CHAPTER – I

INTRODUCTION

1.1 Background of the Study

The term 'Investment' has primary significance in 'Financial Sector' which refers to the process of determining the proper area in order to lodge a firm's fund to procure expected gain or profit known as a favorable return by its maximum utility at minimized risks.

According to the investors' view, there must be a Compulsory return on their investment but there may be unfavorable situations so that investor may insure losses. However so, investment is the act of proper utilization of a fund to be mobilized so that achievement of a high return could be ensured. It also implies all such expenditure of fund into capital nature assets. It is one of the decisions of financial management, which involves the decision of capital investment, or commitment of funds to long-term assets that would provide benefits in future.

Investment decisions mainly have two aspects i.e. (a) the evaluation of the prospective profitability of new investment and (b) the measurement of cut-off rate against the prospective return of the new investment that could be compared. Future is always uncertain, therefore future benefits of an investment cannot be assessed so easily and the amount of risk is umpire cognitive as well. Investment, in its broadest sense, means the sacrifice of current dollars for future dollars. Two different attributes are generally involved time and risk. The sacrifice takes place in present and is certain. The reward comes later, if at all and the magnitude is generally uncertain. In some cases, the element of time predominates (For e.g. government bonds)1.

There are mainly three concepts of Investment

i. Economic investment that is an economist's definition of investment.

ii. Investment in a more general or extended sense, which is used by "the man of street" and

iii. The sense in which we are going to be very much interested, namely financial investment.

The commercial banks of corporate bodies i.e. joining of two or more enterprises with the purpose of carrying out specific operation such as investment in trade, business and industry in the form of negotiation between various groups of industries on trades to achieve mutual exchange of goods and services. They are the modes trading to achieve mutual exchange of goods and services for sharing competitive advantage by performing joint investment scheme between investors, financial and non-financial institutions.

The role of commercial banks in economy is obviously prime requisite in the formulation of banks policy. A key factor in the development in the country is the mobilization of domestic resources and their investment for productive use to the various sectors. To make it more effective, commercial banks formulate sound investment policies, which eventually contribute to the economic growth of a country. The sound policies help commercial banks maximize quality and quality of investment and thereby. The banking sector has to play development role to boost the economy by adopting the growth oriented investment policy and building up the financial structure for future economic development formulation of sound investment policies and coordinated and planned efforts pushes forward the of economic growth.

Due to the growth on banking sector in Nepal and huge competition, opportunity for investment are comparatively losses. In this critical situation, joint ventures banks are most appropriate or best suited because of their abundant resources, new technologies, sufficient capital and above all high integrity. Joint venture banks can easily redress the problem faces by others and avoids many risks in investment by formulating and implementing good policy for proper utilization of funds. The fundamental principles of investment must be followed thoroughly for profitable investment. An investment policy should ensure maximum profit and minimum risk.

1.1.1 History of the Banks

The concept of banking developed from the very beginning of the economic activities. First of all, the effort was made by the ancient gold and valuables. Under such arrangements, the depositors would have their gold for safekeeping and in turn were given a receipt. Whenever receipt was presented, the depositors would return back their gold and valuable after receiving a small payment as fee.

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

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

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

The development of modern bank started from the establishment of "Nepal Bank Limited" in 1937 AD with put forth effort of government and public, as a commercial bank with 10 million authorized capital. The authorized capital was contributed by the government 51% and remaining by public 49%. It started to provide depositing and borrowing facilities to commercial as well as agricultural sectors. The government felt the requirement of a central bank and established "Nepal Rastra Bank" in 2013 BS. It played leading role in development of banking in Nepal and also controlled the monetary culture in the country. NRB was established with the objective of supervising, protecting and directing the functions of commercial banks. Likewise, raising of banking function get popular and more complicated, thus NRB suggested for the establishment of another commercial bank and in 2022 BS (1966 AD) "Rastriya Banijya Bank" was established as a fully government owned commercial bank. Now its branches are diversified all over the country. It made another milestone in the history of growth of banking.

Apart from this, NIDC was established in 1959 AD & Agricultural Development Bank established in 1976 AD and other development bank and financial institutions were established & continue to establish and are contributing to the economy and banking tradition in Nepal. In 1990 AD, after reestablished of democracy, the government took the liberal policy in banking sector. As an open policy of HMG's to get permission to invest in banking sector from private and foreign investor under Commercial Bank Act 2031 BS, different private bank are getting permission to establish with the joint venture of other countries. The first joint venture bank was Nepal Arab Bank Ltd. (NABL), which was established in 1984 AD. Nepal Indosuez Bank Limited (NIBL) and Nepal Grindlays Bank Limited (NGBL) were established in 1986

& 1987 AD respectively. Nepal Grindlays Bank Limited is now being operated with new ownership & new name, Standard Chartered Bank Nepal Limited.

"At present there are thirty two commercial banks, eighty seven Development banks, five Gramin Banks, seventy nine Finance companies, many more co-operatives and other non-government organizations performing limited banking activities".2 These banks and financial institutions have a countrywide network of about more than 800 branches, which are providing financial services in various parts of the country.

Besides this, Lumbini Bank Ltd. and Nepal Industrial & Commercial (NIC) Bank Ltd are also operating from 1997 AD and Kumari Bank Ltd., Laxmi Bank Ltd. & Siddhartha Bank Ltd. services as a new commercial bank of Nepali financial market.

1.1.2 Present Status of Banking Industry

Now days there are 32 commercial banks working and 9 of them are joints ventured with foreign banks, on the other hand a lot of financial co-operatives are also operating. Besides commercial banks, development banks are investing their performance in Nepali banking industry and they also have an important role for the growth of country's economic position. Agriculture development banks are government owned bank. Other development banks like Nepal Development Bank Ltd., Rural Micro Finance Development Center and Cottage and small industries development banks Ltd. and other 5 rural development banks operating in Nepali Banking industry. Now credit Development Bank is established and has commenced its services.

In global prospective, joint venture bank is the mode of trading through partnership among the nations and also a form of negotiations between two or more enterprises for the purpose of carrying out a specific operation. A joint venture bank is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation (Industrial or commercial) investment production of trades.

So, the main purpose of the joint venture is to join economic forces in order to achieve desired end. To operate a business organization under joint venture basis, there should be at least two partners from the different countries.

With the increase in numbers of commercial joint venture banks, competition among them has also become more complex. Doing business with traditional banks used to be so cumbersome that customers had to spend a lot of effort and time in trying to understand the functioning of the bank rather than receiving prompt service. Now joint venture banks have been providing better service in Nepal. These joint venture banks are trying to introduce and establish themselves different, by providing special service and attractive schemes. In 1995 AD Himalayan Bank Ltd. introduces Tele-banking sector by provoking a niche in the competitive financial market.

Similarly, most of other JVB are proving new schemes like insurance to depositor, which is an extra bonus to encourage them to deposit their surplus in such banks. Credit card system in other attractive feature of joint venture bank's i.e. NABIL, credit card (master card, dinner card) Visa of NGB, credit card of HBI have launched in market for their home in Nepal by entering into drawing arrangements with exchange house in UAE, Bahrain & Kuwait.

i. Everest Bank Limited

This is joint ventures bank taken for the study. Everest bank limited (EBL), Catering to more than 4 lacs customers today, was set up in private sector and commenced its operation in October 1994 AD, India being the major trade partner of Nepal. The promoter of the bank decided to join hands with an Indian bank and entered into joint venture agreement in January 1997 AD with Punjab National Bank (PNB), which is one of the leading commercial bank of India having over 100 years of successful banking experience and known for its strong system and procedure. With its presence virtually in all the important centers at India and over 5600 ATM counters, Punjab National Bank offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. For its excellence in banking services, it was recently awarded the "Best Bank Award 2011"amongst all banks in India by the leading corporate magazine, Business India. EBL was earlier to be joint venture with United Bank of India, Calcutta but the foreign partner didn’t undertake the joint venture agreement.

On enquiry holding PNB has 20% equity participation in its total shareholding and also has undertaken management responsibility under a technical service agreement and other balance is maintained by Nepali investor. Nepalese promoter holding 50% and rest 30% held by general public.

PNB
20%
Nepalese promoters
50%
General public
30%

Everest Bank Ltd. is or ank of Nepal. EBL has got an authorized capit up capital of Nrs. 120 million. Everest Bank Limited (EBL) provides customer-friendly services through its Branch Network and all it's the branches are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches. The bank has 45 Branches, 55 ATM Counters and 21 Revenue Collection Counters across the country making it a very efficient and accessible bank for its customers, anytime, anywhere.

The main aim of EBL is to extend professional banking services to various sectors of the society in the kingdom of Nepal and they’re by contributing in the economic development of the country. In addition to the usual facilities offered by all banks, some new banking procedures have also been introduced. Like Cumulative Deposit Scheme, Unfix Fixed Deposit Requiring Deposit Plan and recently also introduced facilities for the Nepalese living in gulf countries for transfer of the their services to their home Nepal.

1.1.3 Corporate Vision & Mission

Vision

- To position it as a progressive & customer friendly bank providing financial and other related services.
- To cater to various segments of society using advanced technology.
- To be committed to excellence in corporate values.

Mission

- To provide excellent professional services & improve its position as a leader in the field of financial related services.
- To build & maintain a team of motivated and committed workforce with high work ethos.
- To use the latest technology aimed at customer satisfaction & act as a effective catalyst for socio-economic developments.

ii. Nepal Bangladesh Bank Limited

Nepal Bangladesh Bank Limited also a joint venture bank with IFIC Bank Ltd. of Bangladesh was established in 1994 AD under the company act 1964 AD with the goal to become “The Bank for everyone”. The main objective of the bank is to carry out commercial banking activities under the commercial bank Act 1974 IFIC bank Ltd. Bangladesh managers the bank in accordance with the joint venture and technical services agreement between it and Nepali promoters. IFIC has 50% share capital, Nepali promoters have 20% and the public shareholders have 30% share capital. Over the years bank has been successful to increase the paid up capital to Rs 2 Billion. Its Head Office is situated at New Baneswor, Bijuli Bazar, Kathmandu.

The prime objective of this bank is to render hospitality to the valued customer. With a network of 19 branches and a corporate office, bank has been providing the extensive services to the valued customer. To facilitate the valued customer bank had successfully install 16 ATMs and holiday banking for their convenience.

IFIC	50%
Nepalese Promoters	20%
Public Share	30%

Following facilities are providing by NB bank

- Tele banking facilities.
- SWIFT and bridge station facilities.
- Locker facilities.
- Bearer of certificate of deposit.
- Accidental and medical insurance for saving account holder.

1.2 Statement of the Problem

Investment is the most important factor from the shareholders' and bank's management point of view. Though several CBs have been established in Nepal with in short period of time, sufficient return cannot have been earned and strong, stable and appropriate investment policy has not been followed. In one hand, these banks collect lots of deposits where as in the other hand investment opportunities are comparatively very low. Due to less investment opportunity banks use to discourage depositors by reducing the interest on deposit hold balance. Such condition may cause the highly liquid market and can impact the condition of the whole country negatively. Due to throat-cut competition of financial environment, banks seem to be ready to grant much more loan, advances and other facilities against their clients' insufficient deposit. If the funds are wrongly invested without thinking any financial risk, business risk and other related facts, the bank cannot obtain profitable return as well as it should sometimes lose its principal.

There are more than a dozen of commercial banks operating their activities in Nepal but a few of them are getting regular profits. According to NEPSE record, there were seventeen commercial banks, forty-six finance companies, five Gramin Bikas banks, and thirty non-governmental financial organizations till July 2001. The fast growth of such organizations has made pro-rata increment in collecting deposits and their investment. Many banks or companies succumbed to liquidation although they had sustainable investment capital. The increasing rate of liquidity has caused a downward trend in investment sectors. It has ensured bad impact on interest rate to the depositor's lower market value of shares etc. for the assessment of such adverse impact, this study has shown the contrast and analyses the investment policy of joint venture banks. The joint venture banks Viz. Nepal Bangladesh Bank Ltd. and Everest Bank Ltd.

This study basically deals with the following issues of joint venture banks.

a) Is there any stability in fund mobilization between EBL & NBBL?
b) Do the two joint ventures successful to utilize their available fund?
c) What is the relationship between investment and loan and advances with total deposits and total net profit of joint venture banks?
d) Does the investment decision affect the total earnings of joint venture banks under the study?

1.3 Objectives of the Study

For any kind of research work or study, first of all the objectives should be determined. It shows the way to achieve desired goals. Likewise, the main objectives of this research work is to examine, interpret and analysis the fund mobilization procedures adopted by selected joint ventures; Everest Bank Ltd. and Nepal Bagladesh Bank Ltd. This study is concerned with whether EBL and NBBL are adopting efficient fund mobilizing policy or not. The main objectives related to this study are presented below:

i. To examine the profitability risk position, liquidity and asset management efficiency of NBBL and EBL.
ii. To compare investment policy of concerned banks & discussed the fund mobilization of the NBBL and EBL.
iii. To analyze the deposit utilization and it's forecasting for next five years of NBBL and EBL.
iv. To evaluate the empirical relationship between total investment, deposit & loan and advance.
v. To suggest and recommend on the basis of major findings.

1.4 Significance of the Study

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

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

i. The depositor's general public can make decision to deposit their money in the bank after analyzing the fund mobilization of joint ventures.
ii. By the help of this study, general public can know the funds mobilizing activities of banks.
iii. It is also beneficial for the government while formulating policies and rules regarding joint venture bank.

From the study of fund mobilizing policy about bank, shareholders and companies would get information related to the fund mobilizing scheme of the bank and they may know how banks are mobilizing their fund and resources. And it is fruitful to make investment on shares of various joint venture banks.

The study of fund mobilizing policy would provide information to the management of the bank that would be helpful to take corrective action in the bank activities. Effective fund mobilization activities are the cause to increase earnings of the banks. This study will serve to be a guide to the management of banks, financial institutions, related parties, shareholders, general public (customer, depositors and creditors).

1.5 Limitations of the Study

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

This study is based on secondary data and accuracy depends upon the data collected and provided by the organization. The whole study is based on the data of 5 years period (i.e. from F.Y. 2005 to 2009/10).

This study has been only of two joint venture banks as sample i.e. NBBL and EBL.

Non availability of the various references of sources acts as constraints for the study.

Only the fund mobilization aspects are analyzed. Other performance of the organizations is fully neglected, while providing suggestions.

1.6 Organization of the Study

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

The first chapter is an introductory chapter which contains background of the study, history of the banks, present status of banking industry, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study.

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

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

The fourth chapter is analyzing chapter, which deals with presentation and analysis of relevant data through definite courses of research methodology with financial and statistical analysis related to investment and fund mobilization of NBBL and EBL. Major findings of the study have been presented at the end of this chapter.

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

CHAPTER – II
REVIEW OF LITERATURE

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

2.1 Conceptual Frame Work

2.1.1 Commercial Bank

Commercial bank is a financial institution which transfers monetary sources to users. In the process of such intermediation, commercial bank deploys funds raised from different sources into different assets with a prime objective of profit generation an administrative assistance. According to Commercial Bank Act 2031, "Commercial banks are those banks which are established under this act to perform commercial function". The commercial banks pool together the savings of the community and arrange for their productive uses. They supply financial needs of modern business.

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

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

Commercial bank is a corporation which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services.

The main purpose of establishing RBB was to contribute to the development of banking system, particularly in the remote and hilly regions, providing more banking facilities to the public.

Nepal Arab Bank Ltd. (NABIL Bank Ltd.) was the 1st Joint Venture Bank established in 1984 AD, joint ventured with United Arab Emirates Bank. Then two other banks, Nepal Indosuez Bank Ltd. (Nepal Investment Bank Ltd.) with Indosuez Bank of Finance and Nepal Grindlays Bank of London were established in 1986 AD. Himalayan Bank Ltd. joint ventured with Habib Bank of Pakistan and SBI Bank Ltd. with State Bank of India was established in 1993 AD. Everest Bank Ltd. joint ventured with Punjab National Bank, India (early it was joint ventured with United Bank of India, Calcutta) and Nepal Bangladesh Bank Ltd. with IFIC Bank of Bangladesh were established in 1991 AD., Bank of Kathmandu joint ventured with SIAM commercial Bank Public Co., Thailand was established in 1995 AD. And Nepal Bank of Ceylon joint ventured with Ceylon Bank of Sri-Lanka was established in 1997 AD. Besides this, Lumbini Bank Ltd., and NIC Bank Ltd. are also operating from 1997 AD and Kumari Bank Ltd. & Siddhartha Bank Ltd. served as a new commercial bank of Nepali financial market.

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

Nowadays there are 32 commercial banks operating in Nepali financial market along with 9 joint venture with foreign investors. Lists of licensed commercial banks are presented below:

List of Licensed Commercial Bank

S.No.	Names	Head Office
1	Nepal Bank Limited	Kathmandu
2	Rastriya Banijya Bank	Kathmandu
3	Agriculture Development Bank Ltd.	Kathmandu
4	NABIL Bank Limited	Kathmandu
5	Nepal Investment Bank Limited	Kathmandu
6	Standard Chartered Bank Nepal Limited.	Kathmandu
7	Himalayan Bank Limited	Kathmandu
8	Nepal SBI Bank Limited	Kathmandu
9	Nepal Bangladesh Bank Limited	Kathmandu
10	Everest Bank Limited	Kathmandu
11	Bank of Kathmandu Limited	Kathmandu
12	Nepal Credit and Commerce Bank Limited	Siddharthanagar,Rupendehi
13	Lumbini Bank Limited	Narayangadh,Chitawan
14	Nepal Industrial & Commercial Bank Ltd.	Biaratnagar,Morang
15	Machhapuchhre Bank Limited	Pokhara, Kaski
16	Kumari Bank Limited	Kathmandu
17	Laxmi Bank Limited	Birgunj, Parsa
18	Siddhartha Bank Limited	Kathmandu
19	Global Bank Ltd.	Birgunj, Parsa
20	Citizens Bank International Ltd.	Kathmandu
21	Prime Bank Ltd	Kathmandu
22	Sunrise Bank Ltd.	Kathmandu
23	Bank of Asia Nepal Ltd.	Kathmandu
24	Development and Credit Bank	Kathmandu
25	NMB Bank	Kathmandu
26	Janata Bank Nepal Ltd.	Kathmandu
27	Kist Bank	Kathamandu
28	Mega Bank Nepal Ltd.	Kathmandu
29	Commerz & Trust Bank Nepal Ltd.	Kathmandu
30	Civil Bank Ltd.	Kathmandu
31	Century Commercial Bank Ltd.	Kathmandu
32	Sanima Bank	Kathmandu

Source: Banking and Financial Statistics, NRB, No. 43

2.1.2 Joint Venture

In global prospective, joint venture bank is the mode of trading through partnership among the nations and also a form of negotiations between two or more enterprise for the purpose of carrying out a specific operation. So, the main purpose of joint venture is to join economic forces in order to achieve desired end. Under joint venture basis, to operate a business organization, there should be at least two partners from the different countries. The primary objective of joint venture bank is to earn profit by investing or granting the loan and advances to the people associate with trade, business, industry etc. that means they are required to mobilize their resources properly to acquire profit "A joint venture is forming of two forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial investment, production trade)" (Gupta, 1984: 25).

The Nepal Government budget for the FY 1984/85 provided the following justification for allowing the setting up of joint venture banks in the following words:

"At present, the financial institutions of the country have been effortful to mobilize resources. On one hand, the major part of the few individual where as the small traders and entrepreneurs are facing difficulties to receive loans on the other. The only solution to this problem is to encourage competition in the banking sector. Therefore, a policy of allowing new commercial banks under joint venture with foreign collaboration has been adopted; this will promote competition among banks whereby the clients will get improved facility. Addition, the share of these new banks will also be sold to the general public and while distributing the shares, it will be ensured that the ownership is spread out to the maximum extent possible". In such manner, joint venture banks are successful to bring healthy competition among banks, increase in foreign investment, promoted and expand export-import trade, introduce new techniques and technologies. The various roles plays by the joint venture banks in Nepal can be classified into three categories:

a. Introducing Advanced Banking Techniques

The joint venture banks in Nepal have been largely responsible for the introduction of new banking techniques such as computerization, hypothecation, consortium finance, and fee-based activities and syndicating under the foreign exchange transactions by importers and exporters, merchant banking, inter-bank market for the money and securities, arranging foreign currency loans, etc.

b. Introducing Foreign Investment in Nepal

When looking at the possibility of investing in Nepal, multinational companies are unfamiliar with the local rules, regulations and practices. Though there are many system actually operates during the implementation period. In this context, the joint venture banks help the multinational companies to build up their confidence for investment by providing necessary information and financial support.

c. Bringing in Healthy Competition

The induction of joint venture banks also brings the benefit of healthy competition of which the main beneficiaries are the bank customers and the economy. The increase in competition also force the existing banks to improve their qualities of services by simplifying procedures providing training and motivation to their own staff to respond to the new challenge.

Hence, the entrepreneurial dynamic and pivotal role of the joint venture banks contributes the economic development of the country by providing various new financial services to modernize traditional Nepalese banking system.

2.1.3 Investment

J.K. Francis saying, “An investment is a commitment of money that is accepted to generate additional money. Every investment has some degree of risk, it requires a present certain sacrifice for a future uncertain benefit.”

James B. Bosley, express his views as, Investment policy fixes responsibilities for the investment disposition of the banks assets in terms of allocating funds for investment and loan and establishing responsibility for day-to-day management of those assets.

Cheney and Moses said, “The investment objective is to increase systematically the individual’s wealth, defined as asset minus liabilities. The higher level of desired wealth the higher the much be received. As investor seeking higher return must be willing to take higher level of risk.”

“Investment by individuals, business and government involves a present sacrifice of income to get on expected future benefit. As result investment raises a nation’s standard of living.”

From the above definitions we can conclude that investment means use of rupee of amount today by accepting more income in future. If someone invests his fund today, he will get financial benefit in future from mobilization of their fund. The value of rupee in future is increase than current value, so the expected changes in price during the mobilization of funds today with expected additional return in future but the return sometimes may be negative also, if wrongly invested without sound knowledge of investment and their related factors.

2.1.4 Features of a Sound Lending and Investment Policy

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

i) Safety and security

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

Where,

M = Marketability

A = Ascertain ability

S = Stability

T = Transferability

ii) Legality

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

iii) Liquidity

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

iv) Profitability

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

v) Tangibility

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

vi) Purpose of loan

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

vii) Diversification

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

2.1.5 Meaning of some important terminology.

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

Assets

Assets are the valuable and important properties of the firm and represent economic resources. All the assets should be measured in monetary term, which help to earn future benefits to on organization such as : building debtors, marketable securities, goodwill, patents etc. in the firms; there may be tangible intangible assets as well as fixed assets and current assets to run the activities properly and far the smooth operation.

Advances

Amount of money, which are paid or lent before data expiration is called advances. It is the SUM of amount which was prepaid and treated as assets, will be returned in future and expired the date in future.

Balance sheet

Balance sheet is a financial statement, which is prepared at the enc, of each accounting year, which contains anew liabilities, owner sham capital. It shows the actual financial position of the organization, the efficiency of all assets and liabilities separately. Broadly speaking, it shows three things, viz. (i) the nature and value of assets, (ii) the nature and value of liabilities, and (iii) the position of capital.

Bond

A bond is the source long term financing or long term promissory note issued by an organization under which borrower agrees top pay interest as well as principle on specific data to the lender. It is of two types: i.e. mortgage bond and debenture bond.

Deposit

Financial institutions collect deposits from the customers in various accounts like: current account, saving account and fixed deposit account. Therefore, the sum of money collected by the financial institutions from the depositors in various accounts is called deposits. Deposit is the main source of fund of the financial institutions.

Liquidity position

It is the states of owing things of value that can easily be changed into cash. Liquid assets determine the liquidity position of the organization and higher the liquid assets better the liquidity position.

Share

The part of capital owned by a shareholder is called share. These shares are transferable in nature. Thus, any person can be the member of the company by purchasing the certificates of investment on company and could with draw his/her membership by transferring his/her shares. In joint stock Company, total' amount of capital is divided into number of shares through which company can collect capital.

Interest

Interest is that additional sure of money changed on borrowings or paid to someone who borrows money from the bands or other financial institutions 'or moneylenders. It is an opportunity cost on sacrificing the saving from own state for certain period.

Securities

Securities are the main sources of long term financing, which involve shares, and debentures issued by the company or government and redeemed in future with interest.

Income Statement

It is a statement, which summarizes and provides the information about revenues and expenditure of the organization during the accounting period. It contains real income and expenditures during the fiscal year. Income statement contains all the items of revenue, gains, losses and operating expenses incurred in carrying on the business and Selling and distribution the goods for the particular accounting period which gives the amount of net profit.

Retained earning

It is the certain portion of the firm's earnings, which is kept for the future use or contingencies. it is an internal source or financing.

Variance

The square of standard deviation is called variance they may be denoted by '$\exists^2$'. It is the statistical tools, which is used to analyze data for this study.

Standard deviation

Standard deviation is the positive square root of the mean of the deviations taken the arithmetic mean, which measures the variability of a set of observations, it can be denoted by '$\exists$'.

Coefficient of variations

Co-efficient of variation (C.V.) is the proportion of standard deviation with mean and multiplied by 100. It can be defined by:

$$\text{C.V} = \frac{X}{\exists} \times 100$$

Mean

A mean is the average value or the sum of all the observations divided by the number of observations and it is denoted by X. The formula is,

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

Correlation

Correlation is one of the statistical tools, which represent the relationship between or among the variables, which does not explain the causes and effects of the change of variables. It explains that two variables are correlated if the changed in one variable results in a corresponding change in the others. It can be categorized into two groups' i.e. Positive correlation and Negative correlation.

Ratio analysis

The relationship between two accounting figures expressed in mathematical manner is called a financial ratio. Ratio analysis is used to compare and analyzed as well as interpret a firm's financial performance qualitative judgment regarding with financial performance of a firm. Only the following ratios of selected firms are calculated and analyzed for this study on investment policy.

a) Liquidity ratio b) Asset management ratio

c) Profitability ratio d) Growth ratio

Loan & advances

Loan & advances and overdraft are the main sources of income for a firm. Bank deposits can be crossed beyond a desired level but the level of loan & advances and overdraft will never cross it. Commercial banks and other financial institution may take more preferential collateral while granting loan & advances. Some portion of loan & advances and overdrafts included that amount which is given to staffs of the banks as home loan, personal loan and others.

2.2 Review of related studies

2.2.1 Review of Books

The banks are such types of financial institutions, which deal in money and substitute for money, or they deal with credit and credit instruments. Good management of credit or credit instrument is varying important for the bank.

According to Shakespeare, Baidhya (1999) has an elaborated definition on 'Investment', which beseeches of sound investment policy and covers wider aspects. He writes, "A sound investment policy of a bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to the depositors and banks on the other hand. Moreover, risk is banking sector tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually springs from significant account of loans that have become uncollected due to mismanagement illegal economic downturn. Therefore, the bank's investment policy must be such that it ensures sound and prudent in order to protect public funds.

"Further in details he deals with what type of loan to banks make? And, how much of loan is to be invested? The bank make a variety of loans to a wide variety of customers from much different purpose from purchasing automobile to construction of home and making trade with foreign countries. There is no uniform rules can be laid down to determine the portfolio of bank. The environment in which the bank operates influences its investment policy. The nature and availability of funds and assets also differ widely from region within a country or country to country. For example the scope of operating a bank in Jumla will be different from the scope of a bank operating in Kathmandu. The investment policy to be applied in Kathmandu may not be applicable to the customer of Jumla because the demand for loans is less in rural areas whereas it is higher in urban areas."

V.K. Bhalla (1997) has derived a three-pointed basic concept of investment. His view on Investment covers.

a) Economic investment that is an economics definition of investment.
b) Investment in a more general or extended sense, which is used by the man of street or ordinary people.
c) The sense in which we are going to be very much interested namely financial investment.

He says, “Banks are those institutions which accepts deposit from the public and turn provide credit to credit, business and industry a that directly makes a remarkable impact on the economic development of a country to collect fund and collect as a good investment a very risk job. Ad-hoe investment decision leads the bank out of the business thereby drown the economic growth of a country. Hence sound investment policy is another secret of successful bank.

Dr. Sunity Shrestha has expressed similar view on investment. She stresses on the fulfillment of credit needs of various sectors, which ensues investment. She expressed in her book “Portfolio Behaviors of Commercial banks in Nepal’s writers.” The commercial banks fulfill the credit needs of various economic sectors including policy of commercial banks is based on the profit maximization of the institute as the economic enhancement of the country.

According to William F. Sharpe, Gordon. T. Alexander and Jeffery V. Baily (1995), “Investment in its broaden sense, means the sacrifice of current dollars for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes places in the present and its magnitude as generally uncertain.”

H.D. Crosse says in this regard “Lending is the essence of commercial banking consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit."

According to I.M. Pandey (1992), "Investment decision expenditure and benefits should be measured in cash. In investment analysis, cash flow is more important than accounting profit. It may also be pointed out of that investment decision and add to the shareholders wealth. Thus, investment should be evaluated on the basis of a criterion, which is compatible with the objective of the shareholder's fund maximization. An investment wills all to the shareholder's wealth if it yield benefit in excess of the minimum benefits as per the opportunity cost of capital."

The decision of investment is very important because it influences the firm's growth in the long run affects. The risk of the firm requires the large amount of funds, which is difficult to make.

A commercial must invest its deposits and other funds to secured, profitable reliable and marketable sector, so that it can earn a reasonable profit as well as it should be secured and can be converted into cash whenever needed. Obviously, a firm that is being considered for commercial loans must be analyzed to find out why the firm needs money, how much money the firm needs and when and how it will be able to repay the loan. Investment; policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success.

According to Mr. Shrestha (1994) the portfolio management activities of Nepalese commercial banks at present are in nascent stage. However, on the other hand, most of the banks are not doing such activities so far because of the following reason:

- Unawareness of the clients about the services available.
- Uncertainty of taking risk by the clients to use such facility.

- Lack of proper techniques to run such activities in the best and successful manner.
- Less developed capital market and availability of new financial instruments in the financial market.

Regarding the joint venture commercial banks, they are very eager to provide such service but because of the above-mentioned problem, very limited opportunities are available to the banks for exercising the portfolio management.

- The survival of the banks depends upon their own financial health and various activities.
- In order to develop and expand the portfolio management activities successfully, the investment management methodology of a portfolio manager should reflect high standards and give their clients the benefits of global strengths, local insights and prudent philosophy.
- With the disciplined and systematic approval for the selection of appropriate countries, financial assets and the management of various risks; the portfolio manager could enhance the opportunity for each investor (client) to earn superior returns overtime.
- The Nepalese banks having a greater network and access to national and international capital markets have to go for portfolio management activities for the increment of their fee based income as well as to enrich the client vase and to contribute in national economy.

Bhagat Bista, in his book “Nepal Ma Aadhunik Banking Byabastha”, has made an attempt to highlight some of the important factors, which have contributed to the efficiency, and performances of joint venture banks. he concluded that the establishment of joint venture banks a decade ago marks the beginning of modern banking era in Nepal. The joint venture banks have brought many new banking techniques such as computerization hypothecation, consortium finance and modern fee based activities into the economy.

2.2.2 Review of Research works

Some student has conducted several thesis works regarding the various aspects of commercial banks. Some of them are presented below;

Mr. Mahendra Mandala (1998), in his thesis paper "A Comparative Financial Performance Appraisal of Joint Venture Banks" has studied primarily three joint venture i.e. NABIL, NGBL, Nepal Indoseuz Bank Ltd. His main objective is to find out both banks, NGBL and NABIL have mobilized the debt funds in proper way for generating more return but Nepal Indosuez bank (NIBL) could not mobilize as NABIL and NGBL. He has recommended that all the banks should provide their facilities in rural areas and encourages the small entrepreneur's development programmers, play merchant banking role, mobilize the deposit funds in productive sectors and grant priority to the local manpower.

Mahindra Mandala has not attempted to show the investment policy and concentrated only on financial performance of JVBs. Similarly, he has not studied the performance appraisal of JVBs, there performance appraisal of JVBs, therefore, it cannot represent the performance appraisal of JVBs. His study is comparative study of only three JVBs. His study period is up to F/Y 1997/98.

Mr. P. Dhungana (1980), in his thesis paper, "A study of joint venture banks profitability" has analyzed the profitability ratio of the joint venture banks i.e. NGBL and NABIL. The research conclude that all joint venture banks have been operating satisfactory over the study period exhibiting their better efficiency in utilizing their deposit, however NIGL earning more interest. The evaluation on various profitability rates of joint venture banks show improving than NABIL. He suggests all the joint venture banks to mobilize savings from different parts of the country and the banks to increase their equity base too.

He has taken three joint venture banks, i.e. NGBL, NABIL & NIBL, which are the lending joint venture banks of Nepal in his study.

Mr. Khadka (1998) in his thesis paper "A Study on the Investment Policy of Nepal Arab Bank Ltd. in comparison to other joint venture bank of Nepal" has presented that the liquidity position of the bank may be affected by external as well as internal factors. In his study, he found that to get success in competitive banking business depositor's money must be utilized as loan & advances. The largest item of the bank in assets side is loan & advances. Negligence in administering these assets could be the main cause of a liquidity crisis in the bank and major reason of bank failures. NABIL's loan & advances to total depositor's ratio is lower than that of other joint venture bank. He recommends following liberal policy and investing more and more percentage of the total deposits in loan & advances and increase cash and bank balance to meet loan demand. He also suggested to play the role of financial intermediary and merchant banking like underwriting of securities brokers, development of capital market and supportive in the security exchange.

He centralized his study on invest or lending more amount of total deposit but not on how bank collects more deposit. Without collecting it cannot invest and unable to collect more is also reason of bank failure. His study, however, does not show how the banks will succeed in own business.

Upendra Tuladhar (2000), in his thesis work entitled "A Study on the investment policy of Nepal Grindlays Bank Limited in comparison to other joint venture bank of Nepal." He has highlighted the following objectives to complete thesis work during the thesis periods.

- To study the mobilization of fund and investment policy.
- To evaluate the liquidity efficiency of asset management and profitability position growth rations.

In last section of his study, he has concluded the following findings;

- Mean current ratio of NGBL is slightly higher than that of other banks i.e. NABIL and HBL. Liquidity position of NGBL is less than that of other two JVBs.
- Mean of cash and bank balance to current ratio of NGBL is less than that of NABIL and HBL
- Mean of investment on government securities to working fund ratio of NGBL is better than that of other JVBs.
- NGBL has the largest profit margin in comparison with other two JVBs.
- Growth ratio of NGBL and NABIL is negative but it is found that

HBL has increasing growth ratio, finally, he has presented the following suggestions.

- JVBs are recommended to provide information about their services and facilities.
- JVBs should extend their services to rural areas and priority sectors of the Kingdom.
- JVBs should increase cash and bank balance to meet the need of investment and demand of loan & advances.
- JVBs should follow the liberal lending policy.

He has recommended investing their funds in the purchase of shares and debentures of other financial, non-financial companies, hotels and government companies. His study period is up to 1999/00, which cannot represent the investment policy of succeeding fiscal year.

Mr. Prem (1999) has come up with some recommendations for better investment policy of the JVBs. According to him, the financial and economical development of a country largely rests on the industrialization and commercialization. The JVBs are to venture in new sectors of investment with low level of risks. The loan default in commercial banks is result of various factors i.e. political influence, lack of the necessary skills of project appraisal, improper collateral evaluation, irregular supervision and lack of entrepreneurial attitude. He has suggested for the enactment of strong loan recovery act and its proper implementation for the recovery of loans. His study basically focuses the investment policy of commercial banks of Nepal. It is also unable to examine the risk factors.

Miss Thapa (2001) in her thesis “A comparative study on investment policy of Nepal Bangladesh bank and other joint venture banks (NABIL & NGBL) shows that the liquidity position of NBBL is comparatively better than that of other joint venture banks. It has high cash and bank balances to current assets ratio. It shows good position but it has to bear high cost of fund. She concluded that NBBL has good deposit collection and has made enough loans & advances but negligible amount of investment in government securities and profitability position of NBBL is comparatively worse than that of other JVBs but it must maintain its high profit margin for the well being in future.

From her study NBBL has the ability to meet daily cash requirement of its customers deposit but it doesn’t earn return so she recommends making investment on government securities (Like Treasury bills, development bonds, saving certificates etc.) instead of keeping them idle. NBBL can’t recover loan & advances in comparison with NABL & NGBL, it impacts negative on profit so she recommend to apply loan recovery act that would help to realize overdue an innovative approach to bank marketing.

Her study is based on investment policy of NBBL compared with other joint venture banks (NABIL & NGBL) for five years activities. It would not be reasonable period to evaluate the banks performance was best or not comparative at with other joint venture banks as NGBL & NABIL are well established and have goodwill, lending JVBs of Nepal whereas NBBL is just established and a growing bank.

Mr. Joshi (2003) in his thesis, “A comparative study on investment policy of Standard Chartered Bank Nepal Ltd. and Everest Bank Ltd”, shows that both banks have non-satisfactory current ratio in the study period is some F/Y both banks have lower current ratio then 1. He found that liquidity position of EBL is better SCBNL. The cash and bank balance of EBL with respect to deposit is better against the readiness to serve its customers deposit than SCBNL.

The mean ratio of cash and bank balances to account assets of SCBNL is lower in comparison to EBL. He concluded that, it can be said that SCBNL is not in a better position to maintain its cash and bank balances in comparison to EBL but it doesn’t mean it can’t meet its daily requirement to make the payment of customer’s deposit. Contrast EBL, may have to invest their found in more productive area.

SCBNL has investment it’s more portion of current assets in government securities than EBL. SCBNL has made higher amount of investment on government securities this is due to unavailable of other secured and profitable investment sector. Whereas the lower amount of EBL is investment in government security. It may be the reason of more investment on other productive sector.

He concluded that EBL is success to mobilize its total deposit as loan & advances and acquiring high profit in comparison to SCBNL. Whereas high ratio is not better advances is not as liquid and cash a bank balance, it can be stated that SCBNL has invested higher amount in share and debenture in comparison to EBL.

From analysis of coefficient of correlation analysis he can conclude that both SCBNL and EBL have significant positive relationship between deposit and loan & advances, deposit an investment and total outside assets and not profit.

From his study, trend value of deposits loan & advances, investment net profit shows that continuously increasing trend. In conclusion it is quite obvious that

SCBNL's deposit collection position in relation to EBL is proportionally better in ten years. He can say that both SCBNL & EBL have followed the policy of maximizing the investment.

After detail study of the previous thesis, researcher has reached into this conclusion that no one has done comparatively study on investment policy of commercial banks i.e. NBBL & EBL of Nepal. Researcher has tried to show the investment policy of JVBs and has also analyzed the relationship between different variables. This work is different with previous works. Study period is different than previous studies although there is similar topic. So this research work is necessary to study.

The research has used more secondary data. Only few primary data are used. The factors of both banks have been analyzed. The researcher has comparatively analyzed the posit collection position of the firms and position of the fund mobilization. Comparative growth ratios have been calculated and analyzed in this study. Other researchers have not made this type of study of JVBs, which is tried by the researcher in this study.

2.2.3 Review of Articles

Mr. Sunil Chopra (1998) in his article: "Role of foreign banks in Nepal"24 had conduced 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.

Likewise, Sharma Murari R. (1997) wrote an article, "Joint Venture Bank in Nepal: Co-existing or Growing Out". In his words, it would be definitely unwise for Nepal not to let the JVBs operate in the country and not to take an advantage of them as additional means of resources for the country to develop JVBs and the cost of the domestic banks. So far one should admit frankly no different treatment has been extended to the domestic and JVBs at least from the government side, which is commendable. If his Majesty's Government keeps on the stance of treating the domestic and JVBs equally deposit lather’s bargaining strength and if the JVBs also show their alacrity to come forward to share the trials and tribulations of this poor country, both types of banks will coalesce and co-exist complementing each other and contributing to the nation’s accelerated development. On the country, if the JVBs use their strength against trading into the number, some path of development along with domestic banks and the government, they will eventually grow out the domestic banks from the more profitable urban and lucrative urban sectors unless remedying by the determination of the government”.

Mr. Bodhi B. Bajracharya (1991), in his article “Monetary policy and Deposit Mobilization in Nepal”, has concluded that mobilization of the domestic saving is one of the prime objectives of the monetary policy in Nepal and commercial intermediary for generating resources in the form of deposit of private sector and providing credit to the investor in different sectors of the economy.

Mr. Ramesh Lal Shrestha (2004), in his article, “A Study on Deposits and Credit of Commercial Banks in Nepal” has concluded that the credit deposits ratio would be 51.3% other things remaining the same, in 2004 A.D., which was lowest under the period of review. So he had strongly recommended that the commercial banks should try to give more credit entering new field as far as possible, otherwise, they might not be able to absorb even their total expenses.

Sunity Shrestha has analyzed in her article “Financial Performance of Commercial banks using both descriptive and diagnostic approach” in her studies she has concluded the following points:

- The structural ratio of commercial banks shows that banks invest on the average 75% of their total deposit on the government securities and shares.
- The analysis of resources position of commercial banks should quit high percentage of deposit as cash reserve.

- Return ratios of all the banks show that most of the time foreign banks have higher return as well as higher risk than Nepalese banks.
- The debt-equity ratios of commercial banks are more than 100% in most of the time period under study period. It let to conclude that the commercial banks are highly leveraged and highly risk. Joint venture banks had higher capital adequacy ratio but has been dealing every day.
- In case of the analysis of the management achievement foreign banks have comparatively higher total management achievement index.

Thus, comparing all the banks through the time period, financial condition and performance are better in joint venture banks than local banks.

According to Asian weekly newspaper report, Published from Hong Kong, Competition between joint venture banks made them to collect large amount as deposit. In same way, Nepal’s two joint venture Nepal Arab Bank Ltd. & Himalayan Bank Ltd. are positioned among, 500 biggest banks of Asia region. This evaluation is based on the total asset, deposit, loan investment, net income & profit and investment on shares.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives. This chapter refers to the overall research method from the theoretical aspects to the collection and analysis of data. Research Design, Population and Sample size, Data Collection Techniques and Data Analysis Tools are included in this chapter.

3.1 Research Design

Research design is necessary for each research work. It is the plan, strategy, investigation conceived so as to obtain answer to reach questions and to control variances. This study depends on the secondary data. It includes all process of collecting, verifying and evaluating of past evidence systematically and objectively to reach conclusion. Some statistical and accounting tools have been adopted to examine facts in this study and descriptive and analytical research design also has been used.

3.2 Population and Sample

There are all together listed 32 commercial banks as listed in Nepal Stock Exchange. Among then only two joint venture banks viz. NBBL, EBL have been taken into account for research as samples on basis of financial performance.

These two banks are taken in account for comparative study. Their investment policy may be different, depend upon the bank of establishment period.

3.3 Data Collection Techniques

The study is mainly based on secondary data. The secondary sources of data collection are those that have been used from published on used by someone previously. The secondary sources of data are balance sheet; P & L account of Concerned banks; annual report and literature publication of the concerned bank has furnished some important data to this protect study. Some supplementary data and information have been collected from the authoritative sources like Nepal Rastra Bank, Central Library T.U., Shankar Dev Campus Library, Nepal Stock Exchange Limited, Security Exchange Board, Economic Survey, different journals, magazines and other published and unpublished reports documented by the authorities.

The data for the study are collected from record available, security board and annual reports of concerned banks. The various stock exchange publications formed at-, important supplementary source of the data for this project study, particularly on investment policy. The data is collection of raw information taken in stateside manner. The data are prerequisites of any project study. The data collection details the labors and time it is the most necessary step in project study without the study cannot be done.

3.4 Data Analysis Tools

This study needs some financial and statistical tools to accomplish the objectives of this study. The financial and statistical tools are most reliable. To achieve the objective of the study, various financial statistical and accounting tools have been used in this study.

1. Financial tools and
2. Statistical tools.

1. Financial tools

Financial tools basically helps to analyze the strength and weakness of a firm. Ratio analysis is one of the important financial tools has been used in the study. It helps to show the mathematical relationship between two accounting items or figures. Ratio analysis is the only two that can collect the financial performance and status of a firm with other firms. Although, there are various types of ratios to analyzed and interpret the financial statement only four ratios have been taken in the study, which are mainly related to investment policy of banks. They are as follows:

A. Liquidity Ratio

i. Current ratio

ii. Cash and bank balance to total deposit ratio

iii. Cash and bank balance to current asset ratio

iv. Investment on Government securities to current asset ratio

i. Current Ratio

It refers to the relationship between current assets and current liabilities of a firm that also measures the short-term solvency of the firm. Current assts involve cash and bank balance, money at call or short, loans & advances, investment on government securities and others interest receivables, overdrafts, bills purchased and discounted and miscellaneous current assets. Similarly, current liabilities include deposits and other short-term loan, bills payable, tax provision, staff bonus, dividend payables and other miscellaneous current liabilities.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

The widely accepted slandered of current ratio is 2:1 but accurate standard depends on circumstances in case of seasonal business ratio and the nature of business

ii. Cash and bank balance to total deposit

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

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

iii. Cash and bank balance to current asset ratio

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

$$\text{Cash and bank balance to current asset ratio} = \frac{\text{Cash and bank balance}}{\text{Current assets}}$$

iv. Investment on government securities to current asset ratio

This ratio is used to find the percentage of current assets invested on government securities, treasury bills and development bonds. This ratio can be calculated dividing the amount of investment on government securities by the total amount of current assets and can be stated as follows,

$$\text{Investment on government securities to current assets ratio} = \frac{\text{Investment on government securities}}{\text{Current ratio}}$$

B. Asset Management Ratio

Asset management ratio is here used to indicate how efficiently the selected banks have arranged and invested their limited resources. The following financial ratios related to investment policy are calculated under asset management ratio and interpretations are made by these calculations.

i. Loan and Advances to total deposit ratio
ii. Loan and Advances to total working fund ratio
iii. Total investment to total deposit ratio
iv. Investment on Government securities to total working fund ratio
v. Investment on shares & debentures to total working fund ratio

i. Loan & advances to total deposit ratio

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

$$\text{Loan \& advances to total deposit ratio} = \frac{\text{Total loan \& advances}}{\text{Total deposit}}$$

ii. Loan & advances to total working fund ratio

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

$$\text{Loan \& advances to total working fund ratio} = \frac{\text{Total loan \& advances}}{\text{Total working fund}}$$

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

iii. Total investment to total deposit ratio

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

$$\text{Total investment to total deposit ratio} = \frac{\text{Total investment}}{\text{Total deposits}}$$

iv. Investment on shares & debentures to total working fund ratio

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

Investment on government securities to total working fund ratio =

$$\frac{\text{Investment on government securities}}{\text{Total working fund}}$$

v. Investment on shares and dentures to total working fund ratio

Investment on shares and dentures to total working fund ratio shows the investment of banks and finance companies on the shares and debentures of other companies in terms of total working fund. This ratio can be obtained dividing on shares and debentures by total working fund. That van be calculates as,

Investment on share & debenture to total working fund ratio =

$$\frac{\text{Investment on share \& debenture}}{\text{Total working fund}}$$

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

C. Profitability Ratios

Profitability ratios are used to indicate and measure the overall efficiency of a firm ill term of profit and financial position and performance of any institution. For better financial performance, profitability ratios of firms should be higher. Profitability position >f the firms can be presented though the following different ways:

i. Return on total assets (Total working fund)
ii. Return on loan && advances ratio
iii. Total interest earned to total working fund ratio
iv. Interest earned to total operating income ratio
v. Total interest paid to total working fund ratio

i. Return on total assets (Total working fund)

Return on total assets ratio measures the profitability position of the selected banks and finance companies in comparison with total assets of those selected firms. It is calculated dividing return or net profit (loss) by total working fund and can expressed as,

$$\text{Return on total assets} = \frac{\text{Net profit (loss)}}{\text{Total assets}}$$

ii. Return on loan & advances ratio

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

$$\text{Return on loan \& advances ratio} = \frac{\text{Net profit (loss)}}{\text{Total loan \& advances}}$$

iii. Total interest earned to total working fund ratio

Total interest earned to total working ratio is calculated to find the percentage of interest earned to total assets. Higher ratio indicates the better performance of financial institutions in the form of interest earning on its working fund. This ratio is calculated divining total interest earned from investment by total working fund and is mentioned as

$$\text{Total interest earned to total working fund ratio} = \frac{\text{Total interest earned}}{\text{Total assets}}$$

iv. Interest earned to total operating income ratio

Interest earned to total operating income ratio is calculated to find out the ratio of interest income with operating income of financial institutions. This ratio indicates how efficiently the selected banks and finance companies have mobilized their resources to bear the interest on total operating income and can be stated a,

$$\text{Interest earned to total operating income ratio} = \frac{\text{Total interest earned}}{\text{Total assets}}$$

v. Total interest paid to total working fund ratio

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

This ratio is calculated by dividing total interest paid by total working fund. The following table shows the total interest paid to total working fund ratio of NBBL and EBL's different five years of the study period.

D. Risk Ratios

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

i. Liquidity risk ratio
ii. Credit risk ratio

i. Liquidity risk ratio

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

The risk is low if funds are kept idle as cash and bank balance. But this reduces profitability. When bank flow loan, it's profitability increases and also the risk. Thus higher liquidity ratio indicates less risk and less profitable bank and vise-versa. This ratio is calculated by dividing cash and bank balances to total deposit.

ii. Credit risk ratio

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

$$\text{Credit: risk ratio} = \frac{\text{Total loan \& advances}}{\text{Total assets}}$$

E. Growth Ratios

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

i. Growth ratio of total deposits
ii. Growth ratio of total investment
iii. Growth ratio of loan & advances
iv. Growth ratio of net profit

2. Statistical Tools

Some important statistical tools are used to achieve the objective of this study. In this study, statistical tools such as correlation coefficient analysis, standard deviation coefficient of variance least square linear trend. The basic statistical analysis related to this study is given below:

i. Karl Pearson's Correlation Co-efficient analysis

This statistical tool has been used to analyze, identify and interpret the relationship between two or more variables. It interprets whether two or more variables are correlated positively or negatively. Statistical tool analyzes the relationship between those variables and helps the selected banks to make appropriate investment policy regarding to profit maximization and deposit collection; fund utilization through providing loan & advances or investment on other companies. Karl Pearson's co-efficient of correlation has been used to find out the relationship between the following variables.

i. Co-efficient of correlation between deposit and loan & advances.

ii. Co-efficient of correlation between deposit and total investment.

iii. Co-efficient of correlation between outside assets and net profit.

Simply Karl Pearson's correlation co-efficient (r) can be obtained as;

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

Where,

n = number, of observation in series X & Y

ϕX = Sum of observation in series X

ϕY = Sum of observation in series Y

ϕX^2 = Sum of squares of observation in series X

ϕY^2 = Sum of squares of observation in series Y

ϕXY = Sum of product of observation in series X & Y

b. Trend Analysis

This type of statistical analysis interprets the trend of deposits, loan & advances, investments and net profit of NBBL and EBL from 2002/03 to 2006/07. It is necessary to calculate the forecasting for next five years till 20011/12. The following trend analysis has been used in this study.

i. Trend analysis of total deposits.
ii. Trend analysis of loan & advances.
iii. Trend analysis of total investment.
iv. Trend analysis of net profit.

c. Test of Hypothesis

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

i. Formulating hypothesis (Null hypothesis and Alternative hypothesis)
ii. Computing tile test statistic.
iii. Fixing the level of significance.
iv. Making decision.

CHAPTER- IV

PRESENTATIONS AND ANALYSIS OF DATA

4.1 Data Presentations and Analysis

This is analytical chapter, where the researcher has analyzed and evaluated those measure financial items, which mainly effect the investment management and fund mobilization of and NBBL and EBL in comparison. There are many types of financial ratios but those ratios are calculated and analyzed which are very important to evaluated fund mobilization of commercial banks.

4.2 Financial Tools

Financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. For the purpose of this study, ratio analysis has been mainly used any with the help of it, data has been analyzed.

Under this chapter various financial ratios related to the investment management and the fund mobilization are presented and discussed to evaluated and analyzed the performance of two joint venture banks: NBBL & EBL,. Study of all types of ratio is not done. Only those ratios that are important from the point of view of the fund mobilization and investment are calculated. The important ratios that are studied for this purpose are given below:

A. Liquidity ratio
B. Asset management ratio
C. Profitability ratio
D. Risk ratio
E. Growth ratio

A. Liquidity Ratios

Commercial banks collects the fund from community of commitment of return their money when demand it. So they must maintain its sufficient liquidity position to fulfill that commitment of return depositor's deposit, withdraw, convert non-cash assets to cash to satisfy immediate needs without any loss to bank and consequent impact on long-run profit.

i. Current ratio

Current ratio indicates the ability of the bank to meet its current obligation. It measures the liquidity position of financial institutions. Current ratio is calculating dividing, current assets by current liabilities. The current ratio on NBBL & EBL is given bellowing table.

Table No. 1

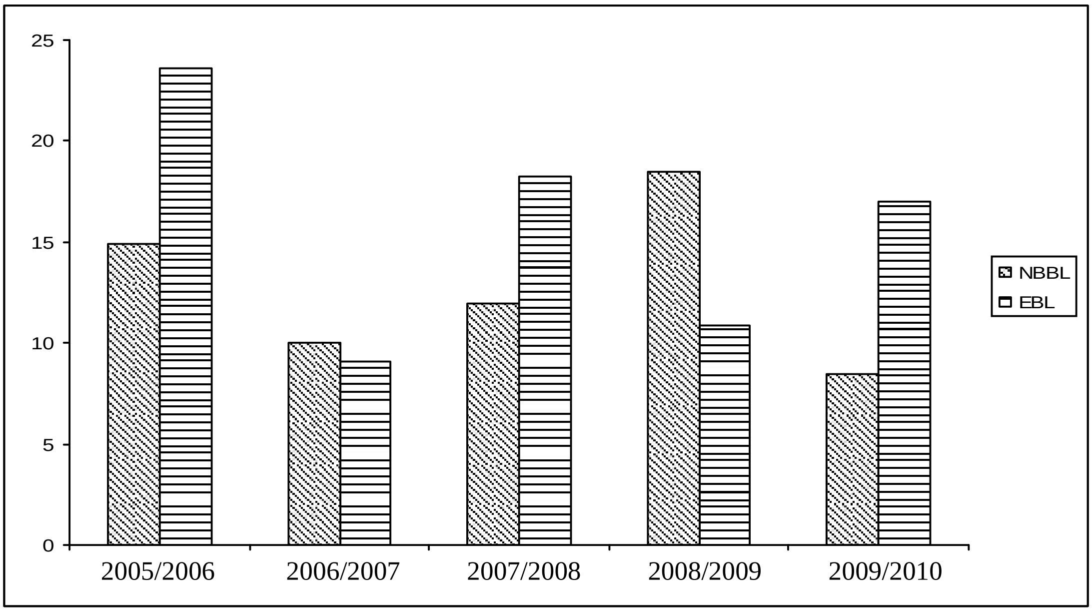
Current Ratio (Times)

F/Y	NBBL	EBL
2005/2006	0.87	0.97
2006/2007	1.0 1	1.04
2007/2008	1.02	1.03
2008/2009	1.02	1.04
2009/2010	1.00	1.05
Mean	0.984	1.026
S.D.	0.057	0.029
C.V. (%)	5.79%	2.83%

See Appendix-3

Figure No.1

Current Ratio



From the above table it is clear that current asset of NBBL & EBL are some time more and some time less than current liabilities. It indicates that both banks in certain FY are not capable to pay their current obligations. The comparative table has related that current ratios of both NBBL & EBL has fluctuation trend through the study period. The table shows that F/Y 2006/2007, 2007/2008, 2008/2009, 2009/2010 of both NBBL & EBL have more current asset than current liabilities.

In average, EBL has maintained higher current ratio than NBBL i.e. 1.026 >0.984. It shows that liquidity position of EBL is better than NBBL. The co-efficient of variance between current ratio is 5.79% in terms of NBBL and 2.83% in terms of EBL.

Through the optional standard of current ratio should be 2:I but 1:1 is also considers for the banks. This ratio represents the relationship between each & other current assets to its current obligation. Current ratio be measured as:

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

ii. Cash and bank balance to total deposit ratio

Cash and bank balance consist of cash on hand, foreign each hand, cheques and items, balance with domestic banks. These ratio measures the availability of banks highly liquid or immediate funds to meet it unanticipated calls on all types of deposits. This ratio is calculated as:

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

As high ratio indicates the greater ability to meet there deposits and vice - versa. The following table shows the cash and hank balance to total deposit ratio of NBBL & EBL.

Table No. 2

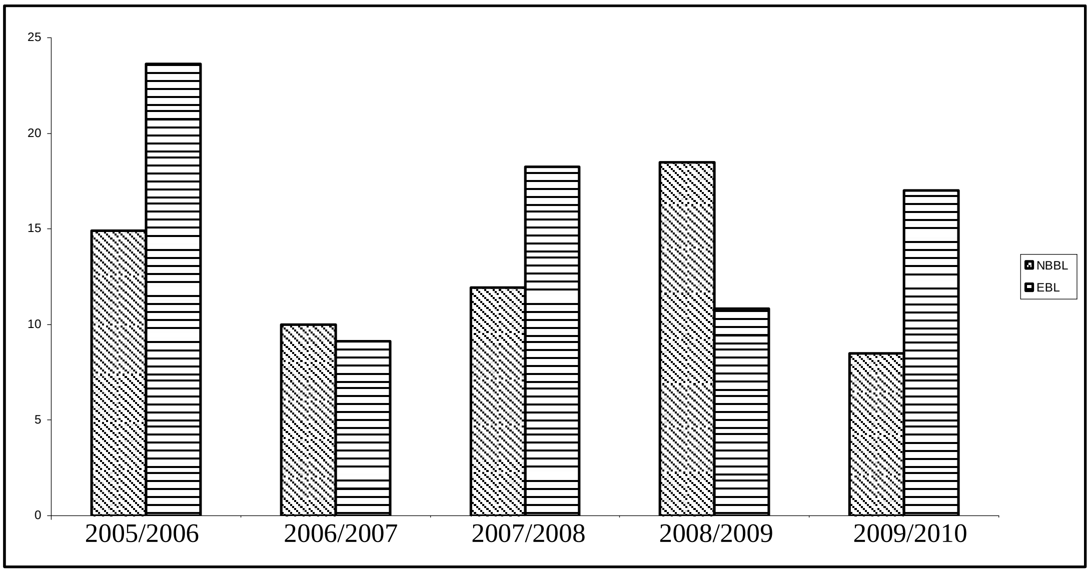
Cash and Bank Balance to Total Deposit Ratio (%)

F/Y	NBBL	EBL
2005/2006	14.91	23.63
2006/2007	9.98	9.11
2007/2008	11.93	18.25
2008/2009	18.49	10.84
2009/2010	8.50	17.02
Mean	12.76	15.77
S.D.	3.58	5.26
C.V. (%)	28.06%	33.33%

See Appendix-4

Figure No. 2

Cash and Bank Balance to Total Deposit Ratio



Above table shows that the comparative cash and bank balance to total deposit ratio, which is in fluctuating trend for both NBBL & EBL. NBBL higher ratio is 1491% in F/Y 2005/2006 and lower is 8.50% in F/Y 2009/2010. Similarly in case of EBL higher ratio is 23.63% in F/Y 2005/2006 and lower ratio is 9.11% in F/Y 2006/2007.The mean ratios of NBBL & EBL are 12.76 and 15.77 respectively. The mean ratios of EBL are lower than NBBL. On the basis of co-efficient of variation it can be conclude that NBBL ratios are consistent than that of EBL i.e. 28.06%<33.33%.

The above analysis helps to conclude that the cash and bank balance position EBL with respect to deposit is better against the readiness to serve its customer deposit than NBBL. It implies the better liquidity position of EBL. In contrast a high ratio of non - earning cash and bank balance may be unfit which indicates the banks inability to invest its funds in income generation areas. There EBL may invest in more productive sector likes short-term marketable securities, treasury bills etc. insuring enough liquidity which will help the bank to improve its profitability.

iii. Cash and Bank Balance to Current Assets Ratio

This ratio shows the banks liquidity capacity on the basis of each and bank balance that is the most liquid asset. High ratio indicates the banks ability to meet the daily cash requirement of their customer deposit and vice versa. But high ratio is not preferred as the bank has to pay more interest on deposit and will increase the cost of fund. Lower ratio is also very dangerous as the bank may not be able to make the payment against the cheques presented by the customers. Therefore, bank has to balance the cash & bank balance to current asset ratio in such a manner that it should have the adequate cash for the customers demand against deposit when required, and less interest is required to be paid against the cash deposit.

We have,

$$\text{Cash \& bank balance to current assets ratio} = \frac{\text{Cash \& bank balances}}{\text{Current assets}}$$

Table No. 3

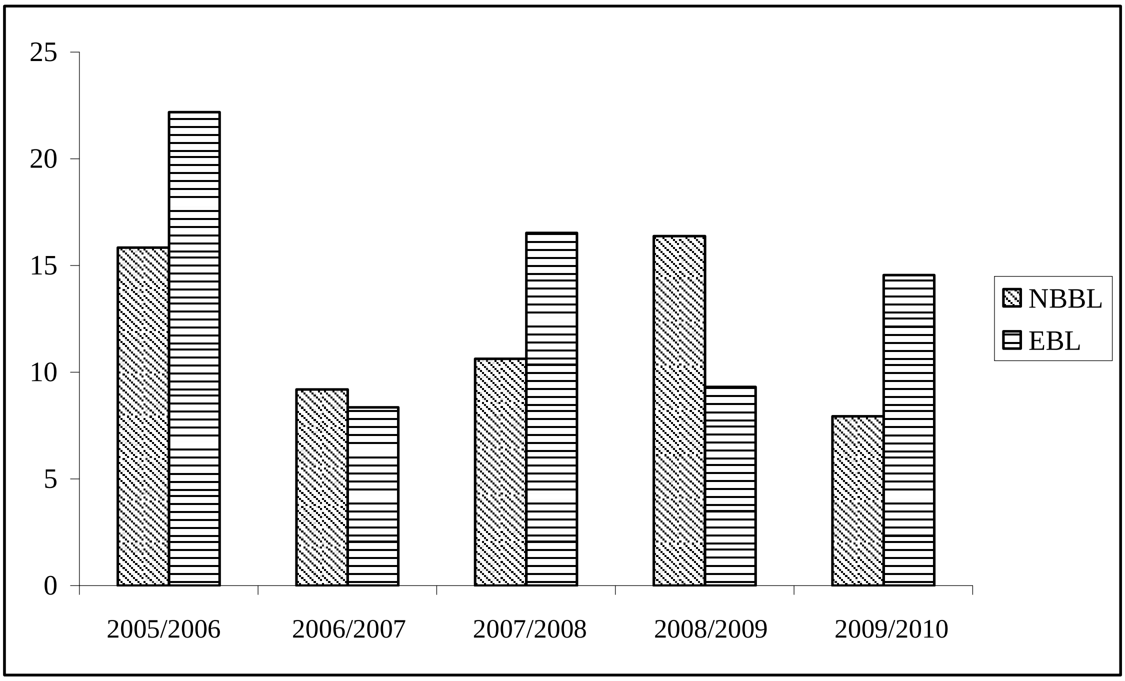
Cash & Bank Balance to Current Assets Ratio (`%)

F/Y	NBBL	EBL
2005/2006	15.85	22.18
2006/2007	9.18	8.35
2007/2008	10.64	16.53
2008/2009	16.39	9.32
2009/2010	7.92	14.54
Mean	11.852	14.184
S.D.	3.48	5.04
C.V. (%)	29.36%	35.53`%

See Appendix-5

Figure No.3

Cash & Bank Balance to Current Assets Ratio



From the above table it is clear that cash & bank balance to current asset ratios of both NBBL & EBL has a fluctuating trend. In case of NBBL, it has maintained higher ratio in F/Y 2008/2009 i.e. 16.39 % and lower ratio in F/Y 2009/2010 i.e. 7.92 %. Similarly, while observing the same ratio of EBL, they were also not maintaining there in the same level though the study period. They registered highest ratio i.e. 22.18 % in F/Y 2005/2006 and lowest ratio i.e. 8.35 % in F/Y 2006/2007.

The comparative tables listed above shows that the mean ratio of NBBL lowers than that of EBL i. e. 11.852 % <14.184 %. It supports the conclusion that NBBL has been not successful to maintain its higher cash & bank balance to current asset ratio in comparison. However co-efficient of variation of ratio of NBBL is lower than that of EBL i.e. 29.36 < 35.53. It shows that NBBL is variability of ratio is less than EBL. In conclusion, it can be said that NBBL is not in a better position to maintain its cash & bank balance in comparison to EBL, but it does not mean it cannot meet its daily requirement to make the payment on customs on customer's deposit. In contrast EBL may have to invest their fund in more productive area.

iv. Investment on Government Securities to Current Assets Ratio

This ratio examine that portion of commercial banks current assets, which invested on different bank is interest to invest their collected fund on different types of securities issued by government in different times to utilize their excess funds and have for other purpose. Though government securities are not so liquid as cash balance of a commercial bank, they can be easily sold in the market or they can be concerted into cash in other ways.

This ratio shows that out of total current assets, how much percentage f it has been occupied by the investment on government securities. This ratio is computed by dividing investment on GOVT. presents in the following table.

B. Asset Management Ratio

Asset management ratio measure the efficiency of the bank to manager its asset in profitable and satisfactory manner. A commercial bank must manager its asset properly, earn high profit. Under this chapters following ratios are studied.

- i. Loan and advance to total deposit ratio.
- ii. Total investment to total deposit ratio.
- iii. Loan and advance to total working fund ratio.
- iv. Investment on government securities on total working fund ratio.
- v. Investment on shares and debentures to total working fund ratio

i. Loan and Advances to Total Deposit Ratio

This ratio actually measures the bank success to mobilize the deposit loan and advances for the purpose of profit generation.

A high ratio indicates better mobilization of collected deposit and vice versa. But it should be noted that too high ratio might not be better from liquidity point of view. This ratio is calculated dividing loan and advance by total deposits. The following table shows the loan and advance to total deposit ratio of NBBL and EBL throughout the study period.

Table No. 4

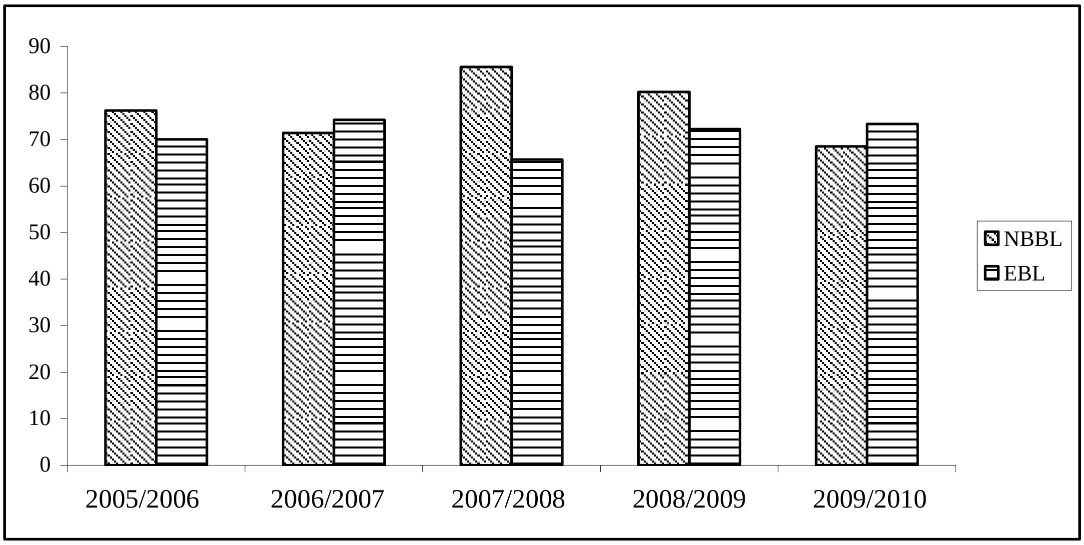
Investment in Government Securities to Current Assets Ratio (%)

F/Y	NBBL	EBL
2005/2006	76.21	70.03
2006/2007	71.39	74.25
2007/2008	85.56	65.70
2008/2009	80.22	72.22
2009/2010	68.50	73.31
Mean	76.376	71.102
S.D.	6.09	3.062
C.V. (%)	7.98%	4.30%

See Appendix-7.

Figure No. 4

Cash & Bank Balance to Current Assets Ratio



The comparative table listed above shows, that NBBL & EBL recorded fluctuation trend. During the study period, it has highest ratio in F/Y 2007/2008 i.e. 85.86% and lowest in 2009/2010 i.e. 68.50 % in NBBL, whereas, EBL's ratios are highest in F/Y 2006/2007 i.e. 74.25 % and lowest in 2007/2008 i.e. 65.70 %.

On other hand, when mean ratio of loan and advances of NBBL & EBL are compared, NBBL seems to be strong to mobilize its total deposit as loan and advances in comparison to EBL because of its highest mean ratio i.e. 76.37 % when EBL has 71.01 % only. On the basis of co-efficient of variance we can say that EBL loan and advances ratio is more consistent then NBBL because of the lower C.V. i.e. 4.30% <7.98 %.

From above description it can be concluded that NBBL is success co mobilize its total deposit as loan and advances acquiring high profit in comparison to EBL. Whereas, high ratio is not better from the point of view of liquidity as the loan advances is not as liquid as cash and bank balance. When grand loan and advances of bank, so many factors am to be considered, such as risk analysis, diversification, social responsibility, bank credit policy and limits of lending policy etc.

ii. Total Investment to Total Deposit Ratio

A commercial hank may mobilize its deposit by investing its fund in different securities issued by government and other financial or non- financial companies. Now efforts has been made to measure the extend to which the bank are successful in mobilizing the total deposit on investment.

In the process of portfolio management of bank various factors such as availability of fund, liquidity requirements central bank norms etc. are to be considered in general. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice-versa.

This ratio is calculated by dividing total investment by total deposit and the ratio NBBL & EBL is presented in the following table.

Table No. 5

Investment in Government Securities to Current Assets Ratio (%)

F/Y	NBBL	EBL
2005/2006	0	9.49
2006/2007	6.86	8.42
2007/2008	7.86	18.00
2008/2009	10.19	28.15
2009/2010	20.13	23.88
Mean	9.008	17.588
S.D.	6.514	7.715
C.V. (%)	71.31	43.86

See Appendix-8.

The above table reveals that NBBL's total investment to total deposit ratio in increasing trend during the study period. In F/Y 2009/2010 it has highest ratio i.e. 20.13 % and in F/Y 2005/2006 it has nil ratio i.e. 0%. In case of EBL, it has fluctuating trend during the study period. In F/Y 2008/2009 EBL's ratio is highest i.e. 28.15 % & lowest is 8.42% in F/Y 2006/2007.

On the basis of mean ratio it can be said that EBL's capacity to mobilize its deposit on total investment is more than NBBL because it has higher mean ratio 17.58% but NBBL has lower mean ratio 9.008%. On the other hand observing the co-efficient of' variance of ratio, we can concluded that EBL ratio during the study period, has been seen more consistent then that of NBBL because of its lower C.V. i.e.43.86 %< 71.31 %. So we can obviously say thee form the above analysis, EBL is successful in utilizing its resources as on investment point of view than NBBL.

iii. Loan and Advances to Total Working Fund Ratio

A commercials bank's working fund should play very significant role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advances for the purpose of income generation. A high ratio indicates a better mobilization of fund as loan and advances and vice- versa.

This ratio is computed by dividing loan and advances by total working fund (total assets). The following table exhibits the ratio of loan and advances to total working fund of NBBL and EBL during the study period.

Total No. 6

Loan & Advances to Total Working Fund Ratio (%)

F/Y	NBBL	EBL
2005/2006	65.85	60.00
2006/2007	62.84	66.54
2007/2008	73.86	57.77
2008/2009	68.74	60.00
2009/2010	60.74	60.96
Mean	66.406	61.054
S.D.	4.607	2.936
C.V. (%)	6.93%	4.80%

See Appendix-9

The comparative table listed above shows that NBBL's ratio is in slightly decreasing trend except for the third year of the review period. It has maintained highest ratio of 73.86 % in F/Y 2007/2008 and lowest ratio of 60.74 % in F/Y 2009/2010. Whereas, EBL has this ratio in fluctuating trend, the highest ratio is 66.54 % in F/Y 2006/2007 and lowest ratio is 57.77 % in F/Y 2007/2008.

When observing the average ratio of loan and advances to total working fund, it can be said that NBBL has maintained higher ratio than EBL i.e. 61.054 %> 66.406 %. It reveals that NBBL is in strong position to mobilize its total working fund as loan and advances. The coefficient of variation of NBBL is less consistent i.e. 6.93 °/> > 4.80 %.

From the above analysis, it can be concluded that NBBL's fund mobilization in term of loan and advances with respect to TWF are satisfactory.

iv. Investment on Government Securities to Total Working Fund Ratio

This ratio reveals that the banks are successful in mobilizing their total working fund on different types of government securities to maximize the income: The bank should not utilize its all deposits in loan and advances and other form of credit, from securities and liquidity point of view. Therefore commercial banks seem to be interested to utilize their deposit by purchasing Govt. securities. A high ratio indicates better mobilization of fund as investment on government securities and vice-versa.

This ratio is calculated as dividing investment on Govt. securities and by total working fund. The following table shows the ratios of NBBL and EBL.

Table No. 7

Investment on Government Securities to Total Working Fund Ratio (%)

F/Y	NBBL	EBL
2005/2006	0	8 13
2006/2007	6.03	7.55
2007/2008	2.63	15.82
2008/2009	8.02	23.29
2009/2010	17.09	19.86
Mean	6.754	14.93
S.D.	5.858	6.256
C.V. (%)	86.73	41.90

See Appendix-10

The above comparative table reveals that NBBL has a fluctuating trend of investment in government securities of total working fund. It has lowest ratio in F/Y 2005/2006 (0%) out of its total working fund in that year and had higher ratio of 17.09 % in F/Y 2009/2010. Similarly, EBL has also fluctuating trend. It has maintained higher ratio in F/Y 2008/2009 i.e. 23.29 % and lowered ratio in F./Y 2006/2007 i.e. 7.55 %.

Comparing t!-.e mean ratio of investment on government securities to total working fund NBBL seems too weak to mobilize its working fund as investment in government securities then EBL i.e. 6.754 and 14.93. Co-efficient of variation of EBL during study period is lower than that of NBBL i.e. 41.90 < 86.73.111 indicates EBL's ratios more consistent in this regard. Both banks have no certain investment policy towards government securities.

V. Investment on Share and Debentures to Total Working Fund Ratio

Nowadays a commercial bank is interested to invest on share and debentures or other different type of companies but not only government securities. During the study period, most of the commercial banks of Nepal including NBBL & EBL have purchased the share of other companies' too.

Investment on shares and debentures to total working fund ratio reflects the extent to which the banks are successful to mobilize their total working fund on purchase of share and debentures of other companies to generate income and utilize excess fund, A high ratio indicates more portion of investment on shares and debentures out to total working fund and vice-versa.

Table No. 8

Investment on Share & Debenture to Total Working Fund Ratio (%)

F/Y	NBBL	EBL
2005/2006	0.21	0.11
2006/2007	0.81	0.07
2007/2008	0.15	0.07
2008/2009	0.34	0.26
2009/2010	0.32	0.21
Mean	0.366	0.144
S.D.	0.232	0.074
C.V. (%)	63.59	51.89

See Appendix-.11

From the above comparative table, it has been found that the both bank NBBL and EBL have invested nominal percentage of total working fund in to shares and debentures of other companies, in all case as the ratio percentage less than l%. However in comparing NBBL has slightly higher amount on share and debentures of other companies in the study period. Whereas, EBL has made low investment only in F/Y 2006/2007, 2007/2008 out of their total working funds. Anyway, both banks have in fluctuating trend of ratio, showing the lack of efficient and uniform investment policy to regard investment on other companies' shares and debentures.

On the basis of mean ratio, it can be state that NBBL has invested higher amount in share and debentures in comparison to EBL i.e. 0.366 % > 0.144 %. Moreover coefficient of variation of EBL ratio is lowers that of NBBL i.e. 51.89 % < 63.59 %. It means investment ratios of EBL are more consistent than that of NBBL. From the above analysis, it is clear that has invested higher percentage of its total assets on shares and debentures of other companies to NBBL.

Figure No. 5
A pie chart showing Average Percentage of Cash and Bank Balance Loan and Advances and Total Investment of NBBL

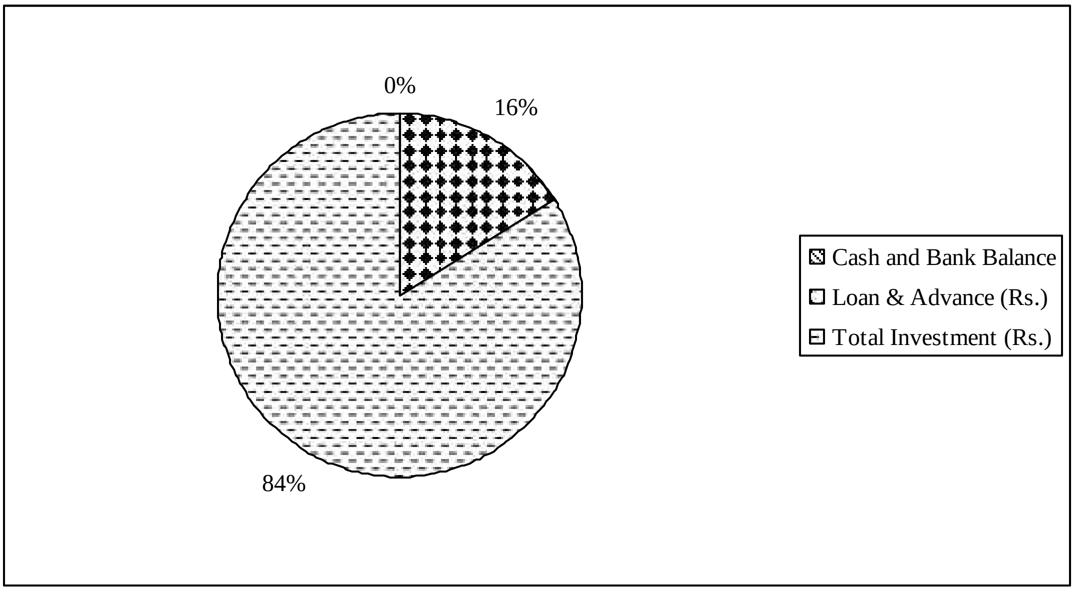
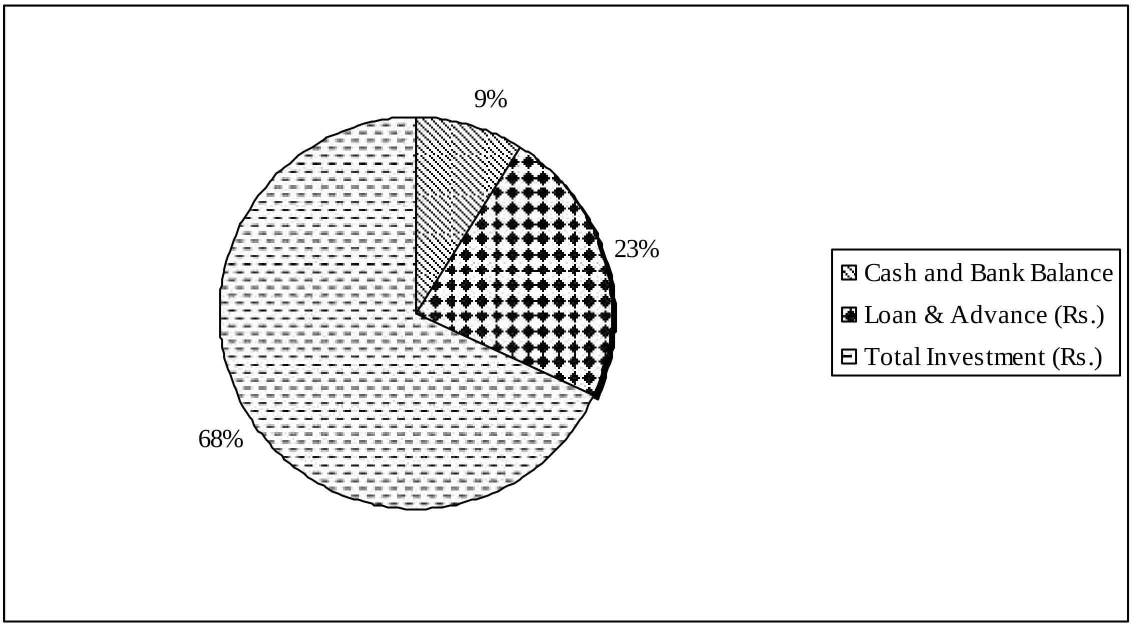


Figure No. 6
A pie chart showing Average Percentage of Cash and Bank Balance Loan and Advances and Total Investment of EBL



C. Profitability Ratio

The main objective of a commercial bank is to earn profit by providing different types of banking services to its customers. To meet various objective like, maintains good liquidity position, meet fixed internal obligations, overcome the future contingencies, grab hidden investment opportunities, expand banking transaction in different places, finance government in need of development funds etc, a commercial bank have to earn sufficient Profit.

Of course, the profitability ratios are the vest indicators of overall efficiency. Here. mainly those major ratios are presented and analyzed through with the effort has been made to measure the profit earning capacity of NBBL and EBL, comparatively.

i. Return on Loan and Advances Ratio

Return on loan and advances ratio measures the earning capacity of a commercial bank through its mobilized fund as loan and advances. A high ratio indicates greater success to mobilized fund as loan and advances. A high ratio indicates greater success to mobilized fund as loan and advances and vice-versa.

The ratio is calculated by dividing net profit by loan and advances. The following table shows that return on loan and advances ratio of NBBL and EBL of the study period.

Table No. 9

Return on Loan and Advances

F/Y	NBBL	EBL
2005/2006	2.61	1.85
2006/2007	3.02	1.82
2007/2008	2.70	2.32
2008/2009	0.86	2.16
2009/2010	0.98	1.92
Mean	2.034	2.014
S.D.	0.920	0.194
C.V. (%)	45.25	9.63

See Appendix-12

The above comparative table proves that the ratio of return on loan and advances of NBBL bank are very better condition in all fiscal years. NBBL's highest ratio is 3.02 % in F/Y 2006/2007 and lowest ratio of 0.86 % in F/Y ?005/2006. Whereas EBL has record of ratio i.e. lowest ratio 1.82 % in F/Y 2006/2007 and highest ratio 2.32 % in F/Y 2007/2008. Comparing the mean ratio, NBBL seems to have higher ratio than EBL (i.e. 2.034 > 2.014). It means NBBL, seems to be successful in maintaining its higher return on loan and advances in comparison to EBL. Similarly, coefficient of variation of EBL is significant low than NBBL i.e. 9.63 %<4.5.25 %. It indicates that NBBL has higher variability of ratios than of BBL.

ii. Return on Total Working Fund Ratio

Return on working fund ratio is a measuring rod of the profitability with respect to each financial resource investment of bank's assets. If the bank's total working fund is well managed and efficiency utilized, return such assets will be higher and vice-versa. The ratio or return on total working fund is calculated by dividing net profit by total working fund assets.

The following table shows that profitability position with respect to total assets.

Table No. 10

Return on Total Working Fund Ratio (%)

F/Y	NBBL	EBL
2005/2006	1.72	1.11
2006/2007	1.89	1.21
2007/2008	1.99	1.34
2008/2009	0.59	1.29
2009/2010	0.59	1.17
Mean	1.356	1.224
S.D.	0.496	0.082
C.V. (%)	36.61	6.72

See Appendix-13

The above listed table reveals that return on total asset (ROA) ratio is in slightly fluctuating trend in case of NBBL. It has maintained higher ratio in F/Y 2007/2008 i.e. 1.99% and lowest ratio in F/Y 2008/2009 and 2009/2010 i.e. 0.59% and 0.59% respectively. Whereas, EBL has the same case here that means it has also slightly fluctuating trend of return on total working fund ratio. It has lowest ratio in F/Y 2005/2006 i.e. 1.11% and highest ratio in F/Y 2007/2008 i.e. 1.34 %.

When average ratios are taken NBBL has high mean ratio i.e. 1.356 % and EBL has 1.224 `%. It indicates NBBL earn high return in regard to total working fund in comparison to EBL. Coefficient of variation of EBL is lower than NBBL i.e. 6.72 % > 36.61 %. It means EBL's ratios are consistence in comparison than NBBL. Consequently, NBBL seems to be failure to earn high return on its working fund than EI3L. NBBL must have to make effort to earn more profit by mobilizing, it working assets more efficiently.

iii. Total Interest Earned to Total Working Fund Ratio

To represent the earning capacity of a commercial bank in its total working fund (total assets), total interest earned to total working fund ratio is very helpful in other words, this ratio reflects the extent to which the banks are successful in mobilizing their assets to generate high income. A high ratio is an indicator of high earning power of the batik on its total working fund and vice-versa.

This ratio is computed by dividing total interest earned by total working fund i.e. total assets. The following table shows total interest earned to total working fund ratio of NBBL and EBL through out the reviewing period.

Table No. 11

Total Interest Earned to Total Assets Ratio

F/Y	NBBL	EBL
2005/2006	8.29	7.73
2006/2007	8.29	7.84
2007/2008	8.13	7.40
2008/2009	7.66	6.71
2009/2010	8.49	6.46
Mean	8.172	7.228
S.D.	0.280	0.550
C.V. (%)	3.43	7.61

See Appendex-14

The comparative table shows that NBBL's interest earning ratio in respect to total working fund is in fluctuating trend. Whereas, EBL's ratio are in decreasing trend except in F/Y 2006/2007 maintained higher ratio i.e. 8.49 % in F/Y 2009/2010 and lowest is 7.66 % in F/Y 2008/2009. However, EBL's highest ratio is 7.84 % in F/Y 2006/2007 and lowest ratio is 6.46 % in F/Y 2009/2010.

On the other hand, mean ratio of NBBL is 8.172 % whereas the same ratio of EBL is 7.228 % only. It indicates that NBBL' interest earning power in respect to total working fund seems to be effective than EBL. Similarly, coefficient of variation between ratios of different five years under the study period, in case NBBL is found to be 3.43 % only whereas EBL's has 7.61 %. It earning ratio with respect to total working fund of NBBL is more stable tan that of EBL.

From the above analysis, the conclusion can be drawn that NBBL is able to earn high interest on its total working fund in comparison to EBL. Likewise, it has more consistency this ratio during the study period.

iv. Total Interest Earn to Operating Income Ratio

Total operating income consists of interest, income; commission and discount, dividend income, foreign exchange income, non-interest income etc. Interest earned to total operating income ratio shows the magnitude of interest income in total income. It also indicates how efficiently the bank has mobilized its fund in interest bearing assets i.e. loan and advances, investment in government securities.

This ratio is calculated by dividing total interest by net operating income. The following table exhibits the ratio of interest earns to total operating income of NBBL and EBL during the study period.

Table No. 12

Total Interest Earned to Total Operating Income Ratio (%)

F/Y	NBBL	EBL
2005/2006	8.29	7.73
2006/2007	8.29	7.84
2007/2008	8.13	7.40
2008/2009	7.66	6.71
2009/2010	8.49	6.46
Mean	8.172	7.228
S.D.	0.280	0.550
C.V. (%)	3.43	7.61

See Appendex-15

Above listed table reveals that both NBBL and EBL have in fluctuating types of ratio NBBL maintained highest ratio in F/Y 2009/2010 i.e. 81.49 % and lowest i.e. 75.41% in P/Y 2007/2008. Similarly, in case of EBL, it has highest ratio i.e. 82.95 % in F/Y 2007/2008 and lowest ratio i.e. 81.64 % in F/Y 2005/2006.

On the basis of mean ratio, NBBL has lower ratio than EBL i.e. 77.768 % < 82.186 %. It indicates EBL seems to have earned comparatively slightly highly amount of interest income than NBBL. However, coefficient of variation of NBBL 2.87 % where indicates comparatively high degree of stability than that of EBL i.e. 0.52%.

From the above analysis, it can be concluded that EBL has slightly low mobilized fund than NBBL into interest bearing assets i.e. government securities, share and debenture of other companies, loan and advances etc. Whereas, NBBL has given more important to the non-fund (fee) based activities to earn higher amount of profit.

v. Total Interest Paid to Total Working Fund Ratio

This ratio measures the percentages of total interest expenses against total working fund. A high indicates higher interest expenses on total working fund and vice-versa.

This ratio is calculated by dividing total interest paid by total working fund. The following table shows the total interest paid to total working fund ratio NBBL and EBL's different rive years of the study period.

Table No. 13

Total Interest Paid to Total Working Fund Ratio (%)

F/Y	NBBL	EBL
2005/2006	5.80	5.19
2006/2007	5.64	5.21
2007/2008	5.17	4.53
2008/2009	4.95	3.89
2009/2010	4.98	3.80
Mean	5.308	4.524
S.D.	0.348	0.606
C.V. (%)	6.56	13.41

See Appendix-16

The comparative table listed above shows interest paid ratio of NBBL is decreasing trend except in F/Y 2009/2010. Whereas EBL's are also decreasing trend except in F/Y 2007/2008. NBBL has maintained higher ratio in 2005/2006 i.e. 5.80 % and lowest in F/Y 2008/2009 i.e. 4.95 %. Similarly, EBL has highest ratio in F/Y 2006/2007 i.e. 5.21 % and lowest ratio in F/Y 2009/2010 i.e. 3.80 %.

The mean ratio of EBL is lower than NBBL i.e. 4.524 % < 5.308 %. On the other hand, EBL has higher coefficient of variation of ratios through the reviewing period i.e. 13.41 % in comparison to NBBL i.e. 6.56 %, which indicates that EBL has inconsistent ratios than that a NBBL.

In conclusion, it can be said that EBL is in better position form interest expenses (payment) point of view that NBBL seems that it had collected its working funds form more expensive sources in comparison to EBL.

D. Risk Ratio

Risk is always sticks with return. If there is return, risk will definitely be there. Higher the risk, higher will be the return. Risk is very closely associated with investment. A batik has to take high risk if it expects high return on its investment. Therefore bank has to accept and manage high risk to get high profit. Risk had made the job of investment a very challenging job.

Though, following ratios, effort has been made to measure the level of risk essential in the NBBL and EBL comparatively.

i. Liquidity risk ratio

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

The risk is low if funds are kept idle as cash and bank balance. But this reduces profitability. When bank flow loan, it's profitability increases and also the risk. Thus higher liquidity ratio indicates less risk and less profitable bank and less profitable bank and vise-versa. This ratio is calculated by dividing cash and bank balance to total deposit. The following table shows the liquidity risk ratio in NBBL and EBL in comparison.

Table No. 14

Total Interest Paid to Total Working Fund Ratio (%)

F/Y	NBBL	EBL
2005/2006	1491	23.64
2006/2007	9.98	9.11
2007/2008	11.92	18.25
2008/2009	18-49	10.84
2009/2010	8.50	17.02
Mean	12.76	15.772
S.D.	3.57	5.26
C.V. (%)	28.04	33.34

See Appendix-4

The comparative table listed above shows that NBBL and EBL have in fluctuating trend of ratios. In case of NBBL recorded highest ratio is in F/Y 2008/2009 i.e. 18.49 % and lower is in F/Y 2009/2010 i.e. 8.50 %. Similarly, EBL has higher ratio in F/Y 2005/2006 i.e. 23.64% and lowest ratio in F/Y 2006/2007 i.e. 9.11%.

When mean ratios are taken it is found that NBBL's liquidity risk is lower than EBL i.e. 12.760 %< 15.772 %. However, lower coefficient of variance indicates that NBBL has maintained consistency on ratio with regard to its liquidity in comparison to EBL i.e. 33.34 % > 28.04 %.

From the above analysis, it can be said that EBL has maintained higher liquidity, which means it operates with lower risk, which decreases profitability. Whereas NBBL has followed a stable liquidity policy justified by lower co-efficient of variation.

ii Credit Risk Ratio

Bank utilizes its collected fund in providing credit to different sectors. There is risk of default or non-repayment to loan. While making investment, the bank examines credit risk involved in the project. This ratio is computed by dividing total loan and advances to total assets. The following table shows the credit risk ratio of NBBL and EBL under the study period.

Table No. 15

Credit Risk Ratio (%)

F/Y	NBBL	EBL
2005/2006	65.85	60.00
2006/2007	62.84	66.54
2007/2008	73.86	57.77
2008/2009	68.74	59.76
2009/2010	60.73	60.95
Mean	66.404	61.004
S.D.	4.609	2.955
C.V. (%)	6.94	4.84

See Appendix-9

The above table shows that NBBL has fluctuating trend. Its higher is recorded of 73.86 °% in F/Y 2007/2008 and lowest of 60.73 % in F/Y 2009/2010. Whereas, the same ratio of EBL is also in fluctuating trend. It has highest ratio in F/Y 2006/2007 i.e. 66.54 % and lowest of 57.77 i.e. in F/Y 2007/2008. On the basis of mean ratio, it can be said that the credit risk of EBL is lower than NBBL because of the low average ratio i.e. 61.004 % < 66.404 %. But the co-efficient of variation of NBBL is higher than EBI, which shows that NBBL's risk are more variable than that of EBL.

From the above analysis, thus it can be concluded that NBBL has comparatively lower degree of credit risk than EBL and NBBL's risk ratios are more variable.

E. Growth Ratio

Here, those growth ratios are analyzed and interpret which are directly related to the fund mobilization and investment of a commercial bank. Growth ratios represent how well the commercial banks are maintaining their economic and financial position.

Under this topic, four types of growth ratios i.e. growth ratios of total deposit, loan & advances, total investment and net-profit. The ratios can be calculating to the compound interest tables. The high ratio generally indicates better performance of a bank and vice-versa.

Table No. 16

Growth ratio of Total Deposit (%)

F/Y	Loan & Advances (Rs. in million)	
	NBBL	EBL
2005/2006	4152.70	1948.94
2006/2007	6467.19	3857.43
2007/2008	8600.81	4574.51
2008/2009	9514.04	4566.61
2009/2010	10580.65	6094.95
Mean	26.34	36.14

Table No. 17

Growth Ratio of Loan & Advances (%)

F/Y	Loan & Advances (Rs. in million)	
	NBBL	EBL
2005/2006	3164.74	1364.89
2006/2007	4617.10	2270.18
2007/2008	7358.84	3005.76
2008/2009	7632.42	3948.48
2009/2010	7247.98	49087.46
Mean	23.01	37.70

Table No. 18

Growth Ratio of Total Investment (%)

F/Y	Loan & Investment (Rs. in million)	
	NBBL	EBL
2005/2006	0.00	184.91
2006/2007	443.55	257.61
2007/2008	676.08	823.00
2008/2009	970.23	1538.90
2009/2010	2130.51	1599.35
Mean	-	71.49

See Appendix -1 & 2

Table No. 19

Growth Ratio of Net Profit (%)

F/Y	Net Profit (Rs. in million)	
	NBBL	EBL
2005/2006	82.73	25.24
2006/2007	139.53	41.27
2007/2008	198.75	69.70
2008/2009	65.78	85.33
2009/2010	71.51	94.17
Mean	-3.57	39.98

See Appendix -1&2

The comparative table listed above reveals above that the growth ratios of deposit in case of NBBL are significantly lower than that of EBL. The growth ratio of NBBL's deposit is 26.34 % only whereas the same of the EBL is 36.14 %. It indicates NBBL's poor performance to collect greater deposit year by year. From the analysis of growth ratios loan & advances, we can conclude that NBBL has failed to increase its loan & advances with higher growth rate in comparison to the EBL. NBBL's growth ratio of loan and advances is lower than that of EBL i.e. 23.0 l%< 37.70 %.

The above comparative table No. 19 shows that the growth ratio of NBBL's investment is worse than that of EBL. Growth ratio of EBL is 71.49 %. From the comparative study on growth ratios of net profit of NBBL and EBL. EBL maintain higher growth ratio of net profit than NBBL. NBBL growth ratio of net profit is -3.57 % where the same of EBL is 38.98 %.

From the above analysis, it is concluding that during the study period. NBBL has maintain growth ratios on deposit, loan & advances and investment is less than growth ratios on deposit, loan & advances and NBBL has not been able to increase its total deposit, loan & advances and total investment as well as net profit. Thus, NBBL should emphasize on improving performance in terms of collecting deposit, growth of loan and advances, total investment and profitability. Similarly, EBL need to collect fund from cheaper way and invest on highly profitable sector to improve the figure of net profit.

In may conclusion the growth ratio of NBBL's are lower than EBL due to NBBL total deposit collection, loan & advances and investment and net profit is very huge since the beginning period with compare to EBL. In spite of increase in more amounts in four type of growth than EBL, it becomes less in growth percentage. Therefore in total amount factor NBBL improve in all growth than EBL but in term of percentage EBL improve in all growth rates than NBBL.

4.3 Statistical Tools

In this chapter some statistical tools such as co-efficient of correlation analysis between different variables, trend analysis of deposit, loan & advances, Investment and : c net profit are used to achieve the objective of the study.

A. Co-efficient of Correlation Analysis

Under this topic, Karl Pearson's coefficient of correlation has been used to find out the relationship between deposit and loan & advances, deposit and total investment, outside and net profit.

i. Co-efficient of Correlation between Deposit and Loan & Advances

Co-efficient of correlation between deposit and loan & advances measures the degree of relationship between these two variables. Here, deposit is an independent variable (X) and loan & advances are dependent variable (Y) to justify whether deposits are significantly used as loan & advances in proper way or not, we are computing 'r' between these two variables.

The following table shows the values of r, r^2, P. Er. and 6 P. Er. of those of NBBL and EBL during the study period.

Table No. 20

Correlation between Deposit and LOAN & Advances

Banks	Evaluation criterions			
	r	r^2	P.Er.	6 P. Er.
NBBL	0.9506	0.9036	0.2909	0.1740
EBL	0.9941	0.9882	0.0053	0.0213

See Appendix -18.

The above table shows that coefficient of correlation between deposit and loan & advances of NBBL is 0.9506, it means there is higher positive relationship between these two variables, Moreover, we evaluate the value of coefficient of determination (r^2), which is 0.9036, it means 90.36 % of variation in the dependent variable (loan & advances) has been explained by the independent variable (deposit). Similarly considering the value of 'r' i.e. 0.9506 and comparing it with six times of probable error i.e. 0.1740. We can say that the value of r is more than 6 P.Er. Which show that there is significant relationship between deposit and loan & advances in case of NBBL.

Likewise, when we observe correlation between total deposit and loan & advances of EBL, the coefficient of correlation between deposit (independent) and loan & advances (dependent) variables is 0.9941, which indicates higher positive correlation between these two variables. Similarly, the value of coefficient of determination (r^2) is to be found 0.9882, which show that 98.82 % in the dependent variable has been explained by the independent variable. Moreover, by application of 6 P.Er. i.e. 0.0213. Which means the relationship between deposit and loan & advances is significant. In other words EBL is successful to mobilize its fund in proper way in loan & advances.

From the above analysis we can conclude that both NBBL and EBL have highly positive relationship between deposit and loan & advances. The relationship is significant in case of NBBL and the value of r^2 shows high percentage of dependency and in case of EBL the relationship is significant and r^2 show high percentage of dependency. It indicates successful to mobilize their deposit in proper way as loan & advances. Moreover, we can further conclude the NBBL has lower correlation between deposit and loan & advances as well as value of than EBL, which indicates that NBBL is not in better condition to grant loan & advances for mobilizing the collecting deposit in comparison to EBL.

II. Co-efficient of Co-relation between Deposit and Total Investment

The coefficient of correlation between deposit and investment measures the degree of relationship between there two variables. In correlation analysis, deposit independent variable (x) and total investment is dependent, variable (y).

The purpose of computing coefficient of correlation is to justify whether the deposit are significantly used in proper way or not and whether there is any relationship between these two variables or not. To find out the correlation (r), various calculations are done.

The following table shows the coefficient of correlation between deposit and total investment i.e. 'r, P. Er., 6 P.Er. And co-efficient of determination (r^2) of NBBL and EBL.

Table No. 21

Correlation between Deposit and Total Investment

Banks	Evaluation criterions			
	r	r^2	P.Er.	6 P. Er.
NBBL	0.8828	0.7793	0.6645	0.3987
EBL	0.9580	0.9787	0.0092	0.0554

See Appendix -18.

From the above table we find that co-efficient of correlation between deposit (independent) and that total investment (dependent) value 'r' is 0.8828 in case of NBBL. It shows positive relationship between two variables. Similarly, the coefficient of determination in the dependent variable r^2 is 0.7793 it means 77.93% of the determination in the dependent variables (total investment) has been explained by the independent variable (deposit). Moreover, considering the probable error, since the value of 'r' is more than 6 P. Er. i.e. 0.8828 > 0.3987. We can say that there is positive significant relationship between deposit and total investment.

On the other hand, when we observe coefficient of correlation between total deposit and total investment in case of EBL, it has been found that the value of r is 0.9580, which shows positive relationship between these two variables. The value of r^2 i.e. 0.9787, we can conclude that 97.87 % in the dependent variable (total investment) has been explained by the independent variable (deposit). Moreover, on the basis of value of P.Er. i.e. 0.0092. We can further conclude that the relationship between deposit and investment is significant because 'r' is greater than 6 times of P.Er. i.e. 0.9580 > 0.0554.

From the above analysis, the conclusion can be drawn that in case of NBBL is significant positive relationship between deposit and investment because r is more than six times of P.Er. Where, in case of EBL, the value of r is greater than six times of P.Er. So there is significant relationship between deposit and investment. Lastly, it can be said .that NBBL & EBL both have significant relationship between deposit and investment.

iii. Co- efficient of Correlation between Outside Assets and Profit

The outside assets include loan & advances and all types of investment of a commercial bank. In this analysis total outside assets is independent variable (x) and net profit is dependent variable (y). The main objective of calculation of this correlation is to justify whether the net profit is significantly correlated with total outside assets or not. For this purpose various calculations are done.

The following tables shows that the related variables NBBL & EBL during the study period.

Table No. 22

Correlation between Outside Assets and Net Profit

Banks	Evaluation criterions			
	r	r^2	P.Er.	6 P. Er.
NBBL	-0.0851	0.0072	0.2989	1.7934
EBL	0.9629	0.9271	0.0219	0.1317

See Appendix -18.

From the above table, it has been found that the co-efficient of correlation between total outside assets (independent) and net profit (dependent) is -0.085 1 in case of NBBL, which indicates negative relationship between these two variables. Similarly, while considering the values of coefficient of determination r^2 i.e. 0.0072, it indicates that 00.72 % of the variation in the dependent variable (net profit) has been explained by the independent variable (total outside assets). Moreover, by considering the probable error, we can say that there is insignificant relationship between total outside assets and net profit because the value 'r' i.e. -0.0851 is very low than sex times of the 6 P.Er. i.e. 1.7934.

Likewise, the Karl Pearson's coefficient of correlation between total outside assets and net profit in case of EBL is found to be 0.9629, which indicates that there is positive relationship between total outside assets and net profit. If we again consider the value of coefficient of determination (r^2), it is 0.9271 which means 92.71 % in the dependent variable (net profit) has been explained by the between the value of 6 P.Er. and 'r' we can say that there is significant relationship between total outside assets and net profit because of 'r' being greater than 6 times of probable error i.e. 0.9629 > 0.1317. Thus we can say, that EBL have significant correlation between mobilization of fund and return i.e. net profit from such mobilized fund.

In conclusion, in case of NBBL the value of r is insignificant and in case of EBL the value of r is significant and r^2 is high in EBL and low in NBBL. However, comparatively we can say that NBBL is weak in earning net profit by mobilizing its total outside assets than EBL.

B. Trend Analysis and Projection for Next Five Years

The main objective of this analysis is to analyze the trend of deposit collection, its utilization and net profit of NBBL and EBL. Granting loan & advances and investing some of the funds in government securities and share and debentures of other companies by the commercial banks is the utilization of deposits. This topic analyze the trend of total deposit, loan & advances, total investment and net profit and are forecasted for next five years on the basis of the past performance and records.

The projections are based on the following assumptions:

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

I. Analysis of trend value on total deposit.

Under this topic, an effort has been made to calculate the trend values of deposit of NBBL and EBL for five years from F/Y 2005/06 to 2009/10 and forecast for five years till 2014/15.

The following table shows the trend value of 10 years from 2005/06 to 2014/15

Table No. 23

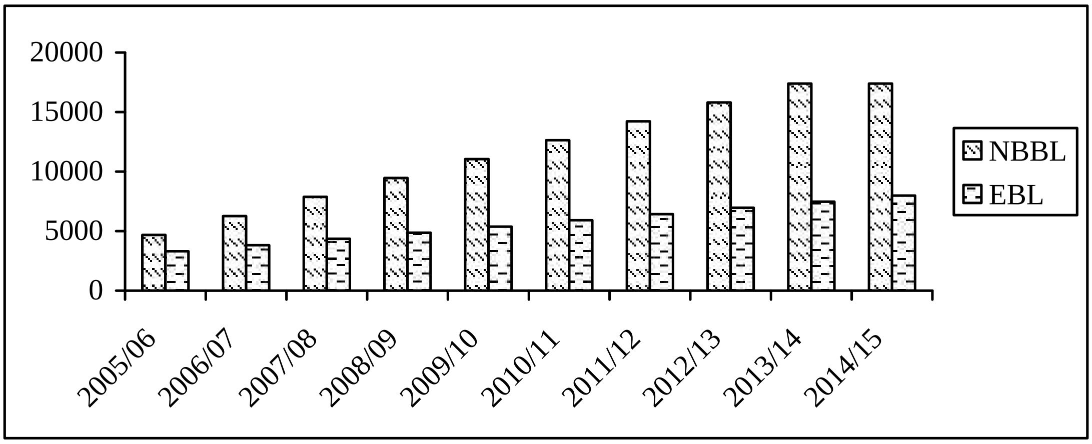
Correlation between Outside Assets and Net Profit

(Rs. million)

Year	Trend value of NBBL	Trend value of EBL
2005/06	4682.52	3307.23
2006/07	6272.84	3827.83
2007/08	7863.16	4348.48
2008/09	9453.48	4869.11
2009/10	11043.80	5389.73
2010/11	12634.11	5910.43
2011/12	14224.43	6430.98
2012/13	15814.75	6951.61
2013/14	17405.07	7472.23
2014/15	17405.07	7992.86

Figure No. 7

Trend Value of Total Deposit of NBBL & EBL



From the above comparative table, it is clear that total deposit of both the banks NBBL & EBL are in increasing trend. Other things remaining the same or constant total deposit NBBL in 2014/15 is predicted by 18995.39 million and the same of EBL be 799.86 million, which is the highest under the study period.

From the above trend analysis, it is quite obvious that NBBL deposit collection position in relation to EBL is proportionally better in all ten years. The above-calculated trend values of total deposit of NBBL and EBL are fitted in the trend lines given on the next page.

II. Analysis of trend value of loan & advances:

Here, the trend values of loan and advances of NBBL and EBL have been calculated for the five years from F/Y 2005/06-2009/10 and the forecast for next 2014/15 of NBBL and EBL.

Trend No. 24

Correlation between Outside Assets and Net Profit

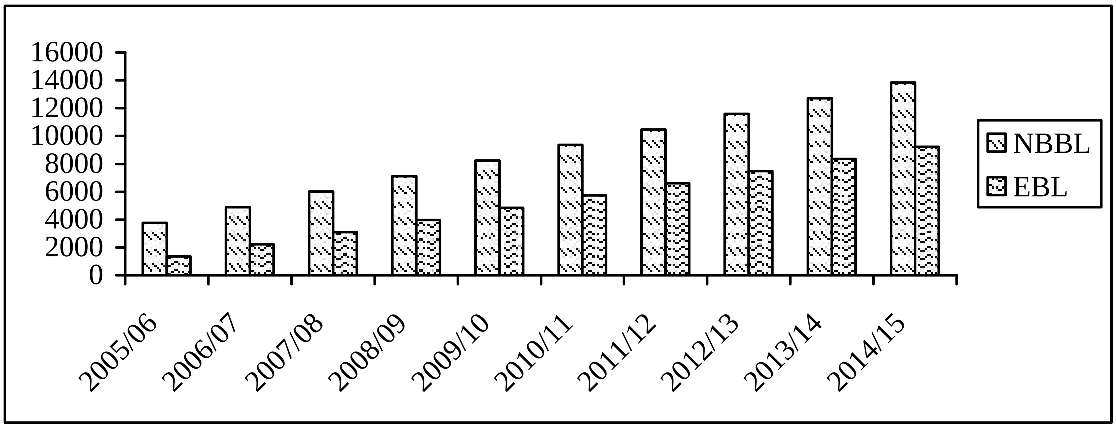
(Rs. in million)

Year	Trend value of NBBL	Trend value of EBL
2005/06	3767.85	1346.46
2006/07	4886.03	2223.01
2007/08	6004.21	3099.55
2008/09	7122.39	3976.09
2009/10	8240.57	4852.64
2010/11	9358.75	5729.17
2011/12	10476.93	6605.73
2012/13	11595.11	7482.27
2013/14	12713.29	8358.81
2014/15	13831.47	9235.36

See Appendix – 19

Figure No. 8

Trend value of Loan & Advances to NBBL and EBL



The above comparative table makes clear that the loan and advances of both NBBL and EBL are increasing regularly. Other things remaining the same, the loan & advances of NBBL in 2014/15 will be 13831.47 million. Similarly, the same of EBL will be Rs. 9235.36 million, which is the highest during the period of study.

From above trend analysis, it is clear that NBBL's utilization of deposit in terms of loan & advances is comparatively higher than that of EBL's. The above calculated trend values of loan & advances of NBBL and EBL's are fitted in the trend lines, which are given on next page.

III. Analysis of trend value of total investment

Under this topic, an attempt has been made to analyze total investment of NBBL and EBL for five years 2005/06 to 2009/10 and forecast is made for next five years till 2014/15.

Table No. 25

Correlation between Outside Assets and Net Profit

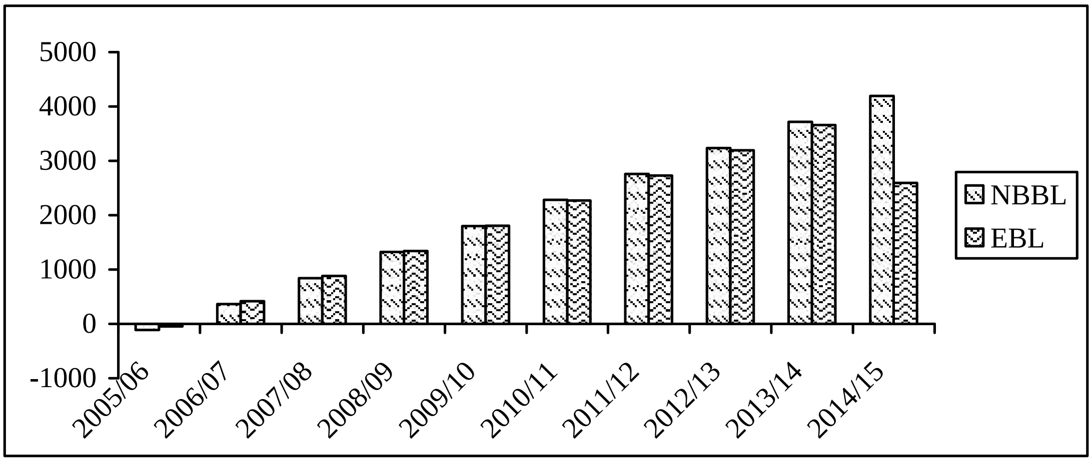
(Rs. in million)

Year	Trend value of NBBL	Trend value of EBL
2005/06	-113.46	-44.32
2006/07	365.30	418.21
2007/08	844.07	880.75
2008/09	1322.84	1343.29
2009/10	1801.61	1805.83
2010/11	2280.38	2268.37
2011/12	2759.15	2730.91
2012/13	3237.92	3193.44
2013/14	3716.69	3655.98
2014/15	4195.46	2591.91

See Appendix – 19

Figure No. 9

Trend Value of Total Investment to NBBL and EBL



The above table shows that the trend values of total investment of NBBL and EBL of ten years i.e.2005/06 to 2014/15.

From the above comparative table, trend values of investment it has been found that the expected amount for NBBL and EB L have shown an in increasing trend. Other things remaining the same, the total investment of NBBL in 2014/15 will be 4195.46 million, which is highest under the review period. Similarly, in case of EBL, it is going up year after year. Other things remaining the same, total investment in case EBL will be RS.2559.91 million, which is highest among all over the study period.

In conclusion, we can say that both NBBL and EBL have followed the policy of maximizing the investment.

The above- calculated values of above table have been fitted in the trend lines given on the next page.

IV. Analysis of trend value of net profit

Under this topic, effort has been made to analyze the net profit of NBBL and EBL for five years i.e. from 2005/06 to 2009/10 and forecast of the same for next five years till 2014/15.

Table No. 26

Correlation between Outside Assets and Net Profit

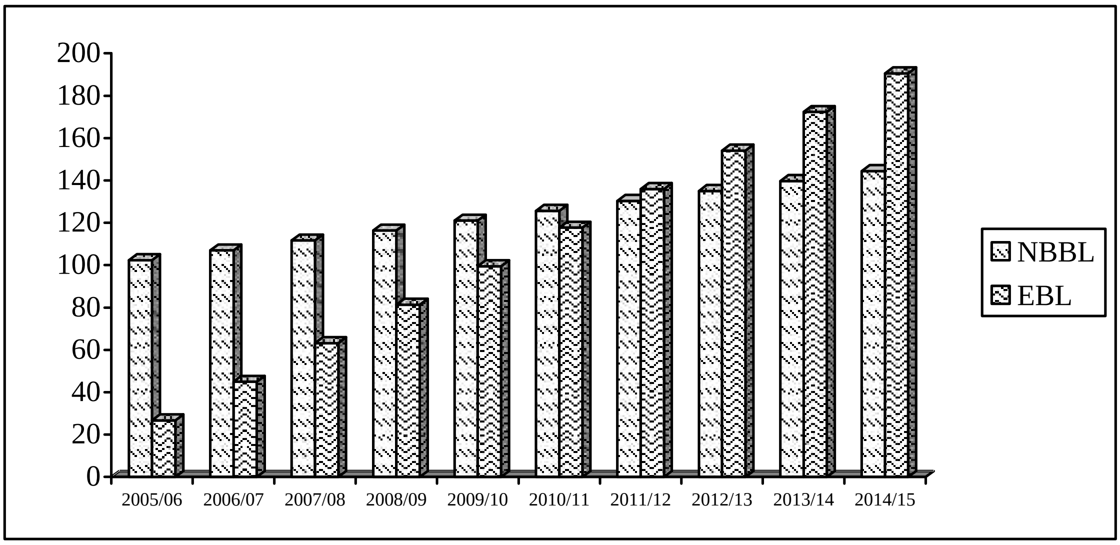
(Rs. million)

Year	Trend value of NBBL	Trend value of EBL
2005/06	102.29	26.75
2006/07	106.97	44.95
2007/08	111.66	63.14
2008/09	116.34	81.33
2009/10	121.02	99.52
2010/11	125.70	117.71
2011/12	130.39	135.91
2012/13	135.07	154.10
2013/14	139.75	172.29
2014/15	144.44	190.48

See Appendix – 19

Figure No. 10

Trend value of Net Profit of NBBL and EBL



From the above comparative table of net profit, it is clear that net profit of NBBL is in increasing trend. Other things remaining the same, the net profit of NBBL in 2014/15 will be the highest i.e. Rs. 144.44 million. In case of EBL, other things remaining the same, the net profit will be Rs. 190.48 million, which is the highest under the review period.

However, we can draw a conclusion that EBL seems to have its funds to earn handsome amount of profit in comparison to NBBL. The above given trend values of table have been fitted in trend lines given on the next.

C. Test of Hypothesis

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

I. Formulating hypothesis (Null hypothesis and Alternative hypothesis)
II. Computing the test statistic
III. Fixing the level of significance
IV. Making decision

In the following lines some of the main hypothesis tests are calculated decisions made.

Test of hypothesis on loan & advances to total deposit ratio of NBBL and EBL:

Loan & advances to total deposit of NBBL and EBL are X and Y respectively.

$S^2 = 29$

Where,

Null hypothesis (H_o) : $\mu_x = \mu_y$ i.e. there is no significance difference between mean ratio of loan & advance to total deposit of NBBL and EBL

Alternative hypothesis (H1) : $\mu_x \neq \mu_y$ (two tailed test) i.e. there is significance between ratios of loan & advances to total deposit of NBBL and EBL.

Under the test-statistic is,

$$t = \frac{\bar{X} - \bar{Y}}{\sqrt{S_2[1/n_1 + 1/n_2]}} \qquad \text{(with ………………… d.f.} = n_1 + n_2 - 2$$

$$= \frac{76.376 - 71.102}{\sqrt{29\left[\frac{1}{5} + \frac{1}{5}\right]}}$$

$$= \frac{5.274}{2.878}$$

$/ t / = 1.83$

Tabulated value of 't' at 5% level for (n_1+n_2-2) i.e. 8 d.f. is 2.306

Decision:

Since the calculated value of /*t*/ is 1.89 and which is significantly lower than tabulated value of 't' i.e. 2.306, H_0 is accepted. In other words, there is no significant difference between mean ratios of loan & advances to total deposit of NBBL & EBL.

II. Test of hypothesis of total investment of total deposit of NBBL and EBL

Let, total investment to total deposit ratio of NBBL and EBL be X and Y respectively.

$S^2 = 64.13$

Where,

Null hypothesis (H_0): $\mu_x = \mu_y$ i.e. there is no significance difference between mean ratio of total investment to total deposit of NBBL & EBL.

Alternative hypothesis (H1) : $\mu_x \neq \mu_y$ (two tailed test) i.e. there is significance between ratios of total investment to total deposit of NBBL & EBL.

Under the test-statistic is,

$$t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 - [1/n_1 + 1/n_2]}} \quad \text{(with ....d.f.} = n_1 + n_2 - 2\text{)}$$

$$= \frac{9.008 - 17.588}{\sqrt{64.13\left[\frac{1}{5} + \frac{1}{5}\right]}}$$

$$= \frac{-8.58}{5.06}$$

$$= -1.69$$

$/t/ = 1.69$

Tabulated value of 't' at 5% level for ($n_1 + n_2 - 2$) i.e. 8 d.f. is 2.306

Decision:

Since the calculated value of /t/ is 1.69 and which is significantly lower than tabulated value of 't' i.e. 2.306, H0 is accepted. In other words, there is no significant difference between mean of total investment to total deposit of NBBL & EBL.

4.4 Major Findings of the Study

Having completed the basic analysis required for the study the final and the most important takes of the researcher is to enlist the findings, issues and gapes of the study. This would be meaningful to the desired result. The following presented is a comprehensive summary of the main finds of the study.

Main findings of the study

The main findings of the study are derived on the basis of analysis of financial data of NBBL and EBL, which are given below,

Liquidity ratio

- The mean current ratio of EBL is slightly higher than of the NBBL and the variability of ratio of EBL is more consistence than NBBL in comparison.
- The mean ratio of cash and bank balance to total deposit of NBBL is lower in comparison to EBL. NBBL has better liquidity indicates the inability of the bank to mobilize its current assets. Moreover NBBL's ratios are homogenous than EBL.
- The mean ratio of cash and bank balance to current assets of NBBL is lower in comparison to EBL. Similarly, NBBL's ratios of the study period are more consistent than EBL.
- The mean ratio of investment on government securities to current asset of NBBL has been found to be lower than that of the EBL. Similarly, EBL seems to have less variable than NBBL.
- It can be conclude that both have good deposit collection. EBL has the higher cash and bank balance to total deposit, cash and bank balance to current asset ratio. This may be the bank is in the very good position to meet the daily cash requirement. EBL has fluctuating liquidity ratios, it shows than the bank has not properly formulated any stable properly formulated any stable policy. EBL has greater current ratio than NBBL, it means EBL is greater success to meet its current obligation.

Asset management ratio

The asset management ratios of NBBL and EBL reveal that:

- The mean ratio of loan & advances to total deposit of NBBL is higher than EBL. It can be said that NBBL used to provide greater loan & advances in comparison to its total deposit than EBL. Likewise, EBL’s ratio seems to be variable than NBBL.
- Likewise, the mean ratio of total investment to total deposit of EBL is higher than NBBL. The ratio of EBL is more consistent than NBBL.
- The mean ratio of loan & advances to total working fund of EBL is lower than NBBL and NBBL’s ratios are more homogenous than that of EBL in comparison.
- The mean ratio of investment on government securities to total working fund of EBL is higher than NBBL. Consequently, it has consistency in maintaining the ratio than NBBL.
- During the study period of five years, it was found that investment on share and debenture to total working fund ratio of NBBL is found to be higher than EBL. Similarly, NBBL’s ratios are found to be more homogenous than that of EBL.

It predicts that EBL has successfully maintained and managed its assets towards different income generation activities. EBL has made high portion of total working fund in investment on government on share and debentures of other companies.

Profitability ratios

The profitability ratio NBBL and EBL reveals that

- The mean ratio of return on loan & advances of NBBL has found to be significantly greater than EBL with more consistency than of EBL.
- The mean ratio of return on working fund of NBBL is greater than EBL. Moreover, NBBL’s return on working fund has found to be consistent enough than that of EBL.

- The mean ratio of total interest earned to total working fund of NBBL has been slightly greater than EBL. Similarly, NBBL's ratios are found uniform than that of EBL's.
- The average ratio of interest earned to total operating income of NBBL has been found lower than. However, the ratio of NBBL is more homogenous than that of EBL.
- The average ratio of interest paid to total working fund of EBL has found to be lower than NBBL. However, EBL's ratios are more variable than that of NBBL.

From the above result, it is concluded that the profitability procession of NBBL is comparatively better than EBL. It indicates that NBBL has maintained its high profit margin regarding profitability position and EBL does not have a better position in comparison. It must maintain high profit margin for the well being in future. The finding shows EBL even though paying high interest to the customers for different activates.

Risk ratios

The risk ratios of NBBL and EBL reveal that

- When we observe that risk ratio, it can be found that average liquidity risk ratio of NBBL is lower than EBL. However NBBL's ratios are more homogenous than that of EBL's.

The mean ratio of credit risk of EBL is lower than of NBBL's ratios are more consistent than that of EBL.

Growth ratios

From the analysis of growth ratios of NBBL and EBL, it is clear that:

- Growth ratio of deposit of NBBL is lower i.e. 26.34% in comparison to EBL i.e. 36.14%.

- Likewise, growth ratio of loan & advances of NBBL is significantly lower than EBL i.e. 23.01% < 37.70%.
- Beside these, growth ratio of total investment of NBBL is nil than EBL i.e. 0% < 71.49%.
- The growth ratio of net profit in case NBBL has been found -3.57% whereas, the same of the EBL has 38.98% during the study period.

From the analysis of above mentioned growth ratios is can be conclude that NBBL has not been more successful to increase in source of funds i.e. deposit and mobilization of i.e. loan & advances and total investment. It seems NBBL has not made any effective strategy to win the confidence of shareholders, depositors and its all customers.

Co-efficient of correlation analysis

Coefficient of correlation between deposit variables of NBBL and EBL reveals that:

- Coefficient of correlation between deposit and loan & advances of the both banks has significantly positive value.
- Similarly, the relationship between deposit and total investment of NBBL and EBL has found to be significantly positive.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

The last chapter of this study is conclusions and recommendations developed from the completion of analysis part on the investment policy of sample JV banks. conclusion and recommendation consists of two parts, the first one is conclusion, which is drawn from the major findings of this study, and the second one is recommendation to those JV banks, which are taken as sample in this study, to solve the problems found on the basis of analysis and conclusion.

5.1 Summary and Conclusion

From this study, it has been found that both banks have non-satisfactory current ratio in the study period is some F/Y both banks have lower current ratio than 1. It shows that liquidity positive of EBL is better than NBBL. The cash and bank balance of EBL with respect to deposit is better against the readiness to serve its customers deposit than NBBL. In contrast high ratio of non-earning cash and bank balance may be unfit which indicates the banks inability to invest its found in income generation areas. The mean ratio of cash and bank balance to account assets of NBBL is lower than EBL in bank balance in comparison to EBL but it doesn't mean it can't meet its daily requirement to make the payment on customer's deposit. Contrast EBL may have to investment their fund in more productive area.

NBBL has invested its more potion of current assets in government securities than EBL. NBBL has made higher amount of investment on government securities this is due to unavailable of other secured and profitable investment sector. Whereas the lower amount of EBL is investment in government security. It may be the reason of more investment on the productive sector.

From this study it can be concluded that EBL is success to mobilize its total deposit as loan & advances and acquiring high profit in comparison to NBBL. Whereas, high ratio is not better from the profit of view of liquidity as loan &

advances is not as liquid and cash a bank balance, it can be stated that NBBL has invested higher amount in share and debentures in comparison to EBL.

Profitability position of NBBL is in better position than EBL. From the study it can be concluded that EBL's profit earning capacity by utilizing available resources is very weak than NBBL from study. EBL seems to be failure to earn high return on its working fund than NBBL. EBL must have to wake efforts to earn more profit by mobilizing its working assets more efficiently. This study shows that NBBL is able to earn high interest on its working fund in comparison to EBL. This study also shows that NBBL has slightly low mobilized fund than EBL into interest bearing assets i.e. loan advances. From this study it can conclude that EBL is in better position from interest expenses point of view than NBBL. NBBL seems that it had collected its working funds from more expensive sources in comparison to EBL.

In point of views of risk ratios, it can be conclude that NBBL has comparatively lower degree of liquidity risk ratio and higher credit risk ratio than EBL.

The growth of views of risk ratios, it can be conclude that NBBL has comparatively lower degree of liquidity risk ratio and higher credit risk ratio than EBL.

The growth ratios are analyzed and interpret which are direct related to the fund mobilization and investment of commercial banks. growth ratio represents how well the commercial banks are maintaining their economic and financial position. In conclusion of this study, the growth rate of NBBL is lower than EBL due to NBBL's total deposit collection. Loan & advances, investment and net profit is higher since the beginning period with compare to EBL. In spite of increase in more amounts in four types of growth than EBL, it becomes in less in growth percentage. Therefore in total amount factor NBBL improve in all growth than EBL but in terms of percentage EBL improve in all growth rates than NBBL.

From the analysis of coefficient of correlation analysis we can conclude that both NBBL and EBL have significant positive relationship between deposit and loan & advances, deposit and total investment and total outside assets net profit.

From this study, trend value of deposit loan & advances, investment net profit shows that continuously increasing trend. In conclusion, it is quite obvious that NBBL's deposit collection position in relation to EBL is proportionally better in all the years. We can say that both NBBL and EBL have followed the policy of maximizing the investment.

The both hypothesis test, loan & advances to total deposit ratio and total investment to total deposit ratio shows that there is no significant difference between mean ratios of loan & advances to total deposit and investment to total deposit respectively.

5.2 Recommendations

Suggestion is output of the whole study. It helps to take corrective action in their activities in future. Different analysis were done till arrive this step. On the basis of above analysis and findings of the study, following suggestions can be advances to overcome weakness, inefficiency and satisfactory improvement of the present fune mobilization and investment policy of NBBL as well as EBL.

Increase more deposit

The main source of commercial banks is collecting deposit from publics who don't need that fund recently. Without enough deposit collection, banks cannot operate smoothly. So, it is recommended to collect more amounts as deposit through large variety of deposit schemes and facilities, like cumulative deposit scheme, prize bonds scheme, gift cheques schemes, recurring deposit scheme (life insurance), and monthly interest scheme. Similarly, customization of credit card, provide facility of transfer money to their home that live in foreign country. The minimum amount needed to open an account should be minimized.

More Investment in Government Securities

From the study, it has been reveals the NBBL has not invested more funds in government securities than that of EBL. NBBL has made lower investment amount on government securities. Increasing large amount on assets, as cash and bank balance is not considered good from the profitable point of view of the bank as it doesn't earn any return. NBBL's investment on government securities is not in satisfactory position. Investment on those securities issued by government i.e. Treasury bills, Development bonds, saving certificates are free of risk and highly liquid in nature and such securities yield the low interest rates of a particular maturity due to lowest risk in future, it is more better in regard to safety that other means of investment. So NBBL is strongly recommended to give more importance to invest more funds in government securities instead of keeping them idle with this proverb "something is better than nothing".

More investment on share and debenture

To get success it in a competitive market and to raise financial and economic development of the country a commercial bank must mobilize its fund in different sectors such as purchase share and debenture of other financial and non-financial companies and other government and non-government companies. It is also genuine means of utilization of resource. Thus those companies may get chances to rise and that help to develop of the country. Out of total working fund EBL invested its more funds as total investment in comparison to NBBL. So, it is strongly recommended to EBL as well as NBBL invest its more funds in share and debenture of different types of other companies in different area.

Investment of deprive and priority sector

NBR has directed to commercial banks to invest their certain percentage in deprives and priority sector and it is also responsibility of banks. The study has been found that EBL has earned high profit because their services are only profitable sector. It reveals that it has not granted loan on priority and deprives sector. So EBL is recommended to thoroughly follow the directives by issued by NRB and invest in priority and deprive sector and to invest on other small-scale industries like, public utilities, health, sanitation and drinking water, education and agricultural etc.

Effective Portfolio Management

Portfolio Management is very important for every investor. In each investment, risk is involved. Risk is the change of loss or the variability of the returns of a period. The greater the variability of the returns the riskier project, so it is kept in mind investing in the project, which would be lower risk and higher return. Portfolio management plays vital role with dividing total investment in different areas. Portfolio management of the bank assets basically means allocation of funds in different components of banking assets having different degrees of risk and varying rate of return such a way that the confliction goal of maximum yield and minimum risk can be achieved. So, Portfolio conditions of EBL as well as NBBL should be examined carefully time to time and alternation should be made to maintain equilibrium in the portfolio condition as far as possible. So it can be said that all eggs should not be kept in the same basket. The banks should make continuous yielding investment portfolio.

General lending policy and credit collection policy

To get success in competitive banking market, commercial bank must utilize air deposit as loan & advances. Loan & advances are the main source of income and to means of utilization resources of commercial banks. Negligence in administration these could be the cause of liquidity crisis in bank and one of the main reasons of the bank failure. When bank grants loan & advances it must be collected after a certain period. Collection of loan gas been most challenging task of commercial banks these days, increasing on non-performing assets discloses the failure of commercial banks in recovery of loan.

Therefore, it is recommended to NBBL to follow liberal lending policy when nations loan & advances with sufficient guaranty and implement a sound collection policy including procedure which rapid identification of bad debt or loans, immediate contact with borrower , continual follow up and as well as legal procedure if require.

Policymaking is very challenging task for the management of the bank. As per my view, formulation policy should follow the under stated mechanism, which is effectiveness and success of the policy.

Investment vision

The term investment is very important for commercial bank and main function also. Investment means use of their resource in different income sector, the study show that the trend of investment both NBBL and EBL is increasing satisfactory evel. It is recommended to EBL to kept wide vision in investment while they utilizing their recourse and invest in different areas.

Loan Recovery Act

The history of banks shows many difficulties in recovering loan & advances and their large amount of loan is blocked as non- performing assets and which sometime reduce income. So it is needed to homework to a suitable mechanism through which the overdue loan can be recovered within time To fulfill this purpose both banks are suggested, the special "Loan Recovery Act" should be enacted improve its profitability. A policy should be formulated to enhance its income and should control its administrative expenses, try to collect cheaper fund being more profitable. So they increase net profit earning in future.

Innovation approach to bank marketing

In the light of growing competition in the banking sector, the business of the bank should be customer oriented. Marketing is an effective tool to attract customers so it should be strong and active. Without effective marketing strategy anyone be along behind in today's competitive environment. Different marketing techniques like advertisement through audio-visual, published website, documentary etc are flowed. Similarly, draw attentions of customers through new technologies, like E-banking, internet banking service; increase investment through their wide international banking network should be introduced. For this purpose, both banks should develop an innovative approach of bank marketing.

Extend branches all over the country

Economic development of the country depends upon the growth of commercial banks. If the service of commercial banks expands all over the country it collects idle money from every corner of the country and can be utilized for income generation purpose. So that commercial banks should expand its hands all over rural and urban area of the country, not only in capital. HNG/N has also encouraged the joint venture banks to expand banking service in rural areas and communities only with urban areas. Both NBBL and EBL have greater network of branches all over the country.

Concluding remarks

Nepal is a developing country and its economic environment is also not in a good condition. The strong economic structure is needed for the rapid overall development. Commercial banks face several problems related to fund mobilization and investment. They are working in traditional method. They have to rush with modern banking technology so that; they would be professional business institutions. If commercial banks follow above-mentioned suggestions, they would be successful in reaching to the modern and competitive banking market. These suggestions will be helpful to the commercial banks to develop new system in the banking sector.

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Data source: www.nepalstock.com

Appendix – I

Nepal Bangladesh Bank Ltd.

(Rs. in million)

F/Y	2005/06	2006/07	2007/08	2008/09	2009/10
Current Asset	3906.65	7034.51	9639.94	10727.83	11345.52
Current Liabilities	4468.00	6949.62	9358.28	10441.04	11233.70
Cash & bank balance	619.42	645.75	1025.82	1759.31	899.51
Total investment	0.00	443.55	676.08	970.23	2130.51
Total deposit	4152.70	6467.19	8600.81	9514.04	10580.65
Loan & advances	3164.74	4617.10	7358.84	7632.42	7247.98
Investment on Govt. securities	0.00	443.55	262.56	891.04	2040.45
Investment on share & debenture	10.00	60.00	15.00	38.41	38.41
Total Working Fund	4805.82	7347.23	9962.69	11102.24	11932.60
Total interest earned	398.57	609.27	810.05	850.53	1013.71
Total interest paid	278.72	414.99	515.84	550.06	594.58
Net profit	82.73	139.53	198.75	65.78	71.51
Operating income	516.90	803.14	1074.14	1076.81	1243.83

Data Source: www.Nepalstock.com

Appendix – 2

Everest Bank Ltd.

(Rs. in million)

F/Y	2005/06	2006/07	2007/08	2008/09	2009/10
Current Asset	2077.32	3334.59	5049.85	6359.66	7836.89
Current Liabilities	2127.09	3204.27	4874.79	6063.87	7420.73
Cash & bank balance	460.71	278.60	834.99	592.76	1139.57
Total investment	184.91	257.61	823.00	1538.90	1599.35
Total deposit	1948.94	3057.43	4574.51	5477.61	6694.95
Loan & advances	1364.89	2270.18	3005.76	3948.48	4908.46
Investment on Govt. securities	184.91	257.61	823.00	1538.90	1599.35
Investment on share & debenture	2.50	2.50	3.70	17.11	17.11
Total Working Fund	2275.01	3411.70	5202.58	6607.18	8052.20
Total interest earned	175.94	267.44	385.02	443.82	520.17
Total interest paid	118.12	177.89	236.14	257.05	306.41
Net profit	25.24	41.27	69.70	85.33	94.17
Operating income	215.50	325.78	464.12	539.78	634.08

Data Source: www.Nepalstock.com

Appendix – 3

Current Ratio

Nepal Bangladesh Bank Ltd.

F/Y	Current assets (Rs.)	Current liabilities (Rs.)	Ratios (%)
2005/06	3906.65	4468.00	0.87
2006/07	7034.51	6945.64	1.01
2007/08	9636.94	9358.28	1.02
2008/09	10727.83	10441.04	1.02
2009/10	11345.52	11233.70	1.00

Everest Bank Ltd.

F/Y	Current assets (Rs.)	Current liabilities (Rs.)	Ratios (%)
2005/06	2077.32	2127.09	0.97
2006/07	3334.59	3204.27	1.04
2007/08	5049.85	4874.79	1.03
2008/09	6359.66	6063.87	1.04
2009/10	7836.89	7420.73	1.05

Data Source: www.Nepalstock.com

Appendix – 4

Cash and bank balance to total Deposit Ratio

Nepal Bangladesh Bank Ltd.

(Rs. in million)

F/Y	Cash and bank Balance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	619.42	4152.70	14.91
2006/07	645.75	6467.19	9.98
2007/08	1025.82	8600.81	11.93
2008/09	1759.31	9514.47	18.49
2009/10	899.51	10580.65	8.50

Everest Bank Ltd.

F/Y	Cash and bank Balance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	460.71	1948.94	23.63
2006/07	278.60	3057.43	9.11
2007/08	834.99	4574.51	18.25
2008/09	592.76	5466.61	10.84
2009/10	1139.57	6694.95	17.02

Data Source: www.Nepalstock.com

Appendix – 5

Cash and bank balance to Current Asset Ratio

Nepal Bangladesh Bank Ltd.

(Rs. in million)

F/Y	Cash and bank Balance (Rs.)	Current Asset (Rs.)	Ratios (%)
2005/06	619.42	39.6.65	15.85
2006/07	645.75	7034.51	9.18
2007/08	1025.82	9636.94	10.64
2008/09	1759.31	10727.83	16.39
2009/10	899.51	11345.52	7.92

Everest Bank Ltd.

F/Y	Cash and bank balance (Rs.)	Current Asset (Rs.)	Ratios (%)
2005/06	460.71	2077.32	22.18
2006/07	278.60	3334.59	8.35
2007/08	834.99	5049.85	16.53
2008/09	592.76	6359.66	9.32
2009/10	1139.57	7836.89	14.54

Data Source: www.Nepalstock.com

Appendix – 6

Investment on government securities to current assets ratio

Nepal Bangladesh Bank Ltd.

(Rs. in million)

F/Y	Investment on government securities (Rs.)	Current Asset (Rs.)	Ratios (%)
2005/06	0.00	3906.65	0.00
2006/07	443.55	7034.51	6.30
2007/08	262.56	9636.94	2.72
2008/09	891.04	10727.83	8.30
2009/10	2040.45	11345.52	17.98

Everest Bank Ltd.

F/Y	Investment on government securities (Rs.)	Current Asset (Rs.)	Ratios (%)
2005/06	184.91	2077.32	8.90
2006/07	257.61	3334.59	7.73
2007/08	823.00	5049.85	16.29
2008/09	1538.90	6359.66	24.19
2009/10	1599.35	7836.89	20.40

Data Source: www.Nepalstock.com

Appendix – 7

Loan & advance to total deposit ratio

Nepal Bangladesh Bank Ltd.

(Rs. in million)

F/Y	Loan & advance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	3164.74	4152.70	76.21
2006/07	4617.10	6467.19	71.39
2007/08	7358.84	8600.81	85.56
2008/09	7632.42	9514.47	80.22
2009/10	7247.98	10580.65	68.50

Everest Bank Ltd.

F/Y	Loan & advance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	1364.89	1948.94	70.03
2006/07	2270.18	3057.43	74.25
2007/08	3005.76	4574.51	65.70
2008/09	3948.48	5466.61	72.22
2009/10	4908.46	6694.95	73.31

Data Source: www.Nepalstock.com

Appendix – 8

Total investment to total deposit ratio

Nepal Bangladesh Bank Ltd.

(Rs. in million)

F/Y	Loan & advance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	0.00	4152.70	0.00
2006/07	443.55	6467.19	6.86
2007/08	676.08	8600.81	7.86
2008/09	970.23	9514.47	10.19
2009/10	2130.51	10580.65	20.13

Everest Bank Ltd.

F/Y	Loan & advance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	184.91	1948.94	9.49
2006/07	257.61	3057.43	8.42
2007/08	823.00	4574.51	18.00
2008/09	1538.90	5466.61	28.15
2009/10	1599.35	6694.95	23.88

Data Source: www.Nepalstock.com

Appendix – 9

Loan & advance to total working fund ratio

Nepal Bangladesh Bank Ltd.

(Rs. in million)

F/Y	Loan & advance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	3164.74	4805.82	65.85
2006/07	4617.10	7347.23	62.84
2007/08	7358.84	9962.69	73.86
2008/09	7632.42	11102.24	68.74
2009/10	7247.98	11932.60	60.74

Everest Bank Ltd.

F/Y	Loan & advance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	1364.89	2275.01	60.00
2006/07	2270.18	3411.70	66.54
2007/08	3005.76	5202.58	57.77
2008/09	3948.48	6607.18	60.00
2009/10	4908.46	8052.20	60.96

Data Source: www.Nepalstock.com

Appendix – 10

Investment on government securities to total working fund ratio

Nepal Bangladesh Bank Ltd.

(Rs. in million)

F/Y	Loan & advance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	0.00	4805.82	0.00
2006/07	443.55	7347.23	6.03
2007/08	676.08	9962.69	20.63
2008/09	970.23	11102.24	8.02
2009/10	2130.51	11932.60	17.09

Everest Bank Ltd.

F/Y	Loan & advance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	184.91	2275.01	8.13
2006/07	257.61	3411.70	7.55
2007/08	823.00	5202.58	15.82
2008/09	1538.90	6607.18	23.29
2009/10	1599.35	8052.20	19.86

Data Source: www.Nepalstock.com

Appendix – 11

Investment on Share & debenture to working fund ratio

Nepal Bangladesh Bank Ltd.

(Rs. in million)

F/Y	Loan & advance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	10.00	4805.82	0.21
2006/07	60.00	7347.23	0.81
2007/08	15.00	9962.69	0.15
2008/09	38.41	11102.24	0.34
2009/10	38.41	11932.60	0.32

Everest Bank Ltd.

F/Y	Loan & advance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	2.50	2275.01	0.11
2006/07	2.50	3411.70	0.07
2007/08	30.70	5202.58	0.07
2008/09	17.11	6607.18	0.26
2009/10	17.11	8052.20	0.21

Data Source: www.Nepalstock.com

Appendix – 12

Return on loan & advances ratio

Nepal Bangladesh Bank Ltd.

(Rs. in million)

F/Y	Loan & advance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	82.73	3164.74	2.61
2006/07	139.53	4617.10	3.02
2007/08	198.75	7358.84	2.70
2008/09	65.78	7632.42	0.86
2009/10	71.51	7247.98	0.98

Everest Bank Ltd.

F/Y	Loan & advance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	25.24	1364.89	1.85
2006/07	41.27	2270.18	1.82
2007/08	69.70	3005.76	2.32
2008/09	85.33	3948.48	2.16
2009/10	94.17	4908.46	1.92

Data Source: www.Nepalstock.com

Appendix – 13

Return on Total assets ratio

Nepal Bangladesh Bank Ltd.

(Rs. in million)

F/Y	Loan & advance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	82.73	4805.82	1.72
2006/07	139.53	7347.23	1.89
2007/08	198.75	9962.69	1.99
2008/09	65.78	11102.24	0.59
2009/10	71.51	11932.60	0.59

Everest Bank Ltd.

F/Y	Loan & advance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	25.24	2275.01	1.11
2006/07	41.27	3411.70	1.21
2007/08	69.70	5202.58	1.34
2008/09	85.33	6607.18	1.29
2009/10	94.17	8052.20	1.17

Data Source: www.Nepalstock.com

Appendix – 14

Return on loan & ad advances ratio

Nepal Bangladesh Bank Ltd.

(Rs. in million)

F/Y	Loan & advance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	398.57	4805.82	8.29
2006/07	609.27	7347.23	8.29
2007/08	810.05	9962.69	8.13
2008/09	850.53	11102.24	7.66
2009/10	1013.71	11932.60	8.49

Everest Bank Ltd.

F/Y	Loan & advance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	175.94	2275.01	7.73
2006/07	267.44	3411.70	7.84
2007/08	385.02	5202.58	7.40
2008/09	443.82	6607.18	6.71
2009/10	520.17	8052.20	6.46

Data Source: www.Nepalstock.com

Appendix – 15

Total interest earned to total operating income ratio

Nepal Bangladesh Bank Ltd.

(Rs. in million)

F/Y	Loan & advance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	398.57	516.90	77.10
2006/07	609.27	803.14	75.86
2007/08	810.05	1074.14	75.41
2008/09	850.53	1076.81	78.98
2009/10	1013.71	1243.83	81.49

Everest Bank Ltd.

F/Y	Loan & advance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	175.94	215.50	81.64
2006/07	267.44	325.78	82.09
2007/08	385.02	464.12	82.95
2008/09	443.82	539.78	82.22
2009/10	520.17	634.08	82.03

Data Source: www.Nepalstock.com

Appendix – 16

Total interest paid to total working fund ratio

Nepal Bangladesh Bank Ltd.

(Rs. in million)

F/Y	Loan & advance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	278.72	4805.82	5.80
2006/07	414.99	7347.23	5.64
2007/08	515.84	9962.69	5017
2008/09	550.06	11102.24	4.95
2009/10	594.58	11932.60	4.98

Everest Bank Ltd.

F/Y	Loan & advance (Rs.)	Total Deposit (Rs.)	Ratios (%)
2005/06	118.12	2275.01	5.19
2006/07	177.89	3411.70	5.21
2007/08	236.14	5202.58	4.53
2008/09	257.05	6607.18	3.89
2009/10	306.41	8052.20	3.80

Data Source: www.Nepalstock.com

Appendix – 17

Correlation between total deposit and investment of EBL

F/Y	Deposit (X)	dx $X-\bar{X}$	dx^2	Investment (Y)	dy $(Y-\bar{y})$	dy^2	dx.dy
2005/06	1948.94	-2399.548	5757830.6	184.91	-695.844	484198.87	1669711.8
2006/07	3057.43	-1291.058	1666830.8	257.61	-623.144	388308.44	804515.05
2007/08	4574.51	226.022	51085.9	823.00	-57.754	3335.52	-13053.67
2008/09	5466.66	1118.122	1250196.8	1538.90	658.146	433156.16	735887.52
2009/10	6694.95	2346.462	55505883.9	1599.35	718.596	516380.21	1686158.2
Total	21742.44	0	14231828	4403.77	0	18253792	4883218.9

Now, we have

N = 5

$\sum dx = 0$ $\sum dx^2 = 14231828$

$\sum dy = 0$ $\sum dy^2 = 18253792.2$

$\sum dx.dy = 4883218.90$

Correlation of coefficient can be calculated by using following formula,

$$r = \frac{N\sum dxdy - (\sum dx)(\sum dy)}{\sqrt{[N\sum dx^2 - (\sum dx)^2][N\sum dy^2 - (\sum dy)^2]}}$$

$$= \frac{5\,(4883218.90) - (0)(0)}{\sqrt{[5(14231828)-(0)2][5(1825379.2)-(0)^2]}}$$

$$= \frac{24416094.5}{25484546} = 0.9580$$

Calculation of probable error,

$$\text{P.Er.} = \frac{0.6745}{\sqrt{N}} * 1 - r^2 = \frac{0.6745}{\sqrt{5}} * 1-(0.9580)^2 = 0.0247$$

6 P.Er = 6*0.0247 = 0.1482

Other growth ratios are calculated accordingly.

Appendix – 18

Test of Hypothesis on total investment to total deposit of NBBL & EBL

Calculated on x, y and S^2

Let $x = X - \bar{X}$ and $y = Y - \bar{Y}$

NBBL			EBL		
X	**$x = X - \bar{X}$**	x^2	**Y**	$y = Y - \bar{Y}$	y^2
0.00	-9.08	81.14	9.49	-8.09	65.57
6.86	-2.14	4.61	8.42	-9.16	84.05
7.86	-1.14	1.31	18.00	0.41	0.16
10.19	1.14	1.39	28.15	10.56	111.55
20.13	11.12	123.69	23.88	6.28	39.58
$\sum X=45.04$	**$\sum x=0$**	**$\sum x^2=212.14$**	**$\sum Y=87.04$**	**$\sum y=0$**	**$\sum y^2=300.91$**

$$\bar{X} = \sum X = 45.04 \quad = 9.008$$

$$\bar{Y} = \sum Y = 87.04 \quad = 17.408$$

$$S^2 = \frac{1}{n_1 + n_2 - 2}\left[\left\{\sum X^2 - \frac{(\sum X)^2}{n} + \sum Y^2 - \frac{(\sum Y)^2}{n}\right\}\right]$$

$$S^2 = \frac{1}{5+5-2}\left[\left\{212.14 - \frac{(0)^2}{5} + 300.91 - \frac{(0)^2}{5}\right\}\right]$$

$$= \frac{1}{8}[212.14 - 0 + 300.91 - 0]$$

$$S^2 = 64.13$$

Appendix – 19

A sample calculation of mean X, standard deviation (ó), Co-efficient of variance (C.V) for five year data.

NBBL

F/Y	Current ratios (X)	X^2
2005/06	0.87	0.7569
2006/07	1.01	1.0201
2007/08	1.02	1.0404
2008/09	1.02	1.0404
2009/10	1.00	1.0000
Total	**$\sum X = 4.92$**	**$\sum X^2 = 4.8578$**

Mean (x) = $\sum X/n$ = 4.92/5 = 0.984

Standard Deviation (∃) = $\sqrt{\frac{\sum X^2}{n} - \left[\frac{\sum X}{n}\right]^2} = \sqrt{\frac{4.8578}{5} - \left[\frac{4.92}{5}\right]^2} = 0.0574$

Co-efficient of Variance (C.V.) = ∃ / x. 100 = 0.057/0.984. 100 = 5.84%

Note: Mean Standard Deviation and C.V. for other forms are calculated accordingly.