CHAPTER – I

INTRODUCTION

1.1 Background of the Study

The network of a well-organized financial system of the country has great bearing in capital formation. It collects the funds scattered in the economy and mobilizes them to the productive sector like agriculture, industry, trade and commerce etc. Financial institutions have catalytic role in the process of economic development. Thus, commercial banks have become the heart of financial system. A key factor in the development in the country is the mobilization of domestic resources and their investment for productive use to the various sectors. To make it more effective, CBs formulate sound investment policies, which help maximize quality of investment and eventually contribute to the economic growth of a country.

Commercial banks occupy an important place in the framework of every economy because they provide capital for the development of industry, trade, business and other resources deficit sectors by investing the saving collected as deposits. "Commercial bank is a corporation which accepts demand deposits subject to check and makes short term loans to business enterprises, regardless of the scope of its other service." (*Ronald; 2000; 48*).

Various utility functions performed by banks for the economy are of the great economic significance for the economy, which can influence the course and direction of economic activity within the economy. Banking system is necessary to offer institutional services of promotion, underwriting finance and investment. They pool together the saving of the community and arrange for their productive use by providing short as well as long term loans in different forms necessary for the trade and commerce. They discharge various functions on behalf of their customers and in turn they are paid for their services."(*Nepal Commercial Bank Act; 1974; 3*).

Commercial bank is a heart of financial system they hold the deposits of many person, Government establishment, business unit, they make fund available through their lending and investing activities to borrower, individuals , business firms and service

from the producers to customers and the financial activities of the government. They provide a large portion is affected. These fact shows that the commercial banking system of nation is import to the functioning of the economy.

Commercial Banks are an integral part of the economy in all countries. In addition to the commercial Banking realm, there are several financial institutions affecting the financial operations in a country. The role of the commercial Banks in financial system is more significant, it plays increasingly dynamic, and vital role in the economy of the least developed countries like our country Nepal, which provides economic and financial intermediation in the economy.

Generally, Deposit and Investment policy of a Bank denotes that a bank collects and accepts deposits of amount from the public and organization in different accounts and invests its amount in various sectors. Every bank has to adopt deposit and investment policy to make safe due to various types of risk. Deposit and Investment policy show the different tools, techniques, ideas and paths to a bank for smooth and healthy operation competing market competitors to survive.

"Investment brings forth vision of profit, risk, speculation and wealth. For the uninformed, investing may result in disaster. In general sense; investment means to pay out money to get more. But in the broadest sense, investment means the sacrifice of current money for future money. Two different attributes are generally involved time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain." (*Sharpe, Alexander and Baily; 2003; 75*)

Investment operation is very risk one. A healthy development of any banks depends heavily upon its investment policy. Commercial banks must mobilize its deposit and other fund to profitable, secured, stable and marketable sectors that it can earn a higher profit as well as it should be secured and can be converted into cash whenever needed. Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring that maximum return with minimum risk, which ultimately leads to the bank to the path of success. Thus investment is to most important function of commercial banks. It is very challenging task for commercial banks, so a bank has to be very caution while investing funds in

various sectors i.e. investment portfolio. The success of a bank heavily depends upon the proper management of deposit collection and invests them in investable funds.

The origin of bank in Nepal is not so long. Within the shortest span of time, there has been tremendous growth of bank in Nepal. In the process of development and economic linearization policy of the government in the country, financial institution and commercial joint ventures banks have been established. Taking an overview of financial institutions providing banking facility in Nepal, there are 31 commercial banks.

1.2 Profile of Sample Banks

1.2.1 Everest Bank Ltd.

Everest Bank Limited (EBL) started its operations in 1994 and started its operation with a view and objective of extending professionalized and efficient banking services to various segments of the society. EBL joined hands with Punjab National Bank (PNB) (holding 20% equity in the bank) is the largest nationalized bank in India. With its presence virtually in all the important centers at India, Punjab National Bank offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. Among the clients of the Bank are Indian conglomerates, medium and small industrial units, exporters, non-resident Indians and multinational companies. The large presence and vast resource base have helped the Bank to build strong links with trade and industry. The bank is providing customer-friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries, which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and U K.

Bank has set up its representative offices at New Delhi (India) to support Nepalese

citizen remitting money and advising banking related services. The bank has been conferred with "Bank of the Year 2006, Nepal" by the banker, a publication of financial times, London. And 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, EBL 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. It 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. EBL has introduced branchless banking system first time in Nepal to cover unbanked sector of Nepalese society. EBL is first bank that has launched e-ticketing system in Nepal. EBL customer can buy yeti airlines ticket through Internet.

1.2.2 Himalayan Bank Limited (HBL)

With the objective of to become the Bank of first choice Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. It is the first commercial bank of Nepal with maximum shareholding by the Nepalese private sector. 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 its lead by introducing similar products and services. Therefore, the banks stand for the innovations that it

brings about in this country to help its 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 its credit standing with foreign correspondent banks, the bank believe that it obviously lead the banking sector of Nepal. The most recent rating of HBL by Bankers' Almanac as country's number 1 Bank easily confirms its claim.

At present HBL have altogether thirty three branches in Nepal. 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 its 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.

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.

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 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.

1.3 Statement of the Problems

The numbers of joint venture Banks are being increased in response to the economic liberalization polices of the government. Besides joint venture, the Nepalese promoters are also registering other commercial Banks. These institutions have the tendency to centralize in major cities focusing the activities among the industrialists, traders and entrepreneurs. Most of the business organizations along with Banks are facing different problems due to the lack of political stability and unrest. Bank has being facing the considerable pressure to lower the lending rates, which affects the profitability adversely. The problems of the study refer the comparative study of the Everest Bank Ltd. and Himalayan Bank Nepal Ltd.

Since the liberalization policy of the government, various banks and financial institutions has been established with a view to reinforce the economic growth of the country. They have played an indispensable role by accepting deposits under various schemes and granting loans. Investment of the collected funds is the most important factor for both shareholders and the banks as they are the main sources of earning. Credit extended by these banks is directly related to the national interest. Therefore, the banks should have a sound deposit and investment policy.

Similarly, finance companies have been emerging rapidly and the bank has to compete with them as well. Finance companies pay relatively higher interests on deposits and commercial banks on the other hand grants loan at relatively lower interests than the finance companies. So, it has become difficult to both to survive in this competitive age.

Commercial banks do not seem to be capable to invest their fund in more profitable sector; they mainly rely upon the instructions and guidelines of Nepal Rasta Bank.

They do not have clear view towards investment policy. Further more, the implementation of policy is not in an effective way. Commercial banks invest their funds in limited area to achieve higher amount of profit. This is regarded as a very risky step, which may lead to lose in profit as well as principal. Commercial banks are more emphasized to be making loan on short term basis against movable merchandise. There is hesitation to invest on long term project because they are much more safety minded. So, they follow conservative loan policy, which is based on strong and sufficient security. The interest rate structure in commercial bank is unorganized and unfavourable resulted in higher spread rate, which discourage investment. They have no consideration towards portfolio optimization. Thus credit extended by the commercial bank is directly related to the national interest of the economy. So, the deposit and investment policy of commercial bank should be very sound and far-sighted.

Nepalese commercial banks have not formulated their investment policy in an organized manner. They mainly rely upon the instructions and guidelines of Nepal Rasta Bank. They do not have clear view towards investment policy. Furthermore, the implementation of policy is not practiced in an effective way.

Under such circumstances, the present study will try to analyze the investment and deposit policies of commercial banks. Thus, the current study mainly focuses on the following issues:

- Are they maintaining sufficient liquidity position?
- Are both of the banks mobilizing fund and investment efficiently and effectively?
- What is the relationship between investment and loan and advances with total deposits and total net profit?
- Does the degree of success in investment strategy successful to utilize its available fund of Everest Bank Ltd and Himalayan Bank Ltd?
- What is the comparative position of commercial banks on fund mobilization and investment practice?

1.4 Objectives of the Study

The basic objective of this study is to evaluate the situation investment and deposit pattern of the joint venture banks with reference to Everest Bank Limited and Himalayan Bank Limited.

The specific objectives of this study are as follows:

- To evaluate the liquidity, assets management efficiency, profitability and risk position of EBL and HBL.
- To assess fund mobilization and investment practice of EBL and HBL.
- To analyze the relationship between deposits and total investment, deposit and loan and advances and net profit and compare them between the two banks.
- To analyze the trends of deposit utilization towards total investment and loan and advances and its projection for next five year.

1.5 Significance of the Study

The proper mobilization and utilization of domestic resources become indispensable for any developing country aspiring for a sustainable economic development and there is no doubt that commercial banks have a pivotal role in the collection of dispersed small savings of the Nepalese people and transforming them into meaningful capital investment. The success and prosperity of banks relies heavily upon the successful investment of collected resource to the important sectors of economy. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of commercial banks. Good investment policy has a positive impact on economic development of the country and vice versa. So, the investment policy of commercial banks should be in accordance with the spirit of the economic upliftment of the people.

Research itself has its own important because it aims to gain knowledge and to add the new literature in existing field. The commercial bank is vital and powerful in situation serving as the backbone of the economy. It is very important to know how they are functioning in the development of trade, commerce, industry and poverty alleviation programs of the country. Especially, this study is concern deposit

collection and investment pattern of such commercial banks. Thus, this study is owing a deep interest on the various aspect of the poverty focused investment policy programs to know how well the bank is utilizing its fund in the nation and their impact on Nepalese economy that will benefit the planners, policy makers, bankers, international donor agencies, economists who have been endeavoring day and night for the alleviation of poverty in Nepal.

Likewise, the research can be important for the investors, customers, (depositors, loan takers) and other public to know the performance of the bank as well as for the personal of the other bank to take various decisions regarding investment strategy and as well the firms and others those having interest on financial management.

1.6 Limitations of the Study

Every study has its own limitation. There are some limitations, which weaken the generalization e.g. inadequate coverage of industries, period taken, reliability of statistical tools used and their variations. The study is limited to the randomly selected joint venture banks and is confined only to the investment and deposit pattern of these banks.

The following are the major limitations of the present studies:

- The whole study is based on the secondary data collected from the banks.
- The study is conducted among two joint venture banks i.e. EBL and HBL.
- The study covers the analysis of only five years period from 2006/07 to 2010/11 and analysis is concerned in some managerial financial and accounting aspects and it does not cover the whole areas of the subjected banks.

- Some of statistical as well as financial tools of comparison and analysis should be used in the study. Hence, the drawbacks and weakness of those tools may have an adverse effect on the outcome of the study.

1.7 Organization of the Study

The present study is organized in such way that the stated objectives can easily be fulfilled. The study report is designed in five chapters which are as follows:

Chapter I: Introduction

This chapter comprises general background, brief profile of the banks, statement of the problem, objectives of the study, significance of the study, limitation of the study.

Chapter II: Review of Literature

This part deals with the review of various literatures, definition and concept of deposit collection and investment pattern. This also consists of the review of the related studies, journal, articles, review of books and previous unpublished master's degree thesis.

Chapter III: Research Methodology

This part consists of the research design, total population and sample of the study, nature and sources of data, data collection and procedures and the analytical tools and techniques used in the study.

Chapter IV: Presentation and Analysis of Data

This part constitutes the tabular and graphical representation of the collected data, their interpretation and analysis of using various financial as well as statistical tools. Apart from it, summary of the major findings are also presented at the end of the chapter.

Chapter V: Summary, Conclusion and Recommendation

This chapter describes summary, conclusion and recommendations, on the basis of the result from data analysis, the researcher concluded abut the performance of the concerned organization for better improvement.

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

CHAPTER-II
REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant Propositions in past studies, their conclusions and deficiency may be known and further search can be conducted. It is an integral and mandatory process in research works. The researcher has reviewed various books, journals, Newspapers international and national publications as well as unpublished reports available from different libraries and institutions. All those studies are categorized in two parts:

2.1 Conceptual Review

2.1.1 Joint Venture Banks

Joint venture bank is also commercial bank. "A JVB is the joining of forces between two or more than two enterprises for the purpose of carrying out a specific operation (industrial or commercial investment, production or trade)." (*D.P Gupta; 1995; 114*)

The entry of the foreign banks was restricted by Nepalese authorities for many years even after the development of the financial sector in Nepal to protect the interest of domestic banks. This restriction was lofted in 1984 feeling the need of modernizing the banking sector of the country. The basic reason behind this is the government's deliberate policy of allowing foreign JBS to operate in Nepal. Government's liberalization policy also encourage the traditionally run domestic commercial banks to enhance their efficiency and competitiveness through modernization, mechanization, via computerization and prompt customers services by setting them to the exposure of the JVBs.

When the Government decided to establish banks with the joint venture, two benefits were expected, first, that competition would forces domestic and second, that introduction of new banking procedures, methods and technology would occur.

The existence of foreign joint venture banks has presented an environment of healthy competition among the existing commercials banks. The main beneficiary of this is

the bank clients. The increased competition forces the existing banks to improve their quality and extend services by simplifying procedure and by training, motivating their own staff to respond to the new challenges.

The JVBs are in a better position than local commercial banks in profit making. On an average no foreign banks have suffered loss till now but local banks have owned negative profits.

All these joint venture banks are being essential element for economic development of our nation, as these banks are supporting the development of our economy, the country should encourage such foreign investment to ensure financial soundness, stability and fair competition in banking sector.

2.1.2 Role of Joint Venture Banks

In the present economic scenario, the need and role of the joint venture banks need not be overemphasized. JVBs definitely help to boost the economy through various productive undertakings. Absences of joint venture banks results in idleness of excessive funds hold by the certain group of society and failure of mobilization of such funds by the certain group who are in need of money. So banks work as an intermediary between two groups.

Following can be explained as the major roles of Joint venture banks.

- **Capital Formation**

Banks can transfer surplus capital from developed to less developed area where it is scarce and most needed. Centralization of recourses from urban sectors to rural sectors is essential to promote economic development.

- **Regional Balance**

Promote trade capital formation function of banks is concerned with generation, mobilization and canalization of savings. Banks stimulate savings by providing a number of incentives such as interest, safe custody and mobilize the fund that has the opportunity of productive investment.

- **Implementation of Monetary Policy**

A proper banking system is a necessary precondition for the effective implementation of monetary policy. Credit control and regulation by the government is not possible without active co-operation of banking system.

- **Price Stability**

Bank can control and create the credit in the monetary market. According to financial policy of government, banks could regulate the interest rate in deposits and loans. They also provide different types of banking services for industrialization. Ultimately, this will increase the supply of product. It will increase employment and public earnings. This helps to control price.

- **Economic Development**

Banks help in the economic development of the country. Banks provides the opportunities to invest in the productive sectors by providing loans through the collection of deposits deposited by the one who has the excess of it. It plays the role of intermediary between the savings and investment.

2.1.3 Function of Joint Venture Banks

- **Acceptance of deposit:**

Commercial banks accept deposit from the public under various accounts namely fixed Account, current account, saving account and other account. The commercial banks are fully authorized to collect the fund from various sources. In addition the accumulated money is disbursed in the productive sector by providing credit that helps the banks to raise their fund more effectively.

- **Agency function:**

There are various agency services rendered by the commercial bank

  - Transfer the fund
  - Collection of customer fund
  - Purchase and sale of share and securities for the customers

- Payment of insurance premium
- Trustee and executor
- Acts as correspondent

- **Disbursement of loans:**

The primary function of the commercial bank is providing credit facility to borrow. Bank lending contributes a lot to the economy in term of financing, agriculture, industrial and commercial activities of the nation. There are various types of loan and advances:

- Cash credit
- Overdraft
- Demand/term loan
- Trust receipt loan
- Bill/cheque purchase/discount.
- Money at call and short notice.

- **General Utility Function:**

A commercial Banks discharge the function of general utility also. These functions are as follows:

- If the central Bank has given the permission to carry out the transaction of foreign currencies, the commercial Bank exchanges the foreign currency earned by his customers.
- A Banks issue travelers cheques in the customer's name and communicate the credit information or notices for his customers.
- A Banks provides lockers to its customers for keeping valuable metals, ornaments, and documents safely. The customer keeps one of the keys of lockers with him and the bank is keeping the other. If the customers valuable goods are kept under the Banks custody such safe boxes are called safe deposit value.

- A Banks gives economic and professional advice to its customers.
- A Banks collects important commercial information and data for his customers.

▪ **Bank Guarantee:**

Customers are provided the facility of bank guarantee by modern commercial banks. When customers have to deposit certain fund in government officers or courts for specific purpose such as legal case, bank can present it self as the guarantee for the customer instead of depositing fund by customer. Bank provides such facility only, when the customer have sufficient fund in their account.

Besides these there are various functions performs by commercial banks like facilitating foreign trade, remittance, use of cheque system, to give information and other services etc.

2.1.4 Concept of Deposit

Deposits are the main source of funds by providing, certain rate of interest, commercial bank calls for the deposit from the customer. There are different types of deposit from the customer. There are different types of deposit are accepted by the bank but current, fixed and saving are the mainly three types of deposits. These different types of deposits are used for lending the money to different sector such as agriculture, productive work, trade, irrigation and industry. The deposits will be lead to increase the working capital of the bank. So in a developing country like Nepal deposit have played a significant role for the development of the country.

Commercial bank Act 1974, defines, Deposit as the amount deposit in a current, saving or fixed amount of a bank of financial.

The deposits function of the banks is important because it has to aggregate small sums of money lying scattered here and there twenties, fifties and hundreds. Singly these sums have no economic efficiency what so ever. But they can accomplish Herculean task when they are aggregated and employed by the bankers. (*Harish; 1965; 89*)

The existence of any commercial banks largely depends upon the mobilization of deposits. Banks can no longer function well in the absence of adequate deposits. In

other words, deposits are the life blood of any CBs and strength and weakness of the bank largely depends upon the capability to attract more people to deposit their saving. More the bank collect deposits more will be its capability to invest much valuable funds in profitable ventures. But it is also quite true that the amount of growth in deposits should be in proportion to the increase of growth of loans and advances investment. If the ratio of deposit to investment is not maintained properly then the bank face a serious problem of paying more interest amount to its deposits holders that what it can generate income out of it. It is highly necessary that the increase in deposit should be in the proportion to the growth of investment. The depositors of a bank are affected by various factors. They are as follows:

- Types of customers
- Physical facilities of bank
- Management accessibility of customers
- Types and ranges of services offered by the bank
- Interest rate paid to deposits.

Basically deposits are categorized in three headings for accounting and financial analysis purpose.

1. Fixed Deposit or Time Deposit

This is a kind of deposit in which amount will be deposited for a fixed period of time that money cannot be withdrawn before the expiry of the time. So the money deposited in this account can be utilized by banks for medium or long-term credit freely being confident claim until the time lapses. The time deposit is the main source of commercial banks for their credit operation. Investment in medium term and long purpose is possible only through this type of deposit. However, the depositor can take loan under security. In the context of Nepal, fixed deposit has been classified according to the following duration (*Fry; 1974; 48*)

3 months
6 months
1 year
2 year and above

The rate of interest rate on fixed deposit depends upon the duration of time deposit.

2. Current Deposit

A current deposit is a deposit that can be withdrawn a demand at any time and in any amount up to the full amount of the deposit. These types of account are generally opened by the business man who stands in need of money regularly. Under this account the customer is allowed to make frequent use of his account i.e. to deposit or withdraw money as and when he likes. No interest is allowed by bank on current account deposits. These deposits are also called "demand deposits."

Features of Current Deposits

- Under this deposit, the customer can get the payment until there is balance (amount) in his account as many times as cheques are sent to the bank.
- No interest is given on current deposits.
- A bank should keep enough balance because the bank should pay the large amount at account holder's demand.
- There can be a special contract between the bank and the customer, under which a customer may get such facility in excess of balance in his account and the bank can give him payment.

3. Saving Deposit

Bank accepts saving deposits from individual and nonprofit making organization purpose of saving deposit to encourage the habit of saving among the common people and institutions. Saving deposit attract interest which is normally less than that of long term deposit but more than short term deposit.

The commercial banks accept deposit from the public also under the saving account. These accounts are opened to promote the saving of middle class and lower class of people. The ideas is to impose restriction or the dissipation of such saving or the part of smaller depositors by too frequent withdraws any with draw of at beyond the prescribed limit requires a prior notice. The interest allowed on saving bank deposit is lower than that allowed on fixed deposit account but higher than that allowed to current account. Now bank calculated interest in daily basis. If the bank goes into

liquidation more priority is given to the saving deposit than current and fixed deposit in the payment of liability.

4. Call Deposit

Call deposit incorporate the characteristics of current and saving deposit current in the sense deposit. It is withdrawal at call and saving in a sense the deposit earns interest. The companies not entitled to open saving account can open call account. Interest rate on call deposit is negotiable between the bank and the depositor and hence, is normally not published / announced. Interest rate is applied on daily average balance withdrawal restriction is not imposed on call deposit but the balance should not go below on agreed level.

5. Other Deposits

There is other deposit as well. EBL and HBL introduce various types of deposit schemes.

2.1.5 Concept of Investment

"Investment" as a term is quite confusing and multifaceted. In pure financial sense the subsequent use of the term investment will be in the prevalent financial sense of the placing money in the hands of other for their use, in return for a proper instrument entitling the holders to fixed income payments or the participation in expected profits. But manufacturing and trading firms the term investment will be those long term expenditures that aim at increasing plant capacity of efficiency or at building up goodwill, thereby producing an increased return over a period. Whereas, an economist view, investment as a productive process by means of which additions are made to capital equipment. For our purpose, in the study of the financial institution's the investment and investment problem will revolve around the concept of managing the surplus financial assets in such a way, which will lead to the wealth maximization and providing a significant future source of income. Thus, the investment for insurers' purpose will be management of the surplus resource in such a way as to make it work for providing benefits to the owners by increasing to total assets simultaneously providing benefits to the supplier of the funds by letting third party to use such

resource. However, the investment needs to be a procedural task. It must follow a definite investment process which definitely begins from the formulation of proper investment policy. (*Sharpe; 1995; 127*)

Investment in its simplest from means employing money to generate more money in future, it is the sacrifice of current rupees for future rupees, return is the primary motive of investment, but it always entails same degree of risk. (*Sharma, Paudal and Bhandari; 2003; 38*)

An investment may be defined, the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time funds are committed, for the expected rate of inflation and also for uncertainty involved in the future flow of the funds. (*Frank and Reilly; 2004; 157*)

From the above definition, the financial investment is a form of this general or extended sense of term. In means an exchange of financial claims-stock and bonds (collectively termed securities) real estates mortgages etc. the term financial investment is often used by investors to differentiable between the pseudo investment concept of the consumer and the real investment of the business semantics aside three is still a different between an "investment in a ticket on a horse and the construction of a new plant between pawning of a watch and the planting of a field of corn." Some investment are simply transaction among people other involve nature, the latter are real investment, the former are financial investment.

2.1.6 Meaning of some Important Terms

In the study have been made to clearly the meaning of some important terms, which are as follows:

A. Investment on Government Securities, Shares and Debentures

Though a commercial Bank can earn some interest and dividend from the investment of government securities, share and debenture, it is not the major portion of income but it is treated as a second source of banking business. A Commercial bank may extend credit by treating it as a second source of banking business. A commercial

bank may extend credit by purchasing government securities bonds and shares for several reasons. Some of them are given as:

- It may want to space it maturates so that the inflow of cash coincide with expect withdrawals by depositors or large loan demands of its customers.
- It may wish to have high-grade marketable securities to liquidate if its primary reserve becomes inadequate.
- It may also be forced to invest because the demand for loans has decreased or is not sufficient to absorb its excess reserves.

However, investment portfolio of commercial bank is established and maintained primarily with a view of nature of banks liabilities that is since depositors may demand fund in great volume without previous notice to banks. The investment must be of a type that can be marketed quickly with little or no shrinkage in value.

B. Investment on other Company's share and Debentures

Most of commercial banks invest their excess fund to the share and debenture of the other financial and non-financial companies. Due to excess funds but least opportunity to invest those funds in much more profitable sector and to meet the requirement of NRB directives, the commercial banks purchase shares and debentures of regional development bank, NIDC and other development banks.

C. Sector wise Investment

Sector wise investment refer to the investment in various sectors as agriculture, productions, construction, transportation, communications, wholesalers & retailers, Consumable loan that are considered essential for overall economic growth of the nation. They constitute the basic infrastructures that provide the logistics support for the growth and prosperity of the economy. By investing in such sectors banks can help the entire nation in pacing up the economic growth and the prosperity of the nation.

D. Loan and Advance:

The loan granted by the banks to a customer is debited to their account and credited to the account of these customers in the banks. This business is much profitable to the bank because by its own credit it grants loan and advance. The commercial banks grants loan and advance again good securities i.e. such securities as are easily saleable in the market. They do not accept securities which are subject to deprecation. It is said by some one that secured are those securities which are subject to payment in due date, which can be easily sold in the market if necessary and which are free from the risk of depreciation. Generally commercial bank grants loans and the advances for short period only. When the loans are granted, pass book or bank statement and cheque books are supplied to the customers. The customers can withdraw money from the banks to the extent of their loans only. So for the interest payable by the customer is concerned. Interest is charge or the whole amount.

E. Other use of funds:

Commercial bank must maintain the bank balance with NRB as prescribed by the bank of Nepal. Similarly, they have to maintain the cash balance in local currency in the vault of the bank. Again some part or the fund has to be used for the balance foreign bank and to purchase fixed assets.

F. Off-balance sheet activities:

Off-balance sheet involve contracts for the future purchase or sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities on balance sheet. So, examples of these items are letter of credit, letter of guarantee, bills of collection, etc. These activities are very important; as they are the good source of profit to bank through they have risk, now a day, some economists and finance specialists to expand the modern transaction of a bank stressfully highlight such activities.

2.1.7 Futures of Sound Lending Investment Policies

The succession of the bank measures by its income and profit, which is deepens upon its lending procedure. “Commercial Bank should consider the national interest

followed by borrowers and interest of the bank itself."(*Clemen; 1963; 130*) So consideration should be given on following factors while investing loans.

a) Lending policy must be well spread.
b) It should be basically of short-term character.
c) It should be profitable.
d) It should be repayable.
e) It must be with adequate securities.

There are various factors affecting investment policy. Before formulating a lending policy many things have to be considered. "A bank's lending policy is in effect" (*Crosse; 1963; 78*) screening devices by which the directors seek to establish the kind and character of loans they think a bank should make.

As another country the lending practices of CBs in Nepal have also been changing overtime. The income and profit of the bank deposits depends upon its lending procedure, lending policy and investment of its fund in different securities. The greater credit created by the bank, the higher will be the profitability. A sound lending and investment policy is not only prerequisite for the banks profitability, but also significant for the promotion of commercial saving of a background country like Nepal.

There are some important criteria should be kept into mind before formulating a lending policy by the CBs.

1. Safety and Security:

CBs adopt safety principle before formulating its investment policy. CBs invest money out of deposits. Deposits are the money kept by the people. So bank has to invest its deposits safety. While investing its deposits the banks always direct attention toward the securities of the loan. The bank should never invest its fund in those securities, which are subject to too much depreciation and fluctuation because a little difference may cause a great loss. It must not invest in funds into speculative businessman who may be bankrupt at once and who may earn millions in a minute also. The bank should accept that type of securities, which are commercial, durable,

marketable and high market prices. In the cases “MAST” should be applied for the investment. Where,’

M = Marketability
A = Ascertain ability
S = Stability
T = Transferability

- **Marketability**

Marketability is the most important factor, which should be considered while accepting securities by the bank. Only those goods, which are kept as security, must have qualities of being easily sold in the market whenever it is needed. So it is necessary for the bank to examine the security of goods.

- **Ascertain ability**

It means to say that it can be easily determine the price of secured goods at any time. If the price of the goods cannot be determined easily it should not Kept as a security while lending by the bank. For example, the diamond which cannot be easily determined the price easily determined at any time.

- **Stability**

There must be stability in those goods, which is taken as a security. If the change takes places, time to time, it should be rejected.

- **Transferability**

While accepting the goods as secured goods must have qualities of being transferability from one hand to another or one place to another place.

2. Profitability:

While framing the investment policy the CBs have to into mind the profitability principle. It is because bank is also a profit maintained institution. The CBs utilize its fund where more profit can be gained. But consideration should be taken on the

liquidity position of the bank. If the bank invest on the long term there will be more profit, but there will be lack of liquidity. So while lending by the bank, the balance must be done between the liquidity and profitability. However it is very difficult to maintain the balance between profitability and liquidity principles. If the bank invests its fund on long-term, there will be delay in the repayment of loan and low possibility of the repayment of loan. If more liquidity is deserved there will be less profit because banks have loans, there will be less profit. That is why optimum reconciliation of both the liquidity and profitability concepts has to be carried out in farming investment policy. The profit of the commercial bank mainly depends on the interest rate, volume of loan. It's time period and nature of investment in different securities.

3. Liquidity:

There is much more chance of loss while lending for the long term and low market price of securities. If the bank lends for long-term loan, the bank cannot do the payment to its customer who had deposited money. When the customer demands, it cannot meet because there will be no liquidity in the bank. So that there may be had effect on the reputation of the bank. The bank should in keeps some deposits of the people in liquid form. For the safety of the loan the bank lends for short term also.

Liquidity is a great problem to the bank because higher or lower liquidity are not favorable to the bank. Higher liquidity less will be the profit to the bank. Less the liquidity, higher will be the risk to the bank. So to keep balance liquidity the CBs have to maintain the liquidity according to its deposits.

"Liquidity is the protection against the risk that losses may develop if banks are forced to sell or liquidity credit worthy assets in an adverse market."(*Crosse; 1963; 87*)

4. Purpose of loan:

The purpose of the loan should be considered as per which the loan is taken. The bank should give suggestion to the borrower to invest money where he can more successful. If borrower misuses the loan granted by the bank, they can never repay and banks will process heavy bad debts. Modern businessman is seeking sound

financial advice as well as credit availability from his banker. So before lending the loans, the bank should examine the detailed information about the project or activities.

5. Diversification

Diversification means to invest money in different sector or institution but not only to invest to meet in one sector or institution. If the bank lends one person or Institution, more possibility of loss may be raised. Mr. Upadhay and Tiwari have pointed out a proverb, as "A bank should not lay its eggs on the same basket" this saying is very important to the bank and it should be always careful, not to grant in only one sector. To minimize risk a bank must diversify its investment on different sectors.

6. Tangibility

Through it may be considered that tangible properly does not yield an income apart from direct satisfaction of possession of property, many times, intangible securities have lost their value due to price level inflation. A bank should proper tangible security to intangible one.

7. Legality

Illegal securities will bring out many problems for the investors. A bank must follow the rules and regulation as well as different direction issued by Nepal Rastra Bank, Ministry of Finance and other while mobilizing its funds.

Banks are such type of institutions, which deal in money and substitute of money. They deal with credit and credit instruments. The most important thing for the bank is good circulation of credit. Fluctuate flow of credit and weak decisions harm the whole economy and the bank as well. Thus, to collect fund effectively and its well utilization is the very challenging task for the bank. The decision for an investment of fund may be the question of life and death of the bank.

Deposit is the source of capital for the commercial bank, and it is divided into fixed, saving and current deposit. Bank distributes such amount as loan and invests in different sectors to earn profits.

"Deposit may also out of loans granted by the bank for through the process of discounting customer's bills. In the case, they are known as, 'created deposit' and in actual practice the amount of such deposit are much larger than from right to receive cash." (*Garg; 1998; 232*)

He added, deposit may right to receive cash. These may be in the form cheques, bills, promising notes etc, owing to them. What the bankers do in these cases is that he collects them and credits, the customer's account with the proceeds.

"Deposit provides most of the raw material for bank loans. It represents the ultimate source of bank profits and growth. Deposits generates cash reserve fund. Maintaining received cash reserve, the excess cash fund, a bank holds is lent to borrow. Thus deposits create loans. The management should be able to use the deposit efficiently." (*Sing; 2005; 119*)

For the above definition it is clear that deposits are the main source of bank which is the bank usually for the generation of profit. Therefore, the efficiency of the bank depends on its liability to attract deposits. The capacity of the bank to earn profits depends on the volume and the deposits mix the bank has.

"Generally; the investment refers employing of money to generate more money in future. It is the sacrifice of current rupees where the return is the primary motive of investment. Every investment entails some degree of risk. It requires at present certain sacrifice for a future certain benefits. (*Francies; 1998; 155*)

Investment is the employment of funds with the aim of achieving additional income for the growth in value (*Singh; 1992; 124*). As per Dr. Singh, the investment is the key factor to achieving additional income for the growth of banks.

Investment, in its broadcast sense, means the sacrifice of certain present value for (possible uncertain) future value (*Sharpe and Gordon; 1999; 247*). In the view of Shape and Gordon the investment is the venture that the return is uncertain. So, they have presented their view in the books that bank should look for the safe and less risky investment.

An investment is the current commitment of funds for a period of time to derive a further flow of funds that will compensate the investing unit for the time the funds are committed, for the expended rate of inflation and also for the uncertainty involved in the future flow of funds. (*Frank and Reilly; 1990; 178*)

From the above definitions, it is clear that an investment means to trade current funds for some expected stream of payment or benefits, which will exceed the current outlay by an amount of return or interest that will compensate the investor. The return or interest is expected because of uncertainty involved in expected future cash flow. The investment (credit or other investment) is the most important function of commercial banks. It is long-term commitment of bank in the uncertain and risky environment. Investment is a very challenging task of commercial banks. So a bank has to be very careful while investing their funds in various sectors. The success of bank heavily depends upon the proper management of funds.

Investment is the use of money to earn income or profit. The term also refers to the expenditures of funds for capital goods such as factories, firm, equipment, livestock, and machinery. Capital goods are used to produce other goods or services.

Many people invest part of their income for financial gain. Others make investment to protect the purchasing power of their saving against raising prices.

Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in a saving account in a bank, for example, the bank may invest by lending the funds to various business companies. These firms in turn may invest the money in new factories and equipments to increase their production. In addition to borrowing from banks, most companies issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issues bond to obtain funds to invest in such projects as the construction of dams, roads, schools etc. All such Investments involve a present sacrifice of income to get an expected future benefit. As a result, investments raise a nation's standard of living.

"Investment management; securities analysis and portfolio management "explains the word 'Investment' as follows:

"The term economic investment has a rather precise meaning in the literature of economic theory. Typically, it includes net addition to the capital stock of society. By capital stock of society means those goods, which are used in the production of other goods. He says it is goods; societal or aggregate point view. The definition implies that in society there are number of goods which are used to produce other goods and that these means have production that are considered part of the capital stock of society. For a number of reasons, economists also include inventories as part of the capital stock. Thus, a net additions to the capital stock-an investment means an increase in building, equipment, or inventories over the amount of equivalent goods that existed, say, one year ago at the same time". (*Bhalla; 1998; 134*)

He further explains that the everyday usage of the terms investment can mean a variety of things, but to the man of the street usually refers to money committed of same sort. He gives an example as, a commitment of buying a new car among a number of new cars is certainly an 'investment'. From an individual's point of view these are very general and much extended senses of the word since neither rate of return is involved nor is a financial return or capital growth is expected.

In his saying, financial investment is a form of this general or extended sense of the term. It means an exchange financial claims-stocks and bonds, real estate, mortgage etc. The term financial investment is often used by investors to differentiate between the spud-investment concept of the consumer and the real investment of the businessman. He differentiates an investment between the ticketing and the constructing a new plant, the pawning of watch and the planting a corn.

V.K. Bhalla goes ahead mixing the investment with speculation gambling. In addition, he shows the difference between speculations and gambling as; in gambling artificial and unnecessary risk are created whereas in speculation, the risks already existed and the question is simple who shall bear them.

Gambling is a far cry from the carefully planned research and scientific procedures, which underlines the best speculative practice. Speculation is a reasoned anticipation of future conditions. It does not rely upon here say or labels. It attempts to organize the relevant knowledge as a support for judgment and it is as legitimate and moral as any other from of risk task taking business activity.

Investment usually involves putting money into an asset, which is not necessarily marketable in other to enjoy a series of return the investment that is expected to yield. One the other hand, speculation is usually a short-run phenomenon. Speculators tend to buy assets with the expectation of a profit that can be earned from a subsequent price charge and sale. Investments are usually made expecting a certain stream of income, which has existed, will not change in the future. Speculators, on the other hand, are usually based on the expectation that some change will occur.

2.2 Review of Journals and Articles

Many researchers have analyzed their fund mobilizing view and funding in their research paper in this subject through deposits and investments policy of commercial banks.

Thapa (1994) has presented his view in his article "*Financial System of Nepal*" the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing but compare to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds. The banks are increasing their lending to non-traditional sectors along with the traditional sectors.

Nepal Bank Ltd. and Rastriya Banijya Bank Ltd. are operating with a nominal profit, the later turning towards negative from time to time. Because of non-recovery of accrued interest, the margin between interest income and interest expanses is declining. Because of these two local banks, in traditional off balance sheet operations, these banks have not been able to increase their income from commission and discount. On the contrary, they have heavy burden of personnel and administrative overheads.

Similarly, due to huge amount of accumulated overdue and defaulting loans, profit position of these banks has been seriously affected.

On the other hand, the foreign venture banks have been functioning in an extremely efficient way. They are making huge profit year after year and have been distributing large amount of bonus and dividends to its employees and a shareholders respectively.

Because of their effective persuasion for loan recovery, overdue and defaulting loans have been limited resulting in high margins between interest income and interest expenses. Similarly, concentration of these banks to modern off-balance sheet operations and efficient personnel management has added to the maximization of their profits.

At the end of this article, he concluded that by its very nature of the public sector, the domestic banks couldn't compete with the private sector banks. Therefore, only remedy to the problem of these banks, as the government decides, is to hand over the ownership as well as the management of these banks to the private hands.

Kishi, (1996)**,** in the article "*The Changing Face of the Banking Sectors and the HMG/N Recent Budgetary Policy*" concludes that the following an introduction of the reform in the banking sectors as an integrate part of the liberal economic policy, more banks and finance companies have come up as a welcome measure of competition.

However, because of poor investment policies and lack of internal control the two governments controlled banks. Nepal Bank Limited and Rastriya Banijya Bank's non-performing assets have increased substantially. Now, Nepal Rastra Bank has awarded the management contract to foreign companies to improve the conditions of non-performing assets. The policy of giving management to professional consultant is a part of the financial sector reform policy of NRB.

Pradhan (1997)**,** in his article, "*Deposit Mobilization, its Problem and Prospects*" has presented that deposit is the life-blood of every financial institutions be it commercial bank, finance company, co-operative or non government organization. He further adds in consideration of most banks and finance companies, the latest figure does produce a strong feeling that a serious review must be made of problems and prospects of deposit sectors.

He has highlighted following problem of deposit mobilization in Nepalese context:

- Most of the Nepalese people do not go for saving in institutional manner, due to the lack of good knowledge; however, they are very much used of saving be it in the form of casher ornament. Their relevance to deal with institutional

system is governed by the lower level of understanding about financial organization process with draw system, availability of depositing facilities and so on:

- Unavailability of the institutional service in rural areas.
- Due to lesser office hours of banking system.
- No more mobilization and improvement of the employment of deposit and loan sector.

Shrestha (1998) has given a short glimpse on the "*Portfolio Management in Commercial Banks, Theory and Practice*". The portfolio management becomes very important both to the individual and the institutional investors. Invests would like to select a best mix of investments in assets subject to following aspects:

- Higher return which is comparable with alternatives opportunities available according to the risk class investors, Good liquidity with adequate safety of investment, certain capital gain, maximum tax concession, flexible investment and Economic efficient and effective investment mix.

In view of above aspects following strategies are adopted:

- Do not hold any single security; try to have a portfolio of different securities.
- Do not put all the eggs in the one basket to have diversified investment.
- Choose such a portfolio of securities, which insures maximum return with minimum risk or lower of return with added objectives of wealth maximization. However, Mr. Shrestha has also presented following approach to be adopted for designing a good portfolio and its management:
- To find out the invisible assets (generally securities) having scope for better returns depending upon individual characteristic like age, health, need, deposition, liquidity, tax liability etc.
- To find out the risk of securities depending upon the attitude of investor toward risk.
- To develop alternative investment strategies for selecting a better portfolio, this will ensure a trade-off between risk and return so as to attach the primary objectives of wealth maximization at lower risk.

- To identify the securities for investment to refuse volatility of return and risk.

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

- Unawareness of the clients about the services available, hesitation of taking risk by the clients for using such facilities, lack of proper techniques to run such activities in the best and successful manner and less developed capital market and availability of new financial instruments in the financial markets.

Regarding the joint-venture commercial banks, they are very eager to provide such service but because of above-mentioned problems very limited opportunities are available to the banks for exercising the portfolio management Shrestha has drowned following conclusion:

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

Bhatta (2000)**,** in his article "*Financial Policies to Prevent Financial Crisis*" has given more emphasis on Nepalese financial market sector. He has mentioned the financial crisis occurred in China, Mexico, South Asia, Russian Federation Ecuador and Brazil & Argentina. This crisis affected all these economic by posing negative

effects in their real output. He had also focused on Nepalese financial market, which is directly effected by the national and international events. The most effected events were September 11 incident in U.S.A., which had added more to the fragility in the global financial market. In present context in many part of the world, the move towards liberalization is getting its momentum on one hand and the process of economic development is being threatened due to various unanticipated incidents on the other. He has defined a financial crisis as a description to financial markets in which adverse section and moral hazard problems become much worse, so that financial markets are unable to efficiently channel funds to those who have the most productive investment opportunities.

He has given light on dynamics of financial crisis dividing it into three stages. In addition, he has suggested the policies to prevent financial crisis.

- Prudential Supervision, Accounting Standards & disclosure requirements, Legal and judicial system, Monetary policy and price stability, Exchange rate regimes and foreign exchange reserves, Capital controls, Restriction on foreign denominated debt., Reduction of the role of the state owned financial institution and Encouraging market based discipline.

Barbara and Sotiris (2001) in the article "*Service Failures and Service Recovery in Retail Banking the Customers' Perspective*", they focus on an empirical investigation of service failures and service recovery in retail banking. Different types of failures and recovery strategies used by Greek banks to them were identified using the critical incident technique.

The importance and benefits of providing service quality are well documented in the academic literature, and business participations strive to design and implements programs to ensure that the customer is satisfied with his/her encounters with a service firm and, in turn, with various dimensions of service quality. However, quality discrepancies and shortfalls are likely to occur, especially when human input is largely responsible for the "Production" and delivery of the offering. The problem that arises for organizations are what happens when a service shortfall occurs; how can they recover form service failure?

Thapa (2003)**,** has published an article on "*Managing Banking Risk*", where has accomplished the subsequent issues.

Banking and financial service are among the fastest growing industries in developed world and are also emerging as cornerstones in other developing and undeveloped nations as well. Bank primary function is to trade risk. Risk cannot be avoided by the bank but can only be managed. There exist two types of risk. The first is the diversifiable risk or the firm specific risk which can be mitigated by maintaining an optimum and diversified portfolio. This is due to the fact that when one sector does not do well the growth in another might offset the risk. Thus, depositor must have the knowledge of the sectors in which there banks have make the lending. The second one is undiversifiable risk and it is correlated across borrower, countries, and industries. Such risk is not under control of the firm and bank.

Corsby, French and Oughton (2003)**,** in the article "*Bank Lending Valuation on Commercial Property, Does European Mortgage Lending Value Add Anything to the Process*" researchers try to find out mortgage lending value in term in Europe should be based on sustainable values and this recommendation is compared to the current basis used for bank lending valuations mainly market value. According to them, the mortgage lending value shall mean that the value of the properly as determined by a value making a product assessment of the future marketability of the property by taking into account long-term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate uses of property. Speculative elements shall not be taken into account in the assessment of the mortgage lending value. The mortgage lending value shall be documented in a transparent and clear manner.

Wei-Shong and Kuo-Chung (2006)**,** in the article on "*The Internal Performance Measures of Bank Lending: a Value-Added Approach*"**,** define the lending function is considered by the banking industry as the most important function for the utilization of funds. Since, banks earn their highest gross profits from loans; the administration of loan portfolios seriously affects the profitability of banks. Indeed, the large number of non-performing loans is the main cause of bank failure. Banks are learning to

review their risk portfolios using the criteria laid down by Basel II. Greenspan has indicated that Basel's goal is to induce bankers to improve their risk management capability, including how the institutions price products, reserve for loss, and control their operations (Rehm, 2002). This research is in line with the purpose of Basel II, i.e. to reduce a bank's operational risk during the lending process through a better monitoring of the employees in the lending department.

According to them, with respect to performance, banks now use various measures to assess bank efficiency and related functions in the bank lending process. Traditionally, banks determined operating efficiency by using measures of bank profitability, such as return on equity, return on assets, and return on investment; also, banks used operational ratios, such as monetary output per staff member, and total operating expenses per unit of output.

Pokharel (2008), in the article "*Financial Sector Reform and Challenges*", Agricultural credit publication stresses that highest liquidity makes the financial institutions un-bankable by creating unnecessary burden of bearing the cost of capital. Dr. Pokharel expresses that most of the financial institutions are lying on uneconomic situation due to ineffectiveness of portfolio management on the one hand and deficiencies of efficient modern management on the others for the betterment of the financial possibility in portfolio projects, like hearth, residential buildings, communications, lea gardening etc.

Pokharel further suggests that commercial banks need to make strong strategy urgently with shifting the money from fixed deposit to saving reducing the interest between deposits and interest spread in both sectors. He highlights that fixed deposit has been increasing in the ratio of 0.44 to 0.95 forms 1990 to1999.

Banks adopted data envelopment analysis (DEA) in the 1990s as the principal method for assessing bank efficiency. DEA is a linear-programming method initially developed by Charnes et al. (1978) to measure the comparative performance of homogeneous organizations. The objective of DEA was to build an efficiency frontier

of inputs and outputs, where production is maximized under fixed costs or costs are minimized under restricted production.

In very simplistic term, bank lending falls into two categories: asset specific and corporate loan. These loans, in turn, can be divided into two further categories of secured and unsecured lending. It is in the case of secured lending that valuations are most directly and commonly used. In unsecured lending valuations are frequently relied on indirectly.

In secured lending, the underlying philosophy has been to determine the value of the assets on which the loan is based and to ensure that the former is greater than the amount borrowed. The degree by which the asset value exceeds the loan provides the margin of assets cover assessed thorough the loan to value ratio. The lender is interested in the position should be the borrower default and have an idea on the amount that the sale of the property asset would realize were the borrower, lender or receiver to sell the asset.

Another principal use of valuations is for assessments of corporate cash flow projections, used in most forms of lending. Here, the valuation figure and liquidity of assets are of equal importance. The valuations are relied on might be directly commissioned by the lender or could have been produced by the borrower other third parties for other reasons for requiring valuation might include calculations of net asset value, justification for granting the second charge; verification of the borrower's veracity decisions on action following the default of the borrower.

However, the changing influence of different types of information does not seem to have reduce lenders desires for a valuation of the security and a number of initiatives have occurred which attempt to improve the ability of the valuation to underpin the loan decision. According to their view three main aspects of valuation are:

i. Improve the communication between lender and value and agree more detailed relevant instructions.
ii. Develop new concepts and bases of valuation
iii. Improve the quality of information provision in valuation reporting.

They concluded that the problem in valuation is quite straightforward. The banking communities are trying to identify a basis of value to which they can apply a loan value ratio and thus project their loan in the future should the borrower default. A simplistic understanding of value would therefore suggest that the figure provided should be a figure which has a life for the length of the loan. However, this very concept is economically impossible in any market with volatility. Values can only be snapshots in time. They do not have a shelf life. For this reason European mortgage lending valuation is conceptually and particularly redundant in real estate markets. It appears on the surface to be a solution to the banks‟ requirement for reduced risk property lending. In reality it may indeed transfer that risk by demanding a level of protection to the bank that valuation can not give. But if values agree to it, it could be the very y to successful negligence claims in the aftermath of poor lending decision. This is because to concept appears to be determination of the virtually certain level of value below which the value will not fall for and indeterminate time into the future.

2.3 Review of Thesis

Master's degree researches are the important sources of literature review. Master's degree students have accomplished studies on various aspects of commercial banks. Before this study, several thesis works had been carried out by various aspects of commercial banks such as financial performance, lending policy, investment policy, interest rate structure, resource mobilization, capital structure etc. some of the relevant finding of the research works for the study are presented below:

Bajracharya (2000) conducted a study on "*Investment of Commercial Banks in Priority Sector*" with the objective of:

- To analyze the trend of investments in private sectors for 10 years from 2047 B.S. to 2056 B.S.
- To analyze the trend of repayment in private sectors for 10 years.
- To measure the effectiveness of the program in terms of the investment and repayment in rural and urban sector.
- To evaluate the banking procedures and services in disbursing loan in this sector.

Researcher used to various financial tools to analyze the data to support the conclusion. The major ratios like total investment to total deposit ratio, loan and advances to total deposit ratio, net profit to total asset ratio, investment on government securities to total outside investment ratio etc. Other financial tools like return on portfolio return on loan and advances, return on share and debenture, return on government securities are used to find the relevance and significance of the samples. To process the financial dat6a, some common statistical tools like co-variance, coefficient of variation, mean and trend analysis are used.

Major Finding:

- The target of 12% investment of total outstanding liabilities in priority sector and 3% out of which has been invested in deprived sector has been met by RBB.
- Trend analysis for 10 years shows the increasing trend of investment in priority sectors which shows that the CBs are giving due consideration to increase investment in priority sector.
- Interest charged on the loan disbursed in this sector is fairly less than the interest charge on loans for other purposes. In addition to this, there is high overhead cost incurred for supervision, administration and others in this program.
- Regression analysis shoes positive relation between investment and repayment.
- The chi square test of effectiveness of program is more effective in rural & semi rural area as compared to the urban areas.
- Investment on agriculture is higher than investment on industry and service sector.
- The study revealed that the procedure of loan disbursing itself is complicated for the borrowers to understanding.

In fact, if the supervisors make the scheduled supervision & inspection & the frequent contact with the borrowers, the chance of misuse of the loan can be minimized

Khadka, (2001) conducted a study on "*A Study on the Investment Policy of Nepal Arab Bank Ltd. (NABIL) in Comparison to Other Joint Venture Banks of Nepal*". The major objectives of the study are as follows:

- To evaluate the liquidity, assets management efficiency and profitability positions related to fund mobilization of NABIL in comparison to other JVBS.
- To discuss fund mobilization and investment policy of NABIL in respect to it's fee-based off balance sheet transaction and to evaluate the growth ratios of loan and advances and total investment with respective growth rate of the total deposits, and net profit of sample banks.
- To find out the relationship between deposit and total investment, deposit and loans and advances, and net profit and outside assets of sample banks.
- To evaluate the trend of deposit utilization and its projection for next five years in case of NABIL comparing it with that of other JVBs and to suggest and recommend some measures on the banks of comparative fund mobilization and investment policy of NABIL and other JVBs for the improvement of financial performance of NABIL in future.

The sample size only one commercial bank, which is Nepal Arab Bank ltd. standard charted bank Researchers used different types of statistical tools i.e. mean, standard deviation, correlation, regression analysis etc have been used for analysis.

The research findings of the study are as follows:

- The liquidity position of Nabil Bank Limited is comparatively worse than that of other joint venture banks. Nabil Bank has more portions of current assets as loan and advances but less portion as investment on government securities.
- It is also comparatively less successful in on-balance sheet utilization as well as off-balance sheet operation than that of other JVBs.
- There is significant relationship between deposit and loan and advances as well as outside assets and net profit but not between total deposits and total investment in case of both Nabil Bank Limited and other JVBs.
- In the case of profitability ratio it is found that the profitability position of NABIL is comparatively not better than that of other JVBS. NABIL is more

successful in deposit mobilization but failure to maintain high growth rate of profit in compared to other JVBs.

Following conclusions were made by the study:

- The liquidity position of a bank may be affected by external as well as internal factors. The affecting factors may be interest rates, supply and demand position of loan and advances as well as savings, investment situations, general bank's directives, the lending policies capability of management, strategic planning and flow situations.
- To get the success in competitive banking environment depositor's money must be utilized as loan and advances. The largest item of the bank in the asset side is loan and advances negligence in administering this asset could be the main reasons of a bank failure.
- Before mobilizing fund well, NABIL is recommended to collect a large variety of deposit scheme, price bond scheme, gift cheque scheme, house building deposit scheme, monthly interest and mainly others.

Ojha (2002) "A study on *NABIL Bank Ltd., SCB Nepal Ltd and Himalayan Bank Ltd*" with the objectives:

- To analyze the portfolio behaviors of lending and measuring the ratio and volume of loans and advances made in agriculture, priority and productive sector.
- To measure the lending performances in quality, efficiency and its contribution in total income.

The research findings of the study are:

- The ratio of investment to investment and loan and advances has measured the total portion of investment in total of investment and loans and advances. The mean ratio among the banks was not deviated significantly.
- The portfolio analysis has revealed that the flow of loans and advances in agriculture sector is the lowest priority sectors among these commercial banks. The contribution of all banks in industrial sector is appreciable. The

contribution of all banks in industrial sector is appreciable. The contribution made by Himalayan bank ltd in industrial sector is the greatest and that of SCBNL is the least.

- The total income to total assets ratio measures the earning power of each rupee employed by the bank. NABIL's ratio in this is the best. The ratio of total income to total expenses reflects the earning capacity of a rupee of expenses. The productively of expenses in SCBNL is the best.
- The performance of SCBNL is significantly better than other two banks in case of profitability. EPS is highest in case of SCBNL.

Agrawal (2002) entitled "*A study on Deposit and Investment Position of Yeti Finance Company Ltd.*" With the objectives:

- To determine the financial position of the finance company.
- To determine the trend of the deposit position of the company for the period of five years.
- To determine the trend of the investment position of the company for the period of five years.

The research findings of the study are as follows:

- The financial position of the financial company is rapidly increasing trend.
- Maximum amount of deposit is collected from fixed deposit and current deposit which is good result of Yeti finance company but its term deposit, daily deposit and current deposit are increasing and decreasing trend.
- Total investment position to the total deposit ratio of the company is seems to be slightly diversified in each years.
- Loan and advance to the total working fund ratio of the company is quite normal. The quick ratio of each year is greater then the standard ratio 2:1, it means the quick assets of the company remained idle in the every year, which is not good for the company.

Khaniya (2003)**,** in her thesis entitled "*Investment Portfolio Analysis of Joint Venture Banks*" with the objectives:

- To analyze the risk and return ratios of commercial banks.
- To evaluate the financial performance of joint venture banks.
- To study exiting investment policies taken by Nabil in various sectors.
- To study portfolio structure Nabil bank ltd. In investment as compared to other joint venture banks.
- Preference given by Nabil bank ltd. For investment between loan investment, investment in real fixed assets, investment in financial assets.

The research findings are as follows:

Based on the analysis of the various data remarkable finding are drawn up. The major findings are as follows;

- SCBNL and HBL have better position. NBBL and NABIL have a low position in the industry. But EBL has a very low position in the industry because of having lowest mean return on shareholder's fund resulting from the negative returns in the fiscal years 1995/96 and 1996/97.
- SCBNL has the highest mean return and EBL has the lowest return. Expect EBL, all other four banks i.e. NABIL, SCBNL, HBL and NBBL have good performance.
- Among other joint venture banks, SCBNL has the highest return and EBL has above mean return than industry average. SCBNL and EBL mobilizes the funds in investment title is higher than the standard ratio.
- NABIL, SCBNL and HBL are investing low amount of deposits on loans and advance which is lower than industry average and NBBL and EBL have invested a high amount of deposits to loans and advances title which is higher than industry average.
- NABIL is investing the highest amount of funds on NRB bond as compared to other JVBs i.e. 3%. NBBL has invested no amount of funds in this title and EBL has invested the lowest of funds i.e. 0.4% and SCBNL and HBL have invested above industry average.
- SCBNL has the highest EPS and EBL has the lowest EPS. Similarly HBL also has above mean EPS than industry average and that of NBBL is lower than industry average.

- HBL has the lowest beta coefficient among the five JVBs which means that the systematic risk of HBL is the lowest among JVBs. The portfolio return of NBBL is 94%. This return is the average of capital gain yield and dividend yield.
- The coefficient of correlation between loans and advance in private sector and portfolio return if joint venture banks come out to be rxy = -0.6. Therefore it indicates that there is negative correlation between loans and advances in private sector and portfolio return of five JVBs in Nepal.

Bhatta (2004)**,** concluded a study on "*Interest Rate and It's Effect on Deposit and Lending*", with the objective trace and analyse the relationship of interest rate with deposit and lending. The conclusions drawn by Mrs. Bhatta are:

- Deposit rates of all sample banks under study are in decreasing trend; meaning that every year deposit rates of sample banks under study have decreased.
- Lending rates of all sample banks under study are also in decreasing trend; means that every year lending rates of sample banks under study have decreased.
- Analysis shows that interest rates on lending are far higher than deposit rates of sample banks. The correlation coefficient between these two variables, (deposit rate and lending rate) of sample banks comes highly positive.
- The simple correlation coefficient between deposit rate and deposit amount of sample banks were highly negative. But out of them, correlation coefficient analysis of one sample bank is found to be negative. It means that in that case the theory doesn't match the analysis. So writer conclude that the result appears in that study was different than the theory.
- The correlation analysis between lending rate and lending amount of all sample banks under study comes highly negative. This relation between two variables (lending rate and lending amount) of sample banks matches with the theory which says with the increase in lending rate, lending amount decreases and vice-versa. So she concluded that lending rate is the most important determinant of loan and advances of all commercial banks. This makes clear that borrower's seem more interest conscious.

Finally her conclusion about her study, in her own words, as follow:

"There is significant relationship between deposit rate and deposit amount and lending rate and lending amount of almost all commercial banks except one. Test of significance for correlation coefficient between inflation rate and deposit and lending rate shows that these variables are not correlated."

Pahadi (2004) in his study on "*Analysis of Deposit and Investment Portfolio of Nepalese Commercial Banks*" with the objectives of:

- Analysis of change in proportion of deposit and investment using concept of index.
- Performance measurement of individual banks by using utilization of deposits in investment portfolio.
- To provide a suggestive package based on the analysis of the data of different commercial banks in the area of study.

The researcher used both financial and statistical tools to analysis of different variables. Ratio analysis, risk and return, portfolio rate of return, total risk, coefficient of variation and co-variance, index number, arithmetic mean, standard deviation, variance, correlation coefficient and trend analysis have been used for analysis.

The research findings and recommendation of the study are as follows:

- This study indicates that the commercial banks are not able to utilize sufficient amount in different investment portfolio.
- Due to the lack of the adequate sector to invest and utilize funds, the banks are hesitating collect deposit.
- Lack of the corporate sector and listed company to invest in share and debenture availability of the only one stock exchange for the whole country, the banks has not investing much amount in share and debenture.
- Risk on the investment portfolio is lower than that of the individual risk on government securities, loans and advances and the shares and debentures.
- Higher the risk involved in the investment higher is the return on that investment in most of the investment sector.

- As the deposits of the commercial banks increasing so as the investment in different sectors such as loan and advances, government securities, shares and debenture and other is also increasing.
- All the banks are able to earn the positive return on their investment portfolio which includes the loan and advances, government securities and share and debentures.
- Due to different hurdles, the Nepalese commercial banks are not making presence internationally.

Shah (2004) in her thesis "*Impact of Interest Rate Structure on Investment Portfolio of Commercial Banks in Nepal*" has the main objective of the study is to analyze the interest rates structure and its impact on various activities of commercial banks. Other objectives are as follows;

- To present the concrete picture of the interest rates structure before and after liberalization.
- To study the relationship between interest rates and other economic variables like deposit, loan, and advances, total investment and credit flow of commercial banks.
- To evaluate the trends of deposit, loan, and advances, total investment and credit position of commercial banks.
- To analyze loans and advances in different sectors of investment portfolio of commercial banks.
- To study the current impact of deregulation on interest rate and its effects on related fields.

Measuring interest rate impact in terms of return in investments, researcher used financial tools to calculate interest returns in savings and fixed deposits as well as the impact on loan distribution patterns. Research gave the key to find out the significance difference of interest rate structure between deposits and loans. Taking the liberalization policy as a marginal impact researcher tried to conclude the research by assessing various ratios in terms of interest.

Major finding:

- The interest rates on saving deposit are less or more constant in five years of before liberalization but it started to decline after liberalization. In the same way the fixed deposit rates also started to decline after liberalization. Thus the deposit is increasing at decreasing rate. The lower rates of interest rates decrease deposit. Deposit rate is the most important determinant of the deposit collection.
- The lending rates on purpose wise loan i.e. industrial sector, agricultural sector increased in average after liberalization but decreased in commercial sector. Increasing in lending rates resulted in the decrease in credit flow, which consequently decreased the profit of commercial banks.
- The amount of deposit increased after liberalization but the growth rate in average comparison to before liberalization increased only by 0.44%. Thus the deposit had not increased more even after the existence of liberalization is due to the declining deposit rates.
- Credit/ Loan and advances also influenced by the lending rates. Increment in lending rates decreases the growth percent of credit flow. In this analysis except agriculture and general use and purpose sector the other sector growth rate is found to be increasing after liberalization instead of increasing lending rates. So it can be say that this increasing is not only due to changing lending rates but also other factors i.e. income, inflation, competition which indirectly affects credit flow of CBs.
- CBs investment in government and other securities highly increased in the year liberalization, which is due to the lack of proper utilization of collected resources. But started to decline after two years of liberalization and reached to negative point due to the higher rate and enough promising investment opportunities available in private sectors.
- The correlation between interest rates and amount of saving deposit is found to be less correlated before liberalization. But in case of fixed deposit interest rates and amount are found to be negative correlation before liberalization. Higher the deposit higher will be the credit flow and higher will be the profit in which the correlation between deposit and credit is positive before liberalization but there is high degree of correlation between deposit and credit

after liberalization. Correlation between deposit and investment is highly positive correlated before liberalization but it is found to be negative correlation after liberalization. Lending rates after liberalization in commercial sectors is found to be decreasing.

- There is no significant relation between saving deposit and interest rates before and after liberalization but no significant relationship between fixed deposit and interest rates. Purpose wise loan and lending rates before and after liberalization is significant relationship. There is significant relationship between commercial and industrial sector loan before and after liberalization but no relation between agriculture, general use and purpose and service sector loan before and after liberalization.

Sharma (2005) conducted a study on "*A Study on the Investment Policy and Repayment of Loan and Investment Joint Venture Bank in Nepal*" with the following objectives:

- To highlight the overall investment portfolio of listed bank.
- To analyze the liquidity, assets management efficiency, profitability of listed bank.
- To examine the fund mobilization and investment policy and payment of loan investment of listed bank through off balance sheet activities.
- To analyze deposit utilization and its relationship with total investment and net profit of bank.
- To provide the suggestion for improving the investment policy and repayment of loan investment of listed joint venture bank on the basis of findings of the analysis.

The research findings of the study are as follows:

- HBL seems very poor liquidity position among the four banks and NBBL has quite successful to maintain its liquidity positions among the four banks. From the analysis of current assets of four banks we can say that except HBBL all other banks have very less amount of current assets to meet its immediate each obligations.

- NBBL has high ratio of loans and advance to total working fund ratio whereas SCBL has less ratio among the four banks and NIBL and HBL has average ratio.
- Return of loan and advance ratio of SCBL is best among the four banks.NIBL has also satisfactory return ratio but the HBL and NBBL has worst return ratio. High ratio indicates high earning capacity of the banks.
- The risk bearing making investment of granting loan is measured by credit risk ratio. From the analysis NBBL has a higher credit risk where as SCBL has a high credit risk where as SCBL has least credit risk ratio among their banks.
- NBBL has highest growth ratio of total deposit and NIBL has least growth ratio of total deposit and NIBL has least growth ratio. SCBL and HBL have satisfactory growth ratios. NIBL has fluctuating trend of total deposit.
- The purpose of computing coefficient of correlation between outside assets and net profit is to find out whether net profit is significantly correlated with respective total assets or net. From the analysis NIBL and HBL has moderate degree of correlation, NBBL has low degree of correlation between outside assets and net profit.

Following conclusions were made by the study:

- Liquidity ratio shows that all the banks has maintain satisfactory but NBBl has maintain sound liquidity positions than the other banks and SCBL has big proportion of government securities in current assets.
- All banks have successful on better mobilization of funds as loan and advances to total deposit and total working fund.
- Interest earned to total operating income ratio measures the magnitude of interest income on total income. All banks have high proportion of interest earned in its total operating income and among them.
- Higher the risk, higher will be return. Risk ratio measures bank ability to attract deposits and in bank funds. It also determines the level of profit.
- From the analysis we concluded that SCBL has chosen high capital risk ratio where as sometime SCBL has least credit risk ratio among selected banks.

Subedi (2006) in his study on "*A Comparative Study of Financial Performance Between Himalayan Bank Limited and Everest Bank Limited*" with the objectives:

- To analyze the financial performance of Himalayan Bank Limited and Everest Bank Limited through the use of appropriate financial tools.
- To highlight various aspects relating to financial performance of Himalayan Bank Limited and Everest Bank Limited for five year.
- To perform trend analysis of these selected banks and make a projection of coming year.
- To suggest and recommend both the banks to improve their financial performance.

The research findings and conclusion of the study are as follows:

- The mean and total loans and advances to total saving deposit ratio of EBL is greater than that of HBL. It means that the ratio of HBL is less than EBL is more uniform than EBL. According to analysis, it fond that EBL is more employing its saving deposit in term of loans and advances than that of HBL. So, loans and advances to total saving deposit ratio appear better in EBL than HBL.
- The mean total investment to total deposit ratio of EBL is significantly greater than that of HBL but the coefficient of variation between the ratios of HBL is greater than EBL. It means that variability of the ratios of HBL is more consistent than that of EBL. According to analysis, it is found that EBL is more successful in utilizing its resources an investment.
- The liquidity of a bank many of affected by external as well as internal factors such as the interest ratio, supply and demand position of loans, saving to investment situation, central bank requirements and the growth or slackening lending policies management capability HBL has maintained the ratio of cash and bank balance to total deposit considerably lower than that of EBL. So EBL is recommended to increase cash and balance to meet loan demand.

Jha (2007) a study on, "*Comparative Analysis of Financial Performance of the Selected Joint Venture Banks*" with the objectives of:

- To analysis the loan providing system.
- Profitability analysis of the selected banks.
- To analysis the earning capacity in average.

The sample size was only three banks which are NIBL, SCBL and HBL. Researcher used different type of statistical tools i.e. mean, standard deviation, correlation, regression analysis etc. have been used for analysis.

The research findings and recommendation of the study are as follows:

- General loan loss provision to total loan in case of Nabil has the highest among NIBL, SCBL and HBL.
- Credit deposit ratio stood the highest at the end of FY 1996/97 of the selected banks.
- SCBL has been investing most of its deposits in foreign investment.
- SCBL has the highest EPS and cash dividend per share in average.
- Nabil's other operating income is appeared higher than other banks.

Shrestha (2008) in his thesis entitled "*A Study on Investment Portfolio of Commercial Banks in Nepal*" has general objective to identify the current situation of investment portfolio of CBs in Nepal. The specific objectives are as follows:

- To analyze the investment portfolio of Commercial Banks
- To analyze the risk and return of selected commercial banks on investment using Portfolio concept.

Major Findings:

- Proper investment on various securities i.e. balance allocation of funds on various government securities such as Treasury bills, National saving bonds, Development bonds etc and fixed income percentage rate that help to reduce the variability of return. In the analysis of risk and return comparatively SCBNL have more return from investment on government securities like same NABIL has better position on investment on loan and advances.
- The return on share and debenture of commercial banks shows wide fluctuation. These fluctuations in returns are caused mainly by the volatility of the shares prices in market and by the changes in dividends in some extent. Comparatively to other assets, share and debenture has higher return and higher risk. Hence, it is cleared from analysis that investment on share and debenture is high risky assets.
- The return is slightly lower than average return from loan and advances and share and debentures. The portfolio risk on investment is less than that of risk on loan and advances and risk on share and debenture. It shows there is vital role of government securities to reduce the risk.
- The study shows that the portfolio return is decreasing trend every year. It shows the investment portfolio concept is not using properly by the selected banks.
- SCBNL is the bank that mobilizes its total deposits more effectively on government securities. EBL has concentrated to mobilize its depositor's funds in loan and advances. HBL, NSBIBL ands NIBL are not so successful to mobilize its depositor's funds in government securities. But NSBIBL is also more successful to mobilize depositor's funds in loan and advances as well as share and debentures. And NIBL effectively mobilize its depositor's funds in share and debentures.

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 is various researchers conduct on investment policy, lending policy, financial performance and of various commercial banks. Though the entire above thesis deals about the investment aspects of the commercial banks, they do not depict much light on the deposit aspect of the commercial banks. Henceforth, this thesis deals with investment pattern as well as deposit pattern of the commercial banks. This study treats deposits as a vital feature of a bank and shows it impacts on investment. As a whole, this thesis is a comparative analysis of investment and deposit pattern of the EBL and HBL.

Investment in different sectors and collecting deposits from various sectors are made on the basis of the directives and circulars of Nepal Rastra Bank as well as the investment guidelines and policy of the concerned commercial banks. Commercial banks have to follow these directives and circulars as their own guidelines and policies. Furthermore, their own deposit collection and investment guidelines and policies should be in line with NRB directives and Circulars. So the up to data study over the change of time frame is major concern for the researcher and concerned organization as well as industry as a whole. This study covers the recent financial data, NRB circulars and guidelines than that of previously conducted.

No case has yet been shown about investment and deposit pattern in recent data. In this study of Investment and deposit pattern of joint venture commercial bank EBL and HBL is measuring by various tools, trend analysis and various statistical tools as well and financial tools are used for analyzing survey data. Since the researcher have used data only five fiscal year but all the data are current and fact. Probably this will be the appropriate research in the area investment and deposit pattern of bank and financial institution.

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Introduction

The topic of the study has been selected as "Deposit and Investment pattern of the joint venture banks in Nepal (with reference to EBL and HBL)". 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.

3.2 Research Design

This research is the arrangement of conceived so as to obtain the answers to research question and to control variances. It is the arrangement of condition for collection and analysis of data. To achieve the objective of the study, quantitative or analytical based as well as descriptive research design has been used. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate deposits and investment of EBL and HBL.

3.3 Population and Sample

Population refers to the industries of the same nature and its services and product in general. Thus, this research work is designed with investment and deposit pattern of Nepalese commercial banks. The total number of commercial banks in Nepal is the population of the study.

There are 29 private commercial banks in the country which stand as population . Therefore the total number of private commercial banks is taken as population and the two banks out of them is taken under study i.e. Everest Bank Limited and Himalayan Bank Limited as sample. Likewise, financial statements of five years are selected as samples for the purpose of it.

3.4 Nature and Sources of Data Collection

The present study is mainly based on secondary data related with the two banks under study via Everest Bank Limited and Himalayan Bank Nepal Limited. The data related to the investment i.e. loans and advances, deposits and profit/loss are directly obtained from banks reports and financial statements of the concerned banks. Likewise, supplementary data and information are collected from:

- Annual Reports of EBL and HBL.
- NRB reports and Bulletins.

3.5 Data Collection Procedure and Techniques

Different tools and techniques were adopted while collecting the data for this study. All the data for this study have been collected from the secondary source mentioned above. Official publications like Annual Reports, NRB Reports and Bulletin etc. were obtained from respective offices and through internet..

Due to poor data base, the data obtained from the various sources cannot be directly used in their original form. Further they need to be verified and simplified for the purpose of analysis. Hence, in this study the available data, information, figures and facts were checked, rechecked, edited and tabulated for computation. Similarly, according to the need and objectives, the secondary data were compiled, processed tabulated and graphed if necessary for the better presentation.

3.6 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 such as percentage and Karl Pearson's coefficient of correlation are used in this study. Similarly, some accounting tools such as ratio analysis and trend analysis have also been used for financial analysis. The selective techniques of data analysis have been used according to pattern of available data. Various statistical and financial data have also been taken in this heading. The tools applied are:

3.6.1 Financial Tools

Financial tools are used to examine the strength and weakness of firm. In this study financial tools like ratio analysis and financial statement analysis have been used. Ratio analysis is the one of the most important tool of financial tool that has been used in this study. Financial ratio is the mathematical relationship between two accounting figures. In order to complete the purpose of the study, the ratio analysis has been used. Different types of ratios have been used in this study are as follows:

i) Liquidity Ratios

Liquidity ratios are quick measures of the firm's ability to provide sufficient cash to conduct business over the short period. Liquidity ratio measures the liquating position of the firm and the speed with which a bank asset can be converted into cash to meet deposit with drawl and other current obligation.

A firm should ensure that it doesn't suffer from lack of liquidity, and also that it doesn't have excess liquidity. The failure of a company to meet its obligation due to lack of sufficient liquidity, will result in a poor credit worthiness, loss of credit or confidence, or even in legal angles resulting in a closure of the company. Very high degree of liquidity is also harmful. Idle assets earn nothing. The firm's funds will be the necessarily tied in current assets. Therefore, it is necessary to strike a proper balance between profitability and liquidity. It is because high liquidity reduces the profitability. Depending on the special nature of current assets and current liabilities of the Bank, the used ratios are given below:

a.) Current Ratio

Current ratio is a measure of firm's liquidity. It indicates the availability of current assets in rupees for every one rupees of current liability. As a conventional rate, a current ratio of 2:1 is considered satisfactory. However, this rule should not be blindly followed, as it is the test of quantity not quality. In spite of its shortcoming, it is a crude and quick measure of the firm's liquidity. Current ratio is computed by dividing current assets by current liabilities, which can be presented as:

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

Current assets include cash and bank balance, money at call on short term notice, loans and advances, investment in government securities and other interest receivable and other miscellaneous assets. Similarly, current liabilities include deposits, loan and advances, bills payable, dividend payable tax provision and miscellaneous current liabilities.

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. High ratios show the strong liquidity position of the Bank. But too high ratio is not favorable for the Bank because it produces adverse effect on profitability due to idleness of high interest bearing funds. This ratio can be computed by dividing cash and bank balance by total deposit and can be presented as:

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

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 deposits include deposits made by customer though different accounts like current (demand deposit), call deposit and other deposit accounts.

c.) Investment on Government Securities to Current Assets

This ratio is calculated to find out the percentage of current assets invested on government securities viz. treasury bills and development bonds. Investment on government securities includes treasury bills, development bonds, saving bonds etc. The ratio is stated as under:

$$\text{Investment on Govt. Securities to Current Assets}$$

$$= \frac{\text{Investment on GOvt. Securities}}{\text{Current Assets}}$$

d.) Loans and Advances to Current Assets

Total Current this ratio can be computed by dividing loans and advances by current assets. This can be mentioned as:

$$\text{Loan and Advances to Current Assets} = \frac{\text{Loan and Advances}}{\text{Current Assets}}$$

The numerator consists of loans, advances, cash credit, local and foreign bills purchased and discounted.

ii) Asset Management Ratios (Activity Ratio)

Activity ratio measures the performance efficiency of activity of an enterprise to utilize available funds, particularly short-term funds. These ratios are used to determine the efficiency, quality and the contribution of loan and advances in the total profitability. The following ratios measure the performance efficiency of the bank to utilize its funds which are as follows:

a.) Loans and Advances to Total Working Fund Ratio

This ratio indicates the ability of selected banks in term of earning high profit from loan and advance. This ratio is calculated by dividing loans and advances by total working fun. This can be calculated as:

$$\text{Loan and Advances to Total working Fund} = \frac{\text{Loan and Advances}}{\text{Total Working Fund}}$$

The denominator includes all assets of On-balance sheet items. In other words, this includes current assets, net fixed assets, loans for development banks and other miscellaneous assets but excludes off balance sheet items like letter of credit, letter of guarantee etc.

b.) Total Investment to Total Deposit Ratio

Total investment consists of investment on government securities, investment on debenture and bonds, shares in subsidiary companies, shares in other companies and other investment. This ratio can be calculated by dividing total investment by total deposit, it can be mentioned as:

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

c.) Loans and Advances to Total Deposit Ratio

This ratio is computed by dividing total loans and advances by total deposit. Loans and advances consist of loans, advances, cash credit, overdrafts, and foreign bills purchased and discounted. The ratio presents the proportion of total deposit invested in loans and advances. High ratio means the greater use of deposits for investing in loans and advances but very high ratios may indicate poor liquidity positions and risk in loans. On the contrary, too low ratios may be the cause of idle cash which do not generate any earning.

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

d.) Investment on Government Securities to Total Assets 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 assets, which can be presented as:

$$\text{Investment on Govt. Securities to Total Assets Ratio}$$

$$= \frac{\text{Investment on Government Securities}}{\text{Total Assets}}$$

e.) Investment on Shares and Debentures to Total Working Fund Ratio

This ratio can be computed by dividing investment on share and debenture by total working fund. This can be stated as:

$$\text{Investment on Shares and Debenture to Total Working Fund Ratio}$$

$$= \frac{\text{Investment on Shares and Debenture}}{\text{Total working Fund}}$$

The numerator includes investment on debentures, bonds and share of other companies.

iii.) Profitability Ratios

A company should earn profits to survive and grow over a long period. A profit is the difference between revenues and expense over a period of time (usually one year). Profit is the ultimate output of a company in operation, and it will have no future if it fails to make sufficient profits. Therefore, the financial managers should continuously evaluate the efficiency of the company in terms of profits. The profitability ratios are calculated to measures the operating efficiency of the company

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 ratio will be computed.

a.) Return on Total working Fund Ratio

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 fund. This can be presented as:

$$\text{Return on Total Working Fund} = \frac{\text{Net Profit (loss)}}{\text{Total Working Fund}}$$

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

b.) 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:

$$\text{Return on Loan and Advances Ratio} = \frac{\text{Net profit}}{\text{Loan and Advances}}$$

c.) Total Interest Income to Total Working Fund Ratio

To assess the earning capacity of a commercial bank, total interest income to total working fund ratio is very helpful. This ratio indicates the extent of the bank being successful in mobilizing their total assets to generate high income as interest. It reveals the earning capacity of a commercial bank by mobilizing its working fund, high ratio is an indicator of high earning power of the bank on its working fund and vice-versa. This ratio is calculated by dividing total interest income by total working fund. This can be presented as:

$$\text{Total Interest Income to Total Working Fund Ratio} = \frac{\text{Total Interest Income}}{\text{Total Working Fund}}$$

d.) Total Interest Earned to Total Operating 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, computed by dividing interest income by total income presented as under:

$$\text{Interest Income to Total Income Ratio} = \frac{\text{Interest Income}}{\text{Total Operating Income}}$$

iv.) Risk Ratios

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

a.) **Credit Risk Ratio**

Credit risk helps to check the probability of loan non-repayment or the possibility of loan to as into default. It can be expressed as:

$$\text{Credit Risk Ratio} = \frac{\text{Non-Performing Loan}}{\text{Loan and Advances}}$$

3.6.2 Statistical Tools

Some important statistical tools will be used to achieve the objective of this study. Computer programming tool (i.e. http://www.wessa.net/; Free Statistics and Forecasting Online Software) also will be used to calculate Standard Deviation, Karl Pearson's Correlation of Coefficient, and Coefficient of Variance and so on. These tools are used in research in order to draw the reliable conclusion from the analysis of financial data. Following statistical tools are used for our study purpose:

i) Mean

Arithmetic mean of a given set of observation is simply an average. It is defined as the sum of numerical values of each and every observation divided by the total number of observations. As typical of all the values in the group, arithmetic means is a useful tool in statistical analysis. It is given by formula:

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

Where,

$\bar{X}$ = Mean of the Values

∑X= Summation of the Values

N= No. of Observations

ii) Standard Deviation

The standard deviation measures the absolute dispersion. It is said that higher the value of standard deviation higher the variability and vice-versa. It is defined as the positive square root of the mean of the square of the deviations taken from the arithmetic mean. It is denoted by small Greek letter σ (sigma). Karl Pearson introduced the concept of standard deviation in 1823. The formula for calculation of standard deviation is:

$$\sigma = \sqrt{\frac{\sum x2}{N}}$$

Where, $x2 = (X - \bar{X})$

iii) Coefficient of Variation

The standard deviation calculated in the above formula 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 measures the relative measures of dispersion, hence capable to compare two variables independently in terms of their variability. It is expressed in percentage. The coefficient of variation (C.V.) is given by the following formula:

$$\text{Coefficient of Variation (C.V.)} = \frac{\sigma}{\bar{X}}$$

iv.) Coefficient of Correlation

Correlation is a statistical device designed measure the degree of association between two or more variables. In other word, this analysis identifies and interprets the relationship between the two or more variables. The correlation between the different

variables of a bank is compared to measure the performance of these banks. If between two variables, increase or decrease in one cause increase or decrease in another, then such variables are correlated variables. The reliability of the value coefficient of correlation is measured by probable error. It interprets whether two or more variables are correlated positively or negatively i.e. the value of correlation lies between +1 to -1. This tool analyzes the relationship between those variables of the bank which are helpful to make appropriate investment pattern regarding deposit collection, fund mobilization and profit maximization. The Karl Pearson's coefficient of correlation (r) is given by the following formula:

$$\text{Coefficient of Correlation(r)} = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N\sum X2 - (\sum X)2}.\sqrt{N\sum Y2 - (\sum Y)2}}$$

Where,

r= Correlation coefficient

N= Number of years

∑x= Sum of X series

∑y= Sum of Y series

∑xy= Sum of X and Y series

∑x2= Sum of square of series X

∑y2= Sum of square of series Y

$$\text{Probable Error of r (P.Er.)} = 0.6745\ \frac{1-r2}{\sqrt{N}}$$

The coefficient of correlation has been interpreted based on probable error (P.Er.).If the value of correlation coefficient is greater than 6 times the value of probable error the correlation coefficient is deemed as significant and reliable. If the value of correlation coefficient is less than probable error, the correlation coefficient is said to be insignificant and there is no evidence of correlation. Karl Pearson's coefficient of correlation has been used to find out the relationship between following variables:

a) Co-efficient of correlation between deposit and loan and advances.
b) Co-efficient of correlation between deposit and total investment.
c) Co-efficient of correlation between loan and advances and net profit.

d) Co-efficient of correlation between total investment and net profit.

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 trend line following formula can be used:

$$Y= a+ bx$$

Where,

Y= Dependent variable

x= Independent variable

a= Intercept of the line

b= Slope of the line

This method will make trend analysis of following variable:

a.) Trend analysis of total deposit.

b.) Trend analysis of total investment.

c.) Trend analysis of net profit.

d.) Trend analysis of loan and advances.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter is related to the presentation and analysis of data collected from various secondary sources. This chapter has been divided into two main sections. The first section of the chapter deals with the analysis of secondary data and second section deals with major findings of the study.

This is an analytical chapter, where the researcher has analyzed and evaluated those major financial items and statistical items, which are mainly related comparison of the investment, deposits, total assets and loans and advances of Everest Bank Limited and Himalayan Bank Limited. From the view point of the deposit and investment policies only those ratios are calculated and analyzed which are relevant and important for the study. The ratios are designed and calculated to highlight the relationship between financial items and figures.

4.1 Deposits, Loans & Investment Structure Of Nepalese Commercial Banks

There are twenty nine registered commercial banks in Nepal. The collection of data from all these banks would have been much more difficult due to the time constraints and unavailability of data. Therefore, the evaluation analysis is done for Everest Bank Limited and Himalayan Bank Limited in detail.

4.1.1 Deposits of Everest Bank Limited

Deposits are the main sources to meet the growing demand assistance. The existence of CBs basically depends upon the mobilization of deposit. The CBs may function only when they have adequate deposit. Higher the volume of the deposit, higher will be the volume of lending and investment which again generate higher volume of profit. So CBs first of all tries to mobilize as much deposits as possible. Since the establishment of CBs, they are playing an important role in the economic development of the country by collecting the scattered resources in the form of deposit. The deposits collected by EBL can be divided as current, saving, fixed, call, others deposits.

Table: 4.1

Deposits Compositions of Everest Bank Limited

(In percentage)

Types	2005/06	2006/07	2007/08	2008/09	2009/10	Mean
Current Deposit	8.3	9.21	10.40	14.58	11.30	10.76
Margin Deposit	0.92	1.22	0.92	0.88	1.02	0.99
Others Deposit	0.47	0.33	0.63	0.13	0.46	0.40
Saving Deposit	50.20	49.65	49.57	44.36	36.17	45.99
Fixed Deposit	30.74	30.94	26.89	21.16	28.27	27.6
Call Deposit	9.37	8.65	11.59	18.89	22.78	14.26
Total	100	100	100	100	100	

Source: Annual Report of EBL

As shown in table 4.1, the composition of different types of deposit conducted by EBL from FY 2005/06 to 2009/10. From the table it is clear that the percentage of current deposit to total deposit increasing trend till FY 2008/09 and in 2009/10 it has been decreasing slightly.i.e.8.3 percent, 9.21 percent, 10.41 percent, 14.58 percent, 11.30 percent respectively.

Similarly, the percentage of margin deposit to total deposit is 0.92 percent, 1.22 percent, 0.92 percent, 0.88 percent, and 1.02 percent respectively which has increasing trend followed by decreasing trend.

Percentage of other deposit followed increasing and decreasing trend. Likewise the percentage of saving deposit to total deposit shows slightly decreasing trend.

Fixed deposit to total deposit is highest in FY 2006/07 i.e. 30.94 and after that the percentage of fixed deposit reveals in the decreasing trend through the four year i.e. 26.89 percent, 21.16 percent, 28.27 percent.

Finally call deposit shows decreasing in FY 2006/07 and after that the percentage of call deposit are increasing trend from 2007/08 to FY 2009/10 i.e. 11.59 percent, 18.89 percent, 22.78 percent respectively.

On an average the different types of deposit collection percentage of EBL shows the better level. Fixed deposit shown by table (i.e. 27.6 percent) is more appropriate to lend for it cannot withdraw the depositors before the expiry of the date. So bank can mobilize the amount of fixed deposit into productive sector and gain more benefit. Therefore the bank should try to improve their increase percentage of fixed deposit to total deposit which shows the decreasing percentage from FY 2005/06 to FY 2009/10 during the five year research period.

The table 4.1 has been shown in figure 4.1 as follows:

Figure: 4.1

Deposit Composition of EBL

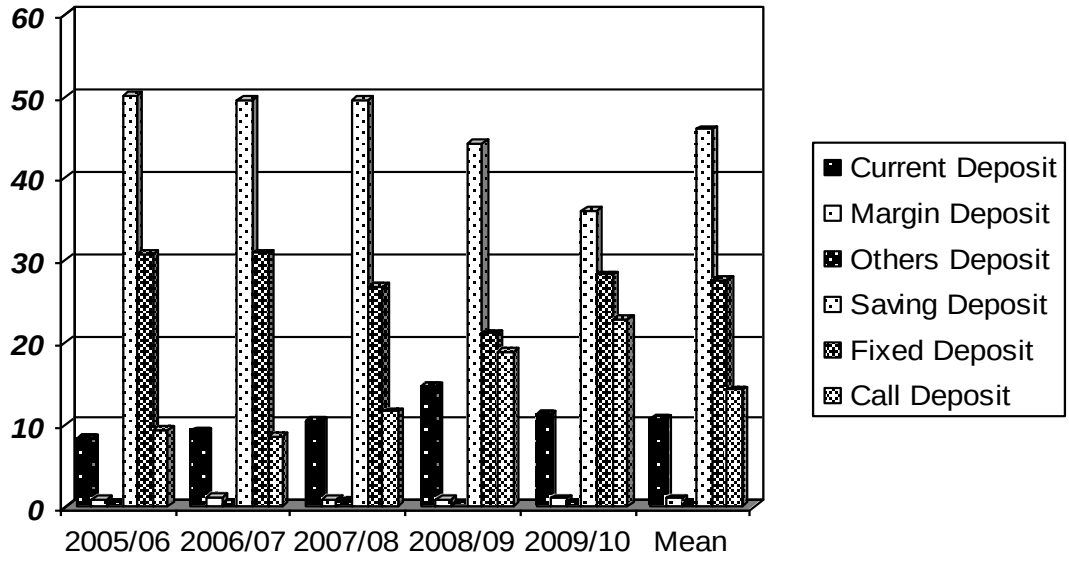


Figure 4.1 reveals that the deposit composition of EBL during five year period i.e. F.Y. 2005/06 to F.Y. 2009/10. Percentage of saving to total deposit depicts gradually falling. Similarly fixed deposit to total deposit has maximum in F.Y. 2006/07 but later it is slightly declined up to 2008/09 and in last year slightly climbing. Call deposit to total deposit depicts gradually climbing. Other percentage of deposit like current, margin, other deposits seemed to be in mixed trend during the study period.

4.1.2 Deposits, Loans and Investments of Everest Bank Limited

The table below shows the relationship between deposits, loans and investment of EBL during the study period.

Table: 4.2

Deposits, Loans and Investments of EBL

(Amount in Million)

Purpose	2005/06	2006/07	2007/08	2008/09	2009/10
Deposit	13802.44	18186.26	23976.29	33322.95	36932.31
Loan & advances	9801.30	13664.08	18339.11	23884.67	27556.36
Investment	4200.52	4984.31	5059.6	5948.48	5008.31
Loan to deposit %	71.01	73.13	76.49	71.68	74.61
Investment to deposit %	30.43	27.41	21.10	17.85	13.56
% Growth of investment	97.31	18.66	1.51	17.57	-15.81
% Growth of loan and advances	28.65	3.94	34.21	30.24	15.37

Source: Annual Report of EBL

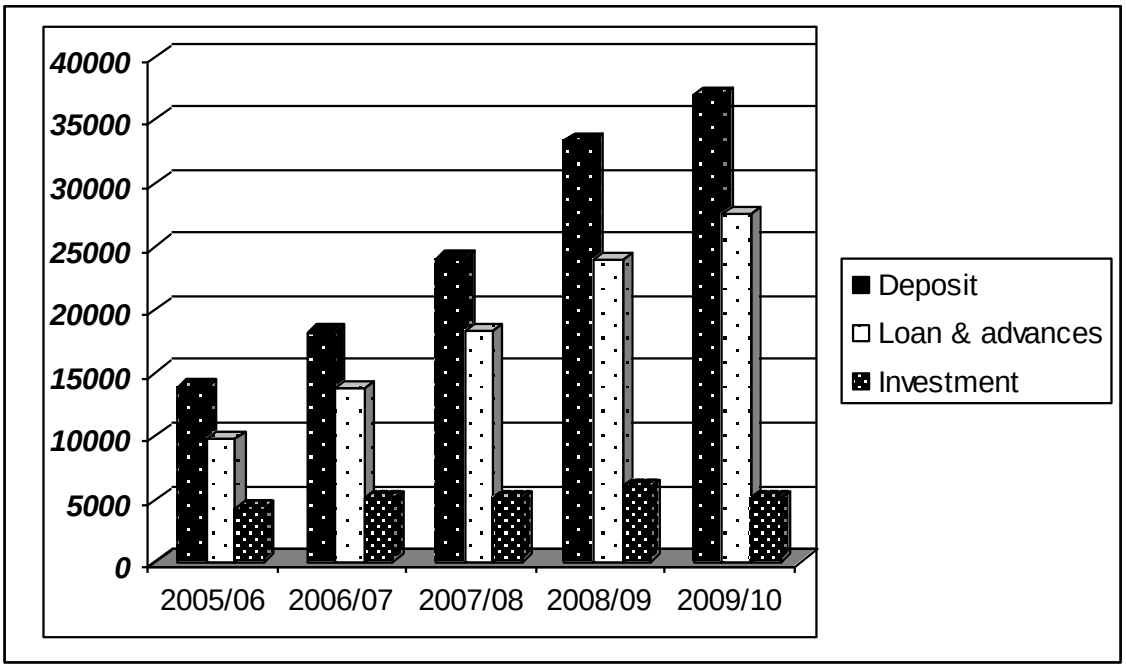
The 4.2 table shows that in FY 2005/06 71.01 percent of the deposit of the EBL has been disbursed as loan and advances, and it increased to 73.13 percent in the year 2006/07. In FY 2007/08 the loans and advances are recorded as 76.49 percent and was 71.68 percent in the next FY 2009/10 which increased to 74.61 percent in the following FY 2009/10.

Investments of EBL to the total deposits are noted as 30.43 percent 27.41 percent 21.10 percent 17.85 percent 13.56 percent in the fiscal years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 respectively. The trend of the investment to deposit is in the decreasing trend till under the study period. The table clearly depicts that decreasing investment and increasing loans and advances from total deposits are the great problem for the banks to manage.

The table 4.2 has been shown in figure 4.2 as follows:

Figure: 4.2

Deposit, Loan and Investment of EBL



The figure No- 4.2 shows the growth in deposits, loan and advances and investment of EBL in different years. It shows the ups and downs of total loan to deposit and total investment to deposit in five years period.

Total deposit depicts gradually climbing up to year 2009/10. Similarly loan and advances also depicts gradually climbing and incase of investment gradually climbing up to 2008/09 and slightly falling in F.Y. 2009/10.

4.1.3 Deposits of Himalayan Bank Limited

Table: 4.3

Deposits of Himalayan Bank Limited

(In percentage)

Purpose	2005/06	2006/07	2007/08	2008/09	2009/10	Mean
Current	18.98	18.60	15.02	9.28	9.96	14.37
Margin	1.84	1.25	2.03	1.90	2.52	1.91
Others	-	-	-	-	-	
Saving	55.05	52.53	56.44	57.84	43.32	53.04
Fixed	23.97	27.29	20.17	18.39	30.12	23.99
Call	0.16	0.33	6.33	12.59	14.08	6.70
Total	100	100	100	100	100	

Source: Annual Report of HBL

As shown in table 4.3, the composition of different types of deposit conducted by HBL from FY 2005/06 to 2009/10. From the table it is clear that the percentage of current deposit to total deposit has been decreasing trend from FY 2005/06 o FY 2009/10 i.e. 18.98 percent, 18.60 percent, 15.02 percent, 9.28 percent, 9.96 percent respectively. The highest percentage of current deposit is in FY 2005/06 i.e.18.98 percent.

Similarly, margin deposit has fluctuating trend decreasing in FY 2006/07, increasing in FY 2007/08, decreasing in FY 2008/09 and again increasing in FY 2009/10 i.e1.84 %>1.25% < 2.03% > 1.90% < 2.52% respectively.

Saving deposit to total deposit has slightly decreasing in FY 2006/07 i.e. 55.05%> 52.53% and then it has been increasing till FY 2008/09 and then it has been decreasing. i.e. 56.44 %< 57.84% < 43.32% respectively. The highest percentage of saving deposit is in FY 2008/09 i.e.57.84 percent which indicates that the cost of source is decreasing.

Likewise, fixed deposit to total deposit is highest in FY 2006/07 i.e. 27.29 percent and after that the percentage of fixed deposit reveals in the decreasing trend through four year i.e. 20.17 Percent, 18.39 percent. Fixed deposit virtually affects in profitability so in FY 2006/07 HBL has able to mobilize their deposit freely in productive sector. But from 2007/08 to 2009/10 the percentage of fixed deposit to total deposit is lower percentage which indicates low lending capacity of long term loan of the bank to generation of profit.

Finally call deposit shows increasing trend from FY 2005/06to FY 2009/10 i.e. 0.16 %< 0.33% < 6.33% < 12.59%.

The table 4.3 has been shown in figure 4.3 as follows:

Figure: 4.3

Deposits Composition of Himalayan Bank Limited

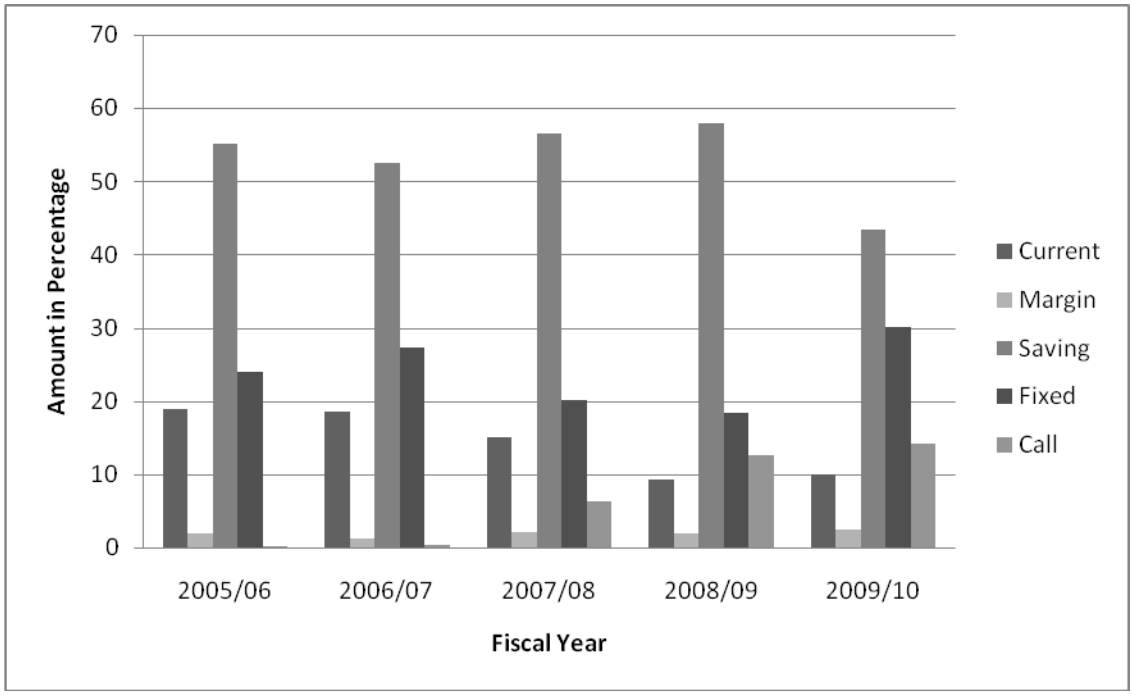


Figure 4.3 reveals that the deposit composition of HBL during five year period i.e. F.Y 2005/06 to F.Y. 2009/10. Percentage of saving to total deposit gradually climbing till F.Y. 2008/09 and then slightly declined. Similarly, fixed deposit to total deposit is maximum in F.Y. 2009/10. Call deposits seemed to be climbing and current, margin deposits seemed to be in mixed trend during the study period.

4.1.4 Deposits, Loans and Investments of Himalayan Bank Limited

The table below shows the relationship between deposits, loans and investment of HBL during the study period.

Table: 4.4

Deposits, Loans and Investments of HBL

S.No	Purpose	2005/06	2006/07	2007/08	2008/09	2009/10
1	Deposits	26490.85	30048.42	31842.79	34682.31	37611.20
2	Loans & advances	14642.56	16997.99	19497.52	24793.16	27980.63
3	Investments	10889.93	11822.98	13340.18	8710.69	8444.91
	Loan to deposit %	55.27	56.57	61.23	71.49	74.39
	Investment to deposit %	41.10	39.35	41.89	25.12	22.45
	% growth of investment	6.86	8.57	12.83	-34.70	-3.05
	% growth of loans and advances	17.85	16.09	14.70	27.16	12.86

Source: Annual Report of HBL

From the table No-4.4, it is found out that the investment growth rate of HBL in FY 2008/09 was highly negative i.e. -34.70 percent but there was a remarkably rise in growth rate in investment of 12.83 percent in the FY 2007/08. The investment growth rate is in increasing trend in the FY 2007/08 and then it is decreased up to FY 2009/010.

Total loan to deposit in 2005/06 noted as 55.27 percent which increased to 56.57 percent in the year 2006/07. The improvement in the banks policies and reductions in CRR policies by the government enabled the bank to increase its loans and advances. In the year 2007/08 the growth rate was 61.23 percent and it was 71.49 percent in FY2008/9 and 74.39 percent in FY 2009/10. That shows the HBL mobilized its fund by high percentage. The higher will be the lending higher is the profitability. That means the profitability of the bank also is increased.

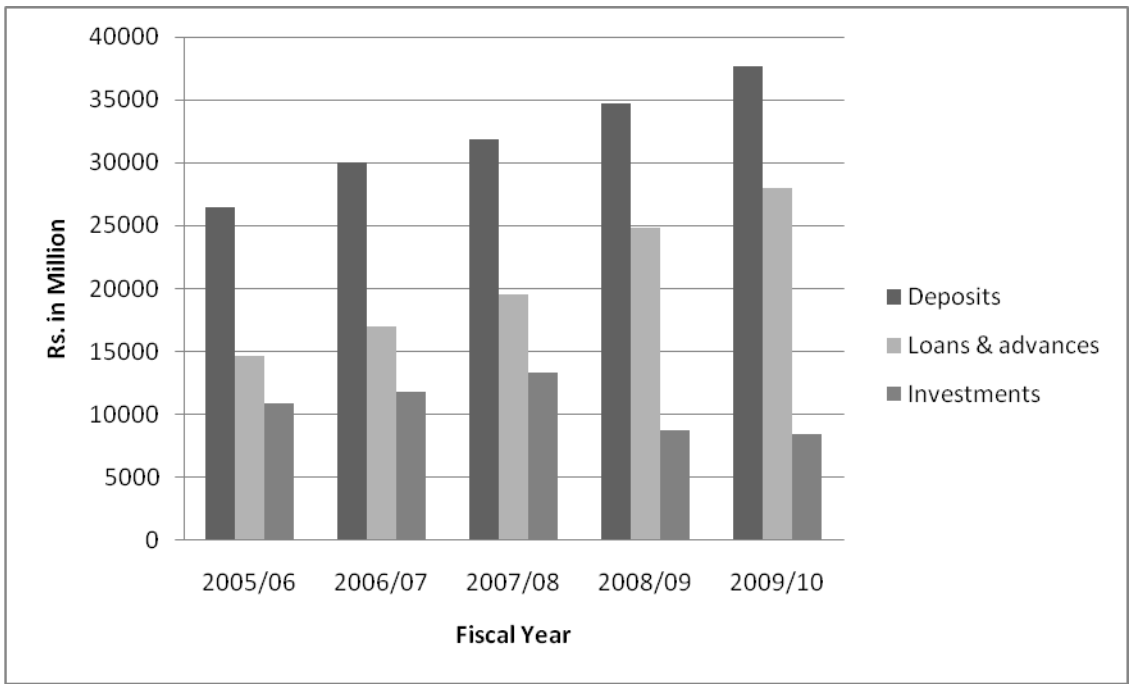
The surplus idle money of the bank is invested in other sectors i.e. treasury bills etc. Here, it is clear that when the loan percentages decrease the investments at that

particular period increases. The investment was in increasing with increasing in loan and advances. The bank makes it clear in their annual reports that the investing opportunities are reducing, which force them to avoid excess amount of interest bearing deposit.

The table 4.4 has been shown in figure 4.4 as follows:

Figure: 4.4

Deposits, Loans and Investments of HBL



The figure 4.4 shows the growth in deposits, loan and advances and investment of HBL in different years.

Total deposit depicts gradually climbing up to year 2009/10. Similarly loan and advances also gradually climbing. And investment gradually climbing up to year 2007/08 and then it has declining in F.Y. 2008/09 and 2009/10.

4.2 Analysis of Financial Ratios

Financial and statistical analysis is done by calculating some different types of financial and statistical ratios, which are important from the point of view to analyze deposits and loans of EBL and HBL. Only those ratios are studied and analyzed

which are very important to evaluate fund mobilization and investment pattern of commercial banks. The important and needed financial ratios, which are to be calculated for the purpose of these studies, are mentioned below.

4.2.1 Liquidity Ratio

Liquidity ratios are used to judge the ability of banks to meet its short term liabilities that are likely to mature in the short period. There should not be the condition of lower and higher liquidity of the banks. Lower liquidity indicates the failure of meeting the bank's current obligations and adverse result. On the other hand, higher liquidity indicates idle assets which are also not good as it earns nothing so it is essential for the bank to maintain a balance of liquidity position. The following liquidity ratios are evaluated under liquidity ratios.

4.2.1.1 Current Ratio

This ratio shows the short term solvency of a firm. This shows the ability of the firm to meet its current obligation. Normally the standard norm of current ratio is 2:1, for the banking and seasonal business current ratio of 1:1 is considered. High ratio indicates that, the bank is maintaining high liquidity to meet the current obligation. And low ratio indicates that the bank is maintaining low liquidity. Higher ratio is not favorable because it freezes the cash in bank and could not be invested properly in profitable sector. Lower ratio is also not preferable because they do not meet current obligations. Current ratio can be calculated by the following formula:

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

Where,

Current assets includes cash and bank balance, money at call on short term notice, loan and advances, investment in government securities and other interest receivable and other miscellaneous assets.

Current liabilities includes deposits, loan and advances, bills payable, tax provision, staff bonus payable, dividend payable and miscellaneous current liabilities.

Table: 4.5

Current Ratio (times)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	1.13	1.16	1.11	1.08	1.09	1.11	0.029	2.613
HBL	1.12	1.11	1.12	1.11	1.09	1.11	0.011	0.987

Source: Annex 5&6

The table 4.5 shows the current ratio of selected commercial banks during the five years period. In general it can be said that the both commercial banks have sound ability to meet their short term obligations.

In the case of EBL, current ratios are fluctuating trend. Whereas, HBL has not much fluctuation in current ratio. In an average liquidity position of both banks are same i.e. 1.11=1.11 due to equal mean ratio. Likewise, S.D and C.V of EBL is greater than HBL i.e. 0.029>0.011 and 2.613percent > 0.98percentIt can be said that current ratio of EBL is more consistent.

Lastly from the above analysis it is known that all these two banks have better liquidity position because the standard ratio is 1:1. They have met the standard ratio.

4.2.1.2 Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to immediate payment to the depositors. Higher the ratio, greater will be the ability to meet sudden demand of deposits. But every high ratio is not desirable, since bank have to pay interest on deposits.

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

Where,

Deposits includes current deposits, saving deposits, fixed deposits ,money at call on short notice and other types of deposits.

Cash and bank balance to total deposit ratio of EBL and HBL from FY 2005/06 to FY 2009/10 is given below in Table: 4.6.

Table: 4.6

Cash and Bank Balance to Total Deposit Ratio

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	11.25	13.15	11.13	18.49	21.17	15.04	4.067	27.64
HBL	6.48	5.85	4.55	8.79	10.28	7.19	2.068	28.76

Source: Annex 5&6

The 4.6 table revels that the cash and bank balance to total deposit ratio of EBL and HBL are in fluctuating trend. The highest ratio of EBL is 21.17percentin FY 2009/10 and lowest ratio is 11.13 percent in FY 2007/08. Similarly, the highest ratio of HBL is 10.28 percent in FY 2009/10 and lowest ratio is 4.55 percent in FY 2007/08.

The mean ratio of EBL and HBL are 15.04 percent and 7.19 percent respectively. EBL has higher ratio than the HBL which shows its greater ability to pay depositor's money as they want. Similarly, C.V of EBL is 27.64 percent and HBL is 28.7 percent 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 view point of depositors demand. In contrast of high ratio of cash and bank balance may be undesirable which indicates the bank's inability to invest its fund income generating areas.

4.2.1.3 Investment on Government Securities to Current Assets Ratio

The major objective of this ratio is to examine that portion of commercial bank's current assets, which is invested on various government securities issued by government. More or less, each commercial bank is interested to invest their collected fund on different government securities in different times to utilize their excess funds

and on for other purpose. The government securities are safest place to invest. But government securities are not so much liquid as cash and bank balance. They can be easily sold in the market and they can be converted into cash in other ways.

We have,

$$\text{Investment on Government Securities to Current Assets Ratio} = \frac{\text{Investment on Government Securities}}{\text{Current Assets}}$$

The Table: 4.7 given below shows the investment on Govt. Securities to current asset ratio of EBL and HBL.

Table: 4.7

Investment on Government Securities to Current Assets Ratio

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	21.02	17.0	12.04	9.24	6.71	13.20	5.19	39.31
HBL	15.20	18.02	19.87	9.99	8.27	14.27	4.49	31.46

Source: Annex 5&6

Table no 4.7 shows investment on government securities to current ratio of EBL and HBL. EBL's ratio has decreasing trend and HBL ratios has fluctuating trend. The table shows the highest ratio of EBL is 21.02 percent in FY 2005/06 and lowest is 6.71 percent in FY 2009/10. In the same way, the highest ratio of HBL is 22.24 percent in FY 2007/08 and lowest is 9.09 percent in FY 2009/10.

The mean ratio of HBL is 14.27 percent, which is higher than 13.20 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 on government securities. For minimization of investment risk, EBL has also good investment in govt. securities. Similarly, S.D is 5.91 and 4.49 and C.V is 39.31 and 31.46 of EBL and HBL respectively. The higher C.V of EBL shows the more inconsistency in the ratios with compare to HBL.

4.2.1.4 Loans and Advances to Current Assets Ratio

Loan and advances are also included in the current assets of commercial banks because generally it provides short-term loan, advances, overdrafts, cash-credit, local and foreign bill purchased and discounted.

To make a high profit mobilizing its fund in the best way, a commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loan and advances to the customers. If sufficient loan and advances cannot be granted, it should pay interest on those utilized deposits funds may lose some earning, but high loan and advances may also be harmful to keep the bank in most liquid position because they can only be collected at the time of maturity only. Thus, a bank must maintain its loan and advances in appropriate level to find out portion of current asset, which is granted as loan and advances.

We have,

$$\text{Loan and Advances to Current Assets Ratio} = \frac{\text{Loan and Advances}}{\text{Current Assets}}$$

The table 4.8 shows the ratio of loan & advances to current asset ratio of EBL and HBL.

Table: 4.8

Loan and Advances to Current Ratio

Banks	Fiscal Year						S.D	C.V (%)
	2005/06	2006/07	2007/08	2008/09	2009/10	Mean		
EBL	62.01	64.26	68.46	65.46	67.34	65.51	2.27	3.47
HBL	48.75	50.38	54.07	63.42	66.94	56.71	7.21	12.71

Source: Annex 5&6

The comparative Table:4.8 listed above shows that EBL and HBL have increasing trend on their loan and advances to current ratios. EBL has higher ratio 67.34 percent in FY 2009/10 and lower ratio 62.01 percent in FY 2005/06. HBL has higher ratio 66.94 percent in FY 2009/10 and lower ratio 48.75percent in FY 2005/06.

While examining the mean ratio, EBL has maintained i.e. 65.51 percent which is higher than mean of HBL i.e. 56.71 percent. On other side, co-efficient of variation is also less in case of EBL i.e. 3.47 %< 12.71%. It indicates that high uniform of EBL in comparison to HBL.

Lastly, we can say that EBL is better to mobilize its funds as loan and advances with respect to current assets in comparison to HBL. The mean reveals that EBL loan and advances to current assets is satisfactory than HBL.

4.2.2 Assets Management Ratio

Assets management ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. A commercial bank must be able to manage its assets properly to earn high profit, to satisfy its customers for its own existence. The following ratios are evaluated under Assets management ratios:

4.2.2.1 Loan and Advances to Total Working Fund Ratio

Commercial bank should be very aware in mobilizing total working fund, where total working fund is the total assets. It is composed of current assets, fixed assets, miscellaneous assets and investment, loans for development banks or in other words it includes all assets of balance sheet items but excludes off balance sheet items like LC, letter of guarantee etc.

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

$$\text{Loan and Advances to Total Working Fund Ratio} = \frac{\text{Loan and Advances to Total Working Fund}}{\text{Total Working Fund}}$$

The table 4.9 shows the loan and advances to total working fund ratio of EBL and HBL.

Table: 4.9

Loan and Advances to Total Working Fund Ratio

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	61.41	63.75	67.54	64.69	66.59	64.796	2.16	3.33
HBL	49.70	50.71	53.89	63.04	65.50	56.57	6.49	11.47

Source: Annex 5&6

The table 4.9 shows the loan and advances to total assets ratio of EBL and HBL are in fluctuating trend during the study period. While observing their ratios, EBL is better mobilizing of fund as well as loan and advances and it seems quite successful in generating higher ratio in each year in comparison to HBL.

The mean of EBL and HBL are 64.79 percent and 5 6.57 percent 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 EBL and HBL have 2.16, 6.49 and 3.33 percent and 11.47 percent respectively.

4.2.2.2 Total Investment to Total Deposit Ratio

This ratio of total investment to total deposit measures the extent to which the banks are able to mobilize their deposits on investment in various securities. High ratio is the indicator of high success to mobilize the banking fund as investment and vice-versa though various factors such as availability of fund, liquidity requirement, central bank norms etc are to be considered in general.

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

The table 4.10 shows the total investment to total deposit ratio of EBL and HBL.

Table: 4.10

Total Investment to Total Deposit Ratio

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	30.43	27.41	21.10	17.85	13.56	22.07	6.16	27.89
HBL	41.10	39.35	41.89	25.12	22.45	33.98	8.41	24.75

Source: Annex 5&6

The table 4.10 shows that total investment to total deposit ratio of EBL and HBL. HBL has maintained successfully total investment to total deposit ratio. Its highest ratio is 41.89 percent in FY 2007/08 whereas EBL's has decreasing yearly. Its highest ratio is 30.43 percent in FY 2005/06.

The mean of the ratio of EBL and HBL are 22.07 percent and 33.98 percent respectively so HBL has higher ratio. It signifies HBL has successfully allocated its deposit in investment portfolio to get higher investment return. It also implies that EBL has lower investment opportunities.

The S.D and C.V of EBL is 6.16 and 27.89 percent and HBL has 8.42 and 24.75 percent respectively.

4.2.2.3 Loans and Advances to Total Deposit Ratio

This ratio measures the extent to which the banks are able to mobilize their total deposits on loan and advances for the purpose of profit maximization. Better mobilization of collected deposits is indicated by the high ratio of loan and advances to deposit and vice-versa.

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

The table 4.11 shows the loan and advances to total deposit ratio of EBL and HBL.

Table: 4.11

Loan and Advances to Total Deposit Ratio

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	71.01	75.13	76.49	71.68	74.61	73.78	2.09	2.84
HBL	55.28	56.57	61.23	71.49	74.39	63.79	7.79	12.21

Source: Annex 5&6

The table 4.11 shows that the loan and advances to total deposit ratio of EBL and HBL is fluctuating trend. EBL has higher ratio than that of HBL in each year and mean too. It indicates the better mobilization of deposit of EBL. The mean of EBL and HBL are 73.78 percent and 63.79 percent respectively. So EBL has higher ratio than that of HBL. It reveals that the deposit of EBL is quickly converted into loan and advances to earn income. On the basis of co-efficient of variation we can say that EBL's loan and advances ratio is more consistent than of HBL because of its lower C.V i.e. 2.84%> 12.21%.

From the above description it can be concluded that EBL is good position to mobilize its total deposits as loan & advance in comparison to HBL. But higher ratio is not better from the point of view of liquidity as the loan and advances is not as liquid as cash and bank balance.

4.2.2.4 Investment on Government Securities to Total Assets Ratio

All the resources of a bank are never used as loan and advances. So, the commercial banks have to diversify their investment to minimize the risk by investing their investable funds in different secured or unsecured sectors. A bank mobilizes its fund by purchasing government securities which is considered secured and very low risky securities. This ratio is very important to know whether the banks are able to successfully mobilizing its some portion of investment in the government securities to maximize its income. The high ratio indicates that the bank is using good effort to mobilize its fund in the government securities.

We have,

$$\text{Investment on Government Securities to Total Assets Ratio} = \frac{\text{Investment on Government Securities}}{\text{Total Assets}}$$

Investment on government securities to total assets ratio of EBL and HBL from FY 2006/07 to 2009/10 are given in the table below.

Table: 4.12

Investment on Government Securities to Total Assets Ratio

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	20.82	16.86	11.93	9.13	6.63	13.07	5.15	39.42
HBL	15.49	18.14	19.81	9.93	8.09	14.29	4.56	31.94

Source: Annex 5&6

From the above Table: 4.12 it is clearly seen that investment on government securities to total assets ratio is fluctuating trend. EBL's ratio has in decreasing trend. HBL has fluctuating trend i.e. 15.49% > 18.14% > 19.81% < 9.93% < 8.09% in the FY 2005/06 to 2009/10 respectively.

In the average, HBL has maintained higher mean value than EBL. The co-efficient of variation is also lower than that of EBL i.e. 31.94% < 39.42%. . So it is also less variable than EBL.

From the above analysis, it can be concluded that though HBL has invested more portion of total assets on government securities as EBL, both EBL and HBL have no certain investment policy towards government securities.

4.2.2.5 Investment on Shares and Debentures to Total Working Fund Ratio

The sustainability and profitability of the banks count if it can flow its deposits in the investment and loan and advances in the very optimum level. Now a days, commercial banks are making investment diversification i.e. banks are interested to

invest its fund not only in loan and advances but also in government securities, bonds and shares etc issued by different companies.

The ratio of investment on shares and debenture to total working fund reveals that, if the banks are successful or not in mobilizing their total assets on shares and debentures of other companies to generate incomes. High ratio indicates more portion of working fund is invested in the shares and debentures and vice-versa.

$$\text{Investment on Share and Debenture to Total Working Fund Ratio} = \frac{\text{Investment on Share and Debenture}}{\text{Total Working Fund}}$$

Investment on share and debenture to total working fund ratio of EBL and HBL from FY 2006/07 to 2009/10 are given in the table 4.13.

Table: 4.13

Investment on Share and Debenture to Total Working Fund Ratio

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	0.12	0.46	0.37	0.27	0.24	0.29	0.12	39.67
HBL	0.13	0.22	0.25	0.24	0.18	0.20	0.04	22.14

Source: Annex 5&6

On the basis of above comparative Table no 4.13, it has been found that both EBL and HBL have very nominal percentage of total working fund as investment on shares and debentures. In all cases, the ratio percentage is less than 1. However, if we compare them, EBL has invested on share and debentures of other companies in decreasing ratio in each year except in FY 2006/07. But in case of HBL, it has been fluctuating in each year.

On the basis of mean ratios, EBL has invested more portion on shares and debentures as HBL i.e. 0.29% > 0.20%. Moreover co-efficient of variation of HBL ratio's is significantly lower than of EBL i.e. 22.14% < 39.67%. It means investment ratios of HBL are more consistent than that of EBL.

4.2.3 Profitability Ratio

The major objective of all commercial banks is to earn profit. Strictly speaking no bank can survive without profit. Profit is the indicator of efficient operation of a bank. The banks acquire profit by providing different services to its customers or by making investments to different kinds. Sufficient profit is most to have good liquidity, grab investment opportunities, expand banking transactions, finance government in need of development fund, overcome the future contingencies and meet fixed internal obligation for a bank. Profitability ratios measure the efficiency of a bank. Higher the ratio higher will be the efficiency of bank.

Following ratios, which are related with profit and fund mobilizing, is only studied under this heading.

4.2.3.1 Return on Total Working Fund Ratio

It measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the banks working fund is well managed and are efficiently utilized, maximize taxes within the legal options available will also improve the return. We have,

$$\text{Return on Total working Fund Ratio} = \frac{\text{Net Profit}}{\text{Total Working Fund}}$$

Return on total assets ratio of EBL and HBL from FY 2006/07 to 2009/10 are given in the table 4.14.

Table: 4.14

Return on Total Working Fund Ratio

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	1.49	1.38	1.66	1.73	2.01	1.65	0.22	13.13
HBL	1.05	1.47	1.76	1.91	1.19	1.48	0.33	22.05

Source: Annex 5&6

Above table 4.14 shows the return on total assets of EBL and HBL. Both banks have increasing trend of return on its total assets except in 2006/07 of EBL and 2009/10 of HBL. However EBL seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 1.65 percent of total assets in an average which is higher than HBL i.e. 1.65% > 1.48%.

Whereas, S.D. and C.V of EBL and HBL are 0.22, 13.13 and 0.33 and 22.05 respectively. Higher C.V of HBL shows that it has relatively high inconsistence in the ratios.

4.2.3.2 Return on Loans and Advances

The return on loan and advances ratio measures the earning capacity of commercial banks on its deposits mobilized on loan and advances. Most loan and advances includes loan cash credit, overdraft, bills purchased and discounted. While comparing two or more firms or company the highest ratio reveals a high success to mobilize fund as loan and advances and vice-versa.

We have,

$$\text{Return on Loan and Advances Ratio} = \frac{\text{Net Profit}}{\text{Loan and Advances}}$$

Return on Loan and Advances Ratio of EBL and HBL from FY 2006/0d7 to 2009/10 are given in the table 4.15.

Table: 4.15

Return on Loan and Advances Ratio

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	2.42	2.17	2.46	2.67	3.02	2.55	0.51	19.91
HBL	2.11	2.89	3.26	3.04	1.82	2.62	0.56	21.31

Source: Annex 5&6

Above table 4.15 shows the return on loan and advances ratio of EBL is in increasing trend except in FY 2006/07 and except in current year i.e. FY 2009/10 of HBL. The highest ratio of EBL is 3.02 percent in FY 2009/10 and lowest ratio is 2.17 percent in FY 2006/07. The mean ratio is 2.55 percent whereas highest ratio of HBL is 3.26 percent in FY 2007/08 and lowest ratio is 1.82 percent in FY 2009/10. The mean ratio is 2.62 percent HBL bank shows the good earning capacity in loan and advances than EBL.

Thus, it can be concluded that HBL is able to earn high return on its loans and advances in comparison to EBL. Low C.V of EBL i.e. 19.91% < 21.31% shows EBL's more homogeneous ratios during the study period.

4.2.3.3 Total Interest Paid to Total Working Fund Ratio

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

The ratio is calculated by dividing total interest paid by total working fund. The formula would be:

$$\text{Total Interest Paid to Total Working Fund Ratio} = \frac{\text{Total Interest Paid}}{\text{Total Working Fund}}$$

Table: 4.16

Total Interest Paid to Total Working Fund Ratio

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	2.52	2.41	2.33	2.74	3.80	2.76	0.53	19.50
HBL	2.20	2.29	2.28	2.38	3.64	2.56	0.54	21.25

Source: Annex 5&6

The table 4.16 shows that the interest paid to total working fund ratios of EBL has maintained in decreasing trend during first three year than in last two year it's increased during the year i.e. 2.52% >2.41% >2.33% < 2.74% < 3.80% in FY 2005/06

to 2009/10. And other hand HBL has maintained increasing trend except in FY 2007/08 i.e. 2.20% < 2.29% > 2.28% < 2.38% < 3.64%.

The mean ratio of EBL i.e. 2.76 percent is higher than that of HBL. It means EBL paid high interest than HBL during the study period. On the other hand EBL's lower co-efficient of variation i.e. 19.50 percent in comparison to HBL. It indicates that i.e. 19.50 percent ratios is slightly more stable ratio than that of HBL.

In conclusion, we can say that HBL is in better position from payment of interest point of view. It seems to be successful to collect its working fund from less expensive sources in comparisons to EBL.

4.2.3.4 Total Interest Income to Total Working Fund Ratio

The ratio of total interest income to total working fund depicts the extent on which the banks are successful in mobilizing their total assets to generate high income as interest. This ratio is calculated to find out the percentage of interested earned to total assets. Higher ratio implies better performance of the bank in terms of interest earning on its total working fund.

The ratio can be calculated by the following formula:

$$\text{Total Interest Income to Total Working Fund Ratio} = \frac{\text{Total Interest Income}}{\text{Total Working Fund}}$$

Table: 4.17

Total Interest Income to Total Working Fund Ratio

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	5.66	5.34	5.70	5.92	7.49	6.02	0.76	12.57
HBL	6.03	4.85	5.43	5.96	7.37	5.93	0.84	14.11

Source: Annex 5&6

The above Table:4.17 shows that the ratio of EBL exhibits decrease in second year then after increasing in every year i.e. 5.66% > 5.34% < 5.70% < 5.92% < 7.49%. The

ratio of HBL is also in decreasing and increasing trend, i.e. 6.03% > 4.85% < 5.43% < 5.96% < 7.37%.

From the table 4.17 it can be concluded that the ratio of total interest income to total working fund ratio of EBL is satisfactory in compared to HBL. That means the total interest income to total working fund ratio of EBL is stable in comparison to HBL.

4.2.3.5 Interest Income 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 generation sectors considering the risk and return. This ratio measures how considering the risk and return. This ratio measures how successfully the selected banks have been mobilizing their fund uninterested generating assets during last from 2005/06 to 2009/10 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: 4.18

Interest Income to Total Operating Income Ratio

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	136.44	136.02	128.00	141.54	160.92	140.58	11.05	0.0786
HBL	127.42	116.73	122.92	117.81	145.91	126.16	10.59	0.0839

Source: Annex 5&6

From the table 4.18 shows interest earned to operating income ratio of EBL and HBL. Both banks has fluctuating ratio during 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 EBL and HBL are 140.58 percent and 126.16 percent respectively. EBL has higher ratio, it indicates the high contribution in operating income made by lending and investing activities. HBL has lower ratio, it indicates that high contribution in operating income do not made by lending and investing activities is not good for long

run but in short run it is not so bad. Thus, from short term view, HBL is in good condition. In overall, HBL has managed sound interest earned to operating income ratio.

The S.D and C.V of EBL is 11.05, 0.0786 similarly HBL has 10.59, 0.0839. It indicates HBL has relatively inconsistent in interest earned to total operating income as it has higher C.V than that of EBL.

4.2.4 Risk Ratio

The possibility of risk makes banks investment a challenging task. Bank has to take risk to get return on investment. The risk taken is compensated by the increase in profit. A bank has to take high risk if it expects high return on its investment. So, the banks opting for high profit, has to accept the risk and manage its efficiency. A bank has to have idea of the level 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.

4.2.4.1 Credit Risk Ratio

Credit risk ratio measures the possibility that loan will not be repaid or 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 non-performing assets in total Loan and Advances. Higher ratio indicates more risky assets in the bank and vice-versa.

$$\text{Credit Risk Ratio} = \frac{\text{Non} - \text{Performing Loan}}{\text{Loan and Advances}}$$

Table No- 4.19

Credit Risk Ratio

Banks		Fiscal Year				Mean	S.D	C.V (%)
	2005/06	2006/07	2007/08	208/09	2009/10			
EBL	1.32	0.83	0.69	0.49	0.16	0.69	0.3840	55.01
HBL	7.10	3.76	2.45	2.22	3.66	3.84	1.9908	51.85

Source: Annex 5&6

Table 4.19 shows that NPL to total loan and advances of EBL is in decreasing trend in all years and HBL is in also decreasing trend except in 2009/10. Decreasing trend is the good sign of the efficient credit management. EBL seems effective in all year. From mean point of view, non –performing loan to total loan and advances ratio of EBL and HBL are 0.69 percent and 3.84 percent respectively. In comparison, EBL has efficient operating of credit management than that of HBL from the mean point of view and individual ratios of each year.

4.2.4.2 Capital Risk Ratio

Capital risk ratio measures bank's ability to attract deposit and inter-bank funds. It also determines the level of profit. High ratio indicates high return and high risk and vice-versa. If a bank choose to make high capital risk, its return on equity will be higher. The risk is low its funds are kept idle as cash and bank balance but reduces profitability. Capital risk ratio is obtained by dividing share capital by risk weight assets.

$$\text{Capital Risk Ratio} = \frac{\text{Capital}}{\text{Risk Weighted Assets}}$$

Table No- 4.20

Capital Risk Ratio

Banks	Fiscal year					Mean	S.D	C.V (%)
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	4.59	3.46	3.96	3.27	4.23	3.90	0.4856	12.45
HBL	3.88	3.70	3.96	3.73	5.55	4.16	0.6995	16.82

Source: Annex 5&6

From the table 4.20 shows that EBL and HBL have fluctuating trend on their capital risk ratios. EBL has higher ratio 4.59 percent in FY 2005/06 and lower ratio 3.27 percent in FY 2008/09. HBL has higher ratio 5.55 percent in FY 2009/10 and lower ratio 3.73 percent in FY 2008/09.

In average, EBL maintained lowest capital risk i.e. 3.90% < 4.16%. The co-efficient of variation of EBL is 12.45 percent which is also comparatively low position than 16.82 percent of HBL.

Thus, it is concluded that the capital risk of EBL is less than HBL and it also more consistent than HBL.

4.3 Statistical Analysis

Statistical tool is one of the important tools to analyze the data. There are various tools for analysis of tabulated data such as, mean, standard deviation, regression analysis, correlation analysis, trend analysis, test of hypothesis etc. there is used following convenient statistical tools are used in this thesis study.

4.3.1 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 the relationship between total deposit and investment, deposit and loan and advances, investment and net profit, loan and advances and net profit EBL and HBL using Karl Pearson's 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.

Interpretation of Correlation Coefficient:

- It lies always between +1 to -1.
- When 'r' = +1, there is perfect positive correlation.
- When 'r' = -1, there is perfect negative correlation.
- When 'r' lies between 0.7 to0.999, (-0.7 to -0.999) there is a high degree of positive or negative correlation.
- When 'r' lies between 0.5 to 0.6999, there is moderate degree of correlation.
- When 'r' lies less than 0.5, there is low degree of correlation.

Probable Error:

- If 'r' > 6P.E.r. than the value of 'r' is definitely significant.
- If 'r' < 6 P.E.r., than the value of 'r' is insignificant.

4.3.1.1 Coefficient of Correlation between Deposits and Loan and Advances

Deposit have played very important role in performance of a commercial banks and similarly loan and advances are very important to mobilize the collected deposits 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 objective 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: 4.21

Correlation between Deposits and Loan and Advances

Banks	Evaluation Criteria				
	r	r^2	P.Er.	6 P.Er.	Result
EBL	0.9971	0.9942	0.00174	0.0104	Highly Significant
HBL	0.9841	0.9685	0.0095	0.057	Highly Significant

From the table 4.21, it is found that coefficient of correlation between deposits and loan & advances of EBL is 0.9971. It shows positive relationship between these two variables. Moreover, when we consider the value of co-efficient of determination (r^2), which is 0.9942 and it means 99.42 percent of the variation in the dependent variable (loan and advances) has been explained by the independent variable (deposits). Similarly, considering the value of 'r' is i.e. 0.9971 and comparing it with 6 P.Er. i.e. 0.0104, we can find that 'r' is highly greater than the value of 6 P.Er. This reveals that the value of 'r' is highly significant. In other words, there is significant relationship between deposits and loan and advances incase of EBL.

Likewise, incase of HBL, correlation coefficient of deposits (independent variable) and loan and advances (dependent variable) are 0.9841, which indicates positive correlation between these two variables. Similarly, the value of coefficient of determination (r^2) is found 0.9685, which shows that 96.85 percent in the dependent variable (Loan and advances) has been explained by the independent variable (deposits). Moreover, by application of probable error, the value of r i.e.0.9841 is more than 6 P.Er. i.e.0.057, which means the relationship between deposits and loan and advances, is highly significant. In other words, HBL is successful to mobilize the funds in proper way in loan and advances.

Lastly, it can draw a conclusion from the above analysis that in both EBL and HBL, there is positive relationship between deposits and loan and advances. The relationship is significant and the value of '$r^{2'}$ shows high percent in the dependent variable has been explained by the independent variable. This indicates that EBL as well as HBL are successful to mobilize their deposits in proper way as loan and advances.

4.3.1.2 Coefficient of Correlation between Total Deposits and Total Investment

Coefficient of correlation 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: 4.23 shows the coefficient correlation between deposits and total investment i.e. r, P.Er, 6 P.Er and coefficient of determination (r^2) of EBL and HBL during the study period.

Table: 4.22

Correlation between Deposits and Total Investment

Banks	Evaluation Criteria				
	r	r^2	P. Er.	6 P.Er	Result
EBL	0.6977	0.4868	0.1548	0.9288	Insignificant
HBL	-0.6809	0.4636	0.1898	1.1388	Insignificant

From the table 4.22, it is found that the co-efficient of correlation between deposits(independent) and total investment (dependent) value of 'r' is 0.6977 incase of EBL. It shows positive relationship between these two variables. But considering the value of r^2 i.e. 0.4868, we can conclude that only 48.68 percent in the dependent variable (total investment) has been explained by the independent variable (deposits). Moreover, on the basis of value of 6 P.Er. of the EBL i.e.0.98288. It can further conclude that the relationship between deposits and investment is insignificant because 'r' is less that 6 P.Er. i.e. 0.6977< 0.9288.

Similarly, there is negative correlation coefficient between total deposit and total investment of HBL which is indicated by correlation coefficient of -0.6809. However, the value of coefficient of determination is found 0.4636 this refers that 46.36 percent of the variation in total investment is explained by total deposit. Moreover, by considering the probable error, since the value of 'r' i.e.-0.6809 percent is less than 6 P.Er. i.e.1.1388 we can say that there is insignificant relationship between deposits and total investment.

From the above analysis, the conclusion can be drawn in the case of EBL; it has positive relationship it indicates that the level of mobilizing the deposit to provide investment of EBL is satisfactory. But in case of HBL, it has negative correlation which indicates that HBL is not successful to mobilize its deposit to provide investment.

4.3.1.3 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 advances is independent variable (X) and net profit (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 advances through the coefficient of determination. The following table shows the 'r' r^2, P.Er, 6 P.Er between these variables of EBL and HBL for the study period.

Table: 4.23

Correlation between Loan and advances and Net Profit

Banks	Evaluation Criteria				
	r	r^2	P.Er.	6 P.Er.	Result
EBL	0.9875	0.9751	0.0075	0.045	Highly Significant
HBL	0.5734	0.3288	0.2025	1.215	Insignificant

From the table 4.23, incase of EBL, it is found that co-efficient of correlation between loan & advances and net profit is 0.9875. It shows positive relationship between these two variables. Moreover, when we consider the value of co-efficient of determination (r^2), which is 0.9751 and it means 97.51 percent of the variation in the dependent variable (net profit) has been explained by the independent variable (loan and advances). Similarly, considering the value of 'r' i.e.0.9875 and comparing it with 6 P.Er. i.e. 0.045, it can find that 'r' is significant. In other words, there is significant relationship between loan & advances and net profit in case of EBL.

Likewise, incase of HBL, the value of correlation between loan &advances and net profit (independent variable) and net profit (dependent variable) is 0.5734, which indicates that there is positive correlation between these two variables. Similarly, the value of co-efficient of determination (r^2) is found 0.3288, which shows that 32.88 percent in the dependent variable (net profit) has been explained by the independent variable (loan and advances). Moreover, on the basis of value of 6 P.Er. of the HBL i.e. 1.215. It can further conclude that the relationship between loan & advances and net profit is insignificant because 'r' is less than that of 6 P.Er. i.e.0.5734< 1.215.

From the above analysis, the conclusion can be drawn that in the case of EBL there is higher correlation between loan & advances and net profit and as well as higher value

of 'r^2' than that of HBL, which indicates that it is better condition to grant loan and advances for mobilizing the collected deposits in comparison to HBL.

4.3.1.4 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 2005/06 to 2009/10.

Table: 4.24

Correlation between Total Investment and Net Profit

Banks	Evaluation Criteria				
	r	r^2	P.Er.	6 P.Er.	Result
EBL	0.5687	0.3235	0.2041	1.2244	Insignificant
HBL	-0.1425	0.0203	0.2955	1.7731	Insignificant

From the table 4.24, it can found that co-efficient of correlation between total investment (independent) and net profit (dependent) value of 'r' is 0.5687 incase of EBL. It shows positive relationship between these two variables. But considering the value of 'r^2' i.e. 0.3235, we can conclude that only 32.35 percent in the dependent variable (net profit) has been explained by the independent variable (total investment) .Moreover ,on the basis of value of 6 P.Er. of the EBL i.e.1.2244. It can further conclude that the relationship between total investment and net profit is insignificant because 'r' is less than that of 6 P.Er. i.e. 0.5687< 1.2244.

On the other hand, coefficient of correlation between total investment and net profit incase of HBL, it has been found that the value of 'r' is -0.1425. It shows negative relationship between these two variables. However, by application of co-efficient of determination of the value of 'r^2' is 0.0203 which indicates that only 2.03 percent of the variation in the dependent variable (net profit) has been explained by the independent variable (net profit). Moreover, by considering the probable error, since

the value of 'r' i.e.-0.1425 percent is less than 6 P.Er. i.e. 1.7731. It can say that there is insignificant relationship between total investment and net profit.

4.3.2 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 precious trend of the financial performance and forecasts the future financial result of the firms.

4.3.2.1 Trend Analysis of Total Deposit

The scenario of the total deposits in this study periods is calculated and the next five years trend value of deposits is forecasted on the basis of last five years of deposit trend. The calculated trend value of the study periods is on the basis of real data and on the basis of these values the trend values are expected. This value may except if any assumptions are not changed.

Table: 4.25

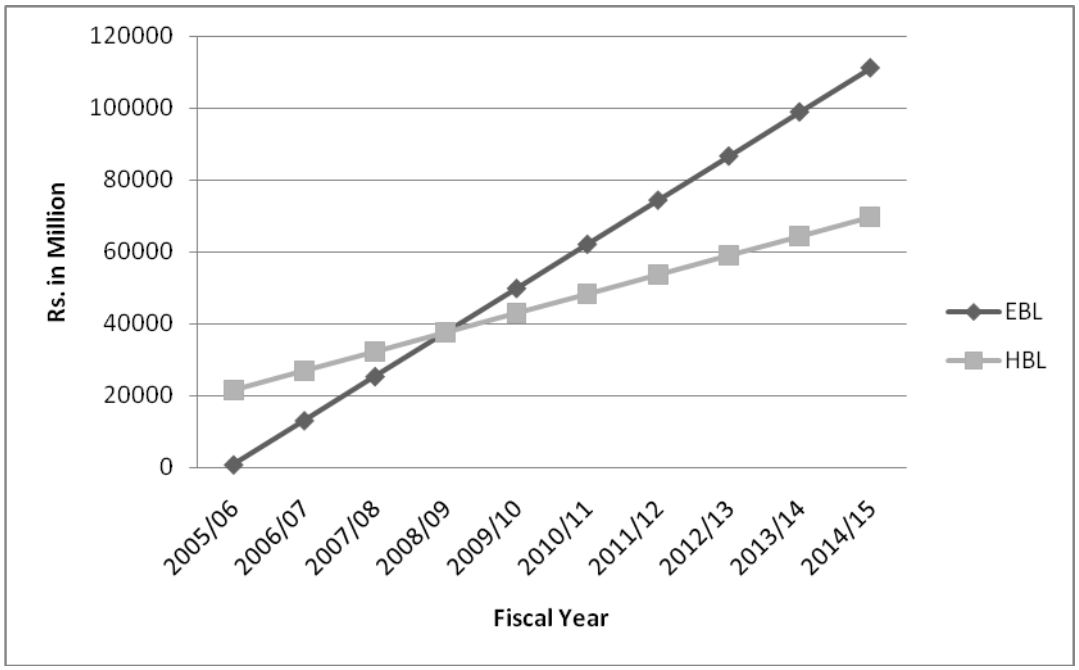
Trend analysis of Total Deposits of EBL and HBL

Year (X)	EBL	HBL
2005/06	685.47	21385.27
2006/07	12964.76	26760.196
2007/08	25244.76	32135.11
2008/09	37523.34	37510.03
2009/10	49802.63	42884.95
2010/11	62081.92	48259.87
2011/12	74361.21	53634.79
2012/13	86640.5	59009.71
2013/14	98919.79	64384.63
2014/15	111199.08	69759.55

Source: Annex 8&9

Figure: 4.5

Trend analysis of Total Deposits of EBL and HBL



From the table 4.25 and figure 4.5 shows that total deposit of EBL and HBL. Both banks are in increasing trend. The rate of increment of total deposit for EBL seems to be higher than that of HBL. The increasing trend of total deposit of EBL is more aggressive and high rather than HBL. It indicates EBL has more prospect of collecting total deposit. The trend analysis has projected deposit amount in fiscal year 2010/11 to 2014/15. From the above trend analysis it is clear that EBL has higher position in collecting deposit than HBL.

4.3.2.2 Trend Analysis of Total Investment:

The scenario of total investment in the study periods is calculated and the next five years value of investment is forecasted on the basis of last five years of investment trend. Under this heading, the trend value of investment from year 2010/11 to 2014/2015 is forecasted on the basis of real data.

Table: 4.26

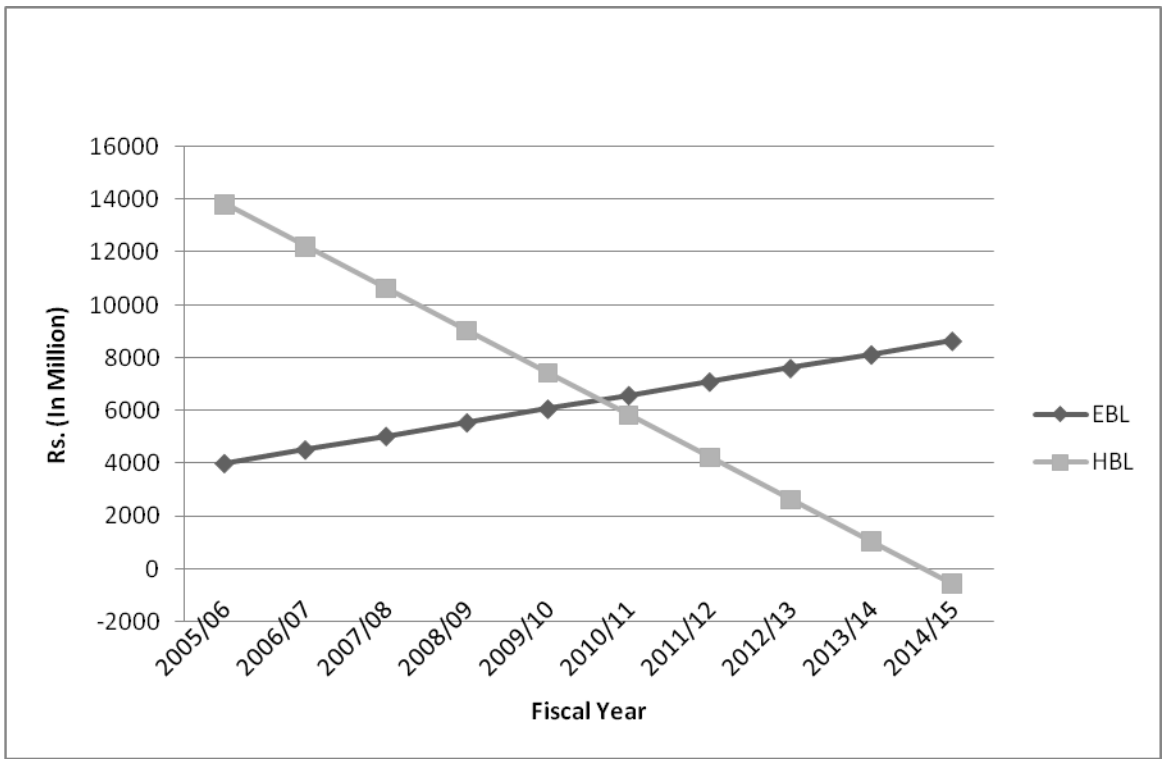
Trend Line of Total Investment between EBL and HBL

Year	EBL	HBL
2005/06	4008.344	13841.77
2006/07	4524.294	12241.66
2007/08	5040.244	10641.56
2008/09	5556.194	9041.45
2009/10	6072.144	7441.24
2010/11	6588.094	5841.24
2011/12	7104.044	4241.14
2012/13	7619.994	2641.03
2013/14	8135.944	1040.922
2014/15	8651.894	-559.184

Source: Annex 8&9

Figure: 4.6

Trend Line of Total Investment of EBL and HBL



From the table 4.26 and figure 4.6 shows the trend of total investment between EBL and HBL. EBL has increasing trend in making investment. But HBL has downward sloping and in negative in FY 2014/15. The figure indicates EBL has highly mobilized the total investment.

4.3.2.3 Trend Analysis of Net Profit

The scenario of the net profit in the study periods is calculated and the next five years trend value of net profit is forecasted on the basis of last five years. The calculated trend value of the study period is basis on the real data and the trend values are forecasted.

Table: 4.27

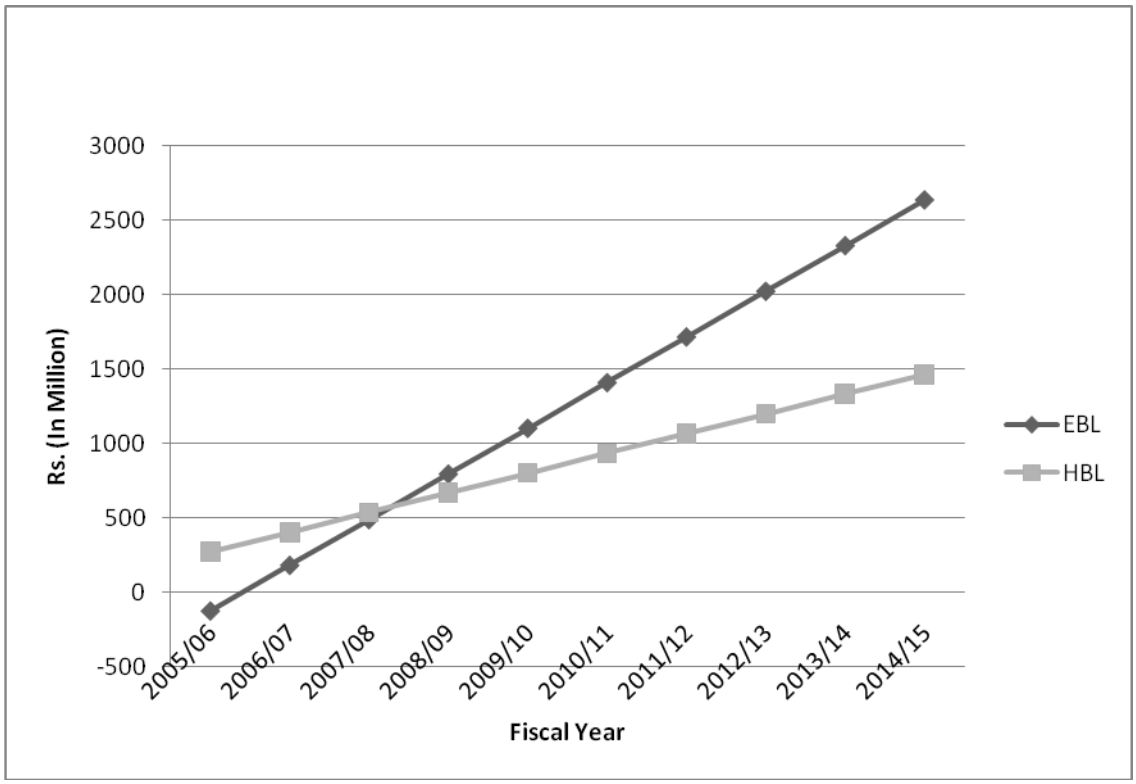
Trend Analysis of Net Profit between EBL and HBL

Year	EBL	HBL
2005/06	-121.422	274.71
2006/07	184.83	407.116
2007/08	491.082	539.52
2008/09	797.334	671.928
2009/10	1103.586	804.334
2010/11	1409.84	936.75
2011/12	1716.09	1069.16
2012/13	2022.342	1201.57
2013/14	2328.594	1333.98
2014/15	2634.846	1466.39

Source: Annex 8&9

Figure: 4.7

Trend Line of Net Profit of EBL and HBL



From the table 4.27 and figure 4.7 reveals the trend of Net profit of EBL and HBL. Net profit of EBL and HBL forecasted increasing trend. Although in FY 2005/06 Net profit is in negative the trend of increasing value of Net profit of EBL is higher and aggressive than HBL. The net profit of EBL and HBL has been increasing every year. The trend of net profit projected to FY 2014/15. i.e. further five year. Above statistics shows that both the banks have inconsistent net profit throughout the study period. In conclusion, EBL is doing better in order to generate net profit during the projected study period. The prospect of profit generating capacity of EBL is high than the HBL.

4.3.2.4 Trend Analysis of Loan and Advances

The scenario of the loan and advances in the study periods is calculated and the next five years trend value of loan and advances on the basis of last five years loan and advances trend. Under this heading, the trend value of loan and advances has been calculated on the basis of study period the forecasted values are expected.

Table: 4.28

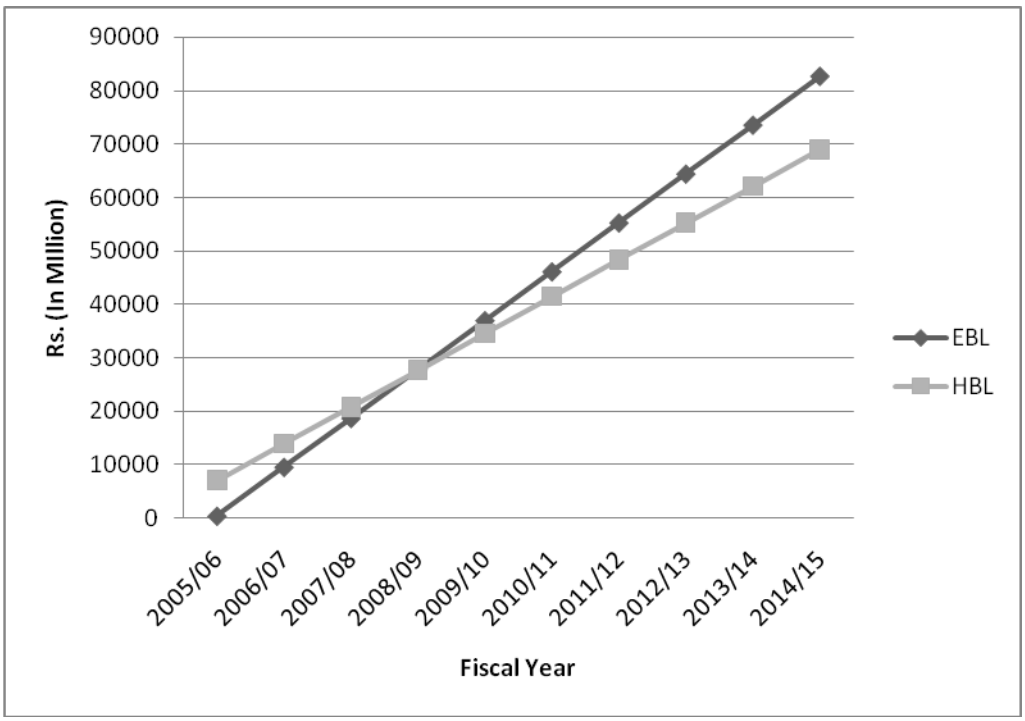
Trend Analysis of loan and advances between EBL and HBL

Year	EBL	HBL
2005/06	356.82	6993.844
2006/07	9502.96	13888.108
2007/08	18649.10	20782.372
2008/09	27795.24	27676.636
2009/10	36941.38	34570.9
2010/11	46087.52	41465.15
2011/12	55233.66	48359.41
2012/13	64379.8	55253.67
2013/14	73525.84	62147.93
2014/15	82672.08	69042.19

Source: Annex 8&9

Figure: 4.8

Trend Line of Loan and Advance of EBL and HBL



From the table4.28 and figure 4.8 depicts that loan and advances of EBL and HBL. Both banks are in increasing trend. The increasing trend of EBL is little higher than

HBL. The trend projected for further five year FY 2010/11 to FY 2014/15. From the above analysis, it is clear that both EBL and HBL is mobilizing its collected deposits and other funds in the forms of loan and advances. Above table and figure shows EBL has highly mobilizing loan and advances than the HBL.

4.4 Major Findings

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

- In case of EBL percentage of saving to total deposit has decreasing trend, fixed deposit has maximum in F.Y. 2006/07 i.e. 30.94 percent. Call deposit to total deposit is increasing trend and other percentage of deposit like current, margin and other deposits seemed to be in mixed trend during the study period.
- In case of HBL percentage of saving to total deposit has increasing trend, fixed deposit to total deposit is maximum in F.Y 2009/10 i.e. 30.12 percent. Call deposits has increasing trend and current, margin deposit has mixed trend during the study period.
- From mean ratio of both banks it has found that the portion of saving deposit has in first rank.

Liquidity Ratio

- From the analysis of current ratio it is found that the mean ratio of both banks is same i.e.1.11. Both banks have met the standard of 1:1. Comparatively risk factor of EBL is more than HBL. The ratio of EBL is less consistent than HBL.
- Cash and bank balance to total deposit ratio of EBL is higher than that of HBL i.e. 15.04% > 7.19%. It states that the liquidity position of EBL is better in this regard. And the ratio of HBL is more variable than that of EBL.
- The mean ratio of investment on government securities to current assets of HBL has higher than EBL i.e. 14.27% > 13.20%. It shows HBL has invested more fund in government securities. EBL has also invested better in

government securities. But in comparison, HBL has invested more funds in government securities out of its current assets.

- The mean ratio of loan and advance to current assets of EBL is higher than HBL i.e. 65.51% > 56.71%. EBL has maintained variability of ratio which is lower than HBL. It indicates that the liquidity position of EBL is more consistent.

The above result shows that the liquidity position of EBL is comparatively better than HBL. It has the highest cash and bank balance to total deposit ratio. At last it can be concluded that EBL has good deposit collection, it has made enough investment on loan and advances but it has maintained moderate investment pattern of government securities.

Assets Management Ratio

- The mean ratio of loan and advances to total working fund ratio of EBL is greater than HBL i.e. 65.51 %.> 56.71%. It refers EBL has utilized its total assets more efficiently in the form of loan and advances with low risk because it has lower variability in the ratio.
- The mean ratio of investment to total deposit ratio of EBL is lower than HBL i.e. 22.07% < 33.98%. It shows HBL is mobilizing its fund on investment in various securities efficiently. It can be said that HBL is more successful in utilizing its total deposit by investing marketable securities and other investment.
- The mean ratio of loan and advances to total deposit of EBL is greater than HBL i.e. 73.78% > 63.79%. It indicates the better mobilization of deposit by EBL. So, HBL has little efficiently utilizing the outsider's funds in extending credit for profit generating sectors.
- The mean ratio of investment on government securities to total assets ratio of HBL is slightly higher than EBL i.e. 14.29% > 13.67%. It indicates that HBL has invested more portions of total assets on government securities. It means HBL has invested more portions in risk free assets than that of EBL out of its total assets.
- The mean ratio of investment on share and debenture to total working fund ratio of EBL is higher than HBL. The ratio of HBL is more stable than EBL.

Profitability Ratio

- The mean ratio of return on total assets of EBL is higher than HBL i.e. 1.65% > 1.48% so EBL seems successful to in managing and utilizing the available assets in order to generate revenue as well it is more consisted in compared to HBL.
- The mean ratio of return on loans and advances ratio of HBL is slightly higher than HBL i.e. 2.62% > 2.55%. It can be concluded that HBL has utilized the loan and advance for the profit generation purpose in proper way.
- The mean ratio of total interest paid to total working fund of EBL is relatively greater than HBL i.e. 2.76% > 2.56%. It shows EBL has high interest expenditure to total assets. As, EBL has high ratio, it seems low conscious about borrowing cheaper fund.
- The mean ratio of total interest income to total working fund of EBL is higher than that of EBL i.e. 6.02% > 5.93% 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.
- Total interest earned to total operating income ratio of EBL is higher than HBL. i.e. 140.58 % > 126.16%. 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. And HBL has earned more through other sources like commission and discount, exchange gain and other operating income. From the long term and sustainable view, HBL is in low risk as it has low proportion interest in total operating income.

Risk Ratio

- The mean credit risk ratio of HBL is higher than that of EBL i.e.3.84%>0.69%. In comparison, EBL has efficient operation of credit management than that of HBL from the mean point of view and individual ratios of each year.
- The mean capital risk ratio of EBL is lower than that of HBL i.e.3.90 %< 4.16% the variability of the ratio of EBL is more consistent than that of HBL.

Co-efficient of Correlation Analysis

Co-efficient of correlation analysis between different variables of EBL and HBL reveals that:

- Both EBL and HBL have high degree of positive correlation between total deposit and loan & advances because EBL and HBL have 0.9971 and 0.8841 of correlation coefficient between deposit and loan and advances respectively. These relationships are significant. This can be regarded as good indication in financial performance of the banks. The correlation coefficient of both banks is significant.
- Similarly, there is positive correlation between total deposit and total investment incases of EBL and negative incase of HBL. Both bank's correlation coefficient is less than 6 P.Er.
- Likewise, there is positive correlation between loan and advance and net profit. Correlation between loan and advance and net profit of EBL is 0.9875 and HBL is 0.5734. EBL has high degree of positive correlation. The relationship between loan and advance and net profit of EBL has significant and HBL has insignificant due to more and less than 6 P.Er.
- The degree of relationship between total assets and net profit of HBL is poor than EBL. i.e. correlation coefficient between total assets and net profit of EBL and HBL is 0.5687 and – 0.1425 respectively. It refers that EBL is comparatively successful to generate net profit due to positive correlation. The relationship between loan and advance and net profit of both banks have insignificant due to less than 6 P.Er.

Trend Analysis

Trend analysis of deposit, investment, net profit loan & advances and projection for next five year of EBL and HBL reveals that:

- Trend values of total deposit of EBL and HBL are found increasing. The rate of increment of total deposit for EBL seems to be higher than that of HBL. EBL has better position in collecting deposit than HBL.
- Trend values of total investment of EBL are increasing. Whereas, the same of the HBL are found decreasing. The higher value of EBL in 2014/15 is Rs. 8651.894 million. Whereas lower value of HBL in the same year is negative figure Rs. 559.184 million.
- The trend line of Net profit for EBL and HBL are upward slopping. Although EBL is negative in FY 2005/06, it has aggressively and HBL has smoothly upward slopping. The position of EBL is better in order to generate profit than HBL.
- 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 better in mobilizing its loan and advances.

Above analysis reveals that both banks have well their ratio. Trend line of both banks has increasing trend except in total investment of HBL. In comparison to both banks most of the ratio of EBL is higher than HBL. It indicates better performance of EBL rather than HBL.

CHAPTER - V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter consists of three aspect of the study. Firstly, it presents the brief summary of the study, secondly it makes concluding remarks upon them and finally, it contains some useful suggestion and recommendations based of finding of the study.

5.1 Summary

The researcher has identified that research problem and set objective to solve research problems about Investment and deposit pattern of Everest Bank Limited and Himalayan Bank Limited. To make this research more effective, related literatures have been reviewed. The review of literature provides the foundation of knowledge in order to undertake this research more precisely.

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. These studies is mainly conducted on the basis of secondary data collected from annual reports of concern bank, official report, economic journal, financial statement etc and authorize web site of Nepal stock exchange and security board of Nepal.

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. Incase of financial tools ratio analysis is done which, consists current ratio, liquidity ratio, assets management ratio, profitability ratio, risk ratio. Various statistical tools such as arithmetic mean, standard deviation, coefficient of correlation, regression analysis, trend analysis and test of hypothesis, have been applied to fulfill the objective of this

study. The analysis has been done mainly through secondary data. The major findings of the study are also included in the final section of the presentation and analysis chapter.

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

Bank accepts deposits from the public under various accounts namely saving, fixed, current, call and other deposit etc. deposits are funds collected by bank from account holders for the security and transaction motives. It is the amount of money or a valuable item that is received into a bank as security against possible loss. Deposits are the foundation upon with bank thrive and grow. So, utilization of the bank deposits indicates effectiveness of management.

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

In most years, banks are the leading buyers of bond and notes issued by the government to finance public facilities, ranging from hospitals airport and highway. Moreover, bank reserves the principal channel for government economic policy to stabilize the economy. And banks are also the most important sources of short-term working capital needed for the business. They have increasingly become active in recent years in making long-term business loan for new plant and equipments. When business and consumers must make payments for the purchase of good and service, more often they use bank provided cheques, credit or debit card or electronic accounts

connected to a computer network. It is the banker's to whom they turn most frequently for advice and counsels when they need financial information and financial planning.

Investment positions are undertaken with the goal of earning some expected rate of return. Investors seek to minimize inefficient deviations from the expected rate of return. Diversification is essential to the creation of an efficient investment because it can reduce the variability of returns around the expected return.

5.2 Conclusions

Based on the analysis and interpretations on chapter four, the following conclusions have been drawn which are summarized below:

- The percentage of total deposit composition of EBL and HBL both, the portion of saving deposit has in first rank, fixed deposit is in second rank, call deposit is in third rank and current deposit is in fourth and margin and other deposit have a very low contribution in total deposit composition.
- The overall aspect of liquidity position of EBL is comparatively better than HBL. But the current ratio of both banks is same and both meet the standard and government securities to total assets of HBL are slightly higher than EBL. HBL has utilized as liquid assets in more profit generating sectors. However, trend of high value fund transfer by institutional customers and depositors is increasing in theses days.
- The assets management ratio of the commercial banks is the main indication of income generating activity. These ratios are used to judge how efficiently the firm has been using it resources. An assets management aspect of EBL is better than HBL which is justified by little higher loan & advances to total deposit ratio. Investment in Government Bond and Securities by both banks are just to meet the NRB requirements. Such investment by HBL is slightly higher than that of EBL.
- Overall profitability ratio shows that profitability position of these two commercial banks is good. There is not much different in relation to every aspect of the two banks.
- From the view point of risk ratio, it can be concluded that EBL has efficient operation of credit management than that of HBL.
- Both commercial banks EBL and HBL have high positive correlation between deposit and loan & advances.
- Both EBL and HBL have positive co-relation between loan & advances and net profit. EBL has high degree of positive correlation and HBL has moderate degree of positive correlation.

- Correlation between total deposit and total investment and total investment and net profit shows EBL has moderate degree of positive correlation and HBL has low degree of negative correlation coefficient.
- From the entire research study, overall financial performance of EBL is better than HBL. But HBL is operating smoothly and success in becoming the profitable bank as well.

5.3 Recommendations

Based on the analysis and findings of the study the following recommendations can be made as suggestions to overcome the weakness, inefficiency and to improve fund mobilization and investment pattern of EBL and HBL. This would help to draw some outline and make reforms in the respective banks.

- While analyzing the deposit pattern, it is found that maximum amount of deposit is collected from saving deposit. So the EBL and HBL are suggested to increase the weight of fixed deposit without ignoring other type of deposits to maintain healthy deposit portfolio.
- Generally, banks have to maintain liquid assets. The liquidity position affects external and international 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 increase liquidity position to EBL and HBL though it meets the contemporary statutory standard considering the trend of high value fund transfer by institutional customers and depositors is increasing in theses days.
- Government securities such as treasury bills, development bonds, saving certificate 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 HBL is lower than that of EBL. It means HBL has not properly used their existing fund as

loan and advances. So HBL is recommended to follow liberal lending policy and to invest more deposit in loan and advances.

- 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.
- 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.
- Trend line of total investment of HBL is downward slopping and in negative in last year, so HBL is suggested to increase the investment, which helps to utilize idle funds into income generation as well as minimize risk and also helps to maintain optimal level of liquidity.
- Portfolio condition of a bank should be regularly revised from time to time. It should always try to maintain the equilibrium in the portfolio condition of the bank. So, it can be said "all eggs should not be kept in the same basket". The bank should mark continuous efforts to explore new, competitive and high yielding investments opportunities to optimize their investment portfolio.
- Lastly, it is suggested to both the banks that they should use well-trained manpower. Well-trained manpower will provide better services to the bank and customer. They will try to increase the operating efficiently of the bank, so the banks have to conduct 'training school' for their personnel. They should strongly sponsor social programs contests etc for maintaining favorable public image.

Keeping all these in consideration, the HBL has little less performance than that of EBL. Therefore, in the future ahead, the HBL 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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ANNEXES

Annex-1

Everest Bank Limited

Comparative Balance Sheet

(Rs-in Millions)

Particulars	**Fiscal Year**				
Share Capital and Liabilities	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Share Capital	518	518	831.4	838.82	1279.61
Reserve and Surplus	444.81	683.52	831.4	838.82	1479.53
Debenture and Bonds	300	300	300	300	300
Loan and Borrowings	-	-	-	312	404.6
Deposit Liabilities	1382.44	18186.25	23976.30	33322.95	36932.31
Bills Payable	15.81	26.78	49.43	148.66	145.51
Proposed and Unpaid Dividend	114.67	68.51	140.79	230.52	276.25
Income Tax Liabilities	-	15.28	41.14	20.52	(1.14)
Other Liabilities	763.56	1634.60	720.44	378.57	566.08
Total Liabilities	15959.28	21432.57	27149.34	36916.85	41382.76
Assets					
Cash in Hand	259.35	534.99	822.99	944.70	1091.50
Balance with Nepal Rastra Bank	1139.51	1178.20	1080.91	4787.16	5625.11
Balance with Bank/Financial Institution	154.10	678.23	764.07	432.51	1102.20
Money at Call and Short Notice	66.96	-	346	-	-
Investment	4200.52	4984.31	5059.56	5948.48	5008.31
Loan, Advances and Bills Purchases	9801.31	13664.08	18339.09	23884.67	27556.36
Fixed Assets	152.09	170.09	360.51	427.16	463.09
Non Banking Assets	7.44	-	-	-	
Other Assets	178.01	222.66	376.22	492.17	536.19
Total Assets	15959.28	21432.57	27149.34	36916.85	41382.76

Annex-2

Himalayan Bank Limited

Comparative Balance Sheet

(Rs- In Millions)

Particulars	**Fiscal Year**				
Capital and Liabilities	2005/06	2006/07	2007/08	2008/09	2009/10
Share Capital	772.2	810.81	1013.51	1216.22	2000.00
Reserve and Funds	993.988	1335.69	1499.48	19036.66	1439.21
Debentures and Bonds	360.00	360.00	860.00	500.00	500.00
Borrowings	144.62	235.97	83.18	-	-
Deposits	26490.85	30048.42	31842.79	34681.35	37611.20
Bills Payable	73.58	91.30	102.67	113.51	216.16
Proposed and Dividend Payables	238.41	130.94	263.08	162.09	189.47
Income Tax Liabilities	-	11.91	19.13	10.16	-
Other Liabilities	386.75	494.09	491.70	733.33	761.08
Total Liabilities	29460.39	33519.14	36175.53	39320.32	42717.12
Assets					
Cash Balance	305.43	177.24	278.18	473.76	514.22
Balance with Nepal Rastra Bank	1096.25	1272.54	935.84	23284.06	2604.79
Balance with Bank/ Financial Institution	315.67	307.56	234.12	246.36	747.48
Money at Call and Short notice	1005.28	1710.02	518.53	1170.79	308.84
Investments	10889.03	11822.98	13340.18	87106.90	8444.91
Loan Advances and Bills purchase	14642.56	16997.99	19497.52	24793.16	27980.63
Fixed Assets	540.82	574.06	795.31	952.19	1061.87
Non Banking Assets	21.73	12.77	10.31	22.69	-
Other Assets	643.61	643.97	565.55	622.26	1054.38
Total Assets	29460.39	33519.14	36175.53	39320.32	42717.12

Annex-3

Everest Bank Limited

Comparative Profit and Loss Account

(Rs- In millions)

Particulars	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Interest Income	903.41	1144.41	1458.66	2186.81	3102.45
Interest Expenses	401.39	517.17	632.61	1012.87	1572.79
Net Interest Income	**502.01**	**627.24**	**916.05**	**1173.94**	**1529.79**
Commission and Discount	88.16	117.72	150.26	202.09	208.12
Other Operating Income	48.90	67.97	79.13	106.40	142.31
Exchange Income	23.07	28.40	64.45	62.35	47.68
Total Operating Income	**662.15**	**841.33**	**1209.89**	**1544.97**	**1927.98**
Staff Expenses	70.92	86.12	157.96	186.92	226.36
Other Operating Expenses	143.56	177.55	233.77	292.01	352.51
Exchange Loss	-	-	-	-	-
Operating Profit Before Provision	**447.67**	**557.67**	**818.17**	**1066.04**	**1349.10**
Provision for Possible Loss	70.47	89.70	99.34	93.08	77.01
Operating Profit	**377.20**	**487.97**	**718.83**	**972.95**	**1272.09**
Non-Operating Income/Expense	2.96	1.32	4.52	5.01	12.34
Write back from Loan Loss Provision	-	11.69	20.20	8.04	83.55
Profit from Regular Activities	**380.16**	**500.97**	**724.56**	**980.45**	**1306.79**
Profit/Loss from ordinary activities	-	0.80	18.99	5.55	61.19
Profit after inclusion all activities	380.16	500.18	724.56	980.45	1306.79
Provision for Staff Bonus	34.56	45.47	65.87	89.13	118.79
Provision for Income Tax					
- This year	106.75	144.37	216.9	276.86	357.02
- Deferred tax			9.45	24.28	0.79
- Up to Last year	1.55	13.93	-	-	-
Net Profit/Loss	**237.29**	**296.41**	**451.22**	**638.73**	**831.77**

Annex-4

Himalayan Bank Limited

Comparative Profit and Loss Account

(Rs- In Million)

Particulars	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Interest Income	1626.47	1775.58	1963.65	2342.19	3148.61
Interest Expense	648.84	767.41	823.74	934.78	1553.35
Net interest Income	977.63	1008.17	1139.90	1407.42	1595.07
Commission and Discount	165.45	193.22	187.82	284.30	270.26
Other Operating income	52.32	40.33	62.10	46.34	112.35
Exchange Fluctuation Income	198.13	151.64	207.67	249.98	180.28
Total Operating Income	1393.53	1393.36	1597.49	1988.05	2157.96
Staff expenses	234.59	272.23	292.21	360.98	414.98
Other Overhead Expenses	329.69	341.56	344.32	398.32	471.10
Exchange Fluctuation Loss	-	-	-	-	-
Operating Profit before Provision for Possible Losses	829.25	779.58	960.96	1228.75	1271.87
Provision for Possible Losses	145.15	90.69	6.01	68.81	692.64
Operating Profit	684.09	688.89	954.95	1159.95	579.23
Non- Operating income/Loss	1.89	3.49	9.70	3.81	12.38
Loan Loss Provision written Back	56.56	412.65	131.68	19.48	265.54
Profit from Regular Operations	742.54	1105.03	1096.34	1183.24	857.16
Profit/Loss from extra Ordinary Activities	2.90	315.89	52.61	9.97	25.85
Profit after Considering all Activities	739.64	789.14	1043.72	1173.27	831.30
Staff Bonus Provision	67.24	71.74	94.88	106.66	75.57
Profit after Staff Bonus	672.40	717.40	312.97	313.77	246.93
Tax Provision					
a) Current years	214.94	225.58	309.15	340.77	246.07
b)Previous Year	-	-	-	0.57	14.54
c)Deferred Tax	-		3.81	27.57	0.59
Net Profit/Loss	457.46	491.82	635.87	752.83	5087.98

Annex-5

Everest Bank Limited (EBL)

Liquidity Ratio

1) Current ratio

(Rs-in Million)

Year	Current assets	Current liabilities	Current ratio
2005/06	15807.2	13932.91	1.13
2006/07	21262.48	18296.45	1.16
2007/08	26788.83	24276.30	1.11
2008/09	36489.69	33722.65	1.08
2009/10	40919.67	37352.94	1.09
Mean			1.11

2) Cash and bank balance to total deposit ratio

(Rs-in Million)

Year	Cash and bank balance	Total deposit	Ratio
2005/06	1553.00	13802.44	11.25
2006/07	2391.42	18186.25	13.15
2007/08	2667.97	23976.29	11.13
2008/09	6164.37	33322.95	18.49
2009/10	7818.82	36932.31	21.17
Mean			15.04

3) Investment on government securities to current assets

(Rs-in Million)

Year	Government securities	Current assets	Ratio
2005/06	3322.44	15807.2	21.02
2006/07	3614.54	21262.48	17.0
2007/08	3237.98	26788.83	12.04
2008/09	3371.43	36489.69	9.24
2009/10	2745.28	40919.67	6.71
Mean			13.20

4) Loan and advances to current assets ratio

(Rs-in Million)

Year	Loan and advances	Current assets	Ratio
2005/06	9801.30	15807.2	62.01
2006/07	13664.08	21262.48	64.26
2007/08	18339.11	26788.83	68.46
2008/09	23884.67	364889.69	65.46
2009/10	27556.36	40919.67	67.34
Mean			65.51

Assets Management Ratio

1) Loan and advances to total working fund ratio

(Rs-in Million)

Year	Loan and advances	Total working fund	Ratio
2005/06	9801.30	15959.28	61.41
2006/07	13664.08	21432.57	63.75
2007/08	18339.11	27149.34	67.54
2008/09	23884.67	36916.85	64.69
2009/10	27556.36	41382.76	66.59
Mean			64.79

2) Total investment to total deposit ratio

(Rs-in Million)

Year	Total investment	Total deposit	Ratio
2005/06	4200.52	13802.44	30.43
2006/07	4984.31	18186.25	27.41
2007/08	5059.6	23976.30	21.10
2008/09	5948.48	33322.95	17.85
2009/10	5008.31	36932.31	13.56
Mean			22.07

3) Loan and advances to total deposit ratio

(Rs-in Million)

Year	Loan and advances	Total deposit	Ratio
2005/06	9801.30	13803.44	71.01
2006/07	13664.08	18186.25	75.13
2007/08	18339.11	23976.30	76.49
2008/09	23884.67	33322.95	71.68
2009/10	27556.36	36932.31	74.61
Mean			73.78

4) Investment on government securities to total assets

(Rs-in Million)

Year	Investment on government securities	Total assets	Ratio
2005/06	3322.44	15959.28	20.82
2006/07	3614.54	21432.57	16.86
2007/08	3237.98	27149.34	11.93
/2008/09	3371.43	36916.85	9.13
2009/10	2745.28	41382.76	6.63
Mean			13.07

5) Investment on share and debenture to total working fund ratio

(Rs-in Million)

Year	Investment on share & debenture	Total working fund	Ratio
2005/06	19.89	15959.28	0.12
2006/07	98.59	21432.57	0.46
2007/08	101.15	27149.34	0.37
2008/09	102.03	36916.85	0.27
2009/10	99.32	41382.76	0.24
Mean			0.29

Profitability Ratio

1) Return on total assets

(Rs-in Million)

Year	Net profit	Total assets	Ratio
2005/06	237.30	15959.28	1.49
2006/07	296.41	21432.57	1.38
2007/08	451.2	27149.34	1.66
2008/09	638.73	36916.85	1.73
2009/10	831.77	41382.76	2.01
Mean			1.65

2) Return on loan and advances

(Rs-in Million)

Year	Net profit	Loan and advances	Ratio
2005/06	237.30	9801.30	2.42
2006/07	296.41	13664.08	2.17
2007/08	451.2	18339.10	2.46
2008/09	638.73	23884.67	2.67
2009/10	831.77	27556.36	3.02
Mean			2.55

3) Total interest paid to total assets ratio

(Rs-in Million)

Year	Interest paid	Total assets	Ratio
2005/06	401.39	15959.28	2.52
2006/07	517.17	21432.57	2.41
2007/08	632.61	27149.34	2.33
2008/09	1012.87	36916.85	2.74
2009/10	1572.79	41382.76	3.80
Mean			2.76

4) Total interest income to total assets ratio

(Rs-in Million)

Year	Interest income	Total assets	Ratio
2005/06	903.41	15959.28	5.66
2006/07	1144.41	21432.57	5.34
2007/08	1548.66	27149.34	5.70
2008/09	2186.81	36916.85	5.92
2009/10	3102.45	41382.76	7.49
Mean			6.02

5) Total interest earned to total operating income ratio

(Rs-in Million)

Year	Interest income	Total operating income	Ratio
2005/06	903.41	662.15	136.44
2006/07	1144.41	841.33	136.02
2007/08	1548.66	1209.89	128.00
2008/09	2186.81	1544.97	141.54
2009/10	3102.45	1927.98	160.92
Mean			140.58

Risk Ratio

1) Credit risk ratio

(Rs-in Million)

Year	Non performing loan	Loan and advance	Ratio
2005/06	129.2	9801.30	1.32
2006/07	113.18	13664.1	0.83
2007/08	127.31	18339.08	0.69
2008/09	117.99	23884.67	0.49
2009/10	43.71	27556.36	0.16
Mean			0.69

2) Capital risk ratio

(Rs-in Million)

Year	Share capital	Risk weighted assets	Ratio
2005/06	518.00	112713.29	4.59
2006/07	518.00	14976.74	3.46
2007/08	831.4	20974.86	3.96
2008/09	838.82	25619.75	3.27
2009/10	1279.61	30240.43	4.23
			3.90

Annex-6
Himalayan Bank Limited (HBL)
Liquidity ratio

1) Current ratio

(Rs-in Million)

Year	Current assets	Current liabilities	Ratio
2005/06	30,038.98	26802.84	1.12
2006/07	33740.81	30282.57	1.11
2007/08	36062.41	32227.67	1.12
2008/09	39094.49	34967.11	1.11
2009/10	41798.38	38016.83	1.09
Mean			1.11

2) Cash and bank balance to total deposit ratio

(Rs-in Million)

Year	Cash and bank balance	Total deposit	Ratio
2005/06	1717.35	26490.85	6.48
2006/07	1757.34	30048.42	5.85
2007/08	1448.14	31842.79	4.55
2008/09	3048.53	34682.31	8.79
2009/10	3866.49	37611.20	10.28
Mean			7.19

3) Investment on government securities to current assets ratio

(Rs-in Million)

Year	Government securities	Current assets	Ratio
2005/06	4565.32	30038.98	15.20
2006/07	6079.37	33740.81	18.02
2007/08	7166.53	36062.41	19.87
2008/09	3907.34	39094.49	9.99
2009/10	3455.03	41798.38	8.27
Mean			14.27

4) Loan and advances to current assets ratio

(Rs-in Million)

Year	Loan and advances	Current assets	Ratio
2005/06	14642.56	30038.98	458.
2006/07	16997.99	33740.81	50.38
2007/08	19497.52	36062.41	54.07
2008/09	24793.16	39094.49	63.42
2009/10	27980.63	41798.38	66.94
Mean			56.71

Assets management ratio

1) Loan and advance to total working fund ratio:

(Rs-in Million)

Year	Loan and advance	Total working fund	Ratio
2005/06	14643.56	29460.39	49.70
2006/07	16997.99	33519.14	50.71
2007/08	19497.52	36175.53	53.89
2008/09	24793.16	39330.13	63.04
2009/10	27980.63	42717.12	65.50
Mean			56.57

2) Total investment to total deposit ratio

(Rs-in Million)

Year	Total investment	Total deposit	Ratio
2005/06	10889.03	26490.85	41.10
2006/07	11822.98	30048.42	39.35
2007/08	13340.18	31842.79	41.89
2008/09	8710.69	34682.31	25.12
2009/10	8444.91	37611.20	22.45
Mean			33.99

3) Loan and advances to total deposit ratio

(Rs-in Million)

Year	Loan and advances	Total deposit	Ratio
2005/06	14642.56	26490.85	55.28
2006/07	16997.99	30048.42	56.57
2007/08	19497.52	31842.79	61.23
2008/09	24793.16	34682.31	71.49
2009/10	27980.62	37611.20	74.39
Mean			63.79

4) Investment on government securities to total assets ratio

(Rs-in Million)

Year	Investment on government securities	Total assets	Ratio
2005/06	4565.32	29460.39	15.49
2006/07	6079.37	33519.14	18.14
2007/08	7166.53	36175.53	19.81
2008/09	3907.34	39330.13	9.93
2009/10	3455.03	42717.12	8.09
Mean			14.29

5) Investment on share and debenture to total working fund ratio

(Rs-in Million)

Year	Investment on share & debenture	Total working fund	Ratio
2005/06	38.57	29460.39	0.13
2006/07	73.42	33519.14	0.22
2007/08	89.56	36175.53	0.25
2008/09	93.88	39330.13	0.24
2009/10	78.88	42717.12	0.18
Mean			0.20

Profitability ratio

1) Return on total working fund ratio

(Rs-in Million)

Year	Net profit	Total working fund	Ratio
2005/06	308.28	29460.39	1.49
2006/07	491.82	33519.14	1.38
2007/08	635.89	36175.53	1.66
2008/09	752.83	39330.13	1.73
2009/10	508.79	42717.12	2.01
Mean			1.65

2) Return on loan and advances ratio

(Rs-in Million)

Year	Net profit	Loan and advances	Ratio
2005/06	308.28	14642.56	2.11
2006/07	491.82	16997.99	2.89
2007/08	635.89	19497.52	3.26
2008/09	752.83	24793.16	3.04
2009/10	508.79	27980.63	1.82
Mean			2.62

3) Total interest paid to total working fund ratio

(Rs-in Million)

Year	Interest paid	Total working fund	Ratio
2005/06	648.84	29460.39	2.20
2006/07	767.41	33519.14	2.29
2007/08	823.74	36175.53	2.28
2008/09	934.78	39330.13	2.38
2009/10	1553.53	42717.12	3.64
Mean			2.56

4) Total interest income to total working fund ratio

(Rs-in Million)

Year	Interest income	Total working fund	Ratio
2005/06	1775.58	29460.39	6.03
2006/07	1626.47	33519.14	4.85
2007/08	1963.65	36175.53	5.43
2008/09	2342.19	39330.13	5.96
2009/10	3148.61	42717.12	7.37
Mean			5.93

5) Total interest earned to total operating income ratio

(Rs-in Million)

Year	Interest income	Total operating income	Ratio
2005/06	1775.58	1393.53	127.42
2006/07	1626.47	1393.36	116.73
2007/08	1963.65	1597.50	122.92
2008/09	2342.19	1988.05	117.81
2009/10	3148.61	2157.96	145.91
Mean			126.16

Risk ratio

1) Credit risk ratio

(Rs-in Million)

Year	Non performing loan	Loan and advances	Ratio
2005/06	1040.75	14642.56	7.10
2006/07	639.83	16997.99	3.76
2007/08	477.23	19497.52	2.45
2008/09	549.29	24793.16	2.22
2009/10	1024.67	27980.63	3.66
Mean			3.84

2) Capital risk ratio

(Rs-in Million)

Year	Capital	Risk weighted assets	Ratio
2005/06	772.2	19918.33	3.88
2006/07	810.81	21889.71	3.70
2007/08	1013.51	25624.47	3.96
2008/09	1216.22	32628.85	3.73
2009/10	2000	36049.31	5.55
Mean			4.16

Annex-7

Correlation between total deposit and loan and advances of EBL

(Rs-in Million**)**

Year	Deposit (X)	Loan and advances (Y)	X^2	Y^2	XY
2005/06	13802.44	9801.30	190507350	96065481,69	135281855.2
2006/07	18186.25	13664.08	330739689.1	1866707082.2	248498374.9
2007/08	23976.30	18339.11	574862961.7	336322955.6	439704003.1
2008/09	33322.95	23884.67	1110418997	570477461	795907664.2
2009/10	36932.31	27556.36	1363995522	759352976.5	1017720030
	126220.25	93245.52	3570524519	1948925884	2637111879

Here,

$\sum X = 126220.25$

$\sum Y = 93245.52$

$\sum X^2 = 3570524519$

$\sum Y^2 = 1948925884$

$\sum XY = 2637111879$

$N = 6$

$r = ?$

By using Karl Pearson's correlation coefficient:

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

$$= \frac{5\times 2637111879 - 126220.25\times 93245.52}{\sqrt{5\times 3570524519 - (126220.25)^2}\sqrt{5\times 1948925884 - (93245.52)^2}}$$

$$= \frac{1416086549}{\sqrt{1921071085}.\sqrt{1049902420}}$$

$$= \frac{1416086549}{43830.02492\times 32402.2035}$$

$$= \frac{1416086549}{1420189387}$$

= 0.9971

Therefore correlation between deposit and loan and advances (r) = 0.9971

Probable Error

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

Where,

N= number of pairs of observation=5

r= correlation coefficient= 0.9971

$$P.Er. = 0.6745 \times \frac{1-(0.9971)^2}{\sqrt{5}}$$

$$= 0.6745 \times \frac{0.00579}{\sqrt{5}}$$

=0.00175

Similarly, correlation coefficient and probable error for other variable are also calculated accordingly.

Annex-8

Everest Bank Limited (EBL)

1) Trend analysis of Total deposit of EBL

Year (T)	Deposit (Y)	X= (T-2007.5)	X_2	XY	Y_c= a+ bX
2005/06	13802.44	-2	4	-27604.88	685.47
2006/07	18186.25	-1	1	-18186.25	12964.76
2007/08	23976.30	0	0	0	25244.05
2008/09	33322.95	1	1	33322.95	37523.34
2009/10	36932.31	2	4	73864.62	49802.63
	126220.25		10	61396.44	

N=5

$a = \frac{\sum Y}{N}$ $b = \frac{\sum XY}{N}$

$= \frac{126220.25}{5}$ $= \frac{61396.44}{5}$

= 25244.05 = 12279.288

The equation of the straight line trend is $Y_{c=}$ a+ bX

Y_c= 25244.05+ 12278.288X

Trend analysis of total deposit of EBL (2010-2015)

Year (T)	X= (T-2007.5)	Y_c= a+ bx
2010/11	3	62081.92
2011/12	4	74361.21
2012/13	5	86640.5
2013/14	6	98919.79
2014/15	7	111199.08

2) Trend analysis of investment of EBL (Sample calculation)

Year (T)	Investment (Y)	X= (T-2003.5)	X^2	XY	$Y_{c=\ a+\ bX}$
2005/06	4200.52	-2	4	-8401.04	4008.344
2006/07	4984.31	-1	1	-4984.31	4524.294
2007/08	5059.6	0	0	0	5040.244
2008/09	5948.48	1	1	5948.48	5556.194
2009/10	5008.31	2	4	10016.62	6072.144
	25201.22		10	2579.75	

N=5

a= $\frac{\sum Y}{N}$ b= $\frac{\sum XY}{N}$

= $\frac{25201.22}{5}$ = $\frac{2579.75}{5}$

= 5040.244 = 515.95

The equation of the straight line trend is Y_c= a+bX

Y_c= 5040.244+ 515.95X

Trend analysis of investment (2006-2011)

Year (T)	X= (T-2007.5)	Y_c= a+bX
2010/11	3	6588.094
2011/12	4	7104.044
2012/13	5	7619.994
2013/14	6	8135.944
2014/15	7	8651.894

3) Trend analysis of net profit of EBL (sample calculation)

Year (T)	Net profit (Y)	X= (T-2007.5)	X^2	XY	$Y_{c=}$ a+ bX
2005/06	237.30	-2	4	-474.6	-121.422
2006/07	296.41	-1	1	-296.41	184.83
2007/08	451.2	0	0	0	491.082
2008/09	638.73	1	1	638.73	797.334
2009/10	831.77	2	4	1663.54	1103.586
	2455.41			15321.26	

N= 5

a= $\frac{\sum Y}{N}$ b= $\frac{\sum XY}{N}$

= $\frac{2455.41}{5}$ = $\frac{15321.26}{5}$

= 491.082 = 306.252

The equation of the straight line trend is $Y_{c=}$ a+ bX

$Y_{c=}$ 491.082+ 306.252X

Trend analysis of net profit of EBL (2010-2015)

Year (T)	X= (T- 2007.5)	$Y_{c=}$a+ bX
2010/11	3	1409.84
2011/12	4	1716.09

2012/13	5	2022.342
2013/14	6	2328.594
2014/15	7	2634.846

4) Trend analysis of loan and advances of EBL (Sample calculation)

Year (T)	Loan and advances (Y)	X= (T-2007.5)	X^2	XY	$Y_{c=}$ a+bX
2005/06	9801.30	-2	4	-19692.6	356.82
2006/07	13664.08	-1	1	-13664.08	9502.96
2007/08	18339.10	0	0	0	18649.10
2008/09	23884.67	1	1	23884.67	27795.24
2009/10	27556.36	2	4	55112.72	36941.38
	93245.51			45730.71	

N=5

$$a = \frac{\sum Y}{N} = \frac{93245.51}{5} = 18649.102$$

$$b = \frac{\sum XY}{N} = \frac{45730.71}{5} = 9146.142$$

The equation of the straight line trend is $Y_{c=}$ a+bX

$Y_{c=}$ 18649.102+9146.142X

Trend analysis of loan and advances of EBL (2010-2015)

Year (T)	X= (T-2007.5)	$Y_{c=}$ a+bX
2010/2011	3	46087.52
2011/2012	4	55233.66
2012/2013	5	64379.8
2013/2014	6	73535.84
2014/2015	7	82672.08

Annex-9

Himalayan Bank Limited (HBL)

1) Trend analysis of total deposit (sample calculation)

Year (T)	Total deposit (Y)	X= (T-2007.5)	X^2	XY	$Y_{c=}$ a+ bX
2005/06	26490.85	-2	4	-52981.7	21385.27
2006/07	30048.42	-1	1	-30048.42	26760.196
2007/08	31842.79	0	0	0	32135.11
2008/09	34682.31	1	1	34682.31	37510.03
2009/10	37611.20	2	4	75222.4	42884.95
	160675.57			26874.59	

N=5

a= $\frac{\sum Y}{N}$

= $\frac{160675.57}{5}$

= 32135.114

b= $\frac{\sum XY}{N}$

= $\frac{26874.59}{5}$

= 5374.918

The equation of the straight line trend is $Y_{c=}$ a+bX

Y_c= 32135.114+5374.918X

Trend analysis of total deposit of HBL (2010-2015)

Year (T)	X=(T-2007.5)	$Y_{c=}$ a+bX
2010/11	3	48259.87
2011/12	4	53634.79
2012/13	5	59009.71
2013/14	6	64384.63
2014/15	7	69759.55

2) Trend analysis of investment of HBL (sample calculation)

Year (T)	Investment (Y)	X= (T-2007.5)	X^2	XY	$Y_{c=}$ a+bX
2005/06	10889.03	-2	4	-21778.06	13841.77
2006/07	11822.98	-1	1	-11822.98	12241.66
2007/08	13340.18	0	0	0	10641.568
2008/09	8710.69	1	1	8710.69	9041.45
2009/10	8444.91	2	4	16889.82	7441.24
	53207.79			-8000.53	

N=5

$a = \frac{\sum Y}{N}$

$= \frac{53207.79}{5}$

= 10641.558

$b = \frac{\sum XY}{N}$

$= \frac{-8000.53}{5}$

= -1600.106

The equation of the straight line trend is $Y_{c=}$ a+ bX

Y_c = 10641.558+ (-1600.106) X

Trend analysis of investment of HBL (2010-2015)

Year (T)	X=(T-2007.5)	Y_c= a+bX
2010/11	3	5841.24
2011/12	4	4241.14
2012/13	5	2641.03
2013/14	6	1040.922
2014/15	7	-559.184

3) Trend analysis of net profit of HBL(sample calculation)

Year (T)	Net profit(Y)	X=(T-2007.5)	X^2	XY	$Y_{c=}$ a+bX
2005/06	308.28	-2	4	-616.56	274.71
2006/07	491.82	-1	1	-491.82	407.116
2007/08	635.89	0	0	0	539.52
2008/09	752.83	1	1	752.83	671.928
2009/10	508.79	2	4	1017.58	804.334
	2697.61			662.03	

N=5

$a = \frac{\sum Y}{N}$

$= \frac{2697.61}{5}$

= 539.522

$b = \frac{\sum XY}{N}$

$= \frac{662.03}{5}$

= 132.406

The equation of the straight line trend $Y_{c=}$ a+bX

Y_c = 539.522+ 132.406X

Annex 10

Trend analysis of net profit of HBL (2010-2015)

Year (T)	X= (T-2007.5)	$Y_{c=}$ a+bX
2010/11	3	936.75
2011/12	4	1069.16
2012/13	5	1201.57
2013/14	6	1333.98
2014/15	7	1466.39

4) Trend analysis of loan and advances of HBL (sample calculation)

Year (T)	Loan and advances (Y)	X= T-(2007.5)	X^2	XY	$Y_{c=}$a+bX
2005/06	14642.56	-2	4	-29285.12	6993.844
2006/07	16997.99	-1	1	-16997.99	13888.108
2007/08	19497.52	0	0	0	20782.372
2008/09	24793.16	1	1	24793.16	27676.636
2009/10	27980.63	2	4	55961.26	32570.9
	103911.86			34471.32	

N= 5

$a= \frac{\sum Y}{N}$

$= \frac{103911.86}{5}$

= 20782.372

$b= \frac{\sum XY}{N}$

$= \frac{34471.32}{5}$

= 6894.264

The equation of the straight line trend is $Y_{c=}$ a+bX

$Y_{c=}$ 20782.372+6894.264X

Trend analysis of loan and advances of HBL (2010-2015)

Year (T)	X=(T-2007.5)	$Y_{c=}$ a+bX
2010/11	3	41465.15
2011/12	4	48359.41
2012/13	5	55253.67
2013/14	6	62147.93
2014/15	7	69042.19

Annex-10

List of Licensed Commercial Banks

December 2011

S. No.	Commercial Banks	Operation Date (A.D.)	Corporate Office	Paid up capital (Rs.in Million)
1.	Nepal Bank Ltd.	1937/11/15	New Road, Kathmandu	380.4
2.	Rastriya Banijya Bank Ltd.	1966/01/23	Ramshah Path, Kathmandu	1172.3
3.	Agriculture Development Bank Ltd.	1968/01/02	Ramshah Path, Kathmandu	9437.5
4.	NABIL Bank Ltd.	1984/07/16	Kamaladi, Kathmandu	2029.8
5.	Nepal investment Bank Ltd.	1986/02/27	Durbar Marg, Kathmandu	2409.1
6.	Standard-Chartered Bank Nepal Ltd.	1987/01/30	New Baneshwor, Kathmandu	1398.5
7.	Himalayan Bank Ltd.	1993/01/18	Thamel, Kathmandu	1600.0
8.	Nepal SBI Bank Ltd.	1993/07/07	Hattisar, Kathmandu	1653.6
9.	Nepal Bangladesh Bank Ltd.	1994/06/05	Babarmahal, Kathmandu	1860.3
10.	Everest Bank Ltd.	1994/10/18	Lazimpat, Kathmandu	1079.6
11.	Bank of Kathmandu Ltd.	1995/03/12	Kamaladi, Kathmandu	1359.5
12.	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Bagbazar, Kathmandu	1399.6
13.	Lumbani Bank Ltd.	1998/07/17	Naxal, Kathmandu	1294.5

14.	Nepal Industrial and Commercial Bank Ltd.	1998/07/21	Kamaladi, Kathmandu	1311.5
15.	Machhapuchhre Bank Ltd.	2000/10/03	Lazimpat, Kathmandu	1627.2
16.	Kumari Bank Ltd.	2001/04/03	Kamaladi. Kathmandu	1306.0
17.	Laxmi Bank Ltd.	2002/04/03	Hattisar, Kathmandu	1613.5
18.	Siddhartha Bank Ltd.	2002/12/24	Hattisar, Kathmandu	1561.0
19.	Global Bank Ltd.	2007/01/02	Panipokhari, Kathmandu	1473.4
20.	Citizen Bank International Ltd.	2007/06/21	Kamaladi, Kathmandu	2000.0
21.	Prime Bank Ltd.	2007/09/24	New Road, Kathmandu	2000.0
22.	Sunrise Bank Ltd.	2007/10/12	Gairidhara, Kathmandu	2000.0
23.	Bank of Asia Nepal Ltd.	2007/10/12	Tripureswor, Kathmandu	2000.0
24	DCBL Bank Ltd.	2008/05/25	Kamaladi, kathmandu	2000.0
25	NMB Bank Ltd.	2008/06/05	Babarmahal, kathmandu	2000.0
26	Kist Bank Ltd.	2009/06/07	Anamnagar, Kathmandu	2000.0
27	Janata Bank Nepal Ltd.	2010/04/05	New Baneshwor, Kathmandu	1400.0
28	Mega Bank Nepal Ltd.	2010/07/23	Kantipath, Kathmandu	1631.0
29	Commerz & Trust Bank Nepal Ltd.	2010/09/20	Kamaladi, Kathmandu	1400.0

30	Civil Bank Ltd.	2010/11/26	Kamaladi, Kathmandu	1200.00
31	Century Commercial Bank Limited	2011/01/23	Putalisadak, Kathmandu	1470.0

(Source: http://bfr.nrb.org.np, 2010)

www.**civilbank**.com.np

*www.**centurybank**.com.np*