A Comparative Study on Fund Mobilization of Himalayan Bank Ltd. And Everest Bank Ltd.

A THESIS

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Faculty of Management

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In partial fulfillment of the requirements for the degree of

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RECOMMENDATION

This is to certify that Mr Thamman Bahadur K.C. has prepared the thesis entitled "A Comparative Study on Fund Mobilization of Himalayan Bank Ltd. And Everest Bank Ltd. "under my supervision and guidance. I am satisfied with the work in terms of Research methodology, presentation and describes of data.

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APPROVAL SHEET

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"A COMPARATIVE STUDY ON FUND MOBILIZATION OF HIMALAYAN BANK LTD. AND EVEREST BANK LTD. "

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VIVA-VOCE SHEET

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DECLARATION

I hereby declare that the work reported in this entitled **"A Comparative Study on Fund Mobilization of Himalayan Bank Ltd. And Everest Bank Ltd."**submitted to Tribhuvan Multiple Campus, Palpa, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master of Business Studies (M. B. S.) under the supervision of **Mr.** Santosh Lal Shrestha of Tribhuvan Multiple Campus, Palpa.

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ABBREVIATIONS

HBL : Himalayan Bank Limited

EBL : Everest Bank Limited

NRB : Nepal Rastra Bank

S.D : Standard Deviation

C V : Coefficient of Variation

Invt. : Investment

Govt. : Government

Debn. : Debenture

P.E : Probable Error

Ltd. : Limited

JVB : Joint Venture Bank

Sect. : Securities

F.Y : Fiscal Year

CHAPTER-I
INTRODUCTION

1.1. Background of the Study

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

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

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

The bank draws surplus money from the public, who cannot use the money at the time and lends to those who give attention to use for productive purposes. Bank lends the loan to the customers; gain interest amount, the bank draw the money from institution or individual or people pay the interest amount by certain interest rate. Banking institutions collect scattered financial resources from the mass and invest them among those who are associated with the economic, commercial, and social activities of the country.

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

A new organized financial institution companies, commercial banks and other financial intermediaries play an important role for the development of a country.

1.2. Development of Banks

In Worldwide Context

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 Vanice"** was the first bank, which established in Italy in 1157 AD as a first modern bank. Then after in 1401 AD **"Bank of Barcelona"** is established in Spain, Bank of Geneva established in 1407 AD, Bank of Amsterdam established in 1609 AD. But the credit of the development of modern banks goes to **"The Bank of England"** which was established in 1694 AD in London. The growth of banking accelerated only after the introduction of the banking Act 1883 in United Kingdom as it allowed opening joint stock company banks.

In Nepalese Context

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

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

The development of modern bank started from the establishment of **"Nepal Bank Limited"** in 1937 AD with 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.

A part 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.

1.3. Introduction of Commercial Bank

Commercial bank is a financial institution which transfers monetary sources to users. In the process of such intermediation, commercial bank develops 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.

Commercial Banking Scenario in Nepal

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 1994 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 31 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 Banks

Mid-January 2011

	Commercial Banks	Operation Date (A.D)	Head Office
1	Nepal Bank Limited	1937/11/15	Kathmandu
2	Rastriya Banijya Bank	1966/01/23	Kathmandu
3	Nabil Bank Limited(established as Nepal Arab Bank Limited)	1984/07/16	Kathmandu
4	Nepal Investment Bank Limited (established as Nepal Indo - Suez Bank Ltd.)	1986/02/27	Kathmandu
5	Standard Chartered Bank Limited (established as Nepal Grindlays Bank Ltd.)	1987/01/30	Kathmandu
6	Himalaya Bank Limited	1993/01/18	Kathmandu
7	Nepal Bangladesh Bank Limited	1993/06/05	Kathmandu
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu
9	Everest Bank Limited	1994/10/18	Kathmandu
10	Bank of Kathmandu Limited	1995/03/12	Kathmandu
11	Nepal Credit & Commerce Bank Limited(established as Bank of Cylon)	1996/10/14	Siddharthanagar
12	Lumbini Bank Limited	1998/07/17	Narayangadh
13	Nepal Industrial & Commercial Bank Ltd.	1998/07/21	Biratnagar
14	Machhapuchhre Bank Limited	2000/10/03	Pokhara
15	Kumari Bank Limited	2001/04/03	Kathmandu
16	Laxmi Bank Limited	2002/04/03	Birgunj

17	Siddhartha Bank Limited	2002/12/24	Kathmandu
18	Agriculture Development Bank Limited	2006/03/16	Kathmandu
19	Global Bank Limited	2007/01/02	Kathmandu
20	Citizens Bank International Limited	2007/06/21	Kathmandu
21	Prime Commercial Bank Limited	2007/09/24	Kathmandu
22	Sun Rises Bank Limited	2007/10/12	Kathmandu
23	Bank of Asian Limited	2007/10/12	Kathmandu
24	Development Credit Bank Limited	2007	Kathmandu
25	NMB Bank Limited	2008/06/02	Kathmandu
26	Kist Bank Limited	2009/03/07	Kathmandu
27	Janata Bank Limited	2010/04/05	Kathmandu
28	Megha Bank Nepal Limited	2010/07/23	Kathmandu
29	Commece and Trust Bank Nepal Limited	2010/09/20	Kathmandu
30	Civil Bank Limited	2010/11/26	Kathmandu
31	Century Commercial Bank Limited	2011/03/10	Kathmandu

The sample taken from the commercial banks are follows

Total population	Sample taken
commercial banks	Everest Bank Ltd Himalayan Bank Ltd.

(Sources: Banking and Financial Statistic)

1.4. Role of Joint Venture Bank in Nepal

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 HMG/N 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, 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.

1.5. Focus of the Study

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

"General fund mobilizing means to flow the cash in different sectors at profit motive. Investment in its broadest sense means the sacrifice of certain present value for (possibly uncertain) future value. In pure financial sense, the subsequent use of the term investment will be in the prevalent financial sense of the placing of money in the hands of other for their use, in return for a proper instrument entitling the holders to fixed income payment or the participation in expected profits. It can define the terms of investment at manufacturing and trading forms those long term expenditures that aim at increasing plant capacity of efficiency or at building up goodwill, there by producing an increased return over a period. Experts define the terms of investment from economic view point that investment as a productive process by means of which additional are made to capital equipment's. It is finding to clear the terms of investment at different points of view. But it needs to clear the terms of investment in financial point of view as related to this study." **(Swami and Basudevan :1979, 23)**

This research focuses on the comparative study of fund mobilization of two joint venture banks; Himalayan Bank Ltd. and Everest Bank Ltd. These two banks are compared as per their fund mobilization procedure by taking 5 years data from the year 2007 to 2011.

1.6. Profile of the Concerned Banks

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

Himalayan Bank Limited

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

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

At present HBL has eight branches in Kathmandu valley. Including this , it has thirty six branches outside Kathmandu valley with 57 ATM services . There are in total 647 staffs.. The Bank has a very aggressive plan of establishing more branches in different parts of the kingdom in nearfuture. HBL was access to the worldwide correspondent network of

Habib bank for fund transfer, letter of credit or any other banking business any where in the world. Himalayan Bank has adopting innovative and latest banking technology. The bank provides various facilities such as:

- Tele- Banking
- 24 hours banking
- Credit card facilities
- Automatic Teller Machine(ATM)
- Visa card
- L.C. service
- Safe deposit locker
- Himalayan SMS(Short Message Service)
- Foreign currency transaction etc.

The ownership of HBL is composed as:

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

The present capital structure of HBL is shown below:

Share Structure	**Amount (Rs.)**
Authorized Capital	3,000,000,000
Issued Capital	2,000,000,000

Paid- Up Capital (20000000 equity shares of NRS 100.00 each, fully paid)2,400,000,000

Source: Report of HBL

Everest Bank Limited

Everest Bank Ltd. was registered under the Company Act 1964 in 19th November 1993 (2049/09/03) and started banking transaction in 16th October 1994 (2051/07/01). The promoter of the bank decided to join hands with an Indian bank and entered into joint venture agreement in January 1997 AD with Punjab National Bank (PNB), which is one of the leading commercial bank of India, having over 100 years of successful banking experience and known for its strong system and procedure. A team of professionals deputed by PNB under this arrangement. Now, the bank 43 branches including main branch (i.e. head office) in Nepal &586 no of Staff.

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

- Cumulative Deposit Scheme
- Unfix Fixed Deposit
- ATM Facilities
- FC Deposit/ Lending

- Facilities of NRN
- Required Deposit Plan
- Telegraphy transfer (T.T)
- Letter of Credit
- Drawing Arrangement
- SWIFT Transfer
- Foreign Exchange
- International Trade and Bank Guarantees
- Merchant Banking

The ownership of EBL is composed as:

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

The authorized capital of the bank has been Rs. 200 million, issued Rs. 128.1 million and paid capital Rs.117.5645 million in the beginning of 2051/052. The present capital structure of EBL is shown below:

Share Structure	**Amount (Rs.)**
Authorized Capital	2,000,000,000
Issued Capital	1,281,406,500
Paid- Up Capital	1,279,609,490

Source: Report of EBL

1.7. Statement of the Problems

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

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

To meet the requirement of NRB, joint venture banks must have 6% deposits of total current account and fixed deposit account of local currency with NRB. They should have 3% minimum cash balance in their own vault of total currency of all types of accounts. Except this, they have fund from current, saving and fixed deposits borrowing, from other banks, cash margin for different purpose, amount of bills payable and retained earning, reserves share capital and other liabilities.

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

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

a) Is there any stability in fund mobilization between HBL and EBL?

b) What is the relationship between deposit and total capital raised, deposit with total investment and loan and advances with total deposits?

c) Does the investment decision affect the total earning capacity of the bank?

d) Do the two joint ventures successful to utilize their available fund?

e) Are they maintaining sufficient liquidity position?

f) Which joint ventures have more effective investment policy among HBL and EBL ?

1.8. 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 two joint ventures; Himalayan Bank Ltd. and Everest Bank Ltd. This study is concerned with whether HBL and EBL are adopting efficient fund mobilizing policy or not. The main objectives related to this study are presented below:

- To evaluate the growth and risk ratio of loan and advances and total investment with respective to growth rate of total deposit and net profit of HBL and EBL.
- To evaluate comparatively operating, financial and investment efficiency of two joint venture banks.
- To analyze the relationship between deposits and total investment, deposits and loan and advance and net profits of HBL and EBL.
- To analyze the sources and uses of funds and analysis of cash flow of these two joint venture banks.
- To suggest and recommend some measures for improvement of financial performance of HBL and EBL.

1.9. 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:

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

1.10. Limitation of the Study

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

- This study is based on secondary data and accuracy depends upon the data collected and provided by the organization.
- The whole study is based on the data of 5 years period This study has been only of two joint venture banks as sample i.e. HBL 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.

1.11. 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, introduction of commercial banks, focus of the study, statement of the problems, research methodology, and objectives 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 legislative provision, 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 HBL 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

2.1 Concept

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

2.2 Theoretical Framework

Basically, theoretical framework describes the following terms which are closely related to the research work.

2.2.1 Features of Sound Lending and Fund Mobilization Policy

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

a) Safety and Security

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

Where,

M = Marketability

A = Ascertain ability

S = Stability

T = Transferability

b) Legality

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

c) Liquidity

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

d) Profitability

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

e) Tangibility

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

f) Purpose of loan

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

g) Diversification

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

2.2.2 Meaning of Some Important Terminologies

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

a) Loan and Advances

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

b) Investment on Government Securities, Shares and Debentures

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

- It may want to space it’s maturating so that the inflow of cash coincides with expected withdrawals by depositors of large loan demands of its customers.
- It may wish to have high-grade marketable securities to liquidate if its primary reserve becomes inadequate.

- It may also be forced to invest because the demand for loans has decreased or it is not sufficient to absorb its excess reserves.
- However, investment portfolio of commercial bank is established and maintained primarily with a view of nature of banks liabilities since depositors may demand funds in great volume without previous notice to banks. The investment must be of a type that can be marketed quickly with little or no shrinkage in value.

c) Investment on other Company's Shares and Debentures

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

d) Off- Balance Sheet Activities

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

e) Other use of Fund

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

f) Deposits

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

- Current Deposits
- Saving Deposits
- Fixed Deposits

2.2.3 Review of Legislative Provisions

Legislative environment has significant impact on the commercial bank's establishment, their mobilization and utilization of resources. All the commercial banks have to confirm to the legislative provisions specified in the Commercial Bank Act 2031 and the rules and regulation formulated to facilitate the smooth running of commercial banks.

Compulsory Cash Reserve Ratio (CRR) and Refinancing

In order to improve the sluggish economy, continuity has been given to flexible monetary policy. NRB has revised the compulsory CRR effective with a view to reduce the cost of fund of banks which will facilitate the banks to reduce their lending rates without changing in deposit rates. As per this revision, in respect to balance with NRB requirements of commercial banks, the present level of 7 % of the domestic current and saving deposit liabilities and 4.5% of time deposit liability remain unchanged. The requirement of cash reserve in their own vault, however, has been brought down to 2% from 3%. In respect of refinancing rates, the present rate of 2% for export credit in foreign currency; 3% rehabilitation of sick industries, 4.5% for Grameen Bikas Banks(Rural Development Banks) and export credits in Nepalese currency; and 5.5% for all other types of refinancing remains unchanged. An additional amount of Rs. 1500 million has been set aside to provide refinancing facilities for such industries.

Policy Guidelines on the Establishment of the Commercial Banks

Receiving applications for the establishment of commercial banks has been stopped since 1995. Visualizing that such an administrative restriction is not in conformity with the liberal financial policy, the following new policy guidelines have been made:

1) Paid up Capital

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

2) Share Capital

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

3) Legal Procedure

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

4) Banks Already in Operation

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

5) Concerning up gradation

Banks to be established outside Kathmandu Valley could be allowed to operate throughout the Kingdom including Kathmandu Valley only on the condition that they have brought their paid up capital level to Rs.

1000 million and also fulfilled other prescribed conditions. Until and unless such banks do not get license to operate throughout the kingdom, they will not be allowed to open any office in Kathmandu Valley.

6) Promoters Share Payment Procedure

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

7) Promoters Qualification and Experience

Action on the application from promoters will not be initiated if it is proved that their collateral has been put on auction by the bank and financial institutions as a result of non-payment of loans in the past, who have not cleared such loans or those in the black list of the Credit Information Bureau and 5 years have not elapsed from the date of the removal of their name from such list. The application will be deemed automatically cancelled irrespective of it being on any stage of process for license issuance if the above events are proved. Of the total promoters, one-third should be its chartered accountant or at least a graduate of Tribhuvan University or recognized institutions with major in economics or accountancy, finance, law, banking or statistics. Likewise, one-fourth promoters should have the work experience of bank or financial institution or similar nature.

8) Promoters Share

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

9) Branch Expansion

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

10) Disqualify from Becoming Director

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

(Source: Economic Survey 2010/11)

2.2.4 Fund Mobilizing Procedure of Joint Venture Banks

All the banks of entire world were applied their own fund mobilizing procedure. In practice, straightforward and effective fund mobilization procedure has adopted by the bank. Effective fund mobilization is the indicator of banks prosperity and its growth. Banks have some fund mobilizing procedure they are summarized below:

1. Sources of Fund

In the economic activities there are so many sources of fund. In these sources, issuing share and borrowing loan from different sector. The sources of funds can be categorized in two ways.

A. Owned Funds/ Equity Capital of Bank

Following are the sources of owned funds:

a) Ordinary Share

Ordinary sources are the bank's strong and reliable sources of funds. Banks promoters issue ordinary shares to the public in fixed number. Banks collects the fund by selling fixed ordinary shares to the public by adopting fixed rules and regulation. These public make shareholders after purchasing the issued share.

b) Preference Share

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

c) Bonus Share

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

d) Retained Earning

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

e) Reserve Fund

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

f) Undistributed Dividend

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

B. Borrowed Fund of Bank

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

a) Selling of Debenture

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

b) Deposits

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

- **Current Deposit**

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

- **Saving Deposit**

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

- **Fixed Deposit**

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

c) Loan from the Central Bank

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

d) Loan from the Financial Institutions

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

e) Loan from Commercial Banks

If banks need money, it receives money from other commercial bank also in the form of borrowing. Banks fulfill the need of cash by taking loan from other banks. It is also the types of bank capital.

2. Mobilization of Funds

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

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

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

a. Liquid Funds

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

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

b. Investment

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

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

c. Loan and Advances

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

- To government enterprises
- To provide enterprises

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

d. Fixed Assets

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

e. Administrative and Miscellaneous Expenses

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

- Salary of Employee
- Allowances
- Pension
- Advertisement
- Stationery
- Provident Fund
- Rent
- Income tax

- Donation
- Insurance
- Tour expenses
- Commission
- The miscellaneous expenses are
- To distribute the dividend to shareholders
- To bear the loss on sale and purchase of banking assets
- Maintenance expenses
- To pay the interest on borrowed amount
- Reserve fund

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

2.3 Review of Related Studies

2.3.1 Review of Books

Banks are that kind of institutions, which deals with money and substitutions for money. They deal with credit and credit instrument. Effective circulation of credit is more significant for the banks. Unsteady and unevenly flow of credit harms the economic situation of the nation. Because of this, collected fund should be invested and mobilized into the right sector. An investment of fund decides the life and death of the banks.

“An investment is a commitment of money that is expected to generate additional money that is expected to generate additional money. Every investment entails sacrifice for a future uncertain benefit.” **(Francis: 1991 ,2)**

Likewise, **Cheney and Moses** are concerned with the objective of investment and indicate that the risk is in proportion with the degree of returns. They write, “The investment objective is to increase systematically the individual’s wealth, defined as assets minus liabilities. The higher the level of the desired wealth, the higher must be received. An investor seeking higher return must be willing to face higher level of risk.” **(Cheney and Moses:1992 ,12)**

Charles P. Jones, emphasizing on the proper management of an investor’s wealth says, “Investment is the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor’s wealth, which is the sum of current income and present value of all future income.” **(Charles: 1999, 2)**

According to **William J. Sharpe and Alexander J. Gorden** has defined the term “investment” as the sacrifice of money today for the prospective money tomorrow. They write, “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 the present and is certain. The reward comes later, if at all and the magnitude is uncertain. In some cases the element of time predominates (e.g. government bond). In other cases, risk is the dominant attribute (e.g. call option on common stock). In yet both time and risk are important.” **(Sharpe and Gorden 1996, 1)**

James B. Baxley expresses his opinion as “Investment policy fixed responsibilities for the investment disposition of the banks assets in term of allocating funds for investment and loan and establishing responsibility for day to day management of those assets.” **(Baxley: 1987 ,5)**
In the view of **Gittman and Jochnk**, “Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns.” **(Gittman and Jochnk: 1990, 18)**

Sakespeare Baidya has an elaborated definition on “investment” which beseeches of sound investment policy and covers wider aspects. He writes, “A sound investment policy of 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 in banking sector tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually springs from significant amount of loans that have become uncollectible due to mismanagement, illegal economic downturn. Therefore, the banks 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 do banks make? And, how much of loan is to be invested? The banks make a variety of loans to a wide variety of customers from many different purposes from purchasing automobile to construct of homes and making trade with foreign countries. There, 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 to 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.” **(Baidya : 1997, 47)**

V.K. Bhalla has derived a three- pointed basic concept of investment. His view on investment cover:

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

He says, “Banks are those institutions which accepts deposits from the public and in return provide credit to trade, business and industry that directly makes a remarkable impact on the economic development of a country. To collect fund and collect as a good investment is a very risky job. Ad-hoc investment decision leads the bank out of the business thereby drawn the economic growth of a country. Hence sound investment policy is another secret of a successful bank.” **(Bhalla: 1997, 13)**

In the view of **Reed, Cotter, Gill and Smith**, “commercial banks still remain the heart of our financial system holding the deposits of millions of persons, governments and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and governments. Commercial banks are the most important type of financial institutions in the nation in terms of aggregate assets.” (**Reed, Cotter, Gill and Smith 980 ,5** ,**1)**

The primary function of commercial banks is the extension of credit to worthy borrowers. In making credit available, commercial banks are rendering a great social service. Through their action, production is increased, capital investments are expanded, and a higher standard of living is realized. Although the investment activities of commercial banks are usually considered separately from lending, the economic effects and social results are the same.

Emphasizing the importance of investment policy, **H.D. Crosse** puts his opinion like this way, "Lending is the essence of commercial banking, and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit." **(Crosse: 1963 ,38)**

2.3.2 Review of Journals/Articles, Research Papers and Previous Studies

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

Mr. Sunil Chopra in his article, "Role of Foreign banks in Nepal" had conducted that the joint venture banks playing an increasingly dynamic and vital role in the economic development of the country that will undoubtedly increase with time. **(Chopra :1989, 2)**

Sunity Shrestha has analyzed in her article, “Financial performance of commercial banks using both descriptive and diagnostic approach.**” (Shrestha : 1997, 23-27)**

In her studies she has concluded the following points:

a. The structural ratio of commercial banks show that banks invest on the average 75% of their total deposit on the government securities and the shares.

b. The analysis of resources position of commercial banks should quit high percentage of deposit as cash reserve.

c. Return ratio of all the banks show that most of the time foreign banks have higher return as well as higher risk than Nepalese banks.

d. The debt-equity ratios of commercial banks are more than 100% in most of the time period under study period. It led to conclude that the commercial banks are highly leveraged and highly risk. Joint venture banks had higher capital adequacy ratio but has been dealing every day.

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

According to Asian weekly news paper 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. and Himalayan Bank Ltd. are positioned among 500 biggest banks of Asia region. This evaluation is based on the total assets, deposit, loan investment, net income and profit and investment on shares. (**Kantipur Daily,Wednesday 009) 2**

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

Mr. Shiva Raj Shrestha has presented a short scenario of investment management from his article "Portfolio Management in Commercial Bank, Theory and Practice." (Shrestha :2055, 13)He has stressed in the following issues, in case of investors having lower income, portfolio management may be limited to small saving incomes. But, on the other hank, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore, portfolio management becomes very important both for an individuals as well as institutional investors. Large investors would like to select a best mix of investment assets and subject to the following aspects:

a. Higher return which is comparable with alternative opportunities available according to the risk class of investor.
b. Good liquidity with adequate safety on investment.
c. Certain capital gains
d. Maximum tax concession
e. Flexible investment
f. Economic and efficient investment

In the view of these aspects, investors are expected to develop the following strategy:
a) Do not hold any single security; try to have a portfolio of different securities.

b) Do not pull all the eggs in one basket i.e. to have a diversified investment.

c) Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower return with added objectives wealth maximization.

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

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

According to **Mr. Bodi B. Bajracharya** in his article “Monetary Policy and Deposit Mobilization in Nepal” that “the mobilization of domestic saving is one of the prime objectives of monetary policy in Nepal. For this purpose, commercial banks stood as the active and vital financial intermediary for generating resources in form of deposit of the investors in different aspects of the economy.” **(Bajracharya: 2047, 93-97)**

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

Similarly, **Mr. Bhaskar Sharma** has found same results that all the commercial banks are establishing and operating in urban areas, in this study, "banking the future on competition." **(Sharma: 2000, 13)** .His achievements are:

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

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

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

In the view of **Mr. Shekhar Bahadur Pradhan,** in his articles, "Deposit mobilization, its problem and prospects" He has presented the following problems in the context of Nepal: **(Pradhan : 2053, 9)**

- People do not have knowledge and proper education for saving in institutional manner. They so now know financial organizational process, withdrawal system, depositing system etc.
- Financial institutions do not want to operate and provide their services in rural areas.

- He has also recommended about how to mobilize the deposit collection by the financial institutions by rendering their services in rural areas, by adding various services.
- By operating rural banking programmes and unit
- Nepal Rastra Bank must organize training programmes to develop the skilled human resources
- By spreading a numbers of co-operative societies to develop mini banking services and improves the habits of public on deposit collection to the rural areas.

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

2.3.3 Review of Theses

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

Mahendra Mandala, in his thesis paper “A Comparative Financial Performance Appraisal of Joint Venture Banks.”(1998) has studied primarily three joint venture banks i.e. NABIL, NGBL and Nepal Indosuez Bank Ltd. His main objectives is to find out the 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 encourage the small entrepreneur’s development programmes, play merchant role, mobilize the deposit funds in productive sectors and grant priority to the local manpower.

He has not attempted to show the investment policy and concentrated only on financial performance of JVBs, therefore if can not represent the performance appraisal of JVBs. His study is comparative study of only three JVBs. His study period is up to FY 1997/98 and it can not analyze the investment policy after this fiscal year.

Udaya Bahadur Silwal has conducted a study on “Lending Policy of Commercial Banks in Nepal”(1980) having following objectives:

- To analyze the role of commercial banks in its historical perspective
- To show the relationship between deposits and loan and advances
- To identify major weakness of lending policy of the commercial banks

The research was conducted mainly on the basis of secondary data. Findings of this research are summarized below:

- Effectiveness of lending policy is directly based upon a sound banking system. But due to geographical variation, transportation and other regional disparities, it is very difficult to expand branches in different rural areas. So, it can be said that commercial banks in Nepal are not playing an active role to utilize their sources collected from different sectors.
- By paying higher interest rate, the banks are increasing deposits, which in turn increase saving habits of the general people. Then the banks will be able to utilize these idle funds in productive channels. This type of business of commercial bank is really a necessary one in an agricultural country like Nepal, where public investment has limited capacity.

Mr. M.N. Karmacharya, in his thesis paper "A study on the Deposit Mobilization by the joint venture banks" (1998**)** has mentioned that the bank has successfully maintained its liquid asset position but could not mobilize its resources efficiently. He has concluded that Nepal Bank's utilization side is weak as compare to the collection of resources. He suggested for extending its branches, so NBL's deposit collection and also long-term as well as short-term credit may increase. He has recommended not to consider security factor only but to provide loan to genuine projects without securing.

Uttam Raj Panta, in his thesis paper "A Study of Commercial Bank Deposits and Utilizations" (1998) has tried to examine the resources collection and utilization. He has concluded that commercial banks have failed to utilize their resources due to lending for short term only. So that he has suggested that all commercial banks should give preference on long term lending sectors for the better utilization of the deposits and improvement of their existing situation.

He has tried to show the deposit position and utilization. He has not also explained the risk factors. His main focus is deposit collection, which can not show and analyze the financial position and proper investment policy. His study period is up to FY 1975/76 which can not show deposit position and its utilization for succeeding years.

Bhoj Raj Bohara, in his thesis paper "A Comparative Study of the Financial Performance of Nepal Arab Bank Ltd. and Nepal Indosuez Bank Ltd."(1992) has studied mainly financial performance of two joint venture banks. His main objective is to examine the comparative financial performance (during FY 1986/87 to 1990/91) of NABIL and SCBNL in terms of their liquidity, activity and profitability. He has summarized and concluded that the increasing trend of SCBNL's earning per share, cash dividend per share, tax per share, net profit, total loans, total deposits and advances and market value per share in the last deposits, total loans and advances and market value per share in the last three years of the study period had shown improvement than that of NABIL.

He has also shown the comparative performance appraisal of only two joint venture banks. Although he has tried to analyze and explain the liquidity and explain the liquidity, activity and profitability position of two JVBs, he has not explained the investment policy and various types of risks. His study can not show the performance of the selected firms for the succeeding years because of time limitation i.e. up to 1990/91.

Uddab Prasad Sapkota, in his thesis paper "A study on fund mobilizing policy of Standard Chartered Bank Ltd in comparison to Nepal

Bangladesh Bank Ltd and Himalayan Bank Ltd" (2002) having main objectives to examine the fund mobilizing policy adopted by three joint venture banks viz. SCBNL, NBBL and HBL and the way these banks mobilized their funds during five year study period i.e. from 1996/97 to 1999/2000.

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

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

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

CHAPTER-III
RESEARCH METHODOLOGY

3.1 Introduction

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

"Research methodology refers to the various sequential steps to be adopted by a research in studying a problem with certain objectives in view." **(Kothari : 1989, 30)**

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

3.2 Research Design

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

"A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure." **(Kothari: 1992, 25)**

The research examines the facts and postulates in certain frameworks on details and supplies the important information on subject matter, summary of the study, major findings of the study, recommendations, conclusion etc. are the most significant information among them, they are derived with the help of some financial and statistical tools were adapted to evaluate the fund mobilization of joint venture banks viz. EBL and HBL in consideration not only to research about them but also to facilitate among them.

3.3 Sources of Data

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

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

3.4 Nature of Data

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

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

3.5 Population and Sample

There are altogether 31 commercial banks functioning all over the kingdom and most of their stocks are traded actively in the stock market. Among them nine are JVBs and remaining are domestic commercial banks. Among all the banks only two banks are taken as a sample for comparative study. These banks are compared as per fund mobilizing activities. They are:

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

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

3.6 Data Analysis Tools

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

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

1. Financial Tools
2. Statistical Tools

3.6.1. Financial Tools

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

II. Ratio Analysis

III. Sources and Uses of Funds

IV. Cash flow Analysis

II. Ratio Analysis

Ratio analysis is the powerful tool of financial analysis. A ratio is defined as "the indicated quotient of two mathematical expressions ,the relationship between two or more things." **(Merriam: 1975, 958)** . **"**In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The relationship between two accounting figure expressed mathematically, is known as a financial ratio or simply a ratio. An accounting figure conveys meaning when it is related to some relevant information." **(Pandey: 1975, 104)**

"A ratio is a mathematical relationship between two variables. It is significant for financial analysis. It also helps us to predict the future performance of a company based on study of ratios of earlier years." **(Benerjee :1989 ,95)**

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

A. Liquidity Ratios

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

B. Assets Management Ratios

i. Loan and advances to total deposit ratio
ii. Total investment to total deposit ratio

C. Profitability Ratios

i. Return on loan and advances ratio
ii. Return on total Assets
iii. Total interest earned to total Loan & Advances
iv. Total interest Paid to Total Deposit

D . Growth Ratios

i. Growth ratio of total deposits

ii. Growth ratio of total investment
iii. Growth ratio of loan and advances
iv. Growth ratio of net profit

A. Liquidity Ratio

Liquidity ratios are applied to measure the ability of the firms to meet short term obligations. It measures the speed of firms to convert the firms asset into cash to meet deposit withdraws and other current obligations. This is quick measure of the liquidity and financial strength of the firm.

"Liquidity ratios examine the adequacy of funds, the solvency of the firms ability to pay its obligation when due." **(Hampton, 1971, 139)** Various types of liquidity ratios are applied in these studies, which are explained below:

i) Cash and Bank Balance to Total Deposit

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

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

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

ii) Cash and Bank Balance to Current Assets Ratio

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

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

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

iii) Investment on Government Securities to Current Assets Ratio

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

Invt. on Govt. Sects. to Current Assets$= \frac{\textit{Invt.on Govt.Sects}}{\textit{Current Assets}}$

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

B. Assets Management Ratios (Activity Ratio)

The asset management ratios, measures how effectively the firm is managing its assets. These ratios are designed to answer this question: does the total amount of each type of asset as reported on the balance sheet seem reasonable or not. If a firm has excessive investments in assets then its capital costs will be unduly high and its stock price will suffer. **(Brigham: 1996 ,74)**

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

i) Loan and Advances to Total Deposit Ratio

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

Loan and Advances to Total Deposit Ratio = $\frac{\boldsymbol{Total\ Loan\ and\ Advances}}{\boldsymbol{Total\ depost}}$

ii) Total Investment to Total Deposit Ratio

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

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

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

C. Profitability Ratios

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

i) Return on Loan and Advances Ratio

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

Return on Loan and Advances Ratio $=\frac{\boldsymbol{Net\ Proft\ (loss)}}{\boldsymbol{Loan\ and\ Advances}}$

ii) Return on Total Assets

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

Return on Total Assets $=\frac{\boldsymbol{Net\ Proft}}{\boldsymbol{Total\ Assets}}$

iii) Total Interest Earned to Loan and Advances

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

Total Interest Earned to Loan and Advances Ratio $=\frac{\boldsymbol{Total\ Interest\ Earned}}{\boldsymbol{Total\ Loan\ and\ Advances}}$

iii) Total Interest paid to Total Deposit and Borrowing Ratio

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

Total Interest paid to Total Deposit and Borrowing Ratio $=\frac{\boldsymbol{Total\ Interest\ Paid}}{\boldsymbol{Total\ Deposit\ and\ Borrowing}}$

D. Growth Ratios

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

i) Growth ratio of total deposits

ii) Growth ratio of total investment

iii) Growth ratio of loan and advances

iv) Growth ratio of net profit

3.6.2 Statistical Tools

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

i) Karl Pearson’s of Coefficient of Correlation Analysis
ii) Coefficient of Variation (C.V)
iii) Standard Deviation (S.D)
iv) Probable Error (P.E)
v) Testing of Hypothesis

i) Karl Pearson's Coefficient of Correlation Analysis

This statistical tool has been used to analyze, identify and interpret the relationship between two or more variables. It interprets whether two or more variables are correlated positively or negatively. Statistical tool analyses the relationship between those variables and helps the selected banks to make appropriate investment policy regarding to profit maximization and deposit collection; fund mobilization through providing loan and advances.

For the purpose of decision-making, interpretation is based on following term:

- When $r = 1$, there is perfect positive correlation.
- When $r = -1$, there is perfect negative correlation.
- When $r = 0$, there is no correlation.

- When ‘r’ lies between 0.7 to 0.999 (-0.7 to 0.999), there is a high degree of positive (or negative) correlation.
- When ‘r’ lies between 0.5 to 0.699, there is moderate degree of correlation.
- When ‘r’ is less than 0.5, there is low degree of correlation.

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

a) Coefficient of correlation between deposit and loan and advances

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

b) Coefficient of correlation between deposit and total investment

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

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

Simple Correlation Coefficient (r) = $\dfrac{n\Sigma Xy - (\Sigma X)(\Sigma y)}{\sqrt{n\Sigma X^2 - (\Sigma X)^2}\sqrt{n\Sigma y^2 - (\Sigma y)^2}}$

i) Coefficient of Variation (C.V)

The coefficient of variation is the relative measure of dispersion, comparable across, which is defined as the ratios of the standard deviation to the mean expressed in percent.(Richard I. Levin & David S. Rubin,1994 P:114)

In Symbol

$$CV = \frac{SD}{\bar{X}} X 100$$

Where: S.D. = Standard Deviation

$\bar{X}$ = Mean average

The higher CV denotes to the higher variability of variable and vice-versa.

ii) Standard Deviation (S.D)

The standard deviation measures the absolute value of risk, i.e., variability of the returns from the means returns. It is also known as root mean square deviation for the reason that it is the square root of the squared deviation from arithmetic me~~an~~. Symbolically,

Standard Deviation, $\sigma = \sqrt{(\sum X^2/n - \bar{X}^2)}$

Where, X = Variables

n = Number of variables.

$\bar{X}$= Expected rate of return or average rate of return.

iv) Probable Error (P.E)

The probable error denoted by P.E. is used to measure the reliability and test of significance of correlation coefficient. Significance of relationship has been tested by using the probable error (P.E.) and it is denoted by the following model:

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

Where, r = the value of correlation coefficient

n = number of pairs of observations

if r< P.E., it is insignificant, i.e. there is no evidence of correlation if r>6 P.E., it is significant

if P.E.<r< 6 P.E., nothing can be concluded

v)Test of Hypothesis Under this analysis the effort has been made to average been followed for the test

Formulating hypothesis

i) Null Hypothesis (H0)

ii) Alternative Hypothesis (H1

b) Computing the t- statistic

c) Fixing the significance level

d) Finding critical research

f) Decision making

Null Hypothesis (H0): $\mu 1= \mu 2$ i.e., there is no significant difference between mean ratios of

Alternative Hypothesis (H1): $\mu 1\neq \mu 2$ i.e., there is significant difference between mean ratios of loans and advances to total deposits of HBL and EBL.In according to findings.

N :loan and advances to total deposit of HBL and EBL.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

General fund mobilization means to flow the cash in different sectors at profit motive. All the banks were applied their own fund mobilizing procedure. In practice, straight forward and effective fund mobilization procedure has adopted by the bank. Effective fund mobilization is the indicator of banks prosperity and its growth.

This chapter is primarily concerned with presentation and analysis of data. In this study effort has been made to analyze the collected data by using financial and statistical tools as well as various graphical presentations. Like wise, comparative balance sheet and comparative profit and loss account from the year 2007 to 2011 of HBL and EBL are presented in appendices.

4.1 Ratio Analysis

4.1.1 Liquidity Ratios

4.1.1.1 Cash and Bank Balance to total Deposit

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

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

Table no 1

Comparative Cash and Bank Balance to Total Deposit

Year	**Ratio%**	
	HBL	EBL
2007	5.84	13.15
2008	4.55	11.13
2009	8.79	18.49
2010	10.28	21.17
2011	15.55	18.66
Mean ($\bar{x}$)	9.002	16.52
S.D.(σ)	3.85	3.75
C.V	25.90	22.72

Source: Appendix-I

From the above comparative table, cash and bank balance to total deposit ratio of the two banks followed a fluctuating trend. EBL has maintained the higher ratio i.e. 21.17% of cash and bank balance to total deposit than HBL during the study period.

The average ratio of EBL is higher than HBL. HBL has the ratio of 9.002%. The variability of the ratio is lower in HBL it states that HBL is more consistent than EBL.

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

Cash and Bank Balance to Total Deposit

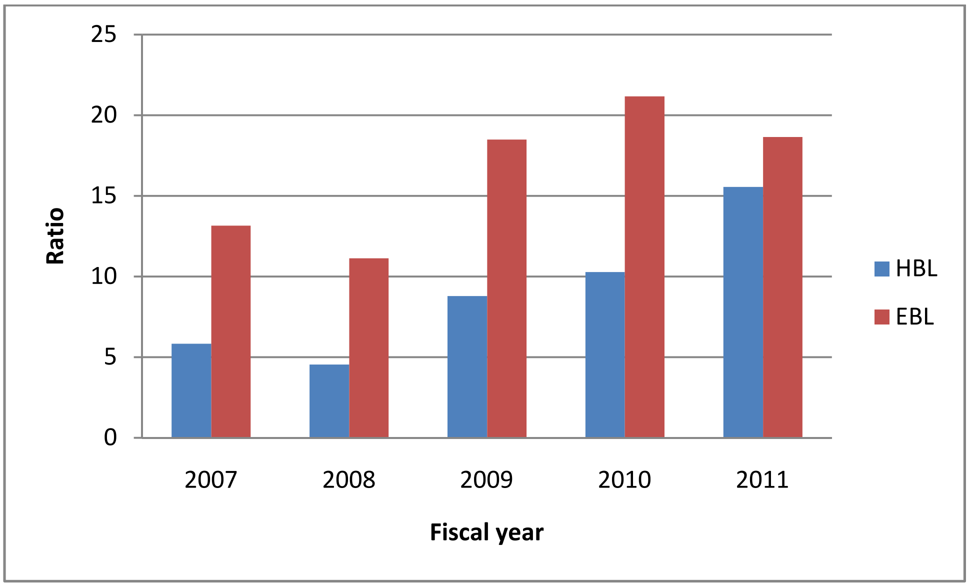

Figure No. :1

4.1.1.2 Cash and Bank Balance to Current Assets

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

Cash and bank balance to current Assets Ratio= $\frac{\text{Cash and Bank Balance}}{\textit{Current Assets}}$

Table No- 2

Comparative Cash Bank Balance to Current Assets Ratio

Year	Ratio%	
	HBL	EBL
2007	12.40	37.60
2008	8.58	34.04
2009	16.38	65.5
2010	20.71	67.72
2011	29.68	40.42
Mean ($\bar{x}$)	**17.55**	**49.06**
S.D.(σ)	**7.28**	**14.37**
C.V	**41.52**	**29.29**

Source: Appendix-I

From the above comparative table, it reveals that cash and bank balance to current assets ratio of HBL has less fluctuating trend. The highest ratio of HBL is 29.68% in the year 2011 and lowest ratio 8.58% in the year 2008. EBL has highest ratio of 67.72% and lowest ratio 34.02% in the year 2008. Among two banks EBL has maintained the highest ratio than HBL.

Similarly, C.V. ratio of HBL is more than EBL i.e. 13.23%. It indicates that ratio of HBL is less stable than EBL.

Cash Bank Balance to Current Assets Ratio

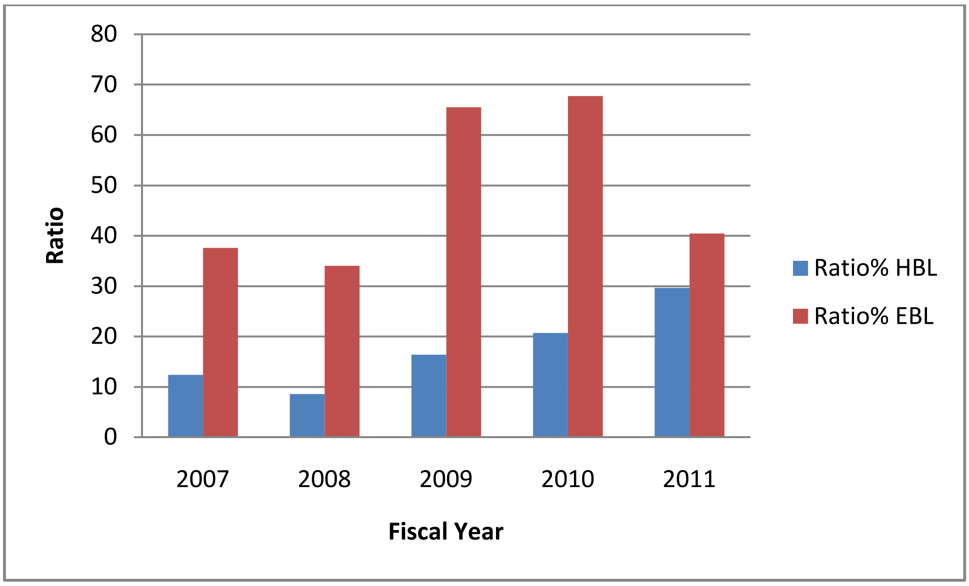

Figure No 2

4.1.1.3 Investment on Government securities to current Assets

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

$$\text{Invt. on Govt. securities on current Assets} = \frac{\text{Investment on Govt.Securities}}{\textit{Current Assets}}$$

Table No-3

Comparative Investment on Government Securities to Current Assets Ratio

Year	Ratio%	
	HBL	EBL
2007	21.52	24.20
2008	23.69	20.41
2009	14.90	26.24
2010	29.30	18.20
2011	24.16	23.43
Mean ($\bar{x}$)	**22.71**	**22.50**
S.D.(σ)	**4.68**	**2.85**
C.V	20.61	12.67

Source: Appendix-I

The above comparative table shows HBL has invested more portions of current assets in government securities i.e. 29.30% in the year 2010 in comparison to EBL during the study period.

The mean ratio of HBL is highest i.e. 22.71% than that of EBL coefficient of variation of EBL is 12.67%. It seems that EBL is more consistent to make investment in government securities than HBL.

Investment on Government Securities to Current Assets Ratio

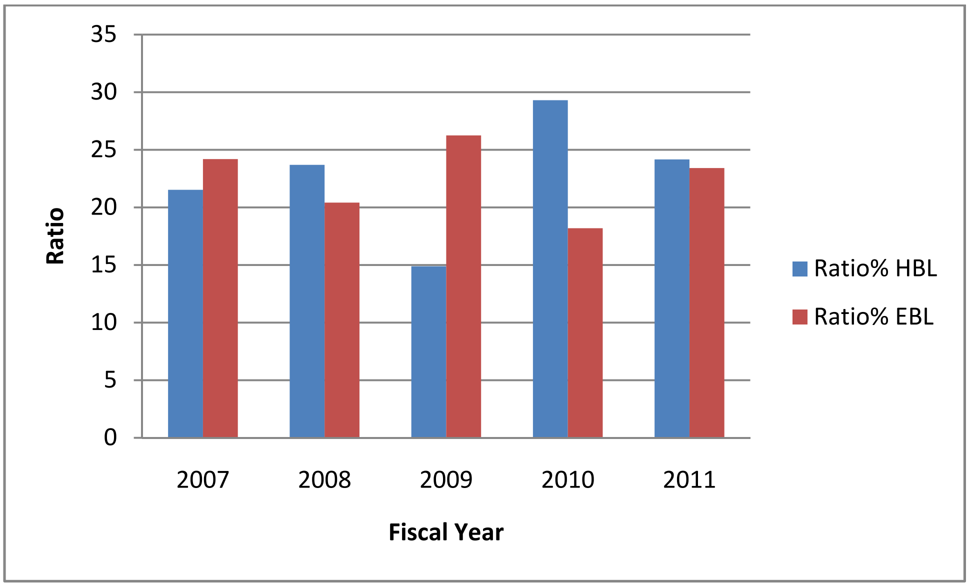

Figure no 3

4.1.2 Assets Management Ratio

The following financial ratio related to fund mobilization are calculated under assets management ratio and interpretation is made by these calculations.

4.1.2.1 Loan and Advances to Total Deposit

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

Loan and Advances to total Deposit ratio= $\frac{\text{Total Loan and Advances}}{Total\ Deposit}$

Table No-4

Comparative loan and advances to total deposit ratio

Year	Ratio%	
	HBL	EBL
2007	59.22	77.44
2008	63.37	78.56
2009	73.58	73.43
2010	77.43	76.24
2011	80.57	76.98
Mean ($\bar{x}$)	**70.83**	**61.84**
S.D.(σ)	**11.78**	14.79
C.V	**16.63**	**23.92**

Source: Appendix-I

The above comparative table shows that these two banks have mobilized their collected deposits in fluctuating trend as loan and advances during the study period. The higher ratio of loan and advances to total deposit of HBL and EBL are 80.57 and 78.56 respectively. EBL has mobilized 61.84% of it's collected deposit in loan and advances which is less than HBL in average, coefficient of variation of HBL is 16.63% which shows that HBL is more stable than EBL in mobilizing collected deposit.

This ratio can be presented by the help of graph.

Comparative loan and advances to total deposit ratio

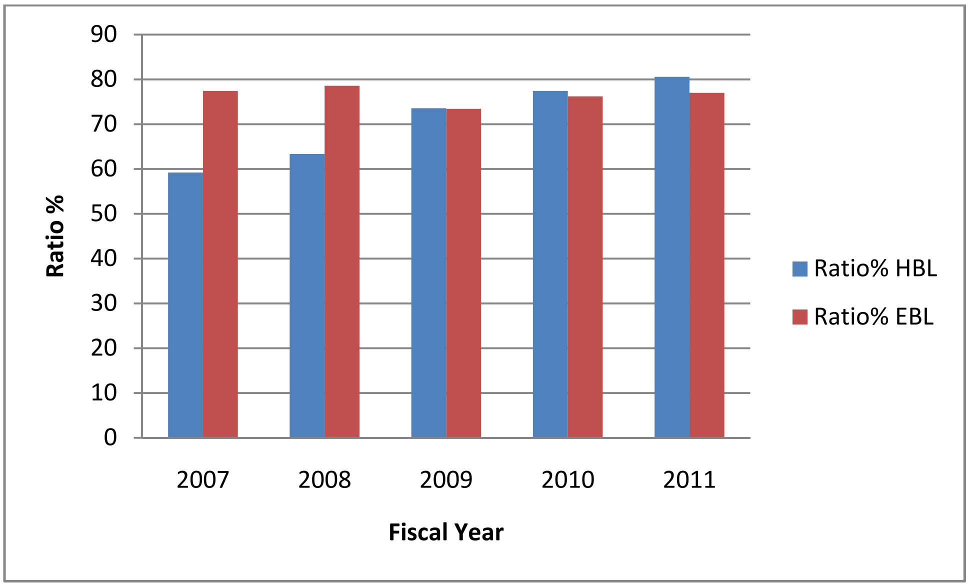

Figure No. : 4

4.1.2.2 Total Investment to Total Deposit

This ratio is computed by using following formula

This Investment to Total Deposit ratio= $\frac{Total\ investment}{Total\ Ratio}$

Table No- 5

Comparative Total Investment to Total Deposit Ratio

Year	Ratio%	
	HBL	EBL
2007	39.35	27.41
2008	41.89	21.10
2009	25.11	17.85
2010	22.45	13.56
2011	12.67	18.33
Mean ($\bar{x}$)	**28.29**	**19.65**
S.D.(σ)	**10.89**	**4.57**
C.V	**38.50**	**23.25**

Source: Appendix-I

From the above comparative table, it can be conclude that to banks have the ratio of fluctuating trend during the study period. In average HBL has invest more amount of its total deposit in comparison to EBL i.e. 28.29%. The coefficient of variation of EBL is 23.25%. It indicates that EBL is more consistent to make investment of total deposit than HBL.

Total Investment to Total Deposit

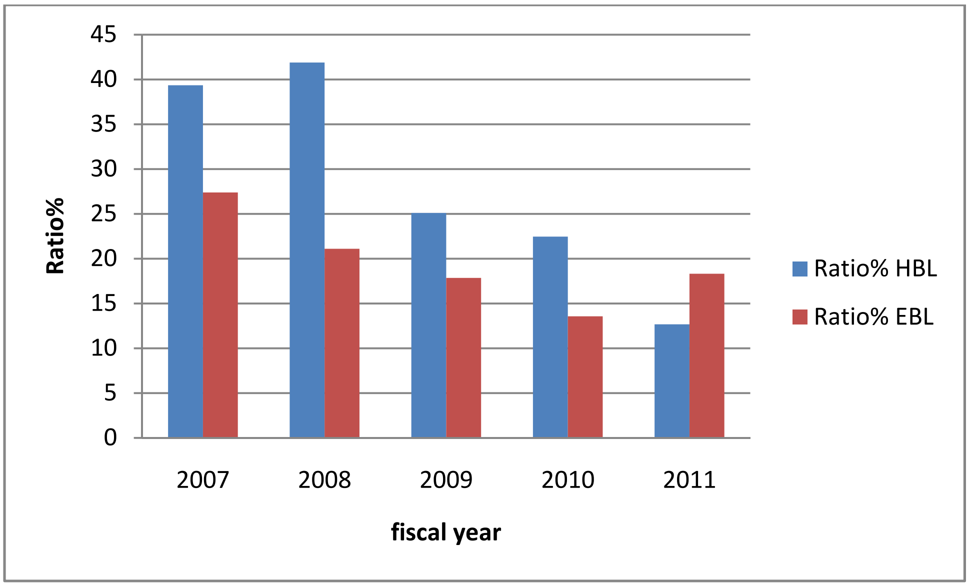

Figure no -5

4.1.3 Profitability Ratio

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

4.1.3.1 Return on Loan and Advances

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

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

Table No – 6

Comparative Return on Loan and Advances Ratio

Year	Ratio%	
	HBL	EBL
2007	2.89	0.80
2008	3.26	0.68
2009	3.04	0.48
2010	1.82	0.44
2011	2.83	0.34
Mean ($\bar{x}$)	**2.77**	**0.55**
S.D.(σ)	**49.66 (i.e 0.4966)**	**16.76**
C.V	17.93	30.47

Source: Appendix- I

In the above analysis the return on Loan and advances of and EBL have the ratio of fluctuating trend. During the study period, HBL has a higher ratio 3.26% than EBL i.e. 0.80%. In average HBL has the highest ratio of 2.77% where EBL has the mean ratio of 0.55% & coefficient of variation indicates that HBL has 17.93 and EBL has 30.47. Hbl is more consistence to make return on Loan and Advance ratio than Ebl.

Comparative Return on Loan and Advances Ratio

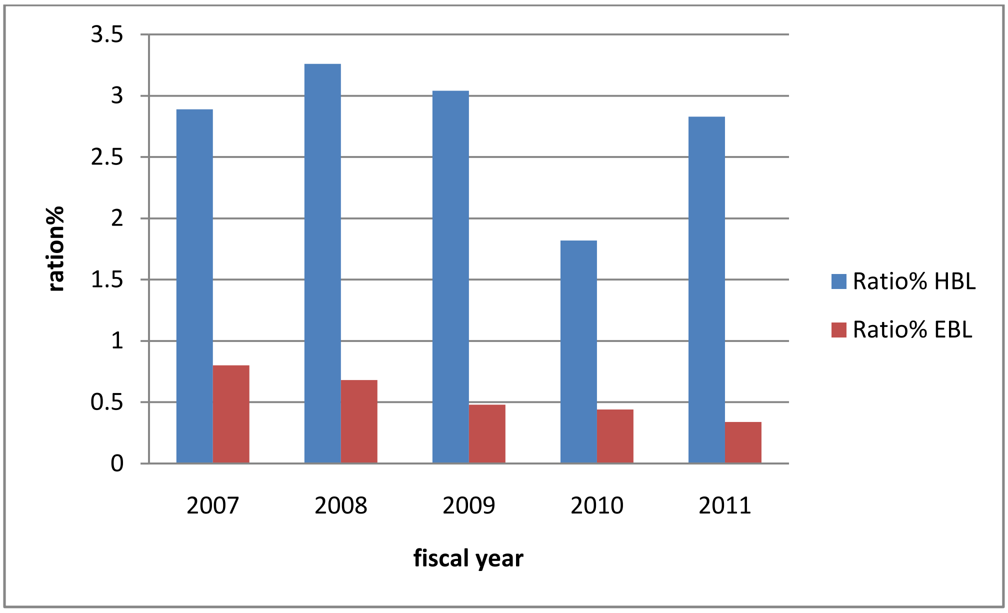

Figure no: 6

4.1.3.2 Return on Total Assets

Return on Total Assets ratio is computed as:

Return on Total Assets ratio $=\frac{Net\ Profit\ (Loss)}{Total\ Assets}$

Table No -7

Comparative Return on Total Assets

Year	Ratio%	
	HBL	EBL
2007	1.47	1.38
2008	1.76	1.65
2009	1.91	1.73
2010	1.19	2.09
2011	1.91	2.10
Mean ($\bar{x}$)	**1.65**	**1.79**
S.D.(σ)	**27**	**27**
C.V	**16.9**	**15.1**

Source: Appendix-I

As per above comparative table the Return on total Assets of HBL has raising and falling trend and EBL has the ratio of raising trend. During the study period EBL has the highest ratio 2.10 than HBL i.e. 1.91. EBL has highest return on total assets fund i.e. 1.79 % than HBL. In case of coefficient of variation, EBL has the lowest CV of 15.1% than HBL.

Return on Total Assets

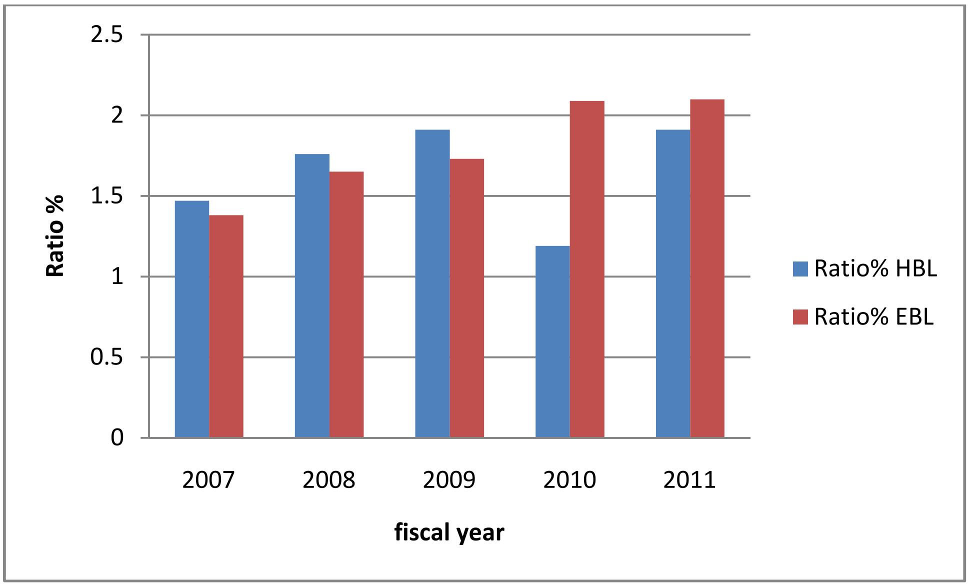

Figure 7

4.1.3.3 Total Interest Earned to Loan and Advances

The ratio actually reveals the earning capacity of commercial banks by mobilizing its Loan and Advances will be the income as interest, we have.

Total Interest Earned to Loan & Advance Ratio= $\frac{Total\ Interest\ fund\ earned}{Total\ Loan\ \&\ Advances}$

Table No- 8

Comparative Total Interest Earned to Loan and Advances

Year	Ratio%	
	HBL	EBL
2007	9.98	6.87
2008	9.73	7.06
2009	9.18	7.57
2010	10.81	9.95
2011	13.12	12.22
Mean ($\bar{x}$)	**10.56**	**8.73**
S.D.(σ)	**1.90**	**2.06**
C.V	**18.08**	**23.62**

Source: Appendix-I

The above analysis shows the HBL has highest interest earned to total loan and advances ratio 13.12% in the year 2011 and the lowest ratio 9.18% in the year 2009. Like wise EBL has highest ratio 12.22% and lowest ratio 6.87% in the year 2011 and 2007 respectively. HBL has 10.56% mean ratio but EBL has only 8.73%. The coefficient of variation of HBL is less than EBL It indicates that interest earning power of HBL is more consistent than EBL.

This ratio can be presented by the help of graph as following

Total Interest Earned to Loan and Advances

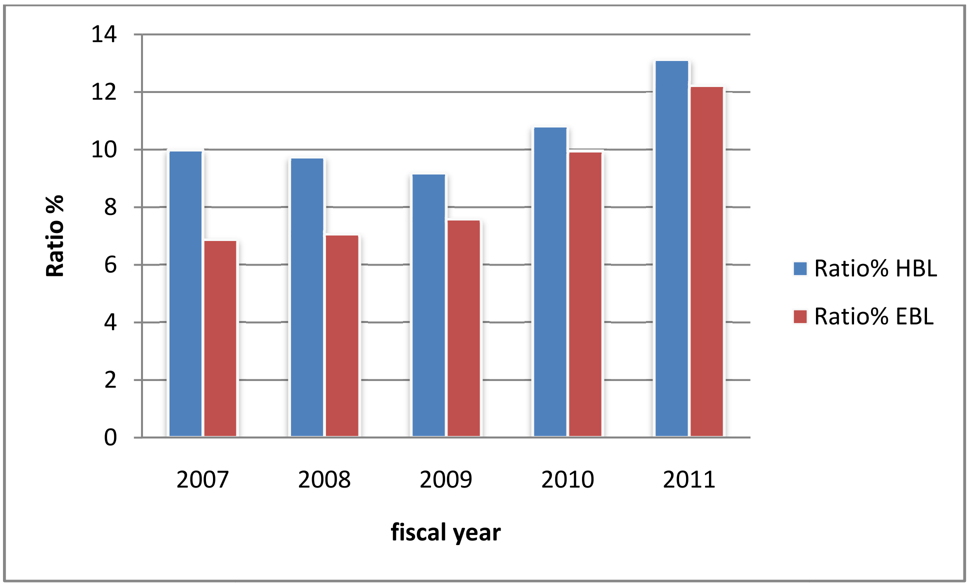

Figure No. 8

4.1.3.4 Total Interest paid to Total Deposit and Borrowing

Total interest paid to Total Deposit and Borrowing ratio is calculated as :

Total interest paid to Total Deposit & Borrowing ratio $=\frac{Total\ Interest\ Paid}{Total\ Deposit\ \&\ Borrowing}$

Table No- 9

Comparative Total Interest Paid to Total Deposit and Borrowing

Year	Ratio%	
	HBL	EBL
2007	2.55	2.70
2008	2.59	2.61
2009	2.70	2.98
2010	4.13	4.18
2011	5.90	6.05
Mean ($\bar{x}$)	**3.57**	**3.70**
S.D.(σ)	**1.30**	**1.30**
C.V	36.50	35.15

Source: Appendix-I

From the above comparative table HBL has paid to Total Deposit and Borrowing ratio fluctuating trend. Similarly, HBL & EBL have the ratio of increasing trend HBL has 5.90% highest ratio in year 2011 and lowest ratio 2.55 in year 2007. And EBL has highest ratio of 6.50% and lowest ratio 2.61 in year 2011 and 2008 respectively. EBL has 3.70% mean ratio, which greater than that of HBL i.e. 3.57%. The coefficient of variation of EBL is more stable than HBL i.e. 35.15%.

Total Interest Paid to Total Deposit and Borrowing

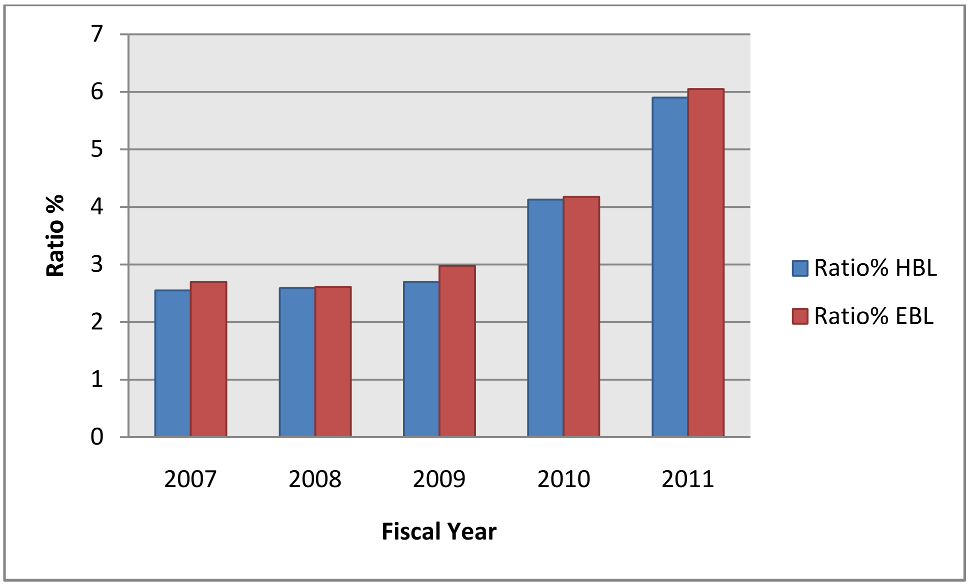

Figure no : 9

4.1.4 Growth Ratios

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

4.1.4.1 Growth Ratio of Total Deposits

Table N0– 10

Growth Ratio of Total Deposits

(Rs. In million)

Banks	Total Deposits					Growth Rate
	2007	2008	2009	2010	2011	
HBL	30048.42	31842.79	34681.35	37611.20	40920.63	8.03
EBL	18186.2	23976.3	33322.9	36932.3	34427.9	17.29

Source: Annual Report of HBL and EBL

The table presented above shows that HBL and EBL are increasing their deposit collecting five years study period. The growth ratio of total deposits of HBL seems lower than EBL.

Growth ratio of total deposit of HBL and EBL are also shown in the following chart.

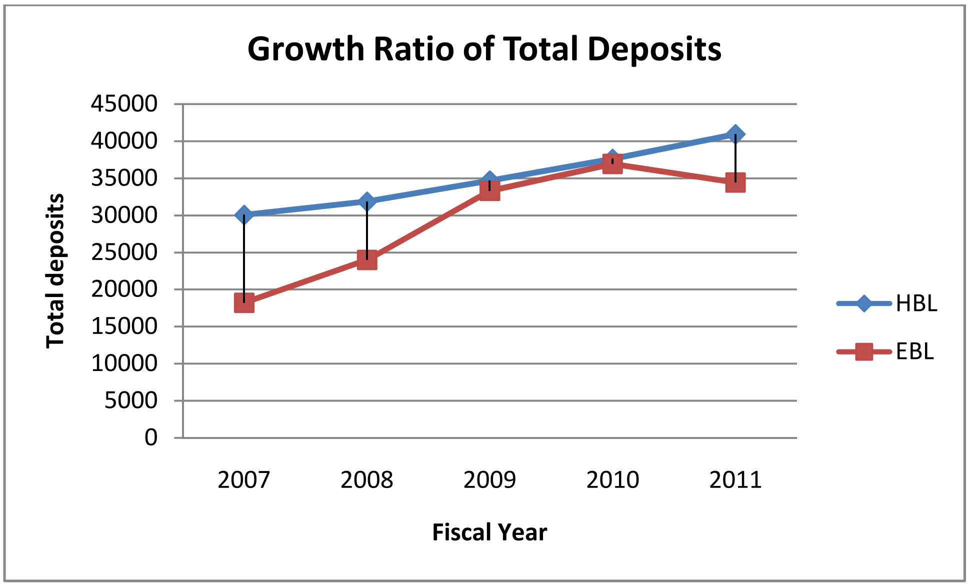

Figure No : 10

4.1.4.2 Growth Ratio of Total Investment

Table No- 11

Growth Ratio of Total Investment

Rs. In million

Banks	Total Investment					Growth Rate
	2007	2008	2009	2010	2011	
HBL	30048.42	31842.79	34681.35	37611.20	40920.63	8.03
EBL	18186.2	23976.3	33322.9	36932.3	41127.9	22.63

Source: Annual Report of HBL and EBL

The above table shows that HBL and EBL have the growth rate of 8.03% and 22.63%. Among than EBL has highest growth rate than HBL.

It can also be presented with the help of line chart as following

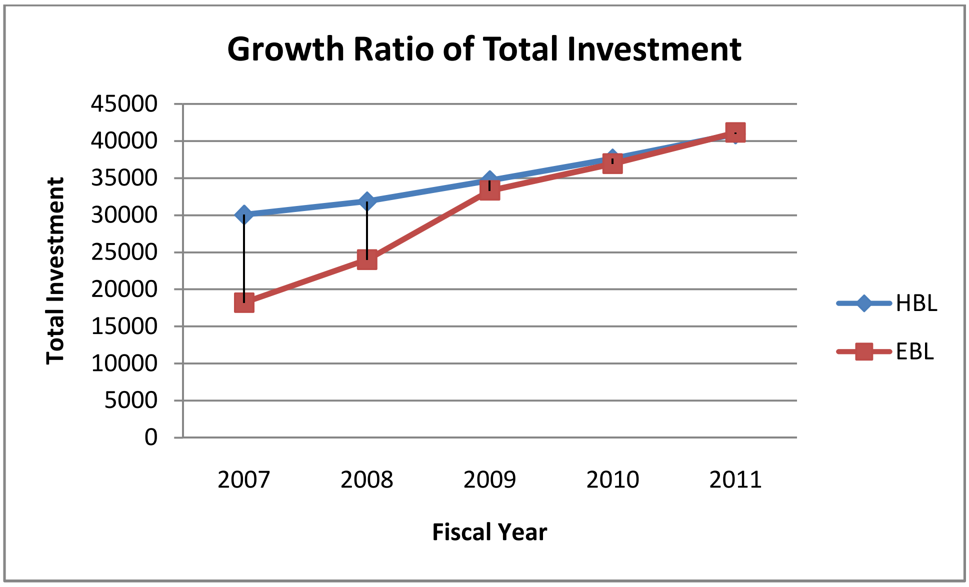

Figure No. 11

4.1.4.3 Growth Ratio of Loan and Advances

Table No- 12

Growth Ratio of Loan and Advances

(Rs. in million)

Banks	**Total Loan & advances**					**Growth Rate**
	2007	**2008**	**2009**	**2010**	**2011**	
HBL	17793.72	20179.61	25519.52	27980.63	31566.98	15.41
EBL	18836.4	24469.6	28156.4	31661.8	14082.7	(25.24)

Source: Annual Report of HBL and EBL

The above table describes the growth ratio of loan and advances of HBL is increasing order and EBL is decreasing order under five year study period. The table shows the high growth ratio of HBL 15.41% and low growth ratio of EBL (25.24) % or -25.24%.

Growth ratio of loan and advances of HBL and EBL are also shown in the following line chart.

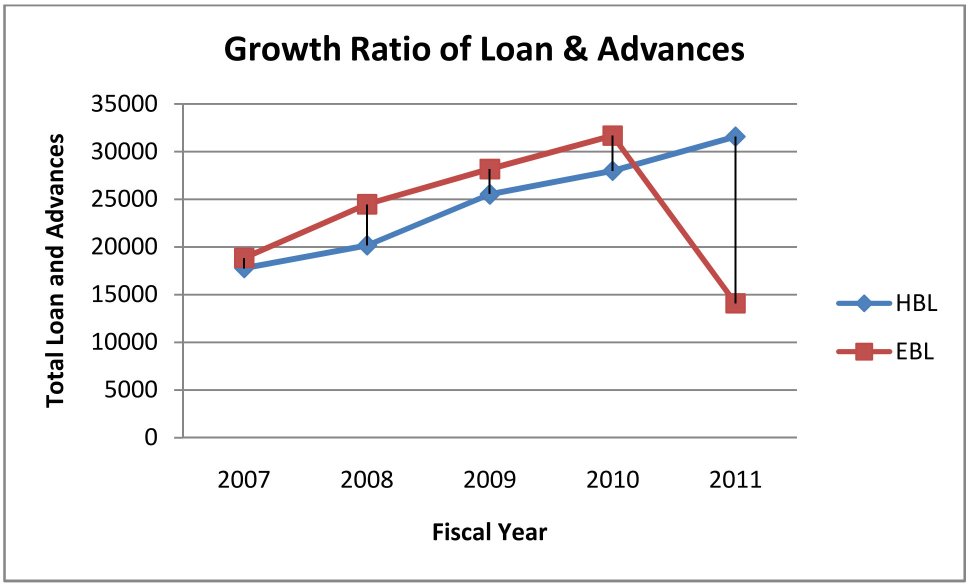

Figure No. 12

4.1.4.4 Growth Ratio of Net Profit.

Table No – 13

Growth Ratio of Net Profit

In Percentage

Banks	**Net Profit in %**				
	2007	**2008**	**2009**	**2010**	**2011**
HBL	34.90	41.58	39.96	22.13	25.46
EBL	21.62	24.17	24.92	16.49	14.27

The above table represents the growth ratio of net profit of HBL and EBL during five years study period. It shows the HBL has the highest ratio 25.46%.

Growth ratio of Net profit of HBL and EBL are also shown in the line chart

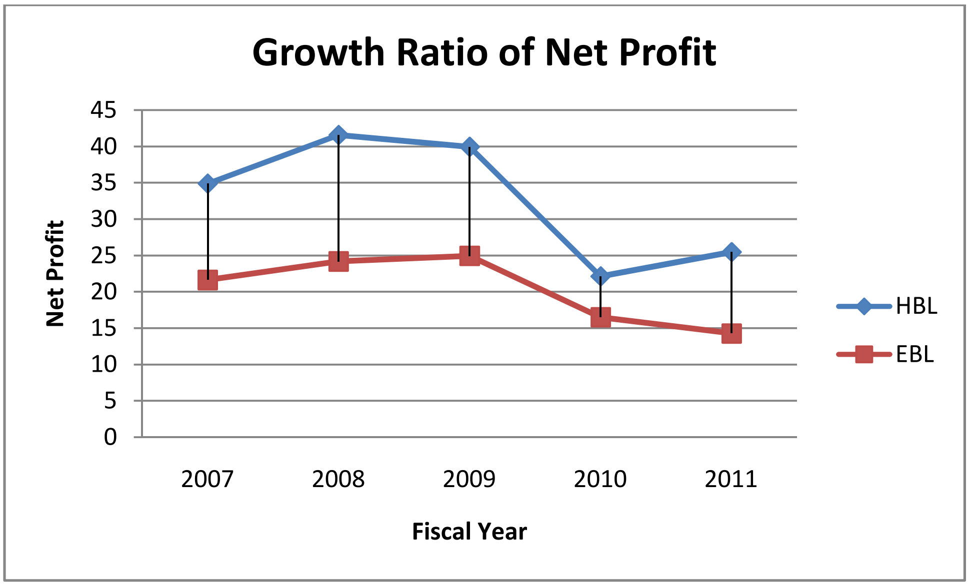

Figure No. 13

4.2 Correlation Analysis

Correlation between the important variables are analyzed under this heading.

4.2.1 Analysis of Correlation Coefficient between Deposit and Total Investment

The following table describes the relationship between of HBL and EBl under five years study period. In this case deposit is independent variable (x) and total investment is dependent variable(Y)

Table: 14

Correlation Coefficient between Deposits and Total Investment

Banks	Base of Evaluation			
	r	R^2	PE	6xPE
HBL	-0.29	0.084	0.276	1.654
EBL	0.47	0.221	0.235	1.41

Source: Appendix III

From the above table, it is found that coefficient of correlation between deposits and total investment of HBL is -0.29 i.e. high degree of negative correlation between these two values. And the value of coefficient of determination R^2 is also 0.84 which means 84% of investment decision is depend upon deposit and only 16% investment is depend upon other variables. Similarly probable error P.E. is 0.276 and 6P.E is 1.654 which shows that 'r' is highly lower than P.E. Therefore it reveals that relationship between deposit and investment is significant of co relation between investment and deposit is -0.29. i.e. high degree of negative correlation between two variables. Coefficient of determination (R^2)is 0.221 which means only 22% of investment decision is depend upon deposit and 78% investment is depends on other variables and P.E. is 0.235 and 6 P.E. is 1.41 which is higher than 'r' i.e. 0.47 . It means correlation of coefficient between deposit and investment of EBL is significant.

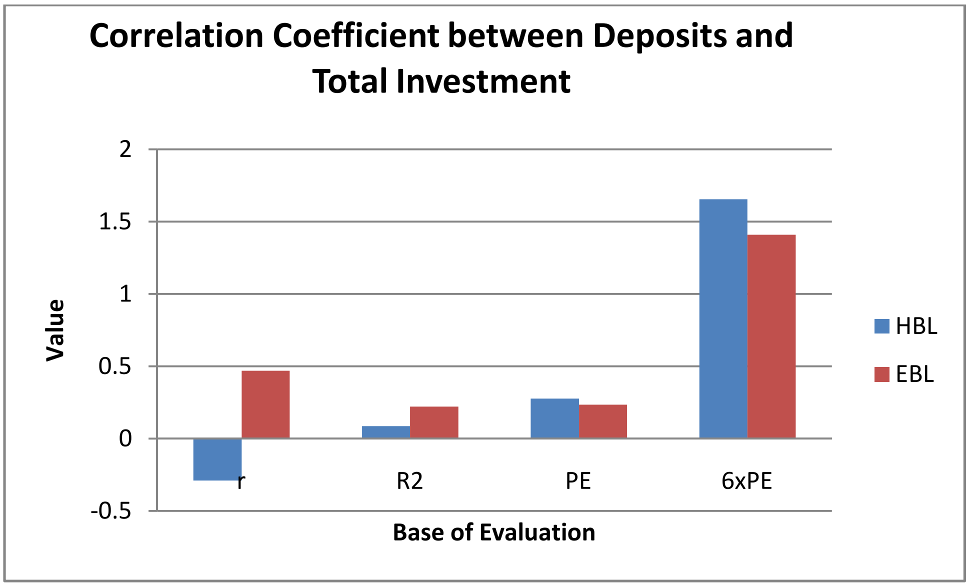

Figure No. : 14

4.2.2 Analysis of correlation coefficient between Deposit and loan & advances

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

Table no 15

Correlation coefficient between deposit and loan and advances

Banks	Base of Evaluation			
	r	R^2	PE	6xPE
HBL	0.99	0.98	0.00603	0.0362
EBL	0.94	0.88	0.00362	0.02172

Source: Appendix III

From the above table, we can find that the coefficient of correlation between deposit and loan and and advances value of 'r'of HBL and EBL are 0.99 and 0.94 respectively. This shows positive relationship between these two variables i.e is loan and advances and deposits. By considering coefficient of determination(R2), that the value of R^2 is 0.98 in case of HBL & 0.88% incase of EBL. The value of R^2 of HBL 0.98 which means 98% loan and advances decision is depend upon deposit and only 2% loan and advance depends upon other variables.

By considering the probable error (P.E), the value of R^2 of EBl is 0.88 which means that 88% of loan and advance decision is depend upon deposit and only 12% loan and advances depends upon other variable .the probable error(PE) the value of R^2 greater than 6 times of P.E. ie: 0.98>0.0362 and 0.88 > 0.02172 which indicates that there is significant relationship between deposit and loan and advances.

The Value of R^2 of HBL 0.98 which means 98% of loan and advances decision is depends upon deposit and only 2% loan and advances

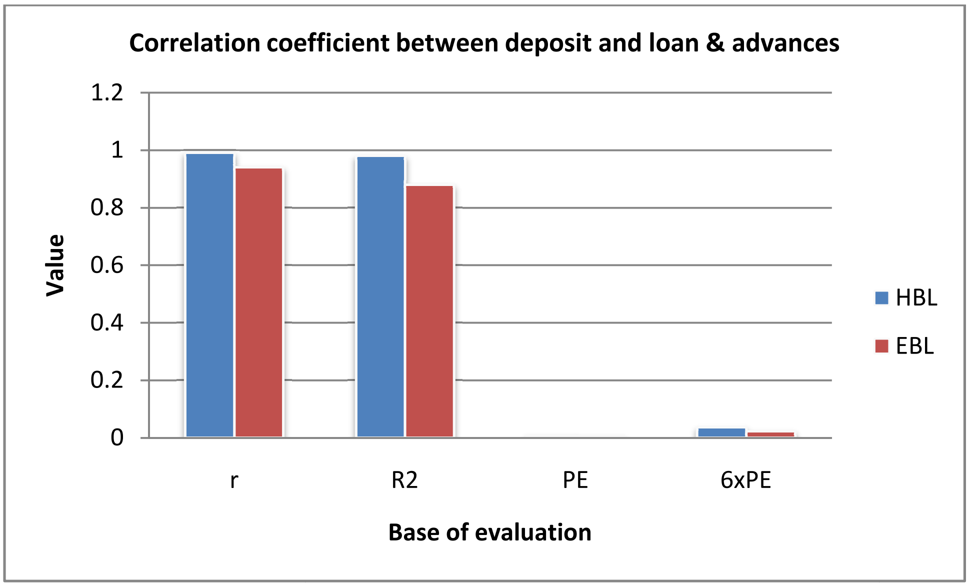

Figure No : 15

4.5 Major finding of the study

Basically in this research work, all the data has been obtained from secondary sources. Data has been analyzed by using financial as well as statistical tools. This topic focuses on the major findings of the study, which are derived from the analysis of fund mobilization of HBL and EBL with comparatively applying five years data from 2007 to 2011. ajor findings of the study derived from the analysis of financial tools of HBL and EBL below:

1. Finding from Liquidity Ratios

I) The mean ratio of cash and bank balance to total deposit of EBL is higher than HBL. It states that the Liquidity position of EBL is better in this regard. The ratio of EBL is less consistent and HBL has more consistent ratio. It shows HBL has taken more risk to meet the daily cash requirements.

II) The mean ratio of cash and bank balance to current assets of EBL is higher than HBL. It reveals that EBL has the higher capacity to meet the cash demand of its customer deposit than that of HBL. The ratio of HBL is more consistent and EBL has less consistent ratio.

III) The average ratio of investment of government securities to current assets of HBL is higher than that of EBL. But CV and SD of EBL is lower than that of HBL. It reveals that investment on government securities of EBL is stronger than HBL. Analysis shows the more consistent.

The above result shows that the Liquidity position of EBL is comparatively better than HBL. EBL has highest cash and bank balance to current assets and investment to government securities to current assets ratio. EBL has enough in cash and bank balance to total deposit ratio. At Last, it can conclude that EBL has good deposit collection higher ability to meet the cash requirements

2. Findings from Assets Management Ratios

I) The mean ratio of loan and advances to total deposit of HBL is greater than EBL. The variability ratio of HBL is more than EBL. It seems more consistent HBL than EBL.

II) The average ratio of total investment to total deposit ratio of HBL is higher than that of EBL. The variability ratio of EBL lowers than HBL.

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

3. Findings from Profitability Ratio

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

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

III) In case of mean ratio of total interest earned to total Loan & Advances of HBL is higher ratio than EBL. The variability ratio of HBL is lower than EBL. It reveals that HBL is mobilizing its Loan & Advance successfully so that is has high earning capacity.

IV) The mean ratio of total interest paid to total Deposit &Borrowing of HBL is lower than EBL. It reveals that HBL has not paid high interest as EBL. The ratio of EBL is more consistent than HBL.

From the above analysis of profitability ratio, it can be conclude that the EBL & HBL both seems equal profitable in comparisons.

4. Findings from Growth Ratios

I) The growth ratio of total deposits of HBL is increasing every year& EBL is decreased in 2011. Out of two banks growth rate of total deposits of EBL is greater than HBL. It shows that EBL has increased its deposit collection capacity.

II) The growth rate of total investment of EBL is higher than HBL. Although HBL is investing more funds but it seems weak in comparison to EBL. Because of lower growth ratio. It shows that HBL had adopted a policy to keep on increasing investment.

III) The growth ratio of loan and advances of HBL is increasing & EBLis decreased in 2011. Growth rate of HBL is higher than EBL and EBL is in negative trend.

IV) The growth rate of profit of HBL & EBL is fluctuant trend during study period. HBL has the higher growth percentage of net profit than EBL.

From the above findings it can be observed that the EBL has maintained the high growth ratio in total deposits& total investment And HBL has maintained the high growth ratio in Loan & advances and net profit.

5. Finding from coefficient of correlation Analysis

I) Correlation coefficient between deposit and total investment of HBL is higher than EBL. It indicates that HBL is successfully mobilizing its deposits as investment. There is no significant relationship between correlation coefficient of deposit and total investment of HBL and EBL.

II) EBL has the higher degree of correlation coefficient between deposit and loan and advances than HBL. It states that the EBL is better position of mobilization of deposit as loan and advances in comparison to HBL, there is significant relationship between correlation coefficient of deposit and loan and advances of HBL and EBL.

Findings from Test of Hypothesis

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

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

CHAPTER- V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Basically the entire research work focus on the comparative study on fund mobilization of two joint venture banks, Himalayan Bank Ltd. and Everest Bank Ltd. These two joint venture banks are composed as per their fund mobilization activities by taking five years data from the year 2007 to 2011.

The study is mainly based on secondary sources. All data are taken from concerned banks annual report, literature publication, balance sheet, profit and loss account, previous thesis report, different website, related books and booklets, journals and articles, After collecting data from different sources, it is analyzed by using financial and statistical tools viz. . Findings are drawn by applying various financial tools viz. Liquidity ratio, assets management ratio, Profitability ratio, growth ratio, risk ratio, sources and uses of funds and cash flow analysis.

Similarly, statistical tools have been used viz. Mean standard deviation, coefficient of variation coefficient of correlation.

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

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

5.2 Conclusion

From the analysis of Liquidity ratio, the Liquidity position of EBL is comparatively better than HBL. EBL has highest cash and bank balance to total assets and investment to government securities to current assts ratio. HBL has cash and bank balance to total deposit ratio.

Considering assets management aspect of two banks, HBL is relatively successful to invest in productive sector and has mobilized its collected deposits to provide loan and advance for the purpose of earning profit. HBL has weak condition in mobilizing its collected deposits in loan and advances. EBL is weak in investing its collected deposits in comparison of HBL. In comparison of HBL, EBL seems more successful in mobilizing total fund on different types of government securities to maximize its earning capacity. The Liquidity risk ratio of EBL is higher than HBL. which appears to be less profitable return of EBL on other hand Liquidity risk ratio of HBL has the lowest in comparison to EBL which specified that HBL has kept idle funds in the form of cash and bank balance but this reduces profitability.

HBL appears to be more successful to earn profit on loan and advances than EBL.The average ratio of return on Total Assets indicates the total assets of EBL is well managed and efficiently utilized. HBL was not able to receive high interest on Loan and Advance with EBL. On other hand , EBL has mobilized its profitability fund properly and its earning capacity is also high .HBL is in better position from the viewpoint of interest earned &expenses.

Growth ratio of total deposits, total investment, loan and advances and net profit of HBL in comparision to EBL, HBL has low growth ratio in comparison to EBL. EBL has maintained high growth ratios. Therefore, We must say that the bank is successful to increasing its mobilization.

Deposit is the strongest sources of fund where as borrowings cover fewer portions of sources of fund. HBL has kept fewer amounts in deposit in compares to EBL. Among the uses of funds loan and advance cover maximum portion and interest occurred coverless portion. HBL has invested fewer amounts in to loan and advances in comparison to EBL.

The operating activities of HBL and EBL have been occurred cash inflows throughout the study period, Operating efficiency of two banks are in fluctuating trend during the study period. The investing activities of two banks have deserved cash outflows throughout study period. By the help of investing activities , these two banks are able to increase long term assets as well as carry out profitable opportunity. It shows the cash acquisition capacity of EBL is unable to generate cash inflow from financing activities. The condition may arise due to the unavailability of cash flow from share, insufficient profit dividend payment.

Correlation coefficient between deposit and total investment of HBL and EBL elucidates the negative relationship or there is high degree negative correlation. Most of the investment decisions on depend upon deposits and only few decisions of two banks are depend upon other variables. Moreover by considering the probable error, the value of coefficient of determination of HBL and EBL both are less than 6 P.E. so it is no significant relationship between deposit and total investment.

Correlation coefficient between deposits and loan and advances indicates the positive relationship between the variables of HBL and EBL. In most of the investment decision of these two banks depends upon deposits and only few decisions are depend upon other variables. Moreover by considering the probable error the value of coefficient of all banks is greater than that of 6 P.E. so it can be concluded that the value of correlation coefficient is significant i.e. there is significant relationship between total deposit and loan and advances.

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

5.3 Recommendations

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

- **To maintain effective Liquidity position**

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

• **To increase deposit collection**

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

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

From the study EBL has not invested more funds in government securities. EBL has made lower investment amount on government securities. Increasing large amount on assets, as cash and bank balance is not considered good from the profitability point of view of the bank as it doesn't earn any return. EBL investment on government securities is not 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 than other means of investment. So, EBL 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."

• **To make profitable return.**

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

- **To prefer aggressive defensive policy**

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

- **To invest deprive and priority sector**

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

- **To make effective portfolio Management**

  The total fund of bank is the aggregation of different portfolio such as deposits, capital fund, borrowing and other deposits liability ties . It is need not to state that deposit liability is the major contribution sources of considering the position of HBL, the contribution of deposits of total sources funds is high. It is definitely not a good sign. HBL are therefore, recommended to enhance its capital base and operation resources of funds of the bank. High contribution of deposition the total sources of funds, demands, high level of liquid assets and it is threat of with drawls.

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

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

  To get success in competitive banking market, commercial bank must utilize their deposit as loan and advances. Loan and advances are main source of income and also means of utilization resources of commercial banks. Negligence in administrating these assets could be the cause of liquidity crisis in bank and one of the main reasons of the bank failure collection of loan has been most challenging task of commercial banks these days, increasing on no performing assets discloses the failure of commercial banks in recovery of loan. Therefore it is recommended to HBL and EBL follow liberal lending policy when sensation loan and advances with sufficient guaranty and implement a sound collection policy including procedure which rapid identification of bad debtor loans, immediate contact with borrower continual follow up and as well as legal procedure if require.

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

  In the light of growing competition in the banking sector the business of the bank should be customer oriented. Marketing is an effective tool to attract and retain the customers. Without effective marketing strategy any one be along behind in today competitive environment. Different marketing techniques like advertisement through audio-visual, published website, documentary through new technologies like, e-banking, increase investment through their wide international banking network should be introduced.

- **To extend branches allover 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 the income generation purpose. Nepal Government has also encouraged the joint venture banks to expand banking service in rural areas and committees without making unfavorable impact in their profit. Therefore, all banks are recommended to expand their branch and providing banking service and facilities to the rural areas and committees to accelerate the economic development of the country. Being a developing county, economic environment of Nepal Is not in a good condition. The strong economic structure is needed for the rapid overall development. Commercial bank play strong economic structure is needed for the rapid overall development. Commercial banks play vital role in the developing country like Nepal. Commercial banks are facing several problems related to fund mobilization. The have rush with modern banking technology so that, they would be successful in reaching to the modern innovative and competitive banking market.

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Appendix- I

Table no- 1

Cash and Bank Balance to total deposits Ratio

(Rs in Million)

SN	Name of Banks	Year				
1	HBL	2007	2008	2009	2010	2011
	Cash and Bank Balance	1757. 34	1448.14	3048.53	3866.49	6320. 46
	Total Deposits	30048.42	31842.79	34681.35	37611.20	40920.63
	Ratio	5.84	4.55	8.79	10.28	15.55
2	EBL					
	Cash and Bank Balance	2391.3	2667.9	6164.4	7818.8	6122.8
	Total Deposits	18186.2	23976.3	33322.9	36932.3	34427.9
	Ratio	13.15	11.13	18.49	21.17	18.66

Sample calculation of Expected Return($\bar{X}$), Standard deviation (σ) and coefficient of variation (C.V) is presented bellows;

Here, total return = $\sum$X=

Expected Return ($\bar{X}$) =$\frac{\sum x}{N}$

Where N= Number of observation

$\bar{x}$ = Expected return of the historical data

X= Return of the historical data

S.D((σ)) $= \sqrt{\frac{1}{N}\sum(x - \overline{x)}\ ^2}$

Note : All Expected Return($\bar{X}$), Standard deviation (σ) and coefficient of variation (C.V) are calculated using calculator applying above formulae.

Table No 2

Cash and Bank Balance to Current Assets Ratio

SN	Name of Banks	Year				
1	HBL	2007	2008	2009	2010	2011
	Cash and Bank Balance	1757. 34	1448.14	3048.53	3866.49	6320. 46
	Current Assets	14165.33	16881.45	18605.75	18671.09	21294.33
	Ratio %	12.40	8.58	16.38	20.71	29.68
2	EBL					
	Cash and Bank Balance	2391.3	2667.9	616.4	7818.8	6122.8
	Current Assets	6359.66	7836.89	9399.97	11545.24	15147.06
	Ratio	37.60	34.04	65.5	67.72	40.42

Table no 3

Investment on Government Securities to Current Assets Ratio

(Rs In Million)

SN	Name of Banks	Year				
1	HBL	2007	2008	2009	2010	2011
	Investment Govt Securities	3047.75	3998.87	2771.73	5469.73	5144.31
	Current Assets	14165.33	16881.45	18605.75	18671.09	21294.33
	Ratio %	21.52	23.69	14.90	29.30	24.16
2	EBL					
	Investment Govt Securities	1538.90	1599.35	2466.43	2100.29	3548.62

	Current Assets	3659.66	7836.89	9399.97	11545.24	15147.06
	Ratio	24.24	20.41	26.24	18.20	23.43

Table no 4

Loan and Advances to total Deposit Ratio

(Rs in Million)

SN	Name of Banks	Year				
1	HBL	2007	2008	2009	2010	2011
	Loan and Advances	17793.72	20179.61	25519.52	27980.63	31566.98
	Total Deposit	30048.42	31842.79	34681.35	37611.20	40920.63
	Ratio %	59.22	63.37	73.58	74.39	77.14
2	EBL					
	Loan and Advances	14082.7	18836.4	24469.6	28156.4	31661.8
	Total Deposit	18186.2	23976.3	33322.9	36932.3	41127.9
	Ratio	77.44	78.56	73.43	76.24	76.98

Table no 5

Total Investment of Total Deposit Ratio

(Rs in Million)

SN	Name of Banks	Year				
1	HBL	2007	2008	2009	2010	2011
	Total Investment	11822.99	13340.18	8710	8444.91	5183.00
	Total Deposits	30048.42	31842.79	34681.35	37611.20	40920.63

	Ratio %	39.35	41.89	25.11	22.45	12.67
2	EBL					
	Total Investment	4984.3	5059.6	5948.5	5008.3	7743.9
	Total Deposits	18186.2	23976.3	33322.9	36932.3	41127.9
	Ratio	27.41	21.10	17.85	13.56	18.83

Appendix II

Main Indicators of Everest Bank Limited

particulars	Indictor	2006/07	2007/08	2008/09	2009/010	2010/11
Net profit/ Total Income	%	21.62	24.17	24.92	16.49	14.27
Per Share Earning (after Tax income)	Rs	78.42	91.82	99.99	100.16	83.18
Market price per share	Rs	2430	3132	2455	1630	1094
Price/ Earning Ratio	Times	30.99	34.11	24.55	16.27	13.15
Dividend on Share-Bonus Share	%	30	30	30	30	10
Cash Dividend	%	10	20	30	30	50
Interest Income/ Loan & advances	%	6.87	7.06	7.57	9.95	12.22
Employee Expenses/ Total Operating Expenses	%	11.03	15.42	12.53	10.52	9.13
Interest Expenses/ Total Deposit & Borrowing	%	2.70	2.61	2.98	4.18	6.05
Exchange income/ Total Income	%	2.07	3.45	2.44	-	0.05
Staff Bonus/ Total Employee Expenses	%	52.80	41.70	47.68	52.48	45.41
Net Profit/ Loans& Advances	%	2.10	2.40	2.61	2.95	2.94
Net Profit/ total Assets	%	1.38	1.65	1.73	2.09	2.10

Total Loans& Advances/ Total Deposits	%	77.44	78.56	73.43	76.24	76.98
Total Operating Expenses/Total Assets	%	3.64	3.75	4.04	5.20	6.95
Capital Adequacy Ratio						
a) Core Capital	%	7.82	9.04	8.52	8.39	8.46
b) Supplementary Capital	%	3.38	2.40	2.82	2.38	1.96
c) Total Capital Funds	%	11.20	11.44	11.34	10.77	10.43
Cash Reserve Ratio(CRR)	%	2.94	4.56	14.26	15.53	9.55
NPAs/ Total Loans & Advances	%	0.80	0.68	0.48	0.44	0.34
Weight Average Interest Rate Spread	%	3.91	4.34	4.40	4.78	4.60
Book Net Worth(Rs. In Lakhs)	Rs	10615	15812	22054	27571	31115
Total Shares	Number	3780000	4914000	6388210	8304673	11196095
Total Employee	Number	393	449	534	568	586
Others						
-Per Employee Business(Rs. in Lakhs)	Rs	821.1	953.5	1082	1146	1242
- Employee Expenses/ Total Income	%	6.3	8.5	7.29	4.50	4.49

Financial Indicators of Everest Bank Limited

Particulars	2006/07	2007/08	2008/09	2009/010	2010/11
Sources					
Capital & Reserve	120.5	1921.2	2203.6	2759.1	3113.6
Deposit	18186.2	23976.3	33322.9	36932.3	41127.9
Loan	300.00	300.00	612.00	704.6	782.0
Other Liabilities	2163.4	1449.0	1363.2	1586.8	1816.8
Total	21851.1	27646.5	37501.7	41982.8	46840.3
Uses					
Cash in hand & Bank Balance	2391.3	2667.9	6164.4	7818.8	6122.8
Loans & Advances(Including Bills Purchases)	14082.7	18836.4	24469.6	28156.4	31661.8

Investment	4984.3	5059.6	5948.5	5008.3	7743.9
Money at call & short Notice	-	346.0	-	-	-
Other Assets	392.8	736.6	919.2	999.3	1311.8
Total	21851.1	27646.5	37501.7	41982.6	4684.03
Total Income	1370.7	1848.2	2565.3	3500.8	4728.8
Total Expenses	772.8	1024.3	1491.8	2151.7	3212.1
Operating Profit	597.9	823.9	1073.5	1349.1	1516.7
Net Profit	296.4	451.2	638.7	831.8	931.3
No of Branches	21	26	32	37	43
No of Staff	393	449	534	568	586

Principle of Himalyan Bank Limited

Particulars	Unit	2007	2008	2009	2010	2011
Net Profit/ Total Income	%	34.90	41.58	39.96	22.13	25.46
Per Share Income	Rs.	60.66	62.74	61.90	31.80	44.66
Per Share Market Value	Rs.	1740	1980	1760	816	575
Price Earning Ratio	Ratio	28.69	31.56	28.43	25.66	12.88
Dividend on Share Capital (Including Bonus)	%	40.00	45.00	43.56	36.84	36.84
Cash Dividend on Share Capital	%	15.00	25.00	12.00	11.84	16.84
Interest Income/ Loan & Advance	%	9.98	9.73	9.18	10.81	13.12
Staff Expenses/ Total Operating	%	47.40	45.91	47.54	46.83	47.06

Expenses						
Interest Expenses on Total Deposit	%	2.55	2.59	2.70	4.13	5.90
FX Fluctuation Gain/ Total Income	%	6.71	8.27	8.51	4.80	3.66
Staff Bonus/ Total Staff Expenses	%	19.78	24.51	22.81	15.41	19.30
Net Profit/ Loan & Advances	%	2.89	3.26	3.04	1.82	2.83
Net Profit/ Total Assets	Ratio	1.47	1.76	1.91	1.91	1.19
Total Loan/ Deposit	%	59.22	63.37	73.58	77.43	80.57
Total Operating Expenses/ Total Income	%	30.32	29.14	29.49	25.60	22.88
Capital Adequacy Ratio : a. Core Capital b. Supplementary Capital c. Total Capital Fund	%	9.61 1.51 11.13	9.36 3.06 12.42	8.81 2.21 11.02	8.68 2.04 `10.72	8.88 1.80 10.68
Liquidity(CRR)	%	5.92	5.13	6.76	6.76	5.75
Non- Performing Loan/Total Loan	%	3.61	2.36	2.16	3.52	4.22
Weighted Average Interest Rate Spread	%	3.57	3.66	3.66	4.21	3.96
Book Net worth Per	Rs.	264.74	247.95	256.52	226.79	199.77

Share						
Total Share	Number	8,108,100	10,135,125	12,162,150	16,000,000	20,000,000
Total Staff	Number	584	591	591	577	647

APPENDIX-III

Sample calculation of correlation co-efficient between deposit and loan and advances of HBL

Year	Deposit(X)	Loan and Advances (Y)	x= X- $\bar{X}$	y=Y- $\bar{Y}$	x^2	y^2	xy
2007	30048	17794	-4973	-6814	24730729	46430596	33886022
2008	31842	20180	-3179	-4428	10106041	19607184	14076612
2009	34681	25520	-340	912	115600	831744	-310080
2010	37611	27981	2590	3373	6708100	11377129	8736070
2011	40921	31567	5900	6959	34810000	48427681	41058100
Total	175103	123042	-2	2	76470470	126674334	97446724
Mean	$\bar{X} = 35021$	$\bar{Y} = 24608$					

We have,

Co relation co-efficient (r) = $\frac{\sum xy}{\sqrt{\sum \mathrm{x2} \sum \mathrm{y2}}}$

r=0.99, r^2 = 0.98

Probable error (PE)= 0.6745 x$\frac{1-r2}{\sqrt{n}}$

= 0.6745 x$\frac{1-0.98}{\sqrt{5}}$, = 0.00603

6 x P.E= 6x 0.00603, = 0.0362

Remaining correlation coefficient has been calculated by using same method as in above table.

Sample calculation of correlation co-efficient between deposit and loan and advances of EBL

Year	Deposit(X)	Loan and Advances (Y)	x= X-$\bar{X}$	y=Y-$\bar{Y}$	x^2	y^2	xy
2007	18186	14083	-11183	-9358	125059489	87579650.6	104654987
2008	23976	18836	-5393	-4605	29084449	21209709.2	24836922.2
2009	33323	24470	3954	1028.6	15634116	1058017.96	4067084.4
2010	36932	28156	7563	4714.6	57198969	22227453.2	35656519.8
2011	34428	31662	5059	8220.6	25593481	67578264.4	41588015.4
Total	146845	117207	0	0	252570504	199653095	210803529
Mean	29369	23441					

We have,

Co relation co-efficient (r) = $\frac{\sum xy}{\sqrt{\sum x2 \sum y2}}$

r=0.94

r^2 = 0.88

Probable error (PE)= 0.6745 x$\frac{1-r2}{\sqrt{n}}$

= 0.6745 x$\frac{1-0.88}{\sqrt{5}}$

= 0.00362

6 x P.E= 6x 0.00362

= 0.02172

Sample calculation of correlation co-efficient between deposit and Investment of HBL

Year	Deposit(X)	Total Investment (Y)	$x = X-\bar{X}$	$y=Y-\bar{Y}$	x^2	y^2	xy
2007	30048	11823	-4972.6	2322.6	24726750.8	5394470.8	-11549360.8
2008	31842	13341	-3178.6	3840.6	10103498	14750208	-12207731.2
2009	34681	8710	-339.6	-790.4	115328.16	624732.16	268419.84
2010	37611	8445	2590.4	-1055.4	6710172.16	1113869.2	-2733908.16
2011	40921	5183	5900.4	-4317.4	34814720.2	18639943	-25474387
Total	175103	47502	0.00	0	76470469.2	40523223	-51696967.2
Mean	35021	9500.4					

We have,

Co relation co-efficient (r) = $\frac{\sum xy}{\sqrt{\sum x2 \sum y2}}$

r= -0.29

r^2 = 0.084

Probable error (PE)= 0.6745 x$\frac{1-r2}{\sqrt{n}}$

= 0.6745 x$\frac{1-0.086}{\sqrt{5}}$

= 0.276

6 x P.E= 6x 0.276

= 1.654

Sample calculation of correlation co-efficient between deposit and Investment of EBL

Year	Deposit (X)	Investment (Y)	x= X-$\bar{X}$	y=Y-$\bar{Y}$	x^2	y^2	xy
2007	18186	4984	-11183	-765	125059489	585225	8554995
2008	23976	5060	-5393	-689	29084449	474721	3715777
2009	33323	5949	3954	200	15634116	40000	790800
2010	36932	5008	7563	-741	57198969	549081	-5604183
2011	34428	7744	5059	1995	25593481	3980025	10092705
Total	146845	28745	0	0	252570504	5629052	17550094
Mean	29369	5749					

We have,

Co relation co-efficient (r) =

Co relation co-efficient (r) = $\frac{\sum xy}{\sqrt{\sum \text{x2} \sum \text{y2}}}$

r= -0.47

r^2 = 0.221

Probable error (PE)= 0.6745 x$\frac{1-r2}{\sqrt{n}}$

= 0.6745 x$\frac{1-0.221}{\sqrt{5}}$

= 0.235

6 x P.E= 6x 0.276

= 1.41