

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Bank and banking has always played a significant role for the financial activities in the business. So bank is the major need for various developments. Bank collects fund as a saving from the community and invest them into most desirable and highly yielding sector as a full to a process of economic development. It develops saving habits of people. “The importance of the banking as the nerve center of economic development can not be over emphasized and it is said that bank which are the need of and great wealth of country have get to be kept very scared. Just as water for irrigation, good banks are for the country’s industry and trade.” (Desai: 1967:27)

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

Now-a-days the Word Bank refers to those institutions which are established under law for dealing with monetary transactions. It means those institutions are treated as banks which accept the deposit of public and grant loan to needy person or businessmen or industrialist against security deposit. We can say in a sentence that banks are those institutions, which are established under a current act to perform monetary and credit transaction.

Bank is resource for economic development that maintains economic confidence of various segments and expands credit to people. Bank means “A financial establishment for the deposit, loans exchange or issue of money and for the transmission of funds.”(Bhandari: 2006:119).The bank draws surplus money from the public, who cannot use the money at the time and lends to those who give attention to use for productive purposes. Bank lends the loan to the customers; gain interest amount, the bank draw the money from institution or individual or people by paying the interest amount by certain interest rate. Banking institutions collect scattered financial resources from the mass and invest them among those who are associated with the economic, commercial, and social activities of the country.

“Bank assists both the flow of goods and services from the products to the consumers and the financial activities of the government. Banking provides the country with a monetary system of making payment and is an important part of financial system, which makes loans to maintain and increase the level of consumption and production in the economy.” (The American Bankers Association: 1967:120)

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

1.1.1 Development of Banks

1.1.1.1 In Global Context

The concept of banking developed from the very beginning of the economic activities. First of all, the effort was made by the ancient gold and valuables. Under such arrangements, the depositors would have their gold for safekeeping and in turn were given a receipt. Whenever receipt was presented, the depositors would return back their gold and valuable after receiving a small payment as fee. (Samulson: 2001)

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

1.1.1.2 In Nepalese Context

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

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

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

A part from this, NIDC was established in 1959 AD & Agricultural Development Bank established in 1976 AD and other development bank and financial institutions were established & continue to establish and are contributing to the economy and banking tradition in Nepal. In 1990 AD, after reestablished of democracy, the government took the liberal policy in banking sector. As an open policy of Government of Nepal’s to get permission to invest in banking sector from private and foreign investor under Commercial Bank Act 2031 BS, different private bank are getting permission to establish with the joint venture of other countries.

1.1.2 Introduction of Commercial Bank

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

“The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development; it maintains economic confidence of various segments and extends credit to people.” (Grywinski: 1991:4)

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

“Commercial bank is a corporation which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services.” (Principle of Bank Operation: 1972:345)

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

Commercial Banking Scenario in Nepal

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

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

Nowadays there are 28 commercial banks operating in Nepali financial market . Lists of licensed commercial banks are presented below:

- 1) Nepal Bank Ltd.
- 2) Rastriya Banijya Bank Ltd.
- 3) Nabil Bank Ltd.
- 4) Nepal Investment Bank Ltd.
- 5) Standard Chartered Bank Ltd.
- 6) Himalayan Bank Ltd.
- 7) Nepal SBI Bank Ltd.
- 8) Nepal Bangladesh Bank Ltd.
- 9) Everest Bank Ltd.

- 10) Bank of Kathmandu Ltd.
- 11) Nepal Credit and Commercial Bank Ltd.
- 12) Lumbini Bank Ltd.
- 13) Nepal Industrial and Commercial Bank Ltd.
- 14) Machhapuchhre Bank Ltd.
- 15) Kumari Bank Ltd.
- 16) Laxmi Bank Ltd.
- 17) Siddhartha Bank Ltd.
- 18) Agriculture Development Bank Ltd.
- 19) Global Bank Ltd.
- 20) Citiziens Bank International Ltd.
- 21) Prime Commercial Bank Ltd.
- 22) Bank of Asia Nepal Ltd.
- 23) Sunrise Bank Ltd.
- 24) Development Credit Bank Ltd.
- 25) NMB Bank Ltd.
- 26) Kist Bank Ltd.
- 27) Janata Bank
- 28) Mega Bank

Sources: www.nrb.com

1.1.3 Role of Joint Venture Bank in Nepal

In Global prospective, joint venture bank is the mode of trading through partnership among the nations and also a form of negotiations between two or more enterprise for the purpose of carrying out a specific operation. So, the main purpose of joint venture is to join economic forces in order to achieve desired end. Under joint venture basis, to operate a business organization, there should be at least two partners from the different countries. The primary objective of joint venture bank is to earn profit by investing or granting the loan and advances to the people associate with trade, business, industry etc.

that means they are required to mobilize their resources properly to acquire profit

“A joint venture is forming of two forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial investment, production trade).” (Gupta: 1984:25)

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

“At present, the financial institutions of the country have been effortful to mobilize resources. On one hand, the major part of the few individual where as the small traders and entrepreneurs are facing difficulties to receive loans on the other. The only solution to this problem is to encourage competition in the banking sector. Therefore, a policy of allowing new commercial banks under joint venture with foreign collaboration has been adopted; this will promote competition among banks whereby the clients will get improved facility. Addition, the share of these new banks will also be sold to the general public and while distributing the shares, it will be ensured that the ownership is spread out to the maximum extent possible.”

In such manner, joint venture banks are successful to bring healthy competition among banks, increase in foreign investment, promoted and expand export-import trade, introduce new techniques and technologies. The various roles play by the joint venture banks in Nepal can be classified into three categories:

a. Introducing Advanced Banking Techniques

The joint venture banks in Nepal have been largely responsible for the introduction of new banking techniques such as computerization, hypothecation, consortium finance, fee-based activities and syndicating under

the foreign exchange transactions by importers and exporters, merchant banking, inter-bank market for the money and securities, arranging foreign currency loans, etc.

b. Introducing Foreign Investment in Nepal

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

c. Bringing in Healthy Competition

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

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

1.1.4 Profile of the Concerned Banks

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

1.1.4.1 Himalayan Bank Limited

Himalayan bank limited is a joint venture bank with Habib Bank of Pakistan, was established in 1992 under the company act 1964 as a fourth joint venture bank of Nepal. This is the first joint venture bank managed by Nepali Chief

Executive. The operation of the bank started from 1993 February. HBL does not include government ownership. It has been established to maintain the economic welfare of the general people to facilitate loan for agriculture, industry and commerce to provide the banking services to the country and people.

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

At present(2003 to 2009 AD) HBL has 23 branches in Nepal. The Bank has a very aggressive plan of establishing more branches in different parts of the country in near future.HBL was access to the worldwide correspondent network of Habib bank for fund transfer, letter of credit or any other banking business any where in the world. Himalayan Bank has adopting innovative and latest banking technology. The bank provides various facilities such as:

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

The ownership of HBL is composed as:

| Subscription | % Holding |
|---------------------|------------------|
|---------------------|------------------|

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

The present capital structure of HBL is shown bellow:

| | |
|--------------------------------------------------------------------------|---------------|
| Authorized Capital | 1,000,000,000 |
| Issued Capital | 650,000,000 |
| Paid- Up Capital(5,362,500 equity shares of NRS 100.00 each, fully paid) | 536,250,000 |

Source: Report of HBL

1.1.4.2 Everest Bank Limited

Everest Bank Ltd. was registered under the Company Act 1964 in 19th November 1993 (2049/09/03) and started banking transaction in 16th October 1994 (2051/07/01). The promoter of the bank decided to join hands with an Indian bank and entered into joint venture agreement in January 1997 AD with Punjab National Bank (PNB), which is one of the leading commercial bank of India, having over 100 years of successful banking experience and known for its strong system and procedure. A team of professionals is deputed by PNB under this arrangement. Now, the bank 14 branches including main branch (i.e. head office) in Nepal.

At present (2009 AD) EBL has 32 branches and 531 staffs. On equity holding PNB has 20% equity participation in its total shareholding and also has undertaken management responsibility under a technical service agreement and other balance is maintain by Nepali investor. Nepalese promoter holding 50% and rest 30% held by General Public. The main purpose of EBL is to extend professional banking services to various sectors of the society in Nepal and thereby contributing in the economic development of the country. It provides following facilities and services to their customers:

- Cumulative Deposit Scheme
- Unfix Fixed Deposit
- Remittance
- ATM Facilities
- FC Deposit/ Lending
- Facilities of NRN
- Required Deposit Plan
- Telegraphy Transfer (T.T)
- Letter of Credit
- Drawing Arrangement
- SWIFT Transfer
- Foreign Exchange
- International Trade and Bank Guarantees
- Merchant Banking

The ownership of EBL is composed as:

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

The authorized capital of the bank has been Rs. 240 million, issued Rs. 120 million and paid capital Rs.117.5645 million in the beginning of 2051/052.

The present capital structure of EBL is shown below:

| Share Structure | Amount (Rs.) |
|------------------------|---------------------|
| Authorized Capital | 75,00,00,000 |
| Issued Capital | 46,68,00,000 |
| Paid- Up Capital | 45,50,00,000 |

Source: Report of EBL

1.2 Focus of the Study

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

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

This research focuses on the comparative study of fund mobilization of two joint venture banks; Himalayan Bank Ltd. and Everest Bank Ltd. These two banks are compared as per their fund mobilization procedure by taking 7 years data from the year 2003 to 2009.

1.3 Statement of the Problems

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

If the funds are wrongly invested without thinking any financial risk, business risk and other related facts, the bank cannot obtain profitable return as well as it should sometimes lose its principle. Fund mobilization policy may differ from one joint venture banks to another but there is no optimum utilization of shareholders fund to have greater return in any bank. Nepal Rastra Bank has also played significant role to make commercial bank mobilize their fund in good sector. For this purpose, NRB imposed many rules and regulation so that commercial bank can have sufficient liquidity and security. Though most of the joint-venture banks have been successful to earn profit from fund mobilization, none of them seem to be capable to invest their entire fund in more profitable sectors.

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

well as they sometimes may lose their principle resulting in decreasing of national economy.

Fund mobilization is the most important factor from the shareholder and banks management point of view. This study is a comparative study on fund mobilization of Himalayan Bank Ltd. and Everest Bank Ltd.

The problems related to fund mobilization procedures of the joint venture banks of Nepal have been presented briefly as under:

- Is there any stability in fund mobilization between HBL and EBL?
- What is the relationship between deposit and total Investment, deposit and loan & advances and net profits HBL and EBL?
- Do the two joint ventures successful to utilize their available fund?
- Are they maintaining sufficient liquidity position?
- Which joint venture has more effective investment policy between HBL and EBL?

1.4 Objectives of the Study

The main objectives of this research work is to examine, interpret and analysis the fund mobilization procedures adopted by two joint ventures; Himalayan Bank Ltd. and Everest Bank Ltd. This study is concerned with whether HBL and EBL are adopting efficient fund mobilizing policy or not.

The main objectives related to this study are presented below:

- To determine the stability in fund mobilization between HBL and EBL.
- To carryout the relationship between deposits and total investment, deposits and loan & advances and net profits of HBL and EBL.
- To evaluate and analyze the utilization of their available funds.
- To examine the cash flow and sufficient liquidity positions of these two joint ventures banks.
- To assess the more effective investment efficiency between two joint ventures banks.

1.5 Significance of the Study

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

Optimum utilization of fund makes better impact on the economy of the nation. Fund mobilization activities must consider customer, national and government as well as its shareholders interest. Significance of the fund mobilization can be written as the following manner: The depositor's general public can make decision to deposit their money in the bank after analyzing the fund mobilization of joint ventures. By the help of this study, general public can know the funds mobilizing activities of banks. It is also beneficial for the government while formulating policies and rules regarding joint venture bank.

From the study of fund mobilizing policy about bank, shareholders and companies would get information related to the fund mobilizing scheme of the bank and they may know how banks are mobilizing their fund and resources. And it is fruitful to make investment on shares of various joint venture banks. The study of fund mobilizing policy would provide information to the management of the bank that would be helpful to take corrective action in the bank activities. Effective fund mobilization activities are the cause to increase earnings of the banks. This study will serve to be a guide to the management of banks, financial institutions, related parties, shareholders, general public (customer, depositors and creditors).

1.6 Limitation of the Study

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

- This study is based on secondary data and accuracy depends upon the data collected and provided by the organization.
- The whole study is based on the data of 7 years period.
- This study has been only of two joint venture banks as sample i.e. HBL and EBL
- Only the fund mobilization aspects are analyzed. Other performance of the organizations is fully neglected, while providing suggestions.

1.7 Organization of the Study

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

The **first chapter** is an introductory chapter which contains background of the study, introduction of commercial banks, focus of the study, statement of the problems, objectives of the study, limitation of the study and organization of the study.

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

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

The **fourth chapter** is analyzing chapter, which deals with presentation and analysis of relevant data through definite courses of research methodology with financial and statistical analysis related to investment and fund

mobilization of HBL and EBL. Major findings of the study have been presented at the end of this chapter.

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

CHAPTER-II

REVIEW OF LITERATURE

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

2.1 Theoretical Framework

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

2.1.1 Features of Sound Lending and Fund Mobilization Policy

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

Safety and Security

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

Legality

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

Liquidity

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

Profitability

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

Tangibility

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

Purpose of Loan

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

Diversification

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

2.1.2 Meaning of Some Important Terminologies

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

Loan and Advances

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

Investment on Government Securities, Shares and Debentures

Commercial bank can earn some interest and dividend from the investment on government securities, shares and debentures. It is not the major portion of income but it is treated as a second source of banking business. A commercial

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

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

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

Investment on other Company's Shares and Debentures

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

Off- Balance Sheet Activities

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

Deposits

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

- Current Deposits
- Saving Deposits
- Fixed Deposits

2.1.3 Review of Legislative Provisions

1. NRB Directives Relating to Loan Classification and Loan Loss

Provision

A) Classifications of Loan and Advances: Effective from FY 2058/59 (2001/02) banks shall classify outstanding principal amount of loan and advances on the basis of aging. As per the directives issued by NRB, all loans and advances shall be classified into the following four categories:

a. Pass Loan: Loans and advances whose principal amount are not past due and past due for a period up to 3 months shall be included in this category.

These are classified and defined as performing loans.

b. Sub-Standard Loan: All loans and advances that are past due for a period of 3 months to 6 months shall be included in this category.

c. Doubtful Loan: All loans and advances which are past due for a period of 6 months to 1 year shall be included in this category.

d. Loss: All loans and advances which are past due for a period of more than 1 year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be included in this category.

B) Loan Loss Provisioning: The loan loss provisioning, on the basis of the outstanding loans and advances and bills purchases classified as per this directives, shall be provided as follows:

Classification of Loan Loss Provision

Pass loan 1%

Sub-standard loan 25%

Doubtful loan 50%

Loss 100%

2. NRB Directives Relating to Cash Reserve Ratio (CRR)

“Till 2002/03 commercial banks were required to maintain compulsory reserve at 7 percent of their current and saving deposits and 4.5 percent balance of their fixed deposits with the NRB as well as vault compulsory ratio at 2 percent of total domestic deposits. In the light of the undergoing management reforms in the RBB and the NBL as well as the increasing efficiency of the commercial banks to manage their financial resources themselves, the provision of maintaining 2 percent balance in commercial banks' vault as a part compulsory reserve has been withdrawn. Effective from FY 2003/04, commercial banks were required to maintain 6 percent of their total domestic deposit liabilities at the NRB as compulsory reserve. A single, uniform compulsory ratio has been introduced so as to bring about uniformity and simplicity in the previously differentiated compulsory rates with respect to the different domestic deposit liabilities.”

(Monetary Policy; 2003/04: 12) In contrast, “the CRR had been reduced from 6.0 percent to 5.0 percent for FY 2004/05.” *(Monetary Policy; 2004/05: 11)*

Likewise, “the cash reserve ratio (CRR) had been raised to 5.5 percent from the 5 percent of the total domestic deposits effective from October 17, 2008.” (*Monetary Policy; 2008/09: 4*) However, “the cash reserve ratio (CRR) has been kept unchanged at 5.5 percent for the fiscal year 2009/10.” (*Monetary Policy; 2009/10: 5*)

2.1.4 Fund Mobilizing Procedure of Joint Venture Banks

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

1. Sources of Fund

In the economic activities there are so many sources of fund. The sources of funds can be categorized in two ways.

A. Owned Funds/ Equity Capital of Bank

Following are the sources of owned funds:

a) Ordinary Share

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

b) Preference Share

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

c) Bonus Share

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

d) Retained Earning

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

e) Reserve Fund

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

f) Undistributed Dividend

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

B. Borrowed Fund of Bank

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

a) Selling of Debenture

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

b) Deposits

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

Current Deposit

It is also known as demand deposit. A customer can open a current account with a bank by making an initial deposit of Rupees (Nature of Banks and account [i.e. 1, 100, 10000 etc]). Any amount may be deposited in this account. The bank makes a small charge on the customer having current deposit account.

Saving Deposit

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

Fixed Deposit

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

c) Loan from the Central Bank

NRB is the central bank of Nepal. All banks should operate their banking activities by maintaining the rules and regulations directed by the NRB. In the

time of necessity, NRB provides the loans for the banks. The loan granted by the central bank is a bank capital.

d) Loan from the Financial Institutions

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

e) Loan from Commercial Banks

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

2. Mobilization of Funds

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

As commercial bank they are expected to make profit. If there is no profit, there will be adverse criticism against public sector banking, both in and outside the parliament when these banks are asked to open new branches in areas which do not allow profits for years, or asked to grant loan to the priority sectors such as small industries and agriculture with a high incidence of bad debts, there is need for counter balancing profit from elsewhere. Therefore, these banks will have to show an ascending order of profits in

order to ensure growth with stability. For this purpose the bank will have to allocate landable resources to different segments in such a manner these banks can ensure adequate profitability while at the same time responding to policies laid down in accordance with national objectives.

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

a) Liquid Funds

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

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

b) Investment

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

-) Share and debenture
-) Government securities
-) NRB bond

c) Loan and Advances

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

-) To Government Enterprises

) To Private Enterprises

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

d) Fixed Assets

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

e) Administrative and Miscellaneous Expenses

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

-) Salary of Employee
-) Allowances
-) Pension
-) Advertisement
-) Stationery
-) Provident Fund
-) Rent
-) Income tax
-) Donation
-) Insurance
-) Tour expenses
-) Commission

The miscellaneous expenses are

-) To distribute the dividend to shareholders

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

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

2.2 Review of Related Studies

2.2.1 Review of Books

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

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

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

Charles P. Jones, emphasizing on the proper management of an investor's wealth says, "Investment is the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor's wealth, which is the sum of current income and present value of all future income."(Charles: 2002:2)

According to **William J. Sharpe and Alexander J. Gorden** has defined the term "Investment" as the sacrifice of money today for the prospective money tomorrow. They write, "Investment in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all and the magnitude is uncertain. In some cases the element of time predominates (e.g. government bond). In other cases, risk is the dominant attribute (e.g. call option on common stock). In yet both time and risk are important."(Sharpe, and Gorden: 1996:1)

James B. Baxley expresses his opinion as "Investment policy fixed responsibilities for the investment disposition of the banks assets in term of allocating funds for investment and loan and establishing responsibility for day to day management of those assets."(Baxley: 1987)

2.2.2 Review of Journals, Articles and Research Papers

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

Mr. Sunil Chopra in his article, "Role of Foreign banks in Nepal" had conducted that the joint venture banks playing an increasingly dynamic and vital role in the economic development of the country that will undoubtedly increase with time. (Chopra: NRB-1989:12)

Sunity Shrestha has analyzed in her article, “Financial performance of commercial banks using both descriptive and diagnostic approach.”(Shrestha:T. U. 1997: 23-27). In her studies she has concluded the following points:

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

According to Asian weekly news paper report, published from Hong Kong, competition between joint venture banks made them to collect large amount as deposit. In same way, Nepal’s two joint venture Nepal Arab Bank Ltd. and Himalayan Bank Ltd. are positioned among 500 biggest banks of Asia region. This evaluation is based on the total assets, deposit, loan investment, net income and profit and investment on shares. (Kantipur Daily, Wednesday, 12th September, 2004)

Likewise, **Mr. Ramesh Lal Shrestha** in his article, “A study on deposit and credit of commercial banks in Nepal” (**Shrestha**, NRB-1988) concluded that the credit deposit ratio would be 51.30%, other things remaining the same in Nepal, which was the lowest under the period of review. Therefore, he had strongly recommended that the joint venture banks should try to give more

credit entering new field as far as possible, otherwise, they might not be able to absorb even the total expenses.

Mr. Shiva Raj Shrestha has presented a short scenario of investment management from his article “Portfolio Management in Commercial Bank, Theory and Practice.” (Reed, Gill, Cotter and Smith-15) He has stressed in the following issues, in case of investors having lower income, portfolio management may be limited to small saving incomes. But, on the other hand, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore, portfolio management becomes very important both for an individuals as well as institutional investors. Large investors would like to select a best mix of investment assets and subject to the following aspects:

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

In the view of these aspects, investors are expected to develop the following strategy:

- a. Do not hold any single security; try to have a portfolio of different securities.
- b. Do not pull all the eggs in one basket i.e. to have a diversified investment.
- c. Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower return with added objectives wealth maximization.

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

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

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

- People do not have knowledge and proper education for saving in institutional manner. They so now know financial organizational process, withdrawal system, depositing system etc.
- Financial institutions do not want to operate and provide their services in rural areas.
- He has also recommended about how to mobilize the deposit collection by the financial institutions by rendering their services in rural areas, by adding various services.
- By operating rural banking programmes.
- Nepal Rastra Bank must organize training programmes to develop the skilled human resources.

- By spreading a numbers of co-operative societies to develop mini banking services and improves the habits of public on deposit collection to the rural areas.

2.2.3 Review of Theses

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

Tuladhar (2004), in his thesis, “*Fund Mobilization of Commercial Banks*”, has the main objective to analyze the fund mobilization technique adopted by the commercial banks. The specific objectives of this study are to find out the ratio of investment to total deposit, ratio of loan and advances to total deposit and relationship between net profit to investment and loans and advances granted.

The major findings of the study are;

- The structural ratio of commercial banks show that banks invest on the average 75% of their total deposit on the government securities and the shares.
- Return ratio of all the banks show that most of the time foreign banks have higher return as well as higher risk than Nepalese banks.
- The debt equity ratios of commercial banks are more than 100% in most of the time period under studies period. It led to conclude that the commercial banks are highly leveraged and highly risk. JVBs had higher capital adequacy ratio but has been dealing everyday.
- In case of the analysis of the management achievement foreign banks have comparatively higher total management achievement index.

Karki (2006), in his thesis, “A study on the Investment Policy of NABIL Bank Limited in Comparison to Other Joint Venture Banks of Nepal”, has the main objectives:

- To evaluate the liquidity, asset management efficiency and profitability position in relation to fund mobilization of NABIL Bank Limited in comparison to other JVBs.
- To discuss fund mobilization and investment policy of NABIL Bank Limited in respect to its fee based off-balance sheet transaction in comparison to other JVBs.
- To evaluate the growth ratio of loan and advances and total investment with respective growth rate of total deposits and net profit of NABIL Bank Limited in comparison to other JVBs.
- To find out the relationship between deposits and total investment, deposit and loan and advances, and net profit and outside assets of NABIL Bank Limited in comparison to other JVBs.

The major findings of the study were;

The liquidity position of NABIL Bank Ltd is comparatively worse than that of other JVBs. NABIL Bank has more portions of current assets as loans and advances but less portion as investment on government securities.

- NABIL Bank Limited is comparatively less successful in on-balance sheet operation as well as off-balance sheet operations than that of other JVBs.
- Profitability position of NABIL Bank is comparatively not better than that of other JVBs. The mean ratio of return on loan and advances of NABIL bank has been found slightly lower than that of other JVBs and the return has been found less homogeneous than that of other JVBs. Similarly the mean ratio of total interest earned to total outside assets of NABIL Bank limited has been found slightly lower than that of other JVBs.
- Though NABIL Bank seems to be more successful to increase its sources of funds as well as mobilization of it by increasing loan and advances and

total investment. It seems to be failure to maintain its high growth rate of profit in comparison to 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 deposit and total investment incase of both NABIL Bank limited and other JVBs.

A Study done by **Tilak Kumar Raya** (2008), entitled with 'Investment policy and Analysis of Commercial Banks in Nepal' made a comparative study of SCBL with NIBL and NB Bank. His main objectives were as follows:

- To discuss fund mobilization and Investment policy of SCBL in respect to its fee based off-balance sheet transaction and fund based on balance sheet transaction.
- To evaluate the quality, efficiency and profitability and risk position.
- To evaluate trend of deposit, Investment, loan and advances and projection for next years.

His main findings were as follows:

- Mean current ratio of SCBL is slightly higher than that of SCBL and Nepal Investment bank.
- Mean ratio of cash and bank balance to total deposit of SCBL is lower than NIBL and NBBL.
- Liquidity position of SCBL is comparatively better than NIBL and NBBL. It has the lowest cash and bank balance to total deposit and cash and bank balance to current ratio. SCBL has a good deposit collection. It has made enough Investment on government securities but it has maintained low Investment policy on loan and advances.
- SCBL is comparatively average successful in it's on balance sheet operation. But off balance sheet operation activities in compared to NIBL and NBBL has maintained the strong position.

- There is significant relationship between deposit of loan and advances and between asset and net profit of SCBL.

Ghimire (2010) in his thesis “Fund mobilization in commercial bank of Nepal: with special reference to Nabil Bank Limited and Nepal Investment Bank limited “has the main objectives:

- To recognize the main source of fund and main mobilization of collected fund of NABIL and NIBL.
- To evaluate the liquidity position of the banks.
- To analyze the relationship between net profit and total fund and net profit with total deposits and loan and advance of NABIL and NIBL.
- To analyze the efficiency of NABIL and NIBL in mobilizing fund in terms of profit.
- To predict the total fund and net profit in the forthcoming two fiscal years.

The major findings of the study were;

- Among all the sources of fund, deposit was the major source of total fund in both the banks. The deposit represented 85.70% and 88.49% of the total fund in NABIL and NIBL respectively.
- NABIL maintained 5.22% of the total fund and NIBL maintained 10.55% of the total fund in cash and bank balance to have sufficient liquidity. Similarly, money at short call represented 4.29% in NABIL and 0.50% in NIBL of the total fund.
- There existed significant relationship between net profit and total fund. The correlation between these two variables was 0.9417 in NABIL and 0.9944 in NIBL. Also, the multiple correlation of net profit after tax on total deposit and loan and advances was 0.6950 in NABIL and 0.7044 in NIBL, however, the relationship was statistically insignificant.
- The estimated value of total fund of NABIL and NIBL for the fiscal year 2009/10 will be Rs. 50052.34 millions and Rs. 58805.03 millions respectively and for the fiscal year 2010/11 will be Rs. 56893.28 millions and Rs. 67948.80 millions respectively.
- Finally, the estimated value of net profit of NABIL and NIBL for the fiscal year 2009/10 will be Rs. 1061.30 millions and Rs. 1041.23 millions respectively and for the fiscal year 2010/11 will be Rs. 1174.61 millions and Rs. 1209.54 millions respectively.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

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

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

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

3.2 Research Design

“A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.” (Kothari: 1992:30)

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

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

3.3 Sources of Data

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

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

3.4 Nature of Data

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

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

3.5 Population and Sample

There are altogether 28 commercial banks functioning all over Nepal and most of their stocks are traded actively in the stock market. In this study two joint venture banks are to be taken for research work. These banks are compared as per fund mobilizing activities. EBL and HBL are selected from population and population is presented below:

- 1 Nepal Bank Ltd.
- 2 Rastriya Banijya Bank Ltd.
- 3 Nabil Bank Ltd.
- 4 Nepal Investment Bank Ltd.
- 5 Standard Chartered Bank Ltd.
- 6 Himalayan Bank Ltd.
- 7 Nepal SBI Bank Ltd.
- 8 Nepal Bangladesh Bank Ltd.
- 9 Everest Bank Ltd.
- 10 Bank of Kathmandu Ltd.
- 11 Nepal Credit and Commercial Bank Ltd.
- 12 Lumbini Bank Ltd.
- 13 Nepal Industrial and Commercial Bank Ltd.
- 14 Machhapuchhre Bank Ltd.
- 15 Kumari Bank Ltd.
- 16 Laxmi Bank Ltd.

- 17 Siddhartha Bank Ltd.
- 18 Agriculture Development Bank Ltd.
- 19 Global Bank Ltd.
- 20 Citiziens Bank International Ltd.
- 21 Prime Commercial Bank Ltd.
- 22 Bank of Asia Nepal Ltd.
- 23 Sunrise Bank Ltd.
- 24 Development Credit Bank Ltd.
- 25 NMB Bank Ltd.
- 26 Kist Bank Ltd.
- 27 Janta Bank
- 28 Mega Bank

Among all the banks which are presented above only two banks are taken as a sample for comparative study. They are:

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

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

3.6 Data Analysis Tools

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

The various results obtained with the help of financial, accounting and statistical tools are tabulated under different headings. Then they are

compared with each other to interpret the results. Two kinds of tools have been used to achieve the certain goals.

1. Financial Tools
2. Statistical Tools

3.6.1. Financial Tools

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

-) Ratio Analysis
-) Sources and Uses of Funds
-) Cash flow Analysis

Ratio Analysis

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

“A ratio is a mathematical relationship between two variables. It is significant for financial analysis. It also helps us to predict the future performance of a company based on study of ratios of earlier years.” (Benerjee: 1992:95)

Thus, ratio analysis is the part of whole process of analysis of financial statements of any business or industrial concerned especially to take output and credit decision. Ratio indicates a quantitative relationship, which can be, in turn, used to make a qualitative judgement. Even though there are various

types of ratios to analyze and interpret the financial statement, only six types of ratios have been taken in this study, which are related to fund mobilization of the banks. They are presented below:

A. Liquidity Ratios

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

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

i) Cash and Bank Balance to Total Deposit

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

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

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

ii) Cash and Bank Balance to Current Assets Ratio

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

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

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

B. Assets Management Ratios (Activity Ratio)

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

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

i. Loan and Advances to Total Deposit Ratio

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

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

ii. Total Investment to Total Deposit Ratio

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

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

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

C. Profitability Ratios

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

i. Return on Loan and Advances Ratio

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

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

ii. Return on Total Investment ratio

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

$$\text{Return on Total Investment} = \frac{\text{Net Profit (Loss)}}{\text{Total Investment}}$$

D. Risk Ratios

Generally, 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 is increased. This ratio checks the degree of risk involved in the various financial operations. For this study, following risk ratios are used to analyze and interprets the financial data and investment policy.

i) Liquidity Risk Ratio

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

This ratio is low if funds are kept idle as cash and bank balance but this reduces profitability. When the bank makes loan, its profitability and risk both are increases. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated by dividing cash and bank balance to total deposit.

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

ii) Credit Risk Ratio

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

$$\text{Credit Risk Ratio} = \frac{\text{Total Investment} + \text{Total Loan and Advances}}{\text{Total Assets}}$$

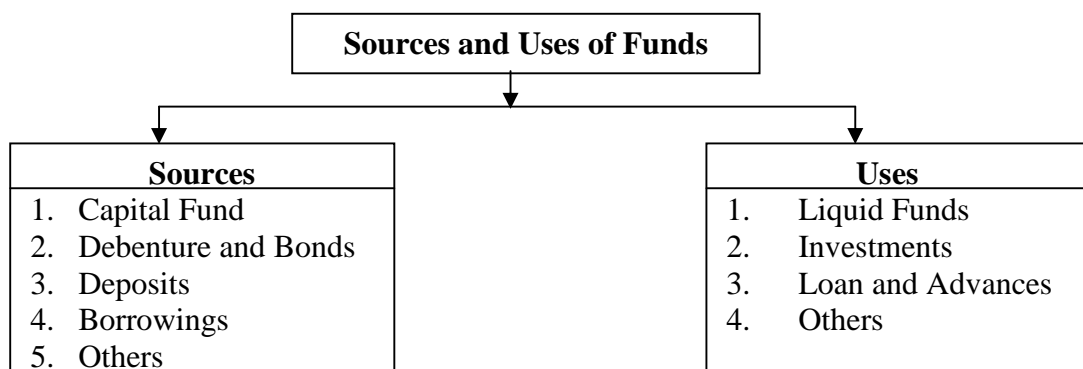
E. Growth Ratios

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

-) Growth ratio of total deposits
-) Growth ratio of total investment
-) Growth ratio of loan and advances
-) Growth ratio of net profit

Sources and Uses of Funds

Management of funds is the important part of the banking business. The problem of managing funds is great for banks than it is for almost any other enterprise. The sources and uses analysis took out proportion of each source and each use to the total funds of the bank and it were expressed in percentage. And the percentage was compared with the standard percentage of a typical bank. This analysis also concerned behaviors of the sources of funds. The uses were analyzed in terms of their supporting ability to the sources of funds to which they represent. In order to make study easier, the sources and uses of funds of bank's were categorized and presented below:



Cash Flow Analysis

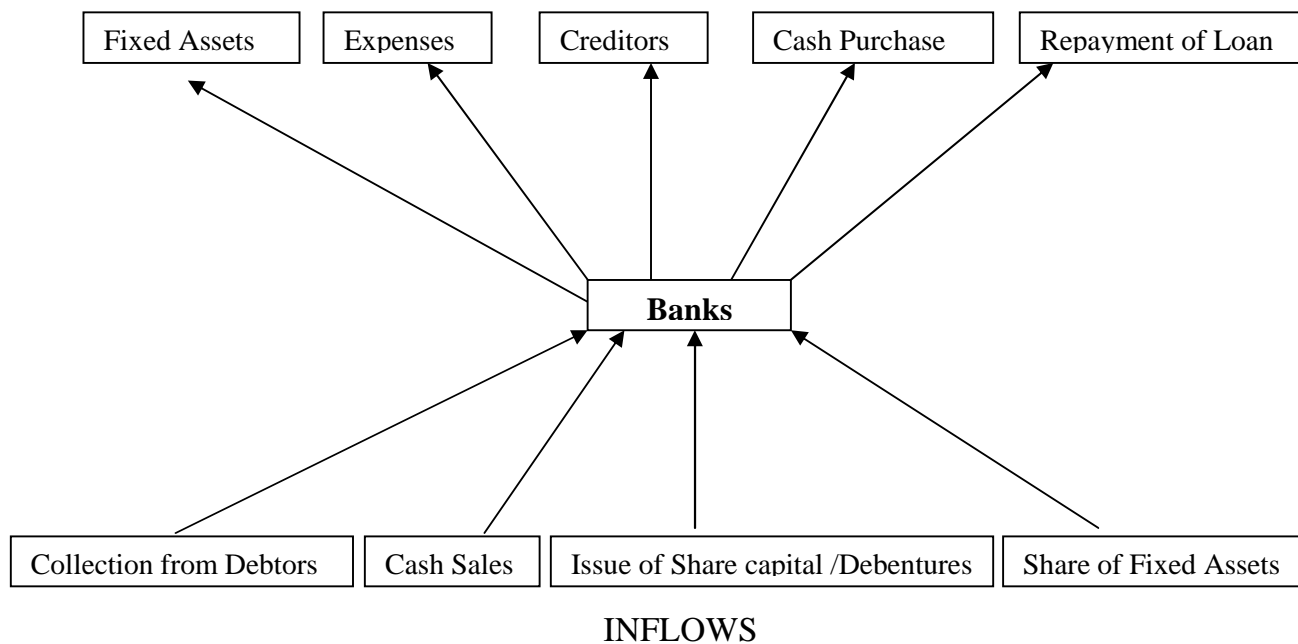
Cash is the lifeblood of an organization. No business can be satisfactorily managed unless careful attention is paid to its requirements of cash. Without it a business will cease to operate. Therefore, an analysis of cash flows is useful for short-run planning. A firm needs sufficient cash to pay debts maturing in the near future, to pay interest and other expenses and to pay dividends to shareholders.

The analysis of events and transactions that affects the cash position of company is termed as cash flow analysis. Cash flow analysis is done through statement of cash flows. A cash flow statement is a statement of company's ability to generate cash from various activities such as **operating, investing, and financing** and their need of cash. It is a statement which shows the inflows and outflows of cash and cash equivalents during the year. (Wagle & Dahal: 2006:11-12)

This statement is prepared to know clearly the various items of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis relates to the movement of cash rather than the inflow and outflow of working capital. It summarized the causes of change in cash position between dates of two balance sheets. While preparing cash flow statement, only cash receipts from debtor against credit dates are recognized as the source of cash. Similarly, cash purchases and cash payment to supply for credit purpose is regarded as the use of cash. The projection of cash flow for near future can be made to determine the availability of cash. This cash balance can be matched with the firm's need for cash during the period and accordingly, arrangements can be made to meet the deficit or invest the surplus cash temporarily. A historical analysis of cash flows provides insight to prepare reliable cash flow projections for the immediate future.

- 1) **In flows**
- 2) **Out flows**

OUTFLOWS



3.6.2 Statistical Tools

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

-) Arithmetic Mean
-) Standard Deviation (S.D)
-) Coefficient of Variation (C.V)
-) Testing of Hypothesis
-) t- test

Arithmetic Mean

The arithmetic mean (or simply the mean) of a list of numbers is the sum of the list divided by the number of items in the list. The mean is the most commonly used type of average and is often referred to simply as the average.

$$\text{Mean } (\bar{X}) = \frac{X_1 \Gamma X_2 \Gamma \dots \Gamma X_n}{N}$$

Standard Deviation (S.D)

The standard deviation is an important and widely use measure of dispersion. The measurement of the scatter ness of the mass of figure in a series about an average is known as dispersion. The greater the amount of dispersion is greater the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposites it is denoted by the letter † .

$$\text{S.D. (†)} = \sqrt{\frac{\sum X_1^2}{N_1} - \frac{(\sum X_1)^2}{N_1}}$$

Where,

N = Number of observations

X = Expected return of the historical data

Coefficient of Variation (C.V)

The coefficient of variation is the most commonly used measure of relative variation. It is used in such problems where the researcher wants to compare the variability of more than two years. Greater the C.V, the variable or conversely less consistent, less uniform, more consistent, more uniform, more stable and homogeneous.

$$\text{Coefficient of Variation (C.V)} = \frac{\text{Standard Deviation}(\dagger)}{\text{Expected Return}(\bar{x})} | 100$$

Test of Hypothesis

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

- a) Formulating hypothesis
 - i) Null Hypothesis (H_0)
 - ii) Alternative Hypothesis (H_1)
- b) Computing the t- statistic

- c) Fixing the significance level
- d) Finding critical region
- e) Deciding two-tailed or one-tailed test
- f) Decision making

In the following lines, some of main hypothesis tests are calculated and decision is made according to findings.

Null Hypothesis (H_0): $\mu_1 = \mu_2$ i.e., there is no significant difference between mean ratios of loan and advances to total deposit of HBL and EBL

Alternative Hypothesis (H_1): $\mu_1 \neq \mu_2$ i.e., there is significant difference between mean ratios of loans and advances to total deposits of HBL and EBL

t- test

If we draw a large number of small samples i.e. ($n < 30$) and compute the mean for each sample and then plot the frequency distribution of these means, the resulting sampling distribution would be t-test. On these study sample are taken only for seven years.

Assumptions

- a) The present population from which the sample is drawn is normal or approximately normal.
- b) The given sample is drawn by random sampling method.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

This chapter is primarily concerned with presentation and analysis of data. In this study effort has been made to analyze the collected data by using financial and statistical tools as well as various graphical presentations. Likewise, comparative balance sheet and comparative profit and loss account from the year 2003 to 2009 of HBL and EBL are presented in appendices.

4.1 Data Presentation and Analysis

4.1.1 Ratio Analysis

4.1.1.1 Liquidity Ratios

4.1.1.1.1 Cash and Bank Balance to Total Deposit

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

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

Table 4.1

Comparative Cash and Bank Balance to Total Deposit

| Year | Ratio (%) | |
|--------------------|-----------|-------|
| | HBL | EBL |
| 2003 | 9.4 | 17.02 |
| 2004 | 9.9 | 7.83 |
| 2005 | 8.12 | 10.40 |
| 2006 | 6.48 | 11.25 |
| 2007 | 5.85 | 13.15 |
| 2008 | 4.55 | 11.13 |
| 2009 | 4.21 | 18.5 |
| Mean(\bar{x}) | 6.93 | 12.75 |
| S.D. (\dagger) | 2.19 | 3.51 |
| C.V. | 31.6 | 27.53 |

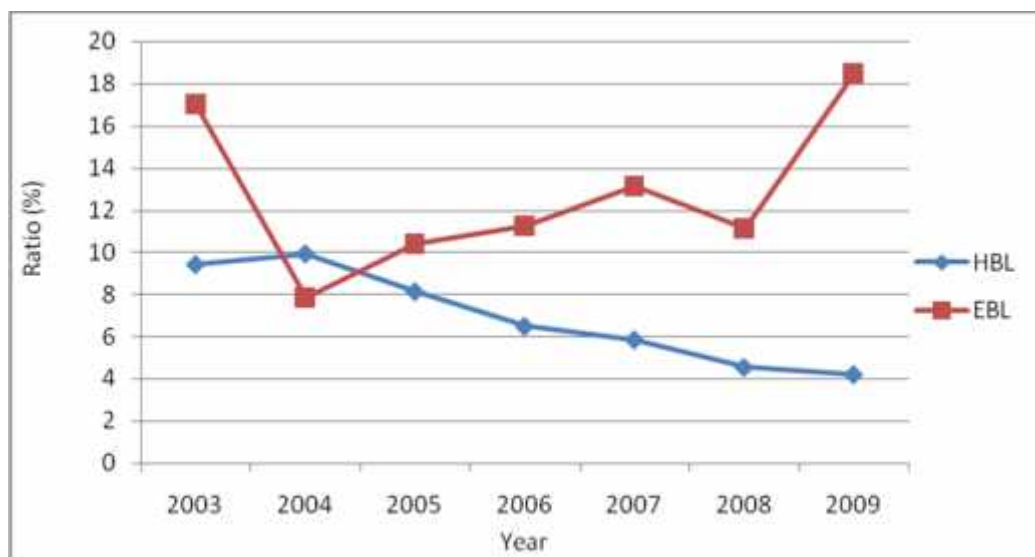
Sources: Appendix -1, 2&3

From the table 4.1, cash and bank balance to total deposit ratio of the HBL and EBL for the year 2003,2004,2005,2006, 2007,2008 and 2009 are 9.4, 9.9, 8.12, 6.48, 5.85, 4.55, 4.21 and 17.02, 10.40, 11.25, 13.15, 11.13, 18.5 percentage respectively. The both banks followed a fluctuating trend. EBL has maintained the higher ratio i.e. 18.5% of cash and bank balance to total deposit than HBL during the study period. The average ratio of HBL is less than EBL. The C.V ratio is lower in EBL (i.e. 27.53) than HBL (i.e. 31.6). It states that EBL is more consistent than HBL.

The table no. 1 can be presented by the help of diagram, which is shown in figure 4.1.

Figure 4.1
Comparative Cash and Bank Balance to Total Deposit Ratios

Sources: Appendix -1, 2&3



From the figure 4.1, cash and bank balance to total deposit ratio of the HBL and EBL are in fluctuating trend. The ratio of HBL is in decreasing trend where as the ratio of EBL is in decreasing trend.

4.1.1.1.2 Cash and Bank Balance to Current Assets

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

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

Table 4.2
Comparative Cash and Bank Balance to Current Assets Ratios

| Year | Ratio (%) | |
|-------------------|-----------|-------|
| | HBL | EBL |
| 2003 | 15.37 | 18.12 |
| 2004 | 13.19 | 9.08 |
| 2005 | 13.09 | 11.12 |
| 2006 | 9.54 | 13.73 |
| 2007 | 8.32 | 14.69 |
| 2008 | 6.55 | 12.28 |
| 2009 | 4.89 | 20.18 |
| Mean(\bar{x}) | 10.14 | 14.17 |
| S.D. (σ) | 3.43 | 3.61 |
| C.V. | 33.83 | 25.48 |

Sources: Appendix – 1, 2&4

From the table 4.2, Cash and Bank Balance to Current Assets Ratio of the HBL and EBL for the year 2003, 2004, 2005, 2006, 2007, 2008 and 2009 are 15.37, 13.19, 13.09, 9.54, 8.32, 6.55, 4.89 and 18.12, 9.08, 11.12, 13.73, 14.69, 12.28, 20.18 percentage respectively. It reveals that cash and bank balance to current assets ratios of HBL has less fluctuating trend than EBL. The highest ratio of HBL is 15.37% in the year 2003 and lowest ratio is 4.89% in the year 2009 where as the EBL ratios are in more fluctuating trend. EBL has highest ratio of 20.18% in 2009 and lowest ratio of 9.08% in 2004, beside EBL has maintained the highest average ratio than HBL (i.e. 14.17 %.> 10.14%). Similarly, C.V. ratio of HBL is more than EBL i.e. 33.83%. It indicates that ratio of EBL is more stable than that of HBL

The table 4.2 can be presented by the help of diagram, which is shown in figure 4.2.

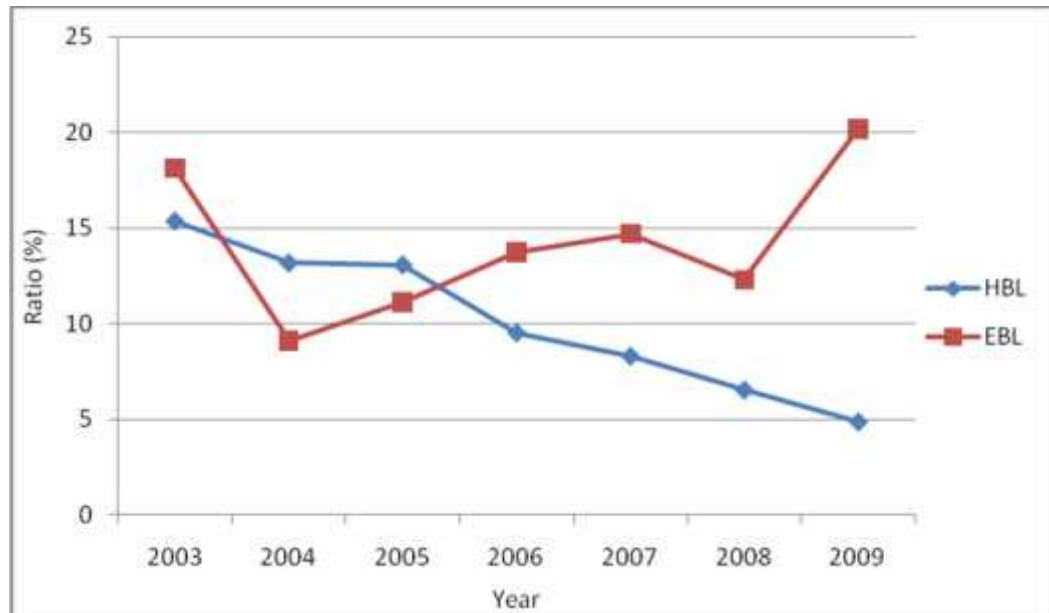


Figure 4.2

Comparative Cash and Bank Balance to Current Assets Ratios

Sources: Appendix – 1, 2&4

From the figure 4.2 Cash and Bank Balance to Current Assets Ratios the HBL and EBL are in fluctuating trend. The ratio of HBL is in decreasing trend where as the ratio of EBL is in decreasing trend.

4.1.1.1.3 Investment on Government Securities to Current Assets

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

Invt. on Govt. Securities to Current Assets

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

Table 4.3
Comparative Investment on Government Securities to Current Assets Ratios

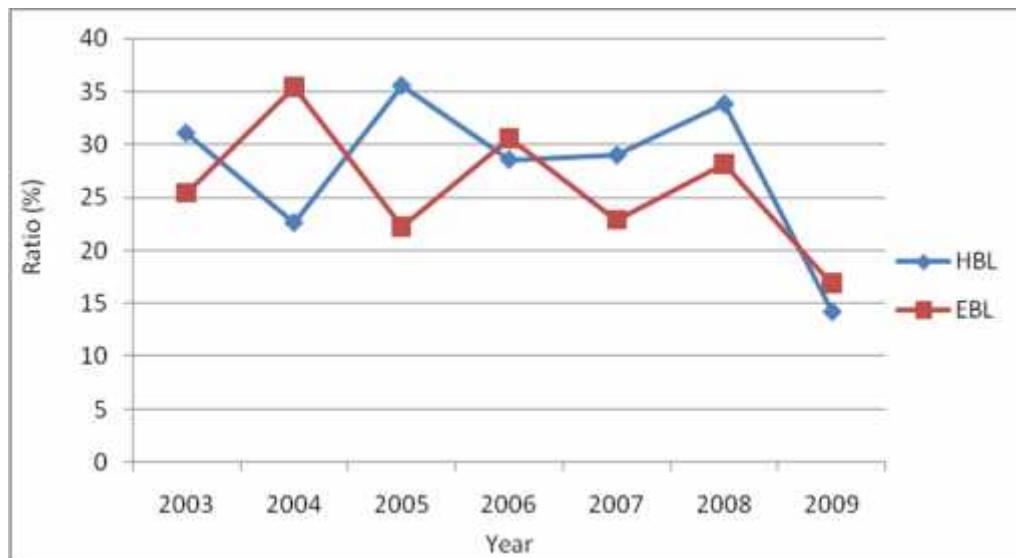
| Year | Ratio (%) | |
|-------------------|-----------|-------|
| | HBL | EBL |
| 2003 | 31.06 | 25.43 |
| 2004 | 22.62 | 35.47 |
| 2005 | 35.54 | 22.24 |
| 2006 | 28.57 | 30.59 |
| 2007 | 28.98 | 22.90 |
| 2008 | 33.81 | 28.19 |
| 2009 | 14.21 | 16.85 |
| Mean(\bar{x}) | 27.83 | 25.95 |
| S.D. (σ) | 6.76 | 5.46 |
| C.V. | 24.29 | 21.04 |

Sources: Appendix – 1, 2&5

From the table 4.3, Cash and Bank Balance to Current Assets Ratio of the HBL and EBL for the year 2003,2004,2005,2006, 2007,2008 and 2009 are 31.06, 22.62, 35.54, 28.57, 28.98, 33.81, 14.21 and 25.43, 35.47, 22.24, 30.59, 22.90, 28.19, 16.85 percentage respectively. The table shows that HBL and EBL have invested their fund in government securities in fluctuating trend. EBL has invested more portions of current assets in government securities i.e. 35.47% in the year 2004. The mean ratio of HBL is the highest (i.e. 27.83%) than that of EBL (i.e. 25.95.) The standard deviation and Coefficient of variation of HBL is more than EBL. It seems that EBL is more consistent to make investment in government securities than HBL.

The table 4.3 can be presented by the help of diagram, which is shown in figure 4.3.

Figure 4.3
Comparative Investment on Government Securities to Current Assets Ratios



Sources: Appendix – 1, 2&5

From the figure 4.3 Investment on Government Securities to Current Assets Ratios of HBL and EBL are in fluctuating trend. The ratio of HBL and EBL are in decreasing. It seems that HBL and EBL are in decreasing their investment in government securities.

4.1.1.2 Assets Management Ratios

The following financial ratios related to fund mobilization are calculated under asset management ratio and interpretation is made by these calculations:

4.1.1.2.1 Loan and Advances to Total Deposit

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

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

Table 4.4
Comparative Loan and Advances to Total Deposit Ratios

| Year | Ratio (%) | |
|--------------------|-----------|-------|
| | HBL | EBL |
| 2003 | 47.53 | 72.32 |
| 2004 | 54.30 | 72.97 |
| 2005 | 50.07 | 75.45 |
| 2006 | 55.28 | 71.01 |
| 2007 | 56.57 | 75.13 |
| 2008 | 61.23 | 76.49 |
| 2009 | 72.15 | 71.68 |
| Mean(\bar{x}) | 56.61 | 73.58 |
| S.D. (\dagger) | 7.51 | 1.95 |
| C.V. | 13.27 | 2.65 |

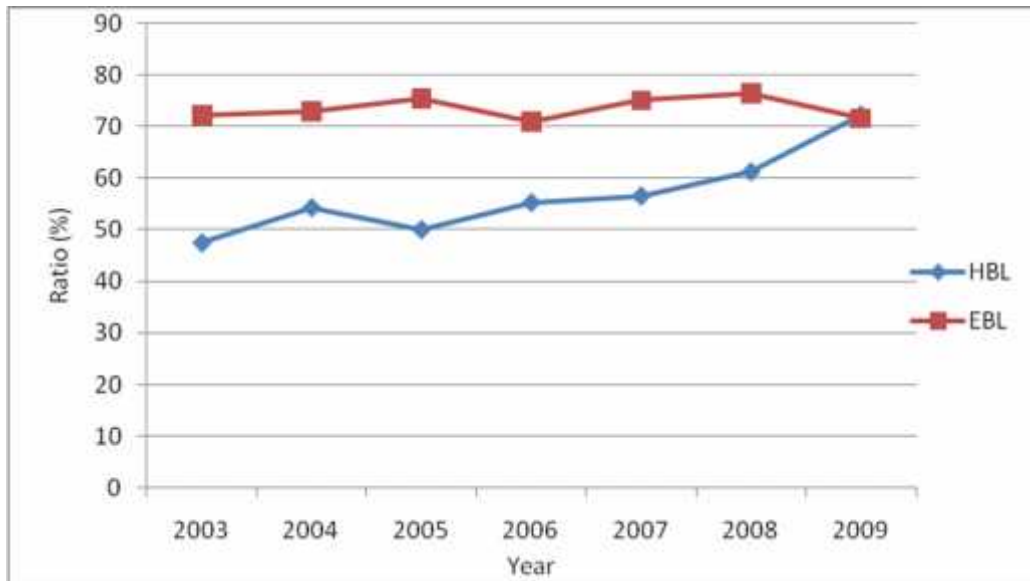
Sources: Appendix - 1, 2&6

From the table 4.4, Loan and Advances to Total Deposit Ratios of the HBL and EBL for the year 2003,2004,2005,2006, 2007,2008 and 2009 are 47.53, 54.30, 50.07, 55.28, 56.57, 61.23, 72.15 and 72.32, 72.97, 75.45, 71.01, 75.13, 76.49, 71.68 percentage respectively .It shows that two banks have mobilized their collected deposits in fluctuating trend as loan and advances during the study period. The highest ratio of loan and advances to total deposit of HBL and EBL are 72.15% and 76.49% respectively. HBL has mobilized its collected deposit in loan and advances which is less than that of EBL in average (i.e.56.61%<73.58%). The standard deviation and Coefficient of variation of HBL is more than EBL, which shows that EBL is more stable than HBL in mobilizing collected deposit.

The table 4.4 can be presented by the help of diagram, which is shown in figure 4.4.

Figure 4.4

Comparative Loan and Advances to Total Deposit Ratios



Sources: Appendix - 1, 2&6

From the figure 4.3, Loan and Advances to Total Deposit Ratios of HBL and EBL are in fluctuating trend. The ratio of HBL is in increasing trend but the ratio of EBL seems as constrain trend. It seems that HBL is in increasing Loan and Advances to Total Deposit Ratios but EBL is not significant increase the Loan and Advances to Total Deposit Ratios.

4.1.1.2.2 Total Investment to Total Deposit

This ratio is computed by using following formula:

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

Table 4.5
Comparative Total Investment to Total Deposit Ratios

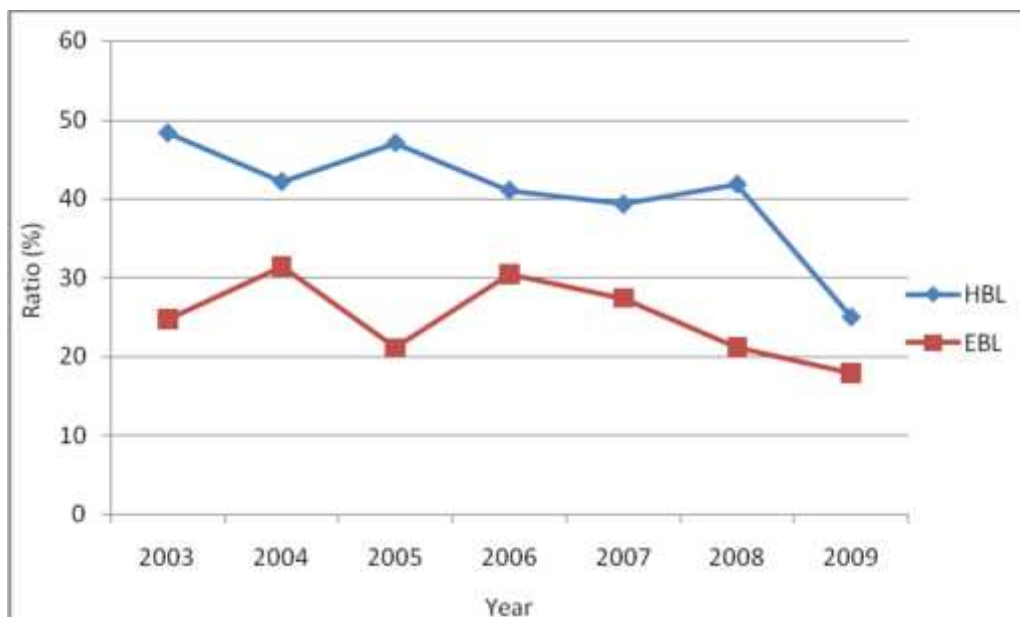
| Year | Ratio (%) | |
|-------------------|-----------|-------|
| | HBL | EBL |
| 2003 | 48.35 | 24.70 |
| 2004 | 42.22 | 31.44 |
| 2005 | 47.12 | 21.08 |
| 2006 | 41.11 | 30.43 |
| 2007 | 39.35 | 27.41 |
| 2008 | 41.89 | 21.10 |
| 2009 | 25.11 | 17.85 |
| Mean(\bar{x}) | 40.73 | 24.86 |
| S.D. (σ) | 7.06 | 4.76 |
| C.V. | 17.32 | 19.1 |

Sources: Appendix - 1, 2&7

From the table 4.5, Total Investment to Total Deposit Ratios of the HBL and EBL for the year 2003,2004,2005,2006, 2007, 2008 and 2009 are 48.35, 42.22, 47.12, 41.11, 39.35, 41.89, 25.11 and 24.70, 31.44, 21.08, 30.43, 27.41, 21.10, 17.85 percentage respectively. From table, it can be concluded that these banks have the ratios of fluctuating trend during the study period. In average HBL has invested more amount of its total deposit in comparison to EBL (i.e. 40.73%>24.86%). The coefficient of variation of HBL and EBL are 17.32%, and 19.1% respectively. It indicates that HBL is more consistent to make investment of total deposits than EBL.

The table 4.5 can be presented by the help of diagram, which is shown in figure 4.5.

Figure 4.5
Comparative Total Investment to Total Deposit Ratios



Sources: Appendix - 1, 2&7

From the figure 4.5 Total Investment to Total Deposit Ratios of HBL and EBL are in fluctuating as well as decreasing trend. It seems that HBL and EBL are in decreasing their Total Investment to Total Deposit.

4.1.1.3 Profitability Ratios

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

4.1.1.3.1 Return on Loan and Advances

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

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

Table 4.6
Comparative Return on Loan and Advances Ratios

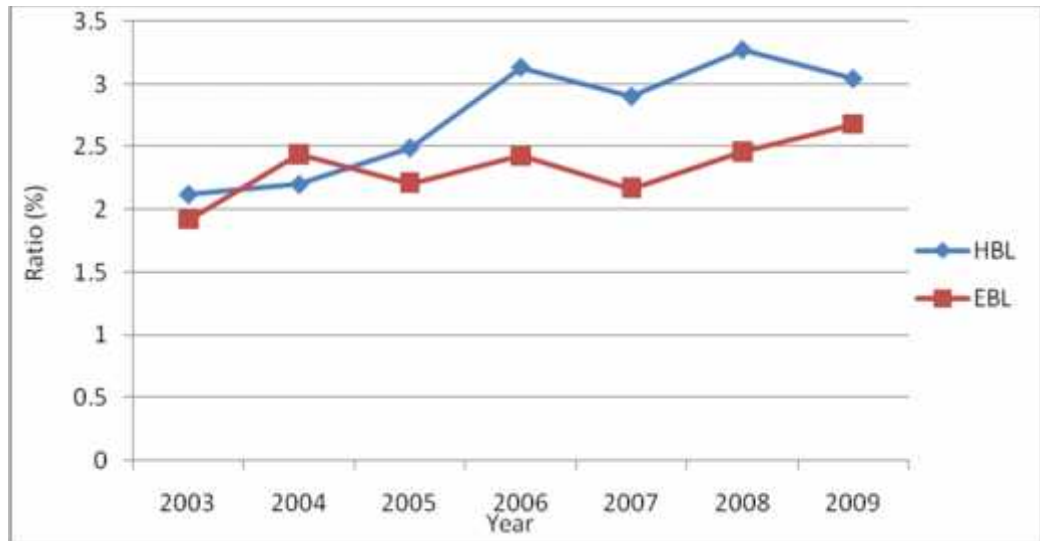
| Year | Ratio (%) | |
|-------------------|-----------|------|
| | HBL | EBL |
| 2003 | 2.12 | 1.92 |
| 2004 | 2.20 | 2.44 |
| 2005 | 2.49 | 2.21 |
| 2006 | 3.13 | 2.43 |
| 2007 | 2.90 | 2.17 |
| 2008 | 3.27 | 2.46 |
| 2009 | 3.04 | 2.68 |
| Mean(\bar{x}) | 2.73 | 2.33 |
| S.D. (σ) | 0.43 | 0.23 |
| C.V. | 15.69 | 9.86 |

Sources: Appendix - 1, 2&8

From the table 4.6, Return on Loan and Advances Ratios of the HBL and EBL for the year 2003,2004,2005,2006, 2007,2008 and 2009 are 2.12, 2.20, 2.49, 3.13, 2.90, 3.27, 3.04 and 1.92, 2.44, 2.21, 2.43, 2.17, 2.46,2.68 percentage respectively . During the study period HBL has the highest ratio of 3.27 % than that of EBL i.e. 2.68%. In average HBL has the highest mean ratio of 2.73% where as EBL has the mean ratio of 2.33.Coefficient of variation indicates that EBL i.e. 9.86% has more stable ratio variance between seven years study period than HBL.

The table 4.6 can be presented by the help of diagram, which is shown in figure 4.6.

Figure 4.6
Comparative Return on Loan and Advances Ratios



Sources: Appendix - 1, 2&8

From the figure 4.6 Return on Loan and Advances Ratios of HBL and EBL are in fluctuating as well as increasing trend. It seems that HBL and EBL are in increasing their Total Return on Loan and Advances.

4.1.1.3.2 Return on Total Investment

This ratio is computed dividing net profit (loss) by the total amount of and can Total investment be mentioned as,

$$\text{Return on Loan and Advances Ratio} = \frac{\text{Net Profit (Loss)}}{\text{Total Investment}}$$

Table 4.7
Comparative Return on Total Investment

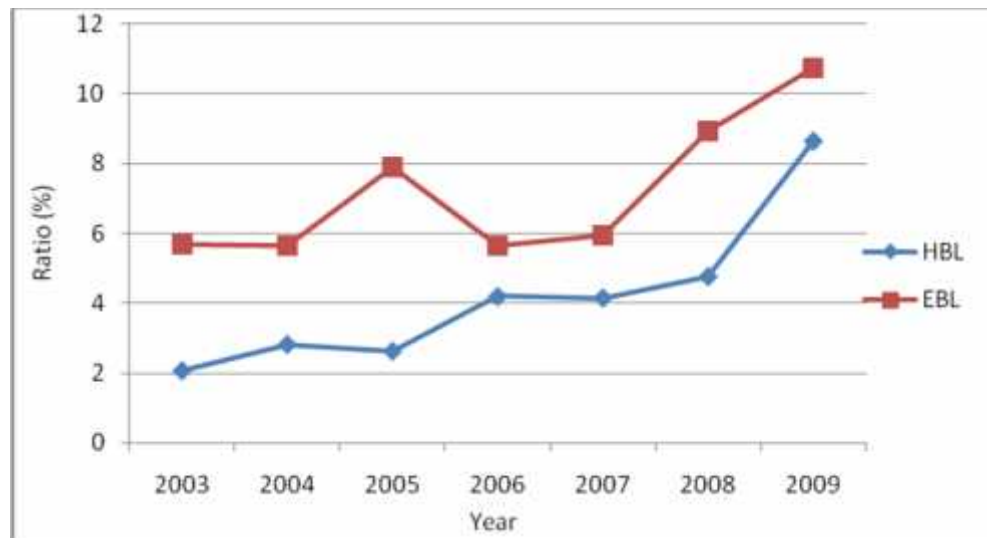
| Year | Ratio (%) | |
|-------------------|-----------|-------|
| | HBL | EBL |
| 2003 | 2.08 | 5.69 |
| 2004 | 2.83 | 5.66 |
| 2005 | 2.64 | 7.9 |
| 2006 | 4.20 | 5.65 |
| 2007 | 4.16 | 5.95 |
| 2008 | 4.77 | 8.92 |
| 2009 | 8.64 | 10.74 |
| Mean(\bar{x}) | 4.19 | 7.22 |
| S.D. (σ) | 2.03 | 1.87 |
| C.V. | 48.45 | 25.9 |

Sources: Appendix - 1, 2&9

From the table 4. 7, Return on Total Investment Ratios of the HBL and EBL for the year 2003,2004,2005,2006,2007,2008 and 2009 are 2.08, 2.83, 2.64, 4.20, 4.16, 4.77,8.64 and 5.69, 5.66, 7.90, 5.65, 5.95, 8.92,10.74 percentage respectively. During the study period HBL and EBL has the highest ratio of 8.64% and 10.74% respectively. In average HBL has the mean ratio of 4.19% where as EBL has the mean ratio of 7.22% .Coefficient of variation indicates that EBL i.e. 25.9% has more stable ratio variance between seven years study period than HBL i.e. 48.45%.

The table 4.7 can be presented by the help of diagram, which is shown in figure 4.7.

Figure 4.7
Comparative Return on Total Investment



Sources: Appendix - 1, 2&9

From the figure 4.7 Return on Total investment of HBL and EBL are in fluctuating as well as increasing trend. It seems that HBL and EBL are in increasing their Return on Total investment.

4.1.1.4 Risk Ratios

For this study, following risk ratios are used to analyze and interpret the financial data and investment policy.

4.1.1.4.1 Liquidity Risk Ratio

This ratio is calculated by dividing cash and bank balance to total deposit.

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

Table 4.8
Comparative Liquidity Risk Ratios

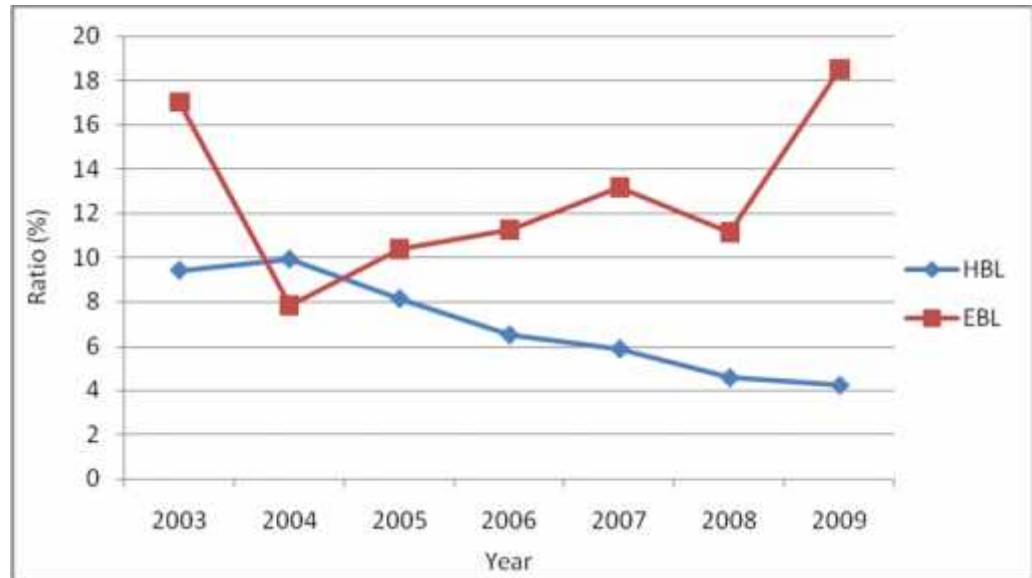
| Year | Ratio (%) | |
|--------------------|-----------|-------|
| | HBL | EBL |
| 2003 | 9.4 | 17.02 |
| 2004 | 9.9 | 7.83 |
| 2005 | 8.12 | 10.40 |
| 2006 | 6.48 | 11.25 |
| 2007 | 5.85 | 13.15 |
| 2008 | 4.55 | 11.13 |
| 2009 | 4.21 | 18.5 |
| Mean(\bar{x}) | 6.93 | 12.75 |
| S.D. (\dagger) | 2.19 | 3.51 |
| C.V. | 31.6 | 27.53 |

Sources: Appendix - 1, 2&3

From the table 4.8 Liquidity Risk Ratio of the HBL and EBL for the year 2003,2004,2005,2006,2007,2008 and 2009 are 9.4, 9.9, 8.12, 6.48,5.85, 4.55, 4.21 and17.02, 10.40, 11.25, 13.15, 11.13, 18.5 percentage respectively. The EBL has highest cash and bank balance to total deposit ratio of 18.5% in the year 2009 and lowest ratio of 7.83% on 2004. Whereas HBL have highest ratio of 9.90% on 2004 and lowest ratio of 4.21% in the year 2009. The mean ratio of HBL is lower than that of EBL i.e. 6.93 % < 12.75%. It means that HBL has maintained the lower liquidity risk ratio which means it operates with higher risk for higher profit. The coefficient of variation of EBL i.e. 27.53% is lower than that of HBL where as HBL has 31.6%. It shows that the ratio of EBL is more stable than of HBL.

The table 4.8 can be presented by the help of diagram, which is shown in figure 4.8.

**Figure 4.8
Comparative Liquidity Risk Ratios**



Sources: Appendix - 1, 2&3

From the figure no. 4.8 Liquidity Risk Ratios of HBL and EBL are in fluctuating trend. The ratio of HBL is in decreasing trend but the ratio of EBL is in increasing trend. It seems that HBL is in decreasing the Cash and Bank Balance but EBL is in increasing.

4.1.1.4.2 Credit Risk Ratio

In general, credit risk ratio shows the proportion of non-performing assets in the total investment plus loan and advances of a bank. It is computed as:

$$\text{Credit Risk Ratio} = \frac{\text{Total Investment} + \text{Total Loan and Advances}}{\text{Total Assets}}$$

Table 4.9
Comparative Credit Risk Ratios

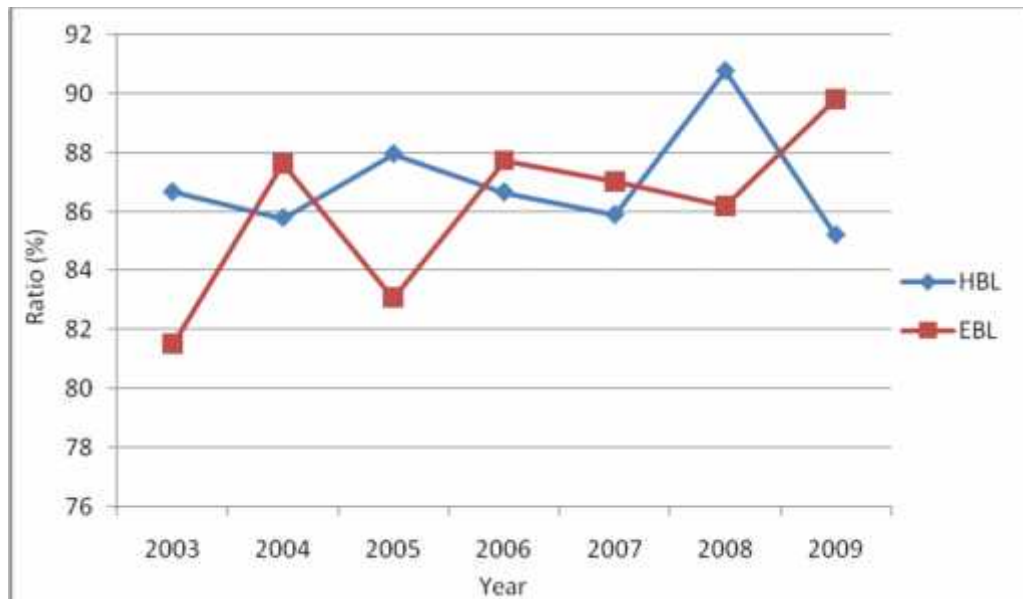
| Year | Ratio (%) | |
|--------------------|-----------|-------|
| | HBL | EBL |
| 2003 | 86.67 | 81.5 |
| 2004 | 85.79 | 87.63 |
| 2005 | 87.96 | 83.08 |
| 2006 | 86.66 | 87.73 |
| 2007 | 85.89 | 87.01 |
| 2008 | 90.77 | 86.18 |
| 2009 | 85.21 | 82.42 |
| Mean(\bar{x}) | 86.99 | 85.07 |
| S.D. (\dagger) | 1.74 | 2.46 |
| C.V. | 2.00 | 2.89 |

Sources: Appendix - 1, 2&10

From the table 4.9, Credit Risk Ratios of the HBL and EBL for the year 2003,2004,2005,2006,2007,2008 and 2009 are 86.67, 85.79, 87.96, 86.66, 85.89, 90.77, 85.21 and 81.5, 87.63, 83.08, 87.73, 87.01, 86.18, 82.42 percentage respectively. HBL and EBL have the highest ratio of 90.77 and 87.73% in the year 2008 and 2006 respectively whereas they have lowest ratio of 85.21 % and 81.5% in year 2009 and 2003 respectively. On the basis of mean ratio, it can be said that the credit risk of EBL is not great difference than that of HBL i.e. 85.07% <86.99%. EBL (i.e. 2.89%) has the highest coefficient of variation than HBL (i.e. 2.00%) which shows more variable ratios of EBL.

The table 4.9 can be presented by the help of diagram, which is shown in figure 4.9.

**Figure 4.9
Credit Risk Ratios**



Sources: Appendix - 1, 2&10

From the figure no. 4.9 Credit Risk Ratios of HBL and EBL are in very fluctuating trend. The ratio of HBL is in decreasing trend but the ratio of EBL is in increasing trend. It seems that HBL is in decreasing the Credit Risk but EBL is in increasing.

4.1.1.5 Growth Ratios

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

4.1.1.5.1 Growth Ratio of Total Deposits

**Table 4.10
Growth Ratio of Total Deposits**

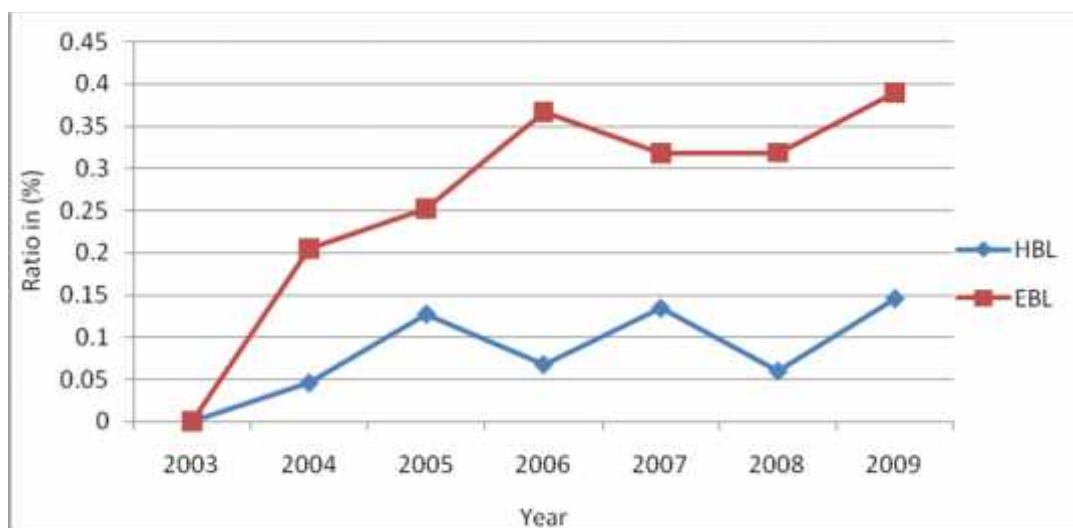
| Banks | Total Deposits | | | | | | | Growth Rate (%) |
|-------|----------------|--------|--------|--------|--------|--------|--------|-----------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | |
| HBL | - | 4.59% | 12.74% | 6.76% | 13.43% | 5.97% | 14.57% | 9.68 |
| EBL | - | 20.45% | 25.22% | 36.69% | 31.76% | 31.84% | 38.98% | 30.82% |

Appendix -11

From the table 4.10, Growth Ratio of Total Deposits of the HBL and EBL for the year 2003,2004,2005,2006,2007,2008 and 2009 are -, 4.59%, 12.74%, 6.76%, 13.43%, 5.97%, 14.57% and -, 20.45%, 25.22%, 36.69%, 31.76%, 31.84%, 38.98% respectively. The HBL and EBL are increasing their deposit collection during seven years study period. The average growth ratio of HBL and EBL are 9.68% and 30.82%% respectively. The growth ratio of total deposits of HBL seems lower than EBL.

The table 4.10 can be presented by the help of diagram, which is shown in figure 4.10.

Figure 4.10
Growth Ratio of Total Deposits



Sources: Appendix -11

From the figure no. 4.10 Growth Ratio of Total Deposits of HBL and EBL are in increasing trend. The ratios of both banks are in increasing trend but the position of total deposit of EBL is better than HBL.

4.1.1.5.2 Growth Ratio of Total Investment

Table 4.11

Growth Ratio of Total Investment

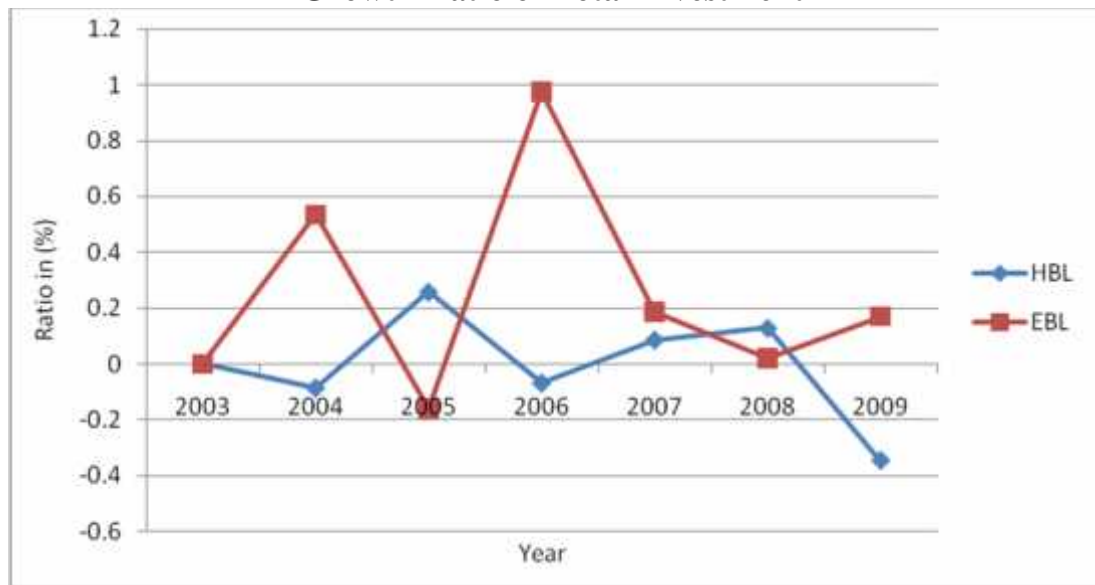
| Banks | Total Investment | | | | | | | Growth Rate (%) |
|-------|------------------|--------|---------|--------|--------|--------|---------|-----------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | |
| HBL | - | -8.68% | 25.83% | -6.87% | 8.58% | 12.83% | -34.70% | -0.5 |
| EBL | - | 53.31% | -16.04% | 97.31% | 18.66% | 2.12% | 16.88% | 28.70 |

Appendix -12

From the table 4.11, Growth Ratio of Total Investment of the HBL and EBL for the year 2003,2004,2005,2006,2007,2008 and 2009 are -, -8.68%, 25.83%, -6.87%, 8.58%, 12.83%, -34.70% and 53.31%, -16.04%, 97.31%, 18.66%, 2.12%, 16.88%Rs. in million respectively. EBL has increased its investment from the year 2003 to 2009 except in 2005. HBL and EBL have the growth rate of -0.5% and 28.70% respectively. It means HBL has not good position of investment trend (i.e. -0.5). Between them EBL has the highest growth rate than HBL.

The table 4.11 can be presented by the help of diagram, which is shown in figure 4.11.

**Figure 4.11
Growth Ratio of Total Investment**



Appendix -12

From the figure 4.11 Growth Ratio of Total Investment of HBL and EBL are in fluctuating trend. The ratio of HBL is in decreasing trend but the average growth Ratio of Total Investment of EBL is in increasing trend.

4.1.1.5.3 Growth Ratio of Loan and Advances

Table 4.12

Growth Ratio of Loan and Advances

| Banks | Year | | | | | | | Growth Rate (%) |
|-------|------|--------|--------|--------|--------|--------|--------|-----------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | |
| HBL | - | 19.50% | 3.95% | 17.85% | 16.09% | 14.70% | 27.16% | 16.54 |
| EBL | - | 19.88% | 29.48% | 28.65% | 39.41% | 34.21% | 30.24% | 30.31 |

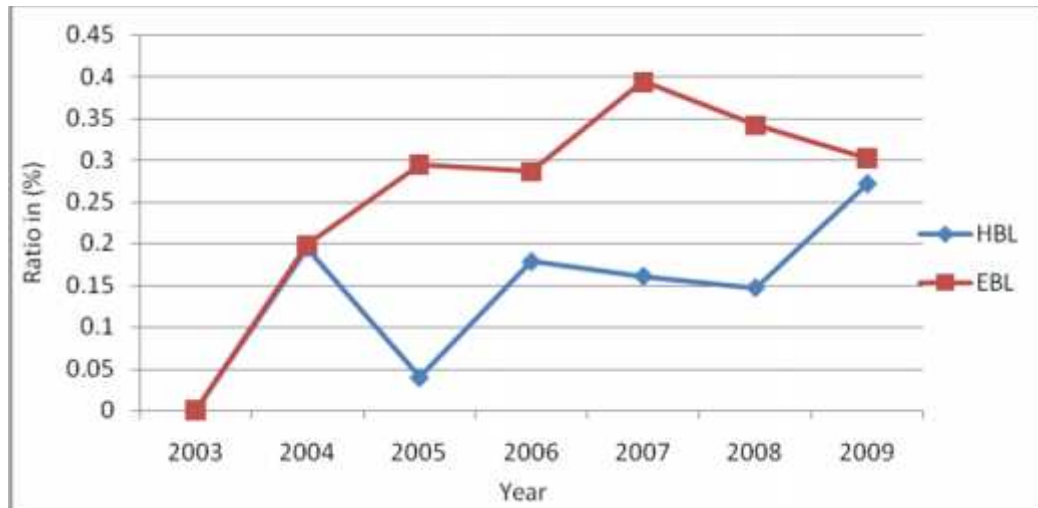
Appendix -13

From the table 4.11, Growth Ratio of loan and advances of the HBL and EBL for the year 2003, 2004, 2005, 2006, 2007, 2008 and 2009 are 19.50%, 3.95%, 17.85%, 16.09%, 14.70%, 27.16%, and 19.88%, 29.48%, 28.65%, 39.41%, 34.21% and 30.24% respectively. These two banks have increased its investment from the year 2003 to 2009. The average growth ratio of HBL and

EBL are 16.54% and 30.31% respectively .It means EBL has the highest growth rate than HBL.

The table 4.12 can be presented by the help of diagram, which is shown in figure 4.12.

Figure 4.12
Growth Ratio of Loan and Advances



Source: Appendix -13

From the figure 4.12 Growth Ratio of loan and advances HBL and EBL are in increasing trend. The position of average growth ratio of Loan and Advances of EBL is better than HBL.

4.1.1.5.4 Growth Ratio of Net Profit

Table 4.13
Growth Ratio of Net Profit

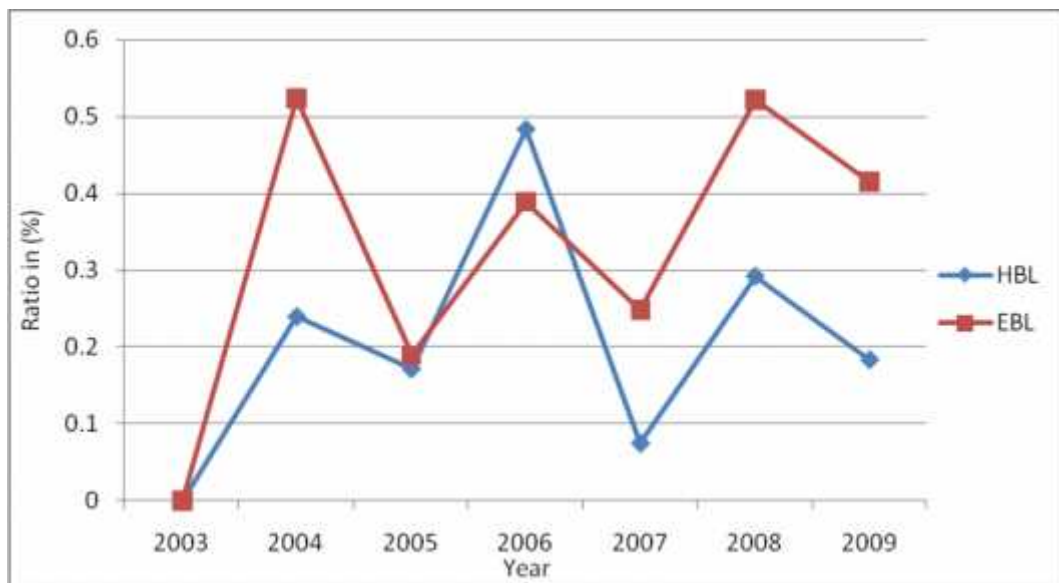
| Banks | Year (Net Profit) | | | | | | | Growth Rate (%) |
|-------|-------------------|--------|--------|--------|--------|--------|--------|-----------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | |
| HBL | - | 24.00% | 17.19% | 48.40% | 7.52% | 29.27% | 18.40% | 24.13 |
| EBL | - | 52.43% | 18.98% | 38.97% | 24.87% | 52.22% | 41.56% | 38.17% |

Appendix -14

From the table 4.11, Growth Ratio of loan and advances of the HBL and EBL for the year 2003,2004,2005,2006,2007,2008 and 2009 are :- 24.00%, 17.19%, 48.40%, 7.52%, 29.27%, 18.40% and -, 52.43%, 18.98%, 38.97%, 24.87%, 52.22%, 41.56%Rs. in million respectively. It shows that EBL has the higher ratio of 38.17 than HBL (i.e. 38.17% >24.13%).

The table 4.13 can be presented by the help of diagram, which is shown in figure

Figure 4.13
Growth Ratio of Net Profit



Source: Appendix -14

From the figure 4.13 Growth Ratio of net profit of HBL and EBL are in increasing trend. The position of average growth ratio of net profit of EBL is better than HBL.

4.1.2 Analysis of Sources and Uses of Funds

The following table presents the list of sources and uses of funds of HBL. And it represents the proportionate contribution to the total funds of HBL.

4.1.2.1 Analysis of Sources and Uses of Funds of HBL

Table 4.14
Percentage of Various Sources of Funds from Total Sources of HBL

| Particulars | Year | | | | | | | Total | Average |
|-------------------------|------------|------------|------------|------------|------------|------------|------------|-------------|------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | | |
| 1. Capital Fund | 4.55 | 5.84 | 5.54 | 2.62 | 6.31 | 6.95 | 7.93 | 39.76 | 5.68 |
| 2. Debentures and Bonds | - | - | - | 1.6 | 1.07 | 2.38 | 0.13 | 5.18 | 0.74 |
| 3. Deposits | 89.96 | 87.68 | 89.12 | 89.92 | 89.73 | 88.02 | 88.20 | 622.63 | 88.95 |
| 4. Borrowings | 2.76 | 2.66 | 1.82 | 1.99 | 0.72 | 0.23 | 0 | 10.18 | 1.45 |
| 5. Others | 2.73 | 3.82 | 3.52 | 3.87 | 2.17 | 2.42 | 3.74 | 22.27 | 3.18 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 700. | 100 |

Source: Report of HBL

From the table 4.14, contribution of capital fund and Debentures and Bonds in total sources is 5.68% and 0.74 respectively. Likewise, deposits contribute more funds out of total sources of funds i.e. 88.95%. Considering the contribution of borrowings to total sources, it is approximately 1.45% which is lowest among other sources of funds. Other source of funds is 3.18%. Deposit is the only one reliable source of funds of HBL.

Table 4.15
Percentage of Various Uses of Funds from Total Uses of HBL

| Particulars | Year | | | | | | | Total | Average |
|---------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | | |
| 1. Liquid Funds | 52.66 | 8.21 | 8.82 | 9.19 | 9.76 | 5.43 | 10.73 | 104.8 | 14.97 |
| 2. Investments | 42.82 | 37.44 | 41.99 | 36.96 | 35.27 | 36.88 | 22.15 | 253.51 | 36.21 |
| 3. Loans & Advances | 0.98 | 48.16 | 44.46 | 49.70 | 47.86 | 53.9 | 63.05 | 308.11 | 44.02 |
| 4. Others | 3.54 | 6.19 | 4.73 | 4.15 | 7.11 | 3.79 | 4.07 | 33.58 | 4.80 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 700 | 100 |

Source: Report of HBL

From the table 4.15, sources of funds are used for different purposes. HBL maintained liquid funds of 14.97%. It has maintained sufficient liquid funds in the starting period of the study. It makes average investment of 36.21%. Similarly, it provides loan and advances of 44.02% for its customers to fulfill their daily cash requirements. Similarly other uses cover 4.80.

4.1.2.2 Analysis of Sources and Uses of Funds of EBL

Table 4.16

Percentage of Various Sources of Funds from Total Sources of EBL

| Particulars | Year | | | | | | | Total | Average |
|-------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | | |
| 1. Capital Fund | 7.61 | 7.08 | 7.10 | 6.03 | 5.61 | 7.08 | 5.97 | 46.48 | 6.64 |
| 2. Debentures and Bonds | - | - | 2.55 | 1.88 | 1.40 | 1.11 | 0.81 | 7.75 | 1.11 |
| 3. Deposits | 83.14 | 83.92 | 86.07 | 86.49 | 84.85 | 88.31 | 90.26 | 603.04 | 86.15 |
| 4. Borrowings | - | - | - | - | - | - | 0.85 | 0.85 | .12 |
| 5. Others | 9.24 | 9 | 4.28 | 5.60 | 8.14 | 3.5 | 2.11 | 41.87 | 5.98 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 700 | 100 |

Source: Report of EBL

From the table 4.16, analysis shows that contribution of Capital Fund and Debentures and Bonds in total sources of funds of EBL is 6.64% and 1.11% respectively. Similarly, Deposits contribute more funds in total sources of funds i.e. 86.15%. Borrowings occupy only 0.12% of the total sources. And remaining funds is contributed by other sources i.e. 5.98%. It can be said that Deposits is the main sources of funds.

Table 4.17**Percentage of Various Uses of Funds from Total Uses of EBL**

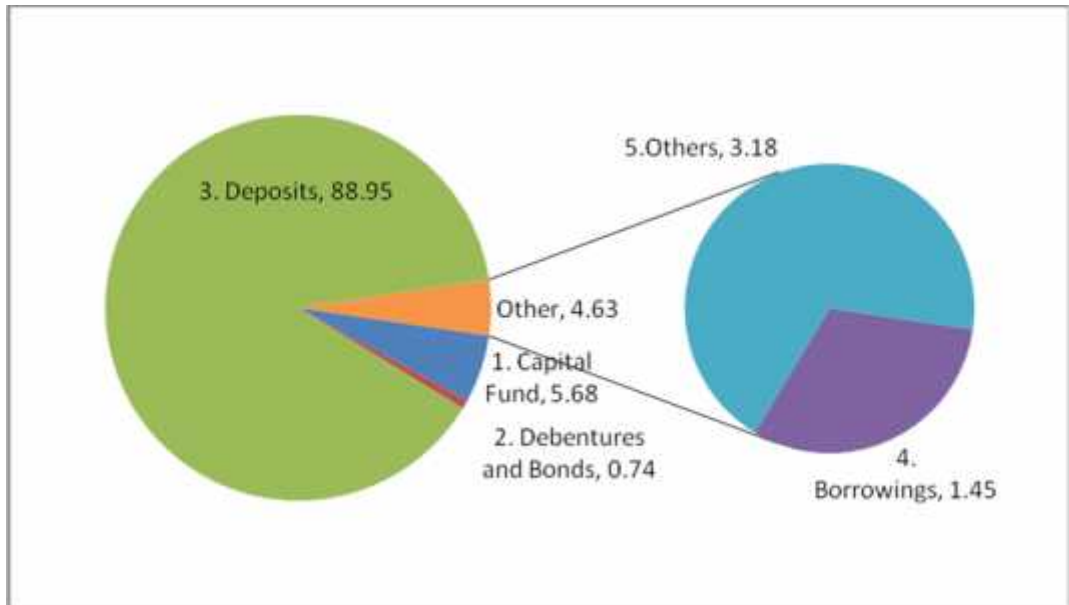
| Particulars | Year | | | | | | | Total | Average |
|---------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | | |
| 1. Liquid Funds | 14.15 | 8.52 | 13.18 | 10.15 | 11.16 | 11.1 | 15.89 | 84.15 | 12.02 |
| 2. Investments | 20.54 | 26.39 | 18.16 | 26.32 | 23.26 | 18.64 | 16.11 | 149.42 | 21.35 |
| 3. Loans & Advances | 60.96 | 61.24 | 64.94 | 61,41 | 63.75 | 67.55 | 64.7 | 444.55 | 63.51 |
| 4. Others | 4.35 | 3.85 | 3.72 | 2.21 | 1.83 | 2.71 | 3.3 | 21.88 | 3.12 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 700 | 100 |

Source: Report of EBL

From the table 4.17, sources of funds are used for different purposes. EBL has maintained liquid funds of 12.02% out of total sources. It makes average investment of 21.35%. It provides loans and advances of 63.51% to its customer. Out of total uses, percentage covered by other uses is 3.12% of the total uses of funds.

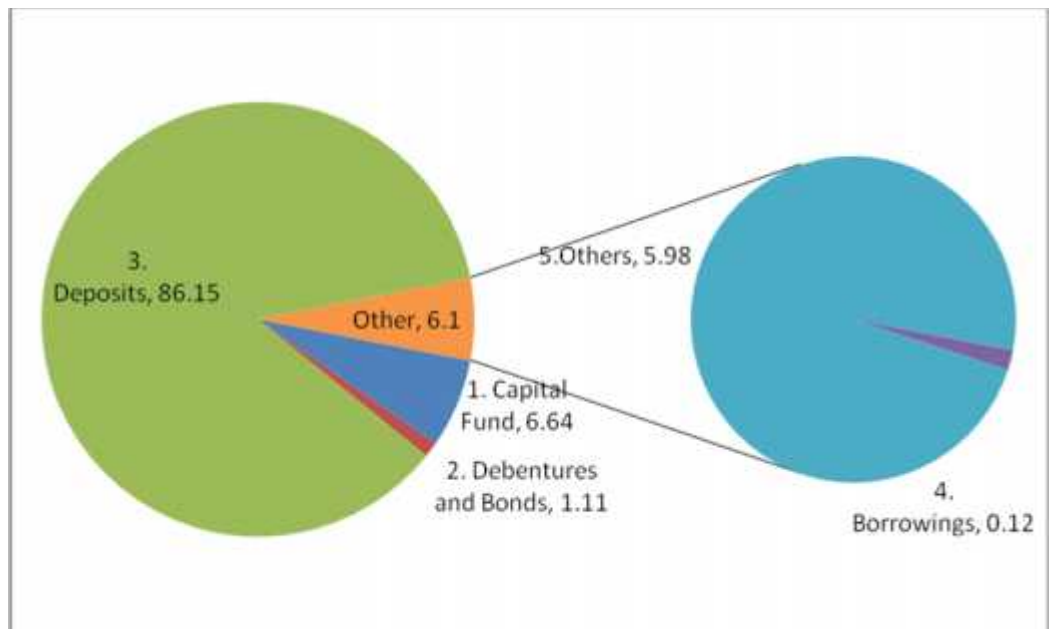
The table 4.14, 4.15, 4.16 and 4.17 can be presented by the help of diagram, which is shown in figure

Figure 4.14
Sources of Funds of HBL based on Mean Ratio



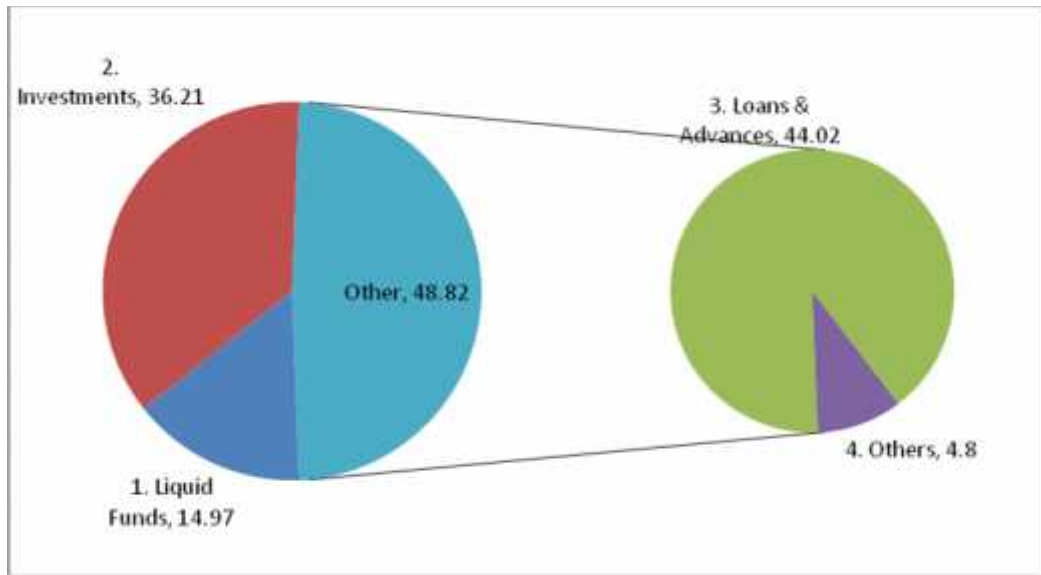
Source: Table No. 4.14

Figure 4.15
Sources of Funds of EBL based on Mean Ratio



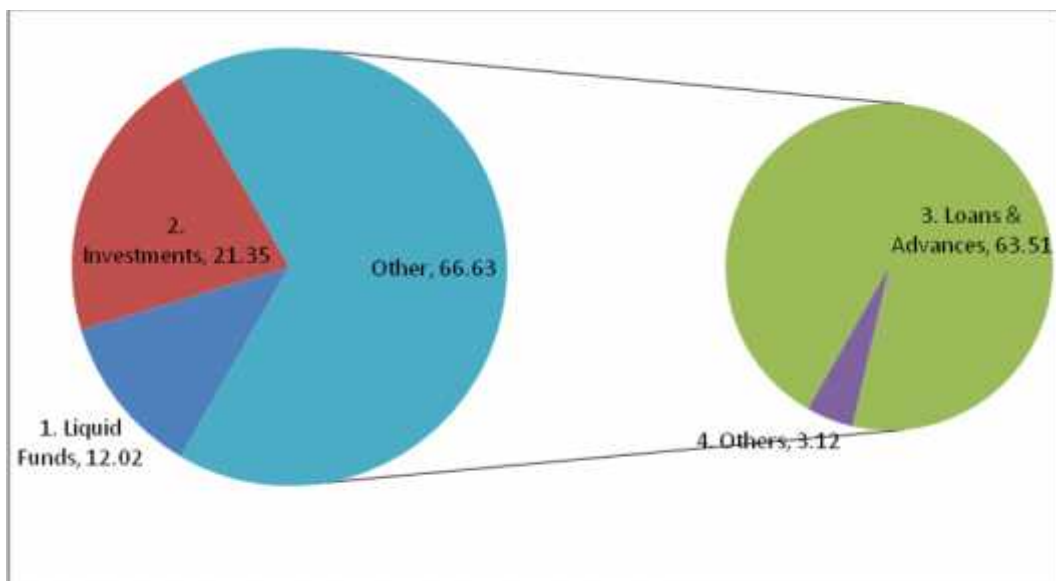
Source: Table No. 4.16

Figure 4.16
Uses of Funds of HBL based on Mean Ratio



Source: Table No. 4.15

Figure 4.17
Uses of Funds of EBL based on Mean Ratio



Source: Table No. 4.17

4.1.2.3 Comparative Analysis of Sources

The following table shows the average sources of funds of the three joint venture bank

Table 4.18

Comparative average Sources of Funds of HBL and EBL

| Particulars | Average (%) | |
|-----------------------|--------------------|------------|
| | HBL | EBL |
| 1. Capital Fund | 5.68 | 6.64 |
| 2. Debenture and bond | 0.74 | 1.11 |
| 2. Deposits | 88.95 | 86.15 |
| 3. Borrowings | 1.45 | .12 |
| 4. Others | 3.18 | 5.98 |
| Total | 100 | 100 |

Source: Table No. 14&16

From the table 4.18, analysis, a capital fund of EBL (i.e. 6.64%) is higher in comparison to HBL banks (i.e. 5.68%). Beside the position of Debenture and bond of these bank only 0.74 of HBL and 1.11 of EBL. Since the deposit contribution to total sources of funds is very high, HBL and EBL seem to be high liquidity sensitive bank. The deposit proportion of HBL and EBL are 88.95%, 86.15%. Considering the contribution of borrowings to total sources, HBL has borrowed proportionately more fund than that of EBL. Likewise involvement of other sources of funds of EBL is 5.98% which is greater than HBL.

4.1.2.4 Comparative Analysis of Uses

The subsequent table shows the average uses of funds of the two joint venture banks.

Table 4.19

Comparative Average Uses of Funds of HBL and EBL

| Particulars | Average (%) | |
|---------------------|--------------------|------------|
| | HBL | EBL |
| 1. Liquid Funds | 14.97 | 12.02 |
| 2. Investments | 36.21 | 21.35 |
| 3. Loans & Advances | 44.02 | 63.51 |
| 4. Others | 4.80 | 3.12 |
| Total | 100 | 100 |

Source: Table No. 15&17

From the table 4.19, HBL has maintained high liquid funds than EBL i.e. 14.97%. HBL is successful to make investment in different sectors in comparison to EBL. HBL has proportionately higher investment i.e. 36.21% which is greater than EBL. Out of total uses of funds, loan and advances of EBL contributes 63.51% in average which is higher than HBL. EBL has least allocation of funds under other assets in comparison to HBL.

4.1.3 Cash Flow Analysis

The cash flows of the banks are grouped into three categories according to the nature of business activities, namely cash flows from operating activities, investing activities and financing activities. These activities show the movements of cash in these two banks. They are summarized in the following table.

4.1.3.1 Cash Flow Analysis of HBL

The cash flow of HBL from different activities is shown in the following table.

Table 4.20
Cash Flow from different Banking Activities of HBL
(Rs. in million)

| Year | HBL | | |
|------|--------|-----------|---------|
| | CFOA | CFIA | CFFA |
| 2003 | 636.56 | 3134.27 | 2432.12 |
| 2004 | 725.69 | 1921.64 | 1072.99 |
| 2005 | 585.54 | 31.31 | -- |
| 2006 | 590.60 | (287.41) | -- |
| 2007 | 700.77 | (63.55) | -- |
| 2008 | 273.06 | (1144.97) | 366.75 |
| 2009 | 978.38 | 4385.90 | 508.83 |

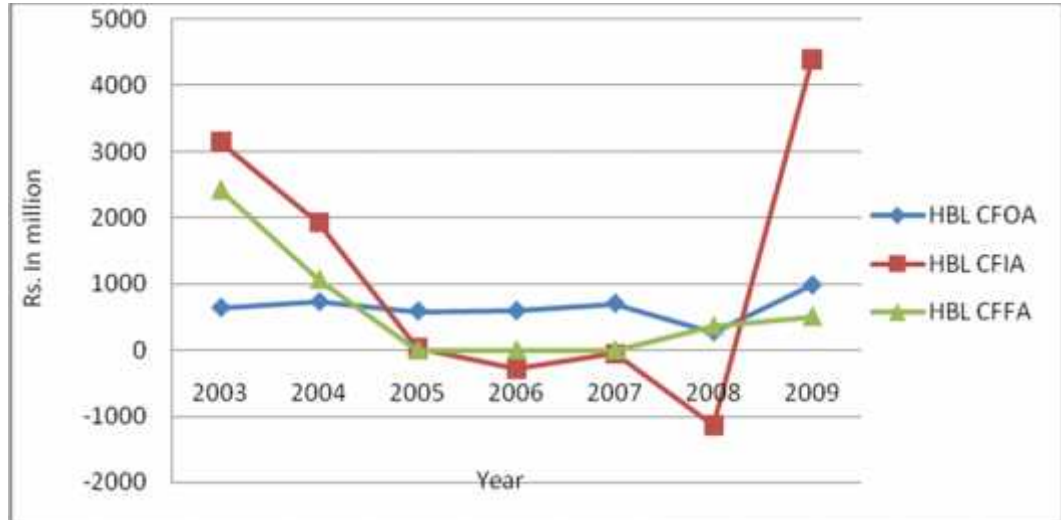
Source: Report of HBL

From the table 4.20, the analysis shows the cash inflow and outflow of HBL during seven years study period. Operating activities of HBL is in fluctuating trend. Operating efficiency of this bank is decreasing from the year 2003 to 2006. HBL is increase in 2007, again decrease in 2008 but recover in 2009. HBL has the maximum operating activities in year 2009. Investing activities of HBL is decreasing from the year 2003 to 2006. But it fluctuates from the year 2007 to 2008. HBL has the maximum investment of (Rs. 4385.90) million in year 2009. By investing more cash in investing activities it can achieve profitable opportunity. Cash flow from financing activities of HBL is decreasing from the year 2003 to 2004. But the year between 2005 and 2007 is neutral. HBL has the maximum investment of (Rs. 508.83) million in year 2009.

Cash flow activities of HBL are also shown by the help of following figure.

Figure 4.18

Cash Flow from different Banking Activities of HBL



Source: Table No. 20

From the Figure No.18, the analysis shows the Operating activities, investing activities and financing activities of HBL are in fluctuating trend. Investing activities of HBL are in more fluctuating trend than other.

4.1.3.2 Cash Flow Analysis of EBL

The cash flow of EBL from different activities is shown in the following table.

Table 4.21
Cash Flow from different Banking Activities of EBL
(Rs. in million)

| Year | EBL | | |
|------|---------|-----------|----------|
| | CFOA | CFIA | CFFA |
| 2003 | 138.94 | (1543.63) | 1364.13 |
| 2004 | 273.17 | (1670.89) | 1389.81 |
| 2005 | 311.50 | (193.32) | 300.00 |
| 2006 | 485.74 | (45.77) | 63.00 |
| 2007 | 935.77 | 888.79 | 790.19 |
| 2008 | 1618.85 | (240.56) | (594.11) |

| | | | |
|------|---------|----------|-------|
| 2009 | 3695.54 | (761.82) | 36.75 |
|------|---------|----------|-------|

Source: Report of EBL

From the table 4.21, analysis shows the cash inflow and outflow of EBL. The operating efficiency of EBL is in increasing trend. Cash flow from operating activities is increased from the year 2003 to 2009. Cash flow from operating activities is maximum in the year 2009 i.e. Rs. 3695.54. EBL is unable to create cash inflow from investing activities during the year 2003 to 2006. Cash flows from investing activities is decreasing from the year 2003 to 2004. But in year 2006 cash outflow from investing activities is significantly lower i.e. ((45.77)) than other years. But in year 2007 EBL create (888.79) million. From year 2008, bank drastically increased its investment activities having an outflow of (Rs. (240.56), and year 2009 (761.82)) million.

Cash from financing activities is in fluctuating trend from year 2003 to 2009. Cash flow from financing activities is maximum in the year 2004 i.e. (Rs1389.81). It has outflow of (i.e. Rs. 594.11) million in year 2008.

Cash flow of these three activities of EBL is also shown in the following figure.

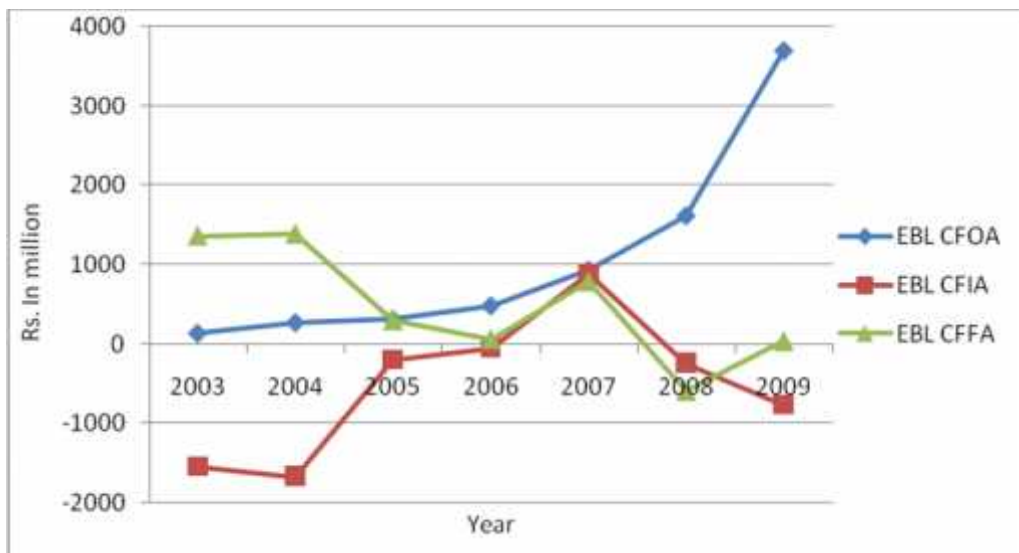


Figure 4.19

Cash Flow from different Banking Activities of EBL

Source: Table No. 21

From the Figure No.19, the analysis shows the Operating activities, investing activities and financing activities of EBL are in fluctuating trend. Operating activities of EBL are in upward slope. It means operating efficiency of EBL is in increasing trend.

4.1.3.3 Comparative Cash Flow Analysis of HBL and EBL

4.1.3.3.1 Cash Flow Analysis from Operating Activities (CFOA)

Following comparative table shows the cash flow from operating activities and their percentage change.

Table 4.22
Comparative CFOA of HBL and EBL

(Rs. in millions)

| Year | Banks | | | |
|------|--------|----------|---------|----------|
| | HBL | % Change | EBL | % Change |
| 2003 | 636.56 | - | 138.94 | - |
| 2004 | 725.69 | 14.4 | 273.17 | 96.61 |
| 2005 | 585.54 | -19.31 | 311.50 | 14.03 |
| 2006 | 590.60 | 0.86 | 485.74 | 55.94 |
| 2007 | 700.77 | 18.65 | 935.77 | 92.64 |
| 2008 | 273.06 | -61.03 | 1618.85 | 73.0 |
| 2009 | 978.38 | 258.30 | 3695.54 | 128.28 |

From the table 4.22, analysis operating activities of HBL and EBL are in fluctuating trend whereas EBL has the increasing trend during 2003 and 2009 seven years study period. We observed the more fluctuations in cash inflows of HBL, there is the highest cash inflow of Rs. 978.38 million in FY 2009 and the lowest cash inflow of Rs. 273.06 million in FY 2008. From the table no. 22, analysis we can see the positive as well as negative changes in cash flow from operating activities of HBL due to fluctuations in operating activities. Whereas EBL has the positive cash changes due to the increasing trend of

cash flow from operating activities. It indicates that EBL operating efficiency is increasing during the study period.

Cash from operating activities of two banks is also shown by the help of following Figure:

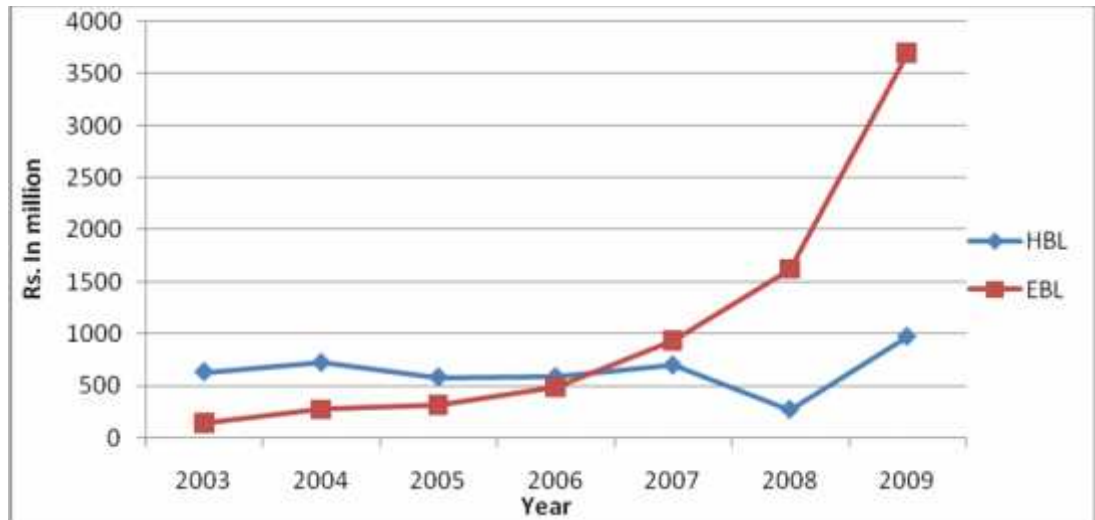


Figure No. 20

Comparative CFOA of HBL and EBL

Source: Table No. 22

From the Figure 4.20, the analysis shows the Operating activities of HBL and EBL are in fluctuating trend. The operating activity of EBL is in increasing trend than HBL. It means operating efficiency of EBL is more than HBL.

4.1.3.3.2 Cash Flow Analysis from Investing Activities (CFIA)

Following comparative table shows the cash from investing activities of two banks.

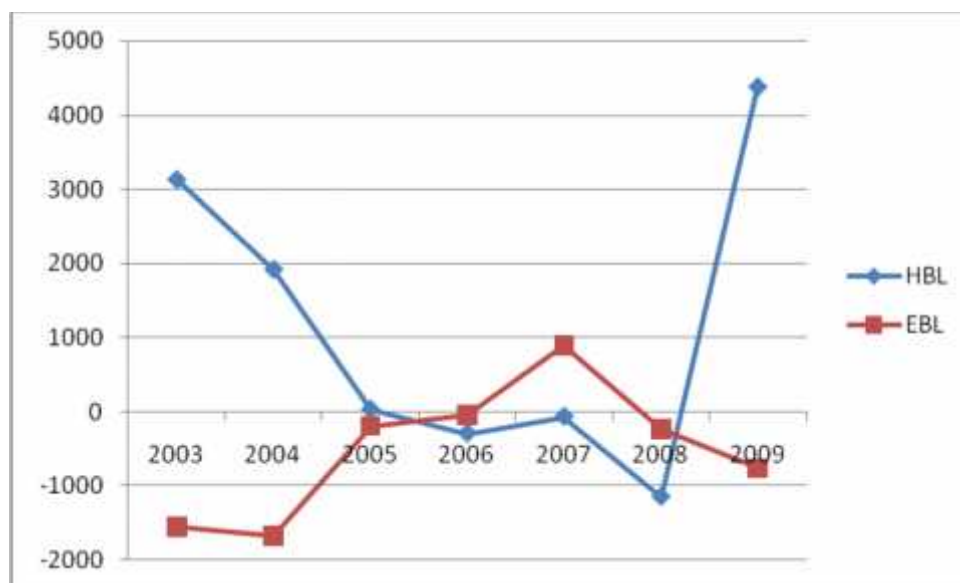
Table 4.23
Comparative CFIA of HBL and EBL
(Rs. in millions)

| Year | Banks | | | |
|------|-----------|----------|-----------|----------|
| | HBL | % Change | EBL | % Change |
| 2003 | 3134.27 | - | (1543.63) | - |
| 2004 | 1921.64 | -38.69 | (1670.89) | 208.24 |
| 2005 | 31.31 | -98.33 | (193.32) | 88.43 |
| 2006 | (287.41) | -1017.95 | (45.77) | 76.32 |
| 2007 | (63.55) | 77.89 | 888.79 | 2041.86 |
| 2008 | (1144.97) | -1901.68 | (240.56) | -127.07 |
| 2009 | 4385.90 | 483.06 | (761.82) | -416.69 |

From the table 4.23, the investing activities of two banks EBL have incurred cash outflows throughout the study period where as HBL have both cash inflow and outflow. In comparison EBL has the highest cash outflow than HBL. They all have the cash outflow of fluctuating trend. Study shows that HBL has the highest cash outflow of (Rs. 1144.97) million in F.Y. 2008 where as EBL has the lowest cash outflow of (Rs. (45.77)) million in FY 2006. Cash flow from investing activities of HBL in the fact that it occurred cash inflow is in F.Y. 2003, 4, 5, & 9 from investing activities but EBL cash inflow is in only F.Y. 2007. Considering percentage changes in investing activities of two banks, we observed that the negative and positive cash changes in two banks. It is because of fluctuations in investing activities. We can see the more changes in investing activities of EBL in the year 2007 i.e. 2041.86%. It means that EBL drastically increased its investment in this year in comparison to previous years.

Cash from investing activities of two banks is also shown by the help of following figure.

Figure 4.21
Comparative CFIA of HBL and EBL



Source: Table No. 21

From the Figure 4.21, the analysis shows the investing activities of HBL and EBL are in fluctuating trend. The investing activity of EBL is in increasing trend than HBL. It means operating efficiency of EBL is more than HBL.

4.1.3.3.3 Cash Flow Analysis from Financing Activities (CFFA)

Following comparative table shows the cash from financing activities of two banks

Table 4.24
Comparative CFFA of HBL and EBL

(Rs. in million)

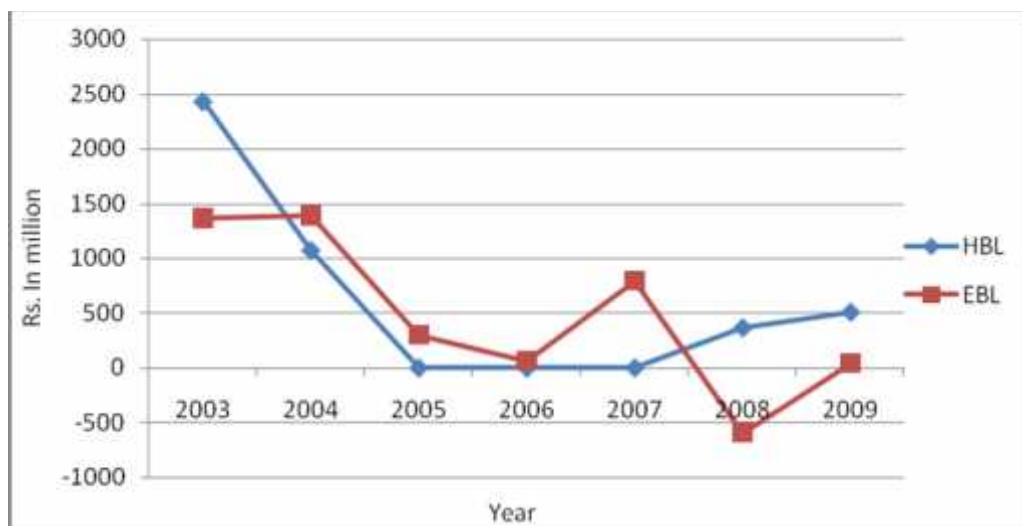
| Year | Banks | | | |
|------|---------|----------|----------|----------|
| | HBL | % Change | EBL | % Change |
| 2003 | 2432.12 | - | 1364.13 | - |
| 2004 | 1072.99 | -55.88 | 1389.81 | 1.88 |
| 2005 | -- | -100 | 300.00 | -78.41 |
| 2006 | -- | - | 63.00 | -79.00 |
| 2007 | -- | - | 790.19 | 1154.27 |
| 2008 | 366.75 | - | (594.11) | -175.19 |

| | | | | |
|------|--------|-------|-------|--------|
| 2009 | 508.83 | 38.74 | 36.75 | 106.19 |
|------|--------|-------|-------|--------|

From the table 4.25 the analysis shows that cash flow of financing activities of two banks is in fluctuating trend. EBL flow more cash for financing activities than HBL. EBL shows that cash acquisition efficiency of EBL is more than HBL. Alternatively HBL is unable to create cash flow activities (inflow /outflow) from financing activities during the year 2005, 2006, 2007 but in year 2008 and 2009 it flows more cash in financing activities in comparison to preceding years. In the analysis of proportionate changes of cash flow from financing activities, we observed that all the banks have the positive and negative changes. Study shows that EBL has the highest cash outflow of Rs. 594.11 million in FY 2008 where as HBL has no cash out flow during the year study period

Cash from financing activities of two banks is also shown by the help of following figure.

Figure 4.22
Comparative CFFA of HBL and EBL



Source: Table No. 21

From the Figure 4.22, the analysis shows the financing activities of HBL and EBL are in fluctuating trend. EBL shows that cash acquisition efficiency of EBL is more than HBL.

4.1.4 Test of Hypothesis

Under this analysis an effort has been made to test the significance level regarding the parameter of the population on the basis of sample drawn from the population.

4.1.4.1 Test of Hypothesis on Loans and Advances to Total Deposit Ratio

In this analysis ratios of loan and advances to total deposits of HBL and EBL are taken and are carried out under t-test of significance difference.

Table 4.25

**Test of Hypothesis on Loans and Advances to Total Deposit ratios
between HBL and EBL**

(Rs. In 100 millions)

| S. N. | Fiscal Year | HBL | | | EBL | | |
|-------|----------------|------------------|-------|--------------------|------------------|-------|-------------------|
| | | X_1 | x_1 | x_1^2 | X_2 | x_2 | x_2^2 |
| 1 | 2003 | 47.53 | -9.08 | 82.45 | 72.32 | -1.28 | 1.64 |
| 2 | 2004 | 54.3 | -2.31 | 5.34 | 72.97 | -0.6 | 0.37 |
| 3 | 2005 | 50.07 | -6.54 | 42.77 | 75.45 | 1.87 | 3.5 |
| 4 | 2006 | 55.28 | -1.33 | 1.77 | 71.01 | 2.57 | 6.61 |
| 5 | 2007 | 56.57 | 0.04 | 00 | 75.13 | 1.57 | 2.46 |
| 6 | 2008 | 61.23 | 4.62 | 21.34 | 76.49 | 2.91 | 8.47 |
| 7 | 2009 | 71.48 | 14.87 | 221.12 | 71.68 | 1.9 | 3.61 |
| | | X_1 =397.13 | | x_1^2 =378.64 | X_2 =515.07 | | x_2^2 =26.66 |

Source: Appendix -1&2

Here,

$$\begin{aligned}\bar{X}_1 &= \frac{X_1}{n_1} = \frac{397.13}{7} & \bar{X}_2 &= \frac{X_2}{n_2} = \frac{515.07}{7} \\ &= 56.61 & &= 73.58\end{aligned}$$

Again, $x_1 = X_1 - \bar{X}_1$ $x_2 = X_2 - \bar{X}_2$

a) Test of Significance of difference between HBL and EBL

Here, **Null Hypothesis (H₀):** $\bar{X}_1 = \bar{X}_2$ i.e. there is no significant difference between mean ratios of loans and advances to total deposit of HBL and EBL.

Alternative Hypothesis (H₁): $\bar{X}_1 \neq \bar{X}_2$ i.e. there is significant difference between mean ratios of loans and advances to total deposit of HBL and EBL (Where \bar{X}_1 is mean ratio of HBL and \bar{X}_2 is mean ratio of EBL).

Under H₀, the test statistic is given by,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where,

$$S^2 = \frac{1}{n_1 + n_2} \left(\sum x_1^2 + \sum x_2^2 \right) = \frac{1}{7 + 7} (378.64 + 26.66) = 33.78$$

Now,

$$\begin{aligned}t &= \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}} \\ &= \frac{56.61 - 73.58}{\sqrt{33.78 \left(\frac{1}{7} + \frac{1}{7} \right)}} = -5.46\end{aligned}$$

Hence, $t = 5.46$

Degree of freedom = $n_1+n_2-2 = 7+7-2 = 12$

The tabulated value of t for 12 d. f. at 5% level of significance for two tailed test is 2.179

Conclusion

Since, the calculated value of t i.e. 5.46 is greater than the tabulated value i.e. 2.179.

It is significant, null hypothesis is rejected hence alternative hypothesis is accepted which means that there is significant difference between mean ratios of loan and advances to total deposit of HBL and EBL.

4.1.4.2 Test of Hypothesis Total Investment to Total Deposit Ratio

In this analysis ratio of total investment to total deposits of HBL and EBL are taken and are carried out under t-test of significance difference.

Table 4.26
Test of Hypothesis on Total Investment to Total Deposit Ratios
between HBL and EBL

(Rs. In 100 millions)

| S.N | Fiscal Year | HBL | | | EBL | | |
|-----|----------------|-------|-------|---------|--------|-------|---------|
| | | X_1 | x_1 | x_1^2 | X_2 | x_2 | x_2^2 |
| 1 | 2003 | 48.35 | 7.61 | 57.91 | 24.70 | -0.16 | 0.03 |
| 2 | 2004 | 42.22 | 1.48 | 2.91 | 31.44 | 6.58 | 43.3 |
| 3 | 2005 | 47.12 | 6.38 | 40.70 | 21.08. | -3.78 | 14.29 |
| 4 | 2006 | 41.11 | 0.37 | 0.14 | 30.43 | 5.57 | 31.02 |
| 5 | 2007 | 39.35 | -1.39 | 1.93 | 27.41 | 2.55 | 6.50 |
| 6 | 2008 | 41.89 | 1.15 | 1.32 | 21.1 | -3.76 | 14.14 |
| 7 | 2009 | 25.11 | 15.63 | 244.3 | 17.85 | -7.01 | 49.14 |

| | | | | | | |
|--|---------|--|---------|---------|--|---------|
| | X | | x_1^2 | X_2 | | x_2^2 |
| | =285.15 | | =349.21 | =174.01 | | =158.42 |

Source: Appendix -1&2

Here,

$$\begin{aligned} \bar{X}_1 &= \frac{X_1}{n_1} = \frac{285.15}{7} & \bar{X}_2 &= \frac{X_2}{n_2} = \frac{174.01}{7} \\ &= 40.74 & &= 24.86 \end{aligned}$$

$$\text{Again, } x_1 = X_1 - \bar{X}_1 \quad x_2 = X_2 - \bar{X}_2$$

a) Test of Significance of difference between HBL and EBL

Here,

Null Hypothesis (H_0): $\bar{X}_1 = \bar{X}_2$ i.e. there is no significant difference between mean ratios of total investment to total deposit of HBL and EBL.

Alternative Hypothesis (H_1): $\bar{X}_1 \neq \bar{X}_2$ i.e. there is significant difference between mean ratios of total investment to total deposit of HBL and EBL (Where \bar{X}_1 is mean ratio of HBL and \bar{X}_2 is mean ratio of EBL)

Under H_0 , the test statistic is given by,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where,

$$S^2 = \frac{1}{n_1 + n_2} \left(\sum x_1^2 + \sum x_2^2 \right) = \frac{1}{7 + 7} (349.21 + 158.42) = 42.30$$

Now,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

$$= \frac{40.74 Z 24.86}{\sqrt{42.30 \frac{1}{7} \Gamma \frac{1}{7}}} = 4.57$$

Degree of freedom = $n_1+n_2-2 = 7+7-2 = 12$

The tabulated value of t for 12 d. f. at 5% level of significance for two tailed test is 2.179.

Conclusion

Since, the calculated value of t i.e. 4.57 is greater than the tabulated value i.e. 2.179. It is significant, null hypothesis is rejected hence alternative hypothesis is accepted which means that there is significant difference between mean ratios of total investment to total deposit of HBL and EBL

4.2 Major Findings of the Study

Basically in this research work, all the data has been obtained from secondary sources. Data has been analyzed by using financial as well as statistical tools. This topic focuses on the major findings of the study, which are derived from the analysis of fund mobilization of HBL and EBL with comparatively applying seven years data from 2003 to 2009.

The major findings of the study derived from the analysis of financial tools of HBL and EBL are given below:

1. Findings from Liquidity Ratios

-) The mean ratio of cash and bank balance to total deposits of EBL is higher than HBL. It states that the liquidity position of EBL is better than HBL. The ratio of EBL is more consistent than HBL.
-) The mean ratio of cash and bank balance to current assets of EBL is higher than HBL. It reveals that liquidity position of EBL is better than HBL. It

also indicates that EBL has the higher capacity to meet the cash demand of its customer deposit than that of HBL. C.V ratio of HBL is more than that of EBL therefore the ratio of EBL is more stable than that of HBL.

-) The average ratio of investment of government securities to current assets of HBL is higher than that of EBL. It reveals that investment on government securities of HBL is stronger than EBL. Analysis shows that investment on government securities of EBL is more consistent.

The analysis shows that the liquidity position of EBL is comparatively better than HBL. EBL has the highest cash and bank balance to total deposit and cash and bank balance to current assets ratio. HBL has better than EBL on investment on government securities. At last, it can be concluded that EBL has good deposit collection and higher ability to meet the cash requirements. EBL has less invested in government securities and has less consistent mean ratio.

2. Findings from Assets Management Ratios

-) The mean ratio of loan and advances to total deposit of EBL is greater than HBL. The variability ratio of EBL is lower than HBL. It seems more consistent than HBL.
-) The average ratio of total investment to total deposit ratio of HBL is higher than that of EBL. The C.V ratio of EBL is higher than HBL. It seems HBL is more consistent than EBL.

The analysis shows that EBL is comparatively successful to invest in productive sector and has mobilized its collected deposits to provide loan and advances. It seems stronger incase of investing fund. Similarly, HBL is more successful to mobilized its collected deposits in investment than that of EBL.

3. Findings from Profitability Ratios

-) The mean ratio of return on loan and advances of HBL is higher than EBL. It seems HBL is profitable than EBL in terms of return on loan and advances. The variability ratio of EBL is lower than HBL. It seems EBL has stable return.
-) The mean ratio of return on total investment of EBL is higher than HBL. It seems EBL has stable return.

From the analysis of profitability ratios, it can be concluded that the HBL is profitable than EBL in term of return on loan and advance whereas EBL is same to be profitable than HBL in term of return on total investment.

4. Findings from Risk Ratios

-) The mean ratio of liquidity risk of HBL is lower than EBL and in case of EBL it is higher than HBL. Degree of risk and variability of risk is lower in EBL in comparison to HBL. It seems EBL liquidity risk ratio is more consistent than HBL.
-) In case of credit risk ratio, it can be said that the credit risk of EBL is not great difference than that of HBL i.e. 85.07% < 86.99%. The variability ratio of EBL (i.e. 2.46%) is slightly higher than HBL (i.e. 1.74%). It indicates that the credit risk ratio of HBL and EBL are likely same.

The analysis shows, HBL has maintained the lower liquidity risk and less consistent than EBL. And lower liquidity risk means higher risk for higher profit. The credit risk is not greater difference between two banks.

5. Findings from Growth Ratios

-) The growth ratio of total deposits of HBL and EBL are increasing every year. Out of two banks growth rate of total deposits of EBL is greater than HBL. It shows that EBL has increased its deposit collection capacity.

-) The growth rate of total investment of HBL is highly fluctuating than EBL. EBL is investing more funds comparative to HBL. Beside, HBL has negative growth ratio. It means HBL has not good position of investment trend. It shows that HBL had adopted a policy to keep on increasing its investment.
-) The growth ratio of loan and advances of EBL and HBL are in increasing trend. Growth rate of EBL is higher than HBL. Though HBL is providing more funds in loan and advances it appears too weak in growth rate point of view.
-) The growth ratio of net profit of HBL and EBL is in increasing trend during the study period. EBL has the highest growth ratio of net profit than HBL.

The analysis shows that the EBL has maintained the high growth ratio in total deposits, total investment, loan and advances and net profit than HBL.

6. Findings from Analysis of Sources and Uses of Funds

-) Capital base of HBL has been found significantly lower than EBL. HBL has been remained very successful in case of mobilizing deposits during the study period than EBL. HBL is considered as a liquidity sensitive bank than EBL. HBL has been borrowing high proportion in comparison to EBL and EBL is successful to generate funds from other sources. EBL has generated more funds from other source than HBL. Also EBL is successful to generate funds from debentures and bonds than HBL
-) HBL has maintained high liquid funds than EBL. EBL has low liquid funds between two banks. Considering liquidity, HBL is good for holding necessary liquid in the banks but holding necessary liquid funds is not favorable for income generation. HBL has been successful to make investment in different sectors in comparison to EBL. EBL provides more funds as a loan and advances than HBL. HBL has been successful to make investment in other sectors in comparison to EBL.

7. Findings from Cash Flow Analysis

i. Findings from Operating Activities

Overall operating activities of HBL and EBL have been occurred cash inflows throughout the study period. Operating efficiency of EBL and HBL is in fluctuating trend during the study period.

ii. Findings from Investing Activities

The investing activities of two banks have deserved cash outflows throughout the study period. HBL and EBL has highly fluctuating trend of investing activities. By the help of investing activities, these two banks are able to increased long term assets as well as carry out profitable opportunity

iii. Findings from Financing Activities

It shows that cash acquisition capacity of EBL is more than HBL. During the year 2005, 2006, 2007 HBL is unable to create cash inflow from financing activities. The condition may arise due to the unavailability of cash flow from share, insufficient profit, dividend payment. Due to these cause HBL invested less amount which all arise from financing activities.

8. Findings from Test of Hypothesis

-) There is significant difference between mean ratios of loan and advances to total deposit of HBL and EBL. It means that there is significant difference between mean ratios of loan and advances to total deposit of HBL and EBL.
-) There is significant difference between mean ratios of total investment to total deposit of HBL and EBL. It means that there is significant difference between mean ratios of total investment to total deposit of HBL and EBL.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

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

Nowadays there is keen competition in banking market but less opportunity to make investment. In this condition, joint venture bank should initiate in search of new opportunities, so that they can survive in the competitive market and earn profit. But investment is a very risky job. For a purposeful, safe, profitable investment bank most follows sound investment and fund mobilizing policy.

Generally fund mobilization means making cash flow in the different sectors. In the broadest sense, the sacrifice of certain current value for future value or possibly uncertain value. Fund mobilization activities of joint venture banks greatly effects the growth and earning of banks. Effective, stable, appropriate fund mobilizing policy may cause the earning of sufficient return to the

banks. Most of the joint-venture banks have been successful to earn profit from effective fund mobilization. Fund mobilizing policy may differ from one joint-venture bank to another but there is no optimum utilization of shareholders fund to have sufficient return in any bank.

This research focuses on the comparative study of fund mobilization of two joint venture banks; HBL and EBL Bank Limited. The study focuses whether it is backward or forward in investing its fund efficiently in the business, industry and commerce. In this study HBL is compared with the EBL on their future fund mobilizing activities by collecting seven years data from the year 2003 to 2009. Both banks have strong position in the market with new banking system and their activities.

The main objective of the study is to analyze the fund mobilizing policy adopted by HBL and EBL. The study is mainly based on secondary sources. All data are taken from concerned banks annual report, literature publication, balance sheet, profit and loss account, previous thesis report, different website, related books and booklets, journals and articles. After collecting data from different sources, it is analyzed by using financial and statistical tools. Findings are drawn by applying various financial tools viz. liquidity ratio, assets management ratio, profitability ratio, growth ratio, risk ratio, sources and uses of funds and cash flow analysis. Similarly, statistical tools have been used viz. mean, standard deviation, coefficient of variation and Test of Hypothesis. In an attempt to fulfill the objectives of the research work, all secondary data are compiled, processed and tabulated as per necessity and figures, diagrams, different types of chart are also used. This study suffers from different limitations; it considers two banks only and time and resource are the constraints of the study. Therefore the study may not be generalized in all cases and accuracy depends upon the data collected and provided by the organization.

5.2 Conclusion

The analysis shows that the liquidity position of EBL is comparatively better than HBL. EBL has the highest cash and bank balance to total deposit and cash and bank balance to current assets ratio. HBL has better than EBL on investment on government securities. At last, it can be concluded that EBL has good deposit collection and higher ability to meet the cash requirements. EBL has less invested in government securities and has less consistent mean ratio. From the above analysis it helps to conclude that EBL is comparatively successful to invest in productive sector and has mobilized its collected deposits to provide loan and advances. It seems stronger incase of investing fund. Similarly, HBL is more successful to mobilized its collected deposits in investment than EBL.

From the analysis of profitability ratios, it can be concluded that the HBL is profitable than EBL in term of return on loan and advances whereas EBL is same to be profitable than HBL in term of return on total investment.

The analysis shows, HBL has maintained the lower liquidity risk and less consistent than EBL. And lower liquidity risk means higher risk for higher profit. The credit risk is not greater difference between two banks.

From the analysis of growth ratio it can be concluded that the EBL has maintained the high growth ratio in total deposits, total investment, loan and advances and net profit than HBL.

Capital base of HBL has been found significantly lower than EBL. HBL has been remained very successful in case of mobilizing deposits during the study period than EBL. EBL is considered as a liquidity sensitive bank than HBL. HBL has been borrowing high proportion in comparison to EBL and EBL is successful to generate funds from other sources. EBL has generated more

funds from other source than HBL. Also EBL is successful to generate funds from debentures and bonds than HBL.

HBL has maintained high liquid funds than EBL. EBL has low liquid funds than HBL. Considering liquidity, HBL is good for holding necessary liquid in the banks but holding necessary liquid funds is not favorable for income generation. HBL has been successful to make investment in different sectors in comparison to EBL. It shows HBL has more effective investment efficiency than EBL. EBL provides more funds as a loan and advances than HBL. HBL has been successful to make investment in other sectors in comparison to EBL.

Overall operating activities of HBL and EBL have been occurred cash inflows throughout the study period. Operating efficiency of EBL and HBL is in fluctuating trend during the study period. From analysis it has been observed that cash flow from operating activities of HBL have both positive and negative changes where as EBL has only positive changes. It indicate that EBL operating efficiency have been increasing during the study period.

The investing activities of two banks have deserved cash outflows throughout the study period. HBL and EBL has highly fluctuating trend of investing activities. By the help of investing activities, these two banks are able to increased long term assets as well as carry out profitable opportunity.

Financing activities shows that cash acquisition capacity of EBL is more than HBL. During the year 2005, 2006 and 2007 HBL is unable to create cash inflow from financing activities. The condition may arise due to the unavailability of cash flow from share, insufficient profit, dividend payment. Due to these cause HBL invested less amount which all arise from financing activities.

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

5.3 Recommendations

On the basis of above analysis and findings of the study, following suggestions may be referred to overcome weakness, inefficiency and to fund mobilization of HBL and EBL.

To Maintain Effective Liquidity Position

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

To Increase Deposit Collection

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

To Make more Investment in Government Securities

From the study, it has been revealed that HBL has invested more funds in government securities than that of EBL. EBL has made lower investment amount on government securities. EBL's investment on government securities is not in satisfactory position. Investment on those securities issued by government i.e. treasury bills, development bonds, saving certificates are free of risk and highly liquid in nature and such securities yield the low interest rates of a particular maturity due to lowest risk in future, it is more better in regard to safety than other means of investment. So, EBL is strongly recommended to give more importance to invest more funds in government

securities instead of keeping them idle with this proverb “something is better than nothing”

To make more Investment on Share and Debentures

To get success in a competitive market and to raise financial and economic development of the country a commercial bank must mobilize its fund in different sectors such as purchase of share and debenture of other financial and non-financial companies and other government and non-government companies. It is also genuine means of utilization of resource. Thus these companies may get chances to rise and that help to development of the country. Out of total working fund, investment on shares and debentures of EBL is lower than other commercial banks. EBL is suggested to invest more of its fund in share and debentures of different companies.

To make Profitable Return

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

To Prefer Aggressive-Defensive Policy

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

To Invest Deprive and Priority Sector

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

To make Effective Portfolio Management

The total fund of a bank is the aggregation of different portfolios such as deposits, capital fund, borrowings and other deposit liabilities. It is need not to state that deposit liability is the major contributing source. Considering the position of HBL and EBL, the contribution of deposit to total sources of funds is high. It is definitely not a good sign. EBL and HBL are therefore, recommended to enhance its capital base and operational resources of funds in order to have an appropriate combination to the total funds of the bank. High contribution of deposits to the total sources of funds demands high level of liquid assets and it is the threat of withdrawals.

Portfolio management is very important for every investor. In each investment, risk is involved. Risk is the chance of loss or the variability of the returns of a period. The greater the variability of the returns project will be riskier. So it is kept in mind while investing in the project which would be lower risk and higher return. Portfolio management plays vital role with dividing total investment in different areas. Portfolio management of the bank assets basically means allocation of funds in different components of banking assets having different degrees of risk and varying rate of return in such a way that the conflicting goal of maximum yield and minimum risk can be

achieved. So, portfolio conditions of HBL and EBL should be examined carefully from time to time and alteration should be made to maintain equilibrium in the portfolio condition as far as possible. So, it can be said “all eggs should not be kept in the same basket”. The bank should make continuous efforts to explore new, competitive and high yielding investment opportunities to optimize their investment portfolio.

Liberal Lending Policy and Sound Credit Collection Policy

To get success in competitive banking market, commercial bank must utilize their deposit as loan and advances. Loan and advances are the main source of income and also means of utilization resources of commercial banks. Negligence in administrating these assets could be the cause of liquidity crisis in bank and one of the main reasons of the bank failure. Collection of loan has been most challenging task of commercial banks these days, increasing on non-performing assets discloses the failure of commercial banks in recovery of loan. Therefore, it is recommended to HBL and EBL to follow liberal lending policy when sensations loan and advances with sufficient guaranty and implement a sound collection policy including procedure which rapid identification of bad debtor loans, immediate contact with borrower, continual follow up and as well as legal procedure if require.

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Appendices
Appendix -1
Himalaya Bank Ltd.

(Rs. In millions)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-------------------------------------|----------|----------|----------|----------|----------|----------|----------|
| Cash and Bank balance | 1979.21 | 2001.18 | 2014.47 | 1717.35 | 1757.34 | 1448.14 | 1448.14 |
| Total deposit | 21045.09 | 22010.33 | 24814.01 | 26490.85 | 30048.42 | 31842.79 | 34361.35 |
| Total investment | 10175.44 | 9292.12 | 11692.34 | 10889.03 | 11822.98 | 13340.18 | 8710.69 |
| Current Assets | 12874.03 | 15170.28 | 15389.07 | 18008.8 | 21109.33 | 22098.97 | 29634.75 |
| Investment in government securities | 3998.87 | 3431.73 | 5469.73 | 5144.31 | 6116.93 | 7470.67 | 4212.30 |
| Total loan and advance | 10001.85 | 11951.87 | 12424.52 | 14642.56 | 16998 | 19497.52 | 24793.16 |
| Net profit (loss) | 212.13 | 263.05 | 308.28 | 457.46 | 491.82 | 635.87 | 752.84 |
| Total assets | 23279.34 | 24762.02 | 27418.16 | 29460.39 | 33519.14 | 36175.53 | 39320.32 |

X_1 = Total sum of Cash and Bank Balance to Total Deposit Ratios of HBL

x_1^2 = Total sum of square of Cash and Bank Balance to Total Deposit Ratios of HBL

The mean of HBL = Mean (\bar{X}) = $\frac{X_1}{N_1}$

Standard Deviation (S.D) of HBL = (\dagger) = $\sqrt{\frac{X_1^2}{N_1} - \left(\frac{X_1}{N_1}\right)^2}$

Coefficient of Variation (C.V) of HBL = $\frac{\dagger}{\bar{x}} \times 100$

Appendix -2
Everest Bank Ltd

(Rs. In millions)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-------------------------------------|---------|---------|----------|----------|----------|----------|----------|
| Cash and Bank balance | 1139.57 | 631.8 | 1049.99 | 1592.97 | 2391.42 | 2667.97 | 6164.37 |
| Total deposit | 6696.96 | 8063.90 | 10097.69 | 13802.44 | 18186.25 | 23976.3 | 33322.96 |
| Total investment | 1653.98 | 2535.66 | 2128.93 | 4200.52 | 4984.31 | 5059.56 | 5948.48 |
| Current Assets | 6288.43 | 6954.54 | 9444.95 | 11599.24 | 16278.17 | 21729.27 | 30541.21 |
| Investment in government securities | 1599.35 | 2466.43 | 2100.28 | 3548.62 | 4704.63 | 4821.60 | 5146.05 |
| Total loan and advance | 4908.46 | 5884.12 | 7618.67 | 9801.31 | 13664.08 | 18339.05 | 23884.67 |
| Net profit (loss) | 94.18 | 143.57 | 168.21 | 237.29 | 296.41 | 451.22 | 638.73 |
| Total assets | 8052.21 | 9608.57 | 11732.52 | 15959.28 | 21432.57 | 27149.34 | 36196.85 |

X_2 = Total sum of Cash and Bank Balance to Total Deposit Ratios of EBL

x_2^2 = Total sum of square of Cash and Bank Balance to Total Deposit Ratios of EBL

The mean of EBL = Mean (\bar{X}) = $\frac{X_2}{N_2}$

Standard Deviation (S.D) of EBL = (\dagger) = $\sqrt{\frac{X_2^2}{N_2} - \left(\frac{X_2}{N_2}\right)^2}$

Coefficient of Variation (C.V) of EBL = $\frac{\dagger}{\bar{x}} \times 100$

N= no. of Observation (Observation no. of HBL & EBL are the same i.e. 7)

Appendix -3
Comparative Cash and Bank Balance to Total Deposit Ratios

| S.N. | Fiscal Year | HBL | | EBL | |
|------|-------------|-------------|----------------|-------------|-----------------|
| | | X_1 | x_1^2 | X_2 | x_2^2 |
| 1 | 2003 | 9.4 | 88.36 | 17.02 | 289.68 |
| 2 | 2004 | 9.9 | 98.01 | 7.83 | 61.31 |
| 3 | 2005 | 8.12 | 65.93 | 10.4 | 108.16 |
| 4 | 2006 | 6.48 | 41.99 | 11.25 | 126.56 |
| 5 | 2007 | 5.85 | 34.22 | 13.15 | 172.92 |
| 6 | 2008 | 4.55 | 20.70 | 11.13 | 123.88 |
| 7 | 2009 | 4.21 | 17.72 | 18.5 | 342.25 |
| | | $X_1=48.51$ | $x_1^2=366.94$ | $X_2=89.28$ | $x_2^2=1224.76$ |

Here,

$$X_1 = 48.51$$

$$X_2 = 89.28$$

$$x_1^2 = 366.9$$

$$x_2^2 = 1224.76$$

$$N_1 = 7$$

$$N_2 = 7$$

Now,

$$\text{The mean of HBL} = \text{Mean} (\bar{X}) = \frac{X_1}{N_1} = \frac{48.5}{7} = 6.93$$

Standard Deviation (S.D) of HBL = (†)

$$= \sqrt{\frac{X_1^2}{N_1} - \frac{X_1^2}{N_1^2}} = \sqrt{\frac{366.94}{7} - \frac{48.51^2}{7}} = 2.19$$

$$\text{Coefficient of Variation (C.V) of HBL} = \frac{\dagger}{\bar{x}} | 100 = 31.6\%$$

$$\text{The mean of EBL} = \text{Mean} (\bar{X}) = \frac{X_2}{N_2} = \frac{89.28}{7} = 12.75$$

Standard Deviation (S.D) of EBL = (†)

$$= \sqrt{\frac{X_2^2}{N_2} - \frac{X_2^2}{N_2^2}} = \sqrt{\frac{1224.76}{7} - \frac{89.28^2}{7}} = 3.51$$

$$\text{Coefficient of Variation (C.V) of EBL} = \frac{\dagger}{\bar{x}} | 100 = 27.53\%$$

Appendix -4
Comparative Cash and Bank Balance to Current Assets Ratios

| S. N | Fiscal Year | HBL | | EBL | |
|------|-------------|---------------|------------------|---------------|-------------------|
| | | X_1 | x_1^2 | X_2 | x_2^2 |
| 1 | 2003 | 15.37 | 236.24 | 18.12 | 328.33 |
| 2 | 2004 | 13.19 | 173.98 | 9.08 | 82.45 |
| 3 | 2005 | 13.09 | 171.35 | 11.12 | 123.65 |
| 4 | 2006 | 9.54 | 91.01 | 13.73 | 188.51 |
| 5 | 2007 | 8.32 | 69.22 | 14.69 | 215.80 |
| 6 | 2008 | 6.55 | 42.90 | 12.28 | 150.80 |
| 7 | 2009 | 4.89 | 23.91 | 20.18 | 407.23 |
| | | $X_1 = 70.95$ | $x_1^2 = 808.61$ | $X_2 = 99.20$ | $x_2^2 = 1496.78$ |

Here,

$$X_1 = 70.95$$

$$X_2 = 99.20$$

$$x_1^2 = 808.61$$

$$x_2^2 = 1496.78$$

$$N_1 = 7$$

$$N_2 = 7$$

Now,

$$\text{The mean of HBL} = \text{Mean} (\bar{X}) = \frac{X_1}{N_1} = \frac{70.95}{7} = 10.1$$

Standard Deviation (S.D) of HBL = (†)

$$= \sqrt{\frac{X_1^2}{N_1} - \frac{X_1^2}{N_1^2}} = \sqrt{\frac{808.61}{7} - \frac{70.95^2}{7}} = 3.43$$

$$\text{Coefficient of Variation (C.V) of HBL} = \frac{\dagger}{\bar{x}} | 100 = 33.83\%$$

$$\text{The mean of EBL} = \text{Mean} (\bar{X}) = \frac{X_2}{N} = \frac{99.2}{7} = 14.17$$

Standard Deviation (S.D) of EBL = (†)

$$= \sqrt{\frac{X_2^2}{N_2} - \frac{X_2^2}{N_2^2}} = \sqrt{\frac{1496.78}{7} - \frac{99.2^2}{7}} = 3.61$$

$$\text{Coefficient of Variation (C.V) of EBL} = \frac{\dagger}{\bar{x}} | 100 = 25.48\%$$

Appendix -5
Comparative Investment on Government Securities to Current Assets
Ratios

| S. N. | Fiscal Year | HBL | | EBL | |
|-------|-------------|----------------|-------------------|----------------|-------------------|
| | | X_1 | x_1^2 | X_2 | x_2^2 |
| 1 | 2003 | 31.06 | 964.72 | 25.43 | 646.68 |
| 2 | 2004 | 22.62 | 511.66 | 35.47 | 1258.12 |
| 3 | 2005 | 35.54 | 1263.09 | 22.24 | 494.62 |
| 4 | 2006 | 28.57 | 816.24 | 30.59 | 935.75 |
| 5 | 2007 | 28.98 | 839.84 | 22.9 | 524.41 |
| 6 | 2008 | 33.81 | 1143.12 | 28.19 | 794.68 |
| 7 | 2009 | 14.21 | 201.92 | 16.85 | 283.92 |
| | | $X_1 = 194.79$ | $x_1^2 = 5740.61$ | $X_2 = 181.67$ | $x_2^2 = 4938.18$ |

Here,

$$X_1 = 194.79$$

$$X_2 = 181.67$$

$$x_1^2 = 5740.61$$

$$x_2^2 = 4938.18$$

$$N_1 = 7$$

$$N_2 = 7$$

Now,

$$\text{The mean of HBL} = \text{Mean} (\bar{X}) = \frac{X_1}{N_1} = \frac{194.79}{7} = 27.83$$

Standard Deviation (S.D) of HBL = (†)

$$= \sqrt{\frac{X_1^2}{N_1} - \frac{X_1^2}{N_1^2}} = \sqrt{\frac{5740.61}{7} - \frac{194.79^2}{7}} = 6.76$$

$$\text{Coefficient of Variation (C.V) of HBL} = \frac{\dagger}{\bar{x}} | 100 = 24.29\%$$

$$\text{The mean of EBL} = \text{Mean} (\bar{X}) = \frac{X_2}{N_2} = \frac{181.67}{7} = 25.95$$

Standard Deviation (S.D) of EBL = (†)

$$= \sqrt{\frac{X_2^2}{N_2} - \frac{X_2^2}{N_2^2}} = \sqrt{\frac{4938.18}{7} - \frac{181.67^2}{7}} = 5.46$$

$$\text{Coefficient of Variation (C.V) of EBL} = \frac{\dagger}{\bar{x}} | 100 = 21.04 \%$$

Appendix -6
Loan and Advances to Total Deposit

| S. N. | Fiscal Year | HBL | | EBL | |
|-------|-------------|----------------|--------------------|----------------|--------------------|
| | | X_1 | x_1^2 | X_2 | x_2^2 |
| 1 | 2003 | 47.53 | 2259.10 | 72.32 | 5230.18 |
| 2 | 2004 | 54.30 | 2948.49 | 72.97 | 5324.62 |
| 3 | 2005 | 50.07 | 2507.00 | 75.45 | 5692.70 |
| 4 | 2006 | 55.28 | 3055.88 | 71.01 | 5042.42 |
| 5 | 2007 | 56.57 | 3200.16 | 75.13 | 5644.52 |
| 6 | 2008 | 61.23 | 3749.11 | 76.49 | 5850.72 |
| 7 | 2009 | 72.15 | 5205.62 | 71.68 | 5138.02 |
| | | $X_1 = 397.13$ | $x_1^2 = 22925.37$ | $X_2 = 515.05$ | $x_2^2 = 37923.19$ |

Here,

$$X_1 = 397.13$$

$$X_2 = 515.05$$

$$x_1^2 = 22925.37$$

$$x_2^2 = 37923.19$$

$$N_1 = 7$$

$$N_2 = 7$$

Now,

$$\text{The mean of HBL} = \text{Mean} (\bar{X}) = \frac{X_1}{N_1} = \frac{397.13}{7} = 56.73$$

Standard Deviation (S.D) of HBL = (†)

$$= \sqrt{\frac{X_1^2}{N_1} - \frac{X_1^2}{N_1^2}} = \sqrt{\frac{22925.37}{7} - \frac{397.13^2}{7}} = 7.51$$

$$\text{Coefficient of Variation (C.V) of HBL} = \frac{\dagger}{\bar{x}} | 100 = 13.27\%$$

$$\text{The mean of EBL} = \text{Mean} (\bar{X}) = \frac{X_2}{N_2} = \frac{515.05}{7} = 73.58$$

Standard Deviation (S.D) of EBL = (†)

$$= \sqrt{\frac{X_2^2}{N_2} - \frac{X_2^2}{N_2^2}} = \sqrt{\frac{37923.19}{7} - \frac{515.05^2}{7}} = 1.95$$

$$\text{Coefficient of Variation (C.V) of EBL} = \frac{\dagger}{\bar{x}} | 100 = 2.65 \%$$

Appendix -7

Comparative Total Investment to Total Deposit Ratios

| S.N. | Fiscal Year | HBL | | EBL | |
|------|-------------|----------------|--------------------|----------------|-------------------|
| | | X_1 | x_1^2 | X_2 | x_2^2 |
| 1 | 2003 | 48.35 | 2337.72 | 24.7 | 610.09 |
| 2 | 2004 | 42.22 | 1782.53 | 31.44 | 988.47 |
| 3 | 2005 | 47.12 | 2220.29 | 21.08 | 444.37 |
| 4 | 2006 | 41.11 | 1690.03 | 30.43 | 925.98 |
| 5 | 2007 | 39.35 | 1548.42 | 27.41 | 751.31 |
| 6 | 2008 | 41.89 | 1754.77 | 21.1 | 445.21 |
| 7 | 2009 | 25.11 | 630.51 | 17.85 | 318.62 |
| | | $X_1 = 285.15$ | $x_1^2 = 11964.28$ | $X_2 = 174.01$ | $x_2^2 = 4484.06$ |

Here,

$$X_1 = 285.15$$

$$X_2 = 174.01$$

$$x_1^2 = 11964.28$$

$$x_2^2 = 4484.06$$

$$N_1 = 7$$

$$N_2 = 7$$

Now,

$$\text{The mean of HBL} = \text{Mean} (\bar{X}) = \frac{X_1}{N_1} = \frac{285.15}{7} = 40.74$$

Standard Deviation (S.D) of HBL = (†)

$$= \sqrt{\frac{X_1^2}{N_1} - \frac{X_1^2}{N_1^2}} = \sqrt{\frac{11964.28}{7} - \frac{285.15^2}{7}} = 7.06$$

$$\text{Coefficient of Variation (C.V) of HBL} = \frac{\dagger}{\bar{x}} | 100 = 17.32\%$$

$$\text{The mean of EBL} = \text{Mean} (\bar{X}) = \frac{X_2}{N_2} = \frac{174.01}{7} = 24.86$$

Standard Deviation (S.D) of EBL = (†)

$$= \sqrt{\frac{X_2^2}{N_2} - \frac{X_2^2}{N_2^2}} = \sqrt{\frac{4484.06}{7} - \frac{174.01^2}{7}} = 4.76$$

$$\text{Coefficient of Variation (C.V) of EBL} = \frac{\dagger}{\bar{x}} | 100 = 19.1\%$$

Appendix -8

Return on Loan and Advances

| S. N. | Fiscal Year | HBL | | EBL | |
|-------|-------------|---------------|-----------------|---------------|-----------------|
| | | X_1 | x_1^2 | X_2 | x_2^2 |
| 1 | 2003 | 2.12 | 4.49 | 1.92 | 3.69 |
| 2 | 2004 | 2.20 | 4.84 | 2.44 | 5.95 |
| 3 | 2005 | 2.49 | 6.20 | 2.21 | 4.88 |
| 4 | 2006 | 3.13 | 9.80 | 2.43 | 5.90 |
| 5 | 2007 | 2.90 | 8.41 | 2.17 | 4.71 |
| 6 | 2008 | 3.27 | 10.69 | 2.46 | 6.05 |
| 7 | 2009 | 3.04 | 9.24 | 2.68 | 7.18 |
| | | $X_1 = 19.15$ | $x_1^2 = 53.68$ | $X_2 = 16.31$ | $x_2^2 = 38.37$ |

Here,

$$X_1 = 19.15$$

$$X_2 = 16.31$$

$$x_1^2 = 53.68$$

$$x_2^2 = 38.37$$

$$N_1 = 7$$

$$N_2 = 7$$

$$\text{The mean of HBL} = \text{Mean} (\bar{X}) = \frac{X_1}{N_1} = \frac{19.15}{7} = 2.73$$

Standard Deviation (S.D) of HBL = (†)

$$= \sqrt{\frac{X_1^2}{N_1} - \frac{X_1^2}{N_1^2}} = \sqrt{\frac{53.68}{7} - \frac{19.15^2}{7}} = 0.43$$

$$\text{Coefficient of Variation (C.V) of HBL} = \frac{\dagger}{\bar{x}} | 100 = 15.69 \%$$

$$\text{The mean of EBL} = \text{Mean} (\bar{X}) = \frac{X_2}{N_2} = \frac{16.31}{7} = 2.33$$

Standard Deviation (S.D) of EBL = (†)

$$= \sqrt{\frac{X_2^2}{N_2} - \frac{X_2^2}{N_2^2}} = \sqrt{\frac{38.37}{7} - \frac{16.31^2}{7}} = 0.23$$

$$\text{Coefficient of Variation (C.V) of EBL} = \frac{\dagger}{\bar{x}} | 100 = 9.86 \%$$

Appendix 9
Return on Total investment

| S.N. | Fiscal Year | HBL | | EBL | |
|------|-------------|---------------|------------------|---------------|------------------|
| | | X_1 | x_1^2 | X_2 | x_2^2 |
| 1 | 2003 | 2.08 | 4.33 | 5.69 | 32.38 |
| 2 | 2004 | 2.83 | 8.01 | 5.66 | 32.04 |
| 3 | 2005 | 2.64 | 6.97 | 7.90 | 62.41 |
| 4 | 2006 | 4.20 | 17.64 | 5.65 | 31.92 |
| 5 | 2007 | 4.16 | 17.31 | 5.95 | 35.40 |
| 6 | 2008 | 4.77 | 22.75 | 8.92 | 79.57 |
| 7 | 2009 | 8.64 | 74.65 | 10.74 | 115.35 |
| | | $X_1 = 29.32$ | $x_1^2 = 151.65$ | $X_2 = 50.51$ | $x_2^2 = 389.06$ |

Here,

$$X_1 = 29.32$$

$$X_2 = 50.51$$

$$x_1^2 = 151.65$$

$$x_2^2 = 389.06$$

$$N_1 = 7$$

$$N_2 = 7$$

Now,

$$\text{The mean of HBL} = \text{Mean}(\bar{X}) = \frac{X_1}{N_1} = \frac{29.32}{7} = 4.19$$

Standard Deviation (S.D) of HBL = (†)

$$= \sqrt{\frac{X_1^2}{N_1} - \frac{X_1^2}{N_1^2}} = \sqrt{\frac{151.65}{7} - \frac{29.32^2}{7}} = 2.03$$

$$\text{Coefficient of Variation (C.V) of HBL} = \frac{\dagger}{\bar{x}} | 100 = 48.45\%$$

$$\text{The mean of EBL} = \text{Mean}(\bar{X}) = \frac{X_2}{N_2} = \frac{50.51}{7} = 7.22$$

Standard Deviation (S.D) of EBL = (†)

$$= \sqrt{\frac{X_2^2}{N_2} - \frac{X_2^2}{N_2^2}} = \sqrt{\frac{389.06}{7} - \frac{50.51^2}{7}} = 1.87$$

$$\text{Coefficient of Variation (C.V) of EBL} = \frac{\dagger}{\bar{x}} | 100 = 25.9\%$$

Appendix -10
Credit Risk Ratio

| S. N. | Fiscal Year | HBL | | EBL | |
|-------|-------------|----------------|--------------------|----------------|--------------------|
| | | X_1 | x_1^2 | X_2 | x_2^2 |
| 1 | 2003 | 86.67 | 7511.69 | 81.50 | 6642.25 |
| 2 | 2004 | 85.79 | 7359.92 | 87.63 | 7679.02 |
| 3 | 2005 | 87.96 | 7736.96 | 83.08 | 6902.29 |
| 4 | 2006 | 86.66 | 7509.96 | 87.73 | 7696.55 |
| 5 | 2007 | 85.89 | 7377.09 | 87.01 | 7570.74 |
| 6 | 2008 | 90.77 | 8239.19 | 86.18 | 7426.99 |
| 7 | 2009 | 85.21 | 7260.74 | 82.42 | 9793.056 |
| | | $X_1 = 608.95$ | $x_1^2 = 52995.56$ | $X_2 = 595.55$ | $x_2^2 = 50710.89$ |

Here,

$$X_1 = 608.95$$

$$X_2 = 595.55$$

$$x_1^2 = 52995.56$$

$$x_2^2 = 50710.89$$

$$N_1 = 7$$

$$N_2 = 7$$

Now,

$$\text{The mean of HBL} = \text{Mean} (\bar{X}) = \frac{X_1}{N_1} = \frac{608.95}{7} = 86.99$$

Standard Deviation (S.D) of HBL = (†)

$$= \sqrt{\frac{X_1^2}{N_1} - \frac{X_1^2}{N_1^2}} = \sqrt{\frac{52995.56}{7} - \frac{608.95^2}{7}} = 1.74$$

$$\text{Coefficient of Variation (C.V) of HBL} = \frac{\dagger}{\bar{x}} | 100 = 2\%$$

$$\text{The mean of EBL} = \text{Mean} (\bar{X}) = \frac{X_2}{N_2} = \frac{595.55}{7} = 85.07$$

Standard Deviation (S.D) of EBL = (†)

$$= \sqrt{\frac{X_2^2}{N_2} - \frac{X_2^2}{N_2^2}} = \sqrt{\frac{50710.89}{7} - \frac{595.55^2}{7}} = 2.46$$

$$\text{Coefficient of Variation (C.V) of EBL} = \frac{\dagger}{\bar{x}} | 100 = 2.89\%$$

Appendix -11
Growth Ratio of Total Deposits

(Rs. In millions)

| Year | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | average |
|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|
| HBL | 21045.1 | 22010.3 | 24814 | 26490.9 | 30048.4 | 31842.8 | 36481.4 | 9.68% |
| | - | 965.25 | 2803.68 | 1676.84 | 3557.57 | 1794.37 | 4638.56 | |
| | -- | 4.59% | 12.74% | 6.76% | 13.43% | 5.97% | 14.57% | |
| EBL | 6694.96 | 8063.9 | 10097.7 | 13802.4 | 18186.3 | 23976.3 | 33322.9 | 30.82% |
| | - | 1368.94 | 2033.79 | 3704.75 | 4383.81 | 5790.04 | 9346.61 | |
| | - | 20.45% | 25.22% | 36.69% | 31.76% | 31.84% | 38.98% | |

Appendix -12
Growth Ratio of Total Investment

(Rs. In millions)

| Year | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | average |
|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|
| HBL | 10175.4 | 9292.1 | 11692.3 | 10889.0 | 11822.9 | 13340.1 | 8710.69 | -0.5% |
| | 4 | | 4 | 3 | 8 | 7 | | |
| | - | -883.34 | 2400.24 | -803.31 | 933.95 | 1517.19 | -4629.48 | |
| | - | -8.68% | 25.83% | -6.87% | 8.58% | 12.83% | -34.70% | |
| EBL | 1653.98 | 2535.66 | 2128.93 | 4200.5 | 4984.12 | 5089.6 | 5948.5 | 28.7% |
| | - | 881.68 | -406.73 | 2071.57 | 783.62 | 105.48 | 858.9 | |
| | - | 53.31% | -16.04% | 97.31% | 18.66% | 2.12% | 16.88% | |

Appendix -13
Growth Ratios of Loan and Advances

(Rs. In millions)

| Year | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | average |
|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|
| HBL | 10001.88 | 11951.9 | 12424.5 | 14642.6 | 16998 | 19497.5 | 24793.2 | 16.54% |
| | - | 1950.02 | 472.65 | 2218.04 | 2355.44 | 2499.52 | 5295.64 | |
| | - | 19.50% | 3.95% | 17.85% | 16.09% | 14.70% | 27.16% | |
| EBL | 4908.46 | 5884.12 | 7618.67 | 9801.31 | 13664.1 | 18339.1 | 23884.7 | 30.31% |
| | - | 975.66 | 1734.55 | 2182.64 | 3862.77 | 4675 | 5545.59 | |
| | - | 19.88% | 29.48% | 28.65% | 39.41% | 34.21% | 30.24% | |

Appendix -14
Growth Ratios of Net Profit

(Rs. In millions)

| Year | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | average |
|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|
| HBL | 212.13 | 263.05 | 308.27 | 457.46 | 491.87 | 635.86 | 752.83 | 24.13% |
| | | 50.92 | 45.22 | 149.19 | 34.41 | 143.99 | 116.97 | |
| | | 24.00% | 17.19% | 48.40% | 7.52% | 29.27% | 18.40% | |
| EBL | 94.18 | 143.56 | 170.81 | 237.38 | 296.41 | 451.21 | 638.73 | 38.17% |
| | | 49.38 | 27.25 | 66.57 | 59.03 | 154.8 | 187.52 | |
| | | 52.43% | 18.98% | 38.97% | 24.87% | 52.22% | 41.56% | |