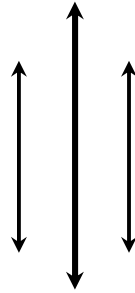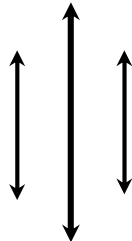# A COMPARATIVE STUDY ON INVESTMENT & DEPOSIT PATTERN

OF

(NEPAL INVESTMENT BANK LTD. & EVEREST BANK LTD.)

By

Rajesh Maharjan

Campus Roll No. 58/059
2nd Year Exam Roll No. 877/061
T.U. Registration No. 7-2-256-77-99
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Masters of Business Studies (M. B. S.)

Patan Dhoka, Lalitpur
Jan, 2010

RECOMMENDATION

This is to certify that the thesis

Submitted by:

Rajesh Maharjan

Entitled

**A COMPARATIVE STUDY ON INVESTMENT & DEPOSIT PATTERN
OF
(NEPAL INVESTMENT BANK LTD. & EVEREST BANK LTD.)**

has been prepared as approved by this department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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VIVA - VOCE SHEET

We have conducted the viva - voce examination of the thesis presented

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A COMPARATIVE STUDY ON INVESTMENT & DEPOSIT PATTERN
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(NEPAL INVESTMENT BANK LTD. & EVEREST BANK LTD.)

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

Master's Degree in Business Studies (M.B.S.)

<u>Viva – Voce Committee</u>

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DECLARATION

I here by declare that the work reported in this thesis entitled **"A Comparative Study on Investment & Deposit Pattern Of (Nepal Investment Bank Ltd. & Everest Bank Ltd.)"** Submitted to Patan Multiple Campus, Faculty of Management, Tribhuvan University, Kirtipur , is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Studies (M.B.S.). Which is Prepared under the supervision of **Mr. Bishnu Gopal Khimbaja.**

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A C K N O W L E D G E M E N T

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ABBREVIATIONS USED IN THIS STUDY

Km	=	Kilometer
Sq	=	Square
GDP	=	Gross Domestic Production
NIBL	=	Nepal Investment Bank Limited
EBL	=	Everest Bank Limited
i.e.	=	That is
AD	=	Annu Dumini
CB's	=	Commercial Banks
B.S	=	Bikram Sambat
RBB	=	Rastrya Banijya Bank
SBI	=	State Bank of India
NRB	=	Nepal Rastra Bank
SAF	=	Structural Adjustment Facility
NABIL	=	Nepal Arab Bank,
NIB	=	Nepal Indosuez Bank
NGBL	=	Nepal Grindlays Bank Limited
Ltd.	=	Limited
HMG	=	His Majesty Government
JVB	=	Joint Venture Bank
JVBs	=	Joint Venture Banks
JVCBs	=	Joint Venture Commercial Banks
ATM	=	Automated Teller Machine
PSA	=	Premium Saving Account
SCBNL	=	Standard Chartered Bank Nepal Limited
Govt.	=	Government
CA	=	Current Assets
EPS	=	Earning Per Share

DPS	=	Divend Per Share
MVPS	=	Market Value Per Share
S.D	=	Stander Deviation
CV	=	Coefficient of Variation
R	=	Correlation Coefficient
N	=	Number of Quantity
PE	=	Probable Error
INR	=	Indian Rupee
FY	=	Fiscal Year
SLR	=	Statutory Liquidity Ratio
PNB	=	Panjab National Bank
NBL	=	Nepal Bank Limited
LBL	=	Lumbini Bank Limited
NBBL	=	Nepal Bangladesh Bank Ltd.
NICBL	=	Nepal Industrial & Commercial Bank Ltd.
HBL	=	Himalayan Bank Ltd.
NSBIBL	=	Nepal SBI Bank Ltd.
BOK	=	Bank of Kathmandu Ltd.
NCCBL	=	Nepal Credit and Commerce Bank Limited

Chapter - I

INTRODUCTION

1.1 Background :

Nepal is a small developing country classified by the United Nation as least developed country that is landlocked country sandwiched between two huge neighbors India in the south, west and east and China in the north. "Nepal belongs to the group of 47 least developed countries of the world .Kolkata is the nearest outlet to sea for Nepal and it is 890 km. away from the capital Kathmandu. The total land area of 147,181, sq. km comprises of an average length of 800 km. (from east to west) and average breadth of about 175 km (from north to south). **Nepal Population** in the year 2002 census was 23,151,423. In the year 2007 according to the estimate of the census, the Nepal Population was 28.1 million. According to the World Bank 2007 the literacy rate of Nepal is 49 %. The life expectancy for male and female accounts for 63 years as per WBR, 2007. Over 33.80% of Nepalese people completely depend on agriculture sector for their livelihood. Approximately 31% of all Nepalese live in below national poverty line. Under this situation, there is necessary for industrial development along with agriculture development. The industrial sector in Nepal is small, contributing about 17.2% to the GDP. Thus, commercial banks may prove valuable means in accelerating the industrial sector in Nepal by granting the financial assistance.

Hence, commercial banks collect the fund from different people and they should pays interest to the depositors. The bank invests these deposits into various sectors like manufacturing, trading, retail business etc and earns profits. The spread between the interest rate of deposits and investment is the profit bank earns. Therefore, they must deploy collected sources in profitable sector to provide regular interest to its depositors. The process of commercial bank asset management must ensure the liquidity solvency and profitability of the institution. Thus, bank should create diversified asset portfolio consisting of different assets of carrying maturity pattern that match the several and varied sources of supply of its fund.

The development of any country largely depends upon the economic health and conditions of the country. Nowadays the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of the domestic resources is one of the key factors in the economic development of the country. Commercial banks and other financial institutions collect immobilized money in the form of deposits from every corner and parts of the country. This will provide capital for the development of the industry, trade and business and other resources deficit sectors. Commercial banks formulate sound investment policies to make it more effective, which eventually contribute to the economic development of the country. Formulation of sound, investment policies and coordinated and planned efforts pushes forward the forces of economic growth.

DEPOSIT :

Deposit are the sources of external fund, which are received by banks from individuals, co-operative firm, educational institutions, local bodies and government. They collect the funds in the form of saving, fixed, current, call and other deposit accounts etc. The bankers already know maturity period of the fixed deposits. Therefore, banks can anticipate the times precisely when will their depositors demanded the fund of fixed deposits. But the demand deposits, including of saving, current and call and short, are most volatile and these deposits may be withdrawn by their depositors at any time. So great care have to be taken by banks while mobilizing the demand deposits in comparison to fixed deposits. In other hand, their owners can withdraw fixed deposit after the expiry of the stipulated period. Such deposits carry higher rate of interest in comparison to demand deposit.

To sum up, banks should consider liquidity as wall as profitability while deploying the collected resources. They should meet current obligation of their depositors as per requirement otherwise, banks would lose confidence upon investors. In another side, cash is a non–earning asset. So keeping excess cash is also not beneficial for the banks. Hence, proper balance is to be maintained between cash and demand deposits.

INVESTMENT :

Earning of commercial banks is derived in the form of interest income derived from loans and advances made by the banks to trade, industry and other borrowers and the interest earned form investment made in the government and other securities.

"Every commercial bank gets its funds from three sources – share capital, reserve funds, and deposits form the public. They are liabilities as far as the bank has to return them to their owners. At the same time, they are also assets in that they are used to acquire income –yielding assets. A bank has to exercise the utmost care in the distribution of its assets. This is termed its portfolio policy"

Apart from cash in hand and balances with the central bank, balances with other banks and money and call and short notice, the two principal items of the asset – portfolio of commercial banks are the advances of bank credit and investments made in government securities includes investments made in which have maturity of 91 days. Before granting a loan, a commercial bank carefully considers the margin of safety offered by security, possibility of fluctuations in its value and shift ability. In the case of an unsecured loan, the bank should consider the character, capacity and capital of the borrowing customer before granting the loan.

Hence, profit is a life-blood of any organization as it works in human – body. Banks should earn profit to operate smoothly forever. But the bank has to keep itself liquid and earn a profit. A wise banker would reconcile these opposites to meet both criteria. Thus loans, cash of overdrafts, bill discounted and purchase, investment in government securities are the main investment activities of commercial banks.

1.2 Statement of Problem :

The basic objectives of the banks are to uplift the economic activities and strengthen welfare of the general people, to facilitate loan in different sector and to provide the banking services to the country and to its people. Therefore, this study concentrates on its financial soundness, which will enable it to meet its objectives

In the case of financial sector in Nepal, for a long time, banks owned and managed by the Government dominate the finance sector. The Nepal Bank Limited, established in 1937 dominated the financial sector of the country for almost 30 years without any competitor. It was only in 1967 that the second commercial bank Rastriya Banijya Bank, with total government control was established (Pant, 2002). A single commercial bank Act was enacted in 1974 to consolidate the functioning of all the commercial banks under one legal umbrella. Also the Finance Companies Act and Development Bank Act came in 1985 and 1996 respectively. After liberalization policy, number

of banks and financial institution emerged in the country. At present, the country has 25 commercial banks including joint venture banks, 59 development and 78 finance companies operating in the financial market. In addition to the above, there are five Rural Development Banks, many saving and credit cooperatives and NGOs operating in the economy. Besides, there are insurance companies and Deposit and Credit Guarantee Corporation and other non-depository institutions like Employees Provident Fund and Citizen Investment Trust collecting huge amounts of fund from the public in different forms and nature, providing long term funds to the people for various purposes.

From these financial institutions, they collect a large amount of deposits by initiating various types of deposit schemes providing different rates of interest but investment practices of these collected funds are comparatively very low. Nowadays, due to the less investment opportunity bank uses to discourage depositors by reducing the interest on deposits and increasing the minimum threshold balance. Such condition may cause the high liquid market and can impact the condition of the country negatively. Due to the throat-cut competition of financial environment bank seems to be ready to grant deposits, unsecured loan and investment may cause liquidation of those banks. If the funds are wrongly invested without thinking any financial risk, business risk and other related facts, the bank cannot obtain profitable return as well as it should sometimes losses its principal. This will definitely make bad impact upon the economic health of the country.

Commercial banks have played a vital role by accepting deposits and providing various types of loans. Loan affects the overall development of the country. The problem of lending has become a serious for developing country. Commercial banks give too many loans, advances, overdraft, and many other facilities to encourage deposit to their customer and they spend big amount of deposits as office operation expenses and for staffs. Commercial banks are found to make loan only on short-time basis against moveab1e merchandise but they don't invest on long-term projects because of the safety minded and not considering the profit potential of the project. Another reason is that, they follow conservative lending policy, which is based on strong security even in this age. Because of this, they may not earn sufficient return and most of the joint venture banks may have to be collapsed due to poor investment policy or lack of investment strategy in future.

Commercial banks are not utilizing their deposits due to lack of sound investment policy. They have lot of deposits but very little investment opportunities. Their investment has been found to have lower productivity that is due to the lack of supervision regarding whether their investment is properly utilized or not. Commercial banks invest their funds in limited areas to achieve higher

amount of profit. The investment towards the agriculture and industrial sector is found to be inadequate. Many commercial banks are not found investing even a minimum percentage in priority sectors due to the lack of supervision of central banks. It is to be said that commercial banks only serves rich community of the urban areas not the poor as they do not seems to be capable to invest their funds in profitable sectors. They make an investment on less risky and highly liquid sectors, they keep high liquid sector and they keep high liquid position and flow lower funds in productive sectors. These types of unfavourable and unsecured loans highly reduce the rate of return, which discourage the depositors.

To sum up, this study deals with the following issues.

1. Are banks able to collect deposits and investing collected deposits in proper way?

2. Is there any relation between deposit and investing pattern of the banks?

3. Is there any relation investment policy of the banks its profitability?

4. Is there healthy competition between the banks?

5. Are banks able to keep the sufficient liquidity?

1.3 Focus of the Study :

In today's context, there are 25 banks operating in Nepal. Similarly there are number of development bank, finance companies, cooperatives and other financial institutions. In this study we are focusing on a comparative analysis of investment and deposits pattern of NIBL and EBL. It determines the strength and weakness of these two joint - venture commercial banks of the aspect of investment and deposits.

The focus of this study is also to provide the information to the management, shareholder, investors, customers, general public, competitors as well as those concerned parties who want to know the operating efficiency and financial position of a bank.

1.4 Profiles of the Companies :

1.4.1 Nepal Investment Bank Ltd (NIBL) :

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world.

With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

- A group of companies holding 50% of the capital
- Rashtriya Banijya Bank holding 15% of the Capital.
- Rashtriya Beema Sansthan holding the same percentage.
- The remaining 20% being held by the General Public (which means that NIBL is a Company listed on the Nepal Stock Exchange).

1.4.2 Everest Bank Ltd (EBL) :

Everest Bank Limited (EBL) started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer friendly services through a network of 29 branches across the nation.

Punjab National Bank (PNB), is the joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India having 113 years of banking history. PNB is a technology driven bank serving over 35 billion customers through a network of over 4500 branches spread all over the country with a total business of around INR 2178.74 billion.

- Largest Network (29 branches as on chaitra 2065) among private sector banks spread across Nepal and all connected with ABBS
- Strong Joint Venture Partner providing Technical Support

- Representative office in India to facilitate remittance from India
- Direct Drawing arrangement with PNB and HDFC bank India whereby instant payment is done on presentation of the instrument.
- Direct account credit in PNB branches connected with Central Banking System and RTGS member banks via speed remittance.
- More than170 remittance payout location in Nepal
- Remittance from Middle East countries through own remittance product, **Everest Remit.**

1.5 Objectives of the Study :

Every activity is done with some purpose of objectives. Without objective, one cannot do anything. Objective gives direction that need to be followed to accomplish it in the future. So, the present study has also been done with taking some objectives. Though the main objective of this study is to compare the investments and deposits pattern of NIBL and EBL. However, the other objectives of this study are as follows:

1. To examine the existing position of the investment and deposit pattern of these two banks.
2. To analyses the overall performance of NIBL and EBL in terms of turnover, Profitability, Liquidity, structural, Credit and stability ratio.
3. To evaluate the growth trend of total deposit, total loan and advances, total investment and net profit
4. To calculate the degree of correlation between the total deposit and total loan and advances
5. To provide suggestions and recommendation for the maximum utilization of deposits.

1.6 Significance of the Study :

A well - developed banking system is a necessary pre-condition for economic development in a modern economy.

Ever research word or study should be fruitful. So, the present study is also taken as a fruitful to the various parties. They are:

1. Shareholders :

First of all, the shareholders of these banks will be benefited by this study as the came to know the performance of a bank i.e. how properly their funds are utilizing and to what extend they are gaining.

2. Management :

It also creates the awareness to the management about the strength and weakness of a bank. It also gives and idea to the management to counter the threats poses by the competitors.

3. Outsiders :

This study will also be helpful to the outsiders such as depositors, debtors, investors, competitors and merchant bankers etc.

4. Policymakers :

Policymakers refer to those authorities that formulate and determine rules, regulations and policies regarding commercial banking operation. The are officials of government concerned ministry, central bank, Nepal Stock Exchange etc. The present study helps them in formulation the policy regarding commercial banks.

5. Researcher and Scholars:

This study will also be significant for the researcher and scholar who want to study the investment and deposit pattern of NIBL and EBL

1.7 Limitation of the Study :

As every study has been conducted within certain limitations, the present study is also inherent some limitations. The following are the major limitations of the present study:

) The study is related only two of the joint-venture banks namely NIBL and EBL.
) The study is based of secondary data only.

- The data available in published annual reports and internet website has been assumed to be true and correct.
- This study many not be sufficient for depth analysis as it covers only limited financial tool and technique.
- The study covers a period of six years i.e. form 2002/03 to 2007/08.
- Out of the various statistical tools and techniques, only selected and useful statistical tools have been applied which do not give entire satisfaction to the study.
- This study has not paid attention towards funds flow, cash flow pattern etc.

1.8 Designation of the Study :

This study entitled "A Comparative Analysis of Investment and Deposit Pattern of Nepal Investment Bank Ltd and Everest Bank Ltd" is analytical and a comparative study as well. The study is divided into five chapters.

The first chapter is **introduction** part, which contains general background; statement of the problem; focus of the study; objective; importance; limitation and designation of the study are given.

The second chapter is the part of **literature review** in which articles, journals and abstract of the previous researches done on the related topic are situated.

Third chapter of the study is **research methodology** in which the sources of the data; population, sample, and statistical and financial tools used to analyze the data are given.

Fourth chapter is the **presentation and analysis of data**, in which the collected data are presented and analyzed using the financial and statistical tools.

Fifth chapter of the study is of **summary, conclusion and recommendation** part in which the findings of the study and necessary recommends are given.

Chapter - II

REVIEW OF LITERATURE

The main purpose of this chapter is to review the available literature on loan management and deposit mobilization of financial institutions. Thus authentic and honest attempt are being made to highlight the gist relating with the concerned topic from various book newspaper magazines research articles as well as past thesis. To ensure the précised lucid and concrete views about the state topic, the entire review work is portrayed in the point wise breakdown as given below.

2.1 Conceptual Review :

It encompasses the review of textbooks and other reference materials such as newspapers, magazines, research articles and journals besides past thesis.

2.1.1 History and Evolution of Banking :

Little is known about banking before the middle-aged. There are different views among the economist about the origin of word "Banking". The term bank derives from the Latin bancus, which refers to the bench on which the banker would keep its money and his records. Some persons trace it origin to the French word "Banque" and the Italian word "Banca" Which means a bench for keeping, lending and exchanging of money or coins in the markets place by money lenders and money changers (Vaidya, 2058: 23)

The origin of banking can be traceable in the early times of human history. In the ancient Rome and Greece, the practice of storing precious metals and coins at safe places and loaning out money for public and private purpose. An interest was prevalent. In England , banking had its origin with the London goldsmiths who in the 17th century began to accept deposits from merchants and others for safe keeping for money and other valuables . As public enterprise, banking made its first appearance in Italy in 1157 AD when the Bank of Venice was founded.

According to Crowther , Modern banking has three ancestors:

1. The merchant
2. The goldsmith, and
3. The money lender

1. The merchant :

History tells us that it was the merchant banker who first evolved the system of banking by trading in commodities than money. Their trading activities required the remittances of money from one place to another. For this , they issued different documents as the near substitutes of money , called draft or hundis in modern days. Modern banks remit money to other places through cheques and drafts .

2. The goldsmith :

The next stage in the growth of banking was the goldsmith. The business of goldsmith was such that he had to take deposits such bullion, money and arrangements for the security from theft. This made possible to the goldsmith to change something for taking care of the money and billion. On the other hand , as the evidence of receiving valuables, He used to issue a receipt to the depositors. As such, receipts are good for payment equivalent to the amount mentioned, it become like the modern cheques, as a medium of exchange and a means of payment.

3. The money lender :

The next stage in the development of banking came when the goldsmith becomes a moneylender. The goldsmith found that on an average the withdrawals of coins were much less the deposits with him. Therefore, he used to keep some money in the reserve. Therefore, the goldsmith and moneylender became a banker who started performing the two functions of modern banking i.e. accepting deposits & advancing loans.

2.2 Concept of Bank :

Banks are among the most important financial institutions in the economy and essential business in thousands of local towns and cities. In this context, there is much confusion about exactly what a bank is.

A bank is an institution which accepts deposits from the public and in turn advances loans by creation credit. It is different from other financial institutions in that they can not creates credit though they may be accepting deposits and making advances (Jhingan, 1999: 65).

A bank is an institution which deals with money and credit. It accepts deposits from the public, makes the fund available to those who need them, and helps in the remittance of money from one place to another (Paul, 1996, 5B).

According to Crowther," the banker's business is to take the debts of other people to offer his own in exchange, and thereby create money."

Chamber's twentieth century dictionary defines a bank as, "an institution for the keeping, lending and exchanging ,etc. of money."

Thus, ordinary banking business consists of changing cash for bank deposits and bank deposits for cash ; transferring bank deposits from one person or corporation (one 'depositor'), to another; giving bank deposits in exchange for bills of exchange, government bonds , the secured or unsecured promise of businessman to repay ,etc (Sayers, 22)

Summarizing the above, banks are those financial institutions whose goal is to collect the small-scattered resources in one bulk and utilizing them in further productive sector and rendering other valuable services to the community at a profit.

2.2.1 Types of Banks :

Today's world is dynamic. Only one financial institution cannot satisfy all the needs demanded by a customer. Therefore, different types of bank emerged in the banking industry specializing in different functional areas. The main types of a bank are as follows.

1) **Commercial Bank :**

Commercial banks are those banks, which are concerned with the functions like accepting deposits, advancing loans, credit creation and agency functions. They provide short-term loan, medium terms loans, and long term loans to trade and industry.

2) Development Banks :

It can be categorized into two types. One type such as Agricultural Development Bank, is concerned with providing the short-term and long-term loan to the farmers and agricultural sectors where as the second types of development bank (Eastern Development Bank) Finances loans in the infrastructure development in a country .

3) Exchange Bank :

Exchange Banks are that type of bank, which deal in foreign exchange and specialize in financing foreign trade. The supply the necessary foreign exchange required for settlement of transactions between traders engaged in foreign trade. These banks also render services as collecting and supplying information about the foreign customers provides remittance facilities. Rastriya Banijya Bank acts as and exchange bank in Nepal.

4) Savings Banking :

Savings banks are concerned with promoting he small income groups to save something out of their incomes and pool such savings. The largest saving bank in the world is Cariplo of Italy. Postal saving scheme is one of the types of saving banks in Nepal.

5) Central Bank :

The central bank is the apex bank in a country that controls all monetary system and banking structure. It operates in the interest of the country and assists in the implementation of economic policy. It regulates and issue currency, performs agency and banking services to the government

and manages the foreign currency reserve of the whole country. Nepal Rastriya Bank is the central bank of Nepal.

6) Industrial Banks :

Industrial Banks are those banks which provide short, medium and long-term loans for the establishment of industries in a country such as purchase of land, building, machinery and equipment etc.

7) Co-operative Bank :

Co-operative banks collect small deposits, mobilize small savings and provide short term and medium term loans to their members. There are a number of co-operative bands in Nepal.

8) Merchant Bank :

Merchant Banks assist the business organizations by underwriting its share and debentures. They act as middleman between the business organization and investors.

2.3 Concept of Commercial Bank :

Commercial banks are those banks, which are concerned with the collecting the saving of the community in one bulk and utilizes it into further productive sector. There are different persons existing in the community .Some of them may have surplus money after spending on necessary item whereas others may need some money. In such a situation, commercial banks play a role of intermediate i.e. they collect the savings in aggregate and distribute it to the needed persons. They accept deposit from the public of the condition that they are repayable on demand.

The name commercial banks was first used to indicate that the loans extended were short-term loans to business, though loans later were extended to consumers, governments, and other non-business institutions as well. In general, the assets of commercial bank tend to be liquid and carry less risk than the assets held by other financial intermediaries (The New Encyclopedia Britanica, 1991: 489)

Commercial Bank as an organization which exchange money, deposits money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meant for co-operative, Agriculture, industries or for such specific purpose (Commercial Bank Act , 2031) .

To sum up, commercial bank is related with providing shot-term loans to the trade and industry .They provides the loans in the form of cash, credit and overdrafts.

2.3.1 Function of Commercial Bank :

Commercial Bank performs the following functions :

1. **Accepting deposits :**

It is the oldest functions of the commercial banks. a bank collects the deposits in the form of saving , current and fixed deposits . Saving deposit is one of the deposits collected from small depositors and low-income depositors. The bank usually plays lower rate of interest on their deposit. The depositors can withdraw their money by cheques under the current account , banks do not play any interest to the depositors rather charges a small amount on the customers having current account. There are no restrictions regarding the number of withdraws or the amount of the withdrawals. Traders and businessman keep their money with the bank under current account. A fixed deposit is one where a customer is required to keep a fixed amount with bank for a specified period . The bank plays higher interest rate in comparison to others. The bank can use this fund freely for granting loans and advances until maturity period.

2. **Advancing loans :**

It is the major functions of a commercial bank. CBs perform the functions of granting loans and advances to the amount, which have been received by way of deposits. Loans are granted by banks in four forms:

3. **Overdrafts :**

 Banks provide the amount in the form of overdrafts when the credit worthiness of the borrower is batter. The customers are charged interest only on the amount by which their current account are actually overdrawn and not by the full amount of the overdraft sanctioned them by the bank.

4. **Cash credit :**

Cash credit is provided by the banks after pledging the goods or personal security. The amount of loan can be withdrawn through cheques by the borrowers ad per requirements by they have to play interest on full amount.

5. **Direct loans :**

Direct loans are granted against the security of movable or immovable assets. The borrower have to pay interest on the entire amount of loan sanctioned form the date of taking the loan to the date of repayment. The loan is repayable in a lump sum on the due date.

6. **Discounting bills of exchange :**

The commercial bank also provides the money to the creditors who hold the bills of exchange by discounting it. It deposits the amount of the bill in the current account of the bill holder after deducting its rate of interest for the period of loan. The length is generally 90 days. When the bill of exchange matures, the bank gets its payment from the banker of the debtor who accepted the bills.

7. **Agency services :**

Commercial bank performs the number of agency services such as :

1. Collection the cheques, bills, salaries, pension, dividends, interest etc. on behalf of the customers.
2. Remitting money from one place to another by means of cheques , drafts ,wire transfer etc.
3. Acts as representative or correspondent for his customers, of other banks and financial institutions.
4. Acts as a trustee, executor, administrator and attorney.

8. **Credit creation :**

Commercial banks create the credit from the amount which are deposited by its customers. Some parts of the deposited amount are dept by the bank for running daily transactions whereas others are used as a loan or advances to earn profit. By granting a loan, the bank creates credit or deposit.

9. General utility services :

The commercial banks also perform the general utility services apart from agency services, which are:

1 Safekeeping the valuables goods such as gold of their customers.

2 Assisting in discounting the bill either the Nepalese exporters or foreign exporter in home currency.

3 Offering customers the opportunity to buy stocks, bonds and other securities at one location without having to go to a security dealer or broker.

4 Offering investment banking and merchant banking services service such as identifying possible merger targets, financing acquisition of other companies, dealing in security underwriting, providing strategic marketing advice and offering hedging services to their customers.

2.3.2 History of Banking in Nepal :

The history of commercial bank in Nepal started with the establishment of Nepal Bank limited on 1994 B.S. under the specials banking act 1994. The shareholding pattern of this bank was that 51% share of paid up capital was subscribed by government and the rest of the 49% shares by public. Prior to 1994 B.S. , Tejerath Adda used to function like a bank. The objective of this bank was to provide loans to the government and general public by keeping gold and silver in the form of collateral. Such loans were repayable installment. In the beginning the functions of this Tejarath Adda was limited to the Kathmandu valley only , but later it extended its operation beyond the valley by adding new branches.

Nepal Bank was established with an initial paid up capital of 842000 rupees and issued capital of 2500000 rupees and had 14 employees. It started its business by accepting deposits from the public by collecting rupees 1702000 in the initial year (Thapa, 2057)

Nepal Bank Limited kept as a single bank in Nepal till 2013 B.S. After the restoration of democracy in 2007 B.S., it was realized the need of the central bank to formulate the monetary policy by the government. As a result, Nepal Rastra Bank came in to existence in 2013 B.S. as a central bank of the

country. Since then the bank has been functioning as the government's bank and contributing to the development of financial sector. The bank also acts as a medium of foreign exchange.

After the establishment of Nepal Bank Limited and Nepal Rastra Bank, another bank named to Rastriya Banijya Bank came in to existence in 2022 B.S. under RBB act 2021 with hundred percent shares of government. After the establishment of this bank, there was progress in the banking industry in Nepal.

Today Nepal can take legitimate pride in the remarkable growth and progress in the Banking industry. Nepal has opened its door to foreign commercial banks to operate in the kingdom almost a decade back. Consequently, Nepal Arab Bank was established on 2041 B.S. under the commercial bank act of 2031. Similarly , the Nepal Indosuez Bank was established as a joint-venture between Nepal and France on 2042 B.S. and Nepal Grindlays Bank on 2043 B.S. As the country followed economic liberalization, there was remarkable entrance of foreign bank in Nepal. As a result, Himalayan Bank (2049 B.S.) came in existence as the first private Joint–venture bank of Nepalese promoters and joint-venture with Habib Bank of Pakistan. Nepal S.B.I. Bank (2050 B.S.) as a joint venture bank with the reputed bank of India , State Bank of India; Nepal Bangladesh; Bank of Kathmandu as a joint-venture Bank with Thailand Bank; Everest Bank as the joint-venture bank with Punjab National Bank; Nepal Bank of Ceylon as a joint-venture bank with Sri Lanka Bank are the example of banking industry in Nepal. Now as per the report of NRB there are 25 commercial banks, 58 development banks, 12 microfinance development banks, 79 finance companies, 16 NRB licensed financial cooperatives, 47 financial NGO's and 22 insurance companies operating in Nepal (Macroeconomic indicators of Nepal 2008).

2.4 Concept of Joint Venture Banks :

In an accounting aspect, joint-venture as the kind of business proposition where two or more persons jointly venture to complete a specific business undertaking on agreed conditions , to share the profit or losses arising there from on a temporary partnership basis until its completion. The partners or parties of a joint venture are called co-venture.

But in the respect of commercial banks ,joint venture refers to the investment by the foreign banks to the share of Nepalese commercial banks (not exceeding to 50%) and applies its international management and network.

With the adoption of economic liberalization, Nepal has also initiated the reform in financial sector from the mid 1980's. These were carried under the framework of Structural Adjustment Facility (SAF) and eighth five-year plan. Reforms were introduced with the changes in the commercial bank act of 1974 and its amendment in 1984. The entry barriers placed on commercial banks were eliminated. This change was introduced to allow both foreign banks and the private sector to operate in the banking sector. However, foreign participation in the financial sector is only allowed with the joint collaboration with the domestic promoters. The objective was to help transmit banking, managerial and technical knowledge in the economy. The immediate impact was on the number of joint-venture commercial banks that come after the removal of the entry barrier. Nepal Arab Bank (NABIL) , Nepal Indosuez Bank (NIB) and Nepal Grindlays Bank (NGBL) come into operation within the span of two years.

Following the restoration of democracy in the early 1990's, the popularly elected government accelerated the pace of economic reforms. Consequently, a number of joint venture commercial banks came up in the private sector. In total 26 commercial Banks in operating in the country under the commercial act, 2031.

Table No. 1

List of Commercial Banks in Nepal

S.N.	Commercial Banks	Date of Established (B.S.)	Head Office
1	Nepal Bank Ltd.	1994	Kathmandu
2	Rastrya Banijya Bank Ltd.	2022	Kathmandu
3	Agriculture Development Bank	2024	Kathmandu
3	Nepal Arab Bank Ltd.	2041	Kathmandu
5	Nepal Investment Bank Ltd.	2042	Kathmandu
6	Nepal Grindlays Bank Ltd.	2043	Kathmandu
7	Himalayan Bank Ltd.	2049	Kathmandu
8	Nepal SBI Bank Ltd.	2050	Kathmandu
9	Nepal Bangladesh Bank Ltd.	2051	Kathmandu
10	Everest Bank Ltd.	2051	Kathmandu
11	Bank of Kathmandu Ltd.	2051	Kathmandu
12	Bank of Ceylon Ltd.	2053	Kathmandu
13	Nepal Industrial & Commercial Bank Ltd.	2055	Biratnagar
14	Lumbini Bank Ltd.	2055	Narayanghat
15	Machapucharya Bank Ltd.	2055(Register)	Pokhara
16	Kumari Bank Ltd.	2056(Register)	Kathmandu
17	Laxmi Bank Ltd	2057	Birgunj
18	Siddhartha Bank Ltd	2057	Kathmandu
19	Gobal Bank Ltd	2062	Birgunj
20	Citizens Bank International Ltd	2063	Kathmandu
21	Prime Commercial Bank Ltd	2063	Kathmandu
22	Sunrise Bank Ltd	2063	Kathmandu
23	Bank Of Asia Nepal Ltd.	2063	Kathmandu
24	Development Credit Bank Ltd.	2056	Kathmandu
25	NMB Bank Ltd	2053	Kathmandu
26	KIST Bank Ltd		Kathmandu

Source : www.nrb.org.np

HMG's policy of allowing foreign JVBs to operate in Nepal is basically targeted to encourage local traditionally run commercial banks to enhance their banking capacity through, competition, efficiency modernization, mechanization, via- computerization and prompt customer services (Shrestha, 2047: 44-45).

From the above table , one can conclude that the increasing trend of the joint-venture commercial banks play a significant role in operating the economy smoothly by mobilizing the saving and surplus to the productive sectors.

2.4.1 Roles & Functions of Joint-Venture Commercial Banks :

Nepalese commercial banks can be broadly classified into two categories domestic commercial bank and joint-venture commercial banks. Joint-venture commercial banks render many modern service and functions in comparison to the domestic commercial banks.

In Nepal, there are altogether nine commercial Joint –venture banks. They are providing various modern services and as well equipped in terms of managerial, technical and financial aspects.

With the entry allowed by the government to the JVCBs, managerial skills, international net-work, personalized man-power and modernized computerized technology have created a serious challenge to the traditionally running inefficient domestic commercial banks. JVCBs are rendering quality services at a minimum costs. At the same time, the domestic banks have and opportunity to modernize themselves and sharpen their internal strengths.

The JVCBs have already been providing a dynamic and vital role in prosperity of the country. The role and functions of the JVCBs can be enlisted under the following points:

Rendering Modern Services:
The JVCBs are ahead in rendering modern services to the customers as comparison to the domestic commercial banks. They are providing the banking services like computerization, automated teller

machine (ATM), 24 hours banking services, premium saving account (PSA), free life insurance of account-holders and other many attractive services.

International Management Network:

The top-level management of JVCBs is hired from the foreign country, which has international management skills and experiences. Moreover; the management can formulate the policy and strategy as per the Nepalese climate with the participation of native promoters. Such management system can be a model example to the domestic commercial banks, which are operating traditionally.

Creating Healthy Competition:

In the post liberalization, there were only two banks in Nepal namely Nepal Bank Limited & Rastriya Banijya Bank. But with the adoption of economic liberalization, government has allowed to invest the foreign banks, too with taking the Nepalese promoters as a partner which create the competitive advance to the customers. Customers can enjoy higher rate of interest in their deposits and pay lower rate of interest on their loans.

Healthy competition also encourages the existing banks to improve their quality of services, Increase competition also makes local bank to respond it by opening branches in different places and region, which serves the economy by creating employment generation.

Advantage of Foreign Investment:

The JVCBs play significant role in providing financial resources for the country. It also helps the least develop country by granting administrative and technical personnel, new technology, research and innovations in the banking services.

Others:

I. By bringing foreign technology, it helps to uplift the economic development.

II. Parts of the profits earned by foreign banks have been ploughed back into the expansion, modernization or development of related industries.

III. Foreign investment also brings revenue to the government of a host country as it pays tax on its profit.

To sum up, Joint-venture commercial banks have been contributing much in the direction of the development and modernization of the efficient banking system, financial system, domestic savings, creation of an employment opportunities etc.

2.5 Investment Policy of Banks :

A bank collects funds from different sources such as share capital, reserve funds, retained earning, bank borrowing, deposits and other liabilities. Therefore, Banks have to invest its funds to that area where it has maximum safety and security. If the bank is not able to collect its loans and advances in the stipulated time, then it will adversely affect the operation i.e., it will not be able to handle the current obligations due to shortage of money.

The secret of successful banking is to distribute resources between the various forms of assets in such a way so as to get sound balance between liquidity and profitability so that there is sufficient cash to meet every claim and at the same time enough income to meet its expanses and distribute profit among the shareholders (Dahal, 2056: 49)

There are basically five principles of the commercial bank with regard to investment policy. They can be listed under the following points:

Liquidity

Profitability

Safety & Security

Suitability

Dispersal

Liquidity:

Liquidity is the prime factor that should have kept in mind by the commercial banks while granting the loans and advances. Liquidity refers to the capacity of bank to pay cash against the deposits. A large part of bank deposits is withdraw able on demand and hence the bank must be prepared with sufficient degree of liquidity of assets. Banking business is such a sensitive business that once a confidence is lost in the eyes of depositors, they may withdraw all their deposits within a short period without giving any chance to the bank to manger. In such a situation, the banks must have sufficient liquid assets, which can be converted immediately.

Profitability:

The prime objective of the commercial banks is to earn maximum profit as far as possible. The banks have incurred many expenses in the form of interest or operating expanses. Therefore, to recover all of these expenses and to provide dividend to the shareholder, it is necessary for the bank to have profit.

Therefore, the bank will try to arrange its assets in such a way that it is able to derive maximum income.

Safety & Security:

The third investment policy of a commercial bank is safety and security. The bank deals in other peoples' money. Hence, banks are required to invest money in those assets, which are safe of can be converted into cash when required. That is the risk involved in the investment and the return must be analyses thoroughly so that the depositors' money is advanced to safe hands where the risk of loss does not exist.

Suitability:

Suitability refers that loans and advances should not grant only to the carefully selected and suitable borrowers but also consider the overall national development plans chalked out by the concerned authorities. Before accommodating a borrower, the banker should ensure that the lending is for a purpose in conformity with the current national credit policy laid down by the central bank of the country.

Dispersal:

Dispersal of advances is very necessary from the point of security as well, because it reduces the risk of recovery when something goes wrong in one particular sector or in one field. This is based on Chinese principle," don't put all eggs in one basket "which is followed by most of the banks around the world.

2.6 Legislation Relating To Banking Activities in Nepal :

Nepal's central bank, which is know as Nepal Rastriya Bank was setup on 14 Baisakh 2013 under Nepal Rastriya Bank act 2012. Foreign exchanges regulation act 2019 was introduced to manage foreign exchanges. Nepal Bank Limited, Rastriya Banijya Bank and other commercial banks are operating under commercial bank act 2031 in Nepal. Agriculture Development Bank was founded on 7 Magh 2024 in Nepal. Agricultural development bank act 2024. Nepal Development Bank was established under development bank act 2052. Finance companies and co-operative are operating in Nepal under Nepal finance company act. 2042 and co-operative act 2048.

2.7 Review of Journal and Articles :

Among the various review of journals and articles pertaining to the study, the major mostly contributing to the study has been outlined below.

Problems Loans & Cost Efficiency in Commercial Bank
By: Berger & Young (1997)

The author suggests that what is largely missing from the research literature related to the field of financial institutions is an analysis of the relationships between problem loans and cost efficiency. Recent empirical literature suggests at least three significant links between these two topics.

First, a number of researchers have found that failing banks tend to be very cost inefficient, that is located far from the best practice frontiers. Cost inefficient banks may tend to have loan performance problems for a number of reasons, for examples, banks with poor senior management may have problems in monitoring both their cost and their loan customers, with the losses of capital

generated by both these phenomena potentially leading to failure. The author refers to this as the "bad management" hypothesis. Alternatively, loan quality problem may be caused by an event exogenous to the banks, such as unanticipated regional economic downturns. The expenses associated with the non-performing loans that results could crate the appearance, if not the reality of low cost efficiency. The author refers to this as the "bad luck" hypothesis.

The second empirical link between problem loans and productive efficiency appears in studies that use supervisory examination data. A relationship between assets quality and cost in consistent with the failed bank data, and suggests that the negative relationship between problem loans and cost efficiency holds for the population of the banks as a hole as well as for failing banks.

Third, some recent studies of the bank efficiency have directly included measure of nonperforming loans in cost or production relationships. Whether this procedure improves or hinders the estimation of cost efficiency depends upon the underlying reasons for the relationship between costs and non performing loans.

Thus important policy and research issues rest on identifying the underlying relationship between problems loans and measured cost efficiency.

The primary cause of the problem of loans and banks failures determines the most important supervisory focus for promoting safety and soundness of banks to decide how to estimate the cost efficiency of financial institutions.

The authors test four hypothesis bad luck, bad management, skimping and moral hazard using Granger- causality analysis. The bad luck hypothesis persists that exogenous events can cause non-performing loans to increase and that after time passes the extra expenses associated with these loans will be reflected in lower measured cost efficiency. The bad management hypothesis posits that poorly run banks do bad jobs at both cost control and at loan underwriting and monitoring and that after time passes this slacks leads to increase in problems loans as borrowers fall behind on their loan repayments. The skimping hypothesis posits that banks might achieve low costs by under-spending on loan underwriting and monitoring in the short run, and after time passes this slacks results in

increase in the problem loans. The authors tests the moral hazards hypothesis by tasting whether equity capital negatively Granger- cause non-performing loans.

The author result suggests that the inter-temporal relationships between loan quality and cost efficiency run in both directions. Increases in non-performing loans tend to be followed by decreases in measured cost efficiency, suggesting that problems loans cause banks to increase spending on monitoring, working out, or selling off problems loans. The data favor the bad management hypothesis over the skimping hypothesis decreases in measured cost efficiency are generally followed by increase in non performing loans, evidence that bad management practices are manifested not only in excess expenditure, but also in subpart underwriting and monitoring practices that eventually lead to non-performing loans. For a sub set of banks that are consistently efficient, however, increase in measured cost efficiency precede increases in non-performing loans, consistent with the skimping hypothesis that banks trade short run expenses reductions in loan quality. Finally decrease in bank capitals ratios precede increased in non-performing loans for banks with low capital ratios, evidence that thinly capitalized banks may respond to moral hazards incentives by taking increased portfolio.

The authors suggested that if these results can be confirmed by future research, their findings have research and policy implications. The inter-temporal relationships revealed by Granger-causality techniques are indicative of which among the alternative hypothesis are consistent with the data. Future research might use other statistically techniques to reveal the inter-temporal relationships between loan quality and productive efficiency in financial institutions; attempt to decompose the determinants of loan quality into interval versus exogenous factors; or focus on the empirical consequences of controlling for loan quality when estimates efficiency. (Berger and young, 1997)

"The banking sector is severally affected by the Non-performing loans problem. It is estimated that the NPL of the Nepalese Baking system is around 16 percent. Therefore, there is not doubt that it has a serious implication on economic performance of the country." (Dhungana, 2058: 127)

NRB register one thousand five hundred and thirty eight borrowers, who have not repaid the loan they received fro the fifteen major commercial banks of the country, in 'Black list'.

The black listed number of borrowers and the amount of different commercial banks are reported as follows.

Table No. 2

Bank Wise Black Listed Borrowers & the Account Due from them

Banks	No. of Black listed borrowers	Amount due from them (in million)
RBB	546	5526.66
NBL	673	3904.47
HBL	57	383.04
NBBL	45	317.23
NABIL	32	229.30
BOK	17	116.45
NSBIBL	26	102.96
NIBL	17	56.06
EBL	9	33.89
NCCBL	19	32.38
SCBNL	4	19.13
NICBL	2	7.19
LBL	2	0.64

The principal loan amount due from these one thousand five hundred and thirty eight borrowers in different banks is totaling Rs.5731 million 609 thousand. The interest due is total Rs.5, 717 million 8 hundred thousand. (Bhatta, 2002)

F. Morris, (1990) in the discussion paper has concluded that "most of the banks concentrated on compliance with central bank rules on reserve requirements, credit allocation and interest rate. While analyzing loan portfolio quality, operating efficiency and soundness of bank investment management has largely been overlooked. The huge loosed now found in the banks portfolio in many developing countries are testimony to the poor quality of this oversight investment function.

He further adds that mismanagement in financial institutions has involved inadequate and over optimistic loan appraisal, tax loan recovery, high risk diversification of landing and investment high risk concentration, concocted and insider landing, loans mismatching. This has led many banks for developing countries to failure in 1980s" (Morris, 1990: 81).

Dr. Sunity Shrestha, **(1997)** article "lending operation of commercial banks of nepal and its impact on GDP" has presented with the objective to make analysis of commercial banks lending to the Gross Domestic product (GDP) of Nepal. She has set hypothesis that there has been positive impact of landing of the commercial banks to the GDP. In research methodology she has considered GDP as the dependent variable and various sectors of lending dependent variable and various sectors of lending viz. agriculture, industrial, commercial service and social sectors as independent variables. A multiple regression techniques have been applied to analyze the contribution.

The multiple analyzes have shown that all the variables except service sector lending has positive impact on GDP. Thus in conclusion, she has accepted the hypothesis i.e. there has been positive impact by the lending of commercial in various sectors of economy, expect service sector investment. (Shrestha, 1997)

"A study on deposit and credit of commercial banks in Nepal concluded that the credit deposit ratio would to 51.30%, other things remaining the same. In Nepal that was the lowest under the period of review. Therefore, he had strongly recommended that the joint venture banks should to give

more credit entering new fields as far as possible; otherwise, they might not be able to absorb even the total expenses. (Shrestha, 1998: 15)

In the same way, **Mr. Dev Lal Kishi**,(**1996**) his article states. "The changing face of the banking sector and the HMG/N recent budgetary policy "concludes the following an introduction of the reform in the banking sector as an integrate part of the liberal economic policy, more banks and fiancé companies have come up as a welcome measure of completion.

However because of poor investment policies and lack of internal control of two government controlled banks, Nepal Bank Ltd and Rastriya Banijya Bank's non-performing assets have increased substantially. Now, Nepal Rastra Bank has awarded the management contact to foreign companies to improve the condition of non performing assets. The policy of giving management is professional consultant is a part of the financial sector reform policy of NRB. (Kishi, 1996: 27-32)

Rewat Bahadur Karki,(2000) has summarizes some of the challenge through his article"The financial sector is facing major challenges of high NPL of the banking sector, which comes around 18% of the total loan but it the loan classification is made according to least international practice, it is assumed to exceed 30% credit demand is being met largely by non-institutional source i.e. private money lender, merchant trade, individual and land lord at very high rate of interest, which is 2-3 times higher then of institutional source, this shows that the unorganized financial sector is playing a major role in Nepalese economy. The liquidity has played a major role in Nepalese economy. The liquidity position of the banking sector is rated as high as 24%, but the productive sector of the economy is starved by credit crunch. This has created a paradoxical situation in banking sector.

He has given some suggestions to improve the Nepalese financial sector:

The financial institutions especially CBs have to identity new area of investment to increase loans and advances in reducing the liquidity position.

With the rapid growth in the number of banks and financial institution, deposit insurance scheme is a must. The principle reasons for introducing such deposit insurance should be one of the social justice rather than economic justification in order to protect the interest of the small depositors. In this condition, this scheme should be expedited to implement. (Karki, 2000: 26-30)

2.8 Review of Thesis :

Prior to this study, various aspects of the joint venture banks have been analyzed by many researchers. In this section, some relevant thesis has been reviewed.

An analytical and theoretical thesis "A Profitability of joint – venture banks prepared for the partial fulfillment of MBA course of TU, written by **Sanjib Shrestha**. This thesis focuses such as concept of banking business, historical background of banking business in Nepal, theoretical framework of banking business, data analysis and some conclusion on the financial performance and profitability position of some selected joint-venture banks. And lastly the researcher concludes that:

NBBL has vary high current ratio that is even higher than the 2:1 standard prescribed to manufacturing company. Similarly, it has the highest cash and bank balance to total deposits as well as net deposits (excluding fixed deposit). However, the quick ratio is not so sound. In case of HBL, the quick ratio shows the least of all NBBL has most fluctuation liquid ratio as well as current ratio.

NBBL has the poorest profitability position. The liquidity position is not so sound and the variation among ratios is comparatively high. Though it has the highest percentage of deposits mobilization into loans and advances, discounted and purchased bills and cash credit, the earning from then is considerably low.

In case of HBL, it has satisfactory profitability position, but the liquidity position gauged in to three ratios are the lowest of all. The credit deposits ratio is very lower than the NBBL. Rate of earning is satisfactory.

The earning position of NABIL measuring from various profitability ratios shows sound as HBL. In case of liquidity position, it is comparatively in batter position. The credit deposit ratio is too much lower than NBBL but earning (net) is very handsome.

Likewise, **Mr. Niraj Lamsal (2055)** a student of M.B.A in his thesis, "A study on performance of Nepal Grindlays Bank Limited on its investment and deposits," concluded the following findings through the analysis of financial parameters.

The bank relied on investment in secured sector only. The investment on risk assets did not improve over the study period.

Return on risk assets as compared to net profit after tax had decreased in the study period. It revealed that the bank could not increase its investment on risk assets, which could have more contribution to net profit.

Return on external assets as compared to total interest earning has decreased during the study period. It revealed that the bank could not increase its investment on external assets, which could have contribution to total interest earning.

Commission earning had decreased during the study period.

Total deposit could not increase as compared to investment on external assets. It revealed that the bank could not collect deposits as external assets. It revealed that the bank could not collect deposits as required to invest on external assets.

Investment on risk assets had decreased as compared to shareholders' equity. It revealed that the bank could not utilize its resources on investment on risk assets.

A study conducted by **Mr. Upendra Shrestha** (2003) regarding the investment practices of joint venture banks in Nepal with special reference to NABIL Bank Limited, Standard Chartered Bank Nepal limited and Nepal SBI Bank limited has figured out the problem conclusion and recommendation as follows.

"Commercial Banks are more emphasized to be making loans on short term basis against movable merchandise. Commercial Banks have a lot of deposit but very little investment opportunity. They are even discouraging people by offering very low interest rate and minimum threshold balances".

Commercial Banks invests their funds in limited areas to achieve higher amount of profit. This regarded as a very risky step, which may lead to lose in profit as well as principle. The credit extends

by commercial Bank to agriculture and industrial sector is not satisfactory to meet the growing need of the present situation.

He has concluded that the liquidity position of NABIL and SCBNL have not found satisfactory, it is therefore, suggested them to improve cash and bank balance to meet current obligations. SCBNL's loan and advance to total deposit ratio is lower at all, it is recommended to follow liberal lending policy for enhancement of fund mobilization. It is recommended to NSBIBL that is has to invest its fund in share and debentures of other companies. It is suggested to enhance off balance sheet transactions, diversifying their investments, own new branches, play merchant banking role and invest their risky assets and shareholders fund to gain higher risky assets and shareholder fund to gain higher profit margin. NABIL and SCBIL are recommending to increase cash and balance to meet current obligations and loan demand.

This above study shows that Mr. Shrestha has concluded some conflicting statements which are obviously not matching with his statement of problem. His recommendation ignores the industry average and also failed to figure out what is right in the industry like banking along the excess of investment or loans and advances. And he thinks liberal lending policies solve the problem to increase the level of loans and Advances.

But some where in his recommendation, he has warned commercial Banks to increase the level of loans and Advances and suggested them to increase the level of investment in government securities or in other safe instrument just to avoid the risk arising from lending. Form this, it can be concluded that Mr. Shrestha has made his entire conclusion absolutely and has not made any relative analysis of the pros and cons of the entire factor affecting his study.

A thesis conducted by **Mr. Narayan Prasad Subedi (2002)** on "A Comparative Study of Financial Performance between Himalayan Bank limited and Everest Bank Limited and Everest bank limited" of the period from 1996 to 2000 has outlined his major finding and conclusion as follow:

"The mean and total loans and Advances to total saving deposit ratio of EBL is greater than that of HBL and the coefficient of variation between the ratios of HBL is less than EBL. It means that the ratio of HBL is less than EBL is more uniform than EBL. According to analysis, it found that EBL is more employing its saving deposit in term of loans and advances than that of HBL. So, loans and advances to total saving deposit ratio appear better in EBL than HBL.

The mean total investment to total deposit ratio of EBL is significantly greater than that of HBL but the coefficient of variation between the ratio of HBL but the EBL. It means that the variability of the ratios of HBL is more consistent than that of EBL. According to analysis, it if found that EBL is more successful in utilizing its resources an investment.

However, he failed to give his overall conclusion regarding the superiority of the financial performance of these two banks during the period of the study (1996-2000). He has also put several recommendations out of which few important recommendation are outlined here.

Chapter - III

RESEARCH METHODOLOGY

A systematic methodology is required to pick out an actual result for any special study. So, research methodology refers to various sequential steps to be adopted by a researcher in studying a problem with a certain objective in view. Thus, the chapter is to stress on the different method and conditions, which are used while conducting this study.

Research methodology depends on the various aspects of the research project. The size of the project, the objective of the project, impact, importance of the project, time frame of the project, impact of the project in various aspects of the human life etc. are the project in various that determine the research methodology of the particular project. However, the following steps provide a useful procedural guidance so far as research methodology is concerned:

This chapter includes the research design, population and selected sample, source of the data and the data gathering procedures and research variables and the statistical procedures.

3.1 Research Design :

The research covers the two joint venture commercial banks in Nepal particular in their deposit collection and investment practices. The research has its basic objective to figure out the problem therein and provide them with some recommendation. The literature has been reviewed specially from the post thesis conducted and the same aspects of the commercial banks specially this study follows more analytical and less descriptive research design.

3.2 Population and Sample :

There are 25 commercial banks, 58 development banks, 12 microfinance development banks, 79 finance companies, 16 NRB licensed financial cooperatives, 47 financial NGO's and 22 insurance companies operating in Nepal (Macroeconomic indicators of Nepal 2008).

For the study from total financial institutions we have selected two leading A level commercial banks of Nepal i.e. Everest Bank Ltd and Nepal Investment Bank Ltd.

3.3 Sources of Data :

This study is based on secondary data.

3.3.1 Secondary Sources :

The secondary data have been collected through annual reports of the concerned banks are the major sources of the data for the study. However, besides the annual reports of the subjected banks the following source of data shall also be used in the respective corner of the study.

1. NRB reports

2. Various publications dealing in the subject matter of the study

3. Various articles published in the News papers

4. Annual financial reports of the banks

Besides the above, any kind of other sources such as assertions, interviews, remarked by the specialist of those are capable improvising valuable data and conclusion, shall be considered in the study.

3.4 Data Collection Procedure :

The Annual Report of concern bank was obtained from field visiting of these banks especially from their corporate office. NRB publication, such as Quarterly, Economic Bulletin, Banking and financial statistics, Economic Report, annual Report of NRB etc. has been collected from the personal visit of concerned department of NRB at Baluwatar. The data on some aspect of these banks was obtained from the website www.nepalstock.com.np. of Nepal stock exchange.

3.5 Method of Data Analysis :

Mere collection of data have nothing to mean unless and until analyses it by using financial and statistical tools and technique. Hence , some of the important financial and statistical tools have been used to analyses the income statement and balance sheet of these two joint-venture banks to extract some valuable information , which will be beneficial for further its operation.

Shareholders, managers, tax authorities and other interested group seek answer to the following important question about a bank, what is the investment and deposit pattern of the bank at a given point of time to answer the above questions, bank has to prepare two major financial statements-the balance sheet and income statement . The balance sheet shows the financial position or condition of the bank at a given point of time.

3.5.1 Financial Tools :

The collected data can be analyses by using financial tools such as ratio analysis, funds flow analysis, cash flow analysis, comparative statement analysis, common –size statement analysis etc. Out of these, only ratio analysis has been used as means of financial tools to analyze the gathered data.

A bank communicates financial information to the public through financial statements and reports. The financial statements contain summarized information of the bank's financial affairs, organized systematically. The two basic financial statements of the bank are balance sheet and profit and loss account. These statements are used by investors and financial analyst to examine the bank's performance in order to make investment decision. Thus, ratio is one of the widely used financial tools that have been used to analyze the balance sheet and income statement. The income statement or profit and loss account reflects the performance of the banks over a period. In order words, it shows the results of business activities or operations during a certain period, usually a year. It represents the summary of income obtained and the costs incurred by bank during a year. The analysis of financial statements is an important aid to financial analysis.

3.5.1.1 Ratio Analysis :

A ratio analysis is simply one number expressed in terms of another and as such it express the quantitative relationship between any two numbers. Ratio can be expressed in terms of percentage, proportion and as coefficient. The technique of ratio analysis is a part of the whole process of analysis of financial statements of any business of industrial concern especially to take output and credit decision. Through this technique, a comparative study can be made between different statistics concerning varied facts of a business different statistics concerning varied facts of business units. Just as the blood pressure, pulse and temperatures are the measures of the health of an individual. So, ratio analysis measures the economic financial health of a business concern. Thus, the technique of ratio analysis is of a considerable significance in studying the financial stability, liquidity profitability and the quality of the business and industrial concerns. (Kothari, 1994: 169)

From the viewpoint of this study ratios have been classified into six groups:

Liquidity Raito
Turnover Raito

Profitability Raito

Structural Raito

Credit Raito

Stability Raito

Liquidity Ratio :

Difference between current assets and current liabilities is known as working capital, which provides the liquidity in business organizations. It is extremely essential for a business organization to be able to meet its obligations as they become due, so it should maintain sufficient liquidity neither excess nor less. As it measures the ability of the firm to meet its short-term obligations, it reflects the short-term financial strength and weakness of the firm.

A high degree of liquidity shows inability of proper utilization of funds whereas the lack of liquidity shows, the signal of poor credit worthiness, loss of creditors' confidence or even in legal tangles resulting in the closure of the company. So the firm should maintain appropriate liquidity over the immediate future to need its short-term liabilities as they fall due. To measure the liquidity position of banks under study the following ratios have been calculated:

Investment on Govt. Security to Current Assets $=$ $\dfrac{\text{\textit{Investment on Govt. Securities}}}{\text{\textit{Total CA}}}$

Loan and Advances to Current Assets Ratio $=$ $\dfrac{\text{\textit{Loan and Advances}}}{\text{\textit{Total Current Assets}}}$

Fixed Deposit to Total Deposit Ratio $=$ $\dfrac{\text{\textit{Total Fixed Deposit}}}{\text{\textit{Total Deposit}}}$

Saving Deposit to Total Deposit $=$ $\dfrac{\text{\textit{Total Saving Deposit}}}{\text{\textit{Total Deposit}}}$

Short-term Loan to Total Deposit $=$ $\dfrac{\text{\textit{Short-term Loan}}}{\text{\textit{Total Deposit}}}$

Turnover Ratio:

Turnover means the frequency of collection of funds and ability to deploy in profitable sector. The turnover ratio play a significant role in order to assess the efficiency of management in employing total deposit into loan, advance, overdraft and bills purchased and discounted which are core functions of the joint-venture commercial banks. To measure the turnover ratio of banks under study the following ratios have been calculated:

$$\textit{Loans and Advances to Total Deposit} \quad = \quad \frac{\textit{Loan and Advances}}{\textit{Total Deposit}}$$

$$\textit{Loans and Advances to Fixed Deposit} \quad = \quad \frac{\textit{Loan \& Advances}}{\textit{Fixed Deposit}}$$

$$\textit{Loans \& Advances to Saving Deposit} \quad = \quad \frac{\textit{Loans \& Advances}}{\textit{Saving Deposit}}$$

Profitabiliy Ratio:

Profit earning is the main objective of each business concern. A company should earn profits to survive and to grow over a long period. Profitability should be distinguished from profits. Profit refers to the absolute quantum of profit whereas Profitability refers to the ability to earn profits. Profitability is a measure of efficiency and control. It is the main objective of every concern to earn maximum profit not in absolute terms but also in relative terms. Profit is an absolute measure of earning capacity and profitability is the relative measure of earning capacity.

Profit is the engine that drives the business concern. Profit is an index of economic progress. Profits are the test of efficiency and a measure of control the management. It is a measure of the worth of owners' investment. It is the margin of safety to creditors. It is a source of fringe benefits to employees. Profit is a measure of tax paying capacity to government.

Profitability ratios are employed by management in order to assess how efficiently they carry on business operations. Profitability is the main base for liquidity as well as solvency. Creditors, banks and financial institutions are interested in profitability ratios since they indicate liquidity or capacity of the business to meet interest obligations. Owners are interested in profitability for they indicate the

growth of and also the rate of return on their investments. Many ratios are being used in such type of analysis which are as follows:

$$\text{Interest Earned to Total Assets} = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

$$\text{Interest Paid to Total Assets} = \frac{\text{Interest Paid}}{\text{Total Assets}}$$

$$\text{Cost of Services to Total Assets Ratio} = \frac{\text{Cost of Services}}{\text{Total assets}}$$

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

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

$$\text{Earning Yield} = \frac{\text{EPS}}{\text{Market Value Per Share}}$$

$$\text{Dividend Yield} = \frac{\text{DPS}}{\text{MVPS}}$$

$$\text{Dividend Payout Ratio} = \frac{\text{DPS}}{\text{EPS}}$$

$$\text{PE Ratio} = \frac{\text{Market Value Per Share}}{\text{Earning Per Share}}$$

Structural Ratio:

Structure refers to the composition of debt and equity in capital structure. Debts and equities are the long-term obligations of the bank and others liabilities that appears in the liability side of the balance sheet are termed as short-term obligations. This ratio is used to measure the type of proportion of debt to equity have been used by the bank in its capital structure. The different mix of debt and equity can be maintained in capital structure but am optimum is one that minimizes the financial risk of bank as well as overall cost of funds and maximizes the wealth of shareholders as well as the stock price in the market.

There fore, a bank should have a strong short – term liquidity as will as long – term financial position of the bank. The long – term financial position of the bank is determined by the leverage or capita structure. The different leverage ratios are used to calculate the financial risk and the banks ability of using debt for the benefits of the maximization of shareholders wealth. These ratios are also used to measure the proportion of outsiders fund in relation to total assets and net worth.

The ratio can be calculated on the following variables:

Total debts to Shareholders Equity Ratio = $\dfrac{\textit{Total debts}}{\textit{Shareholders Equity (Net worth)}}$

Credit Ratio:

Banks cannot guess the time that the depositors demanded the fund .Therefore , it should have kept certain amount of money to pay the depositors as per their requirement is not beneficial for the banks. Instead of keeping the fund idle, amount should be invested by banks in government securities. Following ratios have been calculated with respect to this Ratio :

Cash and Bank Balance to Total Deposit = $\dfrac{\textit{Cash and Bank Balance}}{\textit{Total Deposit}}$

Invest on Govt. Securities to Total Deposit = $\dfrac{\textit{Invest on Govt. Securities}}{\textit{Total Deposit}}$

Total Investment to Total Deposit = $\dfrac{\textit{Total Investment}}{\textit{Total Deposit}}$

Stability Ratio:

Stability means the power or internal strengths to remain in the competitive market. Banking sector is the service – rendering organization. So, it tries to remain in the competitive environment for ever to the economic development of the country as well as to create employment opportunity.

Following ratio measures the stability of the banks:

Total Deposit to Net Worth = <u>**Total Deposit**</u>
Net Worth

Net Worth to Total Assets = <u>**Net Worth**</u>
Total Assets

3.5.2 Statistical Tools:

Statistical tools help to find out the trends of financial position of the bank. It also analyzes the relationship between variables and helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan & advances or investment on other companies. Ranges of statistical tools are also used to analyze the collected data and to achieve the objectives of the study. Simple analytical tools such as standard deviation, Karl Pearson's coefficient of correlation, trend analysis adopted which are as follows:

a. Airthmetic Mean :

The arithmetic mean is the most popular and commonly used measure of central tendency, which represents the entire data by a single value. Its value can be obtained by adding together all the items and by dividing this total by the number of items. Symbolically.

Aithmetic Mean ($\overline{X}$) = <u>**$X_1 + X_2 + X_3 + \ldots\ldots\ldots X_n$**</u>
N

Where,

$\overline{X}$ = Arithmetic Mean

$X_1 + X_2 + X_3$ = Value of Variables

N = Total No. of Observations

b. Standard Deviation :

Karl Pearson propounded the standard deviation concept 1893. It is by for the most important and widely used measure of studying dispersion. The standard deviation measure the absolute dispersion or variability of a distribution; the grater the amount of dispersion or variability, the greater the standard deviation, for the greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as the homogeneity of a series; and vice –versa.

Thus , the standard deviation is the absolute measure of risk. The standard deviation of the distribution of rate of return is simply the square root of the variance of the return around the central value or mean. The formula for computing SD of variable X is given by,

$$\textbf{S.D} (†) \quad = \quad \sqrt{\frac{(X\ Z\bar{X})^2}{N\ Z1}} = \sqrt{\frac{x^2}{N\ Z1}}$$

Where,

> † = The Greek latter sigma, which denote the standard deviation.
>
> x^2 = Sum of the mean deviation squared.
>
> N = Total number of observation

c. Coefficient of Variation (CV) :

As mentioned earlier standard deviation is the absolute measure of risk where as coefficient of variation is a relative measure of risk. In the case of the banks having different mean returns, SD misleads to the decision. Hence to overcome on such a problem, standardized per unit of risk can be used to measure the risk which is called coefficient of variation. The CV is computed by using following formula:

$$\mathbf{CV} \quad = \quad \dagger / \overline{X}$$

Where,

$$\dagger \quad = \quad \text{S.D}$$

$$\overline{X} \quad = \quad \text{mean}$$

Lower the value of CV, lower will be the volatility or risk of the distribution, more the CV, higher will be the volatility or risk of distribution.

d. Correlation Analysis :

When the relationship is of a quantitative nature, the appropriate statistical tool for discovering and measuring the relationship and expressing in a brief formula is known as correlation."

Thus, Correlation analysis refers to the techniques used in measuring the closeness of the relation ship between the variables.

Various method can be used to study the correlation between two variables but one of the most widely used correlation analysis techniques is Karl Pearson's correlation coefficient method.

Karl Person's correlation coefficient can be calculated by using following formula:

$$\mathbf{r} \quad = \quad \frac{N \quad XY Z \quad X \quad Y}{N \quad X^2 \, Z(\quad X)^2 \, N(\quad Y)^2 \, Z(\quad Y)^2}$$

Where ,

r $=$ Correlation coefficient (lies between+- 1)

N $=$ Number of Observations

X and Y $=$ Two variable.

Interpretation of correlation coefficient (r) :

The value of correlation coefficient ranges between -1 and +1 following rules are available in interpreting the value of correlation coefficient :

When r = +1 , it indicates there is perfect positive relationship between the variables.

When r= -1 , ti means there is negatively perfect correlation between the two variables.

When r= 0 , the variables are uncorrelated

when r fall between 0 to +1 , two variables are increasing or decreasing to the same direction.

when r ranges 0 to -1 , two variables are increasing or decreasing in the opposite direction.

Testing the significance (PE) :

Provable error of the correlation coefficient denoted be PE judges the significance of calculated value "r" . It is possible to determine the reliability of the value of the coefficient of correlation by applying the following formula.

$$\textbf{Probable error (PE)} \quad = \quad \frac{0.6745(1\,Z\,r^2)}{\sqrt{N}}$$

Where

         r   =   Coefficient of correlation.

         N   =   No. of observations.

Interpretation:

If the value of r< PE, there is no evidence of correlation, the value of r is insignificant.

If r >6PE, it is significant.

If the value of r is not more than 6 times PE, there does not exist the significant relationship between the given variables.

e. Trend Analysis :

Trend analysis is valuable to compare the financial ratios for a given company over time. in this way, the analyst is able to detect any improvement or deterioration in its financial condition and performance.'

There are various methods that can be applied for trend analysis but among them, method of least square is the most widely used mathematical method in order to find out the general movement of a variable in long run. It is a mathematical method and with its help a trend line is fitted to the data in such a manner that the following two conditions are satisfied.

1. $(Y-Yc) = 0$

i.e. he sum of deviation of the actual values of Y and the computed values of Y is zero

where

Y = the actual value

Yc = the computed value of Y

2. $(Y - Yc)2$

is least i.e. the sum of the squares of the deviations of the actual and computed values is least from this line and hence the name method of least squares. The line obtained by this methods is known as the line of best fit.

Let the trend line between the dependent variable Yc and independent variable X be represented by

Y = $a + bX$

Then for any given value of independent variable X, the estimate value of Y denoted by Yc given by above equation is

Yc = $a + bX$

Where

A   =   Y intercept or value of Y when $X = 0$

B   =   slope of the rend line or amount of change that comes in Y for unit change in X.

To find the values of the constants a and b the following two normal equations are to be solved :

$$Y = N\,a + b \qquad X$$

$$XY = a \qquad X + b \qquad X^2$$

Where N represents number of years for which data are given.

It can be measured variable X from any point of time in origin such as the first year. But the calculations are very much simplified when the mid point in time is taken as the origin because in that case the negative values in the first half of the series balance out the positive values in the second half so that $X = 0$. in other words, the time variable is measured as a deviation from its mean.

Since $X = 0$ the above two normal equations would take the form.

To make calculation easier, the deviation of the independent variable (i.e. time) are taken from the middle of the time period so that $X = 0$. Then the above two equations change to

$$Y \; = Na \qquad\qquad a \; = \qquad Y / N$$

And $XY = b \qquad X^2 \qquad b \; = \qquad XY / \qquad X^2$

The above – mentioned method is most valuable to determine the long – term tendency of the financial indicators.

Chapter - IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter, all the efforts have been made to analyze and present the collected data from the various sources. This chapter determines the quality of the study because how for the collected data are present and analyze with the help of various financial and statistical tools, tables, graphs etc as of meaningfully and clearly. This chapter his performed to know the clear picture of the deposit and investment pattern of the commercial banks.

4.1 Analysis of Data Using Financial Tools :

4.1.1 Basic Performance Indicators of Joint Venture Banks :

Table No. 3

Everest Bank Ltd

(Rs. in million)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Loan and Advance	5049.58	6095.84	7900.01	10136.25	14082.69	18836.43
% Change		20.72	29.60	28.31	38.93	33.76
Total Deposit	6694.96	8063.90	10097.69	13802.44	18186.25	23976.30
% Change		20.45	25.22	36.69	31.76	31.84
Net Worth	613.9	762	998.05	1197.97	1514.67	2111.49
% Change		24.12	30.98	20.03	26.44	39.40
Net Profit	94.18	143.57	170.81	237.29	296.41	450.12
% Change		52.44	18.97	38.92	24.91	51.86

Nepal Investment Bank Ltd

(Rs. in million)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Loan and Advance	5922.00	7339.00	10453.00	13178.00	17769.00	27529.00
% Change		23.93	42.43	26.07	34.84	54.93
Total Deposit	7923.00	11525.00	14255.00	18927.00	24489.00	34451.00
% Change		45.46	23.69	32.77	29.39	40.68
Net Worth	638.54	729.05	1180.17	1415.44	1878.12	2686.78
% Change		14.17	61.88	19.94	32.69	43.06
Net Profit	117.00	153.00	232.00	350.00	501.00	697.00
% Change		30.77	51.63	50.86	43.14	39.12

The table shows that both the banks are able to increase the main indicators of business in increasing trend. As NIBL has operated its business 8 years earlier than EBL, amount wise NIBL's business figure is greater than EBL.

The increasing trend of Total Loan and Advances is ranged from 20.72% to 38.93% for EBL whereas it is ranged from 23.93% to 54.93%. Similarly the increasing tend of Total Deposit is ranged from 20.45% to 36.69% for EBL and it is ranged from 23.69% to 45.46 % for NIBL. This increasing trend of both the banks shows that both are able to utilize the collected deposit in loan and advances.

The increasing trend of Net worth of EBL is ranged from 20.03% to 39.40% whereas it is ranged from 14.17% to 61.88 % for NIBL. Similarly the increasing trend of Net Profit of EBL is ranged from 18.97% to 52.44% and it is ranged from 30.77% to 51.63% for NIBL. The overall financial indicators of both the bank is increased similarly and is satisfactory..

4.1.2 Ratio Analysis :

Ratio analysis is by far the most widely and frequently used techniques out of the various methods of financial statement analysis. It is a process of finding out the financial strength and weakness of a firm. It is express in percentage or times. In this section, the collected data have been presented and analyses, in the framework of ratio analysis as mentioned in the research methodology.

4.1.2.1 Turnover Ratio :

Turnover means the frequency of collection of funds and ability to deploy in profitable sector. The turnover ratio play a significant role in order to assess the efficiency of management in employing total deposit into loan, advance, overdraft and bills purchased and discounted which are core functions of the joint-venture commercial banks.

(1) Loans and Advances to Total Deposit :

Banks collect the fund from various persons. In order to pay interest on these collected funds, bank must be able to grant loan and advance to the needed person at the higher rate than it pays to its depositors. It is calculated by dividing loans & advance by total deposit, which is symbolically expressed as follows:

$$\textit{Loans and Advances to Total Deposit} \quad = \quad \frac{\textit{Loan and Advances}}{\textit{Total Deposit}}$$

Higher ratio indicates that the bank is able to convert its deposits in the form of loan and advances rapidly. The loans and advances to total deposits ratio of EBL & NIBL have been shown in the following table.

Table No. 5

Loan and Advances to Total Deposit Ratio (in %)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V
EBL	75.42%	75.59%	78.24%	73.44%	77.44%	78.56%	76.45%	1.97%	2.58%
NIBL	74.74%	63.68%	73.33%	69.63%	72.56%	79.91%	72.31%	5.41%	7.48%

Annex-1

The above table shows the position of Loan and Advances to Total Deposit ratio of selected banks. It shows that EBL is able to utilize its collected deposit into loan and advances in constant ratio of on an

average 76.45 %. It means 76.45% of total deposit is utilized as loan and advances with standard deviation of 1.97 % and CV of 2.58 %, which means the ratio, is less variable and consistent.

Similarly the Loan and advance to Total Deposit ratio of NIBL is 72.31% on an average with standard deviation of 5.41% and C V of 7.48 % which means the ratio is more variable and less consistent compared to EBL. The ratio shows EBL is able to convert its collected deposit into loan and advances than NIBL. But the ratios of both the banks are satisfactory.

Figure No. 1

Loan and Advances to Total Deposit Ratio (in %)
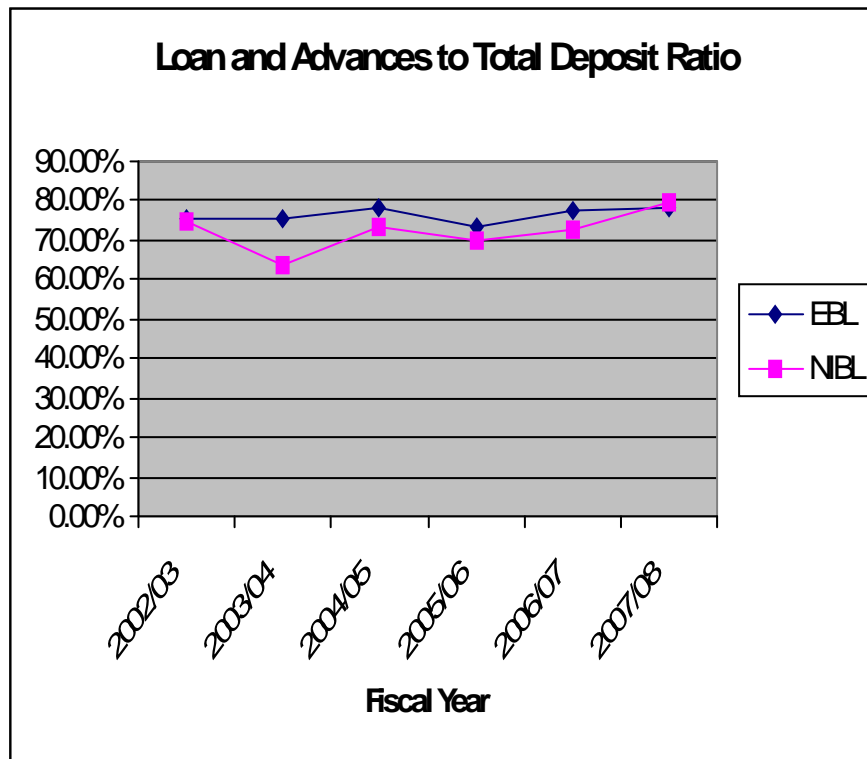
(2) Loan and Advances to Fixed Deposit :

Fixed deposit refers to a fixed sum of money, which have been kept by a depositor for a certain period of time whereas loan and advances include loans, cash credit, overdraft, bill discounted and

purchase etc. On the other hand, the bankers already know maturity period of the fixed deposits. So the bank can utilize the fund in more profitable sector than what it pays interest to its depositors. Normally rate of Fixed Deposit is more than that of saving deposit. Thus, this ratio measures the number of times that the amounts have been used in loans and advances comparison to fixed deposit. This ratio can be expressed as follows:

$$\textit{Loans and Advances to Fixed Deposit} \quad = \quad \frac{\textit{Loan \& Advances}}{\textit{Fixed Deposit}}$$

Higher ratio is preferable as it indicates that banks are converting fixed deposit into loan and advances efficiently. Calculated ratio with respect to loan & advances to fixed deposit has been arranged systematically in the following table:

Table No. 6

Loan and Advances to Fixed Deposits (in %)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V
EBL	180.68%	210.35%	232.08%	238.93%	250.29%	292.21%	234.09%	37.64%	16.08%
NIBL	354.01%	319.83%	325.41%	243.45%	236.39%	346.53%	304.27%	51.49%	16.92%

Annex-2

Figure No. 2

Loan and Advances to Fixed Deposit Ratio (in %)

Loan and Advances to Total Fixed Deposit Ratio
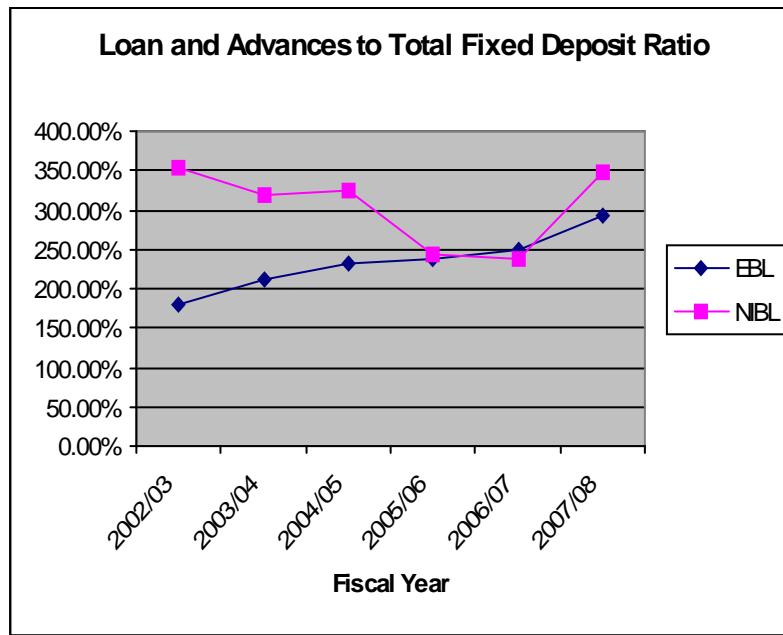
The above table and figure shows that the Loan and Advance to Total Fixed Deposit ratio of EBL is in increasing trend while the same is fluctuating in NIBL. The ratio indicates that loan and advances of NIBL is more than collected fixed deposit which is more compared to EBL. The mean ratio is 234.09% for EBL whereas it is 304.27% in NIBL. But there is more deviation on the ratio for NIBL which means there is more variability in the ratio than EBL. The C V of EBL and NIBL is 16.08% and 16.92 respectively. It means there is not much difference consistency of the ratios of both the banks.

(3) Loans & Advances to Saving Deposit :

Depositors can also deposit their amount in saving accounts. The bank can not forecast the demand of cash that the depositors make on this type of account. So there needs to be kept certain amount of money for the bank to fulfill the demand of its depositors. The ratio is calculated to examine how far the amount of saving deposit invested in the form of loan & advances to generate the interest income. It is calculated as follows:

$$\textit{Loans \& Advances to Saving Deposit} = \frac{\textit{Loans \& Advances}}{\textit{Saving Deposit}}$$

The loan & advances to saving deposit ratio for the six year period are calculated in the following table:

Table No. 7

Loan and Advances to Saving Deposit

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V
EBL	183.09%	163.40%	164.35%	146.28%	155.97%	158.50%	161.93%	12.23%	7.55%
NIBL	243.30%	150.20%	155.93%	163.05%	165.41%	201.11%	179.83%	35.83%	19.92%

Annex-3

Figure No.3

Loan and Advances to Saving Deposit
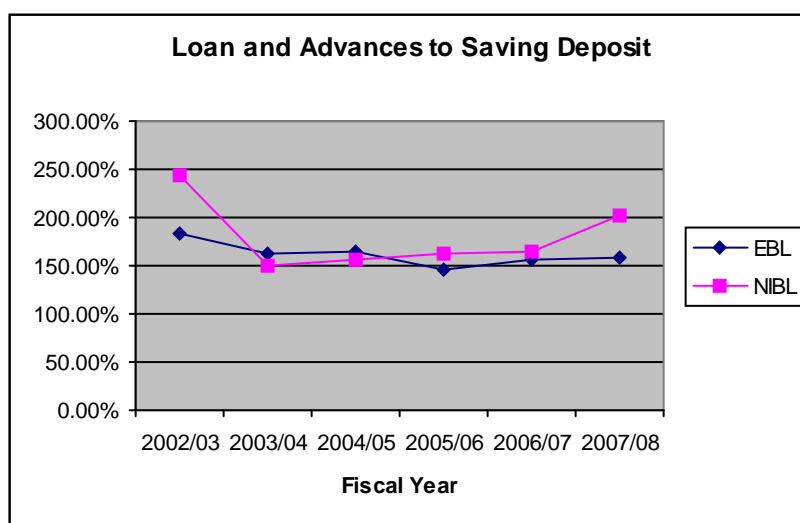
The above table and figure shows that the Loan and advances to Saving Deposit ratio of both the banks are fluctuating. The ratio is ranged from 183.09% in 2002/03 to 146.28% in 2005/06 for EBL whereas it is ranged from 243.30% in 2002/03 to 150.20% in 2003/04 % in 2003/04 for NIBL. The decreasing trend of this ratio may be due to decrease in the rate of saving deposit compared to Fixed Deposit account. The mean ratio of EBL is 161.93% and it is 179.83% in NIBL, which means the Loan and advances of NIBL is more than that of collected deposit on saving account compared to EBL. But St. Dev of 12.23 and CV of 7.55% of EBL show that there is less variable and consistency in the ratio of selected periods than that of NIBL's standard deviation of 35.83% and CV of 19.92%.

4.1.2.2 Profitability Ratio :

Profitability ratios are employed by management in order to access how efficiency they carry on business operation. Banks should earn profit to survive and to grow ever a long period.

(4) Interest Earned to Total Assets Ratio:

Interest is the main source of earning in commercial banks. Interest earned consists of income from loans, overdrafts and advances, treasury bills, foreign currency placement and others. The prime sources of interest earned are interest received from loans, overdrafts, and advances. This ratio indicates the bank's ability to earn interest on its investments in comparison to total assets. It is calculated by dividing interest earned by total assets, which can be expressed mathematically as follows:

$$\textit{Interest Earned to Total Assets} \quad = \quad \frac{\textit{Interest Earned}}{\textit{Total Assets}}$$

Higher ratio indicates batter utilization of resources and vice versa.

Following table presents the interest earned to total assets ratio of these two banks during the study period.

Table No. 8

Interest Earned to Total Assets Ratio (in %)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V
EBL	6.46%	6.84%	6.13%	5.66%	5.34%	5.57%	6.00%	0.58%	9.64%
NIBL	5.10%	5.52%	5.52%	5.50%	5.74%	5.64%	5.50%	0.22%	4.01%

Annex-4

Figure No. 4

Interest Earned to Total Assets Ratio

Interest Earned to Total Assets Ratio (%)
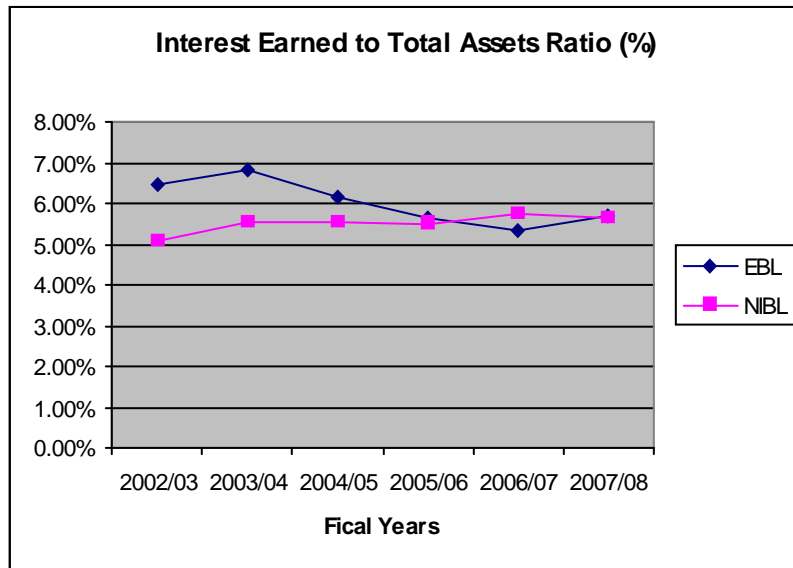
The above table and figure shows that the Interest Earned to Total Assets ratio is fluctuating in both the banks But on an average it is higher in EBL than that of NIBL. The mean ratio is 6.00% in EBL whereas it is 5.50% in NIBL, which means EBL has utilized more of its assets on interest earning sector compared to NIBL. But St. Dev of 0.58% and C V of 9.64 % of EBL show that there is more fluctuation in the ratio than NIBL's St. Dev of 0.22% and CV of 4.01%. However the Interest Earned to Total Assets ratio of both the banks are satisfactory.

(5) Interest Paid to Total Assets Ratio :

Banks have to pay the interest to the depositors as well as to the creditors, from whom the fund is borrowed. It constitutes a major part of total expenses incurred by a bank. It can be expressed symbolically as follows:

$$\textit{Interest Paid to Total Assets} \quad = \quad \frac{\textit{Interest Paid}}{\textit{Total Assets}}$$

Higher ratio in not preferable. In the following table, interest paid to total assets ratios of these two banks are compared during the period.

Table No. 9

Interest Paid to Total Assets Ratio (%)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V

EBL	3.82%	3.29%	2.55%	2.52%	2.41%	2.28%	2.81%	0.61%	21.64%
NIBL	2.10%	2.46%	2.21%	2.30%	2.48%	2.55%	2.35%	0.18%	7.54%

Annex-5

Figure No. 5

Interest Paid to Total Assets Ratio
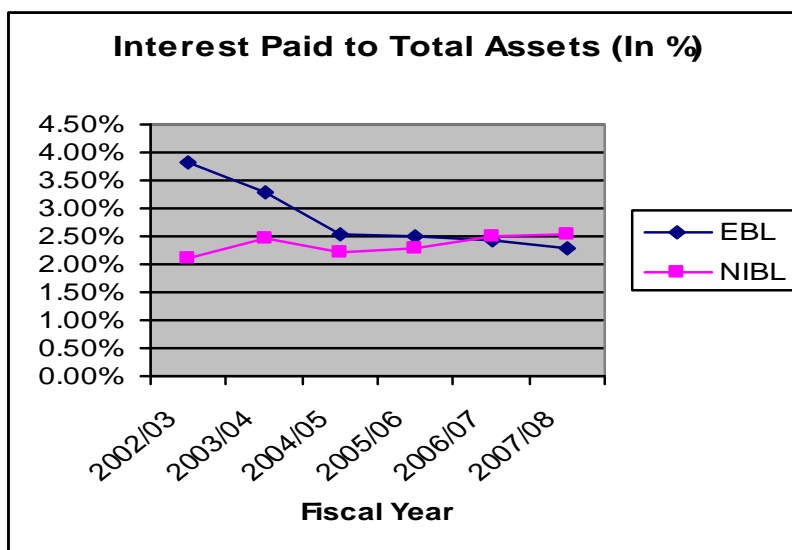
The above table and figure shows that the Interest Paid to Total Assets Ratio is in decreasing trend in EBL whereas it is in increasing trend in NIBL except 2004/05. But mean ratio of EBL is 2.81 with St. Dev of 0.61% and C V of 21.64% shows that there is more volatile and less consistency on the ratio of EBL compared to St. Dev of 0.18% and C V of 7.54 % of NIBL. The table shows that the Interest paid rate is higher in EBL compared to NIBL. However EBL is able to decrease its interest paid ratio in consequent years.

(6) Cost of Services to Total Assets Ratio :

The ratio is similar to interest paid to total assets ratio except it includes personal expenses such as salaries, training expenses, allowances contribution o provident fund, uniforms etc. in numerator. Hence cost of services is the sum of interest paid in borrowings and deposit plus salaries allowances, provident fund and other operating expenses. It is calculated by using following formula:

Cost of Services to Total Assets Ratio = *Cost of Services*

Table No. 10

Cost of Services to Total Assets Ratio (%)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V
EBL	5.45%	4.88%	4.17%	3.86%	3.64%	3.68%	4.28%	0.73%	17.07%
NIBL	3.98%	4.27%	3.95%	3.76%	3.89%	3.84%	3.95%	0.17%	4.40%

Annex-6

Figure No. 6

Cost of Services to Total Assets Ratio
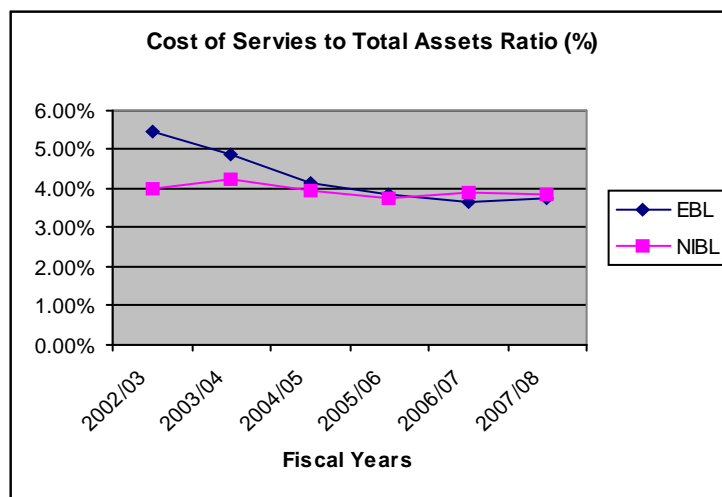
The above table and figure shows that the Cost of Services to Total Assets Ratio is in decreasing trend in EBL which it is fluctuating in NIBL. The less the cost of service more will be profit and vice versa. So the mean ratio of EBL i.e. 4.28% shows that cost of service is high compared to mean ratio of 3.95% of NIBL. But the St. Dev of 0.73% and C V of 17.07 % show that there is more volatility and less consistency in the ratios of EBL in selected period.

(7) Net Profit to Total Assets Ratio :

This ratio shows the relationship between net profit and total assets. The ratio measures the return on assets. The higher ratio represents better utilization of resources and vice versa. It is calculated by dividing net profit by total assets, which can be expressed symbolically as follows:

Net profit to Total Assets Ratio = *Net Profit*

Total Assets

The table depict the present of net profit to total assets of these two banks:

Table No. 11

Net Profit to Total Assets Ratio

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V
EBL	1.17%	1.49%	1.46%	1.49%	1.38%	1.62%	1.43%	0.15%	10.50%
NIBL	1.30%	1.15%	1.44%	1.64%	1.82%	1.79%	1.52%	0.27%	17.73%

Annex-7

Figure No. 7

Net Profit to Total Assets Ratio
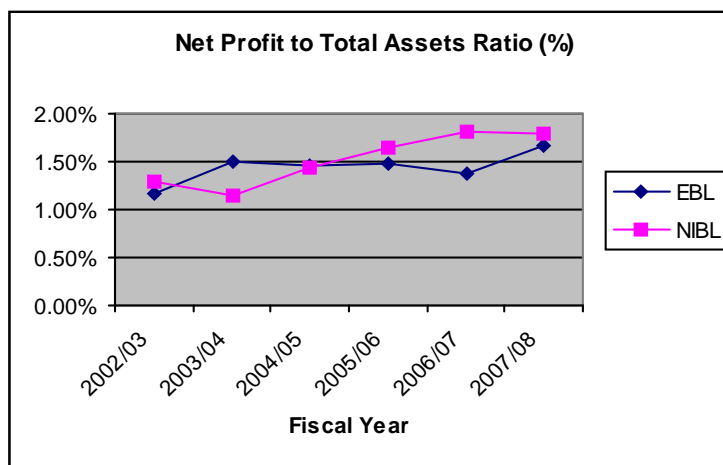
The above table and figure shows that there is fluctuation in the Return on Assets of both the banks. In NIBL is in increasing trend except in 2003/04 and 2007/08. The net profit to total assets is higher in 2007/08 in EBL whereas it is higher in 2006/07 in NIBL. Similarly it is lower i.e. 1.17% in 2002/03 in EBL and it lower i.e. 1.15% in 1003/04 in NIBL. On an average the Return to Total Assets is higher in NIBL compared to EBL. But St. Dev of 0.27% and CV of 17.73% in NIBL show that there is more volatility and less consistency in the ratios of selected period compared to EBL.

(8) Net Profit to Total Deposit :

This ratio measures the net profit as a percentage of total deposits. This ratio has the inverse relationship with the total deposits. The higher interest bearing deposit brings lower level of net profit and vice-versa. It is calculated by diving net profit by total deposits. Symbolically,

$$Net\ Profit\ to\ Total\ Deposit\quad =\quad \frac{Net\ Profit}{Total\ Deposit}$$

Table No. 12

Net Profits to Total Deposit Ratio (%)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V
EBL	1.41%	1.78%	1.69%	1.72%	1.63%	1.88%	1.68%	0.16%	9.49%
NIBL	1.48%	1.33%	1.63%	1.85%	2.05%	2.02%	1.72%	0.30%	17.13%

Annex-8

Figure No. 8

Net Profit to Total Deposit Ratio

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Net Profit to Total Deposit
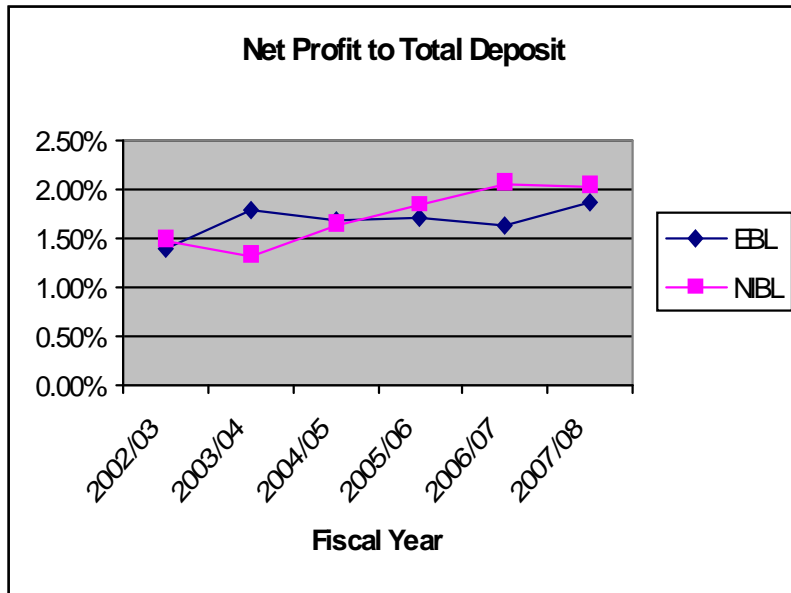
The above table and figure shows that the Net Profit to Total Deposit ratio is in fluctuating trend for the both the banks. The mean ratio of 1.72% of NIBL shows that it is able to make much profit compared on its collected deposit than EBL of mean ratio 1.68%. However the St. Dev of 0.30% and CV 17.93% shows that there is more fluctuation and less consistency in the ratio of selected period of NIBL compared to EBL.

(9) Earning Yield:

Earning yield evaluate the shareholders' return in relation to the market value of the share. If earning per share increases, there is a greater chance of increasing the market value per share, it is calculated by dividing earning per share by market value per share.

$$\textit{Earning Yield} \quad = \quad \frac{\textit{EPS}}{\textit{Market Value Per Share}}$$

The following table depicts the earning yield of these two JVBs during the study period:

Table No. 13

Earning Yield

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V

EBL	6.72%	6.70%	3.73%	3.32%	2.35%	1.73%	4.09%	2.15%	52.45%
NIBL	4.98%	5.50%	4.94%	4.71%	3.62%	2.36%	4.35%	1.16%	26.56%

Annex-9

Figure No. 9

Earning Yield
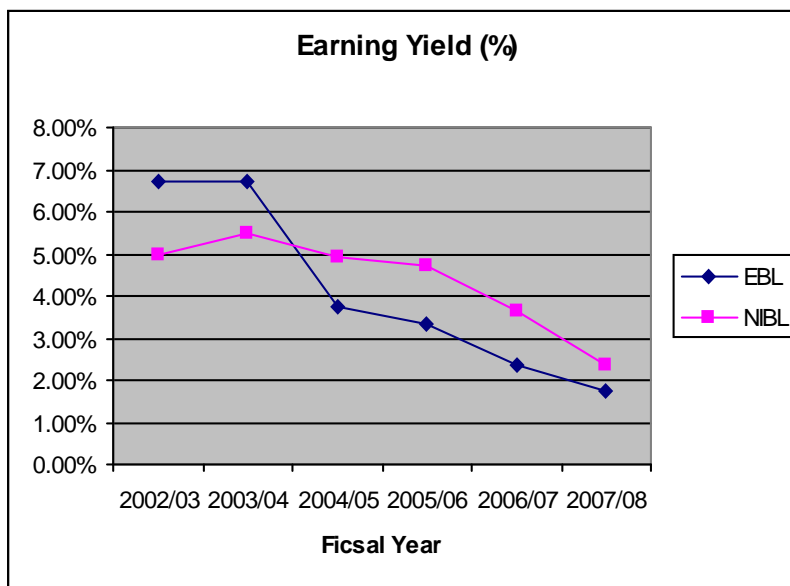
The table and figure shows that the earning yield is in decreasing trend for both the banks. This may be due to increase in the market value of the shares of the banks. Earning Yield of EBL is 4.09% on an average whereas it is 4.35% for NIBL. As, the St. Dev of the ratio of EBL is 2.15% and CV of 52.45% shows that there is more fluctuation in the ratios for the selected period than the NIBL. The market value of the share is affected by other variables like dividend, performance of the company, and the chances of distribution of bonus and right shares etc. However the ratio of selected companies on the selected period shows that NIBL earning yield is higher than EBL.

(10) Dividend Yield :

Dividend yield shows the relationship between dividend per share and market price per share. This ratio becomes useful when decision has to be taken by analyzing per rupee dividend in terms of market value of the shares rather than book value. It can be expressed mathematically as follows:

Dividend Yield = *DPS*

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The calculated ratios of these two banks are presented in the following tables:

Table No. 14

Dividend Yield (in %)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V
EBL	4.49%	2.94%	0.00%	1.81%	0.41%	0.64%	1.72%	1.73%	101.03%
NIBL	5.03%	3.19%	3.13%	5.99%	2.02%	1.97%	3.56%	1.63%	45.81%

Annex-10

Figure No. 10

Dividend Yield
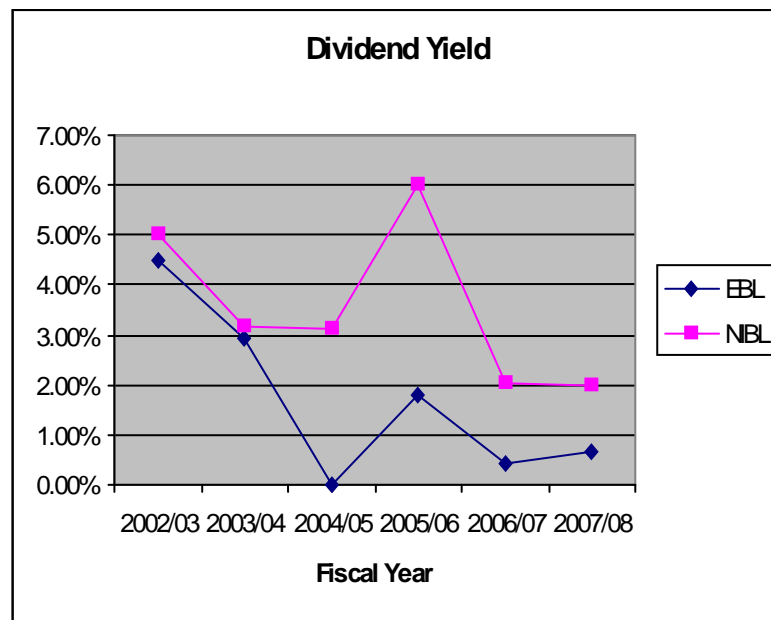
Distribution of Divided merely depends upon the profitability of the company. More the profit more will be dividend and vice versa. In the above table and figure shows that dividend yield of both the banks are in fluctuating trend. NIBL has distributed dividend in all the selected years while EBL has not distributed dividend on 2004/05. If company wants to retain profit for more profitable sector then it may not distribute dividend. And the divided is also one if the major factor of market price of share.

In the selected period Dividend yield is higher in NIBL i.e. 3.56% than EBL i.e. 1.72%. The St. Dev of selected companies shows not so volatility in the ratios but CV of EBL i.e. 101.03% shows inconsistency on the variables for the selected period.

(11) Dividend Payout Ratio :

This ratio shows how much of the earning are paid as cash dividends and how much amount is retained for financial profitable investment opportunity. It can be calculated by dividing DPS by EPS which can be expressed mathematically as follows:

$$Dividend\ Payout\ Ratio \quad = \quad \frac{DPS}{EPS}$$

Dividend payout ratios for the five-year period are calculated in the following table:

Table No. 15

Divided Payout Ratio (%)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V
EBL	66.89%	43.88%	0.00%	54.57%	17.48%	36.94%	36.63%	24.49%	66.86%
NIBL	101.11%	58.03%	63.29%	127.14%	55.94%	83.51%	81.50%	28.31%	34.74%

Annex-11

Figure No. 11

Dividend Payout Ratio

Dividend Payout Ratio (%)
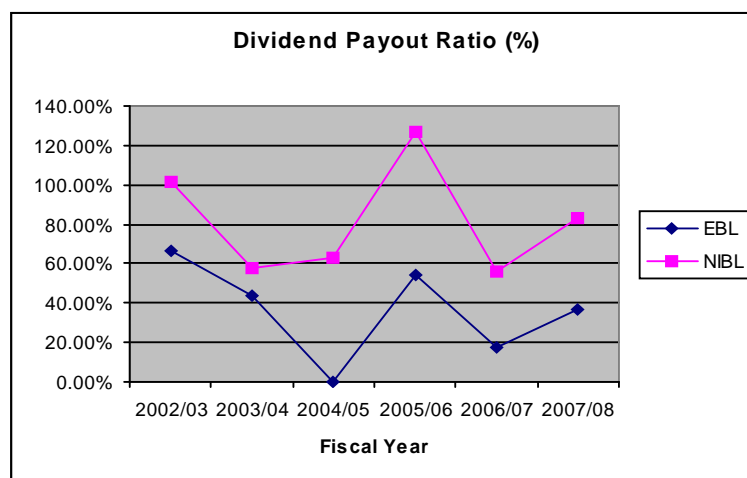
Dividend is regarded as the income from the investment done on the shares. But companies can retained dividends or distribute less than its earning per share for the future better prospects. In the above table and figure shows the fluctuating trend of dividend payout ratio. NIBL has given divided more than its EPS on the year 2002/03 and 2005/06. On an average Dividend payout ratio of NIBL is higher than EBL i.e. 36.63% <81.50%. The table shows that EBL has retained more of the EPS than NIBL. However the St. Dev and CV of both the banks shows there are much volatile and less consistent in the ratios.

(12) Price Earning Ratio :

It represents the amount investors are willing to pay for each rupee of the banks earnings. The level of PE ratio indicates the degree of confidence (or certainty) that investors have in the banks' future performance. To calculate the PE ratio, MVPS is dividend by EPS.
Symbolically,

$$PE \ Ratio \quad = \quad \frac{Market \ Value \ Per \ Share}{Earning \ Per \ Share}$$

The calculated PE ratio of these two JVBs has been presented below:

Table No. 16

Price Earning Ratio (times)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V
EBL	14.88	14.92	26.79	30.10	42.47	57.85	31.17	16.67	53.48%

| NIBL | 20.10 | 18.18 | 20.25 | 21.23 | 27.63 | 42.34 | 24.96 | 9.11 | 36.50% |

Annex-12

Figure No. 12

Price Earning Ratio.
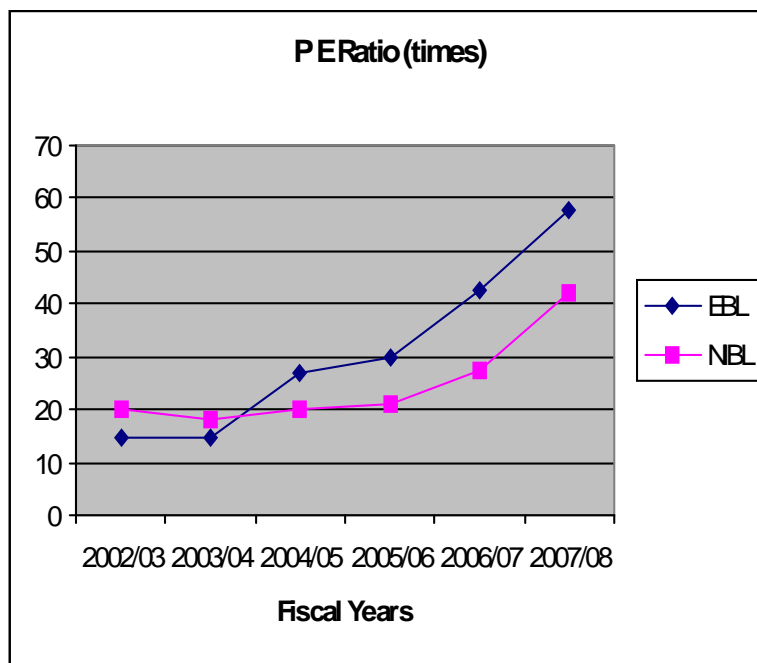
Market value of per share is affected by various factors besides EPS of the company like Dividend retention ratio, chances of bonus shares and right shares, performance of the company, turnovers, profits, management, political situation, external environment, laws etc. However investors pay more for the companies whose performance will be better in the near future and from which they can gain more. But EPS is the major factor of determining market price of the share.

In the table and figure we can see that the P E Ratio of both the banks is in increasing trend. The average ratio shows that PE ratio of EBL is greater than NIBL. In the year 2002/03 and 2003/04 the ratio of NIBL is higher but since 2004/05 PE ratio of EBL is gone upward than NIBL. This means investors are paying more to shares of EBL compares to its EPS than NIBL. But the greater St Dev of 16.67% and CV of 53.48% shows that the PE ratio of EBL is inconsistent than NIBL.

4.1.2.3 Liquidity Ratio :

Liquidity refers the ability of the bank to pay the short-term liabilities and drawings demanded by depositors in time. The lack of Proper Liquidity management would lose the confidence of the investor. Whereas, Excess liquidity implies the ineffective utilization of the collected fund, which ultimately reduces the profitability of the bank.

To assess the bank's ability to meet its short – term obligation, following liquidity ratios have been computed and analyzed.

(13) Investment on Government Security to Current Assets:

Excess cash and bank balance, which remains on the bank, are non – earning assets. Thus, instead of keeping this fund idle, it is better to invest on government security. However, the investment rate on government securities are very lower than other securities, still it is profitable for the bank to invest on it instead of keeping the fund idle. It can be calculated as follows:

Investment on Govt. Security to Current Assets = $\underline{\textit{Investment on Govt. Securities}}$
$$\textit{Total CA}$$

The following table shows the relationship between investments on government security to CA ratio from FY 2002/03 to 2007/08

Table No. 17

Investment on Government Securities to Current Assets (in %)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V
EBL	20.14%	25.99%	18.11%	22.45%	22.13%	18.00%	21.13%	3.04%	14.39%
NIBL	4.53%	15.39%	12.38%	12.02%	12.14%	8.28%	10.80%	3.80%	35.27%

Annex-13

Figure No. 13

Investment on Government Securities to Current Assets
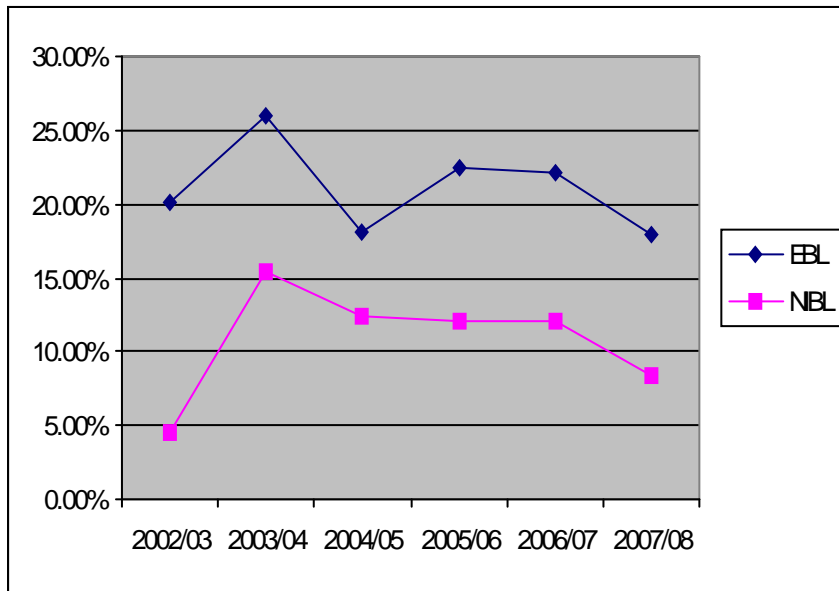
Investment on government securities is the risk free investment and it is highly liquid. Treasury bills and government bonds are the example of government securities. Generally investment is done to fill the gap between the loan and advances and deposit amount.

The above table and figure shows that EBL has invested more on government securities than NIBL. The mean ratio of Investment on Government securities to Current Assets of EBL is 21.13% and with St Dev of 3.04% and CV of 14.39% which shows that there ratios are consistent with less volatility than NIBL. The Mean ratio of NIBL is 10.80% and St. Dev is 3.80% and CV of 35.27%.

(14) Loan and Advances to Current Assets Ratio :

This ratio measures how far the bank has utilized its current assets in the form of loan and advances. The loan and advances include bills discounted & purchase, overdraft loans, cash credit etc. If the bank is able to deploy its large percentage of CA in the form of loan and advances, greater will be the amount of profit that helps the bank to operate smoothly for ever. It is calculated by dividing loan and advances by total CA, which are as follows.

Loan and Advances to Current Assets Ratio   =   *Loan and Advances*
                                                              Total Current Assets

The following table shows the relationship between loans and advances to total current assets ratio from FY 2002/03 to 2007/08.

Table No. 18

Loan and Advances to Current Assets (in %)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V
EBL	63.58%	64.23%	68.11%	64.12%	66.23%	70.31%	66.10%	2.67%	4.04%
NIBL	67.12%	56.43%	66.40%	62.79%	66.22%	72.29%	65.21%	5.27%	8.09%

Annex-14

Figure No. 14

Loan and Advances to Current Assets
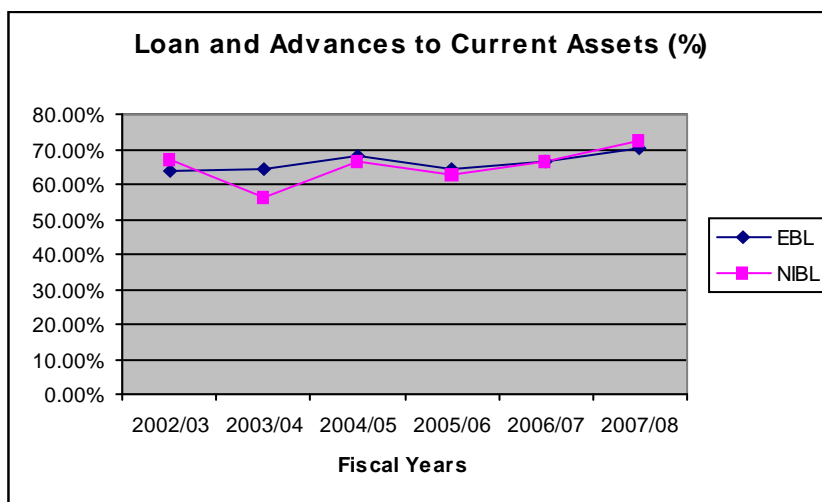
Loan and advances covers most parts in the assets side of the banks on balance sheet. And current assets are those which can be converted in cash in less than one year. So, banks need to invest on loan and advances very carefully analyzing the paying capacity of loan of the borrowers. Loan and advances have greater risk than investment on government securities but has higher return.

The above table and figure shows that the Loan and Advances to Current Assets ratio of both the banks are similar. The mean ratio of EBL is 66.10% whereas this ratio for NIBL is 65.21%. The ratios are less variable and consistent.

(15) Fixed Deposit to Total Deposit :

Total deposit consists of saving, fixed, current, call and short deposit and other. Out of these form of deposit , the depositor keeps fixed deposits for a certain period of time whose maturity period are already known to the banks. Thus, this ratio helps to know how much amount of fixed deposit have been calculated by the banks with respect to total deposit. It is calculated by dividing fixed deposit by total deposit.

Fixed Deposit to Total Deposit Ratio   =   *Fixed Deposit*

Total Deposit

Fixed deposit to total deposit ratio of these two banks have been presented in the following table.

Table No. 19

Fixed Deposit to Total Deposit Ratio (%)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V
EBL	41.74%	35.94%	33.71%	30.74%	30.94%	26.89%	33.33%	5.13%	15.40%
NIBL	21.11%	19.91%	22.53%	28.60%	30.69%	23.06%	24.32%	4.32%	17.78%

Annex-15

Figure No. 15

Fixed Deposit to Total Deposit Ratio
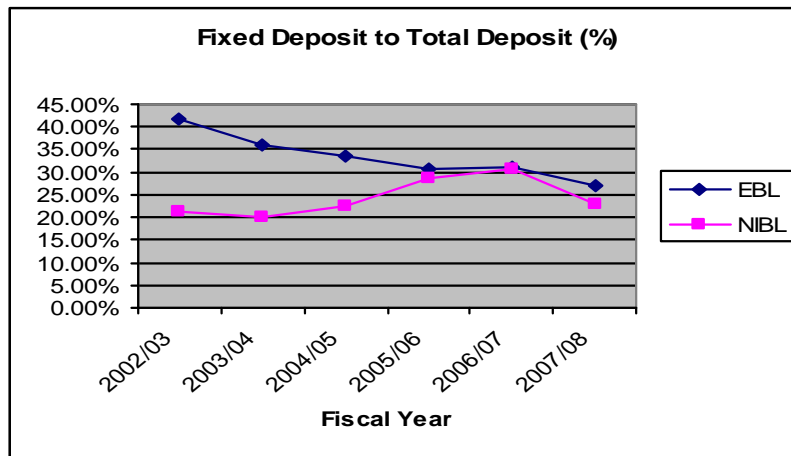
As bank knows the maturity period of the fixed deposit accounts, they can invest these amounts in the long term loans. But the interest rate of fixed deposit is generally high compare to saving accounts.

In the above table and figure, the portion of fixed deposit to total deposit is high in EBL than NIBL. The ratio is in decreasing rate of EBL whereas it is increasing in NIBL up to FY 2006/07 and it is decreased in 2007/08. The mean ratio of 33.33% of EBL shows that EBL is able to collect more fixed deposit in its total deposit the NIBL whose mean ratio is 24.32%. The deviation between there ratio is 5.13% for EBL and it is 4.32% in NIBL with acceptable consistency.

(16) Saving Deposit to Total Deposit :

The maturity period of deposits other than fixed can not anticipate precisely. These types of deposits can be withdrawn by its depositors at any time. So, banks should keep high cash balance to meet their short-term obligations. However, if the banks keep high balance to meet its current obligations than its requirement, the fund will be idle which ultimately leads to reduce its profit.

Thus, this ratio measures the ability of bank to pay the amount as per the requirement of its depositors. It can be calculate as follows:

$$\textit{Saving Deposit to Total Deposit} \quad = \quad \frac{\textit{Saving Deposit}}{\textit{Total Deposit}}$$

The following table shows the relationship between saving deposit to total deposit ratio from FY 2002/03 to 2007/08.

Table No. 20

Saving Deposit to Total Deposit

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V
EBL	41.19%	46.26%	47.60%	50.20%	49.65%	49.57%	47.41%	3.39%	7.15%
NIBL	30.72%	42.40%	47.03%	42.70%	43.87%	39.73%	41.07%	5.60%	13.62%

Annex-16

Saving Deposit to Total Deposit
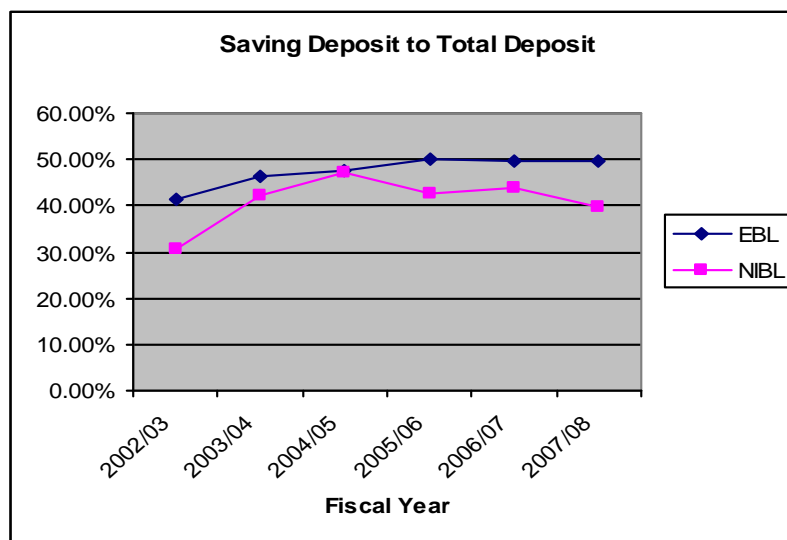
Saving Deposit is low cost deposit for the banks. Generally it contains lower interest rate than fixed and call deposit. However the withdrawal time cannot be fixed for saving deposits. So banks have to keep sufficient liquidity for these types of accounts.

The above table and figure shows that the trend of saving deposit to total deposit ratio is fluctuating for NIBL whereas it is increasing in EBL. The Mean ratio of EBL is 49.41% with standard deviation of 3.39% only which is higher that NIBL's mean ratio 41.07% and standard deviation of 5.60%. The C.V shows that the ratio is more consistent in EBL than NIBL.

4.1.2.4 Structural Ratio :

Structural ratios deal with the composition of debt and equity in capital structure.

The optimum composition of debt and equity is one that minimizes the financial risk of bank as well as overall cost of funds and maximizes the wealth of shareholders as well as the stock price in the market.

(17) Total Debts to Shareholders Equity Ratio :

This ratio indicates the proportion of outsiders' fund in relation to owner's capital that is used in financing the assets of the bank. The relationship between borrowed funds and owner's capital is a

popular measure of the long-term financial solvency of a bank. Use of debt magnifies the shareholder's earning as well as increases their risk. If the cost of debt is higher than the banks, overall rate of return, the earnings of shareholders will reduced. It is calculated by dividing total debt by shareholders equity.

Total debts to Shareholders Equity Ratio = *Total debts*

Shareholders Equity (Net worth)

A high ratio shows that the claims of creditors are greater than that of owners.

The following table represents the total debts to net worth ratio of these two banks during the study period.

Table No. 21

Total Debts to Shareholders Equity Ratio

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V
EBL	0.00%	0.00%	30.06%	25.04%	19.81%	14.21%	14.85%	12.66%	85.23%
NIBL	1.07%	49.59%	29.66%	38.86%	42.60%	39.08%	33.47%	17.13%	51.18%

Annex-17

Figure No. 17

Total Debts to Shareholders Equity Ratio

Total Debt to Shareholders' Equity
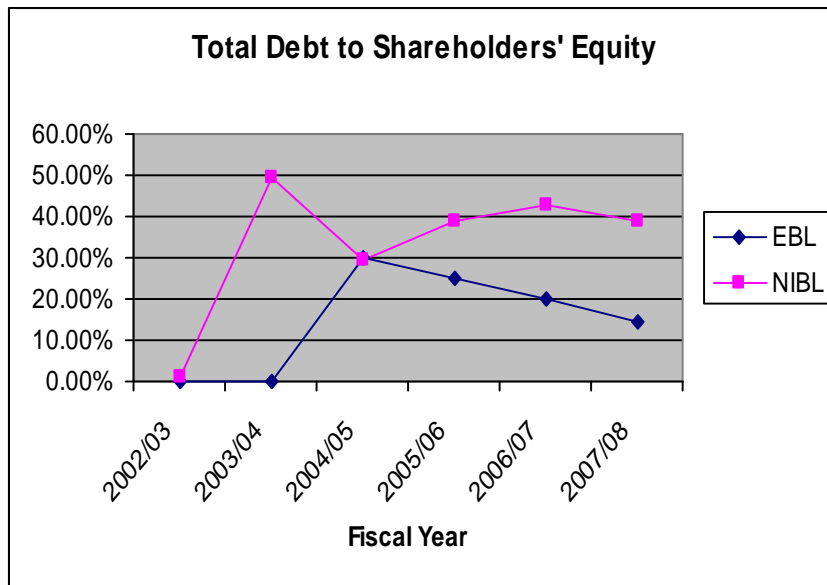
Debts are fixed cost bearing capital. So, debts should be used at optimum level. Here in the above table and figure the trend of total debt to shareholders equity is fluctuating in both the banks.

However it can be clearly seen that NIBL has more debt compared to shareholders equity than EBL. EBL starts using debt in its capital structure in 2004/05 and it is decreasing thereafter. The main reason for that is constant debt and increasing net worth of the bank. The mean debt to shareholders equity ratio of EBL is 14.85% whereas it is 33.47% in NIBL. The deviation of EBL is 12.66% and it is 17.13% in NIBL. The CV of EBL is 85.23% and it is 51.18% in NIBL. This means there is much deviation in the ratios of selected period and is inconsistent.

4.1.2.5 Credit Ratio :

It shows how much funds have dept by the banks to pay the amount when the depositors demanded. Similarly, to keep excess funds for meeting the depositors demand is better to invest of government securities though the return from the govt. securities is lower than other securities. It also shows the relationship between investments on govt. securities to total deposit.

(18) Cash and Bank Balance to Total Deposit :

Cash is a non – earning assets, so keeping excess cash is not profitable for the bank. This ratio measures the proportion of cash and bank balance with respect to total deposit. Here total deposit

includes saving, fixed, current, call and short- deposit and other deposits account. It is calculated as follows:

Cash and Bank Balance to Total Deposit = <u>*Cash and Bank Balance*</u>
Total Deposit

Following table presents the cash and bank balance to total deposit ratio of these two banks.

Table No. 22

Cash and Bank Balance to Total Deposit

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V
EBL	17.02%	7.84%	9.63%	10.13%	9.42%	11.90%	10.99%	3.23%	29.40%
NIBL	11.69%	10.65%	9.40%	12.34%	9.97%	10.90%	10.83%	1.08%	10.00%

Annex-18

Figure No. 18

Cash and Bank Balance to Total Deposit

Cash and Bank Balance to Total Deposit
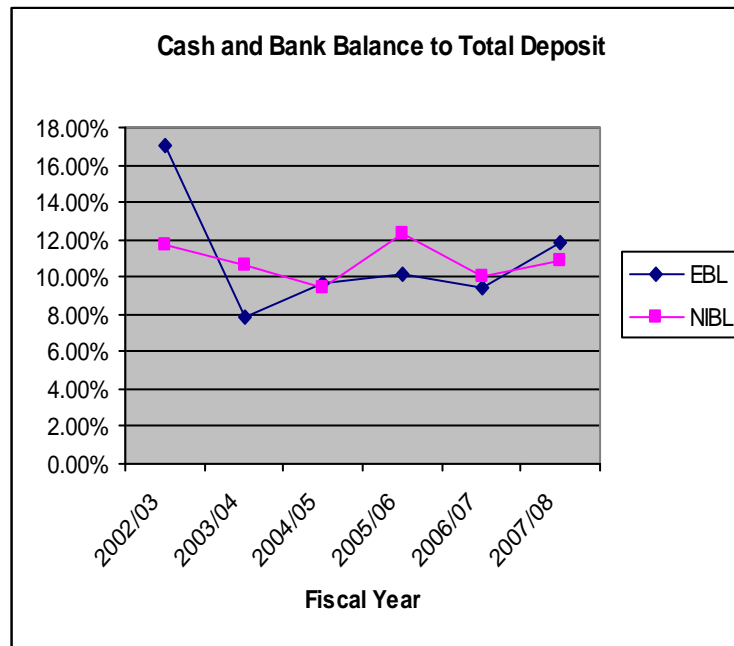
The withdrawal of cash cannot be forecasted or guaranteed. So bank has to keep sufficient level of cash for the deposit accounts so that to make payment on time when the deposit holders demand. But to keep excess level of cash is also not good for the banks and financial institutions. As the bank loss its opportunity to make investment and earn profit if it holds much cash and bank balances in its assets.

Here the above table shows that the cash and bank balance to total deposit ratio of both the banks are in fluctuating trend. But the mean ratio is approximately same for both the banks i.e. 10.99% for EBL and 10.83% in NIBL. But there is much deviation in the ratios of EBL than NIBL for selected periods. And the CV of 29.40% and 10.00 % for EBL and NIBL respectively shows that there is less consistency in the ratio of EBL than NIBL.

(19) Investment on Govt. Securities to Total Deposit :

Governments securities are risk free assets. Investment returns from the govt. securities are very low in comparison to the other securities. Still, it is profitable for the banks to invest on govt. securities instead of keeping the funds idle. This ratio express how much percent of total deposit are invested on govt. securities. It can be expressed as:

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Invest on Govt. Securities to Total Deposit = Invest on Govt. Securities
                                                       Total Deposit

Invest on Govt. Securities to Total Deposit ratio of these two banks have been presented in the following table.

Table No. 23

Investment on Government Securities to Total Deposit

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V
EBL	23.89%	30.59%	20.80%	25.71%	25.87%	20.11%	24.49%	3.84%	15.68%
NIBL	5.05%	17.36%	13.67%	13.33%	13.30%	9.16%	11.98%	4.28%	35.70%

Annex-19

Figure No. 19

Investment on Government Securities to Total Deposit
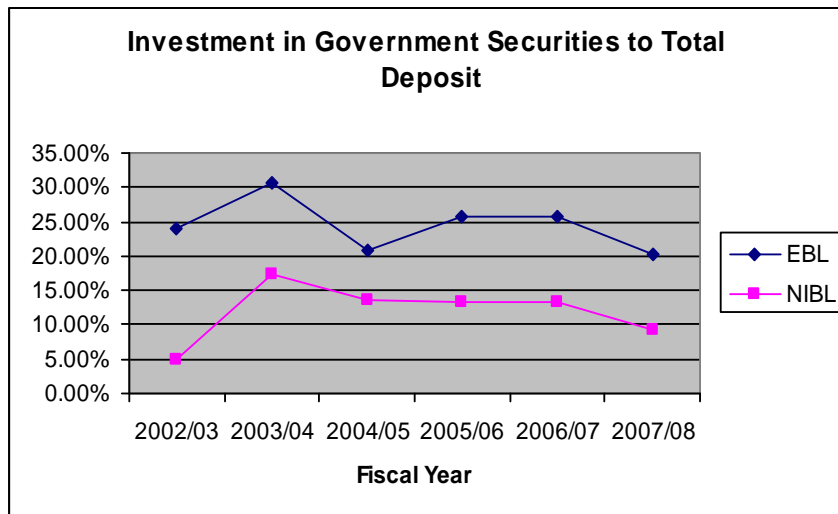
Treasury Bills and government bonds are treated as government securities, which bear no risk. Idle cash makes no gain for banks and financial institution. So, banks use to invest on government securities.

Here, in above table and figure the trend of investment in government securities to total deposit for both the banks are fluctuating. However the figure shows that the ratio on investment in government securities by EBL is greater than NIBL. The means ratio of EBL is 24.49% whereas it is 11.98% only

in NIBL. The St Dev of EBL and NIBL is 3.84% and 4.28% respectively. The CV shows that the ratio of EBL is more consistent than NIBL.

(20) Total Investment to Total Deposit:

Here, total investment refers to the investment on shares, debentures and government securities. Similarly, total deposit includes saving, fixed current, call and short and other deposits. This ratio expresses the percentage made on investment as above securities out of total deposit. Higher ratio is preferable which indicates that banks are able to utilize its collected deposits in profitable sector more sufficiently. The ratio is calculated under the following way.

$$\textit{Total Investment to Total Deposit} \quad = \quad \frac{\textit{Total Investment}}{\textit{Total Deposit}}$$

The calculated values of this total investment to total deposit have been presented under the following table:

Table No. 24

Total Investments to Total Deposit Ratio

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V
EBL	24.70%	31.44%	27.50%	32.03%	31.14%	22.55%	28.23%	3.96%	14.03%
NIBL	21.52%	33.51%	28.58%	29.97%	28.05%	19.95%	26.93%	5.19%	19.26%

Annex-20

Figure No. 20

Total Investment to Total Deposit Ratio

Total Investment to Total Deposit Ratio (%)
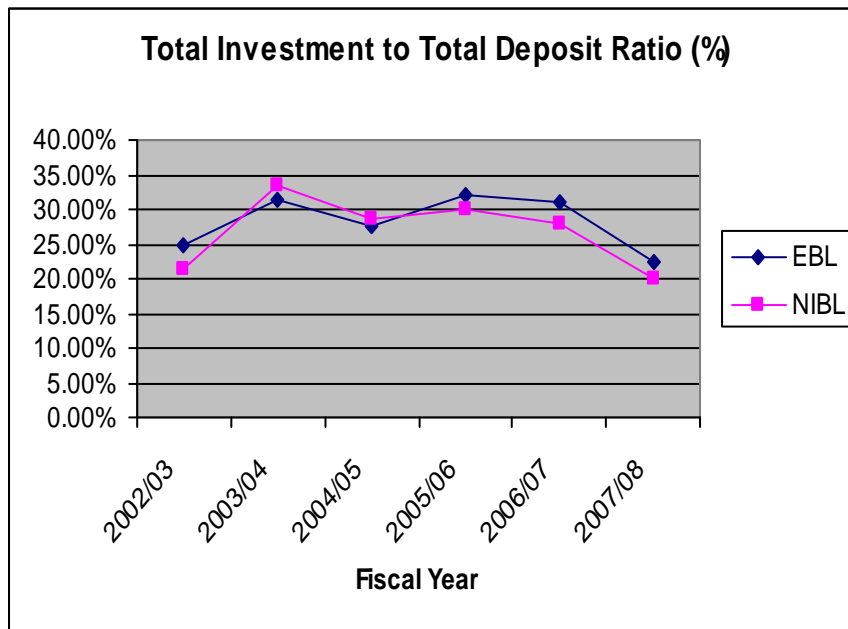
Here above table and figure shows that both the banks have similar trends on total investment to total deposit ratio. The investment of the bank depends on its total collection of deposit. Banks use to invest those amounts which they are unable to use as loan and advances after keeping sufficient liquidity.

The mean total investment to total deposit ratio of EBL is higher than NIBL i.e. 28.23%>26.93%. The ratio is ranged from 22.55% in 2007/08 to 32.03% in 2005/06 for EBL whereas this ratio is ranged from 19.95% in 2007/08 to 33.51% in 2003/04 for NIBL. The St. Dev of 3.96% and 5.19% for EBL and NIBL respectively shows that there were not much deviation in the ratios of the selected banks for the selected period and the CV of both the banks shows the result consistent.

(21) Total Deposit to Net Worth :

Total deposit includes saving, fixed, current, call and short-deposit and other whereas net worth includes share capital and shareholder's reserve. Thus this ratio shows the relationship between total deposits and net worth. If banks are able to earn more income by deploying the collected funds than it pays interest to the depositors, than EPS will also magnify (increase) & vice-versa.

Mathematically, it is calculated as follows:

Total Deposit to Net Worth = $\dfrac{\textit{Total Deposit}}{\textit{Net Worth}}$

Following table shows the total deposit to net worth ratio of these banks during the study period from 2002/03 to 2007/08.

Table No. 25

Total Deposits to Net Worth

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	St. Dev	C.V
EBL	10.91	10.58	10.12	11.52	12.01	11.36	11.08	0.68	6.17%
NIBL	12.41	15.81	12.08	13.37	13.04	12.82	13.25	1.33	10.05%

Annex-21

Figure No. 21

Total Deposits to Net Worth
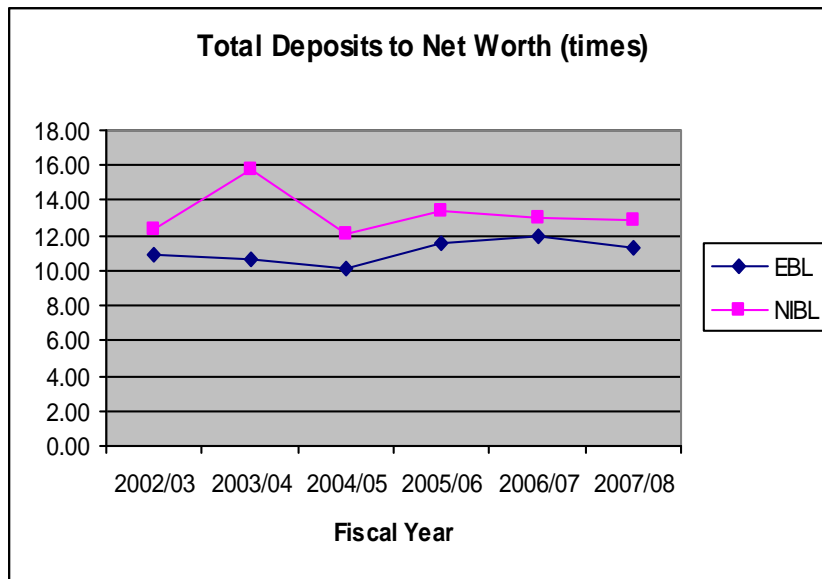
Net worth of the banks and financial institutions increases as per the profit of the banks increases. So the more deploying of the deposited amount on more profitable sectors and lending more makes the net worth of the bank increase.

Here the above table and figure shows that the total deposits to net worth of the NIBL are higher than EBL. The mean ratio of NIBL is 13.25 times whereas it is 11.08 times in EBL. This means total deposit of NIBL is 13.25 times more than its net worth whereas it is 11.08 times in EBL. The deviation of the ratio for selected period is 0.68 and 1.33 for EBL and NIBL respectively. The CV of both the banks shows that the ratio is consistent.

4.2 Analysis of Data Using Statistical Tools :

4.2.1 Coefficient Correlation Analysis :

Coefficient of correlation analysis us the mathematical method of measuring the degree of association between the two variables, i.e. one dependent and on independent. This analysis interprets and identifies the relationship between two or more variables. In the case of highly correlated variables, the effect of none variable may have effect on other correlated variable. Under this topic, this study tries to find out relationship between the following variables:

- Coefficient of correlation between deposit and loan & advances.
- Coefficient of correlation between total deposit and total investment
- Coefficient of correlation between total deposit and net profit
- Coefficient of correlation between total loan and advances and net profit

The above analysis tools analyze the relationship between these the relevant variables and helps the bank .to make appropriate polices regarding deposit collection, fund utilization (loan & advances) and profit maximization.

To find out those relationships, the following formula is used:

$$\text{Coefficient of correlation (r)} = \frac{n\;XY - \;X\;\;Y}{\sqrt{n\;\;X^2\;Z f\;\;X Å^2}\sqrt{n\;\;Y^2\;Z f\;\;Y Å^2}}$$

$$\text{P. Er.} \;\;=\;\; 0.6745 \text{ x } \frac{1 Z r^2}{\sqrt{N}}$$

The result of coefficient is always between -1 to + 1, when r = + 1, it means there is significant relationship between two variables and when -1, it means there is no significant relationship between two variables.

4.2.1.1 Coefficient of correlation between deposit and loan & advances :

Deposits have played a very important role in the performance of a commercial bank and similarly loan & advances are important to mobilize the collected deposits. Coefficient of correlation between deposit and loan & advances measure the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and loan & advances are dependent variable (Y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used as loan & advances in a proper way or not. The Table-26 shows the c value of 'r', 'r^2', Probable Error (P.Er.) and 6P.Er.between total deposits and loan & deposits.

Table No. 26

Coefficient of correlation between Deposit and Loan and Advances

	Coefficient of correlation (r)	r^2	P.Er	6*P.Er	Remarks

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EBL	1	1	0	0	r>6*P.Er
NIBL	0.99	0.98	0	0	r>6*P.Er

Annex- 22 (A) , 22 (B)

Here the above table of calculated coefficient correlation between Deposit and Loan and Advances shows that the value of coefficient of correlation is 1 in EBL and 0.99 in NIBL which means that the increase of deposit results 100% increase in loan and advances with significant result as probable error for both the banks are zero. There is perfect positive correlation between deposit and loan and advances.

4.2.1.2   Coefficient of correlation between total deposit and total investment :

Coefficient of correlation between total deposit and total investment measures the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and investment is dependent variable (Y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used as investment in a proper way or not. The table-27 shows the value of 'r', 'r^2', Probable Error (P.Er.) and 6P.Er.between total deposits and total investment.

Table No. 27

Coefficient of correlation between total deposit and total investment

	Coefficient Correlation (r)	R^2	P.Er	6*P.Er	Remarks
EBL	0.93	0.86	0.04	0.2352	r>6*P.Er
NIBL	0.90	0.82	0.051	0.306	r>6*P.Er

Annex- 23 (A), 23 (B)

Here the above calculated coefficient correlation between total deposit and total investment shows that the coefficient correlation value of EBL is 0.93 whereas it is 0.90 in NIBL. This means the 100% increase in deposit results 0.93% increases in investment in EBL whereas it is 0.90 % increase in

NIBL and vice versa. As the value of Coefficient of correlation is greater than 6 times of probable error (P.Er), the result is highly significant for both the banks.

4.2.1.3 Coefficient of correlation between total deposit and net   profit :

Coefficient of correlation between total outside assets and net profit measures the degree of relationship between these two variables. In this analysis, total outside asset is independent variable (X) and net profit is dependent variable (Y). The main objective of computing 'r' between these two variables is to find out whether outside assets and net profit us significantly correlated or not. The table-28 shows the value of 'r', 'r^2', Probable Error (P .Er.) and 6P .Er. between total outside assets and net profit.

Table No. 28

Coefficient of correlation between total deposit and net profit

	Coefficient Correlation (r)	R^2	P.Er	6*P.Er	Remarks
EBL	0.99	0.98	0.004	0.024	r>6*P.Er
NIBL	0.99	0.99	0.002	0.012	r>6*P.Er

Annex- 24 (A), 24 (B)

Here in the above table shows that the coefficient correlation between total deposit and net profit for both the banks are 0.99. This means there are almost perfect positive correlation between these two variables and the remarks shows that the variables are highly significant. The growth of total deposit results 99% growth in net profit for both the banks with almost zero probable error. It shows that the banks are able to utilize collected deposits into profit making loan, advances and investments.

4.2.1.4 Coefficient of correlation between total loan and advances and net profit :

Coefficient of correlation between total loan and advances and net profit measures the degree of relationship between these two variables. In this analysis, loan and advances are independent variable (X) and net profit is dependent variable (Y). The main objective of computing 'r' between these two variables is to find out whether loan and advances and net profit us significantly correlated or not.

The table-29 shows the value of 'r', 'r^2', Probable Error (P .Er.) and 6P .Er. between total outside assets and net profit.

Table No.29

Coefficient of correlation between total loan and advances and net profit

	Coefficient Correlation (r)	R^2	P.Er	6*P.Er	Remarks
EBL	0.992	0.985	0.004	0.024	r>6*P.Er
NIBL	0.992	0.984	0.004	0.024	r>6*P.Er

Annex- 25 (A), 25 (B)

Here the above table shows that the coefficient of correlation between loan and advances and net profit for both the banks are and 0.992 which means there are almost perfect positive correlation between these two variables and the result is highly significant too. The increase in loan and advances for both the banks increases the net profit in the same ratio.

4.2.2 Trend Analysis :

Under this topic, we analyze and interpret the trend of deposits, loan & advances, investment and net profit of EBL and NIBL that helps to make forecasting for next five years. The following tend value analysis have been used in this study.

- Trend analysis of total deposit
- Trend analysis of loan & advances
- Trend analysis of total investment
- Trend analysis of net profit

The trends of related variables can be calculated as, Y = a + bx

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4.2.2.1 Trend Analysis of Total Deposit :

Here, an effort has been made to calculate the trend values of total deposits of EBL and NIBL for four years from FY 2002/2003 to 2007/2008 and forecasted the same for next five years till 2011/2012. The following table-30 shows the trend values total deposits of NABIL Bank for 10 years from 2002/2003 to 2011/2012. These values have been calculated using trend analysis method.

Table No. 30

Trend values of Total Deposit from 2002/03 to 2011/12 (in million)

Years	EBL	NIBL
2002/03	6694.96	7923
2003/04	8063.9	11525
2004/05	10097.69	14255
2005/06	13802.44	18927
2006/07	18186.25	24489
2007/08	23976.3	34451
2008/09	25518.11	36215.4
2009/10	28960.35	41249.8
2010/11	32402.59	46284.2
2011/12	35844.84	51318.6

Annex- 26 (A) , 26 (B)

Figure No. 22

Trend of Total Deposit

Trend of Total Deposit
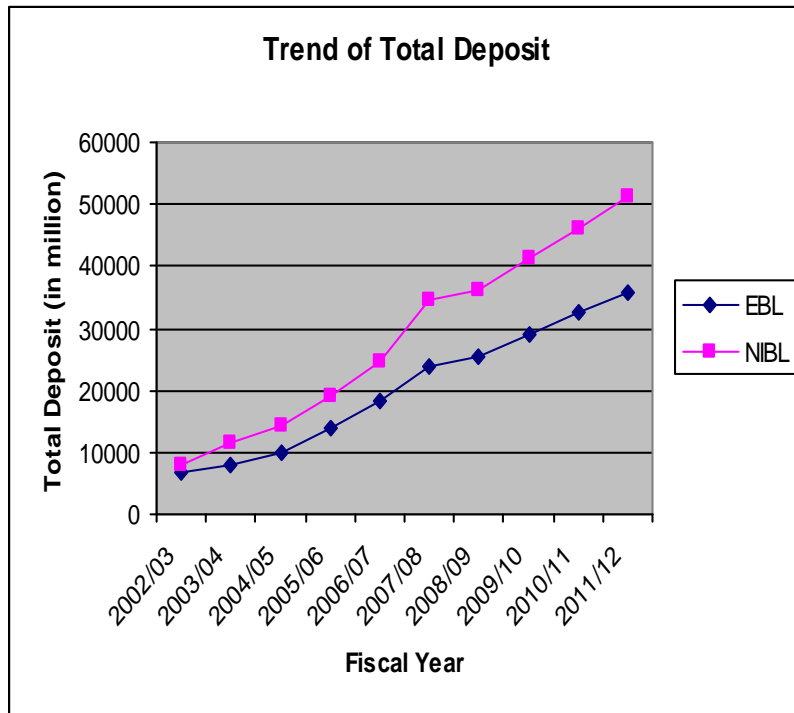
The trends of both the banks are in increasing trend. The total deposit of EBL is projected to reach 35844.84 million in 2011/12 whereas it is projected 51318.60 million for NIBL in the same year.

4.2.2.2 Trend of Loan and Advances :

Here the trend of total loan and advances are effort to forecast for next four years up-to 2011/12 by using trend analysis method taking base of past six years performances.

Table No. 31

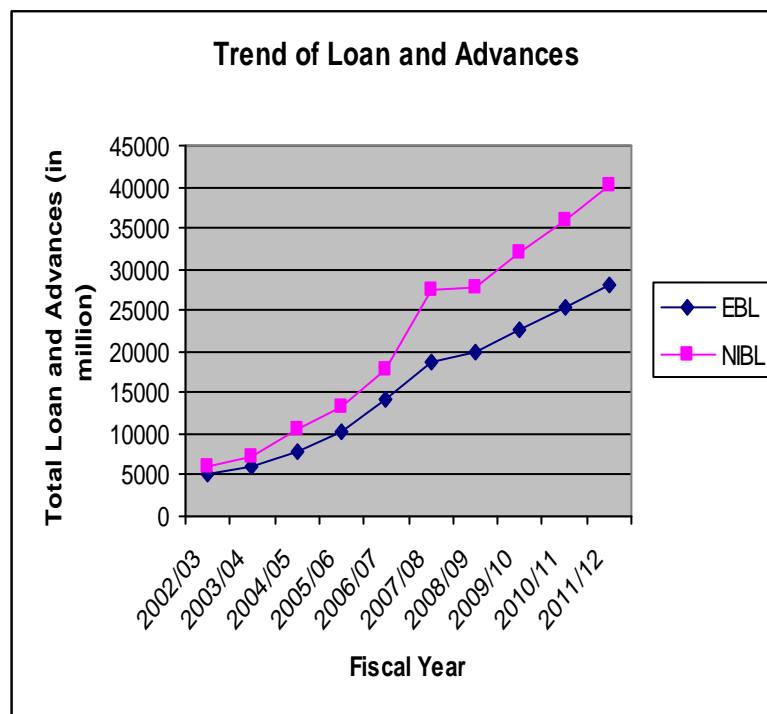**Trend of Loan and Advances from 2002/03 to 2011/12 (in million)**

Years	EBL	NIBL

2002/03	5049.58	5922
2003/04	6095.84	7339
2004/05	7900.01	10453
2005/06	10136.25	13178
2006/07	14082.69	17769
2007/08	18836.43	27529
2008/09	19863.237	27903.33
2009/10	22581.267	31961.9
2010/11	25299.297	36020.48
2011/12	28017.326	40079.05

Annex- 27 (A) , 27 (B)

Figure No. 23

Trend of Total Loan and Advances

Here the above table and figure shows that the trends of Loan and Advances for both the banks are in increasing trend. The total loan and advances for EBL is projected to reach 28017.33 million in 2011/12 whereas it is expected to reach 40079.05 for NIBL in same fiscal year.

4.2.2.3 Trend Analysis of Total Investment :

Banks invest those amounts which they cannot turn into loan and advances and as per the rules and regulation of the central bank. Here total investment is forecasted for next four years on the base of previous 6 years trend using trend analysis method.

Table No. 32
Trend of Total Investment from 2002/03 to 2011/12 (in million)

Years	EBL	NIBL
2002/03	1653.98	1705.24
2003/04	2535.66	3862.48
2004/05	2776.66	4074.19
2005/06	4421.58	5672.87
2006/07	5662.54	6868.65
2007/08	5407.16	6874.02
2008/09	6722.08	8489.02
2009/10	7573.26	9530.76
2010/11	8424.45	10572.5
2011/12	9275.63	11614.3

Annex- 28 (A) , 28 (B)

Figure No. 24
Trend of Total Investment

Trend of Total Investment
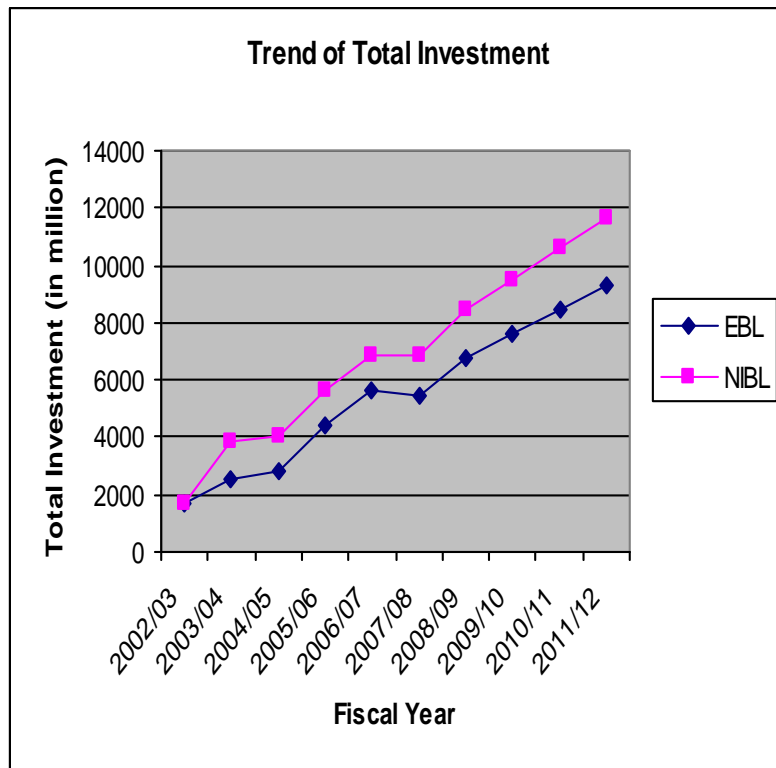
Here the table and figure shows that the trends of total investment for both the banks are increasing. The total investment is projected to reach 9275.63 million and 11614.30 million for EBL and NIBL respectively.

4.2.2.4 Trend Analysis of Net Profit :

Net profit is the major part of any company without which nothing can be expected. So on the base of past performance in earning net profit of EBL and NIBL is projected for the next four years up- to 2011/12 using trend analysis method.

Table No. 33

Trend of Net Profit 2002/03 to 2011/12 (in million)

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Years	EBL	NIBL
2002/03	94.18	117
2003/04	143.57	153
2004/05	170.81	232
2005/06	237.29	350
2006/07	296.41	501
2007/08	450.12	697
2008/09	462.53	747.87
2009/10	528.38	863.92
2010/11	594.23	979.98
2011/12	660.08	1096

Annex- 29 (A) , 29 (B)

Figure No. 25

Trend of Net Profit
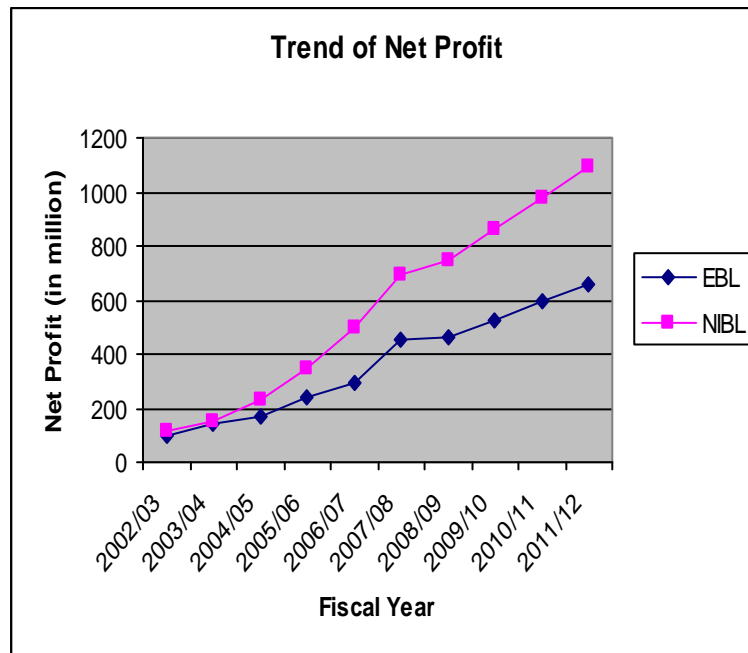
The above table and figure shows the trend of net profit for both the banks increasing. The net profit is expected to reach 660.08 million and 1096 million for EBL and NIBL respectively if it increases

like past trend. However the net profit may be vary from the trend analysis method as it depends upon other variables too. Change in policy of the bank, government and politics of the country affect the net profit of the banks.

4.3 Major Findings of the Study :

The major findings of the study are as follows:

1. The major financial indicators of both the banks are in increasing trend. Loan and Advances of EBL increases from 5049.58 million in 2002/03 to 18836.43 million in 2007/08 which is increase of 273 % in 6 years of period. Total Deposit increases from 6694.96 million in 2002/03 to 23976.30 million in 2007/08, which is increase of 258.12 %. Net worth changed from 613.9 million to 2111.49 million and net profit changed from 94.18 million to 450.12 million within same period of time which is 243.95 % and 378 % increase respectively.
    Similarly loan and advances, total deposit, net worth and net profit of NIBL also increases by 364.86%, 334.82%, 320.77% and 495.73% within 6 years period of time i.e. from 2002/03 to 2007/08.

2. The ratio of loan and advances to total deposit seems to higher in EBL than NIBL with lower deviation of C V. The average ratio of EBL is 76.45% whereas it is 72.31 in NIBL.

3. With respect to the ratio of Loan and advances to Fixed Deposits, it is higher in NIBL than EBL. The ratio is 234.09% in EBL and 304.27% in NIBL. But the standard deviation and C V is higher in NIBL than EBL. So, EBL may lead NIBL in respect of Loan and advances to fixed deposits in the future.

4. The ratio of Loan and advances to saving deposits shows that NIBL is utilizing more of its saving deposit into loan and advances. The mean ratio of NIBL is 179.83% and it is 161.93% in EBL. But the St. Dev and C V is higher in the ratios of NIBL than EBL, so there is chance of taking lead by EBL in the future in respect to the loan and advances to Saving deposits.

5. The interest earned to total assets ratio shows that the average ratio is higher in EBL than NIBL i.e. 6.00% and 5.50% respectively with St. Dev of 0.58% and 0.22% and CV of 9.64% and 4.01% respectively. This means the EBL is utilizing more of its assets in interest earning sector than EBL.

6. Interest paid to total assets ratio is also higher in EBL than NIBL i.e. 2.82% and 2.35%. But the deviation and CV of EBL is higher than NIBL which means there is much variation in the

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ratios of EBL in selected period. On the other hand an average ratio shows that EBL is getting fund or deposit by paying more interest than NIBL.

7. The mean cost of services to total assets ratio of EBL is 4.28% and NIBL is 3.95%. This means the expenses is more in EBL compared to NIBL. But the CV is higher in EBL than NIBL which means the ratio is inconsistent in EBL and it may decrease in future.

8. The net profit to total assets ratio of EBL is 1.43% and whereas it is 1.52% in NIBL. The ratio shows that the NIBL is making more profit to its total assets compared to EBL. But higher St. Dev and CV of NIBL show that the result is inconsistent.

9. The net profit to total deposit of EBL is 1.68% and NIBL is 1.72%. The result shows that the NIBL is making more profit from its collected deposit compared to EBL. But higher St. dev and CV of NIBL than EBL shows inconsistent result. So, anything can happen in the future.

10. The mean earning yield of EBL is 4.09% whereas it is 4.35%. This means EPS of EBL is 4.09% to its MVPS and it is 4.35% for NIBL. The result shows that the shareholders' of NIBL is earning more than EBL. However the higher CV of 52.45% and 26.56% shows that the result is inconsistent.

11. The dividend yield of EBL is 1.72% and 3.56% in NIBL. This means Shareholders of NIBL is getting more dividend than EBL compared to its market value per share. But the CV of 101.03% and 45.81% shows that the result is highly insignificant which may change the dividend yield in the future.

12. The average dividend payout ratio of EBL is 36.63% and NIBL is 81.50%. This means the EBL is paying less dividend to its shareholders compared to NIBL. The EBL is retaining more of its profit than NIBL. But the CV of 66.86% and 34.74% for EBL and NIBL shows that the dividend payout ratio of EBL is highly insignificant than NIBL and in future EBL may pay more dividend as per its EPS.

13. The average price earning ratio of EBL and NIBL is 31.17 and 24.96 times respectively. This results that investors are paying more for the stocks of EBL than NIBL as per its EPS. The higher CV indicates the inconsistency of the result. As per the data of selected period is insufficient to predict the P.E ratio for future.

14. EBL is investing 21.13 % on an average of its current asset in government securities whereas NIBL is investing 10.80% on average to government securities. The higher CV of 35.27 % for NIBL and 14.39% for EBL indicates that the result of NIBL is more inconsistent than EBL.

15. The loan and advances to current assets of EBL and NIBL is 66.10% and 65.21% respectively. The St. Dev of 2.67% for EBL and 5.27 % for NIBL shows less deviation in the ratios of both the banks in the selected period. The CV of 4.04% and 8.09% for EBL and NIBL respectively shows that the result is consistent.

16. The fixed deposit to total deposit ratio of EBL and NIBL is 33.33% and 24.32% respectively on an average. This means EBL composes more fixed deposit in its total deposit than NIBL in its total deposit. The CV of both the banks shows that the result is significant or consistent.

17. The mean ratio of saving deposit to total deposit of EBL is 47.41% and it is 41.07% in NIBL. This means EBL total deposit consists more saving deposit than NIBL. The CV of both the banks are low which indicates that the result is consistent.

18. The capital structure of EBL and NIBL shows that average ratio of total debt to shareholders equity is 14.85% and 33.47% respectively. This means the total debt is 14.85% of net worth for EBL and 33.47% in NIBL. This shows the NIBL is composing more debt in its capital structure than EBL. But the higher CV For the both banks 85.23% for EBL and 51.18% for NIBL shows that the result is inconsistent.

19. The average cash and bank balance to total deposit of EBL and NIBL is 10.99% and 10.83% respectively with 29.40% and 10.00% of CV. Even though the mean ration seems same there is much fluctuation in the ratio of EBL. So the result of EBL is inconsistent.

20. EBL is investing 24.49% on an average of its total deposit in government securities whereas NIBL is 11.98% only. The CV of NIBL is higher than EBL i.e. 35.70%>15.68% which results inconsistency in the result of NIBL for its investment in government securities to total deposit ratio.

21. The total investment to total deposit ratio of EBL is 28.23% and it is 26.93% in NIBL. This means NIBL is investing less than that of EBL of its total deposit collection. And the CV of EBL and NIBL is 14.03% and 19.26% respectively.

22. The Total deposit to net worth of EBL and NIBL is 11.08 times and 13.25 times respectively. And CV is 6.17% and 10.05% in EBL and NIBL respectively. This means NIBL consist more deposits compared to its net worth than EBL with consistent result.

23. The correlation coefficient of both the banks for its total deposit and loan and advances is perfectly correlated. This means the increase in its total deposit increases its loan and advances in same percentage.

24. The coefficient of correlation between total deposit and total investment is 0.93 and 0.90 fro EBL and NIBL respectively with significant result.

25. The coefficient of correlation between total deposit and net profit of both the banks are 0.99 with significant result. Which means that the correlations between these two variables are almost perfectly positive correlated.

26. The coefficient of correlation between total loan and advances and net profit of both the banks are also 0.99 which means that the correlation between these two variables are also near perfectly positive correlation. The increase in total loan and advances results 0.99% increase in net profit.

27. Using trend analysis method the total deposit, loan and advances, total investment and net profit of both the banks are increased for next four years.

The total deposit of EBL is expected to reach 35844.84 million and it is expected to reach 51318.60 million in NIBL in the FY 2011/12. The total loan and advances in the FY 2011/12 is projected to reach 28017.33 million and 40079.05 million of EBL and NIBL respectively. Similarly the total investment and net profit is projected to reach 9275.63 and 660.08 million respectively for EBL and 11614.30 and 1096 million respectively for NIBL in the FY 2011/12.

Chapter - V

SUMMARY, CONCLUSION & RECOMMENDATION

In this Chapter the summary of the overall study, conclusion and recommendation according to the study are presented.

5.1. Summary of the Study:

After liberalization policy in the early 90's, government has opened its market for all the sector and people. Many of the government companies are privatized; management given to private sectors, some of the companies goes in liquidation. In the financial market also many private and joint venture banks are begin to start. Many finance companies, development banks, cooperatives, and insurance companies had start its operation whose main purpose is to collect scattered saving as deposits and to use these collected deposits in different areas as providing loan and advances.

This study aims to analyze the pattern of deposit and investment of the Nepalese banks. Among 26 commercial banks and many development banks, finance companies, cooperative Nepal's two leading banks in this sector are selected to compare between these two. To see how much the pattern of two leading banks in its deposit and lending practice differ, six years financial data are selected. To analyze Everest Bank Limited and Nepal Investment Bank Limited are selected. The main purposes of the study are: (1) To examine the existing position of the investment and deposit pattern of these two banks. (2) To evaluate the effectiveness of collection of deposits and their utilization. (3) To examine the causes of gap existing between deposits and investments. (4)To analyses the overall performance of NIBL and EBL in terms of turnover, Profitability, Liquidity, structural, Credit and stability ratio. (6) To evaluate the growth trend of total deposit, total loan and advances, total investment and net profit. (7) To calculate the degree of correlation between the total deposit and total loan and advances. (8) To provide suggestions and recommendation for the maximum utilization of deposits.

The study is based on the secondary data. For the purpose of the study, the necessary data are collected from the annual reports of the selected banks from 2002/2003 to 2007/08. Besides annual reports, financial statements, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master's thesis. Beside this, personal contacts with the bank personnel have also been made.

Varieties of financial ratios are used in this study to accomplish the study. To measure the significance of the study different statistical tools are also used. Basically six different financial ratios are used which is very important from the views of the stakeholders and to sustain company itself. The financial ratios have been calculated for both banks and tries to compare between them. Under financial analysis, various financial ratios related to investment function of commercial banks i.e. turnover ratio, profitability ratio, liquidity ratio, structural ratio and credit ratio have been analyzed and interpreted. Under statistical analysis, some related tools i.e. co-efficient of correlation and trend analysis have been used. This analysis gives clear picture of the performance of the bank with regard deposit collection and its utilization.

 In this study, the word investment is conceptualized as the investment of income, savings or other collected funds. The term investment covers a wide range of activities. It is only possible where there is an adequate saving. Investment policy is an important ingredient of overall national economic development because it ensures efficient also allocation of fund to achieve the materials and economic well being of the society as a whole.

The primary objective of these joint venture banks is always to earn profit by investing or granting loan & advances to people associated with trade, business and industry etc. That means they are required to mobilize their sources properly to acquire profit. How well a bank manages its investment has a great deal to do with the economic health of the country because the bank support the growth of new business and trade empowering the economic activities of the country.

5.2 Conclusion of the Study :

Financial Ratio:

❖ The turnover ratio shows that NIBL and EBL are able to utilize or covert it's collected deposits to loan and advances satisfactorily with an acceptable variation and low consistency. Similarly the turnover of the fixed deposit in to loan and advances is more in NIBL than EBL which shows that the NIBL is deploying more in loan and advances than its collected fixed deposit. Likewise fixed deposit to loan and advances, turnover of saving deposit to turnover ratio is also higher in NIBL compared to EBL.

❖ The profitability ratio shows that EBL is able to utilize more of it assets in interest earning sector than NIBL with significant variation. Similarly EBL is also paying more interest to collect the deposit compare to NIBL. The cost of service to total assets ratio is more in EBL which concludes that the EBL is making more expenses to earn more profit. However EBL is able to lower the cost of service in the later years of the studied period. The net profit to total assets ratio of NIBL is more than EBL which shows that NIBL is able to use its assets more to make net profit. Likewise EBL is collecting high cost deposit compared to NIBL as net profit to total deposit of EBL is low compared to NIBL. From the view point of shareholders the NIBL is earning more in it's per share market value and dividend as well, which is the result of more dividend payout ratio of NIBL. EBL is retaining its earning rather than paying more dividends to shareholders. The P/E ratio shows that investors are paying more for EBL shares in the market than NIBL.

❖ The liquidity ratio shows that EBL has maintain more liquid assets than NIBL. EBL has invested more of its current assets in government securities than NIBL. Similarly EBL current assets consists more loan and advances than NIBL. Fixed deposit to total deposit ratio and saving deposit to total deposit ratio is also higher EBL than NIBL.

❖ The structural ratio shows that NIBL is using more outsiders fund or debt in its capital structure than EBL. This means NIBL has to pay more from its profit to outsiders than EBL

❖ The credit ratio shows that both banks have maintained sufficient cash and banks balance of 10%-11% of total deposit to fulfill the demand of deposit holders. In terms of investment on

government securities to total deposit EBL has invested more of its deposit in it than NIBL which makes that at the times of more demand of cash by deposit holders EBL can manage more efficiently than NIBL. Similarly total investment to total deposit ratio shows that EBL has invested more of its deposits than NIBL. Investments made by banks are the excess of total deposit rather than loan and advances. Likewise total deposit to net worth ratio shows that NIBL has more deposit compare to net worth than EBL.

Correlation Analysis :

❖ The coefficient of correlation between the total deposit collection and utilization it as loan and advances shows that there are perfect positive correlation between these two for both the banks. In both the banks, increase in total deposit results increase in loan and advance in the same ratio. The coefficient of correlation between total deposit and total investment show positive correlation between these two. But in comparison to NIBL, investment of EBL is slightly more. The 100% increase in total deposit increases 93% of total investment in EBL whereas it is 90% in NIBL. Similarly the coefficient of correlation between total deposit and net profit also shows perfect positive correlation between them. Likewise the coefficient of correlation between loan and advances and net profit also shows perfect positive correlation between them without probable error and significant result.

Trend Analysis :

❖ The trend analysis shows that total deposit expected to reach 35844.84 million in EBL and 51318.60 million in NIBL in FY 2011/12 which is 49.50% and 48.96% in EBL and NIBL respectively increase from last studied period FY 2007/08. Similarly the loan and advances also expected to reach 28017.33 million and 40079.05 million in EBL and NIBL respectively in FY 2011/12 which is 48.74% and 45.59% increase from FY 2007/08. Similarly the total investment of the banks are estimated to reach 9275.63 million and 11614.30 million in FY 2011/12 fro EBL and NIBL respectively which is 71.54% and 68.96% increase over FY 2007/08. Likewise net profit is estimated to reach 660.08 million which is 46.65% and 57.25% increase over last studied period FY 2007/08 in EBL and NIBL respectively.

5.3 Recommendations :

Following recommendations have been forwarded on the basis of study made on investment and deposit pattern of EBL and NIBL during the five years period to strengthen their position.

❖ NIBL has started its operation in 1986 whereas EBL has started its operation in 1994. So it is obvious to capture the market by NIBL is more than EBL during the gap of 8 years between the opening of these two branch. However in terms of deposit and lending, customer satisfaction comes in first place which may reverse the capture of market by these banks. In today's competitive market of Nepal in financial sector, innovative schemes, more facilities, technology also affects the operation and credit of the banks. NIBL and EBL are two of the leading bank of Nepal. Even though these banks are initiating new schemes for their customers still they are recommended to new deposit and lending schemes to attract the new customers like drawing arrangement with more exchange houses and banks of foreign countries to collect deposit from there; opening more branches to rural as well as urban areas of Nepal where banking sector has not been reached; adopting new technologies etc.

❖ The performance of NIBL in turnover of loan and advance to total deposit should be improved as it is fluctuating in trend through the study period and on an average it is lower than EBL. Similarly NIBL is recommended to increase fixed deposit as loan and advance is more to compare fixed deposit the EBL's ratio.

❖ The interest earned and interest paid by EBL is more comparing to NIBL. So, EBL is recommended to collect low cost deposit to earn more profit and to reduce cost of service as well.

❖ The market values of per share largely depend upon the expectation from the bank to pay dividend and to issue bonus or right shares. Even though the EPS and dividend yield of EBL is lower than NIBL, the market value per share of EBL is higher which may be the reason that EBL is retaining more profit and there is chance to issue bonus share or right share in the near future.

❖ The SLR (Statutory Liquidity Ratio) is to be maintained by the banks as per the guideline of NRB. So, banks have to invest as per the NRB norms in government securities. However both

the banks are recommended to invest as per NRB norms but investing more of the collected deposit on government securities may loss the bank as it is risk free investment but the return is very much low than loan and advances.

❖ The outside liability of NIBL is larger than EBL. So, NIBL is recommended to lower the debt. As, debt is fixed cost bearing capital which decrease the earning to the shareholders and net worth as well.

❖ Maintaining the liquidity is very much essential for the banks to fulfill the demand of the deposit holders in time. If it is not maintained then it may affect negatively in the market. The study shows that EBL has maintained sufficient level of liquidity and NIBL is also recommended to maintain the sufficient level of liquidity. But maintaining more liquidity than necessary is also not profitable. So studying the market demands both the banks should maintain liquidity.

❖ The coefficient of correlation analysis shows that the total deposit is perfectly positive correlated with loan and advance, total investment and net profit. So, both the banks should maximize the total deposit to earn more profit. As profit is the major part of the bank as a whole. Both the bank should initiate more deposit campaign to attract more customers.

5.4 Future Avenues :

This study is completely based on secondary data of the companies. It has ignored the external environment of the company which largely affects the companies' performance on collecting deposits and investing it in profitable sector. However, there are several avenues for the future research in the area of comparison between two companies or industries on their performance and the return that the stakeholders get from their performance. One avenue of research is to examine the performance by adding more companies as sample and additional years to get greater insight into the subject of this study. Second avenue is to examine the performance by adding more variables and ratios. A third avenue of research is to estimate better models in explaining the relation of returns with other fundamental variables from the models available in the literature. Finally, an important direction of research is to survey using primary data, examining external environment as well as management of the company like the opinion of financial executives, financial experts and shareholders of the companies.

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