CHAPTER - I
INTRODUCTION

1.1 Background of the Study

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

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

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

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

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

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

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

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

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

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

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

1.2. Profile of the Sample Banks

A. Introduction of Everest Bank Limited

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

Recognizing the value of offerings a complete range of services, we have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals.

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

Table: 1.1

Capital Structure of Everest Bank Limited

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

B. Himalayan Bank Ltd. (HBL)

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. Other financial institutions in the country have been following our lead by introducing similar products and services. Therefore, we stand for the innovations that we bring about in this country to help our Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks, we believe we obviously lead the banking sector of Nepal. The most recent rating of HBL by Bankers' Almanac as country's number 1 Bank easily confirms our claim.

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster Recovery Management System'. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software- HimalRemitTM. By deputing our own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All this only reflects that HBL has an outside-in rather than inside-out approach where Customers' needs and wants stand first.

HBL is not only a Bank, It is committed Corporate Citizen also. Corporate Social Responsibility (CSR) holds one of the very important aspects of HBL. Being one of the

corporate citizens of the country, HBL has always promoted social activities. Many activities that do a common good to the society have been undertaken by HBL in the past and this happens as HBL on an ongoing basis. Significant portion of the sponsorship budget of the Bank is committed towards activities that assist the society as large.

Himalayan Bank Limited holds of a vision to become a Leading Bank of the country by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the Bank. To become the Bank of first choice is the main objective of the Bank.

The Bank's mission is to become preferred provider of quality financial services in the country. There are two components in the mission of the Bank; Preferred Provider and Quality Financial Services, therefore we at HBL believe that the mission will be accomplished only by satisfying these two important components with the Customer at focus. The Bank always strives positioning itself in the hearts and minds of the customers.

Table: 1.2

Capital Structure of Himalayan Bank Limited

Capital as at 2007/08	Amount in Rs. '000'
Authorized Capital	20,00,000
Issued Capital	101351
Paid up Capital	101351

1.3 Focus of the Study

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

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

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

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

1.4. Statement of the Problem

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

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

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

1.5. Objectives of the Study

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

- To analyzed the liquidity management of sample banks
- To analyze the deposit and investment position of the banks.
- To find out the relationship between deposit, investment, loans and advances and net profit.
- To find out the trend analysis of deposit, investment, loans and advances and net profit.
- To provide suggestions for the improvement based on findings.

1.6. Significance of the Study

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

The significances of the study are pointed out as below:

a. The study helps to know how well the banks (Everest Bank and Nepal Himalayan Bank.) are utilizing their deposits.
b. The study is important to policy makers and academic professionals to formulate policies and plans based on the performance of these banks.
c. The study helps these banks to compare each other's performance and plan accordingly for future.
d. The study helps these banks to make sound programs and policies based on the recommendation suggested.
e. The study guides to investors, customers (depositors, loan takers as well as other types of clients), competitors, personnel of the banks, stockbrokers,

dealers, market makers, etc. to take various decisions regarding deposits and borrowings.

1.7. Limitations of the Study

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

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

1.8. Chapter Plan

The present study is organized in such way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the study. The study report is designed in five chapters which are as follows:

Chapter-I: Introduction

This chapter describes the basic concept and background of the study. It has served orientation for readers to know about the basic information of the research area, focus of the study, problems of the study, objectives of the study and need or significance of the study and limitation of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

Chapter-II: Review of literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. It also establishes that the study as a link in a chain of research that is developing and emerging knowledge about concerned field.

Chapter-III: Research Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes about the various source of data related with study and various tools and techniques employed for presenting the data.

Chapter-IV: Presentation and Analysis of data

This chapter analysis the data related with study and presents the finding of the study and also comments briefly on them.

Chapter-V: Summary, Conclusion and Recommendation

On the basis of the results from data analysis, the researcher concluded about the performance of the concerned organization for better improvement.

Bibliography, appendix and other supporting documents have also been incorporated at the end of the study

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

CHAPTER – II
REVIEW OF LITERATURE

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

We study the review of literature in dividing two headings:

Conceptual Review

Review of related Studies

2.1 Conceptual/Theoretical Review

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

2.1.1 Concept of Bank

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

A bank is a financial institution, which plays a significant role in the country. It facilitates the growth of trade and industry, and boost national economy. However, a bank is a

resource of economic development, which maintains the self-confidence of various segments of society and extends credit to the people.

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

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

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

2.1.2 History of Banking in Nepal

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

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

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

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

2.1.3 Concept of Commercial Bank

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

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

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

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

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

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

In Nepal, 26 commercial banks are operating so far. The commercial banks in Nepal are categorized into four groups on the basis of capital owned. They are; the fully government owned bank; Rastriya Banijya Bank, the government and private sector bank; Nepal Bank Limited, the JVBs consist of Nabil Bank Limited, Standard Chartered Bank Nepal Limited, Himalayan Bank Limited, Nepal Bangladesh Bank Limited, Nepal SBI Bank Limited, Everest Bank Limited and the privately owned banks; Lumbini Bank Limited, NIC Bank Limited, Kumari Bank Limited, Nepal Investment Bank Limited, Bank of Kathmandu, Laxmi Bank Limited, Machhapuchhre Bank Limited, NCC Bank Limited,Siddhartha Bank Limited, Global Bank Ltd, Citizen International Bank Ltd, Bank Of Asia Nepal Ltd, Sunrise Bank Ltd, Prime Commercial Bank Ltd, DCBL Bank Ltd, NMB Bank Ltd & Kist Bank Limited.

However, central bank is the main bank of any nation that directs and controls all other banks. In Nepal, Nepal Rastra Bank is the central bank and all the commercial banks perform their functions under its rules, regulations, and directions.

2.1.4 Functions of Commercial Bank

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

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

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

ii. Advancing Loans: - The second major function of a commercial bank is to provide loans and advances from the money, which it receives by way of deposits for the

development of industry, trade, commerce, services, and agriculture. The main purpose of commercial bank is to boost up the development pace of communities and the economy as a whole.

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

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

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

2.1.5 Resources of Nepalese Commercial Bank

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

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

ii. Deposits: - Deposits are the main resource of the banks for advancing loans. It is received from different forms and accounts. There are mainly three types of deposits viz. saving, current, and fixed. In a developing country like Nepal where the majority of people are still poor, saving deposits has played a significant role in the development of a

country. Therefore, the main source of raising capital is deposits. Sudharsanam (1976) rightly says, “The deposit function of the bank is important because it has to aggregate small sums of money lying scattered here and there like twenties, fifties, and hundreds. Singling these sums has no economic efficiency what so ever but they can accomplish herculean tasks when they are aggregated and employed by the banker” (Sudharsanam, 1976: 20).

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

2.1.6 Concept of Joint Venture Bank

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

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

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

2.1.7 Concept of Liquidity

Liquidity is defined as bank's capacity to pay cash in exchange of deposits. Liquidity and Profitability are interlinked with each other in banking business. Inadequate liquidity may lead to collapse of the bank while excess liquidity is detrimental bank's profitability. In order to remove demerits associated with maintaining inadequate and excess liquidity, banks should maintain optimum level of liquidity ratio. Banks has to keep liquidity according to the directives and guidelines of Nepal Rastra Bank

Liquidity is an important financial tools for the banks. Liquidity ratio measurement is an important tool to measure the financial performance of the firms. Bank has keep certain amount of deposits as liquidity for payment of deposits at call time. If the bank keep

By liquidity is meant the readiness with which the bank can convert the assets into cash. Liquidity means short-term solvency of the borrower. A banker is essentially the lender of short-term funds because he knows that the bulk of his deposits are repayable on demand or at short notice. As the banker's deposits are subject to the legal obligation of being repayable on demand and at short notice, he must ensure liquidity also while lending, so that in times of need, he will be able to convert the assets into cash.

Bank can ensure high liquidity by keeping all deposits in the form of cash only. In such a case, he will not be in position to meet the interest obligations and expenditure of the establishment. From experience, he has learnt that he can safely lend out a substantial portion of the funds. But while lending he should try to ensure liquidity, i.e. in times of need, he must be able to obtain repayment of the money within a reasonably short time. Liquidity also implies that the assets can be sold without any loss. Thus the concept of

liquidity has twin aspects namely quick sale ability or convert ability of the assets and the absence of risk of loss in such conversion.

In conclusion, Liquidity is the ability of bank to meet its obligations on time, especially in relation to repayment of inter-bank borrowings and customer deposits. Liquidity management is a very crucial job of commercial bank and the bank should maintain adequate amount of cash in its vault and NRB for its daily operation and administrative purpose. As per the arrangement of NRB effective from fiscal year 2004/05, the commercial banks are required to maintain cash reserve of 5% with NRB of its total deposit liability with NRB. The previous provision of cash in vault maintenance has been withdrawn now.

2.1.8 Needs for Liquidity Mobilization

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

- Capital is needed for the development of any sector of the country. The objective of liquidity mobilization is to collect the scattered capital in different forms within the country.
- It is much more important to canalize the collected liquidity in the priority sectors of a country. In our developing country, we have to promote our business and other sectors by investing the accumulated capital towards productive sectors.
- The need for liquidity mobilization is felt to control unnecessary expenditure. If there is no saving, the extra money that the people have, can be forwarded buying unnecessary and luxury goods. So, the government also should help to collect more liquidity, steeping legal procedures to control unnecessary expenditures.
- Commercial banks are playing a vital role for national development Liquidity mobilization is necessary to increase their activities. Commercial banks are granting loan not only in productive sectors, but also in other sectors like food grains, gold and silver, etc. However, these loans are traditional in nature and are

not helpful to increase productivity, but it helps, to some extent, to mobilize bank's liquidities.

- To increase saving is to mobilize liquidity. It is because if the production of agriculture and industrial products increases, it gives additional income, which helps to save more, and ultimately, it plays a good role in liquidity mobilization (NRB, Banker's Prakashan, Group A, 1984: 10).

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

4.2.9 Liquidity Maintenance (CRR) of Commercial Banks and NRB Provision

Liquidity is the term used to refer to the capacity of the bank to pay cash in exchange of the deposits. A large part of the bank deposits is withdrawn able on demand and hence the bank must maintain a sufficient degree of liquidity in its assets. Such assets may be cash or other readily realizable assets. The foundation of the entire banking system rests on the confidence that the bank is able to create in the minds of the people. If the confidence is lost and all the depositors decide to withdraw all their deposits from the bank on the same day, even the best institution cannot survive. The investors feel confident about a bank, only if it is able to produce cash on demand. The bank must, therefore, maintain sufficient cash reserves in its vault to honor every cheque that is presented across the counter.

Holding too much liquid cash in vault is also not a good sign for the bank. Cash is an idle asset and hence holding of large balances in cash will affect the profits of the bank. The cash reserves should not also be very meager. In that case, the bank would be inviting danger as it may not be able to produce cash on demand. A prudent banker always keeps an extra amount of cash for the sake of safety. Thus liquidity management is a very tough and crucial job and NRB has formulated certain guidelines regarding the maintenance

and management of liquidity to commercial banks in Nepal. According to the new directive effective from Mid-July 2004, the banks are required to maintain cash balance with NRB of at least 6% of its total deposit liability. The previous provision for maintaining minimum balance with NRB was 7% of savings and current deposit liability and 4.5% of fixed deposit liability. The bank also had to maintain 2% of its total deposit liability on its own vault for daily operation but this provision has already been withdrawn from its new circular effective from July 2004. A new CRR provision of 5.5% has been applied and practiced since end of FY 2004/05 by NRB and now the commercial banks are required to maintain its CRR under this new provision.

The following tables will show the clear figure of cash reserve of both banks maintained with NRB in different fiscal years.

2.1.10 Mobilization of Liquidity

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

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

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

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

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

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

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

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

2.1.11 Meaning of Deposit

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

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

2.1.12 Types of Deposits

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

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

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

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

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

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

2.1.13 Investment, Investment Policy and Its Principles

2.1.13.1 Investment

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

2.1.13.2 Investment Policy

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

situation is to state that the objective is to attempt to make a lot of money while recognizing that there is some chance that large lose may be incurred. Investment objectives should be stated in terms of both risk and return (Francis, 1983: 10).

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

2.1.13.3 Principles of Sound Investment Policy

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

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

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

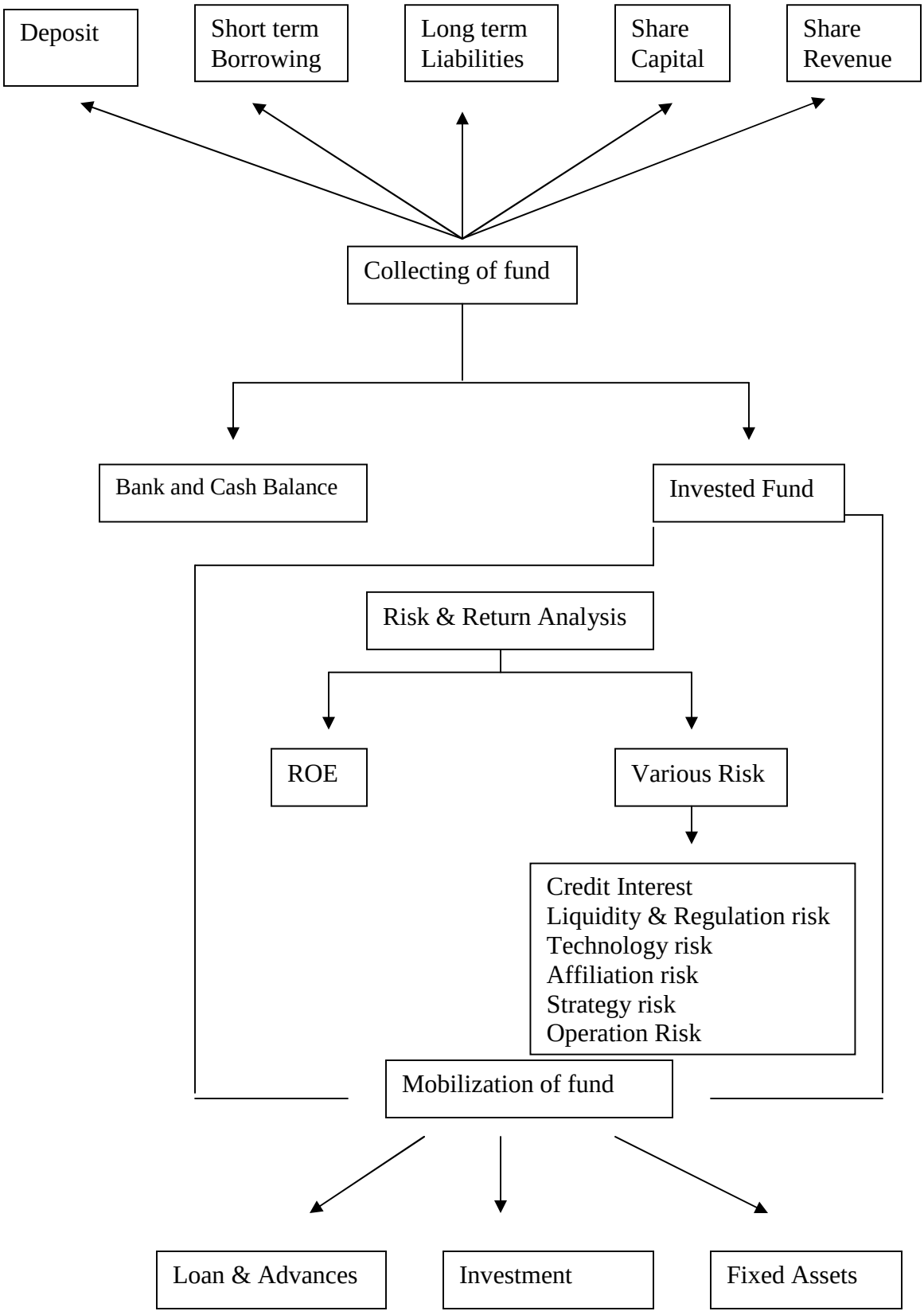
Liquidity: - Liquidity is the ability of the bank pay cash in exchange of deposit. People deposit their hard earned money in the bank making in the min that they will withdraw it when they need it. So, a bank should always try to maintain the liquidity position. It should not invest all the money seeing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

Purpose of loan: - Before sanctioning the loan to the customers, banks should learn the purpose of taking loan by the customers. If the seems to be for unproductive project which may yield nothing for the customers or the customers misuse the then he/she can never repay it on time. Therefore, banks nee the detail intention of the customers before granting loan.

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

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

A General Investment Procedure of Joint Venture Banks



2.2 Review of Related Studies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.2.1 Review of Thesis

Agrawal, (2002) Conducted research on the topic of “A study on deposit and investment position of Yeti Finance Company Limited” has tried to examine the trend the deposit position and investment position of the Yeti Finance Company. That study was conducted on the basis of secondary data and used various financial tools to analyze the data. Study just covered only period of 5 years (i.e. FY 1996/97 to 2000/2001). The researcher has found that the deposit policy is not stable but has highly fluctuating trend and investment is gradually in increasing trend. The researcher found there is highly positively correlation between total deposit and total investment. The researcher concluded that finance companies have been found profit oriented, ignoring the social responsibility, which is not a fair a strategy to sustain in long run. Therefore, it is suggested the company should involve in social program which helps the deprive people who are depended helps in agriculture. Agriculture is the paramount of Nepalese

economy so that any finance company should not forget to invest in this sector. In order to do so, they must open their branches in remote area with an objective of providing cheaper financing services.

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

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

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

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

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

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

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

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

The major findings made by the researcher are as follows:

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

RBB is very much success in complying the NRB policy.

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

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

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

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

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

The specific objectives of his research are:

To analyze the functions, objectives procedure and activities of the NB bank

To analyze the lending practices and resources utilizations of NB bank.

To determine the impact of growth in deposit on liquidity and lending practices.

To examine the lending efficiency and its contribution to profit.

To make suitable suggestions based on the findings of this study. The financial and statistical tools are used.

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

The research findings of the study are summarized as:

NB bank has utilized most funds in the form of credit and advances. More than 75% of total deposits of the bank have been forwarded to customers as a credit and advances. The major part of utilizing deposits and income generating sectors. If the bank has high deposits, bank can provide money to its customers as credit and advances. Therefore, there is highly positive correlation between total deposits and credit and advances of NB bank

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

Gautam, (2006) has conduct research on "A Comparative study on financial performance of Standard Chartered Bank Limited and Nepal Bangledesh bank Limited" Financial performance is analyzed with two important tools. The first most important tools are the

financial tools, which includes ratio analysis and other is a statistical tools, which is bankruptcy score.

The objectives of his research are:

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

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

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

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

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

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

The research findings of the study are as follows:

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

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

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

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

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

- To evaluate various financial rations of the NIB.
- To determine the impact of deposit in liquidity and its effect on lending practices.
- To analyze trend of deposit utilization towards loan and advances and net profit.
- To offer suitable suggestions based on findings of this study

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

maintain high level of monitoring and control system over the disbursed loan and advances. To create opportunity of business new and attractive lending scheme would be launched to the customer.

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

Limbu (2008). In his dissertation, "Credit Management of NABIL Bank Limited" highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition.

The main objectives of the research study are as follow.

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

The main findings and conclusions are according to calculated ratio. In the aspect of assets management ratio, assets management position of the bank shows better performance in the recent years. Non–performing assets to total assets ratio is decreasing

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

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

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

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

2.3 Research Gap

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

In this study of liquidity management of Everest Bank and Himalayan Bank Limited is measuring by using various tools. Financial tools as well as statistical tool are used in this research. Financial tools like various liquidity ratio, activity ratio, profitability ratio, price earning ratio and lending efficiency ratio etc and in statistical tools, mean, standard deviation and correlation coefficient are analyzed. The analyzed data are only five fiscal year but all the data are current and fact. Clearly these are the issue in Nepalese commercial bank the previous scholar could not the present facts. Thesis of S. P. Gautam: (2006) "A Comparative study on financial performance of Standard Chartered Bank Limited and Nepal Bangladesh bank Limited" has not use correlation, probable error and trend analysis. In research of Ram Limbu, (2008) “Credit Management of NABIL Bank Limited has done well research using various financial tools as well as statistical tools. This study tries to define liquidity management by applying and analyzing various financial tools like liquidity ratio, activity ratio, profitability ratio and lending efficiency ratio as well as different statistical tools like mean, standard deviation, coefficient of correlation and probable error. Probably this will be the appropriate research in the area of liquidity management of Bank and financial institutions.

CHAPTER - III
RESEARCH METHODOLOGY

The topic of the study has been selected as "Comparative study on liquidity management Everest Bank Ltd. and Himalayan Bank Ltd." In order to reach and accomplish the objectives of the study, different activities will be carried out. For this purpose, the chapter aims to present and reflect the methods and techniques that are carried out and followed during the study period. The research methodology that is adopted for the present study is mentioned in this chapter which deals with research design, sources of data, data collection, processing and tabulating procedure and methodology.

3.1 Research Design

To achieve the objective of this study, analytical and descriptive research designs have been used.

3.2 Sources of Data

There are two sources of data collection. The research is based on secondary source of data. All the adequate data are collected from secondary sources.

This refers to data that are already used and gathered by others. Secondary data are mostly used for this research purpose. So the major sources of secondary data are as follows

- Annual Report of concern Bank.
- Internet and E-mails.
- NRB directives.
- Economy survey of Government of Nepal and Ministry of finance.
- Newspaper, journals, articles and various magazines.
- Dissertation of Central Library of T. U. and Library of Shanker Dev Campus.

3.3 Population and Sample

The objective of the research is to explore and describe the liquidity management of commercial bank in Nepal from the research point of view. However, with regard to the

availability of the financial information, two samples were identified purposively from the banking sector, which comprise of nineteen among the listed. The population

Here, the total 26 commercial banks shall constitute the population of the data and two bank under the study constitute the sample under the study. So among the various commercial banks in the banking industry, Here Everest Bank Limited and Himalayan Bank Limted has been selected as sample for the present study. Likewise, financial statements of five years are selected as samples for the purpose of it.

3.4 Data Collection Procedure

Different tools and techniques were adopted while collecting the data for this study. Collected secondary informations are analyzed during the course of the deskwork. However, during the desk study, an information gap was found. This gap fulfilled by the discussion with the thesis advisor and finance experts of the security board and the NEPSE.

3.5 Data Analysis Tools

Presentation and analysis of data is one of the important part of the research work. The collected raw data will first be presented in systematic manner in tabular form and then will be analyzed by applying different financial and statistical tools to achieve the research objectives. Besides these some graph charts and tables will be presented to analyze and interpret the findings of the study. The tools applied are-

1 Financial Tools

2 Statistical Tools

3.6.1 Financial Tools

i) Liquidity Ratios: This ratio measures the liquidity position of a firm. It measures the firm's ability to meet its short-term obligations. As a Financial Analytical tools, following liquidity ratios will be used.

a.) Current Ratio: This ratio shows the bank's short-term solvency. It shows the ratio of current assets over the current liabilities. This ratio can be computed by dividing the total current assets by total current liabilities, which can be presented as:

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

Higher ratio indicates the strong short-term solvency position and vice-versa.

b.) Cash and Bank Balance to Total Deposit Ratio: Cash and bank balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. This ratio can be computed by dividing cash and bank balance by total deposit and can be presented as:

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

Cash and bank balance includes cash in hand, foreign cash in hand, cheques and other cash items, balance with domestic and foreign banks. The total deposit includes deposits made by customers though different accounts like current (demand deposit), saving, fixed deposit, call deposit and other deposit accounts.

c.) Cash and Bank Balance to Current Assets Ratio: This ratio measures the proportion of most liquid assets viz. cash and bank balance among the total current assets of the bank. Higher ratio shows the bank's ability to meet its demand for cash. The ratio is computed by dividing cash and bank balance by current assets, presented as under;

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

d.) Investment on Government Securities to Total Current Assets Ratio: This ratio is calculated to find out the percentage of current assets invested on government securities viz. treasury bills and development bonds. The ratio is stated as under;

Investment on Govt. securities to total current assets ratio =

$$\frac{\text{Investment on Govt. Securities}}{\text{Current assets}}$$

ii) Assets Management Ratios:

Asset management ratio measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liability ensures its effective utilization. The banking business converts the liability into assets by way of its lending and investing functions. The following are the various ratios relating to determine the efficiency of the subjected bank in managing its assets and in portfolio management.

a.) Loan and Advances to Total Deposit Ratio: This ratio is also called credit- deposit ratio (C D ratio). It is calculated to find out how successfully the bank is able to utilize its total deposits on loan and advances for profit generating purpose. Greater ratio implies better utilization of total deposits. This ratio can be obtained by dividing loan and advances by total deposit as under;

$$\text{Loan and Advances to total deposit ratio} = \frac{\text{Loan \& advances}}{\text{Total deposits}}$$

b.) Total Investment to Total Deposit Ratio: Investment is one of the major forms of credit creation to earn income. This implies the utilization of firm's deposit on investment on government securities, shares and debentures of other companies and banks. This ratio can be calculated by total investment divided by total deposit as:

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

c.) Loan and Advances to Working Fund Ratio: Loan and advances is the major component in the total working fund (total assets), which indicates the ability of bank to utilize its deposits in the form of loan and advances to earn high return. The ratio is computed by dividing loan and advances by total working fund, which is stated as under;

Loan and advances to working fund ratio= $\frac{\text{Loans and advances}}{\text{Total working fund}}$

d.) Investment on Government Securities to Total Asset Ratio: This ratio shows that bank's investment on government securities in comparison to the total working fund. This ratio can be computed by dividing investment on government securities by total working fund, which can be presented as;

Investment on Govt. Securities to total working fund =

$$\frac{\text{Investment on Govt. Securities}}{\text{Total working fund}}$$

iv) Profitability Ratios:

Profitability ratios are used to indicate and measure the overall efficiency of a firm in terms of profit and financial performance. For better performance, profitability ratios of firm should be higher. Under this, the following profitability ratio will be computed.

a.) Return on Loan and Advances Ratio: This ratio indicates how efficiently the bank utilizes its resources in the form loans and advances. This also measures the earning capacity of its loans and advances. This ratio is computed by dividing net profit (loss) by loans and advances which can be expressed as;

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

b.) Return on Total Asset Ratio (ROA): This ratio measures the overall profitability of all working fund i.e. total assets. It is also known as return on assets (ROA). This ratio is calculated by dividing net profit (loss) by total working funds. This can be presented as;

Return on total working fund ratio (ROA) = $\frac{\text{Net profit (loss)}}{\text{Total working fund}}$

The numerator indicates the portion of income left to the internal equities after deduction all costs, charges and expenses.

c.) Return on Equity (ROE): Net worth refers to the owner's claim of a bank. The excess amount of total assets over total liabilities is known as net worth. This ratio measures how efficiently the bank has used funds of the shareholders. This ratio can be computed by dividing net profit by total equity capital (net worth). This can be calculated as;

$$\text{Return on Equity (ROE)} = \frac{\text{Net profit (loss)}}{\text{Total equity capital}}$$

d.) Total Interest Earned to Total Asset Ratio: This ratio is computed to find out percentage of interest earned to total assets (working fund). Higher ratio implies better performance of the bank in terms of interest earning on its total working funds. This fund is computed by dividing total interest earned by total working fund can be presented as;

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

e.) Total Interest Earned to Total outside Assets Ratio: This ratio measures the interest earning capacity of the bank through the efficient utilization of outside assets. Higher ratio implies efficient use of outside assets to earn interest. This ratio is calculated by dividing total interest earned by total outside assets and can be mentioned as under;

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

The numerator includes total interest income from loans and advances and investment where as the denominator comprises loan and advances, bills purchased and discounted and all type investment.

f.) Interest Income to Total Income Ratio: This ratio measures the volume of interest income in total income of the bank. The high ratio indicates the high contribution made by the lending and investing and vice-versa. This ratio can be completed by dividing interest income by total income presented as under;

$$\text{Interest income to total income ratio} = \frac{\text{Interest income}}{\text{Total income}}$$

g.) Total Interest Paid to Total Working Fund Ratio: This ratio depicts the percentage of interest paid on liabilities with respect to total working fund, which can be presented as;

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

V. Risk Ratio

Risk and uncertainty is a part of business loss. All the business activities are influenced by risk, so business organization can not achieve a good return as per their desires. The profitability of risk makes banks investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So the banks options for high profit have to accept the risk and manage it efficiently. A bank has to have idea of the level of risk of risk that one has to bear while investing its funds. Through following ratios, effort has been made to measure the level of risk inherent in the EBL and EBL.

a.) Credit Risk Ratio: Credit risk ratio measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk ratio is expressed as the percentage of non-performing loan to total Loan and Advances.

Bank utilizes its collected funds by providing credit to different sections. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. The credit risk ratio shows the proportion of no-performing assets in total Loan and Advances. Higher ratio indicates more risky assets in the volume of Loan and Advances of the bank and vice-versa.

b.) Liquidity Risk Ratio: - The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes

loan, its profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

$$\text{Liquidity Risk Ratio} = \frac{Cash\ and\ Bank\ Balance}{Total\ Deposit}$$

vi. Other Ratios

a) Earning per Share (EPS): EPS refers to net profit divided by total numbers of share outstanding. EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. The amount of EPS measures the efficiency of a firm in relative terms. This ratio is calculated as;

$$\text{Earnings per Share (EPS)} = \frac{\text{Net profit (loss)}}{\text{Total number of shares outstanding}}$$

b) Market Price per Share

Market price per share is the price at which shares are traded in the stock market. The secondary markets provide liquidity for securities purchased in primary market. Generally MPS is determined through supply and demand factors.

c) Price Earning Ratio

This ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS. Price earning ratio indicates investor's judgments or expectation about the firm's performance. This ratio widely used by the security analysis to value the firm's performance. This ratio widely used by the security analysis to value the firm's performance as accepted by investors. Price earning ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

Here, total equity capital includes shareholders' reserve including profit and loss account, general loan loss provision and share capital i.e. ordinary share preference share capital.

2.6.2 Statistical Tools

Some important statistical tools will be used to achieve the objective of this study. In this study statistical tool such as mean, standard deviation, coefficient of variation, coefficient of correlation and trend analysis will be used.

i) Mean:

A mean is the average value or the sum of all the observation divided by the number of observations and it is given by the following formula:

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

Where, $\overline{X}$ = Mean of the values

X = Summation of the values

N = No. of Observations

ii) Coefficient of variation:

The calculated standard deviation gives an absolute measure of dispersion. Hence where the mean value of the variables is not equal, it is not appropriate to compare two pairs of variables based on standard deviation only. The coefficient of variation (C.V.) is given by the following formula in the percentage basis:

$$\text{Coefficient of variation (C.V.)} = \frac{\pm}{\overline{X}} \times 100$$

iii) Measures of Correlation:

We examine the relation between the various variables. The correlation between the different variables of a bank is compared to measure the performance of these banks. Correlation refers to the degree of relationship between two variables. If between two variables, increase or decrease in one causes increase or decrease in another, then such variables are correlated variables. The reliability of the value of coefficient of correlation is measured by probable error. The correlation coefficient describes the degree of relationship between two variables. It interprets whether variables are correlated positively or negatively. This tool analyses the relationship between those variables by

which it is helpful to make appropriate investment policy for profit minimization. The Karl Pearson coefficient of correlation (r) is given by following formula:

Coefficient of Correlation (r) = $\frac{xy}{N\pm_1\pm_2}$

Where, x = $\int X\ Z\overline{X}$

y = $\int Y\ Z\overline{Y}$

$\pm_1$ = Standard series of X

$\pm_2$ = Standard series of Y

N = Number of pairs of Observations

The Karl Pearson coefficient of correlation always falls between -1 to +1. The value of correlation in minus signifies the negative correlation and in plus signifies the positive correlation. As the value of correlation reaches to the value of zero, it is said that there is no significant relationship between the variables.

iv) Trend Analysis:

Among the various methods of determining trend of time series, the most popular and mathematical method is the least square method. Using this least square method, it has been estimated the future trend values of different variables. For the estimation of linear trends line following formula can be used:

y= a + bx

Where,

y= Dependent variable

x = Independent variable

a = Y – intercept

b = Slope of the trend line

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

Introduction review of literature and research methodology is presented in the previous chapters that provide the basic inputs to analyze and interpret the data. Presentation and analysis of data is the main body of the study. In this chapter collected data are analyzed and interpreted as per the stated methodology in the previous chapter. The main sources of data are secondary data. In this chapter, researcher has analyzed and diagnosed liquidity management of Everest Bank Limited and Himalayan Bank Limited. All the liquidity management is analyze by calculating following ratio.

4.1 Financial Analysis

In this part various financials ratios related are presented to evaluate and analyze the performance of commercial Banks i.e. EBL and HBL. Some important financial ratios are only calculated in the point of view of fund mobilization. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another.

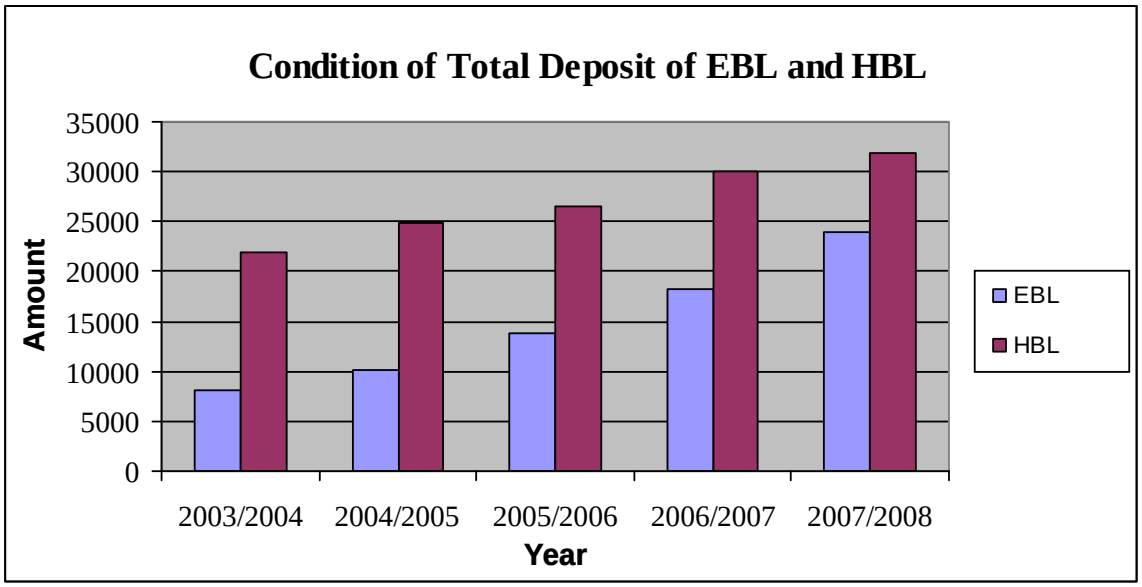
Table No 4.1

Total Deposit and Total Investment of Sample Banks

(in millions)

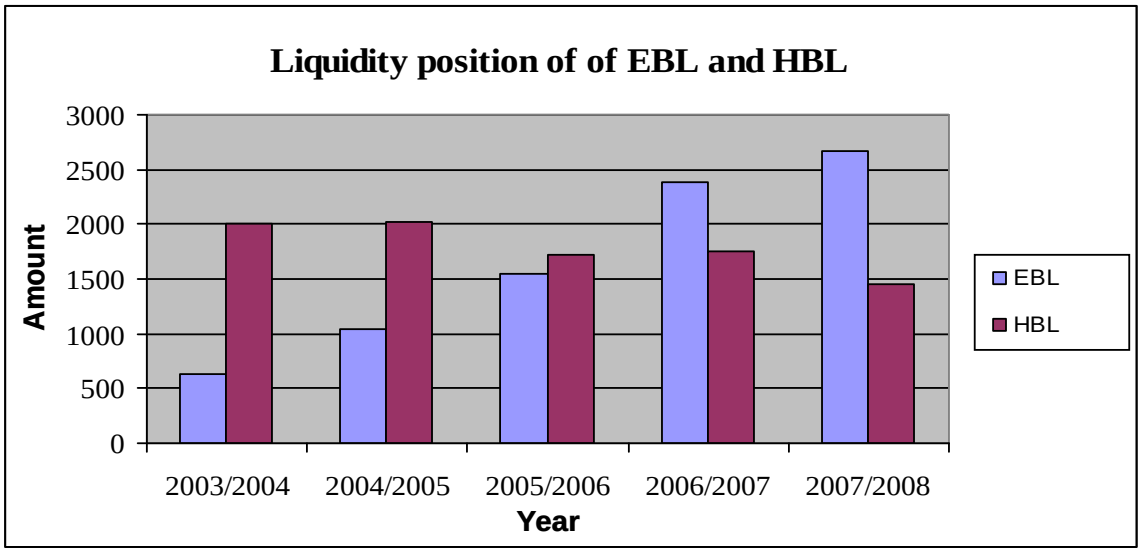
Bank	Everest Bank Limited		Himalayan Bank Limited	
Year	Total Deposit	Cash and Bank Balance	Total deposit	Cash and Bank Balance
2003/2004	8063.9	631.80	22010.333	2001.18
2004/2005	10098	1050.00	24814.012	2014.47
2005/2006	13802	1553.00	26490.852	1717.35
2006/2007	18186	2391.42	30048.418	1757.34
2007/2008	23976	2667.97	31842.79	1448.14
Average	**14825.18**	**1658.838**	**27041.28**	**1787.696**

Figure No 4.1



Above table and figure show the deposit collection and liquidity of EBL and HBL. The EBL Bank has increasing trend of total deposit over the study period. The average total deposit of EBL is 14825.18 and 27.41.28 of HBL. The lowest amount Rs 8063.9 million in 2003/04 and highest amount 23976 million in 2007/08. Similarly, Himalayan bank also increasing trend of total deposit during the study period. The lowest amount Rs 22010.33 million in 2003/04 and highest amount Rs 31842.79 millions in 2007/08. In comparison the HBL seems higher in deposit collection than the EBL Bank.

Figure No 4.2



Similarly, liquidity of position of HBL is little higher than EBL. The average amount of cash balance of HBL is Rs 1787.696 million and Rs 1658.838 million of EBL. The highest amount of liquidity is Rs 2667.97 million in 2007/08 and lowest amount Rs 632.80 million in 2003/04 of HBL. Cash and bank balance of EBL continuously increasing trend. In the same way the HBL also increasing trend of cash balance the study period. The lowest amount of cash and balance Rs .2001.18 in 2003/04 and highest amount is Rs 1448.14 in 2007/08 of HBL. The total average cash and bank balance of HBL is higher than the EBL.

Liquidity Position of Sample Bank

Table 4.2

Growth Rate of Liquidity Position of Sample Bank

Bank	Everest Bank Limited	Himalayan Bank Limited
Year	Growth Rate	Growth Rate
2003/2004	16.02	1.11
2004/2005	20.90	0.66
2005/2006	24.97	-14.75
2006/2007	48.82	2.33
2007/2008	15.74	-17.59

Above table show the growth rate of liquidity position of EBL and HBL. The EBL Bank has increasing trend of liquidity position every year over the study period. The growth rate of EBL are 90.1, 20.90, 24.97, 48.82 and 15.74 in 2003/04, 2004/05, 2005/06, 2006/07 and2007/08. The highest growth rate is 48.82 in 2006/07 and lowest growth rate 15.74 in 2007/08. Above table show the growth rate of liquidity position of EBL and HBL. The EBL Bank has increasing trend of liquidity position every year over the study period. Similarly, the growth rate of HBL are 1.11, 0.66, -14.75, 2.33 and -17.59 in 2003/04, 2004/05, 2005/06, 2006/07 and2007/08. The highest growth rate is 2.33 in 2006/07 and lowest growth rate -17.59 in 2007/08. The HBL has decreased in liquidity

condition in year 2005/06 and 2007/08 respectively. In comparison liquidity position of EBL seems better than the HBL Bank.

4.1.1 Ratio Analysis

Ratio analysis shows the mathematical relationship between two accounting figures. It helps to analyze the financial strengths and weaknesses of the banks. It is also inevitable for the quantitative judgment with which the liquidity management of banks can be presented properly.

4.1.1.1 Liquidity Ratio

Commercial bank must maintain its satisfactory liquidity posting to satisfy the credit needs of community, to meet demands for deposit–withdrawals, pay maturity obligation in time and convert non-cash assets into cash to satisfy immediate needs without loss to bank and consequent impact on long-run profit. Liquidity ratio is mainly used to analyze the short-term strength of commercial banks.

A) Analysis of Current Ratio

This ratio measures the liquidity position of the commercial banks. It indicates the ability of Banks to meet the current liquidity.

Table No. 4.3

Current assets to current liability (in times)

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
EBL	1.17	1.14	1.13	1.16	1.10	1.14	0.027	0.024
HBL	0.95	1.12	1.09	1.14	1.19	1.10	0.0904	0.082

Source: Annual Report of Concern Banks

Above Table shows the current ratio of selected commercial banks during the study period. The current ratio of EBL and HBL is fluctuating trend. In general, it can be said that both the banks have sound ability to meet their short- term obligations. In the case of EBL the C.R. has high in 2003/04 i.e 1.17 and HBL has high in 2007/08 i.e. 1.19. In an

average, liquidity position of EBL is greater than HBL i.e. 1.14 > 1.10, due to high mean ratio. So, EBL is sound in meeting short-term obligation than HBL. Likewise, S. D. and C.V. of EBL is less than HBL i.e. 0.027 < 0.0904 and 0.024 <0.082. It can be said that C.R. of EBL is more consistent than HBL.

Lastly, from the above analysis it is known that all these two banks have not better liquidity position because the standard ratio is 1:1. They have just met the standard ratio. Generally, banks require more liquid assets with compare to current liabilities in order to provide better bank service but these two banks have less liquidity position.

B) Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance to Total Deposit Ratio indicates the bank ability to meet their daily requirement of depositors. Higher ratio shows the greater ability of the firms to meet customer demands on their deposits. Following table shows cash and bank balance to total deposit of EBL and HBL during the study period.

Table No. 4.4

Cash and Bank Balance to Total Deposit Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V. (%)
EBL	0.078	0.104	0.112	0.131	0.111	0.107	0.019	0.177
HBL	0.100	0.081	0.065	0.059	0.046	0.068	0.018	0.265

Source: Annual Report of Concern Banks

Above Table revels that the Cash and Bank Balance to Total Deposit Ratio of EBL and HBL fluctuating trend. The highest ratio of EBL is a 0.1.31 time in FY 2006/07 and lowest is 0.078 times in FY 2003/04. Similarly, the highest ratio of HBL is 0.100 times in FY 2003/04 and lowers in 0.046 in 2007/08.

The mean ratio of EBL and HBL are 0.107 times and 0.068 times respectively. EBL has higher ratio than the HBL, which shows its greater ability to pay depositors money as

they want. Similarly, the coefficient of variation of EBL is 0.177 times and HBL is 0.265 times. S.D. of EBL is lower than the HBL

The above analysis has to conclude that the cash and bank balance position of EBL with respect to HBL is better in order to serve its customer's deposits. It implies the better liquidity position of EBL from the viewpoint of depositor demand. In contrast a high ratio of cash and bank balance may be undesirable which indicates the bank's inability to invest its funds income generating areas. Thus EBL should invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability.

C) Cash and Bank Balance to Current Assets Ratio

Cash and Bank Balance are the most liquid or quick assets. Cash and bank balance to current assets ratio represents the liquidity capacity of the firms as per cash and bank balance. Higher the ratios, better the ability of the firms to meet the daily cash requirement of their customers. But high ratio is not so preferred to the firms because firms have to manage the cash and bank balance to current asset ratio in such manner that firm may not be paid interest on deposits and may not have liquidity crisis.

Following the states the cash and bank balance to current assets EBL and HBL during the study period.

Table No. 4.5

Cash and Bank Balance to Current Asset Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
EBL	0.066	0.091	0.098	0.112	0.099	0.093	0.017	0.18
HBL	0.110	0.097	0.074	0.071	0.050	0.080	0.0237	0.296

Source: Annual Report of Concern Banks

Above table reveals that cash and bank balance to current assets ratio of EBL is increasing till 2006/07 and decreased trend in last year. But ratio of HBL is continuously decreasing to fiscal year 2007/08. The mean ratio of EBL and HBL is 0.093 times and

0.080 times respectively. The higher mean ratio shows EBL's liquidity position is better than that of HBL. Moreover, the .S.D and C.V. of HBL is higher than EBL i.e. 0.0237>0.017 and 0.296>0.18. The higher C.V. of HBL indicates that it has more inconsistency in the ratios in comparison to EBL.

Regarding the above analysis, it can be concluded that EBL has a little bit better ability to meet daily cash requirements of their customers but there is not any fix policy to maintain the standard ratio of cash balance over the period.

D) Investment on Government Securities to Current Assets Ratio

This ratio examines that portion of a commercial bank's current assets, which is invested on different government securities. More or less, each commercial bank is interested to invest their collected funds on different securities issued by government in different times to utilize their excess funds and for other purpose. Although those securities can be sold easily in the financial market or they can be converted into cash, they are liquid assets like cash and bank balance. It shows the portion of current assets to banks that are invested on various securities. Government securities are the more secured investment alternatives. These securities are also called risk less investment but less return is generated than others risky assets.

Table No. 4.6

Investment on Government Securities to Current Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
EBL	0.252	0.161	0.210	0.170	0.120	0.183	0.050	0.274
HBL	0.196	0.278	0.231	0.260	0.254	0.244	0.032	0.13

Source: Annual Report of Concern Banks

Above table shows investment on government securities to current assets ratio of EBL and HBL. Both Banks has fluctuating type ratios. The table shows the highest ratio of EBL is 0.252 times in FY 2003/04 and lowest is 0.120 times in FY 2007/08.In the same

way, the highest ratio of HBL is 0.278 times in FY 2004/05 and lowest is 0.196 times in FY 2003/04.

The mean ratio of EBL is 0.183 i.e. 18.3 percent which is lower than the mean ratio of HBL 0.244 i.e. 24.4 percent. It means HBL has invested more money in risk free assets than that of EBL. In another words EBL has emphases on more loan and advances and other short term investment than investment in govt. securities. For minimization of investment risk, EBL should divert its investment in govt. securities. Similarly, S.D. is 0.050 and 0.032 and C.V is 0.274 and 0.13 ok EBL and HBL.

The higher C.V. of EBL shows the more inconsistency in the ratios with compare to HBL.

4.1.1.2 Assets Management Ratio

A commercial bank must be able to manage it's assets very well to earn high profit, so to satisfy it's customers and for own existence. Assets management ratio measures how efficiently the bank manages the resources at its commands. Through following ratios, assets management ability of banks has been measured.

A) Loan and Advance to Total Deposit Ratio

This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on loan and advances for the purpose of profit generation. A higher ratio of loan and advances indicates better mobilization of collection deposit and vice-versa. But it should be noted that too high ratio might not be better from its liquidity point of view. Following Table shows the loan and advances to total deposit ratio of related banks.

Table No. 4.7

Loan and Advance to Total Deposit Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
EBL	0.73	0.754	0.710	0.751	0.765	0.742	0.022	0.0296
HBL	0.587	0.549	0.544	0.595	0.634	0.582	0.0366	0.063

Source: Annual Report of Concern Banks

Above table shows that the loan and advances to total deposit ratio of EBL and HBL is fluctuating trends. The ratio of EBL has more fluctuating trend. EBL has higher ratio than that of HBL in each year and mean too. It indicates the better mobilization of deposit by EBL. The mean of EBL and HBL are 74.2% and 58.18% respectively. So EBL has higher ratio than that of HBL. It reveals that the deposit of EBL is quickly converted in to loan and advances to earn income. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. So all of the year the EBL has met the NRB requirement or it has utilized its deposit to provide loan. But HBL has not met the NRB requirement or it has not utilized its deposit to provide loan properly.

The mean, S.D. and C.V of EBL is 0.742, 0.022 and 0.0296 similarly, HBL has 0.582, 0.0366 and 0.063. By the analysis, HBL has little used the deposit in profit generating sector than that of EBL

B) Total Investment to Total Deposit Ratio

Commercial banks and financial companies invest their collected funds in various government securities and other financial or non-financial companies. This ratio measures how successfully and efficiently the banks are mobilizing their funds on investment in various securities. This ratio of EBL and HBL are calculated and presentation below.

Table No. 4.8

Total Investment to Total Deposit Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
EBL	0.314	0.211	0.304	0.274	0.211	0.263	0.0497	0.189
HBL	0.422	0.471	0.411	0.394	0.419	0.423	0.029	0.068

Source: Annual Report of Concern Banks

Above table shows that total investment to total deposit ratio of EBL and HBL. Both banks have fluctuating trend total investment to total deposit ratio. Higher ratio of EBL is 31.4 percent in FY 2003/04 and lowest ratio is 21.1 percent in FY2004/05 and2007/08 in

the same way the highest ratio of HBL 47.1% percent in FY 2004/05 and lowest ratio is 39.4% percent in FY 2006/07. Investment volume of EBL is lower than that of HBL because more funds of EBL were used in profitable loans to achieve optimum mix of interest earning assets.

The mean of the ratio of EBL and HBL are 26.3% and 42.34% respectively so HBL has higher ratio. It signifies HBL has successfully allocated its deposit in investment portfolio.

The C.V. of EBL is higher than HBL i.e. 0.189 > 0.068. So EBL seems to be more inconsistency

C) Loan and Advances to Total Assets Ratio

A commercial bank's working fund plays very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of funds as loan and advance and vice-versa. The following table shows loan and advances to total assets of EBL and HBL as follows.

Table No. 4.9

Loan and Advances to Total Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
EBL	0.612	0.649	0.614	0.637	0.675	0.638	0.026	0.041
HBL	0.502	0.466	0.515	0.519	0.558	0.512	0.033	0.065

Source: Annual Report of Concern Banks

Above table shows the loan and advances to total assets ratio of EBL and HBL during the study period. Loan and advances to total assets of EBL is fluctuating trend and HBL has increasing trend except in 2004/05. While observing their ratios; EBL is better mobilizing of fund as loan and advances and it seems quite successful in generating higher ratio in each year.

The mean of EBL and HBL are 63.8% and 51.20%% respectively. So EBL has higher ratio than that of HBL. It reveals that in total assets, EBL has high proportion of loan and advances. EBL has utilized its total assets more efficiently in the form of loan and advances. The higher C.V. of HBL states that it has less uniformity in these ratios throughout the study period than that of EBL. S.D. and C.V. of HBL has high than the EBL.

D) Investment on Government Securities to Total Assets ratio

It is not possible to apply all collection, deposit and other resources in to loan and advances for the banks. Therefore, they arrange their total assets in various sectors. Among all possible sectors, investment on government securities is one, which is very less risky. Invest on government securities to total assets ratio measures how successfully selected banks have applied their total assets on various forms of government securities in profit maximization and risk minimization point of view. The higher ratio represents the better position of fund mobilization into investment on government securities and vice-versa.

Table No. 4.10

Investment on Government Securities to Total Assets ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
EBL	0.25	0.16	0.208	0.168	0.119	0.181	0.049	0.273
HBL	0.139	0.20	0.175	0.188	0.207	0.182	0.0268	0.148

Source: Annual Report of Concern Banks

Above table shows that the investment on government treasury bills to Total assets of EBL is in fluctuating trend and HBL is also fluctuating trend. The highest ratio of EBL and HBL are 25% in 2003/04 and 20.7% in 2007/08. The lowest ratio of EBL and HBL are 16% and 13.9% in 2004/05 and 2003/04 respectively.

From the table we notice that mean ratio of EBL and HBL are 18.10% and 18.20% respectively. The mean of HBL has higher than EBL. It means HBL has invested more

money in risk free assets than that of EBL. In another words EBL has emphases on more loan and advances and other short-term investment than investment in govt. securities. For minimization of investment risk, EBL should divert its investment in govt. securities. There is more variability in the ratio of EBL as compare to HBL. It shows there is more inconsistent in the ratio of EBL during the study period, which is indicated by higher C.V. of EBL. But there is inconsistent in its investment.

4.1.1.3 Profitability Ratio

The major performance indicator of any firm is profit. The objective of investment policy is to make good return. Any organization has to desire of earning high profited which helps to survive the firm and indicates the efficient operation of the firm. Profit is the essential part of business activities to meet internal obligation, overcome the future contingencies, make a good investment policy, expand the banking transaction etc.

Profitability ratios are the best indicators of overall efficiently. Here, those ratios are presented and analyzed which are related with profit as well as fund mobilization. Through the following ratios, effort has been made to measure the profit earning capacity of EBL and HBL.

A) Return on Loan and advances

Every financial institution tries to mobilize their deposits on loan and advances properly. So this ratio helps to measure the earning capacity of selected banks. Returns on loan and advances ratio of selected banks are presented as follows.

Table No. 4.11

Return on Loan and advances

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
EBL	0.024	0.022	0.024	0.022	0.025	0.024	0.0013	0.055
HBL	0.020	0.021	0.029	0.028	0.032	0.026	0.0045	0.17

Source: Annual Report of Concern Banks

Above table shows that return on loan and advances ratio of EBL is in fluctuating trend and HBL is also in increasing trend except in 2006/07. The highest ratio of EBL is 2.5% in the year 2007/ 2008 and lowest ratio 2.2% in year 2004/05 and 2006/07. The mean ratio is 2.5%.Whereas highest ratio of HBL is 3.20% in year 2007/2008 and lowest ratio is 2.04% in 2003/2004. The mean ratio is 2.60%of HBL. This both banks show the normal earning capacity in loan and advances and same earning capacity in form of loan and advances.

From the table we notice that EBL has higher Ratios in preceding two years and HBL has higher ratios in subsequent two years and both banks have nearly equal mean ratio. It can be concluded that both banks have utilized the loan and advance for the profit generation in same earning capacity. However both banks seem to have poor performance in order to have returns from loan and advances because of heavy less than five percents of return on loan and advances as five percent is benchmarking ratio in this case.

B) Return on Total Assets

This ratio measures the overall profitability of all working fund i.e. Total assets. A firm has to earn satisfactory return on working funds for its survival. The following table shows return on total assets ratio of selected banks.

Table No. 4.12

Return on Total Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
EBL	0.015	0.015	0.015	0.014	0.017	0.0150	0.0010	0.068
HBL	0.010	0.011	0.011	0.015	0.018	0.013	0.0033	0.258

Source: Annual Report of Concern Banks

Above table shows the Return on Total Assets of EBL and HBL. This table states the net profit to total assets of selected banks during the study period. EBL has almost same value of return on asset beside 200607 and 200708. But HBL has constantly increasing trend of return on its total assets however, EBL seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 1.5 % of

total assets in an average which is higher than that of HBL. Where as S.D. and C.V .of HBL has relatively higher than the EBL so it indicate less uniformity in the ratios.

C) Return on Equity

Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn high profit and there by, maximizing return on its equity capital. Return on equity plays the measuring role of profitability of bank. It reflects the bank has been successful to mobilize or utilize its equity capital. A high ratio indicates higher successful to mobilize its owned capital and vice-versa. Following table shows the return on equity of EBL and HBL during the study period.

Table No. 4.13

Return on Equity Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
EBL	0.202	0.205	0.246	0.247	0.234	0.227	0.0219	0.096
HBL	0.199	0.200	0.259	0.229	0.253	0.228	0.0284	0.125

Source: Annual Report of Concern Banks

Above table shows Return on Equity Ratio of EBL and HBL. Above calculated statistic indicate that EBL has increasing trend of return on equity beside 2007/08 and HBL has fluctuating return on equity ratio. EBL has lower ratio 0.202 in 2003/04and higher ratio 0.247 in 2006/07. Similarly HBL has high ratio in 2006/07 and lower ratio in 2003/04. However, HBL has little higher mean ratio than that of EBL (i.e. 22.8%>22.7%).

Despite stiff competition and an adverse macro economic environment, HBL is currently generating little higher return on equity in comparison with EBL. In brief, it signifies that the shareholders of HBL are getting some higher return. It can be concluded that HBL has better utilized the equity for the profit generation. It proves to be a good strength of both banks in attracting future investment also. HBL has relatively more inconsistency through out the study period because its C.V is higher.

D) Total Interest Earned to Total Assets Ratio

Total interest earned to total assets ratio evaluates how successful the selected banks are mobilizing their total assets to achieve high amount of interest. Higher the ratio indicates the higher interest income of the selected sample banks. The total interest earned to total assets ratio of EBL and HBL

Table No. 4.14

Total Interest Earned to Total Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
EBL	0.068	0.061	0.057	0.053	0.06	0.059	0.006	0.097
HBL	0.048	0.050	0.053	0.052	0.054	0.052	0.0024	0.046

Source: Annual Report of Concern Banks

Above table, shows both have fluctuating condition of total interest earned during studied period. The average mean ratio of interest earned to total asset ratio of EBL is 5.9 percent and HBL has 5.2 percent respectively. The mean ratio of EBL is more than that of HBL.EBL has decreasing trend of interest earned to total asst ratio beside 2007/08. in reverse HBL has increasing trend of interest earned to total asset ratio beside 2002007/08. In comparison, EBL seems effective in earning interest to some extent

Moreover, EBL also has higher uniformity in the ratios during the study period due to high C.V. It can be concluded that EBL has successfully mobilized their fund in interest generating assets but inconsistently.

E) Total Interest Earned To Total outside Assets Ratio

The main assets of commercial banks are it's out side assets, which includes loan and advances, investment on government securities, investment on shares and debentures and other all types of investment. Thus, this ratio reflects the extent to which the banks are successful to earn interest as major income on all the outside assets. A high ratio indicates high earning on such total assets and vice-versa. The following Table No. 4.15 exhibits

the ratio of total interest earned to total outside assets of EBL and HBL during the study period.

Table No. 4.15

Total Interest Earned To Total outside Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
EBL	0.061	0.062	0.052	0.051	0.058	0.057	0.0049	0.086
HBL	0.056	0.058	0.061	0.060	0.059	0.059	0.0019	0.032

Source: Annual Report of Concern Banks

Above table shows the total interest earned to total outside assets ratio. The total interest earned to total outside assets ratio of both bank EBL and HBL are in fluctuating trend. The highest ratio 6.2 percent is in 2004/05 and lowest ratio 5.1percent 2006/07 of EBL. Similarly, the highest ratio 6.1 percent in 2005/06 and lowest ratio 5.6 percent is in 2003/04 of HBL. The mean ratio of EBL and HBL are 5.70% and 5.90% respectively. Here HBL seems to have more efficiency in generating total interest through well utilizations of outside assets. But it has relatively inconsistent in returns. EBL seems more inconsistency due to high C.V.

F) Total interest Earned to Total Operating Income Ratio

Total interest earned to total operating income ratio reveals that portion of interest income on total operating income of the firms. The major sources of income for the bank are interest income so the banks should mobilize their funds in more interest generating sectors considering the risk and return. This ratio measures how successfully the selected banks have been mobilizing their fund uninterested generating assets during last from FY 2003/04 to 2007/08 are presented to analyze in the following table. The major sources of income for the bank are interest income. So the banks should mobilize their funds in more interest generating sectors considering the risk and return.

Table No. 4.16

Interest Earned to Operating Income Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
EBL	2.08	1.92	1.99	1.91	1.88	1.96	0.079	0.040
HBL	1.22	1.21	1.17	1.27	1.23	1.22	0.039	0.032

Source: Annual Report of Concern Banks

Above table shows Interest Earned to Operating Income Ratio of EBL and HBL. Both banks has fluctuating ratio of study period. EBL has greater share of total interest earn in its total operating income in each year and mean too. The mean ratio of HBL and EBL are 1.96 times and 1.22 times respectively. EBL has higher ratio, it indicates the high contribution in operating income made by lending and investing activities (core banking activity).HBL has lower ratio, it indicates that high contribution in operating income do not made by lending and investing activities (core banking activity).High contribution in operating income made by lending and investing activities (core banking activity) is not good for long run but in short run it is not so bad. Thus, from short term view, EBL is in good condition but from long term view, HBL is in good condition. In overall, HBL has managed sound interest earned to operating income ratio.

The mean, S.D. and C.V of EBL is 1.96, 0.079 and 0.040 times similarly HBL have 1.22, 0.039 and 0.032 times.

G) Total Interest Paid to Total Assets Ratio

Total interest paid to total assets ratio help to show and measure the percentage of interest paid by the firm in comparison with total assets. If interest paid to total assets ratio is higher, there will be higher interest expenditure on total assets. The following table shows that total interest paid to total assets of EBL and HBL.

Table No. 4.17

Interest Paid to Total Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
EBL	0.0329	0.0255	0.0251	0.0241	0.0023	0.026	0.0038	0.147
HBL	0.019	0.020	0.021	0.022	0.023	0.021	0.0017	0.081

Source: Annual Report of Concern Banks

Due to the higher ratio in each year of EBL, it seems less conscious about borrowing cheaper fund. EBL shows the decreasing trend of the interest paid to total asset ratio, its average ratio is 2.60% whereas HBL also shows increasing trend and it has maintained average ratio2.10%. The mean ratio of EBL is more than that of HBL. In comparison, EBL seems ineffective in getting cheaper fund from the mean point of view. However, EBL has been conscious in each year for getting cheaper fund as it has decreased ratio in each year whereas HBL has been less conscious in each year as its ratio is in increasing trend in each year.

The S.D. and C. V. of EBL is greater than the HBL it indicate high risk and insignificant of EBL rather than HBL

4.1.1.4 Activity Risk Ratio

Risk and uncertainty is a part of business loss. All the business activities are influenced by risk, so business organization cannot achieve a good return as per their desires. The profitability of risk makes banks investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So the banks options for high profit have to accept the risk and manage it efficiently. A bank has to have idea of the level of risk of risk that one has to bear while investing its funds. Through following ratios, effort has been made to measure the level of risk inherent in the EBL and HBL.

A) Credit Risk Ratio/Non-Performing Loan to Total Loan Ratio

Credit risk ratio measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk ratio is expressed as the percentage of non- performing loan to total Loan and Advances.

Bank utilizes its collected funds by providing credit to different sections. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. The credit risk ratio shows the proportion of no-performing assets in total Loan and Advances. Higher ratio indicates more risky assets in the volume of Loan and Advances of the bank and vice-versa.

Table 4.18

Credit Risk Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
EBL	1.72	1.63	1.27	0.94	0.691.9	1.25	0.440	0.352
HBL	8.88	7.44	6.60	3.61	2.36	5.78	2.71	0.47

Source: Annual Report of Concern Banks

Above table shows that Non performing loan to total loan and advances of EBL and HBL. Both banks have decreasing trend. Decreasing trend is the good sign of the efficient credit management. From mean point of view, non-performing loan to total loan and advances ratio of EBL and HBL are 1.265 % and 5.78% respectively during the study period. These Ratios indicate that EBL has more efficient operating of credit management than HBL. According to NRB directives NPA should less than 5 percent. Average mean of HBL more than that but current year HBL decreases the NPA. However, in comparison, EBL has efficient operating of credit management than that of HBL. In another words, HBL has lower efficient operating of credit management than that of EBL. EBL has efficiently used the total loan and advances than that of HBL Here EBL is more successful in loan recovery because it has lower non performing loan in total Loan and Advances. C. V. of EBL also lower than HBL.

(B) Liquidity Risk Ratio:

The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

Table: 4.19

Liquidity Risk Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
EBL	0.078	0.104	0.112	0.131	0.111	0.107	0.019	0.177
HBL	0.100	0.081	0.065	0.059	0.046	0.068	0.018	0.265

Source: Annual Report of Concern Banks

Above table shows liquidity risk ratio of the EBL and HBL. Ratio of EBL is in increasing trend beside 2007/08, whereas ratio of HBL is in decreasing trend in 2006/07. The higher ratio of EBL and HBL are 13.1% and 10.0%% respectively in 2006/07 and 2003/04 year whereas lower ratio of EBL and HBL are 7.8% and 4.6% in 2002003/04 and 2007/08 respectively. The average mean ratio of EBL is greater than that of HBL (i.e.10.7%>6.80%). It signifies that EBL has sound liquid fund to make immediate payment to the depositors

(C) Asset Risk Ratio

Bank utilizes its collected funds in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally Asset risk ratio shows proportion of non-performing assets in the total investment plus loan and advances of a bank it is computed as:

Table: 4.20

Asset Risk Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
EBL	1.09	1.09	0.81	0.53	0.47	0.799	0.297	0.372
HBL	0.86	0.87	0.87	0.86	0.92	0.88	0.027	0.031

Source: Annual Report of Concern Banks

The above table shows the Asset risk ratio of EBL and HBL. The analysis shows that EBL has decreasing trend of asset risk ratio and HBL has fluctuating trend of Asset risk ratio. EBL has highest and lowest ratio of 1.09% and same 0.47% in the year 2003/04, 2004/05 and 2007/08 respectively. Similarly HBL has the highest and lowest ratio of 0.92% and 0.86% in the same year 2007/08 and 2003/04 and 2006/07 respectively. The mean ratio of EBL is lower than that of HBL (i.e.0.799 %< 0.88%). The S.D. and C.V. both are higher of EBL i.e 0.299 > 0.27 and 0.372 > 0.031 than the HBL.

4.1.1.6 Other Ratios

A) Earning Per Share

EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. Earning per share calculation made over years indicates whether the bank's earning power on per share basis has changed over that period or not but it doesn't reflect how much is paid as dividend and how much is retained in the business. Following table shows the EPS of related banks during the study period.

Table No. 4.21

Earning Per Share

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
EBL	45.60	54.22	62.77	78.41	91.82	66.56	18.60	0.28
HBL	49.05	47.91	59.24	60.66	62.74	55.92	6.917	0.12

Source: Annual Report of Concern Banks

Above table shows that earning price per share of EBL and HBL. EBL has increasing trend of EPS and HBL has also increasing trend of EPS except in 2004/05. While observing their ratios in overall; EBL is better mobilizing it resources to get more earning per share (EPS) and it seems quite successful by generating higher EPS in each year and in average too. It is quite satisfying to state that EBL has been able to maximizing shareholder wealth from the view point of EPS.

The S.D of EBL is higher than HBL. C.V. of HBL is lower.

B) Dividend per Share

Shareholders want to receive dividend from their investment. They may have interest to know about the firm's activities, earning, and dividend so; each firm must announce the total dividend and dividend per Share which shows the position of the firm.

A firm wants to distribute dividend to its shareholder if a firm suppose the insufficient investment opportunities and sector. Sometimes, it does not distribute dividend and sometime issues bonus shares. On the other hand, shareholders want to receive dividend from their investment. They may have interest to know about the firm’s activities, earning, divisible profit or proposed dividend or declared dividend. So, each firm must announce the total dividend and dividend per share which show the position of the firm.

Table No. 4.22

Dividend per Share

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
EBL	20	-	25	40	50	27	19.23	0.71
HBL	0	11.58	30	15	25	16.32	11.76	0.72

Source: Annual Report of Concern Banks

The above statistics shows the dividend per share of HBL and EBL. EBL seem to be litttle high thn of HBL studied period. Average dividend per share of EBL is higher than

that of HBL (i.e 27 >16.32), the S.D. of HBL is high so it indicate high volatile in dividend and high C.V. indicate more inconsistency in dividends during the study period.

It can be concluded HBL has adopted the policy of paying high amount in the form of cash dividends where as EBL is trying to capitalized its earnings by keeping it in the form of retained earnings.

C) Price Earning Ratio

This ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS. Price earning ratio indicates investor's judgments or expectation about the firm's performance. This ratio widely used by the security analysis to value the firm's performance. This ratio widely used by the security analysis to value the firm's performance as accepted by investors. Price earning ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

Table No. 4.23

Price Earning Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
EBL	14.91	16.06	21.97	30.99	34.11	23.60	8.66	0.37
HBL	17.12	19.20	18.57	28.69	31.56	23.03	6.6	0.29

Source: Annual Report of Concern Banks

Above table shows that price earning ratio earning of EBL and HBL are in increasing trend. From the mean point of view, mean ratio of the EBL and HBL are 23.60 and 23.03 times respectively. It indicates that for getting Rs 1 as earning, one should invest Rs 23.60 of EBL and Rs 23.03 of HBL. EBL has aggressively increasing in price earning ratio. Looking the mean ratio we conclude that in short run, investor of EBL are getting better profitability because they are selling their shares in high price although EPS of EBL is lower in comparison than that of HBL. But from the long term view and

sustainable fair price, investor of HBL will get better profitability and they will be in safe side a little bit in comparison with EBL.

The S.D and C.V of EBL is high than the HBL it indicate its risk to invest in EBL rather than the HBL.

4.2 Statistical Analysis

For the third objective of the study stoical tools is analyzed. Statistical tool is one of the important tools to analyze the data. There are various tools for the analysis of tabulated data such as, mean, standard deviation, regression analysis, co-relation analysis, trend analysis, various types of tests etc. There is convenient statistical tools are used in this thesis study.

4.2.1 Coefficient of Correlation Analysis

Co-efficient of co-relation shows the relationship between two or more than two variables. It measures that the two variables are positively or negatively co-related. For this purpose, Karl Pearson's co-efficient of correlation has been taken and applied to find out and analyze the relationship between deposit and loan and advances, deposit and total investment, total assets and net profit, total investment and net profit and also analyze the correlation of total deposit, total investment, loan and advances and net profit EBL and HBL using Karl Persons coefficient of correlation, value of coefficient of determination (R^2) probable error (P.Er.) and (6 P.Er.) are also calculated and value of them are analyzed.

A) Correlation Coefficient between Deposit and Loan and Advances

Deposit have played vary important role in performance of a commercial banks and similarly loan and advances are very important to mobilize the collected deposits. Co-efficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and loan and advances are dependent variable (Y). The main objectives of computing 'r' between these two variables is to justify whether deposit are significantly used as loan and advances in proper way or not.

Table No. 4.24

Correlation between Deposit and Loan and Advances

Name of Banks	Evaluation Criterions				
	r	R^2	P.Er.	6 P.Er.	Remarks
EBL	0.998	0.996	0.00121	0.00423	Significant
HBL	0.975	0.951	0.00452	0.0271	Significant

Source: Through SPSS Data Editor

From the above table, it is found that coefficient of correlation between deposits and loan and advances of EBL and HBL is 0.998 and 0.975. It is shows that both have the positive relationship between these two variables. It refers that deposit and loan and advances of EBL move together very closely but not proportionately. Moreover, the coefficient of determination of EBL is 0.996. It means 99.60 percent of variation in loan and advances has been explained by deposit. Similarly, value of coefficient of determination of HBL is 0.951. It refers that 95.1 percent variance in loan and advances are affected by total deposit. The correlation coefficient of both banks is significant because the correlation coefficient is greater than the relative value of 6 P.Er. in other words, there is significant relationship between deposits and loan and advances.

B) Coefficient of Correlation between Total Deposits and Total Investment

The coefficient of correlation between deposit and investment measures the degree of relationship between these two variables or deposit is significantly utilized or not. In correlation analysis, deposit is independent variable (X) and total investment is dependent variable (Y).

The following Table No. 4.24 shows the coefficient correlation between deposits and total investments i.e. r, P. Er., 6 P. Er. and coefficient of determination (R^2) of EBL and HBL during the study period.

Table No. 4.25

Correlation between Deposit and Total Investment

Name of Banks	Evaluation Criterions				
	r	R^2	P.Er.	6 P.Er.	Remarks
EBL	0.897	0.8046	0.0592	0.3552	Significant
HBL	0.890	0.792	0.063	0.38	Significant

Source: Through SPSS Data Editor

From the above Table, the researcher found that the coefficient of correlation between total deposit and total investment of EBL is 0.897. It shows the high degree positive correlation. In addition, coefficient of determination of EBL is 0.8046. It means only 80.46 percent of total investment is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is higher than 6 P.Er. It refers that there is significant relationship between total deposit and total investment of EBL.

Similarly, there is high degree correlation positive coefficient between total deposit and total investment of HBL, which is indicator by correlation coefficient of 0.890. The value of coefficient of determination is found 0.792 this refers that 79.2 percent of the variation in total investment is explained by total deposit. The correlation coefficient is insignificant because the correlation coefficient is less than 6 P.Er. It refers that there is no significant relationship between total deposit and total investment of HBL

From the above analysis, the conclusion can be drawn in the case of EBL and HBL that both banks have high degree positive correlation.

C) Co-efficient of Correlation between Loan and advance and Net Profit

Co-efficient of correlation between total assets and net profit is used to measure the degree of relationship between two variable i.e. Loan and advance and net profit of EBL and HBL during the study period. Where Loan and advance is independent variable (X) and net profit is dependent variable (Y). The main objective of calculating this ratio is to determine the degree of relationship whether there the net profit is significantly correlated or not and the variation of net profit to loan and advance through the coefficient of

determination. The following table shows the 'r', R^2, P.Er. and 6 P. Er. between those variables of EBL and HBL for the study period.

Table No. 4.26

Correlation between Loan and advance and Net profit

Name of Banks	Evaluation Criterions				
	r	R^2	P.Er.	6 P.Er.	Remarks
EBL	0.991	0.982	0.0054	0.033	Significant
HBL	0.986	0.972	0.0085	0.051	Significant

Source: Through SPSS Data Editor

Above Table shows correlation coefficient between, Loan and advance and net profit is 0.991 of EBL. It refers that there is positive correlation between these two variables. Here, 98.2 percent of net profit is contribute by Loan and advance as its coefficient of determination of 0.982 shows. Moreover, this relationship is significant because the coefficient of correlation is more than 6 P.Er. Likewise HBL also high degree positive correlation i.e. 0.986 between Loan and advance and net profit. The coefficient of determination R^2 is 0.972 which indicates that 97.2 percent variability in net profit is explained by Loan and advance. Moreover, greater correlation coefficient than 6P.Er. Shows that the relationship between Loan and advance and net profit is significant for HBL. In calculation, EBL has more significant relationship between Loan and advance and net profit than that of HBL.

D) Coefficient of Correlation between Total Investment and Net Profit

Coefficient of correlation between total investment and net profit measures the degree of their relationship. In the, correlation analysis, investment is independent variable and net profit is dependent variable. The following Table shows the coefficient of correlation coefficient of determination, probable error and six times of P.Er. During the fiscal year 2003/04 to 2007/08.

Table No. 4.27

Correlation between Total Investment and Net Profit

Name of Banks	Evaluation Criterions				
	r	R^2	P.Er.	6 P.Er.	Remarks
EBL	0.85	0.7225	0.084	0.504	Significant
HBL	0.823	0.677	0.084	0.097	Significant

Source: Through SPSS Data Editor

Above Table shows, correlation coefficient between total investment and net profit of EBL is 0.85 which implies there is positive correlation between total investment and net profit. In addition, coefficient of determination of EBL is 0.7225. It means only 72.25 percent is contribute by total investment. Obviously, this correlation is significant at all due to coefficient of determination is higher than P. Error. On the other hand HBL has high positive correlation between total investment and net profit i.e. 0.823. The coefficient of determination of HBL is 0.677 It means 67.7 percent of Profit is contribute by total investment but this relationship is significant as its correlation coefficient is higher than 6 P.Er. i.e 0.097. EBL has more significant relationship between total investment and net profit than that of HBL

Thus it can be concluded that the degree of relationship between total investment and net profit of EBL is little high than the HBL. This little correlation coefficient indicates that the bank has poor performed in order to generate net profit.

E) Coefficient of Correlation of Total Deposit between EBL and HBL

Coefficient of correlation of total deposit between EBL and HBL and shows their linear relationship.

Table No. 4.28

Correlation between Total Deposit of EBL and HBL

Evaluation Criterions				
R	R^2	P.Er.	6 P.Er.	Remarks
0.978	0.956	0.01313	0.0788	Significant

Source: Through SPSS Data Editor

This Table shows how the total deposit of both banks EBL and HBL is related. here correlation between total deposit of EBL and HBL is 0.978. Above correlation coefficient shows that there is highly positive correlation between this two banks. But this correlation coefficient is also significant because the correlation coefficient is high than 6 P.Er. As the 0.956 of coefficient of determination, this shows the 95.6 percent of the degree of relationship.

The degree of relationship between these two banks is also high.

F) Coefficient of Correlation of Total Investment between EBL and HBL

The coefficient of correlation of total investment between selected commercial banks is shown as follow:

Table No. 4.29

Correlation between Total Investment of EBL and HBL

Evaluation Criterions				
R	R^2	P.Er.	6 P.Er.	Remarks
0.606	0.367	0.191	1.145	Insignificant

Source: Through SPSS Data Editor

The above table reveals that there is moderate positive correlation between EBL and HBL in case of total investment. It implies that the total investment of EBL and HBL move in the same direction. Here $R^2 < 6$ P.Er. Therefore, correlation coefficient is not significant. This can be said that both EBL and HBL increase its total investment. The coefficient of determination is 0.367, which shows the only 36.7 percent of the degree of relationship.

G) Coefficient of Correlation of Loan and Advances between EBL and HBL

The coefficient of correlation of loan and advances between EBL and HBL has been given below.

Table No. 4.30

Correlation between Loan and Advances of EBL and HBL

Evaluation Criterions				
R	R^2	P.Er.	6 P.Er.	Remarks
0.992	0.984	0.0048	0.0288	Significant

Source: Through SPSS Data Editor

Above Table show that there is high degree positive correlation between the loan and advances of EBL and HBL. The correlation coefficient between two bank is 0.992. It means loan and advances of these two banks moves in the same direction in high proportion. This correlation coefficient is significant in order to show the relationship between loan and advances of these two banks because correlation coefficient is greater than 6 P.Er. The coefficient of determination is 0.984 which shows the 98.4 percent of the degree of relationship.

H) Coefficient of Correlation of Net Profit between EBL and HBL

The coefficient of net profit between the selected commercial banks shows the relationship between the banks.

Table No. 4.31

Correlation between Net Profit of EBL and HBL

Evaluation Criterions				
R	R^2	P.Er.	6 P.Er.	Remarks
0.973	0.947	0.0161	0.096	Significant

Source: Through SPSS Data Editor

Above statistics shows that there is high degree positive correlation between profits of EBL and HBL which is indicated by correlation coefficient of 0.973 This relationship is

significant because its correlation coefficient is greater than 6 P.Er. The coefficient of determination is 0.958 which shows the 95.8 percent of the degree of relationship.

4.2.2 Time Series Analysis (Trend Analysis)

Trend analysis plays an important role in the analysis and interpretation of financial statement. Trend in general terms, signifies a tendency. It helps in forecasting and planning future operation. Trend analysis is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial results of the firms.

A) Trend Analysis of Total Deposit:

Deposits are the important part in banking sector hence its trend for next seven years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of Total deposit of EBL and HBL for further eight year

$Y = a + bx$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$Y = a + b\ x$……. (I)

Where x = X - Middle year

Where as

Yc = 14825.32+3991.335 X of EBL

Yc = 27041.28+2489.93 X of HBL

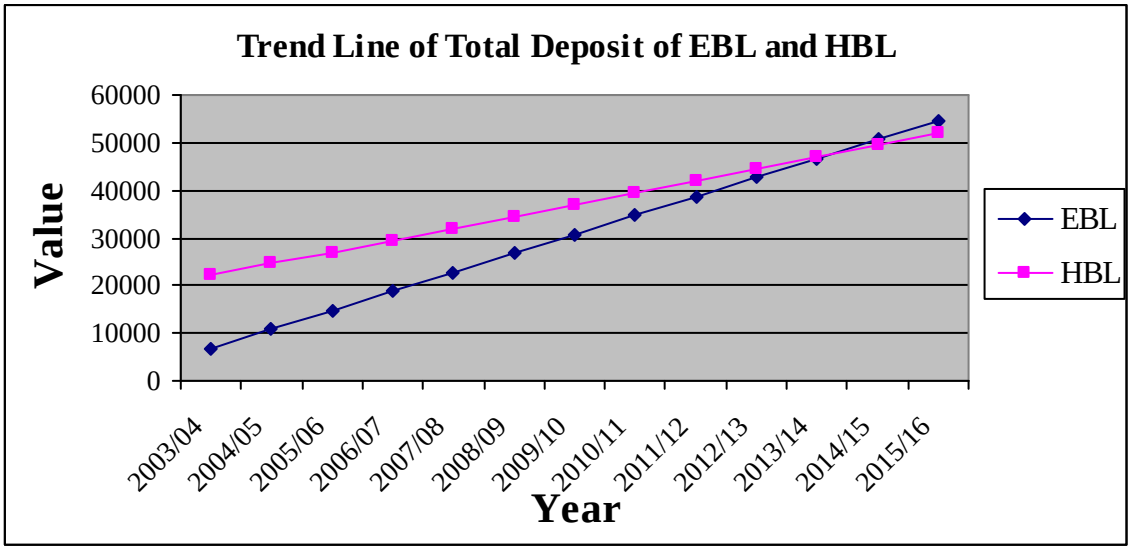
Table No. 4.32

Trend analysis of Total Deposit of EBL and HBL		
Year(x)	EBL	HBL
2003/04	6842.65	22061.42
2004/05	10833.99	24551.35
2005/06	14825.32	27041.28
2006/07	18816.66	29531.21
2007/08	22807.99	32021.14
2008/09	26799.33	34511.07
2009/10	30790.66	37001
2010/11	34782	39490.93
2011/12	38773.33	41980.86
2012/13	42764.67	44470.79
2013/14	46756	46960.72
2014/15	50747.34	49450.65
2015/16	54738.67	51940.58

Source: Annul Report of Concern Bank

Appendix - 1

Figure No 4.3



Above Table and figure shows that total deposit of EBL and HBL. Both Banks is in increasing trend. The rate of increment of total deposit for EBL seems to be higher than that of HBL. The trend analysis has projected deposit amount in fiscal year FY 2008/09 to FY 2015/16. From the above trend analysis it is clear that EBL has higher position in collecting deposit than EBL.

B) Trend Analysis of Loan and advances

Here, the trend values of loan and advances Between EBL and HBL have been calculated for further Eight year. The following Table shows the actual and trend values of EBL and HBL.

$Y= a + bx$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$Y = a + b x$……. (I)

Where x = X - Middle year

Where as

Yc = 11061.46 + 3095.539 X of EBL

Yc=16021.22+1886.25 X of HBL

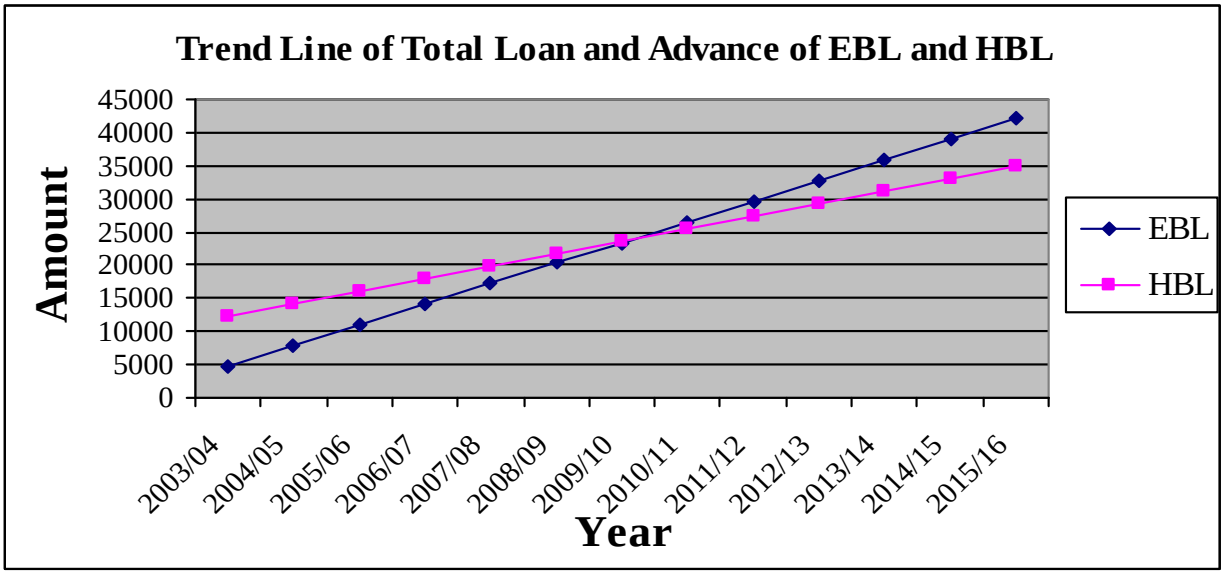
Table No. 4.33

Trend line of Total Loan and Advance of EBL and HBL		
Year(x)	EBL	HBL
2003/04	4870.38	12248.72
2004/05	7965.92	14134.97
2005/06	11061.5	16021.22
2006/07	14157	17907.47
2007/08	17252.5	19793.72
2008/09	20348.1	21679.97
2009/10	23443.6	23566.22
2010/11	26539.2	25452.47
2011/12	29634.7	27338.72
2012/13	32730.2	29224.97
2013/14	35825.8	31111.22
2014/15	38921.3	32997.47
2015/16	42016.9	34883.72

Source: Annul Report of Concern Bank

Appendix - 2

Figure No 4.4



Above Table depicts that loan and advances of EBL and HBL. Both Banks has in increasing trend. The increasing trend of EBL is higher and aggressive than HBL. The actual value of loan and advances for HBL is quite fluctuating in relation to EBL. The trend projected for father eight year FY 2007/08 to FY 2015/16 From the above analysis, it is clear that both EBL and HBL is mobilizing its collected deposits and other funds in the form of loan and advances. Above table and figure shows the EBL has little highly mobilizing loan and advances than the HBL.

C) Trend Analysis of Total Investment

Under this topic, an attempt has been made to analyze trend analysis total investment of EBL and HBL for further eight years

$Y = a + bx$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$Y = a + b\ x$……. (I)

Where x = X - Middle year

Where as

Yc = 3781.802+790.328 X of EBL

Yc = 11407.33+ 822.68 X of HBL

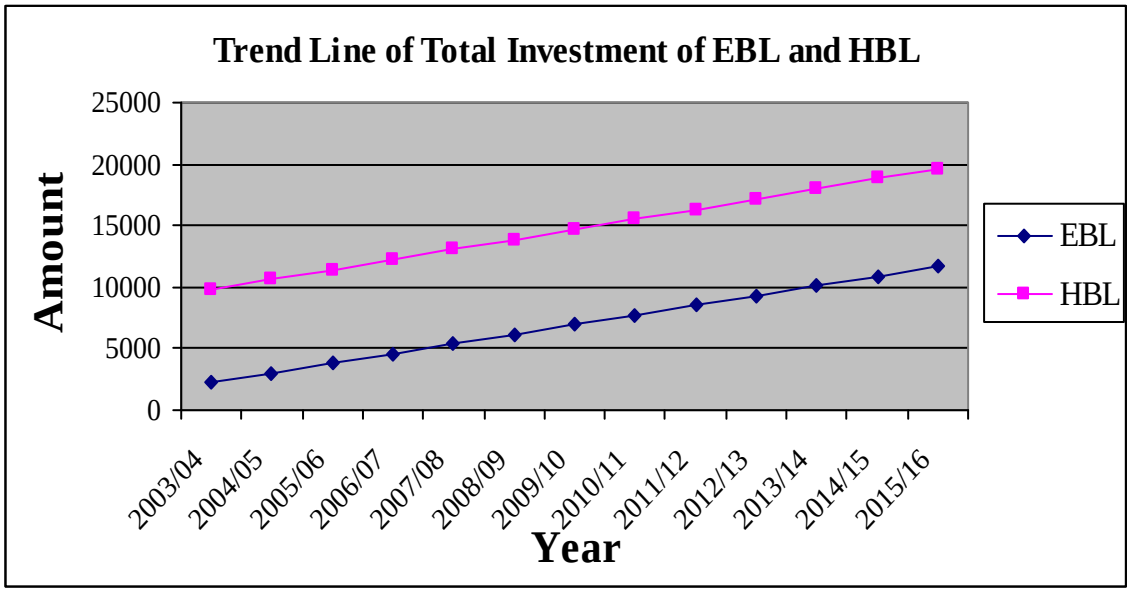
Table No. 4.34

Trend Line of Total Investment Between EBL and HBL		
Year(x)	EBL	HBL
2003/04	2201.15	9761.97
2004/05	2991.47	10584.65
2005/06	3781.8	11407.33
2006/07	4572.13	12230.01
2007/08	5362.46	13052.69
2008/09	6152.79	13875.37
2009/10	6943.11	14698.05
2010/11	7733.44	15520.73
2011/12	8523.77	16343.41
2012/13	9314.1	17166.09
2013/14	10104.4	17988.77
2014/15	10894.8	18811.45
2015/16	11685.1	19634.13

Source: Annul Report of Concern Bank

Appendix - 3

Figure No 4.5



Above Table shows the Trend of Total Investment between EBL and HBL. Both Bank EBL and HBL have increasing trend in making investment. Increase trend of both bank are parallel. HBL has little high trend of increasing but EBL has following same trend of total investment. The trend of total investment projected to FY 2015/16. The forecasted trend projected that the HBL has greater increment rate in total investment than the increment rate of EBL. The figure indicates HBL has highly mobilized the total investment rather than EBL.

D) Trend Analysis of Net Profit

Here, the trend values of net profit of EBL and HBL have been calculated for five years FY 2001/02 to FY 2005/06 and forecasting of the same for next two year till FY 2006/2007 and FY 2007/2008.

$Y= a + bx$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$Y = a + b x$……. (I)

Where x = X - Middle year

Where as

Yc = 259.874+74.069 X of Everest Bank Limited

Yc = 431.296+92.918 X of HBL

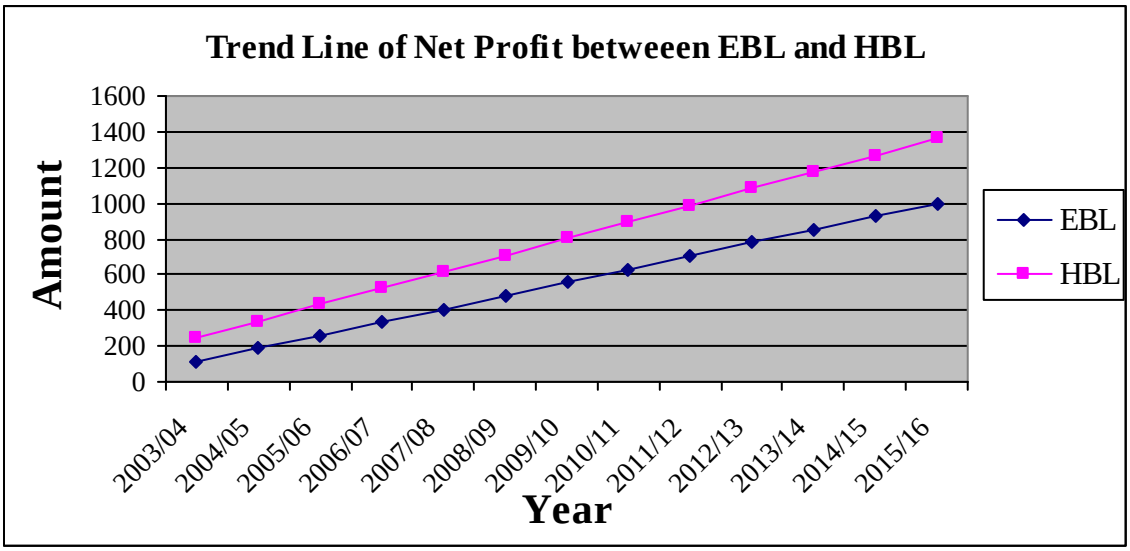
Table No. 4.35

Trend Analysis of Net Profit Between EBL and HBL		
Year(x)	EBL	HBL
2003/04	111.736	245.46
2004/05	185.805	338.378
2005/06	259.874	431.296
2006/07	333.943	524.214
2007/08	408.012	617.132
2008/09	482.081	710.05
2009/10	556.15	802.968
2010/11	630.219	895.886
2011/12	704.288	988.804
2012/13	778.357	1081.722
2013/14	852.426	1174.64
2014/15	926.495	1267.558
2015/16	1000.56	1360.476

Source: Annul Report of Concern Bank

Appendix - 4

Figure No 4.6



The above Table reveals the trend of Net profit of EBL and HBL. Net profit both bank EBL and HBL forecasted in increasing trend. The trend of increasing value of net profit of HBL is higher than EBL. The net profit of EBL and HBL has been increasing every year by Rs.74.069 million and Rs. 92.92 million respectively. The trend of Net profit projected to FY 2015/16 i.e. further Eight year. Above statistics, shows that both the banks have consistent net profit throughout the study period. In conclusion, HBL is doing better in order to generate net profit during the projected study period, though both EBL and HBL have increasing trend.

4.3 Major Findings of the Study

From the above research study, following findings are drawn on the liquidity position of the selected commercial banks.

1. The total deposit of EBL and HBL is increasing trend over the study period. The average total deposit of EBL is 14825.18 and 27.41.28 of HBL. In comparison the HBL seems higher in deposit collection than the NABIL Bank.
2. The liquidity of position of HBL is little higher than EBL. The average amount of cash balance of HBL is Rs 1787.696 million and Rs 1658.838 million of EBL. liquidity of both bank is continuously increasing trend.
3. Generally banks have to maintain more liquid assets but the current ratios of all banks are below the standard of 2.1. The mean current ratio of EBL is 1.14 and HBL is 1.10 the current ratio of EBL is higher than EBL. So, EBL is sound in meeting short-term obligation than HBL.
4. Cash and bank balance to total deposit ratio of EBL has higher HBL than i.e. 10.7% > 6.82% which indicates that the bank has higher liquidity of EBL as compare to HBL. A high ratio of cash and bank balance may be undesirable which indicates inability to invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability. But liquidity position is good.
5. Cash and bank balance to current assets ratio of EBL is little higher than HBL i.e. 9.3%. > 8.03%. The higher mean ratio shows EBL's liquidity position is better than that of HBL

6. Investment on government securities to current assets of HBL is higher than EBL i.e. 24.37% > 18.3%. It shows HBL has invested more fund in government securities. EBL has invested little portion of their funds in purchasing of government securities.
7. The loan and advances to total deposit ratio of HBL is lower than EBL 58.18% < 74.2%. It indicates the better mobilization of deposit by EBL. So, EBL is more efficiently utilizing the outsiders' funds in extending credit for profit generating sectors.
8. The total investment to total deposit of HBL is higher than EBL i.e. 42.34% > 26.3%. It shows the HBL is mobilizing its funds on investment in various securities efficiently. It can be said that HBL is more successful in utilizing its total deposit by investing in marketable securities.
9. The loan and advances to total assets ratio of EBL is greater than HBL i.e. 63.8 > 51.20%. It refers EBL has utilized its total assets more efficiently in the form of loan and advances with more risk because it has greater variability in the ratio.
10. Investment on government securities to total assets ratio of EBL is little lower than HBL i.e. 18.1% > 18.2%. This indicates that HBL has invested little more portions of total assets on government securities. The higher ratio of HBL shows that better fund mobilization.
11. Return on loan and advances ratio of HBL is higher than that of EBL i.e. 2.63%> 2.4%. It refers that HBL seems to be success to earn high profit on loan and advances. But the return is not consistent. Since both banks have small mean returns on its loan and advances. Both banks seem to have poor performance in order to have returns from loan and advances.
12. Return on total assets ratio of EBL is slightly higher than HBL i.e. 1.50% > 1.28%. But it has greater variability in the ratio. EBL seems successful in managing and utilizing the available assets.
13. Return on equity of EBL is little lower than HBL i.e.22.7% < 22.80% which shows that HBL has little more successful to earn high profit through the efficient utilization of its equity capital.

14. Total interest earned to total assets ratio of HBL is relatively little lower than that of EBL i.e. 5.15% < 5.89% and also has lower variability in the ratio. It indicates that EBL has efficiently used its total assets to earn higher interest income in comparison to HBL and it is also stable in terms of interest earning.
15. Total interest earned to total outside assets ratio of HBL is higher than the EBL i.e. 5.86% > 5.57%. HBL seems to have more efficiency in generating total interest through well utilizations of outside assets
16. Total interest earned to total operating income ratio of HBL is lower than EBL i.e. 1.96% > 1.22. It means the greater portion of total operating income is occupied by total interest for EBL. It reveals EBL has successful mobilizing their fund in interest generating assets.
17. Total interest paid to total assets ratio of EBL is higher than HBL i.e. 2.6 % < 2.10%. It shows EBL has high interest expenditure to total assets. It supports EBL to increase to interest paid to operating income**.**
18. The credit risk ratio shows the proportion of no-performing loan in total Loan and Advances. Average credit risk ratio of EBL is lower than HBL i.e.1.25<5.78. EBL has efficiently used the total loan and advances than that of HBL. Higher ratio indicates more risky assets in the volume of Loan and Advances of the bank and vice-versa.
19. The liquidity risk of the bank defines its liquidity need for deposit. The average mean ratio of EBL is greater than that of HBL (i.e. 10.7% > 6.8%). It signifies that EBL has sound liquid fund to make immediate payment to the depositors
20. Asset Risk Ratio shows the proportion of non-performing assets in the total investment plus loan and advances of EBL and HBL. The mean ratio of EBL is lower than that of HBL (i.e.79.9% %< 92%). It indicate HBL has high ratio of asset risk.
21. Average earning per share of EBL is greater than that of HBL i.e. Rs. 66.56 > Rs. 55.92. But EBL has more inconsistency in earning per share as its higher coefficient of variation shows. It shows the higher earning capacity of EBL in comparison to HBL.

22. The dividend per share of EBL seem to be high than of EBL. Average dividend per share of EBL is little higher than that of HBL (i.e 27>16.32).
23. The mean price-earning ratio of EBL is little higher than that of HBL i.e. 23.06 is greater than 23.03. It indicates that for getting Rs 1 as earning, one should invest Rs 23.06 in EBL and Rs 23.03 in HBL. Looking the mean ratio we conclude that in short run, investor of EBL are getting better profitability because they are selling their shares in high price although EPS of EBL is lower in comparison than that of HBL
24. Both EBL and HBL have high positive co-relation between total deposit and loan and advances because EBL and HBL have 0.998 and 0.975 of co-relation coefficient between deposit and loan and advances. These relationships are significant. This can be regarded as good indication in financial performance for the banks. The correlation coefficient of both bank is significant
25. There is positive correlation between total deposit and total investment of EBL and HBL. Where as EBL has little high degree of positive co-relation i.e.0.897 than HBL i.e. 0.890. EBL has high degree positive correlation where as HBL has little low degree positive correlation. This indicates that EBL is successful to mobilize its deposit in order to make good investment in comparison to HBL.
26. There is positive correlation between Loan and advance and net profit. Correlation between Loan and advance and net profit of EBL is 0.991 and HBL is 0.986. The relationship between Loan and advance and net profit of both banks has significant. In calculation, EBL has more significant relationship between Loan and advance and net profit than that of HBL
27. The degree of relationship between total investment and net profit of EBL is little high than HBL i.e. correlation coefficient between total investment and net profit of EBL and HBL is 0.85 and 0.823 respectively. Correlation coefficient of total deposit between EBL and HBL shows high positive correlation i.e. 0.978. The correlation coefficient shows that It refers that total deposit of both banks move in the same direction in this regard. Correlation coefficient is also significant.

28. The correlation of total investment between EBL and HBL is positive correlation i.e. 0.606. It implies that the total investment of both banks move in the same direction but less proportionately. correlation coefficient of bank is insignificant
29. The degree of relationship of loan and advances between the EBL and HBL is high because correlation coefficient between loan and advances of these two banks is 0.992. It means loan and advances of these two banks moves in the same direction in high. correlation coefficient is also significant
30. The correlation of net profit between EBL and HBL is positive. EBL and HBL are high because correlation coefficient between net profit of these two banks is 0.973. The relationship between two banks is significant because its correlation coefficient is greater than 6 P.Er. The net profit of these two banks also moves very closely in the same direction.
31. EBL and HBL have increasing trend in collecting deposit the rate of increment of total deposit for EBL seems to be higher than that of HBL. Here HBL has moderately increasing trend but EBL has aggressively increasing trends
32. The trend line of loan and advances for both banks is upward slopping. It refers that both the banks are increasing in disbursement of loan and advances. The trend line of loan and advances for EBL seems high growing than HBL. It refers that EBL is more aggressive in mobilizing its fun as loan and advances.
33. The total investment trend line of EBL and HBL is upward slopping, where as HBL has highly upward slopping of total investment trend line where EBL also following parallelelly. It refers that HBL has better increasing trend of total investment than EBL.
34. The trend line of Net profit for EBL and HBL is upward slopping. The position of HBL is better in order to generate profit than EBL. Where EBL also following parallelelly.
35. Both the banks have well their ratio. Trend of Both bank has increasing trend. In comparison to both bank trend of deposit and loan and advance of EBL high and trend of investment and profit of HBL is high. So both banks are equal in their liquidity management.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

In this chapter, summary conclusion and recommendation are included. All the summary and conclusion are made according to obtained data from analysis. Recommendation has made which would be beneficial for all concerned person, management of the bank and other stakeholder.

This research is concerned about the comparative study on liquidity management of Everest bank limited and Himalayan bank limited. The term liquidity refers to the funds like deposit, borrowing, debt and equity whatever bank has retain for investment or use. Which all activity perform for gain better profit and income. In conclusion, Liquidity is the ability of bank to meet its obligations on time, especially in relation to repayment of inter-bank borrowings and customer deposits. Liquidity management is a very crucial job of commercial bank and the bank should maintain adequate amount of cash in its vault and NRB for its daily operation and administrative purpose. As per the arrangement of NRB effective from fiscal year 2004/05, the commercial banks are required to maintain cash reserve of 5% with NRB of its total deposit liability with NRB. The previous provision of cash in vault maintenance has been withdrawn now.

The researcher has identified that research problem and set objectives to solve research problems about capital structure of selected commercial banks as described in introduction chapter. To make this study more effective, related literatures have been reviewed. The review of literature provides the foundation of knowledge in order to under take this research more precisely. This section also includes concept of banking, commercial banks, joint venture banks, deposit, asset and investment policy.

Research methodology has been described in third chapter, which is a way to solve the research problems with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data in order to come to the

decisions. This chapter includes the research design, population and sample data collection procedure, data period covered and methods of analysis. This study is mainly conducted on the basis of secondary data collected from annual reports, official report, economic journal, financial statement etc. and authorize web site of concern bank and Nepal stock exchange. The five years financial statement has been examined for the purpose of the study.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. In case of financial tools ratio analysis is done which consists liquidity ratio, assets management ratio, profitability ratio, risk ratio and other ratios. Other ratio includes EPS, DPS and P.E. ratio. Various statistical tools such as arithmetic mean, standard deviation, coefficient of correlation, trend analysis have been applied to fulfill the objective of this study. The major findings of the study are also included in the final section of the presentation and analysis chapter.

In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. These all ratio shows that the bank is not maintain the good liquidity position of the bank

5.2 Conclusions

Thus this research is conducted with the major objective of highlighting liquidity management of two commercial banks. The observation and conclusion is derived by analyzing liquidity, asset management position, profitability, risk and other ratio as we as relevant financial and statistical ratios of commercial banks other. This has helped to reach conclusion and provide workable solution for the liquidity management and profitability of selected banks.

The overall aspect of liquidity position of EBL is comparatively better than HBL. The mean current ratio of EBL is 1.14 and HBL is 1.10 the current ratio of EBL is higher than EBL. So, EBL is sound in meeting short-term obligation than HBL. Cash and bank balance to total deposit ratio of EBL has higher HBL than i.e. 10.7% > 6.82% which indicates that the bank has higher liquidity of EBL as compare to HBL. A high ratio of cash and bank balance may be undesirable which indicates inability to invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability. But liquidity position is good. Cash and bank balance to current assets ratio of EBL is little higher than HBL i.e. 9.3%. > 8.03%. The higher mean ratio shows EBL's liquidity position is better than that of HBL. Investment on government securities to current assets of HBL is higher than EBL i.e. 24.37% > 18.3%. It shows HBL has invested more fund in government securities. EBL has invested little portion of their funds in purchasing of government securities.

Assets management aspect of EBL is better than HBL which is justified by little higher loan and advances to total deposit ratio i.e. 74.2% >58.8. It indicates the better mobilization of deposit by EBL. So, EBL is more efficiently utilizing the outsiders' funds in extending credit for profit generating sectors. The total investment to total deposit of HBL is higher than EBL i.e. 42.34% > 26.3%. It shows the HBL is mobilizing its funds on investment in various securities efficiently. It can be said that HBL is more successful in utilizing its total deposit by investing in marketable securities. The loan and advances to total assets ratio of EBL is greater than HBL i.e. 63.8 > 51.20%. It refers EBL has utilized its total assets more efficiently in the form of loan and advances with more risk because it has greater variability in the ratio. Similarly, Investment on government securities to total assets ratio of EBL is little lower than HBL i.e. 18.1% > 18.2%. This indicates that HBL has invested little more portions of total assets on government securities. The higher ratio of HBL shows that better fund mobilization.

In case of profitability ratios return on loan and advances ratio of HBL is higher than that of EBL i.e. 2.63%> 2.4%. It refers that HBL seems to be success to earn high profit on loan and advances. But the return is not consistent. Since both banks have small mean

returns on its loan and advances. Both banks seem to have poor performance in order to have returns from loan and advances. Return on total assets ratio of EBL is slightly higher than HBL i.e. 1.50% > 1.28%. But it has greater variability in the ratio. EBL seems successful in managing and utilizing the available assets. Return on equity of EBL is little lower than HBL. Interest earned to total assets ratio of HBL is relatively little lower than that of EBL i.e. 5.15% < 5.89% and also has lower variability in the ratio. Total interest earned to total outside assets ratio of HBL is higher than the EBL i.e. 5.86% > 5.57%. HBL seems to have more efficiency in generating total interest through well utilizations of outside assets. Total interest earned to total operating income ratio of HBL is lower than EBL. Total interest paid to total assets ratio of EBL is higher than HBL. It shows EBL has high interest expenditure to total assets. It supports EBL to increase to interest paid to operating income.

For risk position of bank, the average credit risk ratio of EBL is lower than HBL i.e.1.25<5.78. EBL has efficiently used the total loan and advances than that of HBL. The liquidity risk of the bank defines its liquidity need for deposit. The average mean ratio of EBL is greater than that of HBL. It signifies that EBL has sound liquid fund to make immediate payment to the depositors. Similarly, in asset Risk Ratio, The mean of EBL is lower than that of HBL It indicate HBL has high ratio of asset risk.

Average Earning per share, dividend per share and average market price per share and price earning ratio for HBL higher in comparison to EBL .It gives good signal of financial performance of the bank in the market. Price- earning of EBL is higher than HBL. This considered as better in security analyzing in order to make investment decision.

Both commercial banks EBL and HBL have positive correlation between deposit and loan and advances, deposit and total investment, total assets and net profit. EBL and HBL have high positive co-relation between total deposit and loan and advances. These relationships are significant. EBL and HBL has positive correlation between total deposit and total investment. There is positive correlation between Loan and advance and net

profit. Correlation between Loan and advance and net profit of EBL is 0.991 and HBL is 0.986. The relationship between Loan and advance and net profit is significant. The relationship between total investment and net profit of EBL is little high than HBL. Similarly, Correlation coefficient of total deposit between EBL and HBL is highly positive i.e. 0.978. Correlation coefficient is also significant. Correlation of total investment between EBL and HBL is also positive. The degree of relationship of loan and advances between the EBL and HBL is high i.e. 0.992. The correlation of net profit between EBL and HBL is positive. EBL and HBL are high because correlation coefficient between net profit of these two banks is 0.973. The net profit of these two banks also moves very closely in the same direction.

The total deposit, total investment, loan and advances and net profit of EBL and HBL are in increasing trend. Its show positive trend of both banks. EBL and HBL have increasing trend in collecting deposit the rate of increment of total deposit for EBL seems to be higher than that of HBL. The trend line of loan and advances for both banks is upward slopping. The trend line of loan and advances for EBL seems high growing than HBL. The total investment trend line of HBL has highly upward slopping of total investment trend line where EBL also following parallelelly. Similarly, the trend line of Net profit for EBL and HBL is upward slopping. The position of HBL is higher than EBL. Trend of Both bank has increasing trend. In comparison to both bank trend of deposit and loan and advance of EBL high and trend of investment and profit of HBL is high. So both banks are equal in their liquidity management.

5.3 Recommendations

Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make the liquidity management of EBL and HBL effective and efficient. This would help to draw some outline and make reforms in the respective banks

- Generally, banks have to maintain appropriate liquid assets. The current ratio of the two banks, EBL and HBL is considerable. This can be regarded as good

liquidity position. The liquidity position affects external and internal factors such as prevalent investment situations, central bank requirements and so on. Considering the growth position of financial market, the lending policy management capabilities, strategic planning and fund flow situation, bank should maintain enough liquid assets to pay short-term obligations. So, it is recommended to maintain sound liquidity position to EBL and HBL.

- EBL and HBL should minimize their existing level of excess liquidity by investing in more profitable sectors. Idle assets of theirs in form of excess cash or equivalents should be diverted in various investment opportunities available in the market. Those less risky investment sectors should be identified.
- Government securities such as Treasury bills, Development bonds, saving certificates etc. are risk less investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market. In this research study, it has found that both banks, EBL and HBL have made some amount of fund in Government securities. But EBL and HBL are recommended to invest more funds in Government securities instead of keeping them idle.
- To get success in competitive banking environment, deposit must be utilized as loan and advances. The largest item of bank assets side is loan and advances. It has been found that loan and advances to total deposit ratio of EBL is lower than that of HBL. It means EBL has not properly used their existing fund as loan and advances. So EBL is recommended to follow liberal lending policy and to invest more deposit in loan and advances.
- All the banks should have to make effort in order to minimize their non-performing credits. HBL especially, must be more conscious on this part. Making credit policy more transparent, standard and less risky should increase the quality of the credit.
- EBL and HBL have a possible risk because there is large amount of doubtful loan and advances and risky investment. So it is recommended to evaluate the investment opportunities and alternatives using statistical, capital budgeting and other financial tools to avoid large amount of doubtful debt and risk.

- EBL and HBL need to bring in newer schemes to mobilize their higher amount of deposits in extending credit.
- EPS and DPS play a vital role to determine the market price of the share and also indicate the financial performance of banks. Higher EPS and DPS indicate the banks
- Both the banks are recommended to formulate and implement the sound and effective investment policy to increase volume of total investment and loan and advances that helps to meet required level of profitability as well as social responsibility. The banks should consider rural areas in making investment policy.
- Last political instability directly affected the economic sector such as hotel and tourism, manufacturing and trading sector. Bank loan and advances is decreasing in this sector. So banks should give priority to these sectors as well as banks should create new investing sector to mobilize deposit.
- Keeping all these in consideration, the EBL has little less performance than that of HBL. Therefore, in the future ahead, the EBL should improve its weaknesses by adopting the innovative approach to marketing. In the light of growing competition in the banking sector, both bank EBL and HBL should be customer oriented. It should strengthen and activate its marketing function as it is an effective tool to attract and retain the customers.
- For the purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. The bank is also required to explore new market areas. For this purpose, it is recommended to form a strong market department in its central level, which deals with the banking products, places, price and promotion.

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Appendix - 1

Calculation of Everest Bank Ltd.

Year(x)	Total deposit(Y)	X x-2005/06	X^2	XY
2003/04	8063.9	-2	4	-16127.8
2004/05	10098	-1	1	-10097.7
2005/06	13802	0	0	0
2006/07	18186	1	1	18186.25
2007/08	23976	2	4	47952.6
Tot n= 5	∑Y= 74126.59	∑X = 0	∑ X^2 =10	∑Xy=39913.35

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

a = 14825.32

b = 3991.335

Where as

Yc = 14825.32 + 3991.335 X of EBL

Calculation of Himalayan Bank Limited

Year(x)	Total deposit	X=x-2005/06	X2	XY
2003/04	22010.3	-2	4	-44020.7
2004/05	24814	-1	1	-24814
2005/06	26490.9	0	0	0
2006/07	30048.4	1	1	30048.42
2007/08	31842.8	2	4	63685.58
Tot n= 5	135206.4	0	10	24899.32

Where,

Y= dependent variable,

a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$Y = a + b x$……. (I)

Where x = X - Middle year

Here, HBL

a = 27041.28

b = 2489.93

Yc = 27041.28 + 2489.93 X of HBL

Appendix - 2

Calculation of Everest Bank Ltd.

Year(x)	Loan and advances (Y)	X=x-2005/6	X^2	XY
2003/04	5884.1	-2	4	-11768.2
2004/05	7618.7	-1	1	-7618.67
2005/06	9801.3	0	0	0
2006/07	13664	1	1	13664.08
2007/08	18339.1	2	4	36678.22
Tot n= 5	∑Y= 55307.28	∑X=0	∑ X^2 =10	∑XY=30955.39

Let trend line be

Y = a + b x……. (I)

Y= dependent variable,

a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Where x = X - Middle year

Here,

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

a = 11061.46

b = 3095.539

Yc= 11061.46 + 3095.539 X of EBL

Calculation of Himalayan Bank Limited

Year(x)	Loan and advances	X=x-2005/06	x2	XY
2003/04	12919.6	-2	4	-25839.3
2004/05	13451.2	-1	1	-13451.2
2005/06	15762	0	0	0
2006/07	17793.7	1	1	17793.72
2007/08	20179.6	2	4	40359.22
Tot n= 5	80106.11	0	10	18862.51

Y= a + bx

Where,

Y= dependent variable

a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

Here,

HBL

a = 8136.064

b = 1886.25

Yc = 8136.064 + 1886.25 X of EBL

Appendix -3

Calculation of Everest Bank Ltd.

Year(x)	Total investment (Y)	X=x-2005/6	X^2	XY
2003/04	2535.7	-2	4	-5071.3
2004/05	2128.9	-1	1	-2128.93
2005/06	4200.5	0	0	0
2006/07	4984.3	1	1	4984.31
2007/08	5059.6	2	4	10119.2
Tot n= 5	∑Y=18909.01	∑x=0	∑ X^2 =10	∑xy =7903.28

Let trend line be

Y = a + b x……. (I)

Y= dependent variable,

a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Where x = X - Middle year

Here,

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

EBL

a = 3781.802

b = 790.328

Yc = 37281.802 + 790.328 X of EBL

Calculation of Himalayan Bank Limited

Year(x)	Total investment	X=x-2005/06	X^2	XY
2003/04	9292.1	-2	4	-18584.2
2004/05	11692.3	-1	1	-11692.3
2005/06	10889	0	0	0
2006/07	11823	1	1	11822.99
2007/08	13340.2	2	4	26680.36
	57036.64	0	10	8226.81

Y= a + bx

Where,

Y= dependent variable

a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……. (I)

Where x = X - Middle year

Here,

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

a = 11407.33

b = 822.68

Yc = 11407.33+ 822.68 X of Himalayan Bank Limited

Appendix - 4

Calculation of Everest Bank Ltd.

Year(x)	Net profit	X=x-2005/06	X^2	XY
2003/04	143.66	-2	4	-287.32
2004/05	170.8	-1	1	-170.8
2005/06	237.3	0	0	0
2006/07	296.41	1	1	296.41
2007/08	451.2	2	4	902.4
Tot n= 5	∑Y=1299.37	∑X=0	∑ X^2 10	∑x =740.69

Let trend line be

Y = a + b x……. (I)

Y= dependent variable,

a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Where x = X - Middle year

Here,

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

EBL

a = 259.874

b = 74.069

Yc= 259.874 + 74.069 X EBL

Calculation of Himalayan Bank Limited

Year(x)	Net profit	X=x-2005/06	X^2	XY
2003/04	263.052	-2	4	-526.104
2004/05	308.277	-1	1	-308.277
2005/06	457.458	0	0	0
2006/07	491.824	1	1	491.824
2007/08	635.87	2	4	1271.74
Tot n= 5	2156.481	0	10	929.183

Y= a + bx

Where,

Y= dependent variable

a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……. (I)

Where x = X - Middle year

Here,

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

HBL

a = 431.296

b = 92.92

Yc = 431.296+92.92 X of Himalayan Bank Limited