

**A COMPARATIVE STUDY ON FUND COLLECTION AND
MOBILIZATION OF JOINT VENTURE COMMERCIAL
BANKS**

(With Reference to Everest Bank Ltd. and SBI Bank Ltd.)

A Thesis

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RECOMMENDATION

This is to certify that the thesis

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Entitled:

**"A Comparative Study on Fund Collection and Mobilization of Joint Venture
Commercial Banks"**

(With special reference to Everest Bank Ltd. and SBI Bank Ltd.)

**has been prepared as approved by this Department in the prescribed format of
the Faculty of Management. This thesis is forwarded for examination.**

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according to the prescribed format. We recommend the thesis to be accepted as
partial fulfillment of the requirements for

Master's Degree in Business Studies (MBS)

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DECLARATION

I hereby declare that this thesis entitled "**A Study on Comparative Study on Fund Collection and Mobilization of Joint Venture Commercial Banks**" (With special reference to Everest Bank Ltd. and SBI Bank Ltd.) submitted to Office of the Dean, Faculty of Management, Tribhuvan University is my original work done in the form of the partial fulfillment of the requirements of Master of Business Studies under the guidance and supervision of **Dr. Sushil Bhakta Mathema**, Head of Research Department. Nepal Commerce Campus.

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Sajana Shrestha
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ABBREVIATIONS

ATM	Automatic Teller Machine
B.S.	Bikram Sambat
CBs	Commercial Bank Limited
EBL	Everest Bank Limited
EPS	Earning per Share
FY	Fiscal Year
i.e.	That is
JVBs	Joint Venture Banks
Ltd.	Limited
MBS	Master's of Business Studies
MVPS	Market Value per Share
NEPSE	Nepal Stock Exchange
No.	Number
NRB	Nepal Rastra Bank
P.E.	Probable Error
Rs.	Nepalese Rupees
SBI	SBI Bank Limited
SEC	Securities Exchange Commission
T.U.	Tribhuvan University
U. K.	United Kingdom
Viz.	Verses

CHAPTER - I

INTRODUCTION

1.1. BACKGROUND OF THE STUDY

Nepal is a landlocked and agricultural country which lies in South East Asia. Nepal is one of the least developed countries in the world with per capita income of US\$ 450. (Source: Economic Surveys of NRB 2008). The problem of fulfilling basic needs poses a huge burden. One of the functions of commercial bank is investment policy, which help to economic development of the country. The process of the economic development depends upon various factors, however economists are now convinced that capital formation and its proper utilization plays a paramount role for rapid economic development. Hence, investment policy is one such tool that helps for proper utilization of resources.

Bank is an organization that transacts money. It collects funds as a saving from public and invests them full into most desirable and highly yielding sector as full to a process of economic development. It develops saving habit of people so bank and banking has always played a significant role for the financial activities in the business.

The main objectives of the bank are collection of amount from public in a form of saving and providing short-term loan (for the development of industry, trade, and business) to the ones in need. The development of country's economy is possible when banking operation exist in both rural and urban area of the country. Development of banking facilities leads to the development of trade and industry. So it is said that the bank is backbone of economic development in modern competitive business world. At present financial institutions are viewed as catalyst in the process of the economic growth. The economic activities of a country can hardly be carried forward without the assistance of financial institutions. They are the indispensable part of the development process. Banking institutions are inevitable for mobilizing resources for finance and social economic development of a country and which is important to all parties i.e. generally public, business, organization, government and other small financial institutions. The development of any country is always measured by its economic development though

economic indices. That's why every country has given emphasis on boost up its economic. The mobilization of domestic resources is one of the key factors in the economic development of a country.

“The importance of the banking as the nerve center of economic development can't be over emphasized and it is said that bank which are the need of and great wealth of country water irrigation good banks are for the country's industry and trade” (Desai:1967). The bank draws surplus money from the public, who can't use the money at the time and lend to those who give attention to use for productive purpose. Bank lends loan to the customers, gain interest amount, the bank draw the money from institution or in divided or people pay the interest amount by interest rate. Banking institutions collects scattered financial resources from the mass and invest them among those who are associated with the economic, commercial and social activities of the country.

The economic activities of a country can hardly be carried forward without the assistance of financial institutions. They are the indispensable part of the development process. It is the fact that the unorganized financial system leads the country nowhere. Therefore, central bank plays a major role on keeping the financial system of a country organized by providing those guidelines and directives.

Financial institution in the economy plays a crucial role in the process of economic growth of the country. Financial institution refers to a business concern that is mainly confined to finance for the development of the trade, commerce and industry. Trade, commerce and industry are the prime factors of the economic development. Bank is a financial institution, which primarily deals in borrowing and lending. Banking is a vital part of national economy and a vehicle for the mobilization of economy's financial resources and extension of credit to the business and service enterprises.

Nepal is one of the least developed countries in the world. It is basically an agricultural, mountainous and landlocked nation surrounding by two large, fast developing nations, China and India. About 80% of the total population is engaged on subsistence farming. Despite its large share in labor market, it paradoxically, contributes 40% to the total GDP. As most of the labor forces are underemployed it is necessary to channel the huge

labor force into industrial sector. The economic development of Nepal is still in initial stage. For the economic growth and development, government has initiated various economic policies such as industrial policy, foreign investment policy privatization policy and trade & transit policy.

Nepal has adopted mixed and liberal economic policy with an implicit objective to assist the state and the private sector. Especially after restoration of the democracy, the concept of the liberalization policies has been incorporated as directive principal and state policies. This liberalization has helped in establishing many companies, banks, finance companies and manufacturing industries. Thus these establishments help the country for its development.

The growth of banking is not so long. Compared to other developing or developed countries, the institutional development in banking system of Nepal is far behind. Even though the specific date of the beginning of money and banking deal in Nepal is not obvious, it is speculated that during the reign of the King Mandev the coin “Manank” and “Gunank” during the reign of the king Gunakamadev were in use. After the unification of Nepal, Prithvi Narayan Shaha had minted coin ‘Mohar’ in his name. An institution called “Taksar” was established in 1989 and it started to issue the coin scientifically. During the reign of Ranodip Singh an office named “Tejarath” was established in Kathmandu in 1993(B.S.) It used to provide loans to government officials and people against deposit of gold and silver. It had also extended its branches outside Kathmandu valley for providing loan. But this office had no right to accept deposit of public and it had no characteristics of modern banks. (Bhandari, 2004:6)

After the establishment of Nepal Bank Limited on 30th Kartik, 1994 (B.S.), modern banking system started in Nepal. Under the Nepal Rastra Bank Act 2012, Nepal Rastra Bank was established in 2013, Baishakh 14th in Nepal. Rastriya Banijya Bank was established in Government sector in 2022 and Agricultural Development Bank in 2024, 7th Magh. Nepal Arab Bank limited is the 1st joint venture bank established in 2041 under the Commercial Bank Act 2031 and Companies Act 2021. (Shrestha, 2004:2)

In this era of globalization, the economic activities are soaring up in the international market. Nepal doesn't have its own long history of the economic activities. About two century ago the barter system was prevailing every where in the country, even now in the

remote areas the system is still in practice. Until the period of reunification of modern Nepal by Prithvi Narayan Shah there were only two trading partners namely India and Tibet. After the reunification, political instable was prevailing which was some how controlled by the Rnanas, their regime begun in 1903 (B.S). During the beginning period of their regime, office like Tejarath Adda and Mulukhi Khana were established in order to attract deposits and grand loans. But it was not sufficient for the economic development due to lacking of experienced manpower and new technology. As the time passed by there some increasing economic activities was seemed in the country which led to the establishment of first commercial bank (CV) of Nepal viz. Nepal Bank Limited.

Thus, the history of the development of financial institutions in Nepal is not very long. Nepal bank Ltd. is the first commercial bank of Nepal, which was established in 1994 B.S. in non- government sector. The second commercial bank is Rastrya Banijya Bank Ltd., which was established in 2022 B.S. in 100% government ownership. But after studying to the origin of modern banking, we come to know that "Bank DE RIALTO" which was established in 1587 A.D. is the first bank of the world in Venice, Italy.

Commercial bank deals with people's money. They have to find ways of keeping their assets liquid so that they could meet the demand of their customers. In their anxiety to make profit, the banks can't afford to lock up their funds in assets that are not easily realizable. The depositor's confidence could be secured only if the bank is able to meet the demand for cash promptly and fully. The banker has to keep adequate cash for this purpose. Cash is an idle asset and hence the banker cannot afford to keep a large portion of his assets in such a way that he can have adequate profits without sacrificing liquidity. Commercial banks must mobilize its deposits and other funds to profitable, secured, stable and marketable sector. Then only it can earn profit as well as it should be secured and can be converted into cash whenever needed. A healthy development of any bank depends heavily upon its investment plan. A sound and viable investment plan attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment.

1.2. STATEMENT OF THE PROBLEMS

To bring positive criticism from customer bank should have good fund collection and utilization. Due to the proper implementation of fund collection and utilization, commercial banks are reported to be criticized by customer. They are said to be investing less risky and highly liquid sector, they keep high liquid position and flow less funds in productive sectors, so these type of function prove less investment opportunity of the fund. Sometimes they seem to be ready to invest the idle fund in those investment, which have lower risk and comparatively greater profit the another problem is diversification of the fund.

In this study fund mobilizing policy of joint venture banks are analyzed. As above mentioned following are the major problems that have identified for the purpose of this study.

- Does the investment decision affect the total earning of bank?
- Is there any stability in fund mobilization activities of joint venture bank?
- What are the performance indicators of joint venture banks in relation to fund collection and its mobilization?
- Is there correlation between the fund collection and fund mobilization of the given joint venture banks?
- What is the relationship between deposit and total capital raised, deposit with total investment and loan & advances with total deposits?
- Whether the joint venture banks have collected and mobilized their funds effectively or not?

1.3. OBJECTIVES OF THE STUDY

The primary objective of the present study is to analyze fund collection and utilization of Everest Bank Ltd. and SBI Bank Ltd. The specifics objectives of the present study are listed down as follows:

- To analyze the ability in mobilizing the total collected funds of the selected joint venture banks.
- To identify the factors that affected the fund collection and its mobilization procedure of selected joint venture banks.

- To find out the effectiveness in fund collection procedure of the selected joint venture banks i.e. EBL and SBI.
- To provide suggestion and recommendations on the basis of analysis.

1.4. SIGNIFICANT OF THE STUDY

The implementation of good and optimum fund mobilizing policy, bank can depicts the sound health optimum utilization of funds make better impact on the economy of the nation. Fund mobilization activities must consider the customer, national and government as well as shareholders' interest.

To operate banking activities successfully, most of the joint venture banks have to follow the effective, stable and appropriate fund mobilization policy, which may cause the earning of sufficient return to the bank. Most of the joint venture banks have been successful to earn profit from effective fund mobilization. Fund mobilization policy may differ from one joint venture bank to another but there is no optimum utilization of shareholders' fund to have sufficient return in any risk.

The study of fund mobilization policy would provide information to the management of the bank that would be helpful to take corrective action in the bank activities. Every concerned parties of bank would get information from this study, which helps them take corrective action in the field of investment. From this study general public can know that fund mobilization of joint venture banks. This study helps the government while formulating policies and rules regarding to the joint venture banks. The study on fund mobilization of a bank would help depositors by providing concerned information and they can make decision to deposit their money in the concerned bank.

1.5. LIMITATION OF THE STUDY

The study has focused on its objective to observe the deposit mobilization position of commercial banks. As the study is more objective and is made for the fulfillment of academic requirement it possesses numbers of limitations. Some specific limitations are as follows:

- The study, lack of the sufficient time, resources are the major limitations. The

study has been conducted to meet partial fulfillment of the requirement for the “Master of Business study of Faculty of management, T.U.

- The study mainly based on secondary data collected from different sources.
- The study has been mainly carried out based on the published financial documents such as balance sheets, Profit and loss accounts, related journals, magazines and brochures. These published documents have their own limitations.
- The study mainly concentrates only on the lending practices of Everest Bank and SBI Bank.
- The study period will be covered by only six fiscal year i.e. from 2005/2006-2010/11.
- The study deals with only two commercial banks and data related to other

1.7 Organization of the Study

This unit considers the total considerations of the research report. This report is organized on five chapters. These five chapters consider:

Chapter-I Introduction

The first chapter includes the introduction of the study that considers the background of the study, historical development of commercial bank in Nepal, statement of problem, significance of the study, objective of the study, focus of the study, limitation of the study, and the organization of the study.

Chapter-II Review of Literature

This is the second chapter of the report. It includes the conceptual review and review of related studies. Conceptual review considers the study of books and other publications related to the concept of commercial bank, concept of deposit and concept of deposit mobilization. And the review of related studies includes the study of past studies made on the deposit related topics especially the studies related to the deposit mobilization of the commercial banks.

Chapter-III Research Methodology

This chapter contains the tools and techniques these are applied on the study. The financial and statistical tools which are used for the analysis and presentation of data are described in this chapter.

Chapter-IV Presentation and Analysis of Data

This is the major chapter of the study. It contains the presentation of data and analysis of the data that specify the findings of the study. Data are presented on the basis of objective of the study. This chapter contains the major findings of the study too. It helps the searcher to find out what is going on about the deposit mobilization in Nepal and selected commercial banks.

Chapter-V Summary, Conclusion and Recommendation

This is the last chapter of the study that contains summary of the study, conclusion of the study and some recommendations to the related banks and policy makers for making the deposit mobilization position of related banks and total commercial banking system better than that is.

CHAPTER - II

REVIEW OF LITERATURE

The review of literature is a very important aspect of the research. It is reviewing of research studies of other relevant proposition in related area of the study, so that, all the past studies, their conclusion and deficiencies may be known and further research can be conducted. For this, several books, dissertation, reports, hands out and articles published in journals and newspapers are reviewed. This chapter has been divided into the following parts:

2.1. CONCEPTUAL REVIEW

Historical Background of Bank

When where and how the modern banking actually came in existence cannot be pointed out .But from the different historical facts it reveals that some banking activities have been carried out since the time immemorial. At that time merchants money lenders, goldsmiths, etc preformed the banking transactions. Latter the transactions started increasing and they become the activities of money exchange securing the valuable goods, deposit money, lending money and so on. For all these types of activities written receipts began to be used and the modern banking started. In the historic age sources say that goldsmiths and money lenders contributed to large extent in the growth of banking system. They used to store peoples gold charging normal charges issued receipts to the depositors, which was good for payments. Latter they started advancing money charging interest on it. So the goldsmiths and money lenders started performing the functions of modern banking i.e. accepting deposits and advancing loans. However, the modern banking originated in Italy. The word bank was derived from the Italian word “Banco” which means accumulation of money or stock. Bank as an institution was originated from Italy. The bank of Venice which was established in 1157 A.D was the first bank in the history of banking and it was established to finance the monarch in the wars. The Bank of Barcelona Spain which was established in 1404 A.D was the second bank in the world and then the bank of Genoa was set up in 1407 AD.

The first central bank though was the bank of England which was established in 1844 A.D. Banking has come to the present advanced from through various stages. Some sorts of banking activities have been carried out since the time immemorial. Traditional forms of banking are traced during the civilization of Greece, Rome and Mesopotamia. With banking firms established in Florence, Rome, Venice other Italian cities the banking activities spread through out the Europe and it slowly spread through out the world.

Banking industry in Nepal

The specific date of beginning of money and banking transaction in Nepal is unknown. The banking functions were carried out in unorganized sectors. It is found that minted coins, copper coins, silver coins, and gold coins were introduced by different kings.

Institutional development of modern banking in Nepal had begun from early 1990s. With the establishment of Nepal Bank Limited in 1994 B.S, the new era of banking sector had started in Nepal. As a central bank, Nepal Rastra bank was established in 2013 B.S. under provision of Nepal Rastra Bank Act 2012 with the objectives of helping in the development of monetary and financial sector by undertaking various functions. Another step was added when Rastriya Banijya Bank was established in 1966(2022BS) under the Banijya Bank Act 1965(2021BS). Likewise, Agriculture Development Bank was established in 1965(2024BS) with the objective of increasing the life standard of those people who are involved in agriculture.

The Bank opened before the decade of 1980s was by the government. No private sector was permitted to open banks in Nepal. The process of development adopted liberalized economic policies to develop the financial sector. As a pre-condition to economic liberalization, the foreign investment and Technology Transfer Act, 1981 came into existence. The government allowed private sectors to open banks. Joint venture projects were also allowed. Many joint venture commercial banks and financial institutions were established. As a result, Nepal Arab Bank Limited was established as a first joint venture commercial bank in 1985 under the provision of commercial bank Act, 1974 and Company Act 1965. Then, Nepal Indosuez Bank Limited was established in 1985 and Nepal Grindlays Bank Limited has been changed into Standard Chartered Bank Nepal Limited and Nepal Indosuez Bank Limited has been changed into Nepal Investment Bank in 2002 which has not foreign share now. After the restoration of multiparty

democracy, the newly formed government adopted liberalized policies aimed at accelerating economic growth and considerably reducing state interference in business. The governments encouraged foreign and private investment by offering attractive incentives and facilities including 100% foreign ownership in all but few sectors. This help to create conducive business environment for banking. As a result, additional commercial banks come into existence. When the internal violence shows green signal to manage and Nepal Rastra Bank make ease for rules and regulations, many new commercial banks are coming existence and exiting development banks and financial institutions are upgrading them as commercial banks. At present there are 27 commercial banks registered and operated in Nepal.

Concept of Commercial Bank

In general, commercial banks are these financial institutions, which play the role of financial intermediary in collection and disbursement of funds from surplus unit to deficit unit. Upadhaya and Tiwari (2037) have stressed that the commercial bank is established with a view to provide short term debt necessary for trade and commerce of the country along with other ordinary banking business such as collecting the surplus in the form of deposit, lending debts by discounting bills of exchange, accepting valuable goods in security, acting as an agent of the client etc. In the same way, Abrol and Gupta (2002) explain accept deposits and provides loans primarily to business firm. On the other hand the broad concept of commercial bank holds that the commercial bank is a banking institution other than central banks. The commercial bank is the only institution other than central bank permitted to accept demand and deposits.

Functions of Commercial Banks

Commercial bank performs different functions such as core function and support to the business world as well as general people. Core function includes two type of functions- fund based and non-fund based functions. Similarly, which are carried out to fulfill the core functions American institute of Banking (1972), has fixed out four major functions of a commercial bank receiving payments, handling payments, making loans & investment and creating money by extension of credit. Similarly, Upadhaya & Tiwari (2037) have argued that there are three major functions of commercial bank. These three functions are:-

I. Primary functions

- Accept deposits
- Provide loans & Credit

II. Agency functions

- Sales and purchase of securities.
- Working as an agent & trustee of a customer.
- Transfer of funds
- Provide financial information.

III. General functions

- Safe custody of valuable assets.
- Issue of credit instruments.
- Dealing with foreign exchange.
- Competition of trade information & statistics.

Joint Venture Banks of Nepal

Joint venture banking scenario of Nepalese financial sector is not so long, after the establishment of democratically elected government, it introduced liberal and market oriented economic policy which facilitated the establishment of joint venture banks and pointed a new horizon to the financial sector of Nepal.

"A Joint Venture is formed of two forces between two or more enterprises for the purpose of carrying out of specific operation (industrial or commercial investments, production trade)." (Gupta, 1984:15)

Nepalese JVBs should take initiation in search of new opportunities to survive in the competitive market and earn profit. There is high liquidity in the market but there seems no profitable place to invest. At the same time, the bank and financial institutions are offering very low deposit interest rate. In this situation Nepalese JVBs are required to explore new opportunities to make investment if they want to survive in the competitive market. Since commercial banks can inspire entrepreneurship, the banks should also consider national interests and government emphasis for the economic growth of the country by the development of industry, trade and business and to fulfill the objective of profit making.

Nepal Arab Bank Limited (Nabil Bank Limited) is the first joint venture bank of Nepal. It was established in 1984 A.D., joint venture with United Arab Emirates Bank, under Company Act 1964. Then other two joint venture banks, Nepal Indosuez Bank Limited (Nepal Investment Bank Limited) with Indosuez Bank of France and Nepal Grindlays Bank of London were established in 1986 A.D. Everest Bank Limited, joint venture with Punjab National Bank India (previously joint ventured with United Bank of India, Calcutta) and Nepal Bangladesh Bank Limited with IFIC Bank of Bangladesh were established in 1991 A.D. Bank of Kathmandu, joint ventured with SIAM commercial Bank Public Co., Thailand was established in 1995 A.D. and Nepal Bank of Ceylon joint ventured with Ceylon Bank of Srilanka was established in 1997 A.D. All of these banks briefly follow the policies of Nepal Rastra Bank. But at present there are only six joint venture bank in Nepal.

2.1.1 Meaning of Some Important Terminologies

In this section of the, effort have been made to clarify the meaning of some important terms frequently used in this study. There brief summary is presented below.

(a) Loan and Advances

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

(b) Investment of Other Company's Share and Debentures

Due to excess funds and least opportunity to invest these funds in much more profitable sector and to meet the requirement of NRB directives many commercial banks have to utilize their funds to financial and not financial companies. These days most of the commercial banks have purchased regional development banks, NIDC and other development bank's shares.

(c) Investment of Government Securities, Shares and Debentures

To earn some interest and dividend, most of the commercial bank invests on government securities shares and debentures. It is not the major sources of income but it is treated as second sources of banking business. A commercial bank many extent credits by

purchasing government securities, bond and shares for several reasons. Some of them are as follows:-

- It may wish to have high grade maturing so that the inflow of cash coincides with expected with drawls by depositors of large loan demands of its customers.
- It may also be forced to invest because the demand for loans has decreased or it is not sufficient to absorb its excess reserves.

However, investment portfolio of commercial bank is established and maintained primarily with a view of nature of banks liabilities since depositors may demand funds banks. The investment must be of a type that can be marketed quickly with little or no shrinkage in value.

(d) Other Use of Funds

A commercial bank must maintain the minimum bank balance with NRB i.e. 6% for fixed deposits and 8% for each of current and saving deposit account in local currency; likewise, 3% cash balance of local cash balance, in local currency, account in local currency, accounts must be maintained the funds should be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computers, stationeries, etc.

(e) Off- Balance Sheet Activities

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

(f) Deposits

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

- ❖ Current Deposits
- ❖ Saving Deposits

❖ Fixed deposits

2.1.2 Features of Sound Lending and Fund Mobilization Policy

Sound lending policy or fund mobilizing policy greatly affects the income and profit of the financial institutions, like commercial bank. A sound lending policy is not only prerequisite for bank profitability of commercial saving of a backward country like, Nepal. The greater the credit created by the bank the higher will be the profitability. Some required features of sound lending policy and fund mobilization is explained as under.

a) Safety and Security

To protect from loss, financial institutions should not invest their fund in securities of those companies whose securities are too much depreciated and fluctuated. They should accept those securities, which are marketable, durable profitable and high market price as well as stable. In this case MAST should be applied for the investment where.

M = Marketability

A = Ascertainable

S = Stability

T = Transferability

b) Liquidity

Liquidity is that state of position of the firm that pronounces its capacity to meet current or short-term obligation. It is the capacity of firm to pay cash against. Concerned parties, like general public, customers deposit their money at bank in different accounts with the confidence that the bank will repay their money when they need. To show the good current position and maintain the confidence, every firm must keep proper cash balance with them while investing in different securities and granting loan excess fund.

c) Profitability

A financial institutions must invest there collected funds where they earn maximum profit. The profit of the commercial bank mainly depends upon the interest rate, volume of loan, time period and nature of investment of different securities and sectors.

d) Legality

To issue securities and mobilize their fund every financial institution must follow the rules regulation of the company government and various direction supplied by Nepal Rastra Bank and Ministry of finance illegal securities will bring out many problem to the investor. Lastly the reputation and good will of the firm many be lost.

e) Purpose of Loan

Before, granting loan, bank and other financial institution must examine why loan is need for customer misuse the borrowing they can never repay loan and financial institution will have heavy bad debts. So they should collect detailed information about the plan and scheme of the borrowing.

f) Tangible

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

g) Diversification

To over come the risk, every firm can invest its deposit collect ion various security. So, all the firm must diversity their fund or makes portfolio investment. Diversification helps to earn good return and minimize the risk and uncertainty. According to the law of average because it securities of company deprived.

2.1.3 Mobilization of Funds

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

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

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

i. Liquid Funds

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

- Cash in hand
- Balance with NRB
- Balance with domestic bank.
- call money

ii. Investment

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

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

iii. Loan and Advances

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

- ❖ To government enterprises
- ❖ To provide enterprises

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

iv. Fixed Assets

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

v. Administrative and Miscellaneous Expenses

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

- Salary of Employee
- Pensions
- Allowances
- Advertisement
- Stationery
- Provident fund
- Rent
- Income Tax
- Donation
- Insurance
- Tour expenses
- Commission

The miscellaneous expenses are:

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

In this way, bank mobilizes its fund by performing different activities to achieve its desired goals i.e. earning profit. Banks are sufficient profit by mobilizing its funds in proper way into the different profitable sector. It can utilize its collected fund as well as own funds in all banking activities by performing effective fund mobilization procedure.

2.1.3. Review of Legislative Provision

The establishment of bank, mobilization of their fund and utilization of resources are strongly bounded by legal constraints. So, legislative provision has significant impact on its operation. All the commercial banks have to follow the legislative provisions specification in the commercial bank Act 203 and the rules and regulations formulation to facilitate the smooth running of commercial banks.

Policy Guidelines on Establishment of Commercial Banks

For the establishment of commercial banks, receiving application form has been stopped since 1995. Visualizing that such an administrative restrictor is not in conformity with the liberal financial policy, the following new policy guidelines have been made public in 16th may 2007/08.

1) About Paid up Capital

To establish new commercial banks for national level paid up capital must be Rs.1000 million, having its office in Kathmandu valley. Joint investment with foreign bank and financial institution or a management contract at least for 3 years with such institutions is required. To establish the commercial banks in all the places in the kingdom other than in the Kathmandu valley, the paid up capital must be Rs. 250 million.

2) About Share Capital

In general, the share of commercial banks will be available for the promoters 70% and general public 30%. The foreign banks and financial institutions could have a maximum of 67% share in investment on the commercial banks of national level. In order to provide adequate opportunity for investment to the Nepali promoters in national level banks, only 20% of total share capital will be made available to general public on the condition that the foreign bank and financial institutions are going to acquire 50% of the total share. In case of commercial banks to be established outside Kathmandu valley, shares investment of promoters and general public should stand at 70% and 30% respectively.

3) Legal Procedure

Banks to be established with foreign promoter participation have also to be registered fulfilling all the legal processes prescribed by the prevalent Nepal laws.

4) Banks Already in Operation.

Banks that is already in operation and those who have already acquired letter of intent before the enforcement of these provisions have to bring their capital level within seven years i.e. by 16, July 2009, as per the recently declared provision. Such increase in the capital should be at a rate of 10% should be at the minimum.

5) Concerning up Gradation.

Banks to be established outside Kathmandu valley could be allowed to operate throughout the kingdom including Kathmandu valley only on the condition that they have brought their paid up capital level to Rs 1000 million and also fulfilled other prescribed conditions until and

unless such banks do not get license to operate throughout the kingdom, they will not be allowed to open any office in Kathmandu valley.

6) Promoters Share Payment Procedure

Of the total committed share capital, the promoters has to deposit in NRB an amount equal to 20% along with the application and another 30% at the time of receiving the letter of intent on a interest free basis. The bank should put into operation with in one year of receiving the letter of intent. The promoters have to pay fully the remaining balance of committed total share capital before the banks comes into operation. Normally within 4 months form the date of filling the application; NRB should give its decision for the establishment of the bank whether it is on favor or against it. If it declines to issue license, it has to inform in writing with reasons to the concerned body.

7) Promoters Qualification and Experience

Action on the application from promotes will not be initiated if it is proved that their collateral financial institutions as a result of non payment of loans in the past, who have not cleared such loans or those in the black list of the credit elapsed from the date of removal of their name from such list. The application will be deemed automatically cancelled irrespective of it being on any stage of process for license issuance if the above events are proved out of the total promoters, one-third should be its chartered accountant or at least a graduate of Tribhuvan University or recognized institutions with major in economics or accountancy, finance, law, banking or statistic. Likewise one-fourth promoters should have the work experience of bank or financial institution or similar nature.

8) Promoters Shares

Promoters group's share can be disposed or transferred only on the condition that the bank has been brought in operation, the share allotted to the general public has been floated in the market and after completion of 3 years from the date it has been registered in the Stock Exchange. But before the disposal of such shares it is mandatory to get approval from NRB. The share allotted to general public has to be issued and sold within 3 years from the date the bank can not issue bonus shares or declare and distribute dividends, shareholders of the promoters group and their family members can not have access to loans or facilities from the same institution.

9) **Branch Expansion**

The commercial banks established in national level will initially be authorized to open a main branch office in Kathmandu valley. They will be authorized to open one more branch in Kathmandu valley only after they have opened two branches outside the Kathmandu valley.

10) **Disqualify for Becoming Director**

An individual who is already serving as a director in one of the bank of financial institutions licensed by NRB can not be considered eligible to become the director in other banks or financial institutions. Also, stock brokers, market makers and also an individual and institution involved as an auditor of the bank and institutions carrying on financial transactions can not be a director.

(Source:- Economic survey 2010/11/07)

2.2.1 **Fund Mobilizing Procedure of Joint Venture Banks**

Every bank of world has applied there own fund mobilizing procedure. In practice, straightforward and effective fund mobilization procedure has adopted by the banks. Effective fund mobilization is the indicator of bank's prosperity and its growth. Generally, all banks have some fund mobilization procedures which are presented below.

(A) **Sources of Fund**

Bank collects fund from many sources in the economic activities. Issuing shares and borrowing loan from different sector includes in these sources. The sources of fund can be categorized in two ways. They are owned funds/ equity capital of bank and borrowed capital of funds.

1. **Owned Funds /Equity Capital of Bank**

There are many sources of owned funds which are summarized as below:-

i. **Ordinary Shares**

The string and reliable sources of funds of banks are ordinary shares. Banks promoters issue ordinary shares to the public in fixed number. Banks collects the funds by selling fixed ordinary shares to the public by adopting fixed rules and regulation. These public make shareholders after purchasing the issued shares.

ii. **Preference Shares**

It is that kind of share which receive dividend and after liquidation money before ordinary share. But in Nepal, bank can't issue preference share. But some situation it can issue preference share by taking permission from Nepal Rastra Bank.

iii. Bonus Share

Company issue the extra share to the shareholder from the saving from profit and reserve fund by capitalizing these funds is known as bonus share. Bank issue shares to shareholders instead of banks amount. From this share, bank collects some share of funds.

iv. Retained Earning

Banks earn profit by investing the funds in different sector through the principal of profit earning. Banks invests its fund in productive or profitable industries and business. Banks earn some amount from these investments.

v. Reserve Fund

Bank separates some share of capital in reserve funds in the time of banking activities. The reserve fund size, based on banks earning and rules and regulations. Bank must separate some share of amount from profit in reserve fund. Banks have been earning by investing the reserve funds in liquid sector.

vi. Undistributed Dividend

Bank does not distribute all profit to the shareholders. Bank invests some amount from profit by not distributing to shareholders. By this, the invested profit makes sources of funds to the banks.

(B) Borrowed Fund of Bank

Bank collects the funds from another source except owned funds. Another source is borrowing from different sector. These types of funds collect borrow and debt capital. Following are the sources of the borrowed fund.

I. Selling of Debenture

Debenture means a “Rinpatnar” which is issued by company by keeping or not keeping assets securities for collection of funds. If bank need a fund, it can collect capital by issuing debenture. The money also collects bank capital, which is collected by issuing debenture.

II. Deposits.

The bank performs two-fold functions. i.e. the receipt of the deposits and granting the loans. The bank borrows money by accepting afferent types of deposits. The bank attracts the deposits from the public bank not only undertakes to take care of the deposits but also agrees to honors the demands of the depositor for withdraw of money from the deposits. Deposits accepted by the bank are of different type. They are

- **Current Deposit**

It is also known as demand deposit. A customer can open a current account with a bank by making an initial of Rs 100. Any amount may be deposited in this account. The bank makes a small charge on the customer having current deposit account.

- **Saving Deposit**

In this deposit, there are restrictions on the maximum amount that can be deposited and also withdrawals from the account. The bank may not permit more than one or two withdrawals during a week.

- **Fixed Deposit**

A fixed deposit is one where a customer is required to keep a fixed amount with the bank for specific periods. He is not allowed to withdraw amount before expiry of the period. The rate of interest is higher than on other deposit account during this period the bank is free to make use of this money for granting loans and advances.

III. Loan from the Central Bank

NRB is the central bank of Nepal. All banks should operate their banking activities by maintaining the rules and regulations directed by the NRB. In the time of necessity, NRB provides the loans for the banks. The loan granted by the central bank is a bank capital.

IV. Loan from the Financial Institutions

Financial institutions also provide loans for the banks. Banks can receive loans from financial institutions in the form of borrowing. The loan granted by the financial institutions is also a capital of bank.

V. Loan from Commercial Banks

Banks can receive money from other banks in the form of borrowing when they need. Banks fulfill the need of cash by taking loans from other banks. It is also the type of bank capital.

2.2 Review of Related Studies

2.2.1 Review of Articles and Research Papers

Many researches have analyzed their fund mobilizing views and findings in their research papers in this subject through investment policies of commercial banks. Under this related articles published in different economic journals, Bulletin of World Bank, dissertation papers, newspapers, researchers' views and findings towards fund mobilization and other related books are examined and reviewed.

Bajracharya, B (2047), through his article "Monetary Policy & Deposit Mobilization in Nepal" has conclude that the mobilization of domestic savings is one of the monetary policies in Nepal. For this purposes commercial; banks stood as the vital & 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 economy.

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

Sharma, Bhaskar (2006/07) in his article "Banking the future competition" has said "Due to the lack of investment avenues, banks are tempted to invest without proper credit appraisal and one personal guarantee, whose negative side effect would show colors only after 4 or 5 years; again he said that private CBS have been mushroomed only in urban areas where banking transaction in large volume is possible. The rural and suburban areas mostly remain unattended too. This is likely to prevail till competition tasks its full rein in the urban areas."

Pradhan, R.S. (1994) as done a research for which he carried out a Survey of 78 enterprises. Through his research entitled "Financial management practice in Nepal" he found some of the measures features of the Nepalese financial management. According to him "the most important one appeared to be maintaining good relation which stockholder. The finding revel that banks and retained earning are most widely used financing sources. Most enterprises do not borrow from one bank only and they do switch between bank to banks whichever offers best invest rate. Most enterprises find that banks are faxable in interest rate. Among the banks loan, bank loan of less then one year are more popular in public sector where as banks loan of 1-5 year are more popular in private sector. In period of light money, the majority of private sector enterprises fell that bank will treat all firms equally while public sector does not fell so similarly, he conclude that the majority of enterprises in traded sector find that bank's interest rate is just right while the majority of non traded sector find that the some is one higher side"

Pradhan, Shekher Bahadur (2053) in his articles, “Deposit mobilization, its problem and prospects” has presented that following problems in the context of Nepal:-

- ⇒ People do not have knowledge and proper education for institutional manner. They so now know financial organizational process, withdraw system, depositing system etc.
- ⇒ Financial institutions do not want to operate and provide their service their service in rural areas.
- ⇒ He has also recommended about how to mobilized the deposit collection by the financial institutions by rendering their services in rural areas, by adding various services.
- ⇒ By operating rural banking programs and unit.
- ⇒ He has also recommended about how to mobilize the deposit collection by the financial institutions by rendering their service in rural areas, by adding various services.
- ⇒ By operating rural banking programmes and unit.
- ⇒ Nepal Rastra Bank must organize training programmes to develop the skill human resources.
- ⇒ By spreading a numbers of co-operative societies to develop mini banking services and improves the habits of public in deposit collection to the rural areas.

Shrestha, Sunity (1997) in her article, “Financial performance of commercial Banks using both descriptive and diagnostic approach” has analyzed the following points:

- ⇒ The structural ratio of commercial banks show that banks invest on the average 75% of their total deposit on the government securities and the shares.
- ⇒ The analysis of resources position of commercial banks should quit high percentage of deposit as cash reserve.
- ⇒ Return Ratio of all the banks show that must of the time foreign banks have higher return as well as higher risk then Nepalese banks.
- ⇒ The debt equity ratios of commercial banks are more than 100% in most of the time period under study period. It leads to conclude that the commercial banks are highly leveraged and highly risky. Joint venture banks had higher capital adequacy ratio but has been dealing every day.

In case of the analysis of the management achievement foreign banks have comparatively higher total management achievement index.

Shrestha, Ramesh Lal (1998) in his article, "A study on deposit and credit of commercial banks in Nepal" concluded that the credit deposit ratio would be 51.30%, other things remaining same in Nepal, which was the lowest under the period of review. Therefore he had strongly recommended that the joint venture banks should try to give more credit entering new field as far as possible, otherwise, they might not be able absorb even the total expenses.

2.2.2 Review of Thesis

Dhungana, (2005) has conducted a thesis research entitled "Investment portfolio Analysis of JVB's".

The specific objectives of the study were:

- a) To analyze the risk and return ratios of commercial banks.
- b) To evaluate the financial performance of JVB's.
- c) To provide suggestion package based on the analysis of data.
- d) To study existing investment policies taken by EBL in various sectors.
- e) To study portfolio structure of EBL in investment as compared to other JVB's.
- f) Preference given by EBL for investment between,
 - Loan Investment.
 - Investment in real fixed assets.
 - Investment in financial assets.

The main findings of the study were:

- a) SCBNL has the highest return on shareholders fund and total assets. It has also been successful in mobilizing its deposits as investments. EBL and EBL have invested high amounts of deposits as loan and advances in comparison to SCBNL, EBL and SBI.
- b) Among the JVB's, looking at the investment portfolio, EBL has investment highest amount of funds in government securities, NBB has invested highest amount of funds on shares and debentures and EBL has invested highest amount of funds in NRB bonds in comparison to other JVB's.

- c) SCBNL has the highest EPS and EBL the lowest EPS among the JVB's.

Shakya, (2006) has conducted a research entitled "A comparative study on Investment policy of Joint Venture Banks and Finance Companies of Nepal".

The objectives of the study were as follows:

- a) To find out the liquidity position and profitability position of above mentioned JVB's in comparison with finance companies.
- b) To find out the relationship between profitability and asset structure.
- c) To analyze the deposit utilization trend and its future projections for next five years for JVB's and finance companies.
- d) To study the various risks in investment of JVB'S in comparison with finance companies.
- e) To analyze the relationship between deposits and investment, deposits and loan & advances, net profit and total assets of JVB'S in comparison with finance companies.
- f) To provide suggestion and recommendation on the basis of findings.

The major findings of the study were as follows:

- 1) Liquidity position of JVB's is comparatively better than that of finance companies. Finance companies have made nominal amount of investment in government securities.
- 2) Finance companies have mobilized their deposits smoothly in comparison with JVB's. The average loan and advance to total deposit ratios of finance companies is higher than JVB's.
- 3) Profitability position of JVB's except for BOKL is better than that of finance companies, but profitability position of finance companies in terms of return on total assets is better. Interest income in relation to proportion of total assets and operating income is higher in finance companies in comparison to JVB's.
- 4) The growth ratios of deposits, net profit, loan and advances are higher than that of JVB's and are increasing every year, which indicates good performance of the finance companies.

- 5) The risk ratios of finance companies are less variable than the JVB's. The interest risk ratios of finance companies is higher where as the capital risk ratios of JVB'S are comparatively higher than that of finance companies.
- 6) JVB'S are in a better position in mobilizing deposits as loan and advances, but so far finance companies have been successful in utilizing their sources of funds and in their mobilization.

Shrestha, (2007) has conducted a thesis research entitled "Investment Policy and Analysis of commercial Banks in Nepal (A comparative study of SCBNL with NIBL & NBBL)

The following objectives were considered in the study:

- a) To discuss fund mobilization and investment policy of SCBNL in respect to its fee based off balance sheet transaction with NIBL & NBBL.
- b) To evaluate the liquidity, efficiency, profitability and risk position of the sample banks.
- c) To evaluate the growth ratios of loan and advances, total investment with other financial variables.
- d) To analyze the trends of deposit utilization towards total investment and loan and advances and its projection for next five years.
- e) To find out whether there is significant difference between the various important ratios of SCBNL with the ratios of NIBL and NBBL.
- f) To provide package of workable suggestions & possible guidelines to improve investment policy of the sample banks.

The findings of the study were:

- a) SCBNL has good deposit collection, has made enough investment in government securities, but has provided less advances and loans to total deposits ratio.
- b) SCBNL has been successful in its on balance sheet operations but NIBL and NBBL have been more successful in off balance sheet operations.
- c) The profitability position of SCBNL is higher than the other JVB's in the sample.
- d) The credit risk ratio, capital risk ratio of SCBNL is lower than NIBL & NBBL.

- e) SCBNL has maintained higher growth in investment and net profit and moderate growth in loans and advances, and deposits.
- f) There is significant relationship between deposits and loans and advances and between outside asset and net profit of SCBNL.

Sapkota, (2008) has conducted a research entitled "Investment Analysis of Commercial Banks" (A Comparative Study of Nepal Bank Limited and Nepal State Bank of India Limited).

The objectives of the study were:

- a) To analyze percentage of investment made by SBI and NSBIL in total investment made by commercial banks.
- b) To analyze investment trend, deposits trend and total income and their projection for next five years of SBI and compare then with that of NSBIL.
- c) To identify investment sector of SBI and NSBIL.
- d) To evaluate the liquidity, assets management efficiency, profitability and risk position of SBI in comparison to that of NSBIL.
- e) To study the relationship between investment and deposits of bank.

The major findings of the study were as follows:

- a) Percentage of SBI's investment to total commercial banks investment is extremely higher than NSBIL.
- b) Both SBI and NSBIL have invested mostly on government securities but SBI has invested in NRB bonds also as well as in other productive sectors.
- c) NSBIL is better than SBI from liquidity point of view.
- d) SBI has higher profitability position than NSBIL.
- e) SBI is exposed to more risk than NSBIL.
- f) SBI has maintained higher growth rate in net profit in comparison to NSBIL.

Parajuli, (2009) has conducted a research entitled "Investment Policy of Commercial banks in Nepal.

The objectives of the study were:

- a) To discuss fund mobilization and investment policy of EBL in respect to its fee based off-balance sheet transaction and fund based on balance sheet transaction of EBL and BOKL.
- b) To evaluate the liquidity, efficiency, profitability and risk position.
- c) To evaluate the growth ratios of loans and advances and total investment with other financial variables.
- d) To analyze the trends of deposits utilization towards total investment and loan and advances and its projection for next five years.
- e) To conduct hypothetical test to find out whether there is significant difference between the important ratios of EBL, EBL & BOKL.
- f) To provide packages of workable suggestions and possible guidelines to improve investment policy of EBL and other banks.

The major findings of the study were as follows:

- a) EBL is comparatively better than EBL and BOKL in terms of liquidity.
- b) EBL has been less successful than EBL and BOKL in its on balance sheet operation as well as off balance sheet activities.
- c) The profitability position of EBL is worse than EBL and BOKL.
- d) EBL is exposed to more credit risk and capital risk, but lower interest rate risk than EBL and BOKL.
- e) EBL has maintained high growth rates in total deposit, loan and advances but it has moderate position in investment.
- g) There is significant relationship between deposit and loan and advances and outside assets and net profit of EBL.

Baral, (2010) has conducted a research entitled "An Investment Analysis of RBB in comparison with NBL".

The specific objectives of the study were.

- a) To evaluate liquidity, activity and profitability ratios of RBB in comparison with NBL and industry average.
- b) To analyze relationship of loan and advance and total investments with total deposit and net profit of RBB and to compare it with that of NBL and industry average.
- c) To use trend analysis to compare loan and advance, total investment, total deposit and net profit of RBB and compare the same with other two.
- d) To examine the loan loss provision of RBB and NBL.
- e) To provide suggestion and recommendation on the basis of findings.

The major findings of the study were:

- a) RBB has good deposit collection, enough loan and advance and investment in government securities. It has comparatively better liquidity position than NBL.
- b) RBB is in comparatively better position regarding issue of loan and advance but it does not have good position regarding investment in shares and debentures of other companies, off balance sheet operation. Loan Loss ratio shows low quality of loan and advance.
- c) The profitability position of RBB is worse. RBB needs to take immediate steps to increase its profitability.
- d) RBB's fund collection and fund mobilization is satisfactory in comparison to NBL.
- e) There is significant relationship between deposit and loan and advance. There is insignificant relationship between deposit and investment, and outside assets and net profit.

2.3 Research Gaps

The purpose of this study is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation to marketing strategy of fund collection and mobilization of joint venture commercial banks. Thus, the previous studies can't be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. Here, it is clear that the new research cannot be found on the exact topic, i.e. marketing strategy of joint venture commercial banks (fund collection and mobilization). To complete this research work, many books, journals, articles and various published and unpublished dissertations are followed as guideline to make the research easier and smooth. In this regard, here we are going to analyze the different procedure of fund collection and its mobilization techniques of Joint Venture Banks.

CHAPTER - III

RESEARCH METHODOLOGY

3.1. Introduction

Research methodology is the process of arriving to the solution of the problem through planned and systematic dealing with collection, analysis and interpretation of facts and figure. It is a way to systematically solve the research problem. It may be misunderstood as a science of studying how research is done scientifically. In this we study the various steps that are generally adopted by a researcher in studying the research problem along with the logic behind them. It is inquiry into any subject matter, which is an endeavor to discover for find out valuable fact, which would be useful for future application or utilization. (Micheal, 2002). A systematic research study needs to be followed to achieve predetermined objectives.

3.2 Research Design

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework for the project that stipulates what information is to be collected, from which sources and by what procedures (Poul, 1997:34). Thus a research design is a plan for the collection an analysis of data. For research there exists different types of research design like; Historical research, Descriptive research, Case study research, Field study research, Analytical research, True experimental research and so on. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance.

The study is evaluative and analytical type of study regarding the fund collection and utilization. The research design used in the study is descriptive and evaluative. The data relative to topics are collected through financial statement of the finance and other available sources. The data for five years had been collected and various financial and statistical tools had been used to resolve the objectives.

3.3 Population and Sample

A small portion chosen from the population for studying its properties is called a sample and the number of units in the sample is known as the sample size. The method of selecting for study a small portion of the population to draw conclusion about characteristics of the population is known as sampling. Sampling may be defined as the selection of part of the population on the basis of which a judgment or inference about the universe is made.(Sharma & Chaudhary,2058:173)

Here only 2 sample commercial banks are taken out of 31 commercial banks. For selecting the samples, non-random sampling method is used here among different methods. The samples are taken only from commercial banks. Organization under study is as follows, whose general introduction and major objectives are presented in chapter one. The sample organizations are as follows:

1. Everest Bank Ltd.
2. SBI Bank Ltd.

Likewise, financial statements of five years (beginning from 2003/04 to 2009/10) are selected as samples for the purpose of it.

3.4 Nature and Sources of Data

The data used in this study are secondary in nature. Published annual reports of the concerned banks are taken as basic source of data. The data relating to financial performance are directly obtained from the concerned banks. Similarly, related books, magazines, journals, articles, reports, bulletins, data from Nepal Stock Exchange and Nepal Rastra Bank, Central Bureau of statistics, related website from internet etc. as well as other supplementary data and various economic surveys are also used. Previous related studies to the subject are also counted as source of information.

3.5 Data Collection Procedures

The Annual Reports of EBL & SBI (2005/06 to 2010/11) of respective finance companies were collected from their respective offices and also by post on request. NRB reports were collected from Research department of NRB. The numerical data collected from different sources were used in whole numbers for the convenience of the study. The internet also proved to be a very good source of data. Various sites were used for the collection of data. The sites used are listed in the bibliography.

3.6 Data Processing and Presentation

The information and data obtained from the different sources are in row form. From that information, direct presentation is not possible. So it is necessary to process data and convert it into required form. After then only, the data are presented for this study. This process is called data processing. For the study, only required data are taken from the secondary source and presented likewise, in some case graphical presentation is also made. For presentation, different tables are used. Likewise, in some case graphical presentation is also made. The calculations that are related to this study are done with the help of scientific calculator as well as computer software program.

3.7. Method of Data Analysis

As mentioned above for the purpose of data analysis, various financial and statistical tools are used to make the analysis more effective, convenient, reliable and authentic. The analysis of data will be done according to the pattern of data available because of time and resources. The various tools applied in this study have been briefly presented as under:

3.7.1 Financial Tools

Financial tools are used to examine the financial strength and weakness of banks in this study. The basic tools used are ratio analysis. Besides it, total deposit, total investment and total income analysis have been used.

3.7.1.1 Ratio analysis

Ratio analysis is a tool of scanning the financial statement of the firm. "Ratio means the numerical or quantitative relationship between two items or variable. It can be expressed as percentage, fraction or a stated comparison between numbers." (I.M. Pandey, 1992:104) Ratio analysis is the relationship between two accounting figures expressed mathematically. It is computed by dividing one item of relationship with the other. Management itself can use these parameters to improve organization's performance in future by knowing the strength and weakness for exploiting maximum benefits and to repair the weakness to meet the challenges.

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 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, 1999:389)

Inadequate liquidity can lead to unexpected short falls that must be covered at inordinate cost, 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.

To find out the ability of bank 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 (Cash Reserve Ratio):

Cash and bank balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. This ratio is calculated by dividing the cash and bank balance by the amount of total deposits. Mathematically it is expressed as,

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

II. Cash and Bank Balance to Current Deposit Ratio:

This ratio is computed to disclose the soundness of the company to pay total calls made of current deposits. It can be expressed as:

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

B. Activity/Efficiency Ratio

Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. These ratios are also called turnover or assets management ratios because they indicate the speed with which assets are being converted into sales. Activity ratio measures how efficiently the bank manages the resources at its command. The following ratios are used under this activity ratio.

I. Loan and Advances to Total Deposit Ratio:

This ratio is calculated to find out that which banks are able to utilize their total deposits on loan and advances for profit generating purpose. This ratio can be obtained by dividing loan and advances by total deposits, which can be stated as below:

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

II. Credit and Advances to Fixed Deposit Ratio:

Fixed deposits are the long-term interest bearing obligations and credits and advances is the major sources of investment to generating purpose. The ratio is slightly differ with the former one, because it only includes the fixed deposits, where as the former includes all the deposits. The following formula is used to obtain this ratio.

$$\text{Credits and Advances to Fixed Deposit Ratio} = \frac{\text{Credits and Advances}}{\text{Fixed Deposits}}$$

III. Credit and Advances to Total Assets Ratio:

It measures the ability in mobilizing total assets into credits and advances for profit generating income. A higher ratio is considered as an adequate symbol for effective utilization of total assets of bank into credits and advances which creates opportunity to earn more and more. It is calculated as:

$$\text{Credits and Advances to Total Assets Ratio} = \frac{\text{Credits and Advances}}{\text{Total Assets}}$$

C. Leverage Ratio

The use of finance is referred to by financial leverage. When a firm borrows money, it promises to make a series of fixed payments, which create financial leverage. These ratios are also called solvency ratio or capital structure ratio. These ratios indicate the mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long-term financial position of the firm, leverage ratios are calculated. This ratio highlights the long-term financial health, debt servicing capacity and strength and weaknesses of the firm. Following ratios are included under leverage ratios.

I. Total Debt to Net worth Ratio:

The ratio is calculated to find out the proportion of the outsider's fund and owner's fund to finance for the total assets. It is also called the proportion of outsider's claim and insider's claim on total assets of the bank. Generally, a very high ratio is unfavorable to the business because the debt gives third parties legal claims on the company. These claims are for interest payments at regular intervals plus repayment of the principal by the agreed time. On the other hand, a very low ratio is also unfavorable from the shareholders' point of view. They want the ratio to be high so that they can have better returns with smaller capital. It is calculated as follows:

$$\text{Total Debt to Net worth Ratio} = \frac{\text{Total Debt}}{\text{Net Worth}}$$

II. Total Debt to Total Assets Ratio:

It examines the relationship between borrowed funds (i.e. total debt) and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets. It is computed as:

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

D. Profitability Ratio

Profit is the difference between revenues and expenses over a period of time. A company should earn profit to survive and to grow over a long period of time. So profits are essential, but profit earning is not the ultimate aim of company and it should never be earned at the cost of employees, customer and society.

"Profitability ratios are the indicators of degree of managerial success in achieving firm's overall goals." (Pradhan, 1996:208). It shows the overall efficiency of the business concern. The following ratios are calculated under the profitability ratios:

I. Net Profit/Loss to Total Assets Ratio:

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:

$$\text{Net Profit/Loss to Total Assets Ratio} = \frac{\text{Net Profit/Loss}}{\text{Total Assets}}$$

II. Interest Income to Total Credit and Advances:

It tells the income as interest from total credit and advances. It is useful to know the fact that whether the credit has given good return or not. We can increase interest income by taking good issuing and recovery credit policy. High return shows the soundness of credit policy. It is calculated by using the following formula:

$$\text{Interest Income to Total Credit and Advances} = \frac{\text{Interest Income}}{\text{Total Credit and Advances}}$$

E. Other Ratios

I. Earning Per Share (EPS):

Earning per share (EPS) is calculated by dividing a company's net revenues by the outstanding shares. This gives a number that can be used to compare the earnings of companies since it is unlikely any two companies will have the same number of shares outstanding. Accounting earnings that represent the different revenues and expenses, including the expenses associated with non-equity source of funds (such as interest to debt, dividend of preference shares) is known as total earning available for common stock. If this portion of income is divided by number of outstanding shares, we get earning per share. (Sharpe, Alexander and Bailey, 2005/06:622)

Symbolic expression of EPS is given below.

$$\text{EPS} = \frac{\text{Net Income after Taxes}}{\text{Number of Common Stocks Outstanding}}$$

II. Price Earning Ratio (P/E Ratio):

The P/E ratio is widely used by the security analysts to evaluate the firm's performance as expected by investors. It shows the price currently paid by the market for each rupee of currently reported earning per share. It is also called multiplier. It is calculated by using the following formula:

$$\text{P/E Ratio} = \frac{\text{Market Price per Share}}{\text{Earning Per Share}}$$

3.7.2 Statistical Tools

Statistical tools measure the data and give the result in numeric form which helps to analyze the data in logical way. The following statistical tools have been used in this study.

I. Arithmetic Mean/Average:

Average, in general, is calculated by adding all the numbers of all observations and dividing by the total number of observations. It is in fact, a value which is represented to stand for whole group of which it is a part, as typical of all the values in group. (Levin, 1997:9) It is calculated as:

$$\bar{X} = \frac{\sum X}{N} \quad \text{Where, } \bar{X} = \text{Arithmetic Mean}$$

N = Number of Observations
 $\sum X$ = Sum of Observations

II. Standard Deviation (S.D.):

The standard deviation is absolute measures of dispersion. The smaller the standard deviation the lower will be the degree of risk of the stock. In other words, a small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series and vice versa. The formula for calculating the standard deviation is

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

Where,

$$\sigma = \text{Standard Deviation}$$

$$\frac{\sum X^2}{N} = \text{Sum of Squares of Observation}$$

$$\left(\frac{\sum X}{N}\right)^2 = \text{Sum of Squares of Mean}$$

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. 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 similar 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:

$$C.V. = \frac{\sigma}{\bar{X}} \times 100$$

Where,

$$\bar{X} = \text{Mean}$$

σ = Standard of Deviation

C. V. = Coefficient of Variation

IV. Correlation Coefficient (r):

Correlation may be defined as the degree of linear relation existing between two or more variables. These variable are said to be correlated when change in the value of one results change in another variable change in another variable. Correlation is of three types. They are Simple, Partial and Multiple correlations. Correlation may be positive, negative or zero. Correlation can be defined as linear or non-linear. Here, we study simple correlation only. "In simple correlation the effect of others is not included rather these are taken as constant consideration them to have no serious effect on the dependent variable." (Shrestha, K.N., 1994:65)

The popular method of statistical tool, Karl Pearson's co-efficient of correlation has been adopted to measure the significance of the relation between the deposit and the investment, loan and advance of the six Joint Venture Banks. The formula for computing the correlation coefficient using direct method is as follows:

$$r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{N \sum X^2 - (\sum X)^2} \times \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Here,

N = Number of pairs of X and Y observed

X = Values of Investment, Loan and Advance

Y = Values of Total Deposit

r = Karl Pearson's co-efficient of correlation

V. Probable Error (r):

The probable error of the co-efficient 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:

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

Here,

r = Correlation Coefficient

N = Number of pairs of observations

If the value of 'r' is less than the probable error, there is no evidence of correlation, i.e., the value of 'r' is not at all significant. Then, if the value of 'r' is more than six times of the probable, the coefficient correlation is practically certain, i.e., the value of 'r' is significant.

VI. Coefficient of Determination (r²):

It explains the variation percent derived in dependent variable due to the any one specified variable; it denotes the fact that the independent variable is good predictor of the behavior of the dependent variable. It is square of correlation coefficient.

3.7.3 Trend Analysis:

Trend analysis is the tools that are used to show grandly increase and decrease of variable in a period of time. With the help of trend analysis; the tendency of variables over the period can be seen clearly. Here, trend analysis of deposit and credit and advance has been conducted.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with data presentation, analysis and interpretation following the research methodology presented in the third chapter. Data presentation and analysis are the central steps of the study. The main purpose of this chapter is to analyze and elucidate the collected data to achieve the objective of the study following the conversion of unprocessed data to an understandable presentation. The chapter deals with the main body of the study.

4.1. Profitability Ratio

To identify the overall utilization of the funds collected and used in the banks, we also need the indicators of profitability position. Under this sector following ratios are studied.

4.1.1. Return on Assets

The total net assets of the banks are the sectors where the total funds collected through various sources are invested to earn sufficient profits.

$$\text{Net Profit/Loss to Total Assets Ratio} = \frac{\text{Net Profit/Loss}}{\text{Total Assets}}$$

Table No.: 4.1
Net Profit to Total Assets Ratio

(Rs. in million)

Banks	Years						
		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	Net Profit	291.37	271.63	416.25	455.31	518.64	635.26
	Total Assets	18367.1	17629.2	16562.61	16745.49	17186.3	22329.97
		5	5			3	
	Ratio %	1.59	1.54	2.51	2.72	3.02	2.84
	Average	2.37					
SBI	Net Profit	280.69	235.02	212.12	263.05	308.28	457.48
	Total Assets	19500.5	20672.4	23355.23	24762.02	27418.1	29460.39
		8	5			6	
	Ratio %	1.44	1.14	0.91	1.06	1.12	1.55
	Average	1.20					

Source: Annual Reports of EBL & SBI (2006/07 to 2010/11)

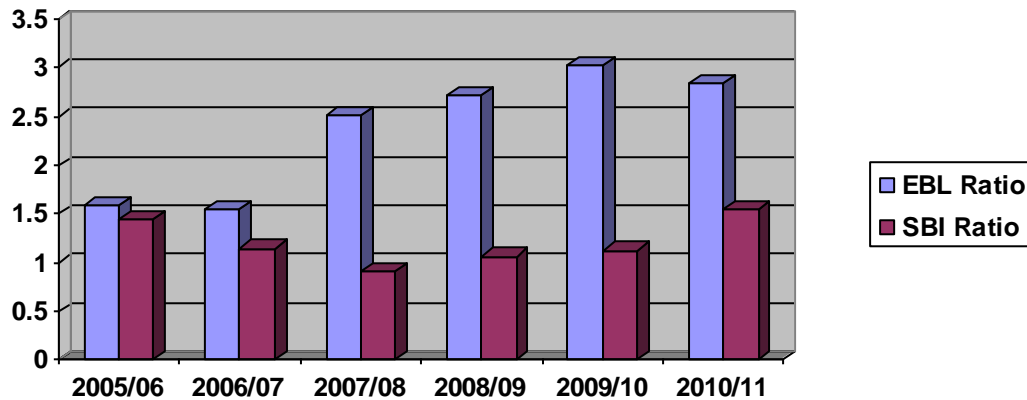
The table depicted above shows the return earned on assets employed in the banks. The return on assets (ROA) of EBL was 1.59, 1.54, 2.51, 2.72, 3.02 and 2.84 in the years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 respectively with an average of 2.37 over the whole study period. The ratios went on increasing after 2005/06 till 2009/10. Then it declined to the 2.84 in the year 2010/11.

Similarly, the ROE for SBI were 1.44, 1.14, 0.91, 1.06, 1.12 and 1.55 in the years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 respectively. The average ratio remained at 1.20 over six-year period. The lowest ratio was 0.91 in the year 2007/08 and highest ratio was 1.55 in the year 2010/11.

Both the banks were at profit. EBL had been found to utilize its assets more profitable than SBI because the average ROA of EBL was greater than that of SBI i.e. $2.37 > 1.20$. EBL is considered better and efficient than other banks as regards to usage of funds collected from various sources.

The ratio can be shown by the help of following diagram

Table No.: 4.1
Net Profit to Total Assets Ratio



The chart depicted just above typifies the net profit to total assets ratio. The chart shows that the ratios of EBL are higher than that of SBI though both have fluctuating trend of ratios over the study period. Since the ratios of EBL are higher than the ratios of SBI, EBL is considered better and efficient bank as regards to usage of funds collected from various sources.

4.1.2. Interest Income to Total Credit and Advances

One of the major sources of the operating funds and the profit is the income received from the total credit and lending. The more the lending more will be the income from the interest unless there is occurrence of any sort of bad debts. This ratio acts as the major indicator of the utilization of the funds in commercial banks.

$$\text{Interest Income to Total Credit and Advances} = \frac{\text{Interest Income}}{\text{Total Credit and Advances}}$$

Table No.: 4.2**Interest Income to Total Credit & Advance Ratio****(Rs. in million)**

Banks	Years						
		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	Interest Income	1266.70	1120.18	1017.87	1001.62	1068.75	1309.99
	Loan & Adv.	8324.44	7437.90	7755.95	8189.99	10586.17	12922.53
	Ratio	15.22	15.06	13.12	12.23	10.9	10.14
	Average	12.78					
SBI	Interest Income	1326.38	1149.00	1201.23	1245.90	1446.47	1626.47
	Loan & Adv.	9015.35	8913.73	10001.85	11951.87	12424.52	14642.55
	Ratio	14.71	12.89	12.01	10.42	11.64	11.11
	Average	12.13					

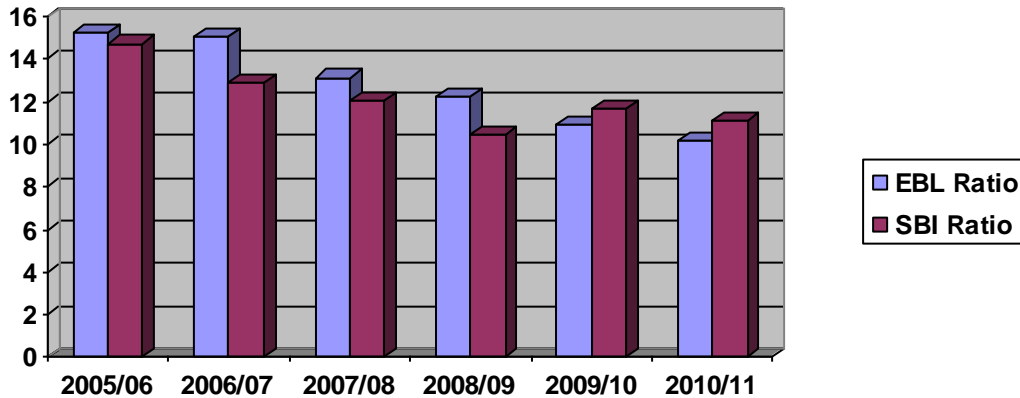
Source: Annual Reports of EBL & SBI (2006/07 to 2010/11)

On the basis of above table, the ratios of EBL were 15.22, 15.06, 13.12, 12.23, 10.9 and 10.14 in the years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 respectively. Similarly the same ratios for SBI were 14.71, 12.89, 12.01, 10.42, 11.64 and 11.11 in the years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 respectively.

The average ratios for EBL and SBI over the six-year period were 12.78 and 12.13 respectively. Since the average ratio of EBL is slightly higher than SBI, the credit lending of EBL can be regarded as more efficient than of SBI. However, the ratios of both the banks as a whole can be regarded as satisfactory as we cannot put the standard limit to the ratios, and higher ratio is desirable.

The ratio can be shown by the help of following diagram.

Table No.: 4.2
Interest Income to Total Credit & Advance Ratio



The chart above shows interest income to total credit and advance ratios of two joint venture commercial banks. The chart displays much comparative ratios for both the banks. Since the average ratio of EBL is slightly higher than that of SBI, the credit lending of EBL can be regarded as more efficient than of SBI. However, the ratios of both the banks as a whole can be regarded as satisfactory as we cannot put the standard limit to the ratios, and higher ratio is desirable.

4.2. TURNOVER RATIO

The turnover ratios indicate the efficiency in utilizing the funds or assets of the company. In terms of bank, deposit is the prime source of funds. So the fraction or ratio of money distributed in the form of loans and advances (credit and advances) is a major determining factor over the total funds collected in the banks in the form of deposits.

The following ratios are evaluated and interpreted under turnover ratio:

4.2.1. Credit and Advances to Total Deposit Ratio

Deposits are the main sources of funds for commercial banks. More than 50% of the total assets have been found to be financed through deposits. Total deposits include saving, fixed, call, current and fixed deposits. On the contrary, credit and advances also called as

loans and advances are the sales figure of banks. So the ratio shown below provides the beautiful insight regarding how efficiently the funds are utilized in commercial banks. Higher ratio is desirable.

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

Table No.: 4.3
Credit and Advance to Total Deposit Ratio

(Rs. in million)

Banks	Years						
		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	Loan & Adv.	8324.44	7437.90	7755.95	8189.99	10586.17	12922.53
	Total Deposit	15839.0	15506.4	13447.6	14119.0	14586.61	19347.4
	Ratio (%)	52.56	47.97	57.68	58.01	72.57	66.79
	Average	59.26					
	S.D.	9.06					
	C.V.	15.28					
SBI	Loan & Adv.	9015.35	8913.73	10001.8	11951.8	12424.52	14642.55
	Total Deposit	17532.4	18619.3	21007.3	22010.3	24814.01	26490.85
	Ratio (%)	51.42	47.87	47.61	54.30	50.07	55.27
	Average	51.09					
	S.D.	3.21					
	C.V.	6.28					

Source: Annual Reports of EBL & SBI (2006/07 to 2010/11)

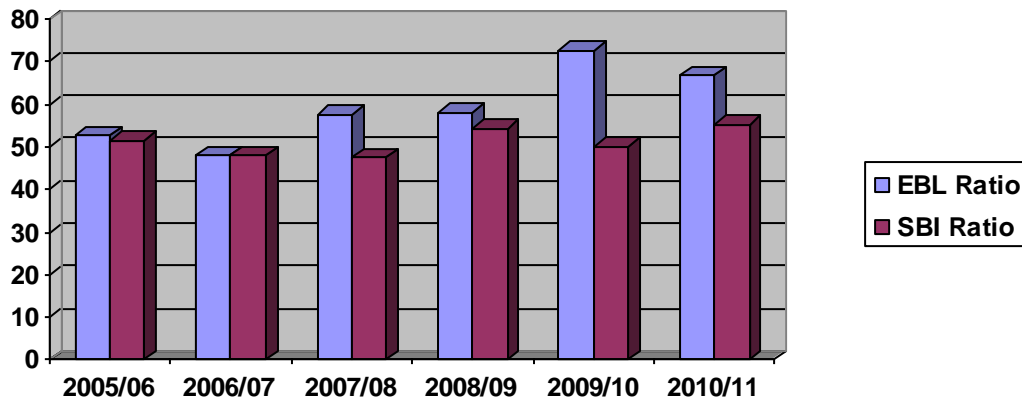
The table depicted above shows the total deposit turnover ratios of two banks over the six-year period. It exhibits that the ratio of EBL Bank Ltd. in the year 2005/06 was 52.56 which decreased to 47.97 in the year 2006/07. But it increased to 57.68, 58.01 and 72.57 in the year 2007/08, 2008/09 and 2009/10 respectively. It again decreased to 66.79 in the year 2010/11. The average ratio of EBL over six-year period was 59.26.

Likewise, the total deposit turnover ratios of SBI were 51.42, 47.87, 47.61, 54.30, 50.07 and 52.27 in the years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 respectively. The average ratio remained at 51.09.

The mean value of EBL is higher than that of SBI. It means EBL is successful to maintain the highest ratios than SBI. But coefficient of variation of EBL is greater than SBI i.e. 15.28>6.28.

The ratios can be presented by following diagram.

Table No.: 4.3
Credit and Advance to Total Deposit Ratio



The chart depicted above shows the total deposit turnover ratios of two banks over the six-year period. The chart exhibits higher ratios of EBL than SBI. Since the EBL Bank has higher ratios than SBI, we can say that funds are better utilized in EBL than that of SBI.

4.2.2. Credit and advances to Fixed Deposit Ratio

As fixed deposit is an interest-bearing deposit, the extent of the utilization of it determines the efficiency of the bank. It should not be remained idle. Otherwise, the performance of the bank will get decline. Therefore, the study of the ratio of fixed deposit turnover ratio is quite rationale.

$$\text{Credits and Advances to Fixed Deposit Ratio} = \frac{\text{Credits and Advances}}{\text{Fixed Deposits}}$$

Table No.: 4.4
Credit and Advances to Fixed Deposit Ratio

(Rs. in million)

Banks	Years						
		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	Loan & Adv.	8324.44	7437.90	7755.95	8189.99	10586.17	12922.53
	Fixed Deposit	7667.54	2446.85	2252.54	2310.57	2078.54	3449.09
	Ratio	1.08	3.04	3.44	3.54	5.09	3.74
	Average	3.32					
SBI	Loan & Adv.	9015.35	8913.73	10001.85	11951.87	12424.52	14642.55
	Fixed Deposit	4927.37	5480.84	3205.37	4710.18	6107.43	6350.20
	Ratio	1.83	1.63	3.12	2.54	2.03	2.31
	Average	2.24					

Source: Annual Reports of EBL & SBI (2006/07 to 2010/11)

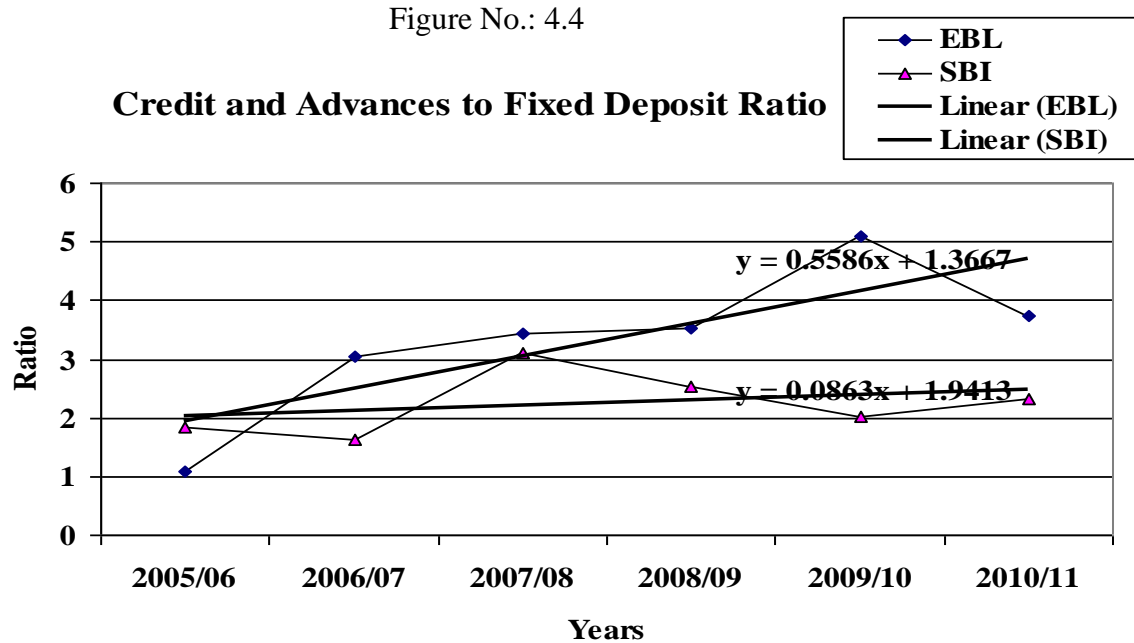
The above table shows the fixed deposit turnover ratios of two banks over the six-year period. EBL had fixed deposit turnover ratios of 1.08, 3.04, 3.44, 3.54, 5.09 and 3.74 times in the years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 respectively. The ratios were at an increasing trend till 2009/10 but it decreased in the year 2010/11.

Similarly, the same ratios of SBI were 1.83, 1.63, 3.12, 2.54, 2.03 and 2.31 times in the years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 respectively. While having the glimpse on the study of SBI, it showed the trend of ratios fluctuating over the six-year periods with ups and downs. The lowest ratio was 1.63 times in the year 2006/07 and the highest ratio was 3.12 times in the year 2007/08.

The average fixed deposit turnover ratios of EBL and SBI were 3.32 and 2.24 times respectively. Since the ratio of EBL is greater than that of SBI, it can be regarded that

EBL had utilized the funds obtained from fixed deposits in a better way than SBI EBL is more efficient in lending than SBI. However, the fixed deposit turnover ratios of both the banks were good on an aggregate.

The ratios can be shown by the help of following diagram.



The above chart shows the fixed deposit turnover ratios of two banks over the six-year period. The chart depicts that the ratios of EBL are in increasing trend except in the year 2010/11. Whereas, the ratios of SBI are in fluctuating trend over the study period with ups and downs. Thus, it can be regarded that EBL had utilized the funds obtained from fixed deposits in a better way than SBI

4.2.3. Credit and Advance to Total Assets Ratio

The entire of the funds are invested in the 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. The ratio desirable for this sector is cent percent. However, a ratio of over 50% is considered average.

$$\text{Credits and Advances to Total Assets Ratio} = \frac{\text{Credits and Advances}}{\text{Total Assets}}$$

Table No.: 4.5
Credit and Advances to Total Assets Ratio

(Rs. in million)

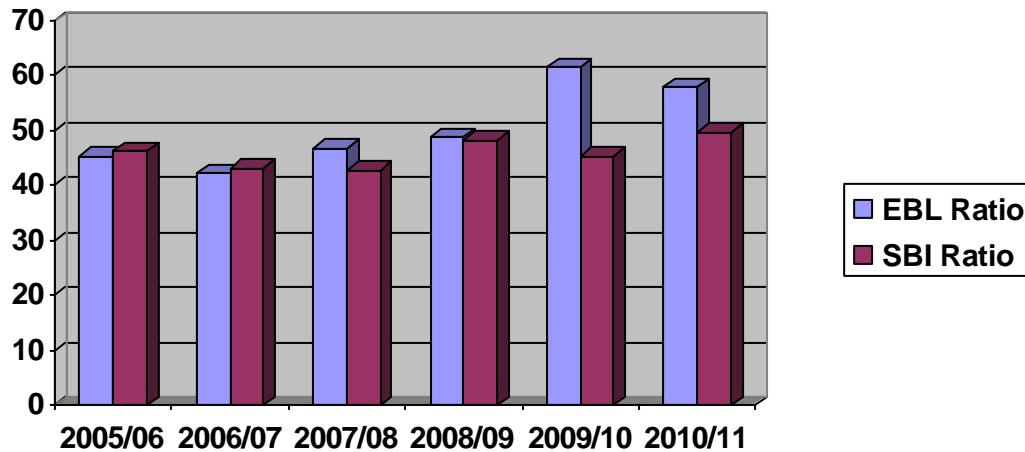
Banks	Years						
		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	Loan & Adv.	832.44	7437.90	7755.95	8189.99	10586.17	12922.53
	Total Assets	18367.15	17629.25	16562.61	16745.49	17186.33	22329.97
	Ratio %	45.32	42.19	46.83	48.91	61.60	57.87
	Average	50.45					
SBI	Loan & Adv.	9015.35	8913.73	10001.85	11951.87	12424.52	14642.55
	Total Assets	19500.58	20672.45	23355.23	24762.02	27418.16	29460.39
	Ratio %	46.23	43.12	42.82	48.27	45.31	49.70
	Average	45.90					

Source: Annual Reports of EBL & SBI (2006/07 to 2010/11)

From the above table, it can be concluded that both the banks have the ratio of fluctuating trend during the study period. In an average EBL maintains highest ratio of 50.45% whereas, SBI maintains only 45.90%. This indicates that EBL had more mobilized its total working fund than that of SBI. The study of the past ratios shows that there is still wide range of assets to be utilized in both the banks.

The ratios can be shown by the help of following diagram.

Table No.: 4.5
Credit and Advances to Total Assets Ratio



The above chart shows credit and advance to total assets ratios of two banks over the six-year period. It depicts that the ratios of EBL are higher than SBI. Hence, EBL is regarded of utilizing its assets properly in the lending sector, as higher ratio is considered better for the banks.

4.3. LIQUIDITY POSITION OF SELECTED BANKS

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, to meet demands for deposits, withdrawals, pay maturity obligation in time and convert non-cash assets into cash to satisfy immediate needs without loss to bank and consequent impact in long run profit. In fact, analysis of liquidity needs is helpful to the preparation of cash budget and funds flow statement.

The following ratios are evaluated and interpreted under liquidity ratio:

4.3.1 Cash and Bank Balance to Total Deposit Ratio (CRR)

Cash and Bank balance are the most liquid assets. The ratio between cash and bank balance and total deposit measures the ability of bank to meet the unanticipated cash

demand or withdrawals from all types of deposits. This ratio is obtained by dividing the total cash with the bank itself and the Cash Reserve (CCR) maintained in the NRB as:

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

Table No.: 4.6

Cash & Bank Balance to Total Deposit Ratio

(Rs. in million)

Banks	Years						
		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	C & B	812.90	1051.82	1144.77	970.49	559.38	630.24
	Total Deposit	15839.01	15506.44	13447.65	14119.03	14586.61	19347.4
	Ratio (%)	5.13	6.78	8.51	6.87	3.83	3.26
	Average	5.73					
	S.D.	2.01					
	C.V.	35.08					
SBI	C & B	1435.18	1264.67	1979.21	2005/06.19	2014.47	1717.35
	Total Deposit	17532.40	18619.37	21007.37	22010.33	24814.01	26490.85
	Ratio (%)	8.19	6.79	9.42	9.09	8.12	6.48
	Average	8.02					
	S.D.	1.19					
	C.V.	14.79					

Source: Annual Reports of EBL & SBI (2006/07 to 2010/11)

The ratios of cash and bank balance to total deposit for EBL Bank Ltd. were 5.13%, 6.78%, 8.51%, 6.87%, 3.83% and 3.26% in the year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 respectively. The average ratio for this bank remained at

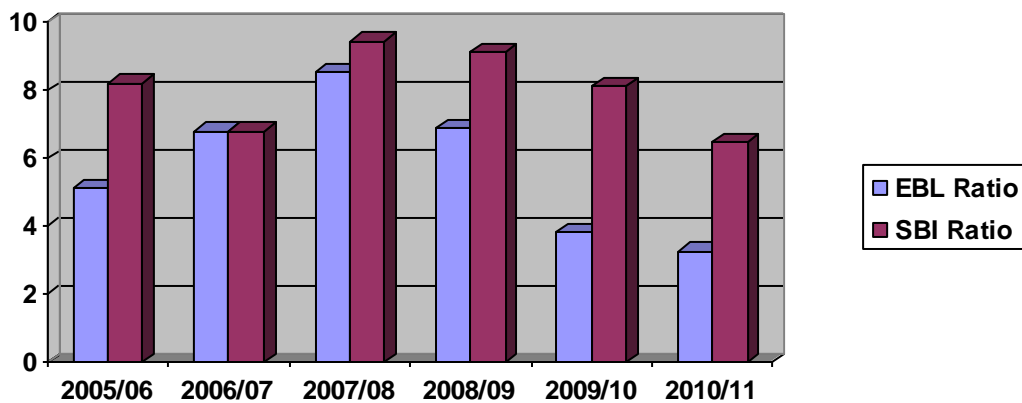
5.73% over the six-year period. The ratio showed a fluctuating trend with the highest of 8.51% in the year 2007/08 and lowest of 3.26% in the year 2010/11.

Similarly, the same ratios for SBI Bank Ltd. were 8.19%, 6.79%, 9.42%, 9.09%, 8.12%, and 6.48% in the years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 respectively. Its average ratio over six-year period maintained at 8.02%. Hence, SBI has the highest average ratio than that of EBL i.e. 8.02 which indicates that SBI has high capacity to meet the unanticipated call on all types of deposit. On the other hand, SBI has lower C.V. It states that cash and bank balance to total deposit ratio of SBI is more uniform than that of EBL Bank Ltd.

The ratios can be presented by following graph.

Figure No. 4.6

Cash & Bank Balance to Total Deposit Ratio



The chart above also shows the cash and bank balance to total deposit ratios of EBL and SBI for six-year period (i.e. 2005/06 to 2010/11). It exhibits that the ratios of SBI is greater than EBL in overall study period though both the banks have fluctuated ratios. Since it has greater ratios, SBI can meet the unanticipated cash demand or withdrawals from all types of deposits.

4.3.2 Cash and Bank Balance to Current Deposit Ratio

This is another good indicator of the liquidity of the commercial banks. Current deposit is that type of immediate non-interest bearing liability that needs to be assigned to the

bearer of it t the time of demand. So provision of enough cash should be made so as to provide to the account holders instantly. It is measured by as follows:

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

Table No.: 4.7
Cash & Bank Balance to Current Deposit Ratio

(Rs. in million)

Banks	Years						
		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	C & B	812.90	1051.82	1144.77	970.49	559.38	630.24
	Current Deposit	2850.97	2703.82	3034	2688.97	2799.18	2910.59
	Ratio (%)	28.51	38.90	37.73	36.09	19.98	21.65
	Average	30.48					
	S.D.	8.33					
	C.V.	27.34					
SBI	C & B	1435.18	1264.67	1979.21	2005/06.19	2014.47	1717.35
	Current Deposit	2252.13	2634.37	3503.14	4145.45	5045.16	5028.15
	Ratio (%)	63.72	48.01	56.50	48.27	39.93	34.15
	Average	48.43					
	S.D.	10.73					
	C.V.	22.15					

Source: Annual Reports of EBL & SBI (2006/07 to 2010/11)

The table shown above depicts the ratio of cash to current deposits for EBL Bank Ltd. and SBI Bank Ltd. The ratios of EBL were 28.51, 38.90, 37.73, 36.09, 19.98, and 21.65 in the year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10, and 2010/11 respectively. The

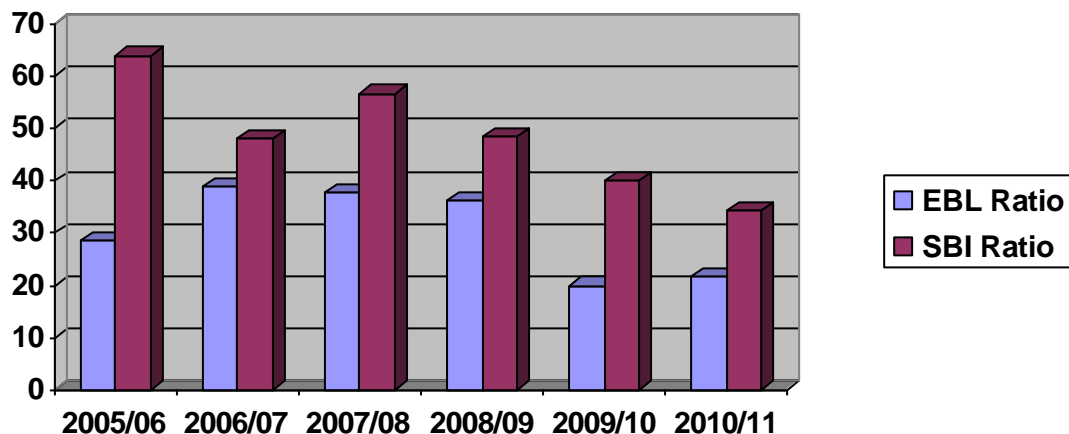
average ratio over six-year period was 30.48. The highest ratio was 38.90 in the year 2007/08 and the lowest ratio was 19.98 in the year 2009/10.

Similarly, the highest ratio of SBI was 63.72 in the year 2005/06. It then decreased to 48.01 in the year 2006/07. It was 56.50 in the year 2007/08 and then decreased to 48.37 in the year 2008/09, 39.93 in the year 2009/10 and then to the lowest 34.15 in the year 2010/11.

The average ratio of SBI is higher than EBL. At the same time the coefficient of variation of SBI is lower than EBL which means ratio of SBI is more consistent than that of EBL.

The ratios can be presented by following diagram.

Figure No.: 4.7
Cash & Bank Balance to Current Deposit Ratio



The chart shown above depicts the ratio of cash to current deposits for EBL Bank Ltd. and SBI Bank Ltd. The chart exhibits that the ratios are in fluctuating trend in case of EBL and in decreasing trend of SBI. The bars of SBI are taller than that of EBL during six years study period. Hence, we can conclude that the provision of enough cash has been made so as to provide to the account holders instantly by SBI Bank Ltd.

4.4. LEVERAGE RATIO

The leverage ratio of the commercial banks is measured by the extent that they have maintained ownership capital, borrowed capital or both in relation to build capital structure position of their firm. Therefore, this ratio measures the risk and long term return of the firm.

4.4.1. Debt to Equity Ratio

It is measured of the financial risk. The more debt to equity ratio, more will be levered the firm and hence degree of financial risk will be high. It can be calculated as:

$$\text{Total Debt to Net Worth Ratio} = \frac{\text{Total Debt}}{\text{Net Worth}}$$

Table No.: 4.8
Total Debt to Net worth Ratio

(Rs. in million)

Banks	Years						
		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	Total Debt	17304.32	16482.83	15248.43	15263.81	15528.70	20454.98
	Net worth	1062.83	1146.42	1314.18	1481.68	1657.63	1875.0
	Ratio	1628.14	1437.77	1160.3	1030.17	936.80	1090.93
	Average	1214.02					
SBI	Total Debt	18779.99	19814.34	22292.10	23437.85	25876.41	27334.21
	Net worth	720.59	858.11	1063.13	1324.17	1541.75	1766.18
	Ratio	2606.20	2309.07	2096.84	1770.00	1678.38	1547.65
	Average	2005/06.36					

Source: Annual Reports of EBL & SBI (2006/07 to 2010/11)

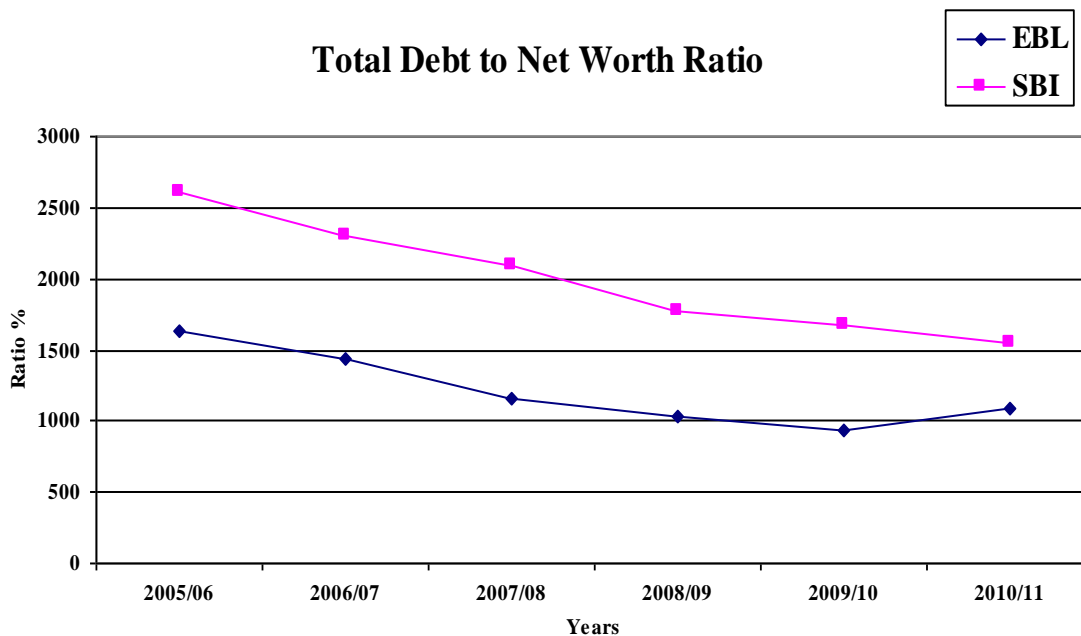
The table depicted above shows the total debt to equity ratio for the two joint venture commercial banks over the six years. The ratios of both banks were in decreasing trend. The ratios of EBL were 1628.14, 1437.77, 1160.3 1030.17 and 936.80 in the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. However, the ratio got increased to 1090.93 in 2010/11 from 936.80 of the previous year. On the other hand, the average ratio remained at 1214.02 over the six years period.

Similarly, the debt to net worth ratios of SBI were 2606.20, 2309.07, 2096.84, 1770.00, 1678.38 and 1547.65 in the years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 respectively. The average ratio remained at 2005/06.36.

On the basis of above table, we can conclude that SBI is riskier than EBL as its average ratio was higher than EBL ($2005/06.36 > 1352.05$) over the study period. The ownership capital of both the banks is too far than the debt capital.

The ratios can be shown by the help of following diagram.

Figure No.: 4.8



The chart shows the total debt to equity ratio for the two joint venture commercial banks over the six years. The ratios of both banks were in decreasing trend. The chart also exhibits that the ratios of SBI are greater than EBL over all six years study period.

Hence, we can conclude that degree of financial risk of SBI is higher than that that of EBL.

4.4.2. Total Debt to Total Assets Ratio

This ratio is wider known as debt ratio. And it indicates how much proportion of the total assets has been financed with the debt capital and how much with the equity part. Total debt includes both short term and long term debt.

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

Table No.: 4.9
Total Debt to Total Assets Ratio

(Rs. in million)

Banks	Years						
		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	Total Debt	17304.32	16482.83	15248.43	15263.81	15528.70	20454.98
	Total Assets	18367.15	17629.25	16562.61	16745.49	17186.33	22329.97
	Ratio %	94.21	93.50	92.07	91.15	90.35	91.60
	Average	92.15					
SBI	Total Debt	18779.99	19814.34	22292.10	23437.85	25876.41	27334.21
	Total Assets	19500.58	20672.45	23355.23	24762.02	27418.16	29460.39
	Ratio %	96.30	95.85	95.45	94.65	94.38	92.78
	Average	94.90					

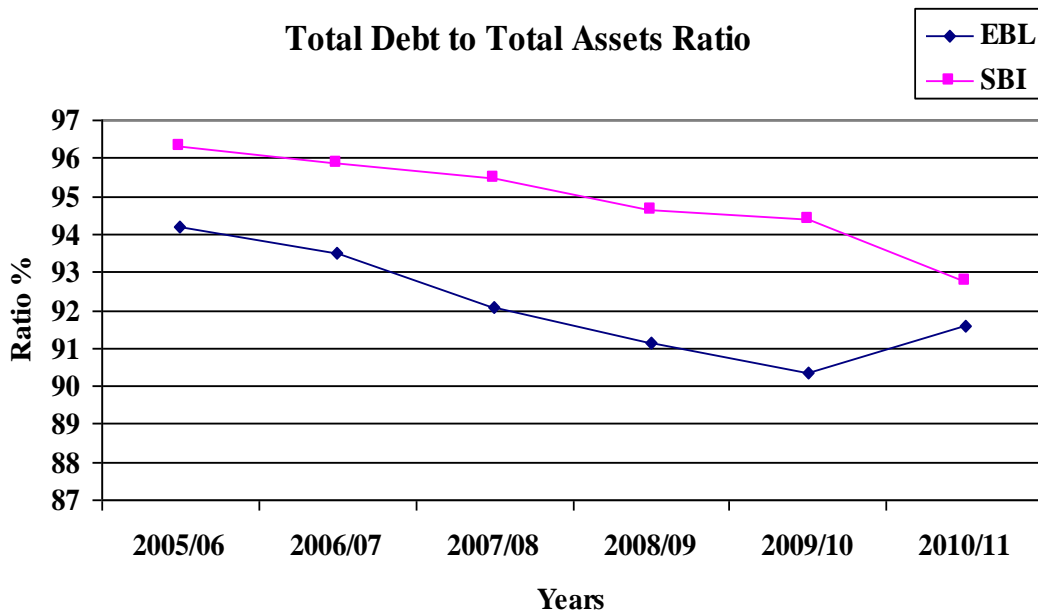
Source: Annual Reports of EBL & SBI (2006/07 to 2010/11)

The table no. 4.7 shows the total debt to total assets ratio for the two joint venture commercial banks. The debt ratios of EBL were 94.21, 93.50, 92.07, 91.15, 90.35 and 91.60 in the years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 respectively. The average ratio of EBL over the six-year period was 92.15% it means that about 92.15% of the total assets of EBL were financed by debt capital on an average.

Similarly, the debt ratios of SBI were 96.30, 95.85, 95.45, 94.65, 94.38 and 92.78 in the years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 respectively. The average ratio remained at 94.90 for six years. It indicates that 94.90% of the total assets of SBI were financed with debt capital on an average. The ratio implies that the banks are highly leveraged.

The ratios can be shown by the help of following diagram.

Figure No.: 4.9



The chart depicted above shows the total debt to total assets ratio for the two joint venture commercial banks namely EBL Bank Limited and SBI Bank Limited. The chart shows that the ratios of SBI are over 94% except in the year 2010/11, which are above the ratios of EBL over the study period. Hence, it implies that the banks are highly leveraged especially the SBI

4.5. OTHER RATIOS

4.5.1. Earning Per Share (EPS)

The ratio of EPS shows the earnings earned by each common share of bank at the end of the year. There is no limit for it. Higher and higher EPS is desirable for every firm. It shows how efficiently the firm has managed and utilized the funds collected from shareholders. It shows the true picture of the company's growth or death. It is calculated as follows:

$$\text{EPS} = \frac{\text{Net Income after Taxes}}{\text{Number of Common Stocks Outstanding}}$$

Table No.: 4.10

Earning Per Share (EPS)

Banks	Years						
		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	EPS	59.26	55.25	84.66	92.61	105.49	129.21
	Average	87.75					
SBI	EPS	93.56	60.26	49.45	49.05	47.91	59.24
	Average	59.91					

Source: Annual Reports of EBL & SBI (2006/07 to 2010/11)

The above table shows the earning per share of EBL and SBI over six years period. The EPS of EBL was Rs.59.26 in the year 2005/06. It got decreased to Rs.55.25 in the year 2006/07. Then it increased to Rs.84.66, Rs.92.61, Rs.105.49 and Rs.129.21 in the year 2007/08, 2008/09, 2009/10 and 2010/11 respectively. Its average EPS over the study period was Rs.87.75.

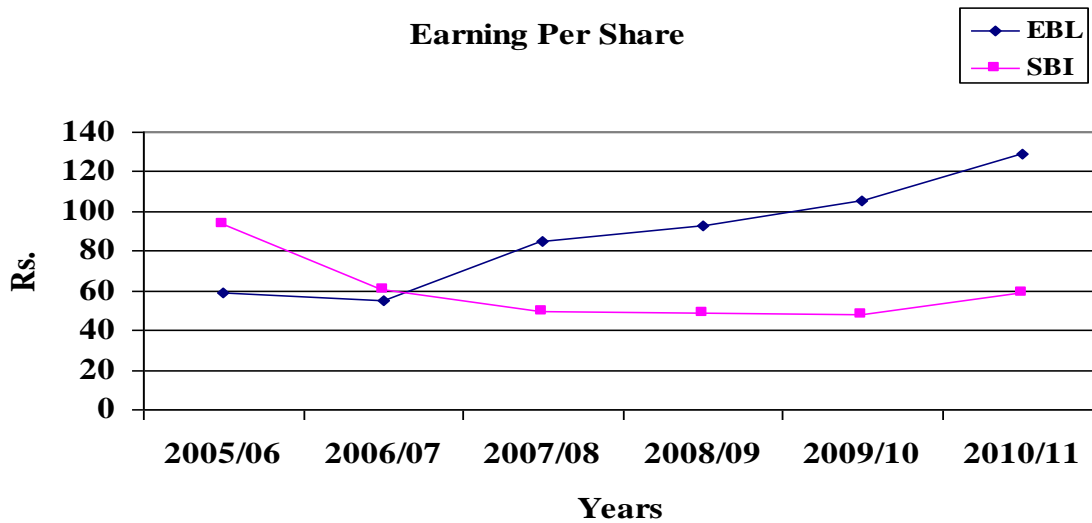
Similarly, the EPS of SBI were Rs.93.56, Rs.60.26, Rs.49.45, Rs.49.05, Rs.47.91 and Rs.59.24 in the years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11. The EPS of SBI were in decreasing trend. However, it got slight increased in the year 2010/11. The average EPS remained at Rs.59.91 over the study period.

Since, the average EPS of EBL was greater than SBI i.e. $87.75 > 59.91$, it can be regarded that shareholders' funds were utilized very well in EBL than SBI.

The ratio can be shown by the help of following diagram.

Figure No.: 4.10

Earning Per Share



The above figure shows the earning per share of EBL and SBI over six years period. The diagram exhibits higher ratios of SBI in the year 2005/06 and 2006/07 than that of EBL. However, it is opposite in year 2007/08, 2008/09, 2009/10 and 2010/11. Since the ratios of EBL seem higher, it can be regarded that shareholders' funds are utilized very well in EBL than SBI.

4.5.2. Market Value per Share (MVPS)

"Market value per share is the current price at which the stock is traded."(Horne and Wachonics, 1996:561) The entire result of the performance, management efficiency, funds utilization and all other environmental factors (both inside and outside the organizations) are reflected in the market price of a share. Higher market price reflects better image of the organization in public's mind and vice versa. It determines the survival or death of the organization. It is also known as shareholders' wealth.

Table No.: 4.11
Market Value per Share

Banks	Years						
		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	MVPS	1500	735	735	1000	1505	2240
	Average	1285.83					
SBI	MVPS	1500	1000	836	840	920	1100
	Average	1032.67					

Source: Annual Reports of EBL & SBI (2006/07 to 2010/11)

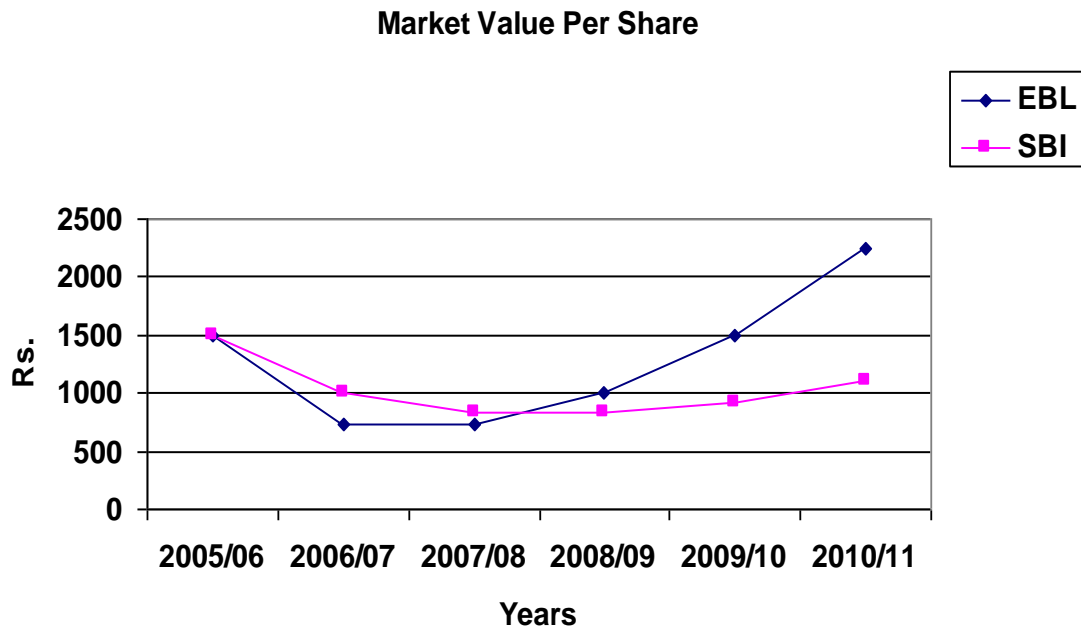
The table depicted above typifies the market value per share (trading price) of two joint venture commercial banks. The closing trading prices of each share of EBL were Rs.1500, Rs.735, Rs.735, Rs.1000, Rs.1505 and Rs.2240 in the years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 respectively. The market price of EBL got decreased to 735 from its preceding price of Rs.1500 in the year 2006/07 and remained same in the year 2007/08. After 2007/08, the market price of EBL took an increasing trend.

Likewise, the year end- prices of each share of SBI's common stock were in decreasing trend till 2007/08, where it remained the lowest of all at Rs.836. it then slightly increased to Rs.840 in the year 2008/09. It thereafter increased to Rs.920 in the year 2009/10 and Rs.1100 in its succeeding year.

The average market price of EBL remained at Rs.1285.83, whereas, the average price of SBI remained at Rs.1032.67 in the market over the study period. Since, the average stock price of EBL was higher than that of SBI, we can thus regard that the perception of EBL Bank's performance and management was better in the public mind than that of SBI.

The ratio can be shown by the help of following diagram.

Figure No.: 4.11



The diagram depicted above shows the market value per share (trading price) of two joint venture commercial banks. The figure shows the fluctuating trend of MVPS for both the commercial banks over study period. However, it also shows higher MVPS of EBL in comparison of SBI in recent years, over study period.

4.5.3. Price Earning Ratio (P/E Ratio)

It is also one of the good indicators of performance of the commercial banks. It indicates the number of times the earnings are turnover with respect to price in the market. Higher ratio is desirable since increasing in earnings is associated with the increase or growth in stock's price.

Table No.: 4. 12

Price Earning Ratio

Banks	Years						
		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	P/E Ratio	25.31	13.3	8.68	10.8	14.27	17.34
	Average	14.97					
	P/E Ratio	16.03	16.59	16.91	17.12	19.2	18.57
SBI	Average	17.40					

Source: Annual Reports of EBL & SBI (2006/07 to 2010/11)

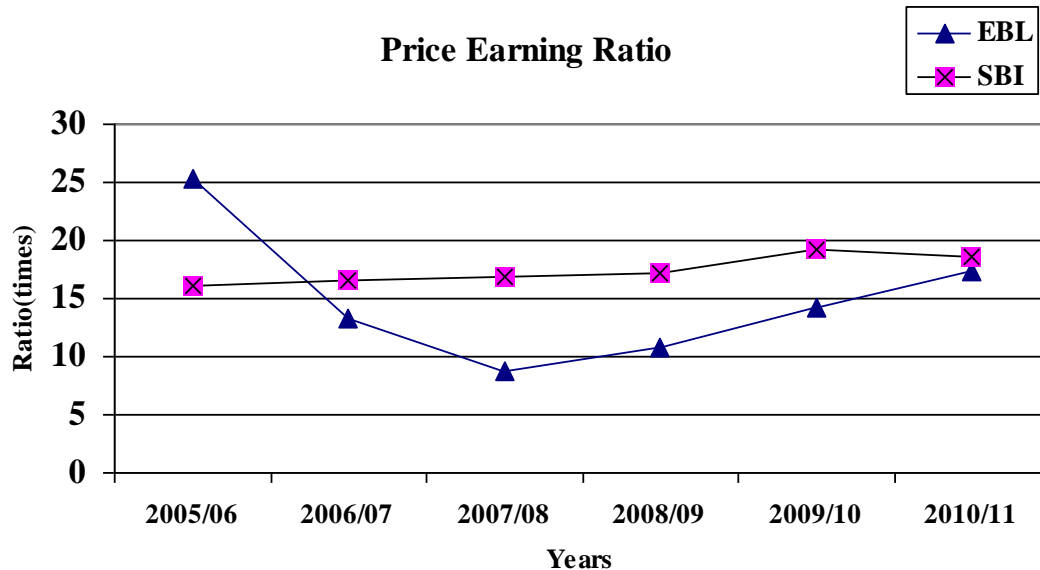
The table above shows the price earnings ratios of two joint venture banks over the six-year period. The ratios for EBL were 25.31 times, 13.3 times, 8.68 times, 10.8 times, 14.28 times and 18.34 times in the years in the years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 respectively. The ratio decreased to 13.3 times in 2006/07 from 25.31 times in 2005/06. It again decreased to 8.68 from its preceding years. It then took an increasing trend and reached 17.34 in the year 2010/11. The average ratio remained at 14.97 times over the study period.

Similarly, the ratios of SBI were 16.03 times, 16.59 times, 16.91 times, 17.12 times, 19.2 times and 18.57 times in the years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 respectively. The ratios of SBI were at an increasing trend. However, it slightly decreased to 18.57 times in the year 2010/11 from 19.2 times in 2009/10. The average ratio of SBI remained at 17.40 times over the study period.

Though the average ratio of SBI was higher than EBL, it can not be said that the performance of SBI was stronger than EBL because the growth rate of price and stock of EBL was higher than SBI. In general, we can conclude that the performance of both the banks was however good over the study periods.

Following figure represents the price earning ratio of concerned banks

Figure No.: 4.12



The above figure portrays the price earning ratios of two joint venture banks over the six-year period. The figure depicts that the ratios of SBI are greater than that of EBL excluding the year 2005/06, over study period. Hence, the performance of SBI is better than EBL. However, the performance of EBL is not behind of SBI as it has higher growth rate of price and stock. In general, we can conclude that the performance of both the banks is however good over the study periods.

4.6. CORRELATION ANALYSIS

4.6.1. Analysis of correlation Coefficient between Total Deposit and Loan and Advances

The relationship between deposit, loan and advances of two Joint Venture Banks are presented in the following table. Here a deposit is independent variables (X), loan and advance is dependent variables (Y).

Table No.: 4.13

Correlation Coefficient between Deposits, Loan and Advance

Banks	Base of Evaluation			
	r	r ²	P.E.	6*P.E.
EBL	0.766897	0.588104	0.113421	0.680527
SBI	0.961866	0.925187	0.020601	0.123605

Above analysis shows that, the coefficient of correlation between advances of EBL and SBI are 0.766897 and 0.961866 respectively. That means in case of EBL 58.58% of loan and advances decision is depend upon deposit and 41.42% loan and advances depend upon other variables. Hence, there is low degree positive correlation between their variables. Similarly, 92.51% of SBI loan and advances decision are depend upon deposit and 7.49% decision are explained by other variables. Thus, there is higher degree positive correlation between their variables of SBI.

Source: Appendix I

In case of SBI 'r' is greater than 6 times P.E. i.e. $0.961866 > 0.123605$ which tells us that there is significant relationship between deposits and loan and advances. In case of EBL, there is no more difference between 6 times P.E. and 'r'. It shows that there is not significant relationship between loan, advance and deposit of EBL.

4.7. TREND ANALYSIS

4.7.1. Trend Analysis of Loan and Advances to Deposit Ratio

The following table represents the trend values of loan and advances to total deposit ratio of EBL and SBI with comparatively six years study period and projected next five years.

Table No.: 4.14

Trend Value of Credit and Advances to Total Deposit Ratio (2005/06-2015/16)

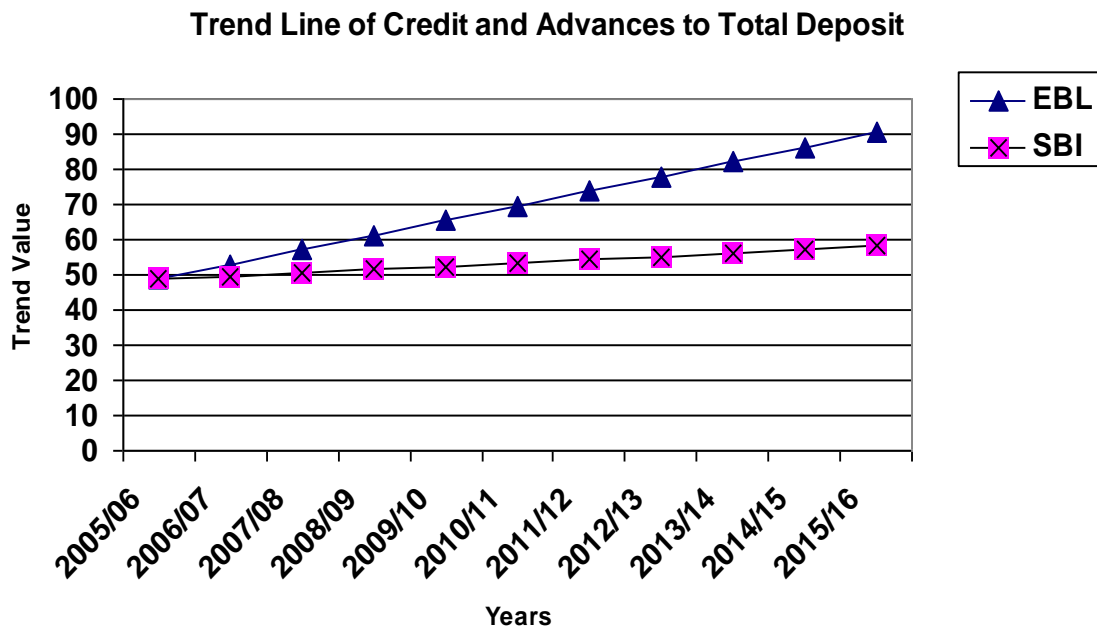
S. No.	Years	Banks (Trend Value)	
		EBL	SBI
1	2005/06	48.89	48.77
2	2006/07	53.04	49.70
3	2007/08	57.19	50.63
4	2008/09	61.34	51.55
5	2009/10	65.49	52.48
6	2010/11	69.64	53.41
7	2011/12	73.78	54.34
8	2012/13	77.94	55.27
9	2013/14	82.09	56.20
10	2014/15	86.24	57.13
11	2015/16	90.39	58.06

Source: Appendix II

From the table no. 15, it appears that the loan and advances to total deposit ratio of EBL and SBI are in increasing trend. Other things remaining the same, the loan and advances to total deposit ratio of EBL and SBI in 2015/16 will be 90.39 and 58.06 respectively. EBL's increasing trend ratio is 4.15, which is highest than SBI's increasing trend ratio by 0.93.

Trend line of loan and advance to total deposit ratio of EBL and SBI is shown below:

Figure No.: 4.13



The above figure depicts the trend of credit and advances to total deposit of two joint venture commercial banks. The trend of EBL is more positive than that of SBI. It indicates that EBL is more successful to mobilize its deposit as loan and advances in the comparison of SBI.

4.8. MAJOR FINDINGS OF THE STUDY

- EBL is more successful to earn profit on total working fund than SBI, since it has higher average ratio of return on assets.
- The average ratio of total interest income to total credit and advances of EBL is slightly higher than that of SBI, which means EBL is more successful to earn interest than SBI.
- The average ratio of credit and advances to total deposit of EBL is higher than SBI, which means EBL had mobilized its collected deposit in credit and advance more than SBI. However, C.V. of SBI is lower than EBL.
- The average ratio of credit and advances to fixed deposit ratio of EBL is higher than SBI. It can be regarded that EBL had utilized the funds collected from fixed deposits in better way than SBI.

- Average credit and advance to total assets ratio shows that EBL seems successful to mobilize its total working fund as credit and advance in comparison to SBI, since it has higher average ratio than SBI.
- Average ratio of cash and bank balance to total deposit reveals that SBI had higher the ratio and EBL had lower the ratio, which shows that the liquidity position of SBI is quit well than EBL. Similarly C.V. of SBI is lower than EBL which mean SBI has more consistent ratio compare to EBL.
- Average ratio of cash and bank balance to current deposit ratio reveals that SBI had the higher ratio than EBL. It shows that the liquidity position on current deposit of SBI is better comparison to EBL. At the same time C.V. of SBI is lower than EBL, which means liquidity position of SBI on current deposit is more consistent than that of EBL.
- Since the average debt to equity ratio of SBI is higher than EBL, the financial risk of this bank is higher than EBL.
- The average ratio of total debt to total assets ratio of SBI is higher than EBL. The ratio shows that both the banks are highly levered. It is also found that both of them are adopting the aggressive working capital policy.
- The average ratio of EPS of EBL is greater than SBI. It reveals that shareholders funds are mobilized very well in EBL.
- Since the average MVPS of EBL is greater, its performance is better in the public mind than that of SBI.
- The average P/E ratio of SBI is greater than EBL. Since higher ratio is desirable, the performance of SBI was stronger than EBL. However, the growth rate of price and stock of EBL was higher than SBI.
- The trend analysis of loan advance to total deposit ratio of both the banks have increasing trend. EBL remained the largest bank in term of volume of credit outflow, the trend volume of loan and advance to total deposit ratio will be 90.39% in 2011 where the ratio of SBI in the same year will be 58.06%. It indicates that EBL was more successful to mobilize its deposit as loan and advances.
- Correlation of coefficient between deposit, loan and advance of both the banks are found positive. Among them SBI has better mobilization of deposit as loan and advance in comparison to EBL. There is highly significant relationship between deposit and loan and advance of SBI.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Although this chapter is the important chapter for the research because this chapter is the extracts of all the previously discussed chapters. This chapter consists of mainly three parts: summary, conclusion and recommendation. In summary part, revision or summary of all four chapters is made. In recommendation part, suggestion and recommendation is made based on the result and experience of thesis. Recommendation is made for improving the present situation to the concerned parties as well as for further research.

5.1. Summary

Financial institution includes banks, finance companies, co-operative organizations and insurance companies. All of them do contribute something to the economy of the country. Financial institutions play a vital role in the proper functioning of an economy. Among them, banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deals in the process of channelizing the available resources in the needed sectors. It is the intermediary between the deficit and surpluses of financial resource.

Every business needs fund to operate business smoothly and the fund is said to be blood of the business. fund is a scarce sources and much more essential to maintain smooth operation of any firm. As in order form, fund collection and mobilization is crucial part for banking industry too. The study had been carried based on commercial bank i.e. Everest Bank Ltd and SBI Bank Ltd for fund mobilization and utilization.

In this section of study, we are about to analyze fund collection and mobilization of the three commercial bank that have been chosen for this study. These banks are Everest Bank Ltd and SBI Bank Ltd. All these banks are listed in NEPSE. To make the study more reliable, the whole study has been divided into five chapters. The summaries of each chapter are presented below.

First chapter: First chapter starts with historical background of the study. On this chapter an introduction of the banking industry in Nepal, introduction of the bank

selected for the study, description of the capital structure is presented briefly. This study endeavors to evaluate capital structure of commercial banks with references to EBL and SBI. The main question presented as the 'focus of the study' are what is the condition of capital structure of the selected Joint venture bank of Nepal whether or not they are using an appropriate financial mix. If not, what may be suggestion to improve or to maximize the value of the firm in the context of Nepalese banks?

The statement of the problems deals with the effect of the fund collection and utilization which is followed by the commercial bank in Nepal and the main problems faced by the Joint venture banks in developing and implementing the fund collection and utilization.

The main objective of the study presented is to evaluate the role of capital structure on the growth of the commercial banks in Nepal. To analyze the effectiveness and efficiency of capital structure of the commercial banks of Nepal and to analyze the relationship of capital structure with other variables such as earning per share, dividend per share and net worth.

Finally, significance of the study and limitation of the study are also presented on first chapter.

Second chapter: In this chapter various books, research studies and articles concerned with the capital structure have been reviewed and presented as the reviews of literature to make the concept of capital structure more clear. Review of different Management journals, articles as well as related Nepalese studies have been presented as well.

Third chapter: In this chapter the steps to adopt realistic study needed for the researchers have been presented. The Methodology researcher can used to get appropriate guidelines and knowledge about the various Sequential steps to adopt a systematic analysis has been explained in this chapter. Most of the data used in this study are secondary in nature that is annual reports provided by concerned banks. Five years old data are taken as sample years and are analyzed by using financial and statistical tools such as ratio analysis leverage analysis, correlation analysis, and trend analysis etc. Method which the study is going to use is exhibited in this chapter.

Four chapters: The data mentioned in the third chapter are presented and analyzed in this chapter using Methods mentioned in the chapter third such as ratio analysis, leverage analysis, correlation, and trend analysis. Details calculations presented in this chapter are shown as appendix which is presented after fifth chapter.

Fifth chapter: In this chapter summary of the study are presented in brief to understand the whole study instantly after which conclusion of study with recommendation are presented.

5.2. CONCLUSIONS

- ❖ Considering the profitability aspects, EBL is relatively more successful to earn profit on total assets than SBI. It has higher average return on total assets ratio. The ratio of profit over the total assets employed could only be regarded as satisfactory for both the banks.
- ❖ The average interest income to credit and advances ratios of EBL is slightly greater than SBI. The ratios of these banks are at a decreasing trend. The credit lending of EBL can be regarded as more efficient than SBI.
- ❖ The average fixed deposit turnover ratio and the average total assets turnover ratio of EBL is greater than SBI. It means EBL had been able to mobilize more than half of its total working funds (represented by total assets) in various lending sectors. It means that EBL utilized its assets more efficiently in lending than SBI.
- ❖ The total debt to net worth ratio of SBI is 2005/06.36% on an average over the study period which is higher than EBL. It shows that SBI used more amount of debt than EBL. The average total debt to total assets ratio of SBI is greater than that of EBL. The average debt ratio of SBI is 94.90% over the six years period. It means that 94.90% of total assets of SBI are financed with total debt capital comprising of total deposits, short term loans, payables etc. on an average.
- ❖ First of all, the liquidity ratios are calculated to identify the situation of immediate cash and equipments to repay the customers and to meet other immediate liabilities at the time of demand. So the foremost liquidity ratio calculated for two joint venture banks are cash and bank balance to current deposit ratio and cash and bank balance to total deposit ratio. From the liquidity point of view SBI is comparatively better than EBL.

- ❖ During the six years study period EBL is more successful to invest in productive sector and has mobilized its collected deposits to provide loan and advance for the purpose of earning profit. SBI has weaker condition for the same in comparison with EBL.
- ❖ Correlation coefficients of both banks are positive between total and loan and advances. Among them SBI has the higher correlation coefficient between total deposit and loan and advances.
- ❖ By evaluating the trend analysis EBL is more successful to mobilize its total deposits as loan and advances than SBI.
- ❖ The average earning per share of EBL is greater than SBI over six year period. It can be stated that shareholders funds are mobilized and managed efficiently in EBL than SBI.
- ❖ The market value per share of EBL is greater than SBI over six years study period. It can be stated that the people's perception of EBL's management and performance is better than SBI.

5.3. RECOMMENDATION

- ❖ Both the joint venture banks are suggested to implement a sound credit collection policy. The policy should ensure rapid identification of delinquent loans, immediate contact with borrower and continual flow up until a loan is recovered. The recovery of loan is most challenging job to a bank. Therefore the bank must be very careful in formulating credit policy. The policy is also associated with some legal procedure.
- ❖ Both the banks are suggested to increase their investment and lending. They should try to mobilize their funds efficiently and optimally than that of existing which is just satisfactory.
- ❖ All the commercial banks including EBL and SBI must try to help the down going business and manufacturing sector of the nation. Therefore, they should provide funds to the needy parties without hassle, safely and at moderate rates of interest in order to overcome the nation form going towards more difficult position.
- ❖ In the context of globalization and liberalization, a bank must be careful on formulating marketing strategy to serve its customer. Effective marketing

strategy would attract the customer. So, both the joint venture banks are suggested to develop and inactive approach to bank marketing for its well being as sustainability in the market.

- ❖ The banks should try to maintain only the adequate liquidity with them. Excess liquidity or idle funds should be tried to mobilize in profitable sectors.
- ❖ The lending schemes should be modernized as per the needs of the business society and expectations of people.
- ❖ In order to collection much funds, both the banks are suggested not to be surrounded and limited only big clients i.e. multinational companies, large industries, manufacturing companies, NGOs and INGOs etc. It should also cater the lower and middle level people too. Through different kind of scheme such as saving scheme, cumulative deposit scheme, house building deposit scheme, deposit linked life insurance scheme, recurring deposit scheme and many other the bank can collect a large fund from lower level people of the country.
- ❖ In the light of growing competition in the banking sector, the business of the bank should be customer oriented. The bank is recommended to adopt new technology and services such as, ATM cards, visa electron debit card, international credit card, locker services, lending against gold and silver services, 24 hours services, holiday banking etc. Both the banks should involve in different kind of social and community development activities. The bank has been able to provide more personalized services and a better environment for its customer, it is an effective tool to attract and retain the customers.
- ❖ Both the joint venture banks have not sufficient branches to cover the banking business. Coverage of limited areas by bank will not boost up its campaign of deposit mobilization and credit disbursement as desired. NRB and government have also encouraged the joint venture banks to expand their banking services in rural areas and communities without making unfavorable in their profit. Therefore, both the joint venture banks are recommended to expand their branch in rural areas and communities.

APPENDIX-I

Sample calculation of Correlation Coefficient between Credit and Advance to Total Deposit of EBL

Year	Total Deposit(X)	Credit and Advance(Y)	$x = X - \bar{x}$	$x = Y - \bar{y}$	x^2	y^2	xy
05/06	15839.01	8324.44	364.6533	-878.392	132972.1	771572.5	-320309
06/07	15506.44	7437.9	32.08333	-1764.932	1029.34	3114985	-56624.9
07/08	13447.65	7755.95	-2026.707	-1446.882	4107540	2093468	2932405
08/09	14119.03	8189.99	-1355.327	-1012.842	1836910	1025849	1372732
09/10	14586.61	10586.2	-887.7467	1383.338	788094.2	1913624	-1228054
10/11	19347.4	12922.5	3873.043	3719.698	15000465	13836153	14406552
Total	92846.14	55216.98			21867010	22755651	17106702
Mean	15474.35	9202.83					

We have,

$$\begin{aligned}
 r &= \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} \\
 &= \frac{17106702}{\sqrt{21867010 \times 22755651}} \\
 &= 0.766879
 \end{aligned}$$

$$\begin{aligned}
 \text{Coefficient of Determination } (r^2) &= r \times r \\
 &= 0.766879 \times 0.766879 \\
 &= 0.588104
 \end{aligned}$$

$$\begin{aligned}
 \text{Probable Error (P.E.)} &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\
 &= 0.6745 \times \frac{1-0.558104}{\sqrt{6}} \\
 &= 0.113421
 \end{aligned}$$

$$\begin{aligned}
 \text{6 times P.E} &= 6 \times 0.113421 \\
 &= 0.680527
 \end{aligned}$$

Remaining Correlation Coefficient can be calculated by following similar process.

APPENDIX-II

Sample calculation of Trend Value of Loan and Advance to Total Deposit Ratio of SBI

Year(t)	Ratio(y)	$x = t-3.5$	x^2	xy	$Y_c = a+bx$
05/06	51.42	-2.5	6.25	-128.55	$Y_c = 51.09 + 0.92 \times -2.5 = 48.77$
06/07	47.87	-1.5	2.25	-71.805	$Y_c = 51.09 + 0.92 \times -1.5 = 49.70$
07/08	47.61	-0.5	0.25	-23.805	$Y_c = 51.09 + 0.92 \times -0.5 = 50.63$
08/09	54.3	0.5	0.25	27.15	$Y_c = 51.09 + 0.92 \times 0.5 = 51.55$
09/10	50.07	1.5	2.25	75.105	$Y_c = 51.09 + 0.92 \times 1.5 = 52.48$
10/11	55.27	2.5	6.25	138.175	$Y_c = 51.09 + 0.92 \times 2.5 = 53.41$
Total	306.54	0	17.5	16.27	

We have,

The equation of the straight line,

$$Y_c = a + bx$$

Where,

$$a = \frac{\sum y}{n} = \frac{306.54}{6} = 51.09$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{16.27}{17.5} = 0.928571$$

Now, trend line of Straight line equation

$$Y_c = 51.09 + 0.92 \times x$$

Trend Value of Loan and Advance to Total Deposit ratio for next 5 years

Year(t)	$x = t-3.5$	$Y_c = a + bx$
2011/12	3.50	$Y_c = 51.09 + 0.92 \times 3.50 = 54.34$
2012/13	4.50	$Y_c = 51.09 + 0.92 \times 4.50 = 55.27$
2013/14	5.50	$Y_c = 51.09 + 0.92 \times 5.50 = 56.20$
2014/15	6.50	$Y_c = 51.09 + 0.92 \times 6.50 = 57.13$
2015/16	7.50	$Y_c = 51.09 + 0.92 \times 7.50 = 58.06$

Remaining calculation has been calculated using similar method.

APPENDIX-III

Comparative Balance Sheet of EBL

(Rs. in Million)

Particular	Fiscal Year					
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Assets						
Total Assets	18367.15	17629.25	16562.61	16745.49	17186.33	22329.97
Current Assets	13161.68	13313.40	13868.30	14244.04	14971.80	18131.69
1.Cash and Bank Balance	812.90	1051.82	1144.77	970.49	559.38	630.24
2.Money at call and short notice	552.55	31.37	670.20	918.73	868.43	1734.90
3.Loan and Advance	8324.44	7437.90	7755.95	8189.99	10586.17	12922.53
4.Investment on Govt. Securities	2732.96	4120.29	3588.77	3672.63	2413.94	2301.46
5.Interest Receivable	372.35	171.09	177.60	174.49	168.86	188.63
6.Misc. current assets	395.48	499.93	531.01	371.71	375.02	353.93
Fixed Assets	235.12	237.63	251.91	338.13	361.24	319.09
Investment on Share	18.82	22.22	22.22	133.45	440.48	104.19
Other Investment	4951.53	4056	2420.18	2029.99	1415.44	3775.00
Liabilities	18367.15	17629.25	16562.61	16745.49	17186.33	22329.97
Current Liabilities	17226.21	16384.73	15135.42	15153	15420.81	18477.56
7.Deposit and other A/C	15839.01	15506.44	13447.65	14119.03	14586.61	19347.4
8.Short term loan	0.00	417.30	961.46	229.66	17.06	173.20
9.Bills Payable	69.70	67.75	108.94	173.50	119.75	112.61
10.Tax Provision	0.00	0.00	0.00	0.00	15.35	34.60
11.Staff Bonus	52.60	44.12	66.36	71.94	84.19	89.80
12.Dividend Payable	143.52	11.80	94.14	36.88	17.06	NA
13.Misc. Current Liabilities	1121.38	337.32	456.87	521.99	580.79	1280.05
Other Deferred Liabilities	78.10	98.10	113.01	110.80	107.88	102.42
Net Worth	1062.83	1146.42	1314.18	1481.68	1657.63	1875.00
Share Capital	491.65	491.65	491.65	491.65	491.65	491.65
Shareholder Reserve	571.18	654.77	822.53	990.03	1165.98	1383.34

Source: Annual Report of EBL

APPENDIX-IV

Comparative Profit and Loss Account of EBL

(Rs. in Million)

Particular	Fiscal Year					
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
A. Operating Income	1573.31	1639.11	1340.51	1336.72	1438.92	1717.12
1. Interest Earned	1266.70	1120.18	1017.87	1001.62	1068.75	1309.99
2. Commission & Discount	146.84	114.34	144.41	138.57	128.88	138.29
3. Exchange Income	159.51	154.22	144.08	157.32	184.88	185.48
4. Dividend	0.26	0.00	0.00	0.46	0.48	0.47
5. Other	0.00	250.37	34.15	38.75	55.93	82.89
B. Cost of Service	724.22	606.96	527.63	463.79	443.06	576.94
1. Interest Paid	578.36	462.08	317.35	282.95	243.54	357.16
2. Salaries, Allowance and P.F.	145.86	144.88	210.58	180.84	199.52	219.78
C. Provision for Bonus	52.60	44.12	66.36	71.94	84.20	89.80
D. General Expenses	298.50	538.70	182.73	189.97	166.93	128.75
E. Gross Profit (A-B-C-D)	497.999	449.33	563.49	611.02	744.73	921.63
F. Depreciation	26.27	39.75	35.04	46.27	58.71	57.72
G. Operating Profit (E-F)	471.72	409.58	528.45	564.75	686.02	863.91
H. Income from other Sources	1.64	0.00	86.95	92.32	71.76	34.09
I. Pre-tax Profit (G+H)	473.36	409.58	615.40	657.07	757.78	898
J. Provision for Tax	181.99	137.95	199.15	201.76	239.15	262.74
K. Net profit (I-J)	291.37	271.63	416.25	455.31	518.64	635.26

Source: Annual Report of EBL

APPENDIX-V

Comparative Balance Sheet of SBI

(Rs. in Million)

Particular	Fiscal Year					
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Assets						
Total Assets	19500.58	20672.45	23355.23	24762.02	27418.16	29460.38
Current Assets	17359.42	14165.33	16881.45	18565.75	20867.79	23151.78
1.Cash and Bank Balance	1435.18	1264.67	1972.21	2001.19	2014.47	1717.35
2.Money at call and short notice	4057.65	352.35	150.10	368.90	441.08	1005.28
3.Loan and Advance	9045.35	8913.73	10001.85	11951.87	12424.52	14642.55
4.Investment on Govt. Securities	2224.30	3047.75	3998.87	3431.73	5469.73	5144.32
5.Interest Receivable	335.75	330.38	418.46	526.65	511.18	550.37
6.Misc. current assets	291.19	256.45	332.96	285.41	6.81	91.91
Fixed Assets	201.68	318.85	229.87	299.64	295.82	540.82
Investment on Share	10.69	34.27	34.27	34.27	39.91	39.91
Other Investment	1848.17	6075.09	6142.30	5826.11	6182.70	5706.14
Misc. Assets	80.62	78.91	67.34	36.27	31.93	21.73
Liabilities	19500.58	20672.45	23355.23	24762.02	27418.16	29460.38
Current Liabilities	18747.46	19433.25	21899.93	23390.88	25516.41	27334.21
7.Deposit and other A/C	17532.40	18619.37	21007.37	22010.33	24814.01	26490.85
8.Short term loan	79.53	174.01	285.84	659.01	146.05	144.62
9.Bills Payable	22.90	55.58	46.73	64.38	68.40	73.58
10.Tax Provision	154.46	0.00	0.00	0.00	3.25	0.00
11.Staff Bonus	48.34	38.78	40.00	46.73	58.06	67.23
12.Dividend Payable	14.72	6.44	7.86	6.32	80.12	238.41
13.Misc. Current Liabilities	895.11	539.07	512.13	604.11	346.52	319.52
Other Deferred Liabilities	32.52	381.07	392.16	46.98	360.00	360.00
Net Worth	720.59	858.11	1063.13	1324.17	1541.75	1766.18
Share Capital	300.00	390.00	429.00	536.25	643.50	772.20
Shareholder Reserve	420.59	468.11	634.13	787.92	898.25	993.97

Source: Annual Report of SBI

APPENDIX-VI

Comparative Profit and Loss Account of SBI

(Rs. in Million)

Particular	Fiscal Year					
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
A. Operating Income	1572.92	1387.34	1443.54	1516.33	1757.89	2052.38
1. Interest Earned	1326.38	1149.00	1201.23	1245.90	1446.47	1626.47
2. Commission & Discount	125.97	101.70	102.56	123.93	132.82	165.45
3. Exchange Income	114.22	104.60	109.60	112.42	137.30	198.13
4. Dividend	0.00	0.00	0.00	0.00	0.00	0.00
5. Other	6.35	32.04	30.15	34.08	41.30	62.33
B. Cost of Service	809.59	679.67	674.28	644.05	740.55	883.43
1. Interest Paid	732.69	578.13	554.13	491.05	561.96	648.84
2. Salaries, Allowance and P.F.	76.90	101.54	120.15	152.51	178.59	234.59
C. Provision for Bonus	48.34	38.78	40.00	46.73	58.06	67.23
D. General Expenses	259.60	298.56	356.72	373.54	402.12	442.88
E. Gross Profit (A-B-C-D)	455.39	370.33	372.54	452.00	557.16	658.84
F. Depreciation	22.70	23.74	23.28	34.73	37.41	44.87
G. Operating Profit (E-F)	432.69	346.59	349.26	417.27	519.75	613.97
H. Income from other Sources	2.32	2.45	10.76	3.30	2.79	58.45
I. Pre-tax Profit (G+H)	435.01	349.04	360.02	420.57	522.54	672.42
J. Provision for Tax	154.32	114.02	147.90	157.52	214.26	214.94
K. Net profit (I-J)	280.69	235.02	212.12	263.05	308.28	457.48

Source: Annual Report of SBI

APPENDIX-I

Sample calculation of Correlation Coefficient between Credit and Advance to Total Deposit of EBL

Year	Total Deposit(X)	Credit and Advance(Y)	$x = X - \bar{x}$	$y = Y - \bar{y}$	x^2	y^2	xy
05/06	15839.01	8324.44	364.6533	-878.392	132972.1	771572.5	-320309
06/07	15506.44	7437.9	32.08333	-1764.932	1029.34	3114985	-56624.9
07/08	13447.65	7755.95	-2026.707	-1446.882	4107540	2093468	2932405
08/09	14119.03	8189.99	-1355.327	-1012.842	1836910	1025849	1372732
09/10	14586.61	10586.2	-887.7467	1383.338	788094.2	1913624	-1228054
10/11	19347.4	12922.5	3873.043	3719.698	15000465	13836153	14406552
Total	92846.14	55216.98			21867010	22755651	17106702
Mean	15474.35	9202.83					

We have,

$$\begin{aligned}
 r &= \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} \\
 &= \frac{17106702}{\sqrt{21867010 \times 22755651}} \\
 &= 0.766879
 \end{aligned}$$

$$\begin{aligned}
 \text{Coefficient of Determination (r}^2\text{)} &= r \times r \\
 &= 0.766879 \times 0.766879 \\
 &= 0.588104
 \end{aligned}$$

$$\begin{aligned}
 \text{Probable Error (P.E.)} &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\
 &= 0.6745 \times \frac{1-0.558104}{\sqrt{6}} \\
 &= 0.113421
 \end{aligned}$$

$$\begin{aligned}
 \text{6 times P.E} &= 6 \times 0.113421 \\
 &= 0.680527
 \end{aligned}$$

Remaining Correlation Coefficient can be calculated by following similar process.

APPENDIX-II

Sample calculation of Trend Value of Loan and Advance to Total Deposit Ratio of SBI

Year(t)	Ratio(y)	x = t-3.5	x ²	xy	Y _c = a+bx
05/06	51.42	-2.5	6.25	-128.55	$Y_c = 51.09 + 0.92 \times -2.5 = 48.77$
06/07	47.87	-1.5	2.25	-71.805	$Y_c = 51.09 + 0.92 \times -1.5 = 49.70$
07/08	47.61	-0.5	0.25	-23.805	$Y_c = 51.09 + 0.92 \times -0.5 = 50.63$
08/09	54.3	0.5	0.25	27.15	$Y_c = 51.09 + 0.92 \times 0.5 = 51.55$
09/10	50.07	1.5	2.25	75.105	$Y_c = 51.09 + 0.92 \times 1.5 = 52.48$
10/11	55.27	2.5	6.25	138.175	$Y_c = 51.09 + 0.92 \times 2.5 = 53.41$
Total	306.54	0	17.5	16.27	

We have,

The equation of the straight line,

$$Y_c = a + bx$$

Where,

$$a = \frac{\sum y}{n} = \frac{306.54}{6} = 51.09$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{16.27}{17.5} = 0.928571$$

Now, trend line of Straight line equation

$$Y_c = 51.09 + 0.92 \times x$$

Trend Value of Loan and Advance to Total Deposit ratio for next 5 years

Year(t)	x = t-3.5	Y _c = a + bx
2011/12	3.50	$Y_c = 51.09 + 0.92 \times 3.50 = 54.34$
2012/13	4.50	$Y_c = 51.09 + 0.92 \times 4.50 = 55.27$
2013/14	5.50	$Y_c = 51.09 + 0.92 \times 5.50 = 56.20$
2014/15	6.50	$Y_c = 51.09 + 0.92 \times 6.50 = 57.13$
2015/16	7.50	$Y_c = 51.09 + 0.92 \times 7.50 = 58.06$

Remaining calculation has been calculated using similar method.

APPENDIX-III

Comparative Balance Sheet of EBL

(Rs. in Million)

Particular	Fiscal Year					
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Assets						
Total Assets	18367.15	17629.25	16562.61	16745.49	17186.33	22329.97
Current Assets	13161.68	13313.40	13868.30	14244.04	14971.80	18131.69
1.Cash and Bank Balance	812.90	1051.82	1144.77	970.49	559.38	630.24
2.Money at call and short notice	552.55	31.37	670.20	918.73	868.43	1734.90
3.Loan and Advance	8324.44	7437.90	7755.95	8189.99	10586.17	12922.53
4.Investment on Govt. Securities	2732.96	4120.29	3588.77	3672.63	2413.94	2301.46
5.Interest Receivable	372.35	171.09	177.60	174.49	168.86	188.63
6.Misc. current assets	395.48	499.93	531.01	371.71	375.02	353.93
Fixed Assets	235.12	237.63	251.91	338.13	361.24	319.09
Investment on Share	18.82	22.22	22.22	133.45	440.48	104.19
Other Investment	4951.53	4056	2420.18	2029.99	1415.44	3775.00
Liabilities	18367.15	17629.25	16562.61	16745.49	17186.33	22329.97
Current Liabilities	17226.21	16384.73	15135.42	15153	15420.81	18477.56
7.Deposit and other A/C	15839.01	15506.44	13447.65	14119.03	14586.61	19347.4
8.Short term loan	0.00	417.30	961.46	229.66	17.06	173.20
9.Bills Payable	69.70	67.75	108.94	173.50	119.75	112.61
10.Tax Provision	0.00	0.00	0.00	0.00	15.35	34.60
11.Staff Bonus	52.60	44.12	66.36	71.94	84.19	89.80
12.Dividend Payable	143.52	11.80	94.14	36.88	17.06	NA
13.Misc. Current Liabilities	1121.38	337.32	456.87	521.99	580.79	1280.05
Other Deferred Liabilities	78.10	98.10	113.01	110.80	107.88	102.42
Net Worth	1062.83	1146.42	1314.18	1481.68	1657.63	1875.00
Share Capital	491.65	491.65	491.65	491.65	491.65	491.65
Shareholder Reserve	571.18	654.77	822.53	990.03	1165.98	1383.34

Source: Annual Report of EBL

APPENDIX-IV

Comparative Profit and Loss Account of EBL

(Rs. in Million)

Particular	Fiscal Year					
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
A. Operating Income	1573.31	1639.11	1340.51	1336.72	1438.92	1717.12
1. Interest Earned	1266.70	1120.18	1017.87	1001.62	1068.75	1309.99
2. Commission & Discount	146.84	114.34	144.41	138.57	128.88	138.29
3. Exchange Income	159.51	154.22	144.08	157.32	184.88	185.48
4. Dividend	0.26	0.00	0.00	0.46	0.48	0.47
5. Other	0.00	250.37	34.15	38.75	55.93	82.89
B. Cost of Service	724.22	606.96	527.63	463.79	443.06	576.94
1. Interest Paid	578.36	462.08	317.35	282.95	243.54	357.16
2. Salaries, Allowance and P.F.	145.86	144.88	210.58	180.84	199.52	219.78
C. Provision for Bonus	52.60	44.12	66.36	71.94	84.20	89.80
D. General Expenses	298.50	538.70	182.73	189.97	166.93	128.75
E. Gross Profit (A-B-C-D)	497.999	449.33	563.49	611.02	744.73	921.63
F. Depreciation	26.27	39.75	35.04	46.27	58.71	57.72
G. Operating Profit (E-F)	471.72	409.58	528.45	564.75	686.02	863.91
H. Income from other Sources	1.64	0.00	86.95	92.32	71.76	34.09
I. Pre-tax Profit (G+H)	473.36	409.58	615.40	657.07	757.78	898
J. Provision for Tax	181.99	137.95	199.15	201.76	239.15	262.74
K. Net profit (I-J)	291.37	271.63	416.25	455.31	518.64	635.26

Source: Annual Report of EBL

APPENDIX-V

Comparative Balance Sheet of SBI

(Rs. in Million)

Particular	Fiscal Year					
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Assets						
Total Assets	19500.58	20672.45	23355.23	24762.02	27418.16	29460.38
Current Assets	17359.42	14165.33	16881.45	18565.75	20867.79	23151.78
1.Cash and Bank Balance	1435.18	1264.67	1972.21	2001.19	2014.47	1717.35
2.Money at call and short notice	4057.65	352.35	150.10	368.90	441.08	1005.28
3.Loan and Advance	9045.35	8913.73	10001.85	11951.87	12424.52	14642.55
4.Investment on Govt. Securities	2224.30	3047.75	3998.87	3431.73	5469.73	5144.32
5.Interest Receivable	335.75	330.38	418.46	526.65	511.18	550.37
6.Misc. current assets	291.19	256.45	332.96	285.41	6.81	91.91
Fixed Assets	201.68	318.85	229.87	299.64	295.82	540.82
Investment on Share	10.69	34.27	34.27	34.27	39.91	39.91
Other Investment	1848.17	6075.09	6142.30	5826.11	6182.70	5706.14
Misc. Assets	80.62	78.91	67.34	36.27	31.93	21.73
Liabilities	19500.58	20672.45	23355.23	24762.02	27418.16	29460.38
Current Liabilities	18747.46	19433.25	21899.93	23390.88	25516.41	27334.21
7.Deposit and other A/C	17532.40	18619.37	21007.37	22010.33	24814.01	26490.85
8.Short term loan	79.53	174.01	285.84	659.01	146.05	144.62
9.Bills Payable	22.90	55.58	46.73	64.38	68.40	73.58
10.Tax Provision	154.46	0.00	0.00	0.00	3.25	0.00
11.Staff Bonus	48.34	38.78	40.00	46.73	58.06	67.23
12.Dividend Payable	14.72	6.44	7.86	6.32	80.12	238.41
13.Misc. Current Liabilities	895.11	539.07	512.13	604.11	346.52	319.52
Other Deferred Liabilities	32.52	381.07	392.16	46.98	360.00	360.00
Net Worth	720.59	858.11	1063.13	1324.17	1541.75	1766.18
Share Capital	300.00	390.00	429.00	536.25	643.50	772.20
Shareholder Reserve	420.59	468.11	634.13	787.92	898.25	993.97

Source: Annual Report of SBI

APPENDIX-VI

Comparative Profit and Loss Account of SBI

(Rs. in Million)

Particular	Fiscal Year					
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
A. Operating Income	1572.92	1387.34	1443.54	1516.33	1757.89	2052.38
1. Interest Earned	1326.38	1149.00	1201.23	1245.90	1446.47	1626.47
2. Commission & Discount	125.97	101.70	102.56	123.93	132.82	165.45
3. Exchange Income	114.22	104.60	109.60	112.42	137.30	198.13
4. Dividend	0.00	0.00	0.00	0.00	0.00	0.00
5. Other	6.35	32.04	30.15	34.08	41.30	62.33
B. Cost of Service	809.59	679.67	674.28	644.05	740.55	883.43
1. Interest Paid	732.69	578.13	554.13	491.05	561.96	648.84
2. Salaries, Allowance and P.F.	76.90	101.54	120.15	152.51	178.59	234.59
C. Provision for Bonus	48.34	38.78	40.00	46.73	58.06	67.23
D. General Expenses	259.60	298.56	356.72	373.54	402.12	442.88
E. Gross Profit (A-B-C-D)	455.39	370.33	372.54	452.00	557.16	658.84
F. Depreciation	22.70	23.74	23.28	34.73	37.41	44.87
G. Operating Profit (E-F)	432.69	346.59	349.26	417.27	519.75	613.97
H. Income from other Sources	2.32	2.45	10.76	3.30	2.79	58.45
I. Pre-tax Profit (G+H)	435.01	349.04	360.02	420.57	522.54	672.42
J. Provision for Tax	154.32	114.02	147.90	157.52	214.26	214.94
K. Net profit (I-J)	280.69	235.02	212.12	263.05	308.28	457.48

Source: Annual Report of SBI