscious for getting cheaper fund in comparison with NIB.

NPL to total loan and advances of EBL is in decreasing trend but NIB has in fluctuating trend. Decreasing trend is the good sign of the efficient credit management. From mean point of view, non-performing loan to total loan and advances ratio of EBL and NIB are 1.23 % and 2.15% respectively during the study period. These Ratios indicate the more efficient operating of credit management of both banks according to NRB directives.

However, in comparison, EBL has efficient operating of credit management than that of NIB. In another words, NIB has lower efficient operating of credit management than that of EBL. As, EBL has lower ratio, EBL has efficiently used the total loan and advances than that of NIB.

In the above table, the correlation coefficient between deposit and loan and advances of EBL, it is found that coefficient of correlation between deposit and loan and advances are 0.998. In case of NIB, it is found that coefficient of correlation between deposit and loan and advances is 0.997 it shows positive relationship these two variables. Above data indicates that EBL has successfully mobilized their deposit in proper way as loan and advances. Moreover, we can further conclude that EBL has higher correlation between deposit and loan and advances comparison to NIB.

The correlation coefficient between total deposits and total investment describes the degree of relationship between these two items. How a unit increases in deposits impact in the volume of investment is measured by this correlation. Here, deposit is the independent variable and the investment is the dependent variable.

Above data indicates that NIB has successfully mobilized their deposit in proper way as investment. Moreover, we can further conclude that NIB has higher correlation between deposit and investment as well as higher value of r^2 than that of EBL, which indicates that it is in better condition to grant investment for mobilizing the collected deposit in comparison to EBL.NIB has followed the policy of maximizing the investment of their deposit.

The correlation between total assets and net profit measures the degree of relationship between total assets and total net profits. It measures whether the net profit is accompanied by increase in the volume of total assets. Here, the total asset is the independent variable where as the dependent variable.

In the above table, the correlation coefficient between total assets and net profit of NIB has higher correlation between total assets and net profit as well as higher value of r^2 than that of EBL, which indicates that it is in better condition to increase profit by increasing total assets in comparison to EBL.

The correlation coefficient between total deposit and total net profit measures the degree and the movement of the relationship between these two variables. Here, total deposit is the independent variable and the net profit is the dependent variable.

NIB has successfully mobilized their deposit to generate better profit proper. Moreover, we can further conclude that NIB has higher correlation between deposit and net profit as well as higher value of r^2 than that of EBL, which indicates that it is in better condition for mobilizing the collected deposit to generate more profit in comparison to EBL.

5.3 Recommendation

Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make performance of the EBL and NIB effective and efficient.

- As the current ratios of EBL and NIB are more than 1:1, it is good as it can meet the short-term obligations however EBL has not met the standard ratio. But NIB has more than EBL so it has higher ability to pay its short term obligation in comparison with EBL. So EBL should either increase its current assets or decrease its current liability to meet the short-term obligation in time more efficiently
- From the calculation, we notice that mean ratio investment on government treasury bills to current assets of EBL and NIB are 18.28% and 13.76%respectively.EBL has higher ratio in every year and mean too. It means EBL has invested more money in risk free assets than that of NIB. In other words NIB has emphases on more loan and advances and other short term investment than investment in govt. securities out of its current assets. For minimization of

investment and liquidity risk, NIB should divert its investment in govt. securities out of its current assets.

- The mean ratio of cash and bank balance to total deposit of EBL and NIB are 10.75% and 10.65% respectively. EBL has slightly higher ratio than that of NIB. It signifies that EBL has slightly sound liquid fund to make immediate payment to the depositors but EBL has excess liquidity rather than that of NIB because of poor investment opportunities. So EBL must search new investment opportunities.
- NIB is currently generating higher ROE, In brief it signifies that the shareholders of NIB are getting higher return but in case of EBL they are getting lesser. So EBL must try to increase ROE for satisfying its owner.
- EBL seems effective in earning interest to total assets to some extent although it has lower earning of interest income but it must break the decreasing trend in coming year for the sustainable increment. On the other hand NIB should increase its interest income to its total assets.
- Due to the higher ratio of interest paid to total assets in each year of EBL, it seems less conscious about borrowing cheaper fund. In comparison with NIB, EBL seems ineffective in getting cheaper fund. So it should be conscious about borrowing cheaper fund. However NIB should also give consciousness toward this matter because its ratio is in increasing trend
- The mean ratio of interest earned to operating income ratio of EBL and NIB are 195.64% and 139.45% respectively. EBL has higher ratio, it indicates the high contribution in operating income made by lending activitiy. NIB has lower ratio, it indicates that high contribution in operating income do not made by lending activity. High contribution in operating income made by lending activity is not good for long run but in short run it is not so bad. Thus, from short term view, EBL is in good condition but from long term view, NIB is in good condition. So for the long run, EBL should generate more income from other sources (like: commission and discount, income from dividend, foreign exchange income, other investment etc)
- NIB seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 1.55% which is more than that of EBL of

total assets in an average. So it is recommended that EBL should increase its ROA either by increasing net profit or by decreasing total assets.

- NIB has higher return on loan and advances in many years and mean ratio is also higher. So it seems successful by generating higher ratio. It is recommended that EBL should better utilize the loan and advances for the profit generation.
- EBL has increased its EPS in each year drastically. EBL is doing progress in each year whereas result of NIB is not in satisfactory condition, as it couldn't maintain the increasing trend in comparison with EBL. Therefore NIB should maintain the increasing trend. NIB should try to increase its EPS for the maximizing shareholder wealth.
- Looking the mean ratio of price earning ratio we conclude that in short run, investor of NIB are getting better profitability because they are selling their shares in high price although EPS of NIB is lower in comparison than that of EBL. But from the long term view and sustainable fair price, investor of NIB will get better profitability and they will be in safe side. So for the sustainable fair price either EPS of NIB should be increased or price should be decreased.
- As EBL has higher mean ratio of loan loss provision to total loan and advances, EBL has more risky assets in total volume of loan advances. So it should try to decrease risky assets in total volume of loan and advances.
- Commercial banks are dependent upon its ability to generate cheaper fund. So, in comparison, NIB does not have higher interest expenses on total deposit than that of EBL. So EBL should try to decrease interest expenses on total deposit for the increment in the profit.
- NPL to total loan and advances of EBL and NIB are in decreasing trend. Decreasing trend is the good sign of the efficient credit management. Both banks have maintained required ratio according to NRB directives. However, in comparison, EBL has efficient operating of credit management than that of NIB. In another words, NIB has lower efficient operating of credit management than that of EBL. As, EBL has lower ratio, EBL has efficiently used the total loan and advances than that of NIB. Therefore, NIB should try to decrease non performing loan to be more efficient in operation of credit management.

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