

# **CHAPTER - I**

## **INTRODUCTION**

### **1.1 General Background**

Fund collection and mobilization is the major activity of a commercial bank. Fund management determines the effectiveness of a commercial bank. A bank is essentially an intermediary of short term, middle term and long term funds. He can carry out extensive lending operations only when he can effectively channelize the savings of community. A good banker is only who effectively mobilizes the savings of the commodity as well as makes such use of saving by making it available to productive and prior sectors of economy, thereby fostering the growth and development of Nation's economy.

Generally, the bank means an institution which deals with money. A bank performs several financial, monetary and economic activities, which are very essential for economic development of any people who are not using it at present and are hoarding for future and supplies loan to those who are in a position to use it for productive purposes. Modern banks can be considered as the involved of ancient goldsmiths.

Traditionally, the banker used to accept three types of deposits. i.e current, saving and fixed deposit. But because of the intense competition for resources, there are a variety of other innovations introduced by the bankers in recent times, which is the major source of fund collection and other source of fund collection is common stock financing, preferred stock financing as well as bond or debenture financing. Similarly, there are various instruments for fund mobilization, i.e. utilization or investment. Such as government security, share/bond/debenture of other company, gold/silver, credit/overdraft etc. the brief introduction is placed in review of literature.

The investment policy of the bank deposits depends on the nature of its funds. If it can acquire funds of more or less permanent nature, it can acquire more profitable assets. If the funds are subject to wide fluctuations, it has to keep a large part of the funds in liquid form. It is said that the soundness of bank is reflected in the distribution of its funds on different types of assets. A good banker is one who follows a wise

investment policy which brings maximum profits to shareholders and provides maximum security to the depositors. A bank is fundamentally governed by three important principles in formulating its investment policy. The guiding principles of the investment policy of a commercial bank are liquidity, profitability and security. These three attributes are inter-related. The bank cannot afford to sacrifice one in favour of the others.

### **1.2 Statement of the Problem**

The main objective of any commercial bank is collection of fund and its proper mobilization in productive areas. Now a day the banking institutions are facing the problems from the external factors, such as political, legal, economic, social, infrastructure, quality of work life etc. The unstable politics is the main cause, collection and its mobilization procedure: The other common problems are the lack of general awareness in the public mass, lack of proper information about share market, limited user of money and capital market, disqualified management team, low activity of NEPSE, day to day increasing security problem etc. In this regard, 2 joint venture banks (Himalayan Bank Limited and Everest Bank Limited) are able to meet their fund requirement from collection and mobilization view is the main research problem of our study.

In this research paper, whether the commercial banks collect and utilize their fund effectively or not will be enquired in these joint venture banks. The other research problems related to fund collection and its mobilization in the commercial banks are:

- ) Whether HBL and EBL have collected and mobilized their funds effectively or not?
- ) What are the performance indicators of HBL and EBL in relation to fund collection and its mobilization?
- ) Is there correlation between the fund collection and fund mobilization of HBL and EBL?

### **1.3 Objectives of the Study**

The objective of the study will concentrate on reviewing the fund collection and its mobilization in the joint venture banks, especially in HBL and EBL. The research

study has expected to provide a useful feedback to the commercial banks. Some of the main objectives of the study are as follows:

- J To find out the effectiveness of HBL and EBL in fund mobilization.
- J To analyze the ability of HBL and EBL in mobilizing the total collected funds.
- J To identify the factors affecting the fund mobilization.

#### **1.4 Significance of the Study**

Banking institution plays a major role in accelerating the process of development of a country. For achieving the economic growth, the funds need to be collected and to be utilized properly in the productive areas. According to NRB research report, banking financial institution are contributing around 10% to its nation GDP. It shows that banking and financial institution affect the economic growth of the country. Therefore, the banking and financial institution should collect their fund and accordingly, they should utilize them in the productive area.

The fund collection and its proper mobilization is a crucial part of any industry. The present situation shows that Nepal is facing the economic crisis due to improper fund collection and its mobilization policy. The key success of any commercial bank lies in the proper collection and mobilization of deposit and other source of fund. Because over and under collection and mobilization of fund have negative impact on the performance of the banks and its may vanish the bottom line of the banks which is the sole criterion for the long term sustainability. Therefore, the study attempts to find out whether the commercial banks have collected the funds and mobilized their fund properly or not.

This study measure the impact of fund collection and mobilization on total performance, which will enable to the industrialists and traders for making appropriate decision and strategies in the field of investing. From which the researcher believed that the findings of the study would be useful and valuable to the business organization and as well as to the concerned companies, debtors, creditors, customers, management students, share brokers and finally all persons and organizations associated with banking, directly or indirectly, would be benefited from this study.

This study adds new ideas and findings about the fund collection and its mobilization procedure of concerned banks. There is no doubt that it is important to various groups but in particular is directed to a certain groups of people/organizations, which are”

- a) Importance to shareholders.
- b) Importance to management bodies of the bank
- c) Importance to “outsiders” which are mainly the customers, financing agencies etc.
- d) Importance to the government bodies or the policy makers
- e) Interested outside parties such as investors, customers, competitors personnel of the company, stockholders and market planners.

So this study helps to identify its hidden weakness regarding financial cum administration.

### **1.5 Limitations of the Study**

The research study has some limitations. The main limitation of the study is the time constraints. The other limitations are:

- ) Though, there has been in operation of 26 commercial banks in Nepal, only two banks i.e. HBL and EBL are taken for the proposed study.
- ) The study concentrates only on fund collection and its mobilization of HBL and EBL.
- ) The secondary data will be used for presentation and interpretation of the data. Only 5 years trend will be considered.
- ) There cannot be found the concerned Study on this topic. Thus, we cannot get the prompt idea and guideline to complete this research. We follow the different books, journals, articles and dissertations. Thus Reliability of the study is based on those things.

### **1.6 Organization of the Study**

The present study has been divided into five chapters as follows:

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

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

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

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

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

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

## **CHAPTER- II**

### **REVIEW OF LITERATURE**

Literature review is a “stock taking” of available literature in one’s field of research. Review of literature is an important part of any research work. It provides the boundary line for any research. Previous studies provide the foundation for present study. So, previous studies cannot be ignored. There must be continuity in research.

This continuity in research is insured by linking the present study with past research studies. From this, it is clear that the purpose of literature review is to find out what research studies have been conducted in one’s chosen field of study and what remains to be done. The review of literature is a crucial aspect because it denotes planning of the study. The main purpose of literature review is to find out what works have been done in the area of the research problem under study and what has been done in the field of the research study being undertaken. For review study, the researcher uses different books, reports, journals and research studies published by various institutions, unpublished dissertations submitted by master level students have been reviewed. It is divided into three headlines:

#### **2.1. Conceptual Review**

##### **2.1.1. Historical Background of Bank**

History shows the requirements of economic development of any country heavily realize upon the banking system of the country (Scott, 1992). During its industrial development period, U.K used bank credit to fulfil its working capital need. In 19<sup>th</sup> century, during the industrialization process of France and Germany, banks played an important role in industrial finance and growth of the nation. In general meaning, bank is an institution that deals with money. A bank performs several financial, monetary and economic activities, which are vital for economy development of a country. It is a monetary institutional vehicle for domestic resource mobilization of the country that accepts deposits from various sources and invests such accumulated resources in the fields of agriculture, trade, commerce etc. Generally, the term “Bank” refers commercial Banks. Commercial banks are the foundation of the national

economy. They transfer monetary sources from savers to users. They involve in various functions like money creation, creation, credit facilitating, foreign trade facilitating safe keeping of the various etc. Commercial banks have its own role and contribution in the economic development. It is a source of economic development and it maintains economic confidence of various segments and extends credits to the people. Thus activities of commercial banks are to eliminate poverty, reduce unemployment problems and increase economic growth.

Modern commercial banks can be identify by different names, such as business banks, retail banks, clearing banks, joint venture banks and merchant banks etc. Regardless of the name we give to banks, they all perform the same basic function i.e. they provide a link between lenders those who have surplus money and do not wish to spend immediately with borrowers, there who do not have surplus money but wish to borrow for investment in productive purpose. Basically, by charging a rate of interest to borrowers slightly higher than they pay to lenders, the bank makes their profit. This is known as financial intermediaries. Commercial banks provide the following major products and services:

- ) Acceptance of deposits
- ) Granting of advances
- ) Remittance collection and distribution
- ) Cash management
- ) Issuance of letters of credit and guarantee
- ) Merchant banking business
- ) Credit cards
- ) Technology based services-internet banking services
- ) Loan distribution
- ) Automatic teller machines (ATM)
- ) Handling government business
- ) Safe keeping services/lockers

The first public bank “The Bank of Venice” was established in Italy in 1157 A.D. Different countries in the world followed the footsteps of this bank to incorporate banking institutions in their countries. The evolution of “The Bank of England” in the

Kingdom of England in 1694 A.D. brought remarkable changes in the process of establishing banking institution in the world. The establishment of this bank was a big milestone in the history of banking development. It is believed that the idea of commercial banks rapidly spread all over the world only after the inception of this bank.

In Nepal, development of banking is relatively recent. The history of banking system in Nepal in the form of money lending can traced back in the reigning period of Gunakamdev; The King of Kathmandu” (NBL, 2037).

Tankadhari ‘a special class of people’ was established to deal with the lending activities of money towards the end of fourteen century at the ruling period of King Jayasthiti Malla (NBL, 2011).

During the Prime Ministerial period of Rannodip Singh’ one financial institution we established to give loan facilities to the government staff and loan facilities to the public in general in the term of 5% interest but ‘Tejarath’ did not accept money from public (NBL, 2040).

On the 30th Kartik, 1994, Nepal Bank Limited was established for the first time to provide modern and organized banking facilities. Up to B.S. 2012, only NBL provided services to the public as an organized bank. Later, NRB act 2012 was made to establish NRB as a central bank to manage, control and develop monetary system in Nepal. NRB was formally established on 14th Baisakh, 2013 and its capital at the starting time was 1 Crore. Similarly, Rastriya Banijya Bank was set up in B.S. 2022 to fulfil the growing needs of the country. The birth of this bank brought a new landmark in the history of banking facility in Nepal. Like other developed countries, Nepal also took the policy to open economy and liberal, to develop good competition in the banking field. Hence, the joint venture banking policy is taken. Today 26 commercial banks are operating to provide modern banking services and facilities to boost the economic condition of country.

The financial sector reform was initiated in mid-1980 under the liberal economic policy of HMG/N under this policy; HMG/N first opened the banking sectors to



foreign investors. In July 1985, commercial banks were allowed, for the first time to accept current and fixed deposits on foreign currency (U.S dollar and sterling pound). On May 26, 1986, NRB deregulated the commercial banks to fix interest rate at any level above its minimum prescribed levels.

### **2.1.2 Concept of Commercial Bank**

Commercial banks are those banks, which perform all kinds of banking functions as accepting deposits, advancing credits, credits creation and agency functions etc. They provide short-term credit, medium-term credit and long term credit for trade and industry. They also operate off-balance sheet functions such as issuing guarantee, bonds, letter of credit etc.

In every country, outset of economic development is quite different but there is no debate about the significant role of banking sector for the economic development of the countries as they are considered as the main source of finance. Without the development of sound commercial banking, under developed countries cannot hope to join the ranks of advanced countries. If industrial development requires the use of capital, the use of capital equipment will not be possible without the necessary capital. Industrial development will be impossible without the existence of markets of the goods produced. On the other hand, the services of the commercial Banks will help to extend the market. The commercial banks play an important role as follows:

- a. Help in business expansion
- b. Encouragement for the right type of industries.
- c. Necessary for trade and industry.
- d. Transfer of surplus funds to needy
- e. Promotion of capital formation.

Commerce is the financial transactions related to selling and buying activities of goods and services. Therefore, commercial banks are those banks, which work from commercial viewpoint. They perform all kinds of banking functions as accepting deposits, agency function. They provide short-term credit, medium term credit and long term credit to trade and industry. They also operate off balance sheet functions such as issuing guarantee bonds, letter of credit etc.

Commercial bank acts as an intermediately; accepting deposits and providing credits to the needy area. The main source of the commercial bank is current deposit, so they give more importance to the liquidity of investment and as such they specialize in satisfying the short-term credit needs of business other than the long-term commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short-term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant credits in the form of cash credits and overdrafts. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuables, financial advising etc to their customers.

This chapter highlights the literature that is available in concerned subject; fund mobilization of two joint venture banks (Himalayan Bank Limited and Everest Bank Limited).

Joint venture banks are the commercial banks formed by joining the two or more enterprises. They are the mode of trading to achieve mutual exchange of goods and services for sharing comparative advantage by performing joint investment scheme between Nepalese their parent banks, which have been experiencing highly mechanized and efficient modern banking management skill and international of banking institutions. Joint venture banks are established by joining two difference forces and with ability to achieve common goal with each of the partners. They are more efficient and effective monetary institution in modern banking fields then other old types of bank in Nepalese context. The primary objective of the joint venture banks is always to earn profit by investing or granting the loans and advances to the people associate with trade, business, industry etc. That means they are required to mobilize their resources properly to acquired profit.

Joint venture is a joining of force between two or more enterprises for the purpose of carrying out a specific operation (Industrial and commercial investment production or trade (Gupta, 1994).

All the Nepalese JVBs are established and operated under the rules regulation and guidance of Nepal Rastra Bank. Nepal Bank had issued a certain directive to those

banks, regarding the mandatory credit allocation to the priority sector, the Nepal Rastra Bank has directed to the government owned banks to invest 3% and the JVBs to invest 0.05% of the total outstanding credit to the priority sector (Economic Report: 1997/98:4).

“HMG’s deliberate policy of allowing foreign JVBs to operate in Nepal is basically targeted to enhance, encourage local traditionally run commercial bank to enhance their bankable capacity through competition efficiency modernization and mechanization via computerization and prompt customer service” (Shrestha, 2047:45).

Now a day there is very much competition in banking market but less opportunity to new opportunities, so that they can survive in the competitive market and earn profit. But investment is very risking job for a purposeful, safe and profitable investment bank must follow sound investment and fund mobilizing policy.

Nowadays there are 27 commercial banks operating in Nepali financial market along with 9 joint venture with foreign investors. Lists of licensed commercial banks are presented below:

**Table 2.1**  
**List of Licensed Commercial Banks**  
**Mid- July 2009**

S.N	Names	Operation Date	Head Office	Paidup Capital (Rs. in million)
1	Nepal Bank Limited	1937/11/15	Kathmandu	380.4
2	Rastriya Banijya Bank	1966/01/23	Kathmandu	1172.30
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu	10777.50
4	NABIL Bank Limited	1984/07/16	Kathmandu	965.75
5	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu	1606.07
6	Standard Chartered Bank Nepal Ltd.	1987/01/30	Kathmandu	620.80
7	Himalayan Bank Ltd.	1993/01/18	Kathmandu	1013.50
8	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu	874.50
9	Nepal Bangladesh Bank Ltd.	1994/6/5	Kathmandu	744.10
10	Everest Bank Ltd.	1994/10/18	Kathmandu	691.40
11	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu	603.10
12	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Siddharthanagar, Rupendehi	1399.50
13	Lumbini Bank Ltd.	1998/07/17	Narayangadh, Chitwan	996.31
14	Nepal Industrial & Commercial Bank Ltd.	1998/07/21	Biaratnagar, Morang	950.40
15	Machhapuchhre Bank Ltd.	2000/10/03	Pokhara, Kaski	1314.64
16	Kumari Bank Ltd.	2001/04/03	Kathmandu	1078.27
17	Laxmi Bank Ltd.	2002/04/03	Birgunj, Parsa	915.00
18	Siddhartha Bank Ltd.	2002/12/24	Kathmandu	828.00
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa	1000.00
20	Citizens Bank International Ltd.	2007/6/21	Kathmandu	700.00
21	Prime Commercial Bank Ltd	2007/9/24	Kathmandu	700.00
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu	700.00
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	700.00
24	Development Credit Bank Ltd.	2008	Kathmandu	1107.5
25	NMB Bank Ltd.	2008	Kathmandu	1000.00
26	Kist Bank Ltd.	2009	Kathmandu	2000.00
27	Janata Bank Nepal Ltd.	2010	Kathmandu	2000.00

Source: - [www.nrb.org.np](http://www.nrb.org.np)

### 2.1.3. Joint Venture Banks in Nepal

Joint venture banking scenario of Nepalese financial sector is not so long. After the establishment of democratically elected government it introduced liberal and marketing oriented economic policy which facilitated the establishment of joint venture banks and pointed a new horizon to the financial sector of Nepal.

“A joint venture is forming of two forces between two or more enterprises for the purpose of carrying out of specific operation (industrial or commercial investment, production trade)” (Gupta, 1984: 15-25). Joint venture banks are the commercial banks formed by joining a two or more enterprises, for the purpose of carrying out of specific operation such as investment in trade, business and industry as well as in the form of negotiation between various group of industries or traders to achieve mutual exchange of goods and services.

Nepalese JVBs should take initiation in search of new opportunities to survive in the competitive market and earn profit. There is high liquidity in the market but this seems no profitable place to invest. At the same time, the bank and financial institutions are offering very low deposit interest rate. In this situation Nepalese JVBs are required to explore new opportunities to make investment if they want to survive in the competitive market. Since commercial banks can inspire entrepreneurship, the banks should also consider national interest and government emphasis for the economic growth of the country by the development of industry trade and business and to fulfil the objective of profit making.

Nepal Arab Bank Limited (NABIL Bank Limited) is the first joint venture bank of Nepal. It was established in 1984 A.D. Joint venture which United Arab Emirates Bank, under company act 1964. than other two joint venture banks Nepal Indosuez Bank Limited (Nepal Investment Bank Limited) with Indosuez Bank of Finance and Nepal Grind lays Bank of London were established in 1986 A.D. Himalayan Bank Limited joint venture bank of Pakistan and Nepal SBI Bank Limited with state bank of India was established in 1993 A.D. Everest Bank Limited joint venture with Punjab National Bank India (early it is joint venture ventured with United Bank of India Calcutta) and Nepal Bangladesh Bank Limited with IFIC Bank of Bangladesh are established in 1991 A.D. Bank of Kathmandu joint ventured with SIAM Commercial Bank Public Co. Thailand was established in 1995 A.D. and Nepal Bank of Ceylon

joint ventured with Ceylon Bank of Srilanka was established in 1997 A.D. All of these banks briefly follow the policies of Nepal Rastra Bank. But at present these are only four joint venture banks in Nepal.

#### **2.1.4. Role of the Joint Venture Banks in Nepal**

For the economic boost of the nation, sound competition is needed in the banking sector. With understanding the fact his majesty government of Nepal adopted the strategy to establish banking compares in joint venture with the foreign banks, importing the high foreign banking techniques in the kingdom. In our context, joint venture bank is an association between Nepalese investors (financial and non-financial institution as well as private sectors) and the foreign (parent) banks, having experience in highly mechanized and efficient modern banking service in many parts of the world, for professional and competitive operation that is made highly beneficial through the combined efforts. Joint venture banks are important for the economic development of mixed economy's follower like Nepal. Nepalese economic situation and investment necessity provide a significant weight to joint venture banks which bring foreign capital, experience, technology, skill and art. Broadly, Government of Nepal adopted a policy for allowing foreign joint venture commercial banks to operate in Nepal. This policy has also targeted to encourage the traditionally run local commercial banks to enhance their capacity building, competitiveness, efficiency and modernize their functions to give prompt customer services. As a result of the new commercial bank's act and liberalization policy of 1980, joint venture banks operating in Nepal with view to encourage efficient banking services to increase foreign investment in the country and to bring healthy competition in the banking sector. In Nepal the JVB, Himalayan bank limited (HBL) was established in 1992. It was established to maintain the economic welfare of the general people to facilitate loan for agriculture, industry and commerce to provide the banking service to the country and the people. It has been financed by founder shareholders (A class) sharing 51%, 20% by Habib bank of Pakistan, 14% by Karmachari Sanchaya Kosh and 15% by public. It is the first joint venture bank having domestic ownership more than 50 percent. The main objective of JVBs are to provide modern banking facilities to the general public, businessmen, industrialists and other professional to grant loans and advances on agriculture, commerce and industrial sectors. The establishment of JVBs gave new horizon to the financial sector of the country.

The objectives of JVBs in Nepal can be enumerated as below:

- ) Introducing advanced banking techniques and services.
- ) Introducing foreign investment in Nepal.
- ) Providing more resources or generating more capital for investment.
- ) Increasing international network of bank branches.
- ) Bringing healthy competition environment in financial system.

Joint venture banks are important for the economic development to necessity experiences short of such institutions, which can serve such problems. The role of joint venture banks can be presented as follows,

### **I. Information to Foreign Investors**

The role of joint venture bank is significant for the collection of fund for megaprojects. The various type of publications to be acquainted with Nepalese rules, regulations and practices of concerned sector. Before the establishment of JVBs, some large projects could be established through two or three local banks but mega-projects could not be established. Because of the political instability, after the restoration of multi-party democracy also the foreign investors have still been hesitating to invest in Nepal. In such a situation the publications of JVBs have been playing a vital role to the foreign investors.

### **II. Creation of Competitive Environment**

Clients will be beneficial either by higher rate of interest in their deposition or by lower rate of interest on credit. It is possible only under competitive environment. After the arrival JVBs, old banks are also been competitive. Fair competition among banks, not only beneficial for bank themselves and economy. Fair personal management, efficient financial performance, quality in services and research and development is possible only in competitive environment.

### **III. Contribution to National Economy**

Joint venture banks, comparatively are adopting new banking systems. They are already established in financial, garments, agriculture and housing needs and playing

a significant role to contribute the national economy from own sector. Thus, through such bank's managerial and banking techniques, new ideas and philosophy, foreign investment and capital, healthy, competitive atmosphere and diversified market concepts transfer to other companies. But there is a remarkable point that the joint investment should be directed by the economic need and perspectives and not by political interest. Financial and legal rules, regulations and practices should be clear and convenient to foreign investors.

#### **IV. Modern Management and Banking Techniques**

Modern managerial principles and practices in banking sector have been introducing by joint venture banks in Nepal. New banking techniques such as hypothecation and syndication are also introduced under NRB guidance. Various techniques followed by international banks in deposition, lending, exchange and other have been introducing by these banks in Nepal. After the establishment of these banks, other new and old banks have begun computerizing their system. So, new banks have adopted new techniques such as tele-banking, credit card and master card system in urban areas. Now these banks are oriented to follow up some developing techniques in international banking sector.

#### **V. Offering Better Links with International Market**

The JVBs are usually better placed to raise resources internationally for viable projects in a developing country like Nepal mainly due to their credibility in and easier access to international market. It means our potential projects are globally recognized so that opportunity of financial and technical assistant will be high. Hence the joint venture banks play the pivotal role for the economic development of country by providing various new financial services to modernize traditional Nepalese banking system.

##### **2.1.5 Profile of Sample Banks**

###### **I) Himalayan Bank Limited (HBL)**

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 for the establishment's period till now. It accepts deposit through current deposit, saving deposit, fixed deposit and call deposit.

At present HBL has five branches in Kathmandu valley namely Thamel, New road, Maharajgunj, Pulchowk (Patan) and Bhaktapur (moved from Nagarkot). Besides, it has nine branches outside Kathmandu valley namely Banepa, Tandi, Bharatpur, Birgunj, Hetauda, Bhairawa, Biratnagar, Siddharthanagar, Pokhara and Dharan. The bank is also operating a counter in the premise of the Royal Palace. The Bank has a very aggressive plan of establishing more branches in different parts of the kingdom 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 anywhere in the world. Himalayan Bank has adopting innovative and latest banking technology. The bank provides various facilities such as:

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

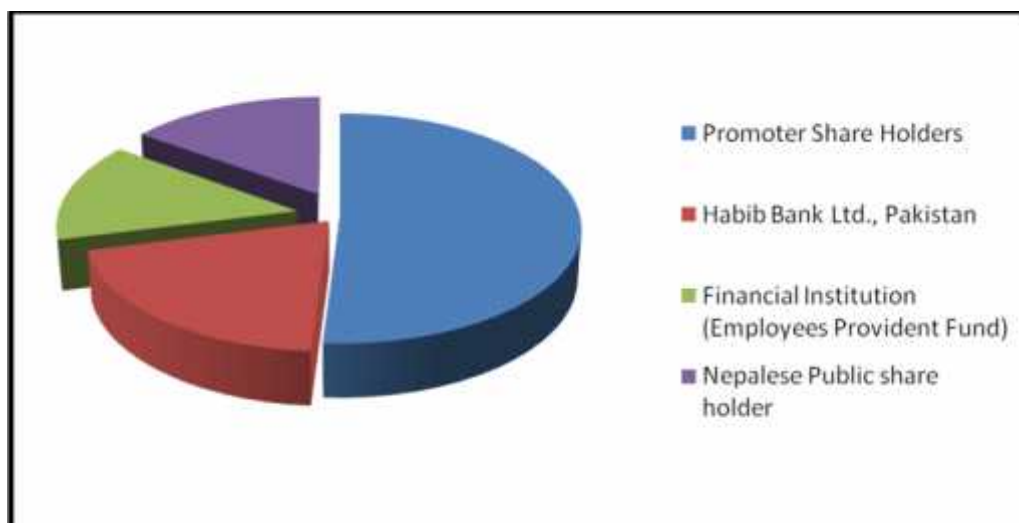
The ownership of HBL is composed as:

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

The present capital structure of HBL is shown below:

<b>Share Structure</b>	<b>Amount (Rs.)</b>
Authorized Capital	1,000,000,000
Issued Capital	772,200,000
Paid- Up Capital(7,722,000equity shares of NRS 100.00 each, fully paid)	772,200,000

#### **The ownership Pattern of HBL**



## **II) Everest Bank Limited**

Everest Bank Ltd. was registered under the Company Act 1964 in 19<sup>th</sup> November 1993 (2049/09/03) and started banking transaction in 16<sup>th</sup> October 1994 (2051/07/01). The promoter of the bank decided to join hands with an Indian bank and entered into joint venture agreement in January 1997 AD with Punjab National Bank (PNB), which is one of the leading commercial bank of India, having over 100 years of

successful banking experience and known for its strong system and procedure. A team of professionals deputed by PNB under this arrangement. Now, the bank 19 branches including main branch (i.e. head office) in Nepal.

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

- ) Cumulative Deposit Scheme
- ) Unfix Fixed Deposit
- ) 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

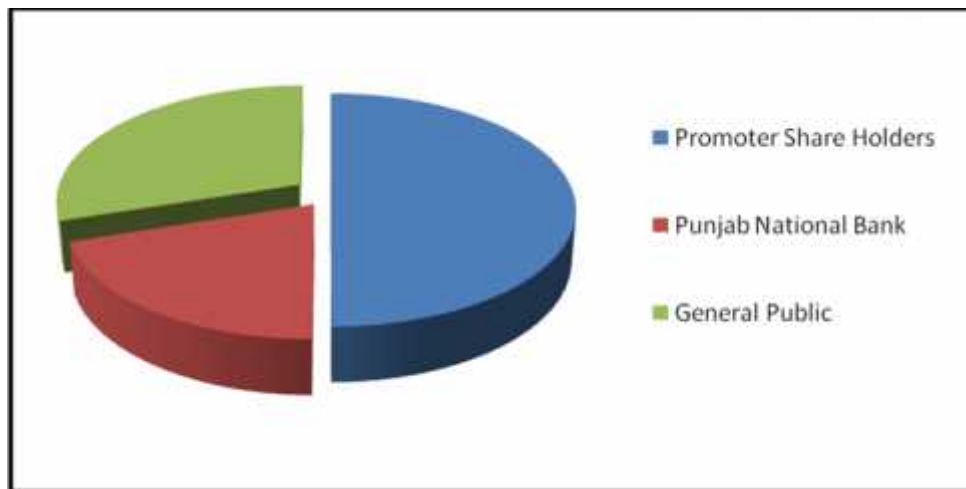
The ownership of EBL is composed as:

<b>Subscription</b>	<b>% Holding</b>
Promoter Share Holders	50%
Punjab National Bank	20%
General Public	30%
<b>Total</b>	<b>100%</b>

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	60,00,00,000
Issued Capital	52,98,00,000
Paid- Up Capital	51,80,00,000

#### The ownership Pattern of EBL



#### 2.1.6 Meaning of Some Important Terminologies

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

##### a) Loan and Advances

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

### **b) Investment on Government Securities, Shares and Debentures**

Commercial bank can earn some interest and dividend from the investment on government securities, shares and debentures. It is not the major portion of income but it is treated as a second source of banking business. A commercial bank may 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 greater volume without previous notice to banks. The investment must be a type that can be marketed quickly with little or no shrinkage in value

### **c) Investment on other Company's Share and Debentures**

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

### **d) Off- Balance Sheet Activities**

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

#### **e) Other use of Fund**

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

#### **f) Concept of Deposit**

The excess of income over consumption requirement is saved. Such savings are deposited in commercial banks, even amounts to be spent for consumption purposes are deposited in commercial banks. Payment for goods and services is made in cheques drawn on banks. Banking habit is growing faster. People deposit their earnings in commercial banks because banks vaults are safer than home coffers and they pay interest according to the kind of deposits.

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

Thus, bank deposit is subject to various form of classification. The deposits are generally classified based on ownership, security and the availability of funds. There are two types of deposit which are as follows.

**a) Interest Bearing Deposit**

Deposit in which banks are required to pay interest is known as interests bearing deposit. Saving, Term (Fixed), Call and Recurring deposit are interest bearing deposit.

**(i) Saving Deposit**

A saving deposit is one in which middle class people and general server open a limited amount of money that can be withdrawn and low level of interest will be provided by bank. This is a very common and general deposit account, which is suitable for those classes of people who want to save some portion of their earnings or the money left after the consumption. Initial deposit as decided by the bank must be made to open the Saving Accounts. There are some restrictions in withdrawing money at the same time the limitation depends as per nature of the economy and from one country to the other country or every one bank to the other.

**(ii) Fixed Deposit of Time Deposit**

This is a kind of deposit in which banks offers fixed interest rate on the deposit and repays principal together with interest at fixed maturity or pays interest on regular interval. So the money deposited in this account can be utilized by banks for medium or long term credit freely being confident that the depositors will not come to claim until the time lapses. Normally higher interest rate is offered for long term deposit and lower interest rate for short term deposit. The time deposit is the main source of commercial banks for their credit operation. Investment in medium term and long purposes is possible only through this type of deposit. However, the depositor can take loan under security. In this context of Nepal, fixed deposit has been classified according to the following durations: -

- ) Quarterly
- ) Semi-annually
- ) Annually
- ) Annually and above

### **(iii) Call Deposit**

Call deposit incorporates the characteristics of current and saving deposit in the sense deposit is withdrawn able at 'call' and savings in as dense the deposit earns 'interest'. The companies not entitled to open savings account can open the call accounts. Interest rate on call deposit is negotiable between the bank and the depositors and hence, is normally not published in public. Interest rate is applied on daily average balance. Withdrawal restriction is not imposed on call deposit but the balance should not go below an agreed level (Dahal, and Dahal, 1990:30).

### **(iv) Recurring Deposit**

Concept of recurring deposit was developed to encourage the thrift among people of fixed regular earning. In recurring deposit scheme, the depositor is required to deposit the fixed amount in each instalment and is repaid fixed amount at maturity.

### **b) Non-Interest Bearing Deposit**

It is the deposit in which the banks need to pay interest for the customer of their savings. It is because in this types of deposit customers can withdraw the money at any time or can withdraw daily and the bank could not employ the amount in profitable projects that's why it does not pay any interest in this type of account. Current and margin deposit are non interest bearing deposit.

#### **(i) Current Deposit**

The current deposit account generally opened by the business persons. They are allowed to withdraw and deposit the money according to their needs. There is no limitation of withdrawing the money. Therefore, these types of deposits are for those people who may need money at uncertain times.

#### **(ii) Margin Deposit**

Banks issue letter of credit, guarantee and indemnity etc. on behalf of the customer for a specified sum of money. These amounts have to be paid to the beneficiaries of aforesaid instruments provided they claim as per the terms and conditions agreed upon. Thus, banks are exposed to contingent liability. To reduce the liability banks ask customer to deposit a certain amount as the margin deposit.



Banks open the fictitious margin account in the name of the borrower to put such amount and interest is not paid in such deposit. Margin deposit is required to the customer if the case of claim, the amount is utilized to honor the claim. The customer is asked to cover the shortfall if any (Dahal, and Dahal, 1999:32).

### **2.1.7 Review of Legislative Provisions**

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

### **Compulsory Cash Reserve Ratio (CRR) and Refinancing**

In order to improve the sluggish economy, continuity has been given to flexible monetary policy. NRB has revised the compulsory CRR effective from 22nd July 2002 with a view to reduce the cost of fund of banks which will facilitate the banks to reduce their lending rates without changing in deposit rates. As per this revision, in respect to balance with NRB requirements of commercial banks, the present level of 7 % of the domestic current and saving deposit liabilities and 4.5% of time deposit liability remain unchanged. The requirement of cash reserve in their own vault, however, has been brought down to 2% from 3%. In respect of refinancing rates, the present rate of 2% for export credit in foreign currency; 3% rehabilitation of sick industries, 4.5% for Grameen Bikas Banks(Rural Development Banks) and export credits in Nepalese currency; and 5.5% for all other types of refinancing remains unchanged. An additional amount of Rs. 1500 million has been set aside to provide refinancing facilities for such industries.

**Revised Compulsory Cash Reserve Ratio (in Percentage)**

<b>S.N</b>	<b>Description</b>	<b>20 December 2008</b>	<b>22 July 2008</b>	<b>Differenc e in % points</b>
1.	Cash deposit requirement in NRB by the commercial banks:			
	Total domestic current and savings deposit liabilities	7.0	7.0	
	Total domestic time deposit liabilities	4.5	4.5	
2.	Cash-in-Vault requirement of the commercial banks(of total deposit liabilities)	3.0	2.0	1.0

**Policy Guidelines on the Establishment of the Commercial Banks**

Receiving applications for the establishment of commercial banks has been stopped since 1995. Visualizing that such an administrative restriction is not in conformity with the liberal financial policy, the following new policy guidelines have been made public on 16th May 2003:

**1) Paid up Capital**

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

**2) Share Capital**

In general, the share of commercial banks will be available for the promoters (70 percent) and general public (30 percent). The foreign banks and financial institutions could have a maximum of 67 % share in investment on the commercial banks of national level. In order to provide adequate opportunity for investment to the Nepali

promoters in national level banks, only 20 % of total share capital will be made available to general public on the condition that the foreign bank and financial institutions are going to acquire 50% of the total share. In case of commercial banks to be established outside Kathmandu Valley, share investment of promoters and general public should stand at 70% and 30% respectively.

### **3) Legal Procedure**

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

### **4) Banks Already in Operation**

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

### **5) Concerning up Gradation**

Banks to be established outside Kathmandu Valley could be allowed to operate throughout the Kingdom including Kathmandu Valley only on the condition that they have brought their paid up capital level to Rs. 1000 million and also fulfilled other prescribed conditions. Until and unless such banks do not get license to operate throughout the kingdom, they will not be allowed to open any office in Kathmandu Valley.

### **6) Promoters Share Payment Procedure**

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

### **7) Promoters Qualification and Experience**

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

### **8) Promoters Share**

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

### **9) Branch Expansion**

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

### **10) Disqualify from Becoming Director**

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

individual and institution involved as an auditor of the bank and institutions carrying on financial transactions cannot be a director.

### **2.1.8 Mobilization of Funds**

Banks utilize its funds in suitable area and right sector. Banks cannot achieve its goals until and unless it mobilizes its deposits in right sectors and by performing different activities. Much 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 deposits. Banker being only a financial intermediary, we will not be able to make any profit unless he has to pay interest on deposits, meet establishment expenses, meet liquidity of cash balance, and yet allow him some balance from out of which he can build reserve and pay dividend to the shareholder. As commercial bank they are expected to make profit. If there is no profit, there will be adverse criticism against public sector banking, both in and outside the parliament when these banks are asked to open new branches in areas which do not allow profits for years, or asked to grant loan to the priority sectors such as small industries and agriculture with a high incidence of bad debts, there is need for counter balancing profit from elsewhere. Therefore, these banks will have to show an ascending order of profits in order to ensure growth with stability. For this purpose the bank will have to allocate land able resources to different segments in such a manner these banks can ensure adequate profitability while at the same time responding to policies laid down in accordance with national objectives.

Therefore, banks should mobilize its deposits in suitable and profitable banking activities and right sector. Generally bank has mobilized its deposits 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
- ) Joint-venture

### **c. Loan and Advances**

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

- ) To government enterprises
- ) To provide enterprises

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

### **d. Fixed Assets**

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

### **e. Administrative and Miscellaneous Expenses**

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

- ) Salary of Employee
- ) Allowances
- ) Pension
- ) Advertisement
- ) Stationery

- J Provident Fund
- J Rent
- J Income tax
- J Donation
- J Insurance
- J Tour expenses
- J Commission

The miscellaneous expenses are

- J To distribute the dividend to shareholders
- J To bear the loss on sale and purchase of banking assets
- J Maintenance expenses
- J To pay the interest on borrowed amount
- J Reserve fund

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

### **2.1.9 Features of Sound Lending and Fund Mobilization Policy**

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

#### **a) Safety and Security**

Financial institutions should inlets their deposit in profitable and secured sectors. They should not invest their fund in securities of those companies whose securities are too much depreciated and fluctuated because of risk of loss factors. They should

accept those securities, which are marketable, durable, profitable and high market price as well as stable. In this case MAST should be applied for the investment.

Where,

M = Marketability

A = Ascertain ability

S = Stability

T = Transferability

### **b) Legality**

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

### **c) Liquidity**

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

### **d) Profitability**

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

### **e) Tangibility**

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



### **f) Purpose of Loan**

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

### **g) Diversification**

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

## **2.1.10 Fund Mobilizing Procedure of Joint Venture Banks**

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

### **1. Sources of Fund**

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

#### **A. Owned Funds/ Equity Capital of Bank**

Following are the sources of owned funds:

##### **a) Ordinary Share**

Ordinary sources are the bank's strong and reliable sources of funds. Banks promoters issue ordinary shares to the public in fixed number. Banks collect 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 cannot issue preference share. But some situation it can issue preference share by taking permission from Nepal Rastra Bank.

### **c) Bonus Share**

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

### **d) Retained Earning**

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

### **e) Reserve Fund**

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

### **f) Undistributed Dividend**

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

## **B. Borrowed Fund of Bank**

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

### **a) Selling of Debenture**

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

### **b) Deposits**

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

Current Deposit

Saving Deposit

Fixed Deposit

### **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**

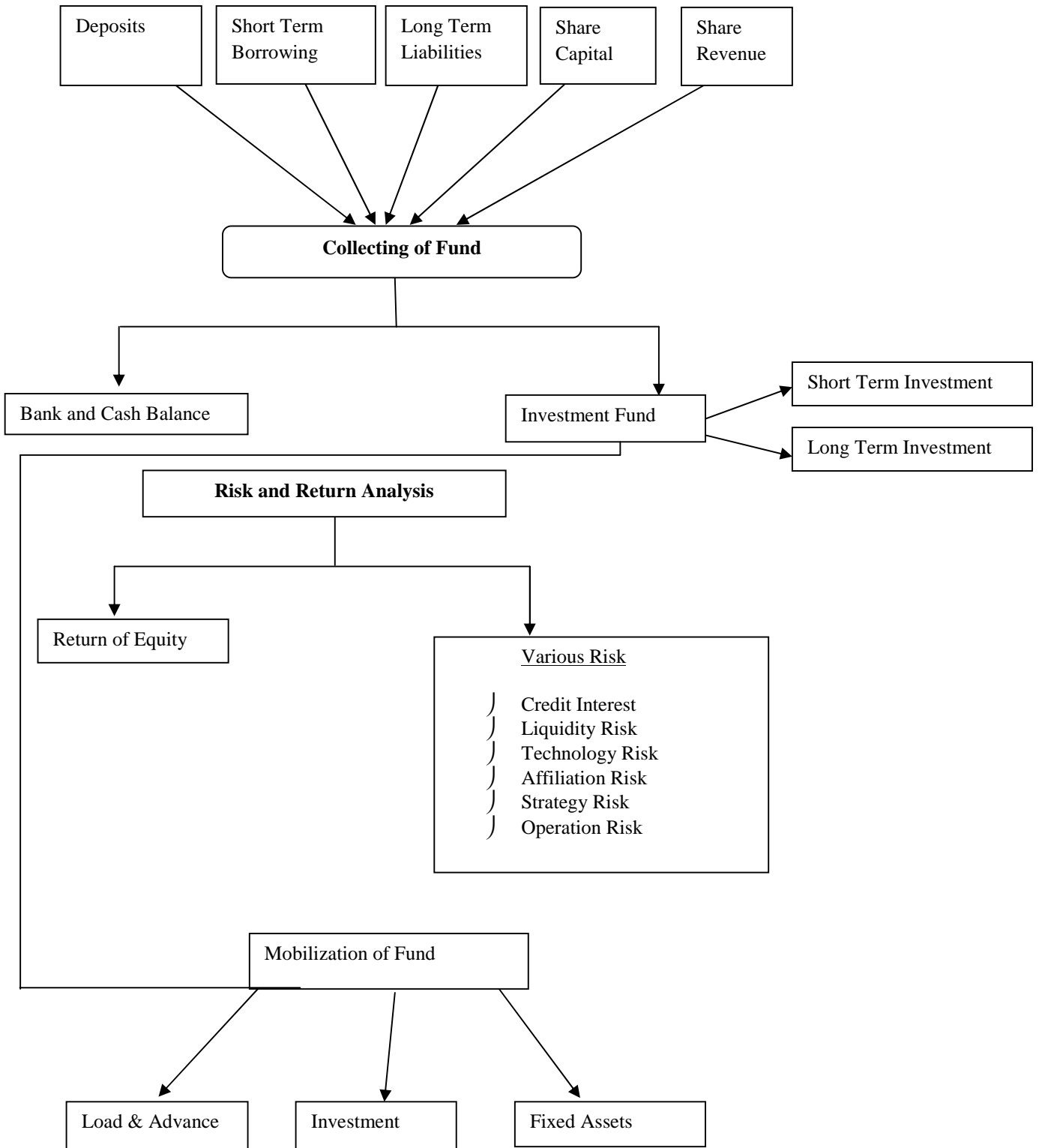
Financial institutions also provide loan for the banks. Bank can receive loans from financial institutions in the form of borrowing. The loan granted by the financial institutions is also a bank capital.

### **e) Loan from Commercial Banks**

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

**Figure 2.1**

**A General Investment Procedure of Joint Venture Bank**



## **2.2 Review of Related Studies**

### **2.2.1 Review of Journals and Articles**

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.

**Chopra** (2000) 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.

**Shrestha** (2002) has analyzed in her article, *“Financial Performance of Commercial Banks Using both Descriptive and Diagnostic Approach”*. In her studies she has concluded the following points:

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

**Shrestha** (2003) in his article, *“A Study on Deposit and Credit of Commercial Banks in Nepal”* concluded that the credit deposit ratio would be 51.30%, other things remaining the same in Nepal, which was the lowest under the period of review. Therefore, he had strongly recommended that the joint venture banks should try to give more credit entering new field as far as possible, otherwise, they might not be able to absorb even the total expenses.

**Shrestha** (2004) has presented a short scenario of investment management from his article “*Portfolio Management in Commercial Bank, Theory and Practice.*” 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 individual’s as well as institutional investors. Large investors would like to select a best mix of investment assets and subject to the following aspects:

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

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

1. Do not hold any single security; try to have a portfolio of different securities.
2. Do not pull all the eggs in one basket i.e. to have a diversified investment.
3. 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 of effective portfolio management, Shrestha has presented the following approaches to be adopted.

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

4. To identify variety of securities for investment to refuse volatility of returns and risk.

**Bajracharya** (2005) in his article “*Monetary Policy and Deposit Mobilization in Nepal*” that the mobilization of domestic saving is one of the prime objectives of monetary policy in Nepal. For this purpose, commercial banks stood as the active and vital financial intermediary for generating resources in form of deposit of the investors in different aspects of the economy.”

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

**Sharma** (2005) has found same results that all the commercial banks are establishing and operating in urban areas, in this study, “*Banking the Future on Competition*”. His achievements are:

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

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

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

### **2.2.2 Review of Thesis**

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:

**Panta**, (2000) in his thesis “*A Study of Commercial Bank Deposits and Utilizations*” has tried to examine the resources collection and utilization. He has concluded that commercial banks have failed to utilize their resources due to lending for short term only. So that he has suggested that all commercial banks should give preference on long term lending sectors for the better utilization of the deposits and improvement of their existing situation.

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

**Sapkota** (2007) in his thesis “*A Study on Fund Mobilizing Policy of Standard Chartered Bank Ltd in Comparison to Nepal Bangladesh Bank Ltd and Himalayan Bank Ltd*” having main objectives to examine the fund mobilizing policy adopted by three joint venture banks viz. SCBNL, NBBL and HBL and the way these banks mobilized their funds during five year study period i.e. from 2001/02 to 2005/06.

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

Sapkota has not explained about the risk ratios which have to be faced by these joint venture banks. His study cannot show the fund mobilizing policy of the selected banks for the succeeding years because of time limitation.



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

**Thapa** (2008) in his thesis "*A Comparative Study on Investment Policy of Nepal Bangladesh Bank Ltd. and other Joint Venture Bank of Nepal*" she has compared the investment activities of NBBL with only two joint venture bank i.e. Nepal Arab Bank Ltd. and Nepal Grindlays Bank Ltd. by taking five years data. She has recommended in two ways:

- a. **Statement Recommendation:** She has suggested about investment in government securities, OBS operation loan recover act, sound credit collection policy, and project oriented approach, effective portfolio management, and innovative approach to bank marketing and banking facilities.
- b. **Theoretical Recommendation:** She has suggested about liberal policy and coat management strategy.

**Mandala**, (2009) in his thesis "*A Comparative Financial Performance Appraisal of Joint Venture Banks*". has studied primarily three joint venture banks i.e. NABIL, NGBL and Nepal Indosuez Bank Ltd. His main objectives is to find out the both banks, NGBL and NABIL have mobilized the debt funds in proper way for generating more return but Nepal Indosuez Bank (NIBL) could not mobilize as NABIL and NGBL. He has recommended that all the banks should provide their facilities in rural areas and encourage the small entrepreneur's development programmes, play merchant role, mobilize the deposit funds in productive sectors and grant priority to the local manpower.

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

**Silwal** (2009) in his thesis “*Lending Policy of Commercial Banks in Nepal*” having following objectives:

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

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

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

### **2.3 Research Gap**

The purpose of this research is to develop some expertise in one’s area, to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relations to fund collection and mobilization process of sample joint venture banks. Thus, the previous studies can’t be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. Hence, it is clear that the new research cannot be found on that exact topic i.e. fund collection and its mobilization, A study on joint venture banks. Therefore, to fulfil this gap, this research is selected. To complete this research work, many books, journals, articles and various published and unpublished dissertations are followed as guideline to make the research easier and smooth. In this regard, here we are going to analyze the different procedure of fund collection and its mobilization techniques of joint venture banks. This thesis work has covered the period of study till 2007/08 A.D. It also

covered that HBL and EBL are focusing on different schemes to collect deposit from general public whereas the previous thesis work lacks this concept. Because deposit collecting schemes are new concepts to attract consumers in competitive banking sector.

Our main research problem is to analyze whether the joint venture banks are able to collect and mobilize its fund effectively or not. To achieve this main objective, various financial and statistical tools are used.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

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 is the process of arriving at solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of facts and figures (Kothari, 1989:8).

Research methodology refers to the various methods of practices applied by the researcher in the entire aspect of the study. This chapter includes the research design, population and sample, nature and sources of data and analysis of data. 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.

#### **3.1 Research Design**

A Research Design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 1992:25). Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to the research question and to control variances. To achieve the objectives of the study, descriptive and analytical research design has been used. Some statistical and financial tools have also been applied to examine facts and descriptive techniques have been adopted to evaluate funds mobilizing performance of HBL and compare it with Everest Bank Limited. The study is based on secondary data. So the descriptive and analytical research designs have been used.

### **3.2 Population and Sample**

The method of selecting for study a small portion of the population to draw conclusion about characteristics of the population is known as sampling. Sampling may be defined as the selection of part of the population on the basis of which a judgment or inference about the universe is made. There are nine joint venture banks and eleven other commercial banks listed in Nepal Stock Exchange which is regarded as a population of the study. But it is not possible to cover all the JVs banks under the study. So, only two joint venture banks have been taken as sample i.e.

1. Himalayan Bank Ltd
2. Everest Bank Ltd.

### **3.3 Sources of Data**

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

In order to fulfil 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 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 others to interpret the results. Two kinds of tools have been used to achieve the certain goals.

1. Financial Tools
2. Statistical Tools

#### **3.5.1 Financial Tools**

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

They are:

- i. Ratio Analysis
- ii. Cash flow Analysis

#### **I) Ratio Analysis**

Ratio analysis is a powerful and the most widely used tool of financial management. A ratio defined as “The indicated quotient of two mathematical expression” and as the “Relationship between two or more things (Webster, 1975). A ratio is a figure or a percentage representing the comparison of one- dollar amount with some other dollar amount as a base (Roy, 1974). Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of firm as well as its historical performance and current financial condition can be determined. In financial analysis a

ratio is used as an index or yardstick for evaluating the financial position and performance of a firm. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance (Pandey, 1979).

A large number of ratios can be generated from the components of profit and loss account and balance sheet. They are sound reasons for selecting different kinds of ratio for different types of situations. For this study, ratios are categorized into the following major headings:

### **(A) Liquidity Ratio**

Liquidity refers to the ability of a firm to meet its short- term or current obligations. So liquidity ratios are used to measure the ability of a firm to meet its short- term obligations and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined (Van Horne, 1999).

Inadequate liquidity can lead to unexpected can short falls that must be covered at inordinate costs, thus reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. On the other hand, excessive liquidity can lead to low asset yields and contribute to poor earnings performance (Scott, 1992).

To find out the ability of bank to meet their short- term obligations, which are likely to mature in the short period, these ratios are calculated. The following ratios are developed under the liquidity ratios to identify the liquidity position.

#### **I. Cash and Bank Balance to Total Deposit Ratio:**

This ratio shows the ability of banks immediate funds to cover their deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa. It can be calculated by dividing 'cash and bank balance' by total deposits. This ratio can be calculated using the following formula:

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

## **II. Cash and Bank Balance to Current Deposit Ratio**

This ratio is computed to disclose the soundness of the company to pay total calls made of current deposits. It can be expressed as:

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

### **(B) Activity/Efficiency Ratio**

It is known as turnover or efficiency ratio or assets management ratio; measures how efficiently the firm employs the assets. Turnover means; how many numbers of times the assets flow through a firm's operations and into sales (Kulkarni, 1994).

Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equals. Various ratios are examined under this heading.

### **I. Credits and Advances to Total Deposit Ratio:**

Commercial banks mobilize the outsider's fund for profit generation purpose. Credits and advances to total deposit ratio shows whether the banks are successful to mobilize the outsider's funds (i.e. total deposits) for the profit generating purpose on the credit and advances or not. Generally, a high ratio reflects higher efficiency to mobilize outsider's fund and vice-versa. The ratio can be calculated by using following formula.

$$\text{Credits and Advances to Total Deposits Ratio} = \frac{\text{Credit and Advance}}{\text{Total Deposit}}$$

### **II. Credits and Advances to Fixed Deposit Ratio**

Fixed deposits are the long-term interest bearing obligations and credits and advances is the major source of investment to generating purpose. The ratio is slightly differ with the former one, because it only includes the fixed deposits, where as the former includes all the deposits. The following formula is used to obtain this ratio.

$$\text{Credits and Advances to Fixed Deposit Ratio} = \frac{\text{Credit and Advance}}{\text{Fixed Deposit}}$$



### **III) 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:

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

### **IV. Credit and Advances to Total Assets Ratio**

It measures the ability in mobilizing total assets into credits and advances for profit generating income. A higher ratio is considered as an adequate symbol for effective mobilization of total assets to bank into credits and advances which creates opportunity to earn more and more. It is calculated as:

$$\text{Credit and Advance to Total Assets Ratio} = \frac{\text{Credit and Advance}}{\text{Total Assets}}$$

### **(C) Leverage Ratio**

The use of finance is referred by financial leverage. When a firm borrows money, it promises to make series of fixed payments, which create financial leverage" (Brealy and Mayers, 1991). These ratios are also called solvency ratio or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long term financial position of the firm, leverage ratios are calculated. This ratio highlights the long- term financial health, debt servicing capacity and strength and weakness of the firm. Following ratios are included under leverage ratios.

#### **I. Total Debt to Net Worth Ratio**

The ratio is calculated to find out the proportion of the outsider's fund and owner's fund to finance for the total assets. It also called the proportion of outsider's claim and insider's claim on total assets of the bank. Generally, very high ratio is unfavourable to the business because the debt gives third parties legal claims on the company. These claims are for interest payments at regular intervals plus repayment of the

principal by the agreed time. On the other hand, very low ratio is also unfavourable from the shareholders point of view. They want this ratio to be high so that they can have better returns with smaller capital.

It is calculated as follow:

$$\text{Total Debt to Net Worth Ratio} = \frac{\text{Total Debt}}{\text{NewWroth}}$$

## **II. Total Debt to Total Ratio**

It examines the relationship between borrowed funds (i.e. total debt) and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets. It is computed as:

$$\text{Total Debt to Total Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

### **(D) Profitability Ratio**

Profit is the difference between revenues and expenses over a period of time. A company should earn profit to survive and to grow over a long period of time. So profits are essential, but profit earning is not the ultimate aim of company and it should never be earned at the cost of employees, customer and society. “Profitability ratios are the indicators of degree of managerial success in achieving firm’s overall goals,” (Pradhan, 1996). It shows the overall efficiency of the business concern. The following ratios are calculated under the profitability ratios:

#### **I. Net profit/Loss to Total Assets Ratio**

The ratio is useful to measure how well management uses all the assets in the business to generate an operating surplus higher the ratio indicate the higher efficiency in the mobilization of total assets and vice- versa. The ratio is low due to low profit. In other words, it is low utilization of bank assets and over use of higher interest bearing amount of debt and vice- versa. In this study, net profit/loss to total assets ratio is examined to measure the profitability of all the financial resource in bank –assets and is calculated by applying the following formula:

$$\text{Net Profit/Loss to Total Assets Ratio} = \frac{\text{Net Profit/Loss}}{\text{Total Assets}}$$

## II. Interest Income to Total Credit and Advances

It tells the income as interest from total credit and advances. It is useful to know the fact that whether the credit has given or not. We can increase interest income by taking good issuing and recovery credit policy. High return shows the soundness of credit policy. It is calculated by using the following formula:

$$\text{Interest Income to Total Credit and Advances} = \frac{\text{Interest Income}}{\text{Total Credit and Advances}}$$

### (E) Other Ratios

#### a. Earning per Share (EPS)

EPS is one of the most widely quoted statistics when there is a discussion of a company's performance or share value. It is the profit after tax figure that is divided by the number of common shares to calculate the value of earnings per share. This figure tells us what profit the common shareholders for every share held have earned. A company can decide whether to increase or reduce the number of shares on issue. This decision will automatically affect the earnings per share. The profits available to the ordinary shareholders are represented by net profit after taxes and performance dividend. Symbolic expression of EPS is given below:

$$\text{EPS} = \frac{\text{Net Income after Taxes}}{\text{Number of Common Stocks Outstanding}}$$

#### b. Market Value per Share (MVPS)

Market value per share is the trading price of each share of common stock in the market. Higher market price reflects better image of the organization in public mind and vice versa.

#### c. Price Earning Ratio (P/E Ratio)

The P/E ratio is widely used by the security analysis to evaluate the firm's performance as expected by investors. It shows the price currently paid by the market for each rupee of currently reported earning per share. It is also called multiplier. Here, the expansion takes place as follows:

$$\text{P/E Ratio} = \frac{\text{Market Price Per Share}}{\text{Earning Per Share}}$$

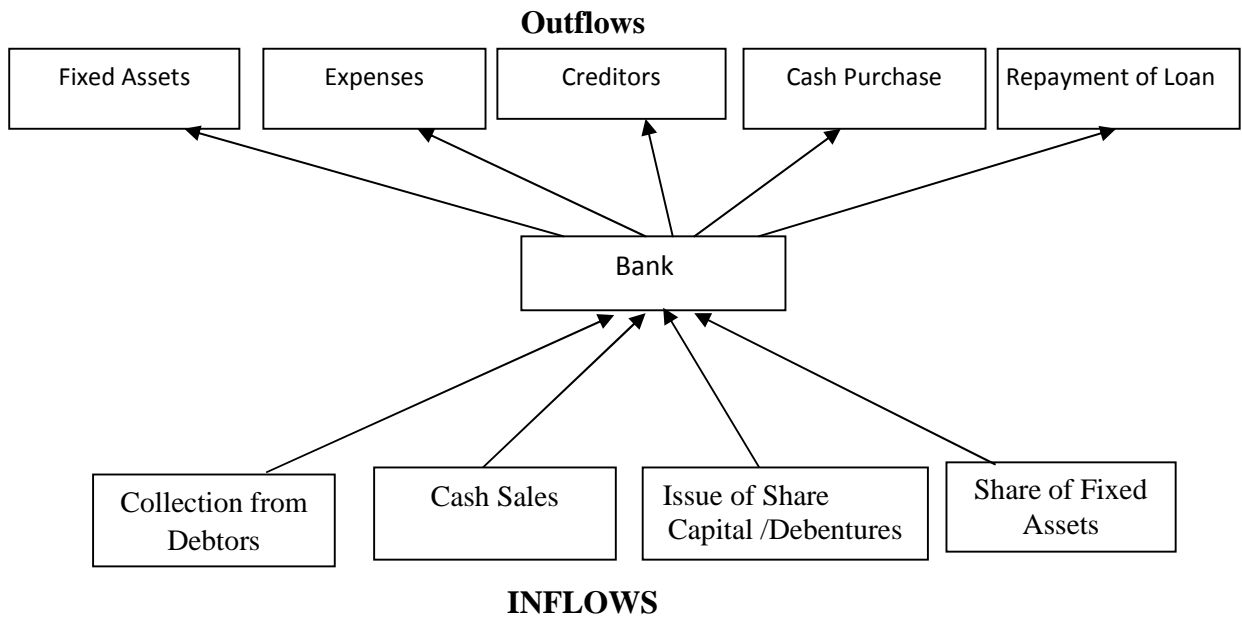
## II) Cash Flow Analysis

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, 2003: 11).

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.

**Figure 3.1**



### 3.5.2 Statistical Tools

Some important statistical tools have been used to present and analyze the data for achieving the objectives such as coefficient of correlation between different variables, trend analysis as well as test of hypothesis which are presented below:

- i. Arithmetic Mean
- ii. Standard Deviation (S.D)
- iii. Coefficient of Variation (C.V)
- iv. Karl Pearson's of Coefficient of Correlation Analysis
- v. Trend Analysis

#### I) Arithmetic Mean

Arithmetic Mean is the ratio of the sum of all the observations to the number of the observations.

It is denoted by  $\bar{X}$ .

We have,

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

Where,

$\sum X$  = Sum of all values of the observations

$N$  = Number of observation

X = Values of variables

The arithmetic mean is a single value of selected series which represents them in average. Out of the various central tendencies, a mean is a one of the useful tools to find out the average value of the given data (Gupta, 2004:414).

## II) Standard Deviation (S.D)

The measurement of the sauternes of the mass of figure in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion. The greater the amount of dispersion, greater will be 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. In this study, standard deviation of different ratio is calculated. It is denoted by 'σ'.

$$S.D (\sigma) = \sqrt{\frac{1}{n} \sum (X - \bar{X})^2}$$

Where,

N = Number of observations

X = Expected return of the historical data

## III) Coefficient of Variation (C.V.)

The coefficient of variance measures the ratio of the standard deviation to the mean expressed in percent. It is calculated as under: -

$$C.V = \frac{\sigma}{\bar{X}} \times 100$$

Coefficient of variance is also useful in comparing the amount of variation in data groups with different mean. It is the relative measure of dispersion. A distribution with smaller coefficient is said to be more homogeneous than the other. On other hand, a series with greater coefficient of variance is said to be more variable of heterogeneous than the other (Gupta, 2000:416).

## IV) Karl Pearson's of Coefficient of Correlation Analysis

Correlation is the statistical tools that we can use to describe the degree to which one variable is linearly related to another (Richard, 1991). The coefficient of correlation measure the degree of relationship between two sets of sigma. There is various method of finding out coefficient of correlation but Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1. It is indicated by r. When  $r = +1$ , it means there is perfect relationship between two variables and vice-versa. When  $r = 0$ , it means there is no relationship between two variables. The complete formula is mentioned below:

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

Where,

N= Number of observation

X= Sum of observation in series X

Y= Sum of observation in series Y

X<sup>2</sup>= Sum of squared observation in series X

Y<sup>2</sup>= Sum of squared observation in series Y

XY= Sum of the product of observation in series X and Y

Correlation analysis describes the relationship between variables with positive or negative. It helps to determine whether

- ) A positive or negative relationship exists.
- ) The relationship is significant or insignificant and
- ) Establish cause and effect relation if any.

The statistical tool, correlation analysis is preferred in this study to identify relationship between variables, whether the relationship is significant or not. For the purpose of decision making interpretation are based on following terms.

1. When,  $r = 1$ , there is perfect positive correlation.
2. When,  $r = -1$ , there is perfect negative correlation.
3. When,  $r = 0$ , there is no correlation.
4. When 'r' lies between 0.7 to 0.999(-0.7 to 0.999) there is a high degree of positive (or negative) correlation.

5. When 'r' lies between 0.5 to 0.699 there is a moderate degree of correlation.
6. When 'r' is less than 0.5, there is a low degree of correlation.

#### **V) Probable Error (P.E)**

It is measured for testing the reliability of an observed value of correlation coefficient; it is composed to find out the extent to which it is dependable. If the correlation coefficient is greater than 6 times P.E. the observed value of r is said to be significant, otherwise nothing can be concluded with certainty. But if the calculated (r) is less than the P.E. correlation is not at all significant. It is calculated by using following formula:

$$\text{P.E. (r)} = 0.6745 \times \frac{1-r^2}{n}$$

Where,

P.E. (r) = Probable error of correlation coefficient

r = Correlation coefficient

n = Number of observations

#### **vi) Trend Analysis**

The easiest way to evaluate the performance of a firm is to compare its current ratios with past ratios. When financial ratios over a period of time are compared it is known as the trend analysis. It gives an indication of the direction of change and reflects whether the firm's financial performance has improved, deteriorated or remain constant over time. This type of statistical analysis interprets the trend of deposits, loan and advances, investments and net profit of HBL and EBL from 2004-2008.

It is necessary to calculate the forecasting for next five years.

The projections are based on the following assumptions:

- i) Other things will remain unchanged.
- ii) The bank will run in present position.
- iii) The economy will remain in the present stage.
- iv) NRB will not change its guidelines to commercial banks.

The trend values used in this study are presented below:

- a) Trend Analysis of total investment to total deposits ratio



b) Trend Analysis of loan and advances to deposits ratio

## **CHAPTER –IV**

### **DATA PRESENTATION AND ANALYSIS**

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

This chapter is primarily concerned with presentation and analysis of data. In this study effort has been made to analyze the collected data by using financial and statistical tools as well as various graphical presentations. Likewise, comparative balance sheet and comparative profit and loss account from the year 2004 to 2008 of EBL and HBL are presented in appendices.

#### **4.1 Ratio Analysis**

##### **4.1.1 Liquidity Ratios**

###### **4.1.1.1 Cash and Bank Balance to Total Deposit**

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

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

**Table 4.1**  
**Comparative Cash and Bank Balance to Total Deposit**

(Ratio in %)

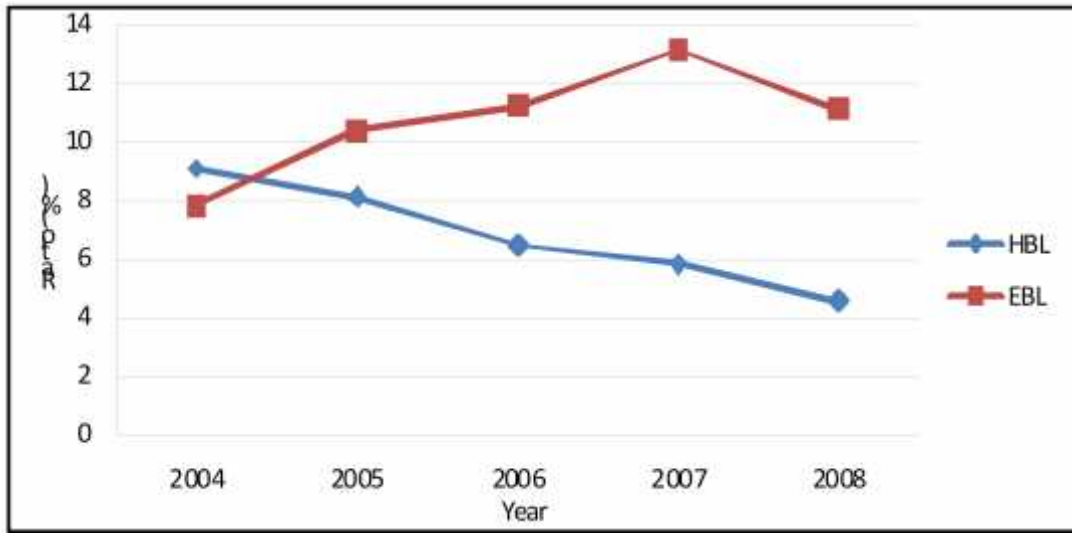
<b>Year</b>	<b>HBL</b>	<b>EBL</b>
2004	9.09	7.84
2005	8.12	10.39
2006	6.48	11.25
2007	5.85	13.15
2008	4.58	11.13
<b>Mean <math>\bar{X}</math></b>	<b>6.82</b>	<b>10.75</b>
<b>S.D</b>	<b>1.6</b>	<b>1.72</b>
<b>C.V</b>	<b>12.49</b>	<b>16</b>

Source: Appendix-1

Cash and Bank balance to total deposit ratio can be presented in the following figure:

**Figure 4.1**

**Cash and Bank Balance to Total Deposit Ratio**



Above table states that cash and bank balance to total deposit ratio of two joint venture banks are in fluctuating trend. EBL has higher average ratio than HBL i.e. 10.75 which indicates that EBL has high capacity to meet the unanticipated call on all types of deposit. On the other hand HBL has lower c.v than EBL. It states that cash and bank balance to total deposit ratio of HBL is more uniform than EBL.

**4.1.1.2 Cash and Bank Balance to Current Deposit Ratio**

Another good indicator of the liquidity of the commercial bank is cash and bank balance to current deposit. Current Deposit is that type of immediate non-interest bearing liability that needs to be assigned to the bearer of it at the time of demand. So provision of enough cash should be made so as to provide to the account holders instantly. It is measured by the following ratio.

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

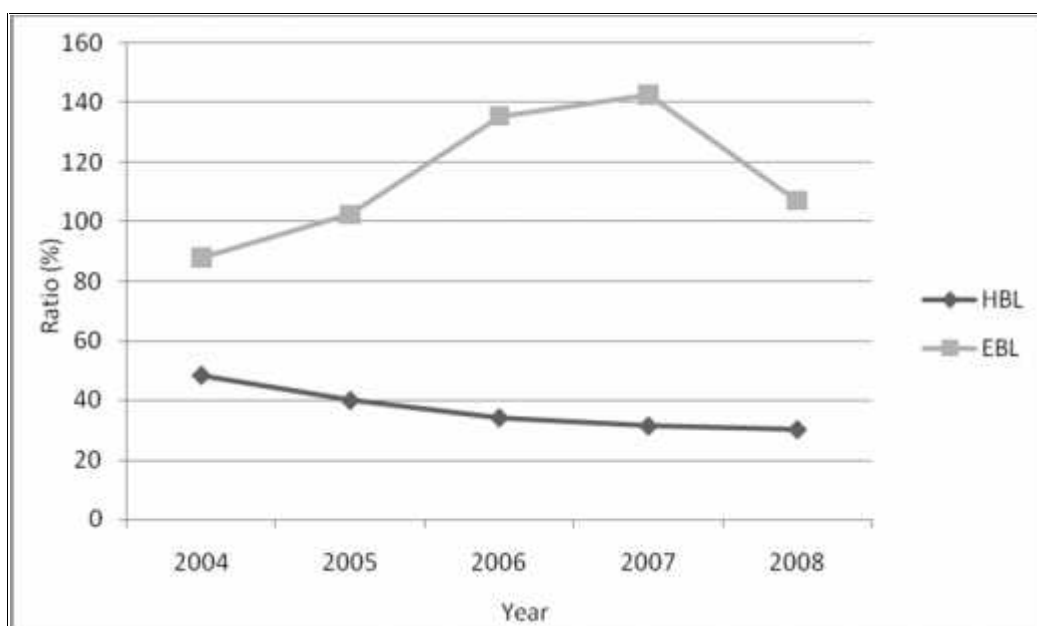
**Table 4.2**  
**Comparative Cash and Bank Balance to Current Deposit**  
(Ratio in %)

<b>Year</b>	<b>HBL</b>	<b>EBL</b>
2004	48.27	87.78
2005	39.93	102.43
2006	34.15	135.54
2007	31.44	142.86
2008	30.26	107.04
<b>Mean</b>	<b>36.81</b>	<b>115.13</b>
<b>S.D</b>	<b>6.63</b>	<b>20.78</b>
<b>C.V</b>	<b>18</b>	<b>18.05</b>

*Source: Appendix-1*

The ratio can be presented by the help of following graph.

**Figure 4.2**  
**Cash and Bank Balance to Current Deposit**



The table depicted above portrays the ratio of cash to current deposit for HBL and EBL. The average ratios of HBL and EBL are 36.81 and 115.13 respectively. HBL has the highest ratio of 39.93% in year 2005 and lowest ratio of 30.26% in year 2008. Similarly, EBL has the highest ratio of 142.86 in year 2007 and lowest ratio of 87.78% in 2004 respectively. Among two banks EBL has maintained the highest ratio

i.e. 142.86% in year 2007. The average ratio of EBL is higher than HBL. But the coefficient of variation of HBL is lower than EBL i.e. 18% which means ratio of HBL is more consistent than that EBL.

#### 4.1.2 Activity/Efficiency Ratio

It is known as turnover or efficiency ratio or assets management ratio; measures how efficiently the firm employs the assets. Turnover means; how many numbers of times the assets flow through a firm's operations and into sales (Kulkarni, 1994).

Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equals. Various ratios are examined under this heading.

##### 4.1.2.1 Credit and Advances to Total Deposit Ratio

Deposits are the main sources of funds for commercial bank. More than 50% of total assets have been found to be financed through deposits. Total deposit includes saving, fixed, call, current and fixed deposits. On the contrary, credit and advances also called as loans and advances are the sales figures of banks. So utilized in CBs higher ratio is desirable.

$$\text{Credit and Advances to Total Deposit} = \frac{\text{Credit and Advance}}{\text{Total Deposit}}$$

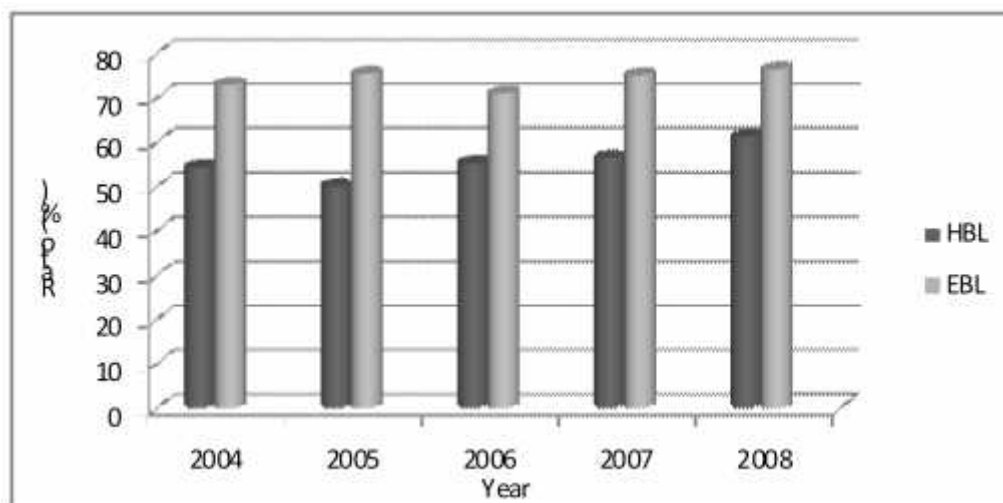
**Table 4.3**  
**Comparative Credit and Advance to Total Deposit Ratio**  
(Ratio in %)

<b>Year</b>	<b>HBL</b>	<b>EBL</b>
2004	54.3	72.97
2005	50.07	75.45
2006	55.27	71.01
2007	56.57	75.13
2008	61.23	76.48
<b>Mean (<math>\bar{x}</math>)</b>	<b>55.49</b>	<b>74.21</b>
<b>S.D</b>	<b>3.60</b>	<b>1.96</b>
<b>C.V</b>	<b>6.49</b>	<b>2.65</b>

*Source: Appendix-1*

The ratio can be presented by the help of following graph:

**Figure 4.3**  
**Credit and Advance to Total Deposit Ratio**



Above table shows that, the average ratio of credit and advance to total deposit ratio of HBL and EBL are 55.63% and 74.21%, respectively. The coefficient of variation and average mean of HBL is lower than EBL i.e. 18% and 55.49% which means ratio of EBL is more consistent than that HBL. This indicates that EBL has successfully mobilized of total deposit on a comparison of HBL.

#### 4.1.2.2 Credit and Advances to Fixed Deposit Ratio

As fixed deposit is an interest bearing deposit, the extent of the utilization of it determines the efficiency of the bank. It should not be remained idle. Otherwise, the performance of the bank will get decline. Therefore, the study of the ratio of fixed deposit turnover ratio is quit rationale.

$$\text{Credit and Advance to Fixed Deposit} = \frac{\text{Credit and Advance}}{\text{Fixed Deposit}}$$

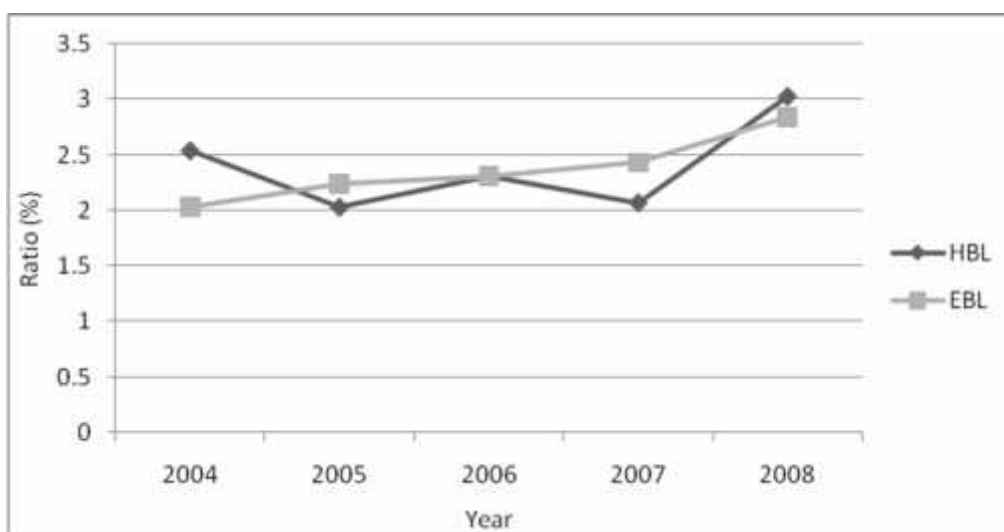
**Table 4.4**  
**Credit and Advances to Fixed Deposit Ratio**  
(Ratio in %)

<b>Year</b>	<b>HBL</b>	<b>EBL</b>
2004	2.54	2.03
2005	2.03	2.24
2006	2.31	2.31
2007	2.07	2.43
2008	3.03	2.84
<b>Mean (<math>\bar{x}</math>)</b>	<b>2.40</b>	<b>2.37</b>
<b>S.D</b>	<b>0.37</b>	<b>0.27</b>
<b>C.V</b>	<b>15.26</b>	<b>11.33</b>

*Source: Appendix-1*

The ratio can be shown by the help of following diagram.

**Figure 4.4**  
**Credit and Advances to Fixed Deposit Ratio**



The table depicted above shows the fixed deposit turnover ratios of two Joint Venture banks over the five year period. The average fixed deposit turnover ratios of HBL and EBL are 2.40 and 2.37 times respectively. The highest ratio is 2.40 of HBL, it can be regarded that HBL had mobilized the funds obtained from fixed deposits in a better way than EBL. HBL is more efficient in lending than EBL. The lowest ratio is 2.37 of EBL. However, the fixed deposit turnover ratios of two banks are good on an

aggregate. The C.V of EBL is lower than HBL i.e. 11.33%, this indicates that EBL has successfully mobilized Fixed Deposit.

#### 4.1.2.3 Credit and Advances to Total Assets Ratio

The entire of the funds are invested in the bank in the form of various assets. In other words, these are the sectors where the funds collected using various sources are employed or mobilized so as to get respective returns. The ratio desirable for this sector is cent percent. However, a ratio of over 50% is considered average.

$$\text{Credit and Advances to Total Assets} = \frac{\text{Credit and Advances}}{\text{Total Assets}}$$

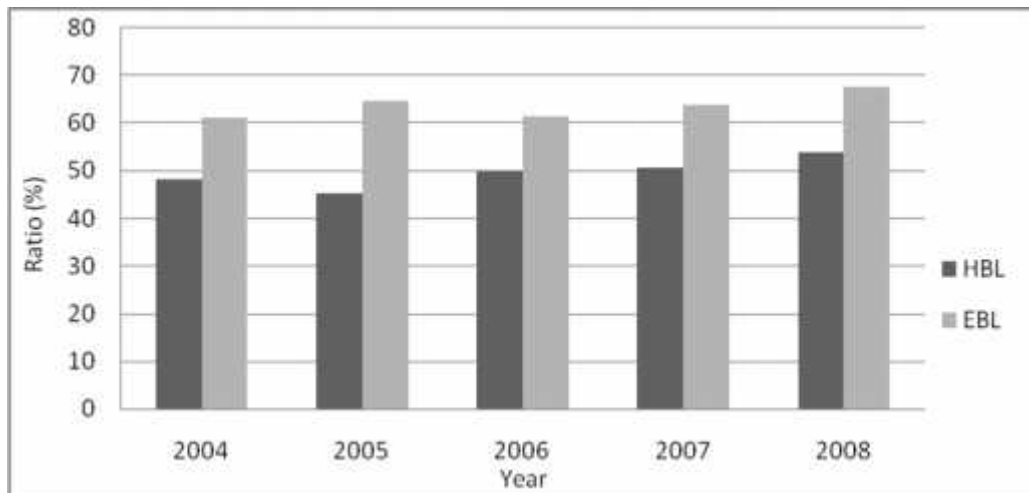
**Table 4.5**  
**Comparative Credit and Advance to Total Assets Ratio**  
(Ratio in %)

<b>Year</b>	<b>HBL</b>	<b>EBL</b>
2004	48.27	61.24
2005	45.31	64.61
2006	49.7	61.41
2007	50.71	63.75
2008	53.9	67.55
<b>Mean (<math>\bar{x}</math>)</b>	<b>49.58</b>	<b>63.71</b>
<b>S.D</b>	<b>2.82</b>	<b>2.32</b>
<b>C.V</b>	<b>5.70</b>	<b>3.64</b>

*Source: Appendix-1*

The ratio can be shown by the help of following diagram.

**Figure 4.5**  
**Credit and Advance to Total Assets Ratio**



From the above table, it can be concluded that HBL and EBL have the ratio of fluctuating trend during the study period. In an average ratio EBL maintains higher ratio of 63.71% and maintains lower risk i.e. 3.64%. This indicated that EBL had more mobilized in total working fund than HBL.

#### 4.1.2.4 Total Investment to Total Deposit

This ratio is computed by using following formula.

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

**Table 4.6**  
**Comparative Total Investment to Total Deposit Ratio**  
(Ratio in %)

Year	HBL	EBL
2004	49.18	30.80
2005	48.44	21.00
2006	42.22	25.85
2007	39.34	27.41
2008	41.89	21.10
<b>Mean (<math>\bar{x}</math>)</b>	<b>44.21</b>	<b>25.23</b>
<b>S.D</b>	<b>3.90</b>	<b>3.77</b>
<b>C.V</b>	<b>8.83</b>	<b>14.94</b>

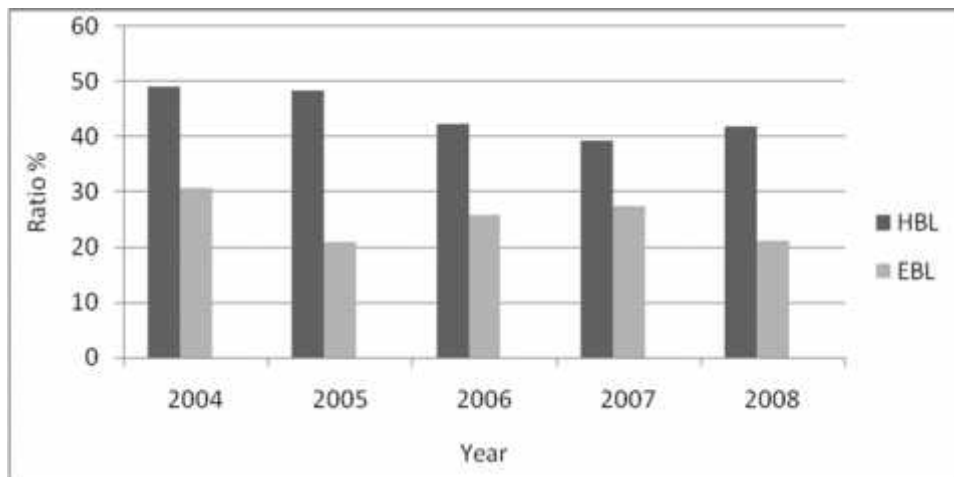
Source: Appendix-1

The ratio can be shown by the help of following diagram.

**Figure 4.6**



### Total Investment to Total Deposit Ratio



From the above comparative table, it can be concluded that both 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. 44.21%. The coefficient of variation of HBL is 8.83%. It indicates that HBL is more consistent to make investment of total deposit than EBL.

#### 4.1.3 Leverage Ratio

The leverage ratio of the commercial banks is measured by the extent that they have maintained ownership capital, borrowed capital or both in relation to build capital structure position of their firm. Therefore, this ratio measures the risk and long term return of the firm. Those can be measured as:

##### 4.1.3.1 Debt to Equity Ratio

It is measured of the financial risk. The more debt to equity ratio, more will be levered the firm and hence degree of financial risk will be high. It can be calculated as:

$$\text{Total Debt to Net Worth} = \frac{\text{Total Debt}}{\text{Net Worth}}$$

**Table 4.7**

#### Comparative Total Debt to Net Worth Ratio

(Ratio in %)

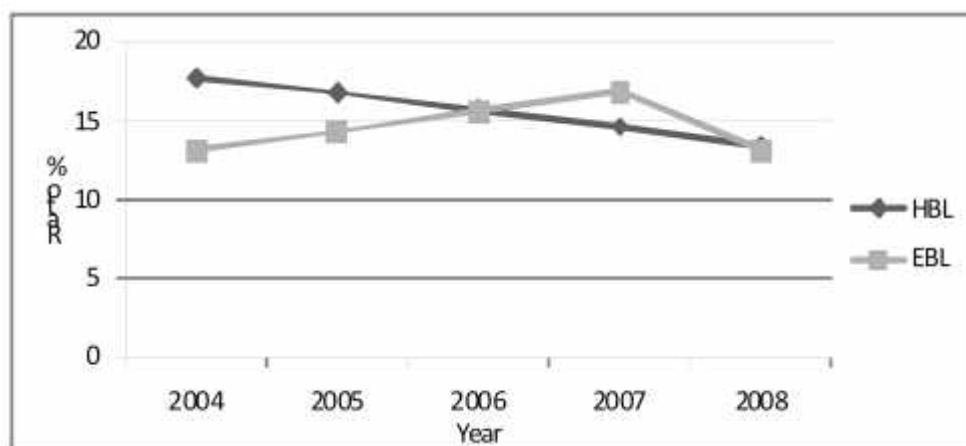
Year	HBL	EBL
2004	17.7	13.11

2005	16.78	14.32
2006	15.68	15.58
2007	14.61	16.86
2008	13.39	13.13
<b>Mean (<math>\bar{x}</math>)</b>	<b>15.63</b>	<b>14.6</b>
<b>S.D</b>	<b>1.53</b>	<b>1.45</b>
<b>C.V</b>	<b>9.77</b>	<b>9.94</b>

*Source: Appendix-1*

The ratio can be presented by the following graph.

**Figure 4.7**  
**Total Debt to Net Wroth Ratio**



The table depicted just above shows the debt to equity ratio for HBL and EBL over the Five years. The highest ratios of HBL and EBL are in year 2004, i.e. 17.7% and 16.86% in 2007 year respectively. The average ratios of HBL and EBL are 15.63 and 14.6 respectively and CV of HBL and EBL are 9.77 and 9.94. This indicates that HBL is more successful.

#### 4.1.3.2 Total Debt to Total Assets Ratio

This ratio is wider known as debt ratio. And it indicates how much proportion of the total assets has been financed with the debt capital and how much with the equity part. Total debt includes both short term and long term debt. In these banks there is absence of long term debt except HBL.

$$\text{Total Debt to Total Assets} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

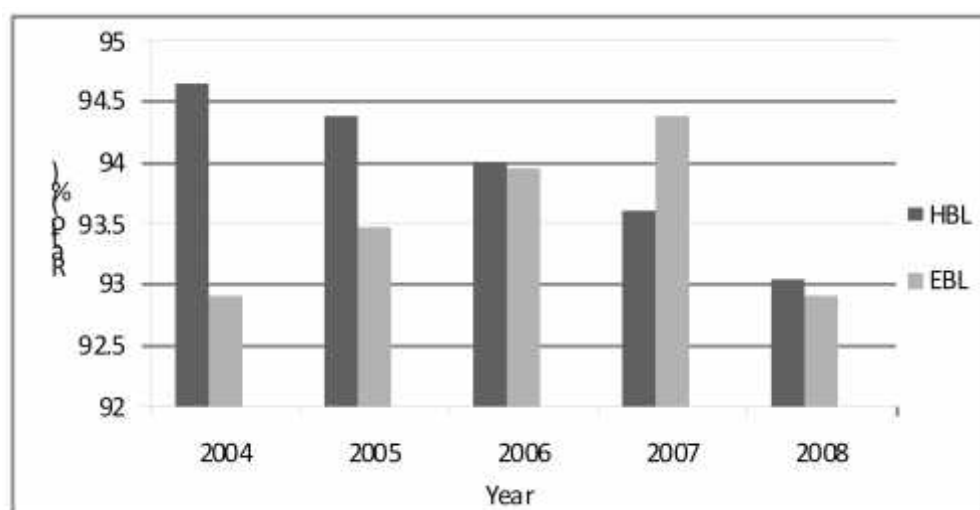
**Table 4.8**  
**Comparative Total Debt to Total Assets Ratio**  
(Ratio in %)

<b>Year</b>	<b>HBL</b>	<b>EBL</b>
2004	94.65	92.92
2005	94.38	93.47
2006	94	93.97
2007	93.6	94.39
2008	93.05	92.92
<b>Mean (<math>\bar{x}</math>)</b>	<b>93.94</b>	<b>93.53</b>
<b>S.D</b>	<b>0.53</b>	<b>0.58</b>
<b>C.V</b>	<b>0.57</b>	<b>0.62</b>

*Source: Appendix-1*

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

**Figure 4.8**  
**Total Debt to Total Assets Ratio**



The table depicted just above shows the total debt to total assets ratio for the two joint venture banks over five years period. The average ratios of HBL and EBL are 93.94% and 93.53% respectively. HBL and EBL have a highest ratio in year 2004 and 2007 i.e. 94.65%, and 94.39 % respectively. The highest average ratio is 94.65% of HBL and lowest average ratio is 92.92% of EBL and C.V ratio of HBL and EBL are 0.57 % and 0.62% respectively. Higher the average and lower the risk shows the total assets of HBL were financed successfully with debt capital. The ratio implies that the banks

are highly leveraged. In addition, both of them are found to be adopting the aggressive working capital policy.

#### 4.1.4 Profitability Ratio

We also need the indicators of profitability position in order to identify the overall utilization of the funds collected and used in the banks. The major ratios that we consider under this sector are:

##### 4.1.4.1 Return on Assets Ratio

The total net assets of the banks are the sectors where the total funds collected through various sources are invested to earn sufficient profits. This ratio is given by:

$$\text{Net Profit to Total Assets} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

**Table 4.9**  
**Comparative Net Profit to Total Assets Ratio**

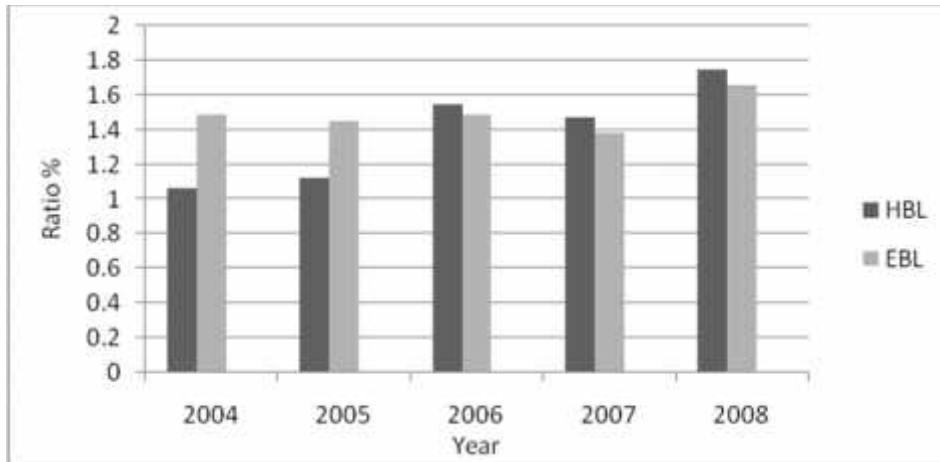
(Ratio in %)

<b>Year</b>	<b>HBL</b>	<b>EBL</b>
2004	1.06	1.49
2005	1.12	1.45
2006	1.55	1.49
2007	1.47	1.38
2008	1.75	1.66
<b>Mean (<math>\bar{x}</math>)</b>	<b>1.39</b>	<b>1.49</b>
<b>S.D</b>	<b>0.27</b>	<b>0.09</b>
<b>C.V</b>	<b>19.71</b>	<b>6.19</b>

*Source: Appendix-1*

Return on assets of above four bank can be presented by the help of following graph.

**Figure 4.9**  
**Net Profit to Total Assets Ratio**



From the above table, it is found that the return on total assets ratio of HBL and EBL have the ratio in fluctuating trend. HBL and EBL have highest ratio in year 2008 i.e. 1.75% and respectively. Likewise, lowest ratio of HBL and EBL are 2004 and 2007 i.e. 1.06% and 1.38% respectively. HBL has a lowest average ratio and highest risk in the study period, which indicates that EBL has more utilization of total assets. EBL is more stable than HBL. EBL is considered better and efficient than HBL as regards to usage of funds collected from various sources.

#### **4.1.4.2 Interest Income to Total Credit and Advances**

One of the major sources of the operating funds and the profit is the income received from the total credit and lending. The more the leading more will be the income from interest unless there is occurrence of any sort of bad debts. This ratio acts as the major indicator of the mobilization of the funds in JVBs is interest income to loans and advances. Thus, higher ratio is desirable for commercial banks.

$$\text{Interest Income to Total Credit and Advances} = \frac{\text{Interest (Income)}}{\text{Total Credit and Advance}}$$

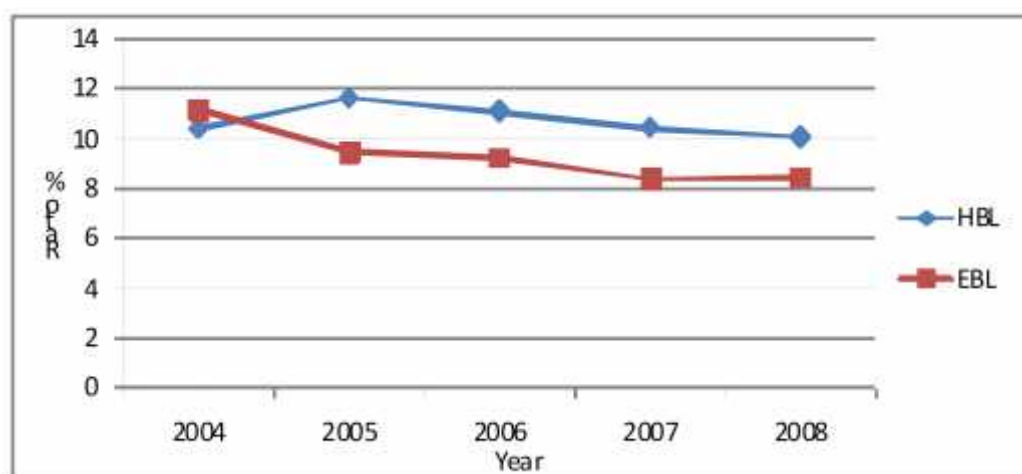
**Table 4.10**  
**Comparative Interest Income to Total Credit and Advances**  
(Ratio in %)

<b>Year</b>	<b>HBL</b>	<b>EBL</b>
2004	10.42	11.17
2005	11.64	9.44
2006	11.11	9.22
2007	10.45	8.38
2008	10.07	8.44
<b>Mean (<math>\bar{x}</math>)</b>	<b>10.74</b>	<b>9.33</b>
<b>S.D</b>	<b>0.56</b>	<b>1.01</b>
<b>C.V</b>	<b>5.24</b>	<b>10.83</b>

Source: Appendix-1

The ratios can be presented by following graphs:

**Figure 4.10**  
**Interest Income to Total Credit and Advance Ratio**



On the basis of above table, the lowest ratios of HBL and EBL are 10.07% and 8.38% in year 2008 and 2007 respectively. The average ratios of HBL & EBL are 10.74% and 9.33% and C.V are 5.24% and 10.83% respectively. The highest average ratio is 11.64% and lowest C.V is 5.24% of HBL. The credit lending of HBL can be regarded on more efficient than EBL. However, the ratios of two banks as a whole can be regarded as satisfactory as we cannot put the standard limit to the ratios, and higher ratio is desirable.

#### 4.1.5 Other Ratios

##### 4.1.5.1 Earning Per Share (EPS)

The ratio of EPS shows the earnings earned by each common share of banks at the end of the year. There is no limit for it. Higher and higher EPS is desirable for every firm. It shows how efficiently from shareholders. It shows the true picture of the company growth or death. It is calculated by dividing the profit left over to the common shareholder by number of common stocks outstanding in the market.

$$\text{Earnings per Share (EPS)} = \frac{\text{Net Profit Available to Equally Shareholders}}{\text{No of Common Shares Outstanding}}$$

**Table 4.11**  
**Comparative Earning Per Share**

(Ratio in %)

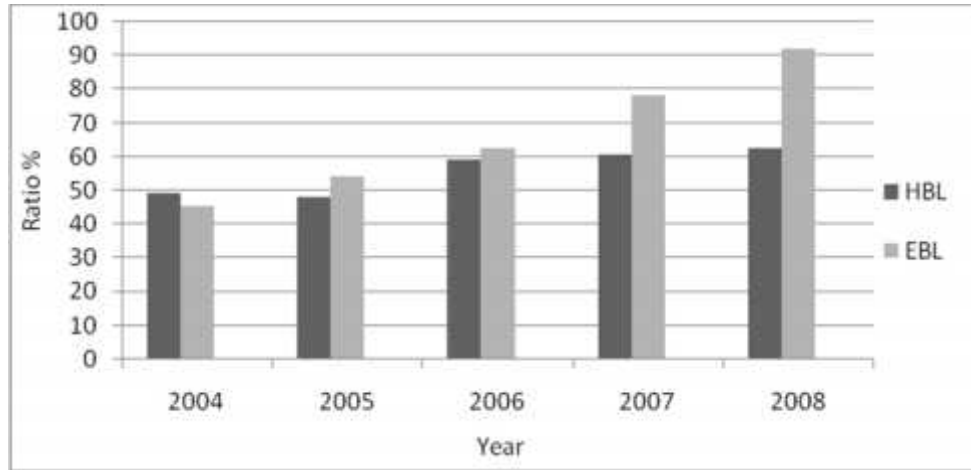
<b>Year</b>	<b>HBL</b>	<b>EBL</b>
2004	49.05	45.58
2005	47.91	54.22
2006	59.24	62.78
2007	60.66	78.42
2008	62.74	91.82
<b>Mean</b>	<b>55.92</b>	<b>66.56</b>
<b>S.D</b>	<b>6.18</b>	<b>16.65</b>
<b>C.V</b>	<b>11.06</b>	<b>25</b>

*Source: Annual Report of Banks*

Earning per share can be shown by the help of following graph:

**Figure 4.11**  
**Earning Per Share**





The table 4.11 shows the Earning per share (EPS) of two joint venture banks over the five year starting from 2004 to 2008. The highest ratios of HBL and EBL both are in year 2008 ie62.74 and 91.82 respectively and lowest ratio of these banks were 47.91 and 45.58 in year 2005 and 2004 respectively. The average ratios of HBL and EBL are 55.92 and 66.56 respectively. The highest average ratio is 91.82 of EBL. The CV of HBL is also lesser than that EBL. It can be regarded that shareholders funds were mobilized very well.

#### 4.1.5.2 Market Value Per Share (MPS)

Market value per share is the trading price of each share of common stock in the market. The entire result of the performance, management, efficiency, funds mobilization and all other environmental factors (both inside and outside the organization) are reflected in the market price per share. Higher market price reflects better image of the organization in public mind and vice versa. It determines the survival of death of the organization. It is also known as shareholders wealth.

**Table 4.12**  
**Comparative Market Value Per Share**

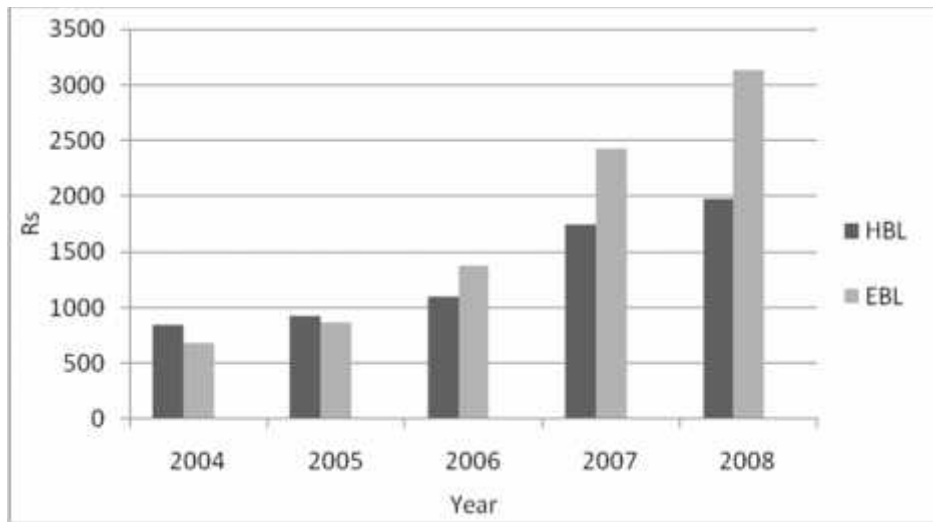
(in Rs.)

<b>Year</b>	<b>HBL</b>	<b>EBL</b>
2004	840	680
2005	920	870
2006	1100	1379
2007	1740	2430
2008	1980	3132
<b>Mean</b>	<b>1316</b>	<b>1698.2</b>

*Source: Annual Report of Banks*

Market value per share can be presented by the following graph:

**Figure 4.12**  
**Market Value Per Share**



The table depicted just above types the market value per share (Trading Price) of two joint venture banks for five years. The average market value per share of HBL and EBL are Rs 1316 and 1698.2 respectively for five year period. The highest MVPS is Rs. 3132 of EBL. The MVPS of JVB are in fluctuating trend. We can thus regard that the perception of EBL is performance and management was better in the public mind than HBL.

#### **4.1.5.3 Price Earnings Ratio (P/E Ratio)**

It is also one of the good indicators of performance (efficient mobilization of funds collected) of the joint venture banks. It indicates the number of times the earnings are turnover with respect to price in the market. Higher ratio is desirable since increase in earnings is associated with the increase (growth) in stock price.

$$\text{Price Earnings Ratio} = \frac{\text{Market Price Per Share}}{\text{Earning Per Share}}$$

**Table 4.13**  
**Comparative Price Earnings Ratio**

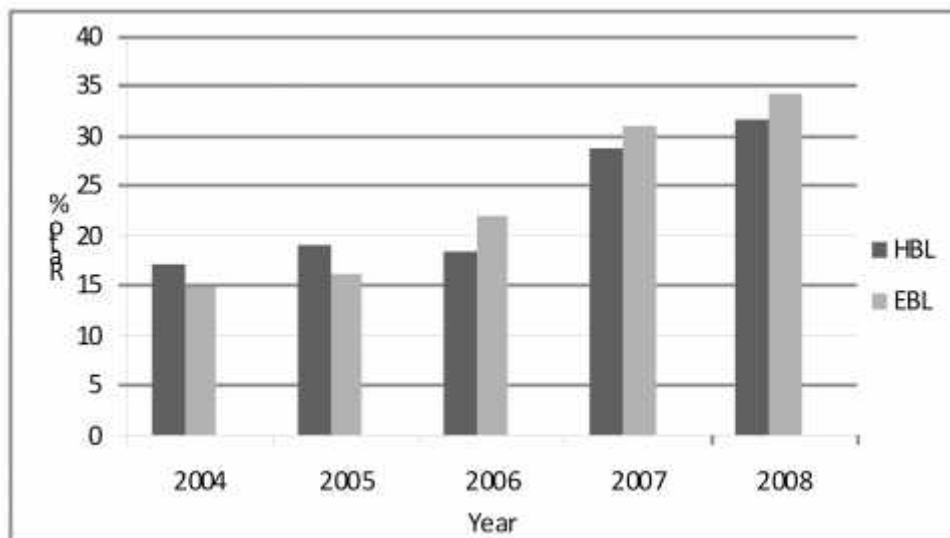
(Ratio in %)

<b>Year</b>	<b>HBL</b>	<b>EBL</b>
2004	17.12	14.93
2005	19.2	16.04
2006	18.57	21.97
2007	28.68	30.99
2008	31.56	34.11
<b>Mean</b>	<b>23.03</b>	<b>23.61</b>

*Source: Annual Report of Banks*

Following Figures represent the ratio of concerned banks:

**Figure 4.13**  
**Price Earning Ratio**



The table 4.13 shows the price earnings ratio of two joint venture banks over the five year period. The highest price earnings ratio of HBL and EBL are 31.56 and 34.11 respectively. The average price earnings ratios are 23.06 and 23.61 over five year's period of HBL and EBL respectively. The highest and lowest price earnings ratio is 34.11 and 14.93 of EBL. The EPS of EBL in 2004 is low. In general, we can conclude that the performance of these banks are however good over the years.

#### 4.1.6 Cash flow Analysis

The cash flow analysis of the banks are grouped in to three categories according to the nature of business activities namely cash flows from operating activities, investing activities an financial activities. These activities show the movements of cash in the two banks. They are summarized in the following table.

##### 4.1.6.1 Cash flow Analysis of HBL

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

**Table 4.14**  
**Cash flow from different Banking Activities of HBL**  
(Rs. in Million)

<b>Year</b>	<b>CFOA</b>	<b>CFIA</b>	<b>CFFA</b>
2004	725.69	1921.65	1073
2005	585.55	31.31	0
2006	590.61	287.41	0
2007	700.77	997.51	0
2008	273.07	1145	355.76

*Source: Annual Report of HBL*

Above analysis shows the cash inflow and outflow of HBL during five years study period. Operating activities of HBL is in fluctuating trend operating efficiency of this bank decrease in 2005 and again start to increase to 2007 then decrease in 2008. HBL has the maximum operating activities in year 2004.

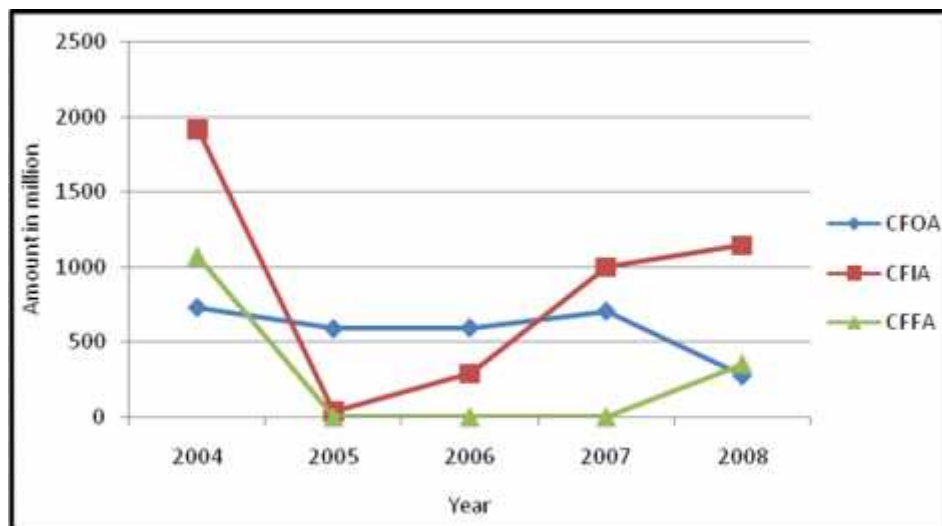
Investing activities of HBL is increasing fluctuation trend. HBL has the maximum investment of Rs. (1921.65) million in year 2004. By investing more cash in investing activities it can achieve profitable opportunity.

Cash flow from financing activities of HBL is fluctuating. Year 2005, 2006 and 2007 HBL has unable to generate cash flow. It has more cash flow from financing activities in year 2008 i.e. (Rs. 355.76) million. It appears cash acquisition efficiency of bank is better in year 2008.

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

**Figure 4.14**

**Cash flow from different Banking Activities of HBL**



#### 4.1.6.2 Cash flow Analysis of EBL

**Table 4.15**

**Cash flow from different Banking Activities of EBL**

(Rs. in Million)

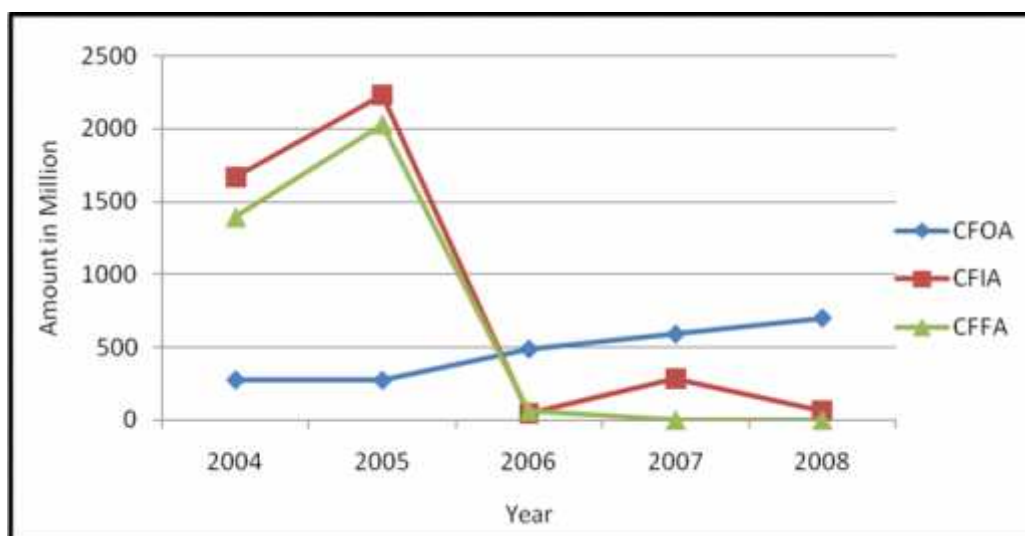
Year	CFOA	CFIA	CFFA
2004	273.18	1670	1389.13
2005	269.88	2232.67	2026.62
2006	485.75	45.77	63
2007	590.61	287.41	0
2008	700.78	63.56	0

*Source: Annual Report of EBL*

Above analysis shows the cash inflow and outflow of EBL. The operating efficient of EBL is increasing trend. Cash flow from investing activities increased from the year 004 to 2005. Cash flow from investing activities is maximum in year 2005 i.e. (Rs. 2232.67) million. Cash from financing activities is fluctuating trend.

**Figure 4.15**

**Cash Flow of Different Banking Activities of EBL**



#### 4.1.6.3 Comparative Cash Flow Analysis of HBL and EBL

##### Cash Flow Analysis from Operating Activities (CFOA)

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

**Table 4.16**

**Comparative CFOA of HBL and EBL**

(Rs. in million)

Year	HBL	% Change	EBL	% change
2004	725.69	-	273.18	-
2005	585.55	-19.31	269.88	-1.2
2006	590.61	0.86	485.75	79.73
2007	700.77	18.65	590.61	21.58
2008	273.07	-61.03	700.78	18.64

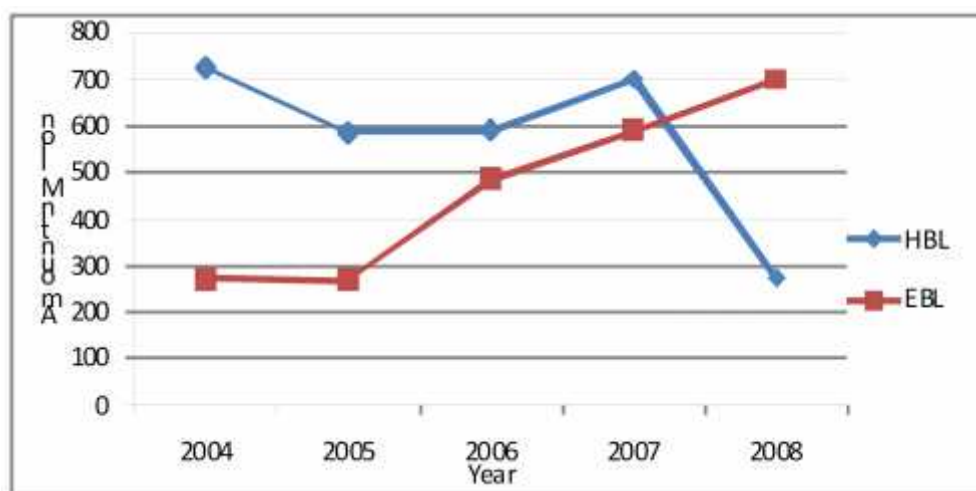
Source: Annual Report of EBL and HBL

From the above analysis operating activities of HBL and EBL are fluctuating trend where as EBL has the more fluctuating in cash flows, there is the highest cash inflow Rs. 700.78 million in FY 2008 and lowest cash inflow of Rs 269.88 million in FY 2005. In the above analysis we can see the positive as well as negative changes in

cash flow from operating activities of HBL and EBL due to fluctuation in operating activities.

Cash from operating activities of two banks is shown by the help of following figure:-

**Figure 4.16**  
**Comparative CFOA of HBL and EBL**



#### 4.1.6.4 Cash Flow Analysis from Investing Activities (CFIA)

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

**Table 4.17**  
**Comparative CFIA of HBL and EBL**

(Rs. in million)

Year	HBL	% change	EBL	% Change
2004	1921.65	-	1670	-
2005	31.31	-98.37	2232.67	33.62
2006	287.41	817.95	45.77	97.95
2007	997.51	247.07	287.41	527.94
2008	1145	14.78	63.56	-77.88

Source: Annual Report of EBL and HBL

The investing activities of two banks have cash outflows throughout the study period. They all have cash outflow of fluctuating trend. This study shows HBL has the highest cash outflow of (Rs1921.65) million in FY 2004 where as lower cash outflow (Rs. 31.31) million in FY 2005.

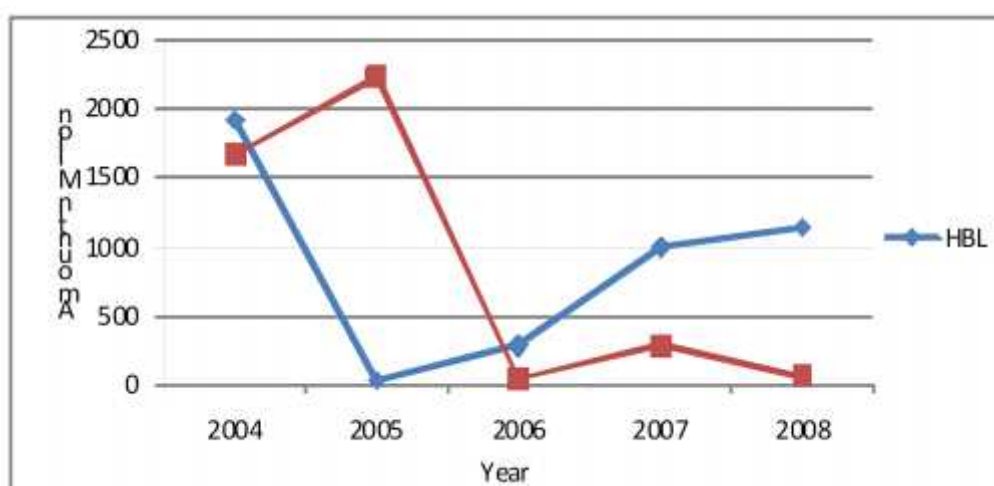


Considering percentage changes in investing activities of two banks, we observe that the negative and positive cash changes in two banks. It is because of fluctuations in investing of activities we can see more changes in investing activating of HBL in year 2006 i.e. 817.95%.

It means that HBL 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 4.17**  
**Comparative CFIA of HBL and EBL**



#### 4.1.6.5 Cash Flow Analysis from Financing Activities (CFFA)

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

**Table 4.18**  
**Comparative CFFA of HBL and EBL**

Rs. in million

Year	HBL	% Change	EBL	% Change
2004	1073	-	1389.13	-
2005	0	-	2026.62	45.89
2006	0	-	63	-96.89
2007	0	-	0	-
2008	355.76	-	0	-

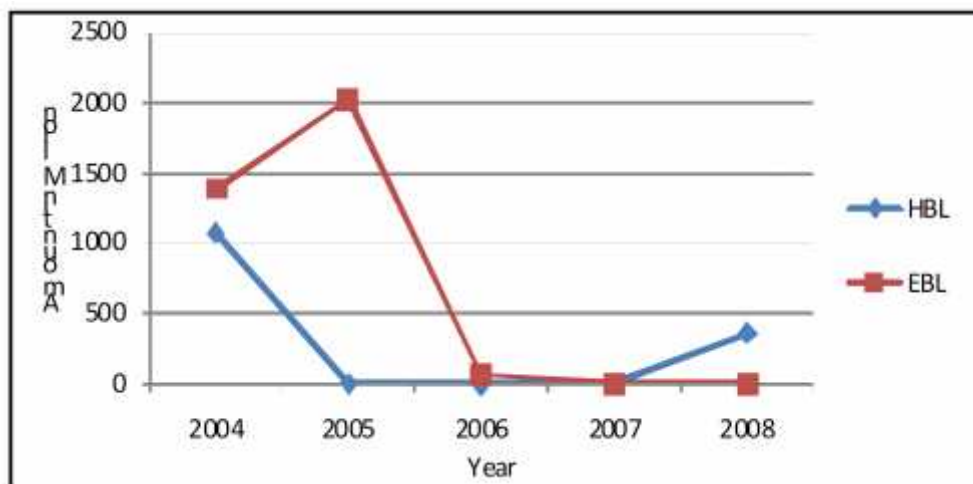
Source: Annual Report of EBL and HBL

The above analysis shows that cash flow of financing activities of two banks in fluctuating trend. EBL flow more cash for financing activities than HBL. It shows that cash acquisition efficiency of EBL is more than HBL. HBL is unable to create cash in flow from financing activities in year 2005, 2006 and 2007. Whereas EBL is unable to create cash in flow from financing activities in year 2007 and 2008

In the analysis of proportionate changes of cash flow from financing activities, we observed that EBL has a positives and negative changes. HBL is unable to generate cash inflow.

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

**Figure 4.18**  
**Comparative CFFA of HBL and EBL**



#### 4.1.7 Correlation Analysis

##### 4.1.7.1. Analysis of Correlation Coefficient between Total Deposit and Loan and Advances

The relationship between deposit, loan and advances of two joint venture banks are presented in the following table. Here deposit is independent variables (X), loan and advance is dependent variables (Y).

**Table 4.19**

**Relationship between Total Deposits and Loan and Advance**

<b>Banks</b>	Base of Evaluation				Significant/ Insignificant
	r	r <sup>2</sup>	P.E	6xP.E	
HBL	0.9734	0.9475	0.0158	0.0948	Significant
EBL	0.9985	0.997	0.000905	0.005431	Significant

*Sources: Appendix*

The above table shows that coefficient of correlation between deposits and investment of HBL is 0.9734 i.e. high degree of positive correlation between these two variables. And the value of coefficient of determination ( $R^2$ ) is also 0.9475 which means 94.75% of loan & advance decision depend upon deposit and 5.25% loan & advance depend upon other variables. Similarly probable error is 0.0158 and 6 x P. E. is 0.0948 which shows that 'r' is highly greater than 6 x P. E. Therefore it reveals that relationship between deposits and loan & advance is significant i.e. correlation is certain.

Likewise, in case of EBL, coefficient of correlation between loan & advance and deposit is 0.9985 that means there is a high degree of positive correlation between two variables. The value of coefficient of determination ( $R^2$ ) is 99.70% of loan & advance decision depend upon deposit and 0.30% loan & advance is depend upon other variables. Similarly probable error is 0.000905 and 6 x P. E. is 0.005431 which shows that 'r' is highly greater than 6 x P. E. Therefore it reveals that relationship between deposit and loan & advance is significant i.e. correlation is certain.

**4.1.7.2 Analysis of Correlation Coefficient between Total Deposit and Total Investment**

The following table describes the relationship between total deposits and total investment of HBL and EBL of five years study period. In this case, total deposits are independent variables say (X) and total investment is dependent variable say (Y).

**Table 4.20**

**Relationship between Total Deposits and Total Investment**

<b>Banks</b>	Base of Evaluation				Significant/ Insignificant
	r	r <sup>2</sup>	P.E	6xP.E	
HBL	0.5603	0.3139	0.2069	1.24	Insignificant
EBL	0.9303	0.8654	0.0406	0.2436	Significant

The above table shows that coefficient of correlation between deposits and investment of HBL is 0.5603 i.e. high degree of positive correlation between these two variables. And the value of coefficient of determination ( $R^2$ ) is also 0.3139 which means 31.39% of investment decision depend upon deposit and 68.61% investment is depend upon other variables. Similarly probable error is 0.2069 and 6 x P. E. is 1.24 which shows that 'r' is highly lower than 6 x P. E. Therefore it reveals that relationship between deposits and investment is insignificant.

Likewise, in case of EBL, coefficient of correlation between investment and deposit is 0.9303 that means there is a high degree of positive correlation between two variables. The value of coefficient of determination ( $R^2$ ) 86.54% of investment decision depend upon deposit and only 13.46% investment is depend upon other variables. Similarly probable error is 0.0406 and 6 x P. E. is 0.2436 which shows that 'r' is highly greater than 6 x P. E. Therefore it reveals that relationship between deposit and investment is significant i.e. correlation is certain.

#### **4.1.8 Trend Analysis**

Trend Analysis has been a very useful and commonly applied statistical tool to forecast the future events in quantitative terms. On the basis of tendencies in the dependent variables in the past periods, the future trend is forecasted. This analysis takes the historical data as the basis of forecasting. This method of forecasting the future trend is based on the assumptions that the past tendencies of the variables are repeated in the future of the past events affects the future events significantly.

The future trend is forecasted by using the following formula: -

$$Y = a + bx$$

Where,

Y = The dependent variable

a = The origin i.e. arithmetic mean.

b = The slope coefficient i.e. rate of change

X = The independent variable

#### 4.1.8.1 Trend Analysis of Loan and Advances to Total Deposit Ratio

In this topic an effort has been made to analyze the trend of loan and advances to total deposits ratio of HBL and EBL with comparatively of five years study period and projection of next five years. The following table describes the trend values of loan and advances to total deposits ratio of HBL and EBL.

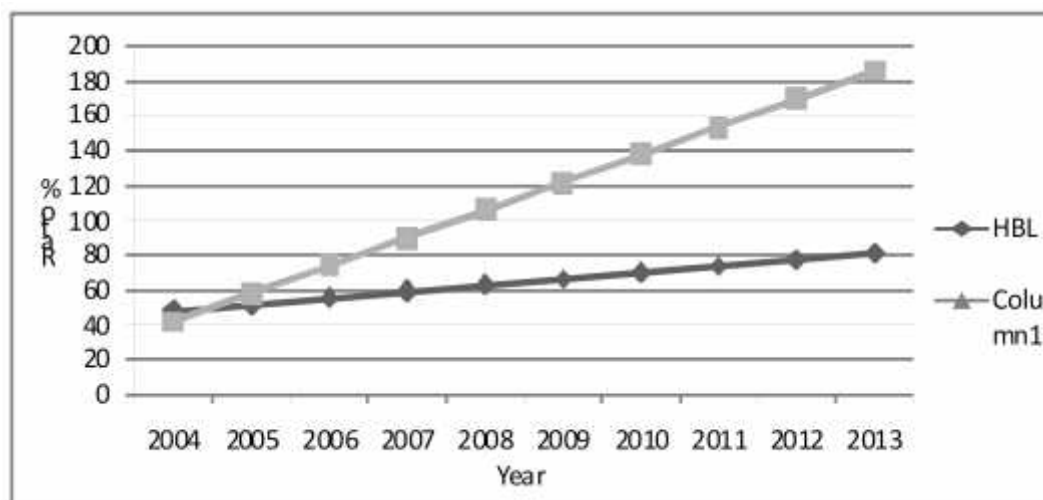
**Table 4.21**

**Trend value of Credit and Advances to Total Deposit Ratio (2004-2013)**

Year	Banks(Trend Value)	
	HBL	EBL
2004	48.29	42.27
2005	51.96	58.24
2006	55.63	74.21
2007	59.3	90.18
2008	62.97	106.15
2009	66.64	122.12
2010	70.31	138.09
2011	73.98	154.06
2012	77.65	170.03
2013	81.32	186

Trend line of loan and advance to total deposit ratio of HBL and EBL is shown below;

**Figure 4.19**



**Credit and Advance to Total Deposit**

Above table shown that the loan and advances to total deposit ratio of HBL and EBL are in fluctuating trend. Other things remaining the same, the loan and advances to total deposit ratio of HBL and EBL will be 81.32 and 186 respectively in year 2013.

#### **4.1.8.2 Trend Analysis of Total Investment to Total Deposits Ratio**

The heading analyze the trend of total investment to total deposits ratio of HBL and EBL with comparatively under five years study period and projects the trend of coming five years. The following table describes the trend values of total investment to total deposits ratio of HBL in comparison to EBL for twelve years.

**Table 4.22**

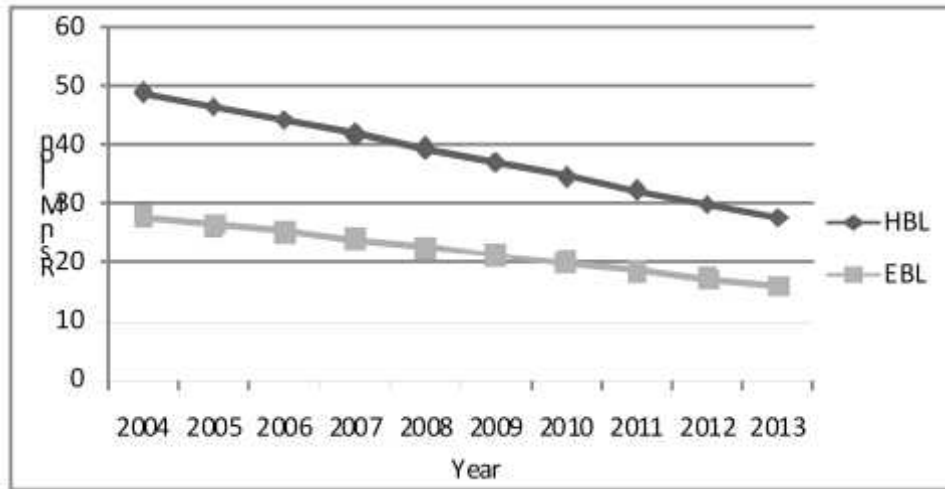
**Trend Values of Total Investment to Total Deposits Ratio of HBL and EBL**

Year	Bank (Trend value)	
	HBL	EBL
2004	48.95	27.83
2005	46.58	26.53
2006	44.21	25.23
2007	41.84	23.93
2008	39.47	22.63
2009	37.1	21.33
2010	34.73	20.03

2011	32.36	18.73
2012	29.99	17.23
2013	27.62	16.13

**Figure 4.20**

**Trend Line of Total Investment to Total Deposits Ratio of HBL and EBL**



From the above comparative table of trend value, it seems that the total investment of total deposits ratio of both banks is in decreasing trend. Other thing remaining the same, the ratio of total investment to total deposits of HBL and EBL will be 27.62 and 16.13 respectively in the year ended 2013.

**4.2 Major Findings of the Study**

This topic focuses on the major findings of the study, which are derived from the analysis of fund comparatively applying the five years date from 2004 to 2008. Finding from above analysis are presented serially in below.

**a) Finding from Liquidity Ratios**

Following are the major finding from liquidity ratio:

- ) Average ratio of cash and bank balance to total deposit reveals that EBL had higher the ratio and HBL had lower the ratio which shows that the liquidity position of EBL is quite well than HBL. But C.V. of HBL is lower than EBL which mean HBL has more consistent ratio compare to EBL.
- ) Average ratio of cash and bank balance to current deposit ratio reveals that EBL has the higher ratio and HBL had the lower ratio. It shows that the liquidity

position on current deposit EBL is better in comparison to HBL. On the other hand C.V. of HBL is lower than other banks which mean HBL's liquidity position on current deposit is more consistent compare to EBL.

#### **b) Findings from Activity/Efficiency Ratio**

Following are the major finding from assets management ratio:

- ) The average ratio of credit and advances to total deposit of EBL is higher than HBL deposit in credit and advance more than HBL.
- ) HBL is higher than EBL. But c.v ratio of EBL is lower than HBL. It can be regarded that EBL has utilized the funds from fixed deposits in better way than HBL.
- ) Average credit and advance to total assets ratio shows that EBL seems successful to mobilize its total assets as credit and advance in comparison to HBL. Higher the average ratio and lower the c.v ratio makes EBL successful.
- ) The average ratio of total investment to total deposit of HBL is higher than EBL and c.v of HBL is lower than EBL. It indicates that HBL is more consistent to make investment of total deposit than HBL

#### **c) Finding from Leverage Ratio**

Following are the major findings from leverage ratio:

- ) The average debt to equity ratio shows that HBL has the higher average ratio than EBL that means the financial risk of this bank is also high. Both JVBs have used excessive amount of debt.
- ) The average ratio of total debt to total assets ratio of HBL is higher than EBL. HBL has used long term debt also. The ratio shows that the banks are highly levered. We found that they aggressive working capital policy.

#### **d) Finding from Profitability Ratio**

Following are the major finding from profitability ratio:

- ) The average ratio of return on assets of EBL is higher than HBL and c.v of HBL is lower in comparison to EBL. That means HBL is more successful to earn profit on total



) The average ratio of total interest income to total credit and advances of HBL is higher than EBL. HBL is more successful to earn interest than other banks.

**e) Finding from Other Ratios**

) The average ratio of EPS of EBL is greater than HBL. It reveals that shareholders funds are mobilized very well. HBL has lower average ratio. The C.V. of HBL is lower than EBL. This seems more uniform in earning per share.

) The average MVPS of EBL is greater than HBL. It reveals that EBL is performance is better in the public mind than HBL.

) The average P/E ratio of EBL is greater than HBL and higher ratio is desirable.

**g) Findings from Cash Flow Analysis**

**) Finding from Operating Activities**

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

**) Finding from Investing Activities**

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

**) Finding from Financing Activities**

It shows that cash acquisition capacity of EBL is more than HBL. During 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 operating activities.

**h) Finding from Coefficient of Correlation Analysis**

) Correlation of coefficient between deposit, loan and advance of two banks are found positive. EBL has better mobilization of deposit as loan and advance in

comparison to HBL. There is highly significant relationship between deposit and loan and advance of HBL.

- ) Correlation coefficient between deposit and total investment of EBL is higher than HBL. It indicates that EBL is successfully mobilizing its deposits as investment. There is significant relationship between correlation coefficient of deposit and total investment of EBL. But in case of HBL 'r' is highly lower than 6 x P. E. Therefore it reveals that relationship between deposits and investment of HBL is insignificant.

**i) Finding from Trend Analysis**

- ) The loan and advance to total deposit ratio of HBL and EBL, are in increasing trend. The loan and advances to total deposit ratio of HBL and EBL are in fluctuating trend. Other things remaining the same, the loan and advances to total deposit ratio of HBL and EBL will be 81.32% and 186% respectively in year 2013.
- ) The total investment of total deposits ratio of both HBL and EBL banks is in decreasing trend. Other thing remaining the same, the ratio of total investment to total deposits of HBL and EBL will be 27.62 and 16.13 respectively in the year ended 2013.

## **CHAPTER - V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

Nepal is one of the least developed and poorest countries in the world. The contribution of agricultural sector in GDP is still higher than of any other sector. It is because almost 80% of the people still derived their earning from agriculture for their substance. The development of a nation can only be imagined with the development sector. Commercial banks play a vital role in development of business activities of a nation both within and outside the nation. Thus, development of commercial banks plays a major role in development of a nation. They are the prime source of capital for business concerns.

Banks, especially commercial banks, stand for collection and mobilization of funds. The success in operation of CBs lies in the extent to which the funds are mobilized banks act as the intermediary of short term, medium term and long term funds. The CBs have to face in several problems from fund collection process to its effective mobilization. As far as possible, wider range of data and information were tried to include in analysis sector. However, there were certain limitations regarding occupying of information and analysis as stated in the objective. We took only two joint venture banks.

In this study two joint venture banks namely Himalayan Bank Ltd and Everest Bank Ltd are chosen for their fund mobilization activities by taking five year date from 2004-2008.

The term fund refers to finance or money. In general, these are two kinds of funds viz. working capital (operating) funds and capital (long term) funds. The funds collected through various sources such as share capital, long term debt capital, income and other short term sources. The funds collected though various sources are used in the banks for further income generating process in the form of loans and advances.

The data obtained through primary and secondary sources were represented in suitable table and graphs, analyzed through using financing as well as stabilized tools, interpreted and finally deduced to conclusions. Moreover, certain recommendations were also put forwarded on behalf of the studied organizations as regard to inferences drawn from analysis.

This study also bounded by many limitations, such as secondary data, unreliability of time and resources are the constraints of the study. In this study the focus is given to the quantities aspect of two JVBs. Qualitative factors are not studies. Therefore the study may not be generated in all cases and accuracy depends upon the data collected and provided by the concerned organization.

## **5.2 Conclusion**

Following conclusion have been drawn from this research work:

First of all the liquidity ratios are calculated to identify the situation of immediate cash and equipments to repay the customers and to meet other immediate liabilities at the time of demand. So the liquidity ratios calculated for two JVBs are cash and bank balance to current deposit ratio and cash and bank balance to total deposit ratio. From the liquidity point of view EBL is comparatively better than HBL which has the higher cash and bank balance to total deposit ratio.

During the five year study period EBL is more successful in invest in productive sector in comparison to HBL and has mobilized its deposits to provide loan and advances for the purpose of earning profit.

The average fixed deposit turnover ratio of HBL is higher than EBL. But the risk ratio of HBL is higher than EBL. The average total assets turnover ratio of EBL is greater and risk ratio is lower than HBL. It means EBL had been able to mobilize more than half its total working funds (represented by total assets) in various lending sectors. It means that EBL utilized its assets more efficiently in lending than other banks.

The average ratio of total investment to total deposit of HBL is higher than EBL and coefficient of variation of HBL is lower than EBL. It indicates that HBL is more consistent to make investment of total deposit than HBL

The total debt to net worth ratio of HBL is 15.63% on an average over the study period. HBL used more amount of debt (i.e. Short term debt only) than EBL. The average total debt to total assets ratio of HBL is greater than EBL. EBL has a higher average return on total assets ratio and less coefficient of variation of. It can be regarded that the return on assets of EBL is better than HBL.

The average interest income to credit and advances ratios of HBL is greater than EBL. The credit lending of HBL can be regarded as more efficient than EBL. The average ratio of HBL is 10.74% and EBL is 9.33% and a coefficient of variation of HBL and EBL is 5.24% and 10.83% respectively.

The average earning per share of EBL is greater than HBL over five year period. But the Co. efficient of variation of this bank is higher than HBL i.e. 25%. The lower coefficient of variation is 11.06% of HBL. It can be studied that share holders' funds are mobilized and managed efficiently in HBL than EBL. The earning to shareholders is more consistent in HBL than EBL.

The market value per share of EBL is greater than HBL. It can be clearly stated that the people's perception of EBL management and performance is quit better than HBL.

The operating activities of HBL and EBL have been occurred cash inflows throughout the study period. Operating efficiency of two banks is in fluctuating trend during the study period. The investing activities of two banks have deserved cash outflows throughout study period. By the help of investing activities, these two banks are able to increase long term assets as well as carry out profitable opportunity. It shows the cash acquisition capacity of HBL is unable to generate cash inflow from financing activities during the five year study period and EBL is unable to generate cash inflow from financing activities during year 2007 and 2008. The condition may arise due to unavailability of cash flow from share, insufficient profit dividend payment.

Correlation coefficients of two JVBS are positive between total deposit and loan and advances. EBL has the highest correlation coefficient between total deposit and loan and advances. Most of the loan and advances providing decision of HBL and EBL are depended upon deposit and only few decisions are explained by other variables.

Correlation coefficient between deposit and total investment of EBL is higher than HBL. It indicates that EBL is successfully mobilizing its deposits as investment. There is significant relationship between correlation coefficient of deposit and total investment of EBL. But in case of HBL 'r' is highly lower than 6 x P. E. Therefore it reveals that relationship between deposits and investment of HBL is insignificant. By evaluating the trend analysis EBL is more successful to mobilize its total deposit as loan and advances than HBL. Both banks are in increasing trend.

The total investment of total deposits ratio of both HBL and EBL banks is in decreasing trend. Other thing remaining the same, the ratio of total investment to total deposits of HBL and EBL will be 27.62 and 16.13 respectively in the year ended 2013.

### **5.3. Recommendation**

On the basis of fact finding in above analysis, following suggestion are recommended to the joint venture banks which help to overcome weakness inefficiency and take corrective action in future.

Based on above findings and conclusion the following recommendations have been made.

1. The ratio of cash and bank balance to total deposits and current assets of EBL is higher than HBL. It means EBL has idle cash and bank balance. It may decrease over all profit of bank. So EBL is recommended to activate its idle cash and bank balance in productive sector. The affecting factors of liquidity position may be interest rates, supply and demand position of loan and advances as well as savings, investment situations, Central Bank directives, capability of management, lending policies, strategic planning and funds flow situations.

2. The banks should try to maintain only the adequate liquidity with them. Excess liquidity or idle funds should be tried to mobilize in profitable sectors.
3. The lending schemes should modernize as per the needs of the business society and expectation of people.
4. Both JVBS are suggested to implement should credit collection policy. The policy should ensure rapid identification of delinquent loans immediate contact with borrower and continual flow up until a loan is recovered. The recovery of loan is most challenging job to a bank. Therefore the bank must be very careful in formulating credit policy. The policy is also associated with some legal procedure.
5. Both JVBS are suggested to increase their investment and lending. They should try to mobilize their funds efficiently and optimally than that of existing, which is just satisfactory.
6. Both JVBS most try to help the down going business and manufacturing sector of the nation. Subsequent decision of NRB to phase out the priority sector credit, under the micro credit program the commercial banks have to provide minimum of 3% of their outstanding credit to the deprived sector from the current fiscal year 2007/08. Therefore, they should provide funds to the needy parties without hassle, safely and at moderate rates of interest in order to overcome the nation from going towards more difficult position.
7. JVBS have not sufficient branches to cover the banking business. Coverage of limited areas by bank will not boost up its campaign of deposit mobilization and credit disbursement as desired. NRB and government have also encouraged the JVBS to expand their banking services in rural areas and communities without making unfavourable in their profit. Therefore, all JVBs are recommended to expand their branch in rural areas and communities.
8. In the context of globalization and liberalization, a bank must be careful on formulating making strategy to serve its customers. Effective marketing strategy would attract the customer. So all the JVBs are suggested to develop and inactive to bank marketing for its well being as sustainability in the market.
9. The study has been found that all banks are behind the profit while serving their service. So it is recommended that not to forget the responsibility of social welfare.

10. The recovery of the loan is most challenging task for banks. Increasing in nonperforming assets leads to failure of commercial bank in recovery of loan. Therefore it has been recommended that HBL and EBL should follow liberal lending policy when sanction of loan and advances have been done with adequate guarantee and should implement sound collection policy with proper identification of creditworthiness of customers, continual follow up and legal procedure if required. Therefore, the bank must be very careful while formulating credit policy. The credit policy is also associated with some legal procedure.



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### [Website](#)

[www.everestbankltd.com](http://www.everestbankltd.com)

[www.himalayanbank.com](http://www.himalayanbank.com)

[www.nrb.org.np](http://www.nrb.org.np)

## APPENDICES

### APPEXDIX - I

#### Cash and Bank Balance to Total Deposit

(Rs. In Million)

S.N.	Name of Banks	Years				
		2004	2005	2006	2007	2008
1.	HBL					
	Cash and Bank Balance	2001.19	2014.47	1717.35	1757.35	1448.14
	Total Deposit	22010.33	24814.01	26390.85	30048.42	31842.79
	Ratio(%)	9.09	8.12	6.48	5.85	4.55
2.	EBL					
	Cash and Bank Balance	631.81	1049.98	1552.97	2391.42	2667.97
	Total Deposit	8063.90	10097.69	13802.44	18186.28	23976.31
	Ratio(%)	7.84	10.39	11.25	13.15	11.13

Calculation of Expected Return ( $\bar{X}$ ), Standard Deviation ( $\sigma$ ) & Coefficient of Variation (CV) of HBL is presented below:

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

$$\text{Expected Return } \bar{X} = \frac{\text{Total Return}}{\text{No. of Observation}}$$

$$\begin{aligned} \text{Total Return} &= 9.09 + 8.12 + 6.48 + 5.85 + 4.55 \\ &= 34.12 \end{aligned}$$

S

$$\text{Now, } (\bar{X}) = \frac{34.12}{5} = 6.82$$

Where

$(\bar{X})$  = Expected Return of the historical data

$\sum x$  = Total Return of the historical data

N = Number of observation

Return (X)	Expected Return ( $\bar{X}$ )	(X- $\bar{X}$ )	(X- $\bar{X}$ ) <sup>2</sup>
9.09	6.82	2.27	5.15
8.12	6.82	1.3	1.69
6.48	6.82	-0.34	0.11
5.85	6.82	-0.92	0.84
4.58	6.82	-2.24	5.02
$\sum (X - \bar{X})^2 = 12.81$			

$$\text{S.D}(\sigma) = \sqrt{\frac{1}{N} \sum (X - \bar{X})^2} = \sqrt{1/5 \times 12.81} = \sqrt{2.56} = 1.6$$

Now,

$$\text{C.V} = \frac{\text{Standard Deviation}}{\text{Expected Return}(\bar{X})} = \frac{1.6}{12.81} = 12.49\%$$

Similar process has been applied in case of other banks.

### Cash and Bank Balance to Current Deposit

(Rs. In Million)

S.N	Name of Banks	Year				
	HBL	2004	2005	2006	2007	2008
	Cash and Bank Balance	2001.19	2014.47	1717.35	1757.34	1448.14
	Current Deposit	4145.45	5045.16	5028.15	5589.58	4784.21
	Ratio(%)	48.27	39.93	34.15	31.44	30.26
S.N	Name of Banks	Year				
	EBL	2004	2005	2006	2007	2008
	Cash and Bank Balance	631.81	1049.98	1552.97	2391.42	2667.97
	Current Deposit	719.76	1025.03	1145.79	1673.98	2492.34
	Ratio(%)	87.78	102.43	135.54	142.86	107.04
	Sources: Annual Report of Banks.					

### Credit and Advances to Total Deposit Ratio

(Rs. In Million)

S.N	Name of Banks	Year				
	HBL	2004	2005	2006	2007	2008
	Credit and Advances	11951.87	12424.52	14642.56	16998	19497.52
	Total Deposit	22010.33	24814.01	26490.85	30048.42	31842.78
	Ratio(%)	54.3	50.07	55.27	56.57	61.23
S.N	Name of Banks	Year				
	EBL	2004	2005	2006	2007	2008

	Credit and Advances	5884.12	7618.67	9801.31	13664.08	18339.08
	Total Deposit	8063.9	10097.69	13802.44	18186.25	23976.31
	Ratio(%)	72.97	75.45	71.01	75.13	76.48

*Sources: Annual Report of Banks*



**Total Investment to Total Deposit Ratio**

(Rs. in Million)

S.N	Name of Banks	Year				
	HBL	2004	2005	2006	2007	2008
	Total Investment	10824.7	12019.91	11184.44	11822.98	13340.17
	Total Deposit	22010.33	24814.01	26490.85	30048.42	31842.78
	Ratio(%)	49.18	48.44	42.22	39.34	41.89
S.N	Name of Banks	Year				
	EBL	2004	2005	2006	2007	2008
	Total Investment	2483.68	2120.51	3568.93	4984.31	5059.56
	Total Deposit	8063.9	10097.69	13802.44	18186.25	23976.31
	Ratio(%)	30.8	21	25.85	27.41	21.1

**Credit and Advance to Fixed Deposit Ratio**

(Rs. in Million)

S.N	Name of Banks	Year				
	HBL	2004	2005	2006	2007	2008
	Credit & Advance	11951.87	12424.52	14642.56	16998	19497.52
	Fixed Deposit	4710.18	6107.43	6350.2	8201.18	6422.68
	Ratio(%)	2.54	2.03	2.31	2.07	3.03
S.N	Name of Banks	Year				
	EBL	2004	2005	2006	2007	2008
	Credit & Advance	5884.12	7618.67	9801.31	13664.08	18339.08

	Fixed Deposit	2897.96	3403.96	4242.35	5626.66	6446.18
	Ratio(%)	2.03	2.24	2.31	2.43	2.84

*Sources: Annual Report of Banks*

### Credit and Advance to Total Assets Ratio

(Rs. In Million)

S.N	Name of Banks	Year				
	HBL	2004	2005	2006	2007	2008
	Credit & Advance	11951.87	12424.52	14642.56	16998	19497.52
	Total Assets	24762.02	27418.16	29460.39	33519.14	36175.53
	Ratio(%)	48.27	45.31	49.7	50.71	53.9
S.N	Name of Banks	Year				
	EBL	2004	2005	2006	2007	2008
	Credit & Advance	5884.12	7618.67	9801.31	13664.08	18339.08
	Total Assets	9608.57	11792.13	15959.28	21432.57	27149.34
	Ratio(%)	61.24	64.61	61.41	63.75	67.55

### Total Debt to Net Worth Ratio

(Rs. In  
Million)

S.N	Name of Banks	Year				
	HBL	2004	2005	2006	2007	2008
	Total Debt	23437.85	25876.41	27694.21	31372.64	33662.54
	Net worth	1324.17	1541.75	1766.18	2146.49	2512.98
	Ratio(%)	17.7	16.78	15.68	14.61	13.39
S.N	Name of Banks	Year				
	EBL	2004	2005	2006	2007	2008
	Total Debt	8928.25	11022.51	14996.48	20261.06	25228.11

	Net worth	680.32	769.62	962.81	1201.51	1921.23
	Ratio(%)	13.11	14.32	15.58	16.86	13.13

Sources: Annual Report of Banks

### Total Debt to Total Assets

Rs. (In Million)

S.N	Name of Banks	Year				
	HBL	2004	2005	2006	2007	2008
	Total Debt	23437.85	25876.41	27694.21	31372.64	33662.54
	Total Assets	24762.02	27418.16	29460.39	33519.14	36175.53
	Ratio(%)	94.65	94.38	94	93.6	93.05
S.N	Name of Banks	Year				
	EBL	2004	2005	2006	2007	2008
	Total Debt	8928.25	11022.51	14996.48	20231.06	25228.11
	Total Assets	9608.57	11792.13	15959.28	21432.57	27149.34
	Ratio(%)	92.92	93.47	93.97	94.39	92.92

Sources: Annual Report of Banks

### Return on Assets

Rs. (In Million)

S.N	Name of Banks	Year				
	HBL	2004	2005	2006	2007	2008
	Net Profit	263.05	308.28	457.46	491.82	635.86
	Total Assets	24762.02	27418.16	29460.39	33519.14	36175.53
	Ratio(%)	1.06	1.12	1.55	1.47	1.75

S.N	Name of Banks	Year				
		2004	2005	2006	2007	2008
	EBL	2004	2005	2006	2007	2008
	Net profit	14357	170.81	237.29	296.41	451.21
	Total Assets	9608.57	11792.13	15959.28	21432.57	27149.34
	Ratio(%)	1.49	1.45	1.49	1.38	1.66

*Sources: Annual Report of Banks*

### Interest Income to Total Credit and Advance Ratio

(Rs. In Million)

S.N	Name of Banks	Year				
		2004	2005	2006	2007	2008
	HBL	2004	2005	2006	2007	2008
	Interest Income	1245.9	1446.47	1626.47	1775.58	1963.64
	Loan & Advance	11951.87	12424.52	14642.56	16998	19497.52
	Ratio(%)	10.42	11.64	11.11	10.45	10.07
S.N	Name of Banks	Year				
		2004	2005	2006	2007	2008
	EBL	2004	2005	2006	2007	2008
	Interest Income	657.25	179.3	903.41	1144.41	1548.65
	Loan & Advance	5884.12	7618.67	9801.31	13664.08	18339.08
	Ratio(%)	11.17	9.44	9.22	8.38	8.44

*Sources: Annual Report of Banks*

**APPEXDIX - II**

**Comparative Cash Flow Analysis (HBL)**

**From 2004 to 2008**

(Rs in million)

Particular	Year				
	2004	2005	2006	2007	2008
<b>A. Cash Flow From Operating Activities (CFOA)</b>	<b>725.69</b>	<b>585.54</b>	<b>590.61</b>	<b>700.77</b>	<b>273.07</b>
<b>1.Cash receipts</b>	<b>1519.62</b>	<b>1760.34</b>	<b>1897.77</b>	<b>2102.48</b>	<b>1944.22</b>
1.1 Interest Income	1245.9	1446.47	1419.9	1617.03	1444.24
1.2 Commission and Discount Income	123.93	132.82	165.45	193.22	202.88
1.3 Exchange Gain	112.42	137.3	198.13	151.63	192.6
1.4 Non Operating Income	3.3	0	0	0	0
1.5 Other Income	34.08	43.76	117.19	456.47	62.1
1.6 Recovery of loan written off	0	0	0	-315.89	42.38
<b>2.Cash Payments</b>	<b>-793.93</b>	<b>-1174.8</b>	<b>-1307.16</b>	<b>-1401.7</b>	<b>1671.14</b>
2.1 Interest Expenses	491.54	561.96	648.84	767.41	823.74
2.2 Staff Expenses	491.54	561.96	648.84	268.21	307.53
2.3 Office Overhead Expenses	149.87	223.23	235.88	168.27	240.57
2.4 Exchange Loss	0	0	0	0	0
2.5 Non Operating Expenses	0	0	0	0	
2.6 Other Expenses	0	211.01	230.8	197.81	299.31
a. Cash Flow Before Working Capital Activities	0	-540.95	-600.31	336.72	195.94
<b>B. Cash Flow From Investing Activities(CFIA)</b>	<b>-1921.65</b>	<b>-31.31</b>	<b>-287.41</b>	<b>-997.51</b>	<b>-1144.97</b>

1. Changes in Long term Investment	2136.25	0	0	-933.95	-1517.2
2. Dividend Income			0.61	0.72	1.85
3. Changes in Fixed Assets	102.3		-288.02	-64.28	-237.75
4. Changes in Other Assets	202.71		0	0	34.42
5. Interest income from long term investment	0	0	0	0	573.7
<b>C. Cash Flow From Financial Activities(CFFA)</b>	<b>1073</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>355.76</b>
1. Changes in borrowings	50.87	0	0	0	500
2. Changes in Share Capital	965.25	0		0	0
3. Changes in bills payable	17.65	0		0	0
4. Changes in other liabilities	39.32	0		0	-133.24
<b>D. Net cash flow of the year (A+B+C)</b>	<b>122.95</b>	<b>13.29</b>	<b>-297.11</b>	<b>39.99</b>	<b>-309.2</b>
<b>E. Opening Cash Balance</b>	<b>397.19</b>	<b>2001.18</b>	<b>2014.47</b>	<b>1717.35</b>	<b>1757.34</b>
<b>F. Closing Cash Balance(D+E)</b>	<b>274.24</b>	<b>2014.47</b>	<b>1717.35</b>	<b>1757.34</b>	<b>1448.14</b>

Source: Annual Report of HBL

### Comparative Cash Flow Analysis (EBL)

From 2004 to 2008

(Rs in million)

Particular	Year				
	2004	2005	2006	2007	2008
<b>A. Cash Flow From Operating Activities(CFOA)</b>	<b>273.18</b>	<b>269.88</b>	<b>485.75</b>	<b>590.61</b>	<b>700.78</b>
<b>1. Cash receipts</b>	<b>785.06</b>	<b>864.48</b>	<b>1135.46</b>	<b>1897.77</b>	<b>2102.48</b>
1.1 Interest Income	657.25	725.01	973.18	1419.9	1617.04
1.2 Commission and Discount Income	74.33	78.13	96.84	165.45	193.22
1.3 Exchange Gain	27.79	27.08	14.4	198.13	151.64

1.4 Non Operating Income	1.87	2.78	0	0	0
1.5 Other Income	23.82	31.48	51.05	117.19	456.47
2.Cash Payments	511.88	594.6	720.43	1307.16	1401.7
2.1 Interest Expenses	48.53	312.88	392.25	648.84	767.41
2.2 Staff Expenses	78.96	60.6	99	191.64	268.21
2.3 Office Overhead Expenses	0	105.22	115.09	235.88	168.27
2.4 Exchange Loss	0	0	0	0	0
2.5 Non Operating Expenses	68.03	0	0	0	0
2.6 Other Expenses	1670.9	115.9	114.08	230.79	197.81
a. Cash Flow Before Working Capital Activities					
<b>B. Cash Flow From Investing Activities(CFIA)</b>	-1670.9	-2232.67	-45.77	-287.41	-63.56
1. Change in Balance with Banks	499.86	-354.35	0	0	0
2. Changes in Money at Call and Short Notice	-187.45	-382.56	0	564.19	704.74
3. Changes in Investments	-881.68	-406.73	0	-801.96	933.95
4. Changes in Loan and Advance at Bill Purchased	-1051.07	-1828.25	0	2318.89	2354.1
5. Changes in Fixed Assets	-20.44	-39.9	0	-288.05	-64.28
6. Changes in Other Assets	-40.64	-36.11	0	168.075	274.52
<b>C. Cash Flow From Financial Activities(CFFA)</b>	1389.82	2026.62	63	0	0
1. Changes in borrowings	0	300	0	0	0
2. Changes in deposits	1368.94	2033.88	0	0	0
3. Changes in bills payable	-0.07	-4.25	0	0	0
4. Changes in other liabilities	90.48	230.88	0	0	0
5. Dividend paid	-69.5	72.03	0	0	0
<b>D. Net cash flow of the year (A+B+C)</b>	7.9	63.83	502.98	-291.118	39.98
<b>E. Opening cash balance</b>	136.66	128.76	1049.99	2014.47	1717.35
<b>F. Closing cash balance(D+E)</b>	128.76	192.59	1552.97	1717.35	1757.34

Source: Annual Report of EBL



**APPENDIX - III**

**Comparative Balance Sheet of HBL for F/Y (2004-2008)**

Rs. (In Million)

S.N	Particulars	Year				
		2004	2005	2006	2007	2008
	<b><u>Capital &amp; Liabilities</u></b>					
1	Share Capital	536.25	643.5	772.2	810.81	1013.52
2	Reserve & Funds	787.92	898.25	993.98	1335.68	1499.47
3	Debentures & Bonds	0	36	36	360	860
4	Borrowings	659.01	146.05	144.62	235.97	83.17
5	Deposits	22010.33	24814.01	26490.85	30048.42	31842.78
6	Bills Payable	64.38	68.4	73.58	91.3	102.66
7	Proposed Dividend Payable	6.32	80.12	238.41	130.94	263.07
8	Income Tax Liabilities	0	3.25	0	11.91	19.13
9	Other Liabilities	697.82	404.58	386.75	494.1	491.69
	<b>Total Liabilities</b>	<b>24762.02</b>	<b>27418.16</b>	<b>29460.39</b>	<b>33519.14</b>	<b>36175.53</b>
	<b><u>Assets</u></b>					
1	Cash and Bank Balance	2001.19	2014.47	1717.35	1757.34	1448.14
2	Money at call and short notice	368.9	441.08	1005.28	1710.02	518.52
3	Investment	9292.11	11692.34	10889.03	11822.98	13340.17
4	Loan advance and bills purchase	11951.87	12424.52	14642.56	16998	19497.53
5	Fixed assets	299.64	295.82	540.82	574.06	726.06

6	Non-banking assets	-	31.93	21.78	12.77	10.3
7	Other Assets	848.38	518	643.61	643.97	634.78
	<b>Total Assets</b>	<b>24762.02</b>	<b>27418.16</b>	<b>29460.39</b>	<b>33519.14</b>	<b>36175.53</b>

**Comparative Balance sheet of EBL for F/Y (2004-2008)**

Rs. (In Million)

S.N	Particulars	Fiscal Year				
		2004	2005	2006	2007	2008
	<b><u>Capital &amp; Liabilities</u></b>					
1	Share Capital	455	455	518	518	831.4
2	Reserve & Funds	225.32	314.62	444.81	683.52	1089.83
3	Debentures & Bonds	0	0	300	300	300
4	Borrowings	0	300	0	0	0
5	Deposits	8063.9	10097.69	13802.44	18186.25	23976.29
6	Bills Payable	22.03	17.78	15.81	26.78	49.42
7	Proposed Divind Payable	7.36	10.93	114.67	68.15	140.79
8	Income Tax Liabilities	11.25	3.31	0	15.28	41.14
9	Other Liabilities	823.72	592.8	763.56	1634.6	720.44
	<b>Total Liabilities</b>	<b>9608.57</b>	<b>11792.13</b>	<b>15959.28</b>	<b>21432.57</b>	<b>27149.34</b>
	<b><u>Assets</u></b>					
1	Cash and Bank Balance	631.81	1049.98	1552.96	2391.42	2667.97
2	Money at call and short notice	187.45	570	66.96	0	346
3	Investment	2535.66	2128.94	4200.52	4984.31	5059.55
4	Loan advance and bills purchase	5884.12	7618.67	9801.31	13664.08	18339.08
5	Fixed assets	118.37	134.07	152.09	170.1	360.51
6	Non-banking assets	0	0	7.44	0	0
7	Other Assets	251.17	290.47	178.01	222.66	376.21
	<b>Total Assets</b>	<b>9608.57</b>	<b>11792.13</b>	<b>15959.28</b>	<b>21432.57</b>	<b>27149.34</b>

**Comparative Profit and Loss A/C of HBL (2004-2008)**

S.N	Particular	Year				
		2004	2005	2006	2007	2008
	<b><u>Income</u></b>					
1	Interest Income	1245.9	1446.47	1626.47	1775.58	1963.64
2	Interest Expenses	491.54	561.54	648.84	767.41	823.744
	<b>Net Interest Income</b>	<b>754.35</b>	<b>884.5</b>	<b>977.63</b>	<b>1008.17</b>	<b>1139.9</b>
1	Commission and Discount	123.93	132.82	165.45	193.22	202.88
2	Other operating Income	34.08	41.3	52.33	40.33	62.1
3	Exchange Fluctuation Income	112.42	137.3	198.13	151.64	192.6
4	Non-operating Income	3.3	2.8	1.88	3.4	9.7
	<b>Total income</b>	<b>1028.08</b>	<b>1198.72</b>	<b>1395.42</b>	<b>1396.76</b>	<b>1607.18</b>
	<b><u>Expenses</u></b>					
1	Staff expenses	152.51	178.59	234.59	272.23	307.52
2	Operating expenses	211.05	277.38	329.7	341.56	329
3	Provision for possible Loss	23	147.14	88.59	90.69	58.43
4	Staff Bonus	46.73	58.06	67.24	71.74	94.88
5	Non-operating Expenses	10.99	15.01	2.9	315.89	52.64
	<b>Total Expenses</b>	<b>607.5</b>	<b>676.5</b>	<b>723.02</b>	<b>1092.11</b>	<b>842.47</b>
1	Profit Before Tax	420.57	522.54	672.4	717.4	948.83
2	Provision for Income Tax	157.52	214.27	214.94	225.58	312.97
	<b>Net profit/Loss</b>	<b>263.05</b>	<b>308.28</b>	<b>457.46</b>	<b>491.82</b>	<b>635.86</b>

**Comparative Profit and Loss A/C of EBL (200-2008)**

Rs. (In Million)

S.N	Particular	Year				
		2004	2005	2006	2007	2008
	<b><u>Income</u></b>					
1	Interest Income	657.25	719.3	903.41	1144.41	1548.65
2	Interest Expenses	316.37	299.57	401.4	517.17	632.6
	<b>Net Interest Income</b>	<b>340.88</b>	<b>419.73</b>	<b>502.01</b>	<b>627.24</b>	<b>916.04</b>
3	Commission and Discount	74.33	78.13	88.16	117.72	150.26
4	Other operating Income	23.82	31.48	48.9	67.97	79.13
5	Exchange Fluctuation Income	27.79	27.08	23.07	28.4	64.45
6	Non-operating Income	1.87	2.97	2.96	1.3	4.5
	<b>Total income</b>	<b>468.69</b>	<b>559.39</b>	<b>665.1</b>	<b>842.63</b>	<b>1214.38</b>
	<b><u>Expenses</u></b>					
1	Staff expenses	48.53	60.6	70.92	86.12	157.96
2	Operating expenses	165.85	196.88	143.56	177.54	233.77
3	Provision for possible Loss	0	0	70.47	89.7	99.34
4	Staff Bonus	23.46	28.08	34.56	45.47	65.87
5	Non-operating Expenses	19.47	21.12	0	0.8	18.99
	<b>Total Expenses</b>	<b>257.58</b>	<b>306.68</b>	<b>319.51</b>	<b>399.63</b>	<b>575.93</b>
1	Profit Before Tax	211.11	252.71	345.59	454.7	658.68
2	Provision for Income Tax	67.55	81.91	108.31	158.3	207.46
	<b>Net profit/Loss</b>	<b>143.56</b>	<b>170.81</b>	<b>237.28</b>	<b>296.4</b>	<b>451.22</b>



## APPENDIX - IV

### Sample Calculation of Correlation Coefficient between Credit and Advance to Total Deposit of HBL

Year	Total Deposit(X)	Credit & Advance(Y)	x=x-X	y=Y-Y	x <sup>2</sup>	y <sup>2</sup>	xy
2004	22010.33	11951.87	-5030.96	-3151.02	25310558.52	9928927.04	15852655.58
2005	24814.01	12424.52	-2227.28	-2677.48	4960776.2	7173665.85	5963497.65
2006	26490.85	14642.56	-550.44	-460.33	302984.19	211903.71	253384.04
2007	30048.42	16998	3006.71	1895.11	9040305.02	3591441.91	5698046.19
2008	31842.78	19497.52	4801.49	4394.63	23054306.22	19312772.8	21101387.25
<b>Total</b>	<b>135206.39</b>	<b>75514.47</b>			<b>62668930.15</b>	<b>40218711.4</b>	<b>21101387.25</b>
Mean	27041.29	15102.89					

We have,

$$\text{Correlation of Co-efficient (r)} = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{21101387.25}{\sqrt{62668930.15 \times 40218711.35}} = \frac{21101387.25}{50204219.1} =$$

**0.4203**

$$\text{Coefficient of Determinate (r}^2\text{)} = r \times r = 0.4203 \times 0.4203 = 0.1767$$

$$\text{Probable error (P.E)} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.1767}{\sqrt{5}} = 0.6745 \times \frac{0.8233}{2.2361} = 0.2483$$

$$6 \times (\text{P.E.}) = 6 \times 0.2483 = 1.4900$$

Remaining correlation coefficient can be calculated by following similar process:



## Appendix - V

### Simple calculation of Trend value of Loan and Advances to Total Deposit Ratio of HBL

Year	Ratio(Y)	$x = t - 3$	$x^2$	xy	$yc = a + bx$
2004(1)	54.3	-2	4	-217.2	$Yc = 55.63 + 3.67x - 2 = 48.29$
2005(2)	50.07	-1	1	-50.07	$Yc = 55.63 + 3.67x - 1 = 51.96$
2006(3)	55.27	0	0	0	$Yc = 55.63 + 3.67x - 0 = 55.63$
2007(4)	56.57	1	1	56.27	$Yc = 55.63 + 3.67x 1 = 59.3$
2008(5)	61.93	2	4	247.72	$Yc = 55.63 + 3.67x 2 = 62.97$
Total	278.14		10	36.72	

Here,  $\sum X = 0$

$$a = \frac{\sum Y}{n} = \frac{278.14}{5} = 55.63$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{36.72}{10} = 3.67$$

Hence, trend line equation

$$Y = a + bX$$

$$Y = 55.63 + 3.67 X$$

Now,

Trend line of straight line equation

$$Y = 55.63 + 3.67 X$$

Trend value of loan and advance to total deposit ratio for next 5 years.

Year	$x = t - 3$	$y_c = a + bx$
2009 (6)	3	$Y_c = 55.63 + 3.67 \times 3 = 66.64$
2010 (7)	4	$Y_c = 55.63 + 3.67 \times 4 = 70.31$
2011 (8)	5	$Y_c = 55.63 + 3.67 \times 5 = 73.98$
2012 (9)	6	$Y_c = 55.63 + 3.67 \times 6 = 77.65$
2013 (10)	7	$Y_c = 55.63 + 3.67 \times 7 = 81.32$

Remaining calculation has been calculated using similar method.

