CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Investment is one of the decisions of finance functions. It involves the decisions of capital or commitment of funds to long term assets that would yield benefit in future. In simple words, investment is spending or setting aside money for Future financial gain. Investment generally involves real assets or financial assets. Real assets are tangible material things such as building, automobiles and text books. Financial assets are pieces of paper represent debt or equity commitments in the form of stock certificates.

An investment is a commitment of funds made in the expectation of the some positive rate of return. If the investment is properly undertaken, the return will be commensurate with the risk; the investor assumes investment is concerned with the management of an investor's wealth, which is the sum of current income and present values of all future income funds to be invested, came from assets already owned borrowed money and saving or foregone consumption by the investor.

Investment has to undergo various types of risk for e.g. business risk. Possibility of being wave in earning power if investments due to competition, uncontrollable costs, change in demand etc., market risk, possibility of change in market price and real properties. All the investors don't achieve success; therefore, simply making as investments is not significant. One should follow sound investment policy.

This is a common factor that investment is possible only when there are adequate saving. If all of the income is append on for daily usage, there will be no amount left for making investment. So, collection and investment are always inter-related. Every people wish to collect or save their income and invest in highly return firm. In terms of bank, collection means deposits, borrowings, income, saving of customers etc.

Investment policy fixes responsibilities for the investment deposition of the bank assets in term of allocation funds for investment and loan establishing responsibility for day to day management of those assets (Baxley, 1987:124).

Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in the saving account of a bank, the bank may invest by lending the funds to various business companies. These firms in return may invest by lending the funds to various business companies. These firms in return may invest the money in new factories and equipment to increase their production. In addition to borrowing from banks, most companies issue stock and bonds that they sell to investors to raise capital needed for business expansion. Government also issues bonds to obtain funds to invest in projects, such as, the construction of dams, roads and schools. All such investment by individuals, businessmen, and groups involves a present sacrifice of income to get an expected future benefits. As a result of which investment raised a nation's standard of living" (World Book Encyclopedia, 1988:32).

Nepal is one of the least developed countries of the world. It has more than 44% people living below poverty line and its per capita income of $ 210 (W.B 1998) places it among the lowest per capita income countries. The economic development of the country, which is reflected by the annual GDP growth rate, is not very significant. Nepal's average GDP growth rate in recent years is around 5 percentages. In addition, it has a fluctuating trend.
The development of any country largely depends upon its economic development. Thus the primary goal of any nation, including Nepal is rapid economic development to promote the welfare of the people and the nation as well. Nepal being a developing country is trying to embark upon the path of economic development by economic by economic growth rate and developing all sector of economy. Even though, the process of economic development depends upon various factors, however economists are now convinces that capital formation and its proper utilization plays a vital roles, "the increase in capital has always been a sort of prime mover in the process of growth and the rate of capital formulation has been the principal variable in setting the overall pave of economic development". In this regard, the network if well-organized financial system of the

country has great bear. It collects scattered financial resources from the masses and invests them among those engaged in economic and commercial activities of the country. In this way, institutions provide saves highly liquid devisable assets at a lower risk while the investor receives a large pool of resources.

The bank and finance companies are such type of financial institutions, which deal in money and substitute of money or deal with credit and credit instruments. Good management of credit and credit instrument is very important sector. Anyway the goal of investment is the maximization of the owner's economic welfare. Intelligent investors always search for the project with minimum risk and higher returns.

1.1.1 Profile of the Concerned Banks

Himalayan Bank Limited (HBL)

Himalayan Bank Limited (HBL) was incorporated in 1992 by the distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank limited. It is one of the largest commercial bank operations which were commenced from January, 1993. It is the first commercial bank of Nepal with maximum share holding by the Nepalese private sectors. Beside commercial activities, the bank also offers industrials and merchant banking.

HBL has always been committed to providing a quality service to its valued customers. All customers are treated with utmost courtesy as valued clients. The bank, wherever possible, offers tailor and facilities of its clients, based on the unique needs and requirement of different clients. To further extend the reliable and efficient services to its valued customers.

Everest Bank Limited (EBL)

A joint venture with Punjab National Bank India) has been established with objective of expending professionals banking services to various sectors of society in the kingdom of Nepal and thereby contributes in the economic development of the country. The bank had come into formal operation from 18th October 1994. EBL is joint venture with "Punjab

National Bank (PNB)", one of the largest commercial bank in India. PNB has a century old tradition of successful banking and is known for is its financial strength and has laid down modern banking system procedure. PNB is providing the top management service to EBL under technical services agreement signed between the two institutions. EBL operated with the objectives of providing the full range of quality banking services to both the business community and the common man.

1.2 Statement of the Problems

The numbers of joint venture banks as well as financial companies have been up at a rapid rate after the adoption of economic liberalization policy of Nepal government. Appropriate investment of available funds becomes the major deal from the standpoint of shareholders as well as management of the banks. Recently, on the context of Nepal there of throat cut competition between mushrooming joint venture banks, commercial banks and other financial institutions use to discourage depositors by reducing the interest on deposits and increasing the minimum threshold balance. Such condition may cause the liquid market and can affect the economic condition of the whole country negatively.

In the order side, these banks seem to be granting much loan, advances and other facilities against insufficient collateral of their clients. Unsecured loan and investment sound knowledge about the financial risk, business risk and other risk may compel the banks towards liquidation and bankrupt. Therefore appropriate investment policy is the essence of all the joint venture banks, commercial banks and other financial institutions.

Thus, the present study will make a modest attempt to analyzed investment policy of HBL comparing it with the EBL. The problems specially related to investment function of the commercial banks of Nepal have been present briefly as under:

a) What are the views and ideas if the financial executives and customers regarding the knowledge on the various aspects of the investment policy adopted by commercial banks?
b) What is the liquidity, efficiency of assets management, profitability and risk position of HBL Bank in comparison to EBL?

c) What is the position of fund mobilization and investment policy of HBL Bank in comparison to EBL?
d) What is the relationship between deposits, loans and advances, total investment and net profit on HBL bank in comparison to EBL?
e) What is the trend of deposit collection, Total investment, Loan and advance, net profit?

1.3 Objectives of the Study

The main objective of this study is to analyze the investment policy adopted by the two famous joint venture commercial banks namely, Himalayan Bank Ltd. and Everest Bank Ltd.

a) To perform an empirical study of the financial executives and customers views and ideas regarding the knowledge on the various aspects of investments policy adopted by commercial banks.
b) To evaluate the liquidity, efficiency of assets management, profitability and risk position of HBL and EBL.
c) To evaluate the deposit utilization trend of five years.
d) To analysis the empirical relationship between deposit, loan and advances, Total investment and net profit on EBL and HBL.
e) To make a comparative study on fund mobilization and investment policy on HBL and EBL Banks.

1.4 Significance of the Study

Investment activity is the life blood of any financial institution because only deposit collection carries no meaning. If it is utilizes in a proper investment then only better return and sustainability is possible. Therefore, to this significance on account this study behalf of the firm's investment policy and its relation is justified as a specific subject matter.

The study of investment policy in banking sectors provides required information to the management of the bank, which helps them to take a corrective actions and decisions at

time, when pals, policies and strategies are being made and liquidity or growth ratio etc. can be obtained. Similar, information is required to the concerned banks for selecting the proper banking system sectors for their investment and for their investment and for their benefits as well. Depositors, to can choose the best or apparent banks or financial institutions of their convenience and interest. The study helps the government to formulate plan and policies and implant them in the favor of national interest. Study would provide information to management of the bank that would help them to take collective actions. Further from this study, the shareholders would get information to make decision while making investment on shares of various banks.

1.5 Limitation of the Study

There will be some limitations while undergoing this study. The main limitations of the study will be:

- The study is based on secondary data collected from the bank.
- The study has been carried out based on the published financial document such as balance sheets profits and loss accounts, related journals, magazines and brochures, these published documents have their own limitations.
- The study period has covered five years data only.
- Out of numerous factors, only those factors related to investment policy are considered.
- The study focuses as investment aspect of banking performance only.
- The study is carried out in only two banks.

1.6 Organization of the Study

This study has been divided into five chapters, which are as follows:-

Chapter I : Introduction

It includes general introduction, rational of the study, limitation of the study, statement of the problem, objectives of the study, organization of the study.

Chapter II : Review of Literature

In includes Review of books, articles, research papers and thesis.

Chapter III : Research Methodology

It covers on research design, population and sample, source of data, methods of analysis.

Chapter IV : Data Presentation and Analysis

This chapter attempts to analysis and evaluates data with the help of analytical tools procedure and interprets the result obtained.

Chapter V : Summary, Conclusion and Recommendation

It sums up the results obtained through analysis and recommends some suggestions. This chapter will highlight the major finding of the study work.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Conceptual Framework

Bank and banking has always played a significant role for the financial activities in the business. Therefore, bank is the major need for the various developments. The modern age is a business competition age. The saving and investment is most necessary for the development of the country, which can be managed by the developing countries, it is quite how with relatively higher marginal propensity of consumption. As a result, such countries are badly in trapped into the various circle of poverty. Therefore the basic problem of the developing countries will be raised the level of saving and investment.

The main objectives of the bank are to collect deposit of public in a form of saving and providing short-term loan (for the development of industry, trade and business) to ones in need. The bank mist return fund to their customers when they demand, commercial banks so not generally provide long- term loan. The development of country's economy is impossible without expansion of banking function in both rural and urban area of the country. Development of the trade and industry is dependent upon the development of banking facilities so it is said that the bank is backbone of economic development is today's society.

Banking institution is inevitable for the resource mobilization and all round development of the country which important to all parties i.e. generally public, business organization, government and others small financial institution. It is resource for economic development that maintains economic confidence of various segments and expands credit to people. The bank draws surplus money from the public, who cannot use the money at the time and lends to those who are attention to use for production purpose. It refers to its any institution of money. However, today banks are established for specific purpose, which is an achievement of the certain goals. When the bank lends the loan to the customers, gains interest amount, the bank draw the money from institution or individual or people pay the interest amount by the certain interest rate. There are different types of

is same i.e., mobilized ideal resource from productive sectors to the growth of trade, industry and commerce. Now a day's banks in different countries have been found providing services to the people as upgrade country's economy.

Generally, the bank refers to commercial bank. A bank collects fund as saving from public of country and invest in highly return yielding firm. It development of any country. Bank provides internal resources for developing country's economy. It collects diversified capital from different parts if country through its own branches so commercial bank has as important place in trade, industry and business in modern age. Commercial banks earn optimal profit by mobilizing their internal resource properly.

A commercial bank is business organization that receives and holds deposits of fund from others, makes loan or extends credit and transfers funds by retain order of deposits (Grolier Incorporated, 1984:152).

Commercial bank Act of Nepal (1974) has defined that " a commercial bank is one which exchange money, deposits money, accepts deposits, granting loan and performs commercial banking function and which is not a bank meant for cooperative, agriculture, industries or for such specific purpose."

Commercial bank is corporation, which accepts depends, deposits subject to check and makes short-term loan to not a bank meant for cooperative agriculture, industries or for such specific purpose."

Commercial bank is a corporation, which accepts demand, deposits subject to check and makes short-term loan to business enterprises, regardless of the scope of its other services (American Institution of Banking, 1972:345).

This act has laid emphasis on the functions of commercial bank while defining it. Commercial banks provide short-term debts necessary for trade and commerce. They take deposits from the public and grant loans in different forms. They purchase and discount

bills for exchange, promissory notes and exchange foreign currency. They discharge various function on the behalf of their customers if they are paid for their services.
Optimal investment decision plays a vital role in each organization but especially for the commercial banks and other financial institutions. The sound knowledge of the investment is the mist because this subject is relevant for all surrounding that mobilizes funds in different sectors in view of return.

The income and profit of the bank depend upon the lending procedure applied by the bank. As well as lending policy and investment in different securities also. Affect the income and profit. In the investment procedure and policies, it is always taken in consideration that 'greater the credit created by the bank, higher will be the profitability." A sound lending and investment policy is not only prerequisite for banks profitability but also crucially significant for the promotion of commercial savings of a developing country like Nepal.

The sound policies help commercial bank maximize qualities and quantity of investment and thereby achieve their own objective of profit maximization and social welfare. Formulation of sound investment policies and planned efforts pushes forward the forces of economic growth.

Commercial banks, as financial institution, perform a number of internal functions. Among them, providing credit is considered as most important ingredient of the money supply. "Demand deposit through the creation of credit in the form of loan and investments".

Investment operations of commercial bank are very risky one. For this, commercial bank has to pay due consideration while formulating investment policy regarding loan investments. Investment policy is one facet of the overall spectrum of policies that guide banks investment operations. A healthy development of any bank depends heavily upon its investment policies. A sound and viable investment policy can attract both borrowers and lenders, which helps to increase the volume and quality of depends, loan and

investment. The loan provided by commercial bank is guided by several principles such as length of time, their purpose profitability, safety etc. These fundamental principles of commercial banks investment are fully considered while making investment policies. Emphasizing upon this H.D. Crosse stated, "The investment policy should be carefully analyzed." Commercial bank should be careful while performing the credit creation function. Investment policy should ensure minimum risk and maximization profit from lending.

Diana McNaughton (1994), in her research paper "Banking Institution in Developing Markets' stated that" investment policy should incorporated several elements such as regulatory environment, the ability of funds, the selection of risks, loan portfolio balance and termed structure if the liabilities.

Banks overall investments:

a. Should be basically of short term characters,
b. Should be well spread,
c. Should be repayable on demand,
d. Must be profitable,
e. Must be well in adequate securities.

Thus, commercial banks have to consider government and Nepal Rastra Bank instruction, national, and their own interest as well. Good investment policy ensures maximum amount of investment to all sectors with utilization.

2.1.1 History of the Bank

Generally the organization that transacts money is called Bank and banking has always played a significant role for the financial activities in the business. So bank is the major need of the various developments. The modern time is a business competition age. The saving and investment is most necessary for the developing country, which can manage by the bank. Capital accumulation also plays a vital role to accelerate the economic growth of the developing countries, it is quit how with relatively higher marginal propensity of consumption. As a result, such countries are badly in trapped into the

various circle of poverty. Therefore the various problem of developing will be raised the level of saving and investment.

The main objective of the bank is collection amount of public in form of saving and providing short-term loan (for the development of industry, trade and business) to the ones in need. The bank must generally provide long-term loan. The development of country's economy is impossible without expansion of banking function in both rural and urban area of the country. Development of trade and industry is dependent upon the development of banking facilities so it is said that the bank is backbone of economic development in modern society.

Banking institution is inevitable for the resource mobilization and all around development of the country which important to all parties i.e. generally public, business, organization, government and other small financial institution. It is resource for economic development that maintains economic confidence of various segments and expands credit to people. The bank draws surplus money from the public, who cannot use the money at the time and lends to those who are attention to use for productive purpose. It refers to its any institution of money. However, today bank are established for specific purpose, which is basically achievements of the certain goals. When the bank lends the loan to the customers; gains interest amount, the bank draw the money from institution or individual or people pay the interest amount by the certain interest rate. There are different types of bank focus on different types of service their customers although the basic principle is same i.e. mobilize idle resource from productive sectors to the growth of trade, industry and commerce. Nowadays bank in different countries has been found to providing service to the people as strengthening the whole country's economy.

Generally the bank refers to commercial bank. Bank collects fund as a saving from public of country and invest in highly return yielding firm. It develops saving habits in people. Commercial bank plays vital for development of developing country. Bank providing the internal resources for developing countries economic. It collects diversified capital from different parts of country though its own branch, so commercial is the heart of trade,

industry and business in modern age. Commercial banks earn optimal profit by mobilizing their internal resource properly.

The present advanced from of banking has come through various stages. Traditional forms of banking were traced during the civilization of Greek, Rome and Mesopotamia. But modern banking originated in medieval Italy, despite strong Christians prohibition against charging of interest. Bank of Venice was established in 1157 AD as a first modern bank. Bank of Barcelona a (1401 AD), Bank of Geneva (1407Ad), Bank of Amsterdam (1609AD), Bank if England (1684AD) Bank of Hindustan (1779 AD) were others milestones in the developing of banking system. The growth of bank accelerated only after the introduction of the banking Act 1883 in United Kingdom as it allowed opening joint stock company banks.

The history of baking in Nepal is not old. In the past indigenous individuals, wealthy agriculturists, lenders, merchants and traders conducted some banking activities along with their other business occupation. These activities were fragmented and mostly localized installation of "Kaushi Tosha Khana" as a banking agency during the regime of King Prithivi Narayan Shah could be regarded as first step towards development of Banking in Nepal. But the establishment of "Tejarath Adda" around 1877AD, during the Prime minister ship of Ranadip Singh to provide credit; it did not accept deposit at a very confessional rate of interest could be regarded as primer foundation of modern banking in Nepal. Tejarath Adda was set up to provide credit; it did not accept deposits from public. So the concept of saving was loan existence in Nepal unless the establishment of "Nepal Bank Limited" under Nepal Bank Act in 1937 AD as a first commercial bank of Nepal with 10 Million authorized capital.

Then the government felt requirement of a central bank and established "Nepal Rarta Bank" in 1956 AD as a central bank under NRB ACT (2012 BS). It played leading role in development of banking in Nepal and also controlled the monetary cultural in the country. Likewise, rising of banking function get popular and more complicated, thus NRB suggested for the establishment of another commercial bank and in 1966 AD

"Rastriya Banijya Bank" was established as a fully government owned commercial bank, now its branches are diversified all over the country.

Besides this, NIDC was established in 1959 AD and agricultural Development Bank established in 1976 AD and other development bank and financial institutions were established and continue to establish and are contributing to the economy and banking tradition in Nepal.

In 1990 AD after the restoration of democracy in Nepal, the government took the liberal policy in banking sector from private and foreign investor under commercial banks operating in Nepal financial market along with nine joint venture with foreign investors. Nepal Arab Bank Ltd (NABIL) was the first joint venture bank established in 1984 AD, joint venture with United Arab Emirates Bank. Then two other bank Nepal Indosuez Bank Ltd with Indosuez Bank of Finance and Nepal Grind lays Bank Ltd with Grind lays Bank of London were established in 1986 Ad but currently these bank's name have been changes as Nepal Investment Bank Ltd and Standard Chartered bank Nepal Ltd respectively. Himalayan bank Ltd joint ventured with State Bank of India was established in 1993 AD. Everest Bank Ltd, joint ventured with Punjab National Bank India (early it was joint ventured with united Bank of India Calcutta) and Nepal Bangladesh Bank Ltd with IFIC Bank of Kathmandu joint ventured with SIAM commercial Bank public Co, Thailand was established in 1995 AD, and Nepal Bank of Ceylon joint ventured with Ceylon Bank if Sri-Lanka was established in 1997 AD. Likewise Lumbini Bank Ltd and NIC bank were established in 1998 AD. Others private commercial banks namely, Kumari Bank Ltd, Machhapuchhre Bank Ltd, Laxmi Bank Ltd and Siddhartha Bank Ltd were established in 1999, 2000, 2001 AD respectively.

2.1.2 Investment

Investment is concerned with the management of an investor's wealth which is the sum of current income and the present value of all future income funds to be invested come from assets already owned borrowed money and saving or forgone consumption by forgoing today and investing the saving, investors expects to enhance there future consumption

passivity i.e. they are invested to increase wealth. Investors also seek to manage their wealth effectively obtaining the most from it, while protecting to from inflation, taxed and factors.

Some scholars have given the actual meaning of investment, which are as follows:
J.K francies saying, "An investment is commitment of money that is expected to generate additional money. Every investment entails some degree of risk, it requires a present certain sacrifice for a future uncertain benefit."

James B. Bosely express his views as, "investment policy fixes responsibilities for the investment disposition of the bank assets in term of allocation funds for investment and loan and establishing responsibility for day to day management of those assets."

"Investment by individual, business and government involves a present sacrifice of income to get on expected future benefit; as a result investment raises a nation's standard of living."

From the above definition, we can conclude that investment means use of rupee of amount today by exception more income in future. If someone invests this fund today, he will get financial benefit in future from mobilization of their fund. The value of rupee in future is increased than current value, so they expect change in price during the period and for the uncertainty involved icon cash flow. So, it is clear that investments the utilization of funds today with expected additional return in future but sometimes returns may be negative also, if wrongly invested without sound knowledge of investment and their related factor.

In commercial sector, investment is the use of fund at present for benefit in the future. There is the sacrifice of present consumption of fund earning more in the future. Taxes, inflation, depression, labor relation, government action and countless other social phenomena affect the productivity and value of invested saving. All the above term create problem in necessary.

Investment has to undergo various types if risk e.g. business risk, possibility of being wane in earning power of investment due to competition uncontrollable costs, change on demand etc. market risk, possibility of strong change in market price and collateral value of securities and real propertied. Not all the investor achieves success. Therefore simply making an investment is not sufficient; one should follow sound investment policy.

The term investment has primary significance in financial sector, which refer to the process of determining the proper area in order to lodge a firm's fund to procure expected gain or profit known as a favorable return by its maximum utility at minimized risks. According to the investor's views, there must be a compulsory return on their investment but there may be unfavorable situation so that investors may incur loss. However so, investment is the act of proper utilization of a fund to be mobilizes so that achievement of a return could be ensured.

It also implies all such expenditure of a fund into capital nature assets. It is also one of the decisions of financial managements, which involves the decision of capital investment, or commitment of funds to long- term assets that would provided benefits in future.

The banks and finance companies are such type of financial institutions, which deal in money and substitute for money, or they deal with credit and credit instruments. Good management of credit instrument is very important for the banks financial institution to collect fund and utilize it in good investment sector.

"The term investing can cover a wide range of activities. It often refers to invest money in certificates of deposits, bond, common stocks or mutual funds. More knowledgeable investor would include other financial assets such as warrants, puts and call future contracts and convertible securities. Investing encompasses very conservation positions and aggressive speculation."

Preety Singh has defined investment in this way, ' investment is the employment of funds with the aim of achieving additional income or growth in value."

2.1.3 Features of a Sound Lending and Investment Policy

The income and profit of the bank depend upon its lending procedure, lending policy and investment of its fund in different securities. The greater the credits created by the bank, the higher will the profitability. A sound lending and investment policy is not only pre-requisite for bank's profitability but also crucially significant for the promotion of commercial saving of a backward country like Nepal.

Some necessities for sound lending and investment policies that should be considered by most of the banks can be explained as under:

a) Safety and Securities

The bank should never invest its funds in those securities, which are subject to too much depreciation and fluctuations because a little difference may cause a great loss. It must not invest funds into speculative business who maybe bankrupt at once and who may earn millions in a minute. The bank should accept that type of securities, which are commercial, durable, marketable and high market prices. In this case, "MAST" should be applied done the investment,

whereas;
M= Marketability
A= Acertainability
S= Stability
T= Transferability

b) Liquidity

Liquidity generally refers to the cash or any assets that can be converted into cash immediately. Generally, people deposit money at the bank in different account with

confidence that the bank will their money whenever it is needed. In order to maintain the confidence to the depositors, the bank must always be ready to meet current or short-term obligations when they become due for repayment liquidity is the capacity of bank to pay cash against deposits. Hence the liquidity position of a bank is such an important factor.

c) Profitability

Commercial banks invest on those sectors from where more and more return can flow because through maximizing the returns on its investment, bank can maximize its volume of wealth. Hence the investment or granting of loan and advances by them are highly influenced by the profit margin. Generally, the profit of commercial bank depends upon the interest rate of the bank, volume of loan provided, time period of loan and nature of investment on different securities. Profitability is only the term, which always motivates commercial banks to invest their money more and more.

d) Suitability

A banker should always know why a customer is in need of loan. If a borrower misuses the loan granted by the bank, he will never be able to repay the loan and bank will possess heavy bad debts. Therefore, in order to avoid such circumstances, advance should demand all the essential detailed information about the scheme of the project. Bank should also keep in mind the overall development plans of the nation and the credit policy guidelines of the central bank.

e) Diversification

The bank should be careful that while granting loan, it should not be always in one sector. To minimize risk and maximize the profit, a bank must diversify its investment on different sectors. Diversification of loan helps to sustain loss according to the law of average because of securities of other companies. In this way, the loss can be recovered.

f) Legality

Illegal securities will bring out many problems for the investor. A commercial bank must follow the rules and regulations as well as different directions issued by Nepal Rastra Bank, Ministry of Finance and others while mobilizing funds.

g) Tangibility

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

h) Purpose of Loan

Why is a customer in need of loan? This is the very important question for any banker. If the borrower misuses the loan granted by the bank, they can never repay and bank will possess heavy bad debts. Detailed information about the scheme of project or activities should be examined before lending.

2.1.4 Sources of Funds For the Investment

There are different sources of funds for the investment of the bank.

a) Capital

Capital is the lifeblood of the trade and commerce. Therefore, capital of needed for the operation of the bank as in other business. The capital funds consist of two elements like.

b) Issuing Shares

Bank issued its share for the collections of capital. So this one of the source of fund to invest. By increasing in the issue of share, the band can increase its capital.

c) General Reserves

Reserves are kept by the bank separated from the profit. This reserve is also invested at the time of contingency and covers the loss in future.

d) Accumulated Profit

If the capital is not sufficient and there is need have more money to invest in that case the band uses the accumulated profit to invest. In the time of contingency also, the bank invests its accumulated profit for recovering its future loss.

e) Deposits

Deposits are the main source of funds. By providing certain rate of interest, commercial bank calls for the deposit from the customer. Mainly, three types of deposits are accepted by the band like current deposit, fixed deposit, saving deposit. These different types of deposits are used for lending the money to different sectors like agriculture, production, trade, service sector and other industry. The deposits will lead to increase in the working capital of the bank.

f) External And Internal Borrowings

The funds can be collected by borrowing money through different banks or different institution. In a developing country like Nepal, those types of borrowings are very important. The commercial banks may not have sufficient fund to invest in different sector. I that case it has to borrow from other bank or other financial institutions. Generally the commercial bank borrows from two sources i.e. external and internal. Generally external borrowing means the borrowing from foreign banks, and government. Internally, the commercial banks borrow; mainly from interbank and Nepal Rastra Bank. So the commercial bank cannot provide loan or investment without the funds. From the fund collected from above different source, the commercial bank grants loan.

2.2 Review of Previous Studies

A number of studies have been conducted to answer the straight forward question of whether the financial performance affects the trading activity and the price movements in securities market or not. But such studies differ in their area of emphasis and conclude on their own manner. However, this section of this chapter aims to present the crucial part and theme of the some research works conducted previously.

Pettit's (1972), in his article entitled, " Dividend Announcements, Securities performance and Capital Market Efficiency", Pettit has attempted to offer evidence about the validity of the efficient market's hypothesis by estimating the speed and accuracy with which market prices react to announcements of changes in the level of dividend payments. In

addition, the nature of his investigation is such that it provides evidence on the hypothesis that changes in dividend levels convey important information to market participation.

For the analysis purpose Pettit collected approximately 1000 dividend announcement dates of dividend changes, investments relatives, dividend data, quarterly earning information and daily price from different sources. Six hundred twenty-five were taken and categorized accordingly on the basis of their earnings and dividend performance. The research covered a period of four and a half years i.e. from January 1964 to June 1968. After that, performance value and performance index were calculated for each dividend earning class for a period surrounding the dividend announced date.

The results of the research support that substantial formation is conveyed by announcements of dividend changes. Moreover, the results imply that the dividend announcement, when forthcoming, may convey significantly more information that the information than the information implicit in an earnings announcement.

Joseph Aharony and Itzhak Swary (1980), they have stated in their study entitled "Quarterly Dividend and Earning Announcement and Stockholders returns" a sample of 149 industrial firms was selected from those listed on the New York Stock Exchange. Stockholders of the companies did not change their dividend earned on average, only normal returns over the 20 days surrounding the announcement dates whereas the stockholders of the companies that announced dividends increase realized on average, positive abnormal returns over the same period. Furthermore, stockholders of companies that reduced their dividend sustained on average negative abnormal returns abnormal returns during the 20 days surrounding the announcement dates.

Mitchell and Mulherin's (1994), they have stated in their study entitled, ' the Impact of Public Information on the Stock Market" they have studied the relation between the number of news announcements reported daily by Dow Jones and company and aggregate measures of securities market activity including trading the news- market relation is due to the differing emphasis of the various studies. They argue some research is concerned with firm specific news, while other studies analyze macroeconomic

announcements. Some article note the joint patterns of news and market activity, while others more directly study the actual relation between the news relating aggregate measures of market activity such as trading volume and market returns to the board sample of macroeconomic and firm specific news announcement released by Dow Jones and Company.

They found that the number of news and stories and market activity is directly related and share common-day-of-the-week patterns. They also notes that the relation between news and market activity remain significant in regression that control for the day of the week. The result was also robust even after the inclusion of non-information sources of market activity.

2.3 Review of Nepalese Studies and Thesis

Although no specific studies are undertaken on the financial performance and share price of Nepalese security market, there exist literature on share price and financial performance. The review of these available literatures is accomplished in this section.

Shrestha, Manandhar and Poudel (2002), in their papers aimed at determining the extent of financial distress in Nepalese enterprises, indicating how financial ratios deteriorate as the firm moves into financial distress, pointing out concessions to be made by various stakeholders in the restructuring process, and analyzing legal framework concerning financial distress in Nepal. The study used both, primary as well as secondary data. The study was made for the years 1996-97, 1997-98. Data were analyzed by forming portfolio on net profit ratio, and return on equity to indicate their production ratio and coverage ratios.

Poudel (2002), in his study, *"Investing in Shares of Commercial Banks in Nepal: and Assessment of Return and Risk Elements."* An attempt has been in this paper to determine whether the chares of commercial banks in Nepal are correctly priced by analyzing the realized rates of returns and the required rates of return using the capital assets pricing model (CAPM) and trace their future price moments when striving towards equilibrium. For this, some theoretical models have been discussed to analyze return and risk

characteristic of those shares. The correlation coefficients between the returns on in individual shares and the return on market portfolio have been analyzed with the objective of decomposing the total risk into systematic and unsystematic components. To analyze the study is characteristics of the shares of joint venture commercial banks have been analyzed. The sample period commenced on mid_ July 1996 and ends in mid- July 2001. Statistical results suggest that analyzed shares here are not equilibrium with most of shares being less risky than the market. While the entire share examined appear to be attractive to the potential investors since the produce higher rate of return than that of the average stock, the various share have different degree of risk with some degree of risk with some shares being unable to generate the minimum rate of return.

Subedi (2002), entitled *"A Comparative Study of Financial Performance before Himalayan Bank Limited and Everest Bank Limited*". with objectives of examine and comparing to the financial performance of two joint venture bank and has conducted that current ratio EBL is greater than of HBL. The variability of the ration of HBL is more uniform than that of EBL. The liquidity of bank may be affected by external. Internal factor such as interest rate, supply, demand position of loan and saving to investment situation. HBL has maintained the ratio of cash and bank balance to total deposit considerable lower that EBL. Comparatively HBL's profitability ratio like, return of on total assets ratio on total deposit is not satisfactory in both the bank. HBL has lower capital adequacy ratio in comparison to direction issued by NRB.

Pandey (2004), he studied on topic, *"Listing, Liquidity and Price Formation in Nepal Stock Exchange"*. The main objective of the study was to examine the current status of listing, liquidity and share price formation in Nepal Stock Exchange. According to the nature of the study requires primary as well as secondary data are collected through questionnaire statistical tools as well as financial questions propositions models are used according to necessity. The major findings of the study were that companies listing in NEPSE are increasing but the percentage increase is decreasing. The percentage of listing of finance companies is found to be highest processing and manufacturing companies in second and bank manufacturing companies in second and bank, insurance hotels and

other sectors covered third, fourth and fifth position respectively. Lastly, the regression analysis between market price and EPS indicates that the relationship is satisfactory. MPS and DPS ion most of the selected companies have negative relationship.

Neupane (2006), she studied on topic, *"A Study of Financial Performance Analysis of Himalayan Bank Limited"*. The objective of this study in to depict the financial status of Himalayan Bank Limited. She used secondary data for analysis. Major finding of the study is that liquidity position is strong enough to meet daily requirement. ROA is in decreasing trend which shows the bank inefficiency utilizing its assets to generate more operating profit. ROE decreasing each year, Debt ratio of the bank is high. The bank seems to be successful in making investment in profitable sectors like loan and advances. Lastly the conclusion of the study is that financial position of the HBL from the year 1999 to the year 2004 the collected and loan investment are increasing satisfactory and there also improvement in the operating profit.

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Khadka (2007) entitled *"Financial Performance Analysis of Everest Bank Limited"*. To evaluate the financial performance of Everest Bank Limited in terms different kind of ratio. To see relationship between deposit and profit, investment and profit deposit and investment of EBL and to examine income and expenditure of EBL.

Everest bank limited has enough investment in Government Securities it does not meet current ratio 2:1 over ten year period. Cash and bank balance to current and saving deposit fluctuated over the study period, cash and bank balance to deposit period ratio of EBL show its liquidity position was weak over the ten years period EPS increase over a ten year period. P/E ratio fluctuate analyses showed that its main source of income is interest. Its contribution in total income was then 80%. Trend analysis of deposit and profit shows the increasing trend. Income of EBL increased over the study period but their stuff expenses was in a range of 5.6% these indicate a stuff expenses moderate according to income.

2.4 Research Gap

All the above review of thesis has been based on the research done by the previous students. Today the world has become modernized the information technology has also been advanced drastically so there is a lot of difference in the modern banking system which result in the better outcome in the management and improvement in the data's. There has been the gap of time which differentiates the research before and after. Likewise many changes have been done in this thesis to get the exact outcome of the today's scenarios of the bank and its various aspects.

Investment in different sectors is made on the basis of the directives and circulars issued by NRB as well as investment guidelines and policy of the concerned commercial bank. Commercial bank should follow these directives and circulars. Furthermore, their own investment guidelines and policies should be in line with NRB directives and circulars. So the up to data study over the change of time frame is major concerned for researcher and concerned organization as well as industry as a whole. This study covers the more recent financial data, NRB circulars and guidelines than that of studies previously conducted.

The optimum diversification of loan and advances reduced the default risk of credit. It is the major concern of shareholders to known the portfolio behavior of the bank. This

study puts its effort to find out the proportion to total loan and advances disbursed to different sectors of economy and analyses the diversification of its investment.

Different financial and statistical tools have been used in this study. Among then Ratio analysis, Regression analysis ,(Simple and Multiple) Test of Hypothesis are the strong financial analysis tools are used in this study, Therefore, output of this study will be fruitful to those interested Persons, Parties, Scholars, Teachers, Business man Civil society, student and government for policy making.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the research method used to test hypothesis. It sequentially refers to the various steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology describes the methods and process applied in the entire subject of the study. This chapter includes Research Design, Population and Sample, Nature and sources of Data, Data Analysis Tools and Financial Analysis Tools.

3.2 Research Design

The term of defines the research project, popularly known as research design. The function of research design is to provide for the collection of relevant evidence with minimum expenditure of effort, time and money. But how these can be achieved depends mainly on the research purpose. It is the main part of the thesis or any research work. The main objectives of this study are to evaluate the relative investment policy of Himalayan Bank Ltd. and NABIL Bank Ltd. in conjunction with NRB directives. For that purpose this study has focused on analytical and descriptive manner. Information and data of 5 years collected from various sources are analyzed and tabulated. Different Statistical tools as well as financial tools are used to find out necessary results.

3.3 Population and Sample

There are altogether 26 commercial banks functioning all over the kingdom and most of their stocks are trades actively in the stock market. Therefore the total commercial banks are the population and two banks namely NABIL Bank and Himalayan Bank are the sample of the study.

3.4 Nature and Sources of Data

The data required for the analysis are directly obtained from the P/L account and balance sheet of concerned banks' annual reports. Supplementary data and information are collected from couple of institutions and regulating authorities like NRB, security exchange board, Nepal stock exchange Ltd., Ministry and finance budget speech of different fiscal years, economic survey and national planning commission etc.

All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives. Formal and informal talks with concerned authorities of the bank were also helpful at obtain the additional information of the related problem.

Likewise, various data and information are collected from the economic journals, periodicals, bulletins, magazine and other published and unpublished reports and documents fro, various sources.

3.5 Data Analysis Tools

To achieve the objective of this study, various financial, accounting and statistical tools have been used. The analysis of data will be done according to the pattern of data available. Due to limited time and recourses, simple analytical statistical tools such as percentage graph, Karl Pearson's coefficient of correlation and coefficient of correlation and regression, the method of least square and test of hypothesis are used in this study. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis. The methods of analysis of this study are stated below.

- On the basis of research of research problem and objectives of the study data and information needed is identified and collected.
- The collected data are properly processed and arranged in the form of the table for simplicity.
- Financial and statistical tools have been used for analysis and interpretation of arranged data. For this purpose, statistical tools such as Karl Pearson's coefficient of correlation, standard deviation, least square linear trend has been financial tools such a ratio analysis, growth ratio analysis and trend analysis have been used.

3.5.1 Financial Analysis Tools

Financial analysis if the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the item of the balance sheet and the profit and loss account. It is the mathematical relation between sheet two accounting figures. Financial analysis is the starting point for making plans before using any sophisticated forecasting and planning procedure.

Among various reports published (presented by the firm, four basic financial statements are the income statement, the balance sheet, the statement of retained earnings and the statement of cash flow. These statements present the statement of changes in financial position and the accounting picture of the firm. In this study, financial tools like ratio analysis and financial statement analysis have been used.

3.5.1.1 Ratio Analysis

Financial ratio is the mathematical relationship between two accounting figures. "Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions." Thus, ratio analysis is used to compare a firm's financial performance and status to that of other firm's or to it overtime. The qualitative judgment regarding financial performance of a firm can be done with help of ratio analysis.

Therefore, there are many ratios; only those ratios have been covered in this study, which are related to the investment operation of the bank.

3.5.1.2 Types of Ratios

The outcomes of the financial analysis of the various accounting data are the several ratios; this can be groups into various classes according to the financial activity or function to be evaluated. Different ratio from the analysis presents or indicated various measures of the firm financial position. Different types of ratios are of different

importance to the different analyst, only those ratios have covered in this study, which are elated to investment operation of the bank.

1) Liquidity Ratio

Liquidity ratios are used to judge the ability of the banks to meet its short-term liabilities that are likely to mature in the short period. Form them, much insight can be obtained into present cash solvency of the bank and its ability to remain solvent in the event of advertise. It is the measurement of speed with which a bank's assets can bee converted into cash to meet deposit withdrawal and other current obligations. The following ratios are evaluated under liquidity ratios:

a. Current Ratio

This ratio shows the banks short-term solvency. It shows the relationship between current assets and current liabilities. Current assets includes cash and bank balance, money at call or short notice, loans and advances, overdrafts, bill purchased and discounted and short-term loan, bills payable, tax provision, staff bonus, dividend payable and other miscellaneous current liabilities.

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

The widely accepted standard of current ratio is 2:1 but accurate standard on circumstances in case of seasonal business ratio and the nature of business.

b. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the most liquid current assets. This ratio measures the percentage of the most liquid fund with bank to immediate payment to the depositor. This ratio is computed by the dividing cash and bank balance by total deposit. This can be presented as,

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

Hence, cash and bank balance includes cash in hand, foreign cash on hand, chequed and other cash items, balance with domestic banks and balance held in foreign banks. The

total deposit encompassed current deposits, saving deposits fixed deposits, money at call or short notice and other deposits.

c. Cash and Bank Balance to Current Assets Ratio

This ratio measures the proportion of most liquid assets i.e. cash and balance among the total current assets of bank. Higher ratio shows the bank's ability to meet demand for cash. This ratio is computed by dividing cash and bank balance by current assets. This can be stated as,

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

d. Investment on Government Securities to Current Assets Ratio

This ratio is calculated to find out the percentage of current assets invested in government securities i.e. treasury bills and development bonds. This ratio is computed by dividing investment on government securities by current assets. We can state it as,

$$\text{Investment on Govt.Securites to Current Assets Ratio} = \frac{\text{Investment in Government Securities}}{\text{total Current Assets}}$$

2) Assets Management Ratio

Assets management ratio measures how efficiency the bank managers the resources at its command. The following ratios are used under this assets management ratio:

a. Loan and Advances to Total Deposit Ratio

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

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

b. Total Investment to Total Ratio

Investment is one of the credited to earn income. This implies the utilization of firm's deposit on investment government securities and shares debenture of other companies

and bank. These ratios can be obtained by dividing total investment by total deposit. This can be mentioned as,

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

The numerator consists of investment on government securities, investment on debenture and bonds, shares in other companies and other investment.

c. Loan and Advances to Working Fund Ratio

Loan and advances is the major component in the total working fund (total assets), which indicated the ability to bank to canalized its deposits in the form of loan and advances to earn high return. This is computed by dividing loan and advances by total working fund. This is stated as,

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

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

d. Investment on Government Securities to Working Fund Ratio

This ratio shows that banks investment on government securities in comparison total the working fund. This ratio is calculated by dividing investment in government securities by total working fund. This is presented as,

$$\text{Investment on Govt. Securites to Working Fund Ratio} = \frac{\text{Investment on Government Securities}}{\text{Total Working Fund}}$$

e. Investment on Shared and Debenture to Total Working Ratio

This ratio shows the banks investment in shares and debenture of other companies. This ratio can be derived by dividing investment on shares and debenture by total working fund, which can be mentioned as,

Investment on Shares and Debenture to Total Working Ratio

$$= \frac{\text{Investment on Shares and Debentures}}{\text{Total Working Fund}}$$

3) Profitability Ratio

Profitability ratios are calculated to measure the efficiency of operation of a firm in term of profit. It is the indicator of the financial performance of any institution. This implies that higher the profitability ratio, better the financial performance of bank and vice versa. Profitability position can evaluated through following different ways:

a. Return on Loan and Advances Ratio

This ratio indicated how efficiency the bank has employed its resources in the form loan and advances. This ratio is computed by dividing net profit (loss) by loan and advances. This can be expressed as,

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

b. Return on Total Working Fund Ratio (ROA)

This ratio measures the overall profitability of all working funds i.e. total assets. it is also known as return and asset (ROA). A firm has to earn satisfactory return on assets or working fund for it survival. This ratio is calculated by dividing net profit (loss) by total working fund. This can be mentioned as,

$$\text{ROA} = \frac{\text{Net Profit(Loss)}}{\text{Total Working Fund}}$$

The numerator indicated the portion of income left to the internal equities after all cost charges and expenses have been deducted.

c. Return on Equity Ratio (ROE)

Net worth refers to the owner's claim of a bank. The excess amount of total assets over total liabilities is known as jet worth. This ratio measures how to efficiency the banks have to use the funds of owners. This ratio is calculated by dividing net profit by total equity capital (net worth). This can be stated as,

$$ROE = \frac{\text{Net Worth}}{\text{Total Equity Capital}}$$

d. Total Interest Earned to Total Outside Assets Ratio

This ratio measures the interest earning capacity of the bank through the efficient utilization of outside assets. Higher ratio implies efficient use of outside assets to earn interest. It can be mentioned as,

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

e. Total Interest Earned to Total Working Fund Ratio

This ratio is calculated to find out the percentage of interest earned total assets (working fund). Higher ratio implied better performance of the bank its bank its term of interest, earning on its working fund. This ratio is calculated by dividing total interest earned by total working fund.

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

f. Interest Earned Total Operating Income Ratio

This ratio is calculated to find out the portion of interest income in total operating income of the bank. It indicates how efficient the bank mobilization of its resources (funds0 in interest bearing assets i.e. loan and advances investment etc. this ratio is calculated by dividing total earned by total operating income.

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

g. Total Interest Paid to Total Working Fund Ratio

This ratio is calculated to find out the portion of interest income in total operating income of the bank. It indicates how efficient the bank mobilization of its resources (funds) in interest bearing assets i.e. loan and advances investment etc. this ratio if calculated by dividing total earned by total operating income.

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

4) Risk Ratio

Risk taking is the prime business of bank's investment management. It increases effectiveness and profitability of the bank. These ratios indicate the amount of risk associated with the various banking operations, which ultimately influences the banks investment policy. The following ratios are evaluated under this topic:

a. Credit Risk Ratio

Credit risk ratios are measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk ratio if expressed as the percentage of non-performing loan to total loan and advances. Here dividing total loan and advances by total assets derives this ratio. This can be stated as,

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

b. Interest Rate Risk Ratio

Interest rate risk ratio shows the decline in the net interest income (NII) due to the change in the interest rates charged by the banks in its deposit and loan advances. Higher interest rate risk ratios suggest the banks to increase the interest rates on deposit and loan and advances, to increase net interest income and vice versa rate loan and advance by interest sensitive liabilities (borrowing + total deposits) excluding current deposits. This can be mention as:

Interest Rate Risk Ratio = $\frac{\text{Total Sensitive Assets}}{\text{Interest Sensitive Liabilities}}$

5) Growth Ratio

To examine and analyze the expansion and growth of the banks business, following growth ratios are calculated in this study.

a. Growth ratio of total deposits.

b. Growth ratio of loan and advances.

c. Growth ratio of total investment.

d. Growth ratio of net profit.

3.5.2 Statistical Analysis Tools

To achieve the objectives of the study, some important statistical tools such as percentage, Mean Simple Correlation and trend analysis are in this study.

Arithmetic Mean

Average is the typical values around which other items of distribution congregate (Gupta, 1996: 228). Arithmetic mean of a given set of observations is their sum divided by the number of observations.

Mathematically,

$$X1 + X2 \ldots\ldots\ldots\ldots Xn = \sum X$$

$$X = \frac{\ldots\ldots\ldots\ldots\ldots\ldots}{N} = \frac{\ldots\ldots\ldots}{n}$$

Coefficient of Correlation

The coefficient of correlation and important measure to describe how one variable will is explained by another. It measures the degree of relationship between the two casually related variables. Karl Pearson's coefficient of correlation between two variable X and Y if usually devoted by r, which is the numerical measure of linear association between the variables.

Mathematically,

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

Where,

n = no. of observations of X and Y

$\sum X$ = sum of the observations series X

$\sum Y$ = sum of the observations in series Y

$\sum X^2$ = sum of the observations in series X

$\sum Y^2$ = sum of the observations in series X

$\sum XY$ = sum of the product of the observations on series X and Y

Probable Error

The probable error of the coefficient of correlation helps in interpreting the value and measuring the reliability of the coefficient of correlation. Probable error of correlation coefficient usually denoted by P.E. is and old measures of testing the reliability of a random sampling. It is worked out as:

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

Where,

r = correlation coefficient

n = no. of pairs of observations.

With the help of the P.E., it is possible to determine the reliability of the value of the coefficient.

Trend Analysis

Trend analysis is one the most important methods, which enables to find out the actual position of business cycle over a period of years. The study of the data over a long period enables us to have a general idea about the pattern of the behavior of the phenomenon under consideration this help in business forecasting and planning future operation. The trend analysis also enables us to compare two or more time series over different periods and draw important conclusion about them. The topic analysis the trend of deposits, loan and advances, investment and net profit of EBL and HBL and makes the forecast for the next five years.

1. Trend analysis of total deposits
2. Trend analysis of loan and advances
3. Trend analysis of total investments
4. Trend analysis of net profit

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

The chapter is related to the presentation and analysis of data collected from various sources. The chapter includes main two parts. The first part includes the presentation and analysis of secondary and primary data while second part includes major findings of the study.

4.1 Financial Analysis

In this part various financial ratios related to the investment management and the fund mobilization are studied to evaluate and analyze the performance of HBL and EBL. Study of all types of ratios was not done. Only those ratios that are important from point of view of the mobilization and investment are calculated. The important ratios that are studied for this purpose are given below:

4.1.1 Analysis of Liquidity Position

Liquidity ratios are used to judge the ability of a bank to meet its short-term liabilities that are likely to mature in the short period. In fact, liquidity is a pre requisite for the very survival of bank. A bank should ensure that it does not suffer from lack of liquidity and also that it is not too much highly liquid. A bank must maintain its satisfactory liquidity position to meet the demands for deposits, withdrawals, pay maturity in time, satisfy the credit needs of the community and convert non cash assets into cash to satisfy immediate need without loss to bank and consequent impact or long run profit. The following ratios are evaluated and interpreted to compare the liquidity position of HBL and EBL.

4.1.1.1 Current Ratio

Current ratios of HBL and EBL from the fiscal year 2002/03 to 2008/09 are given below in table no. 4.1

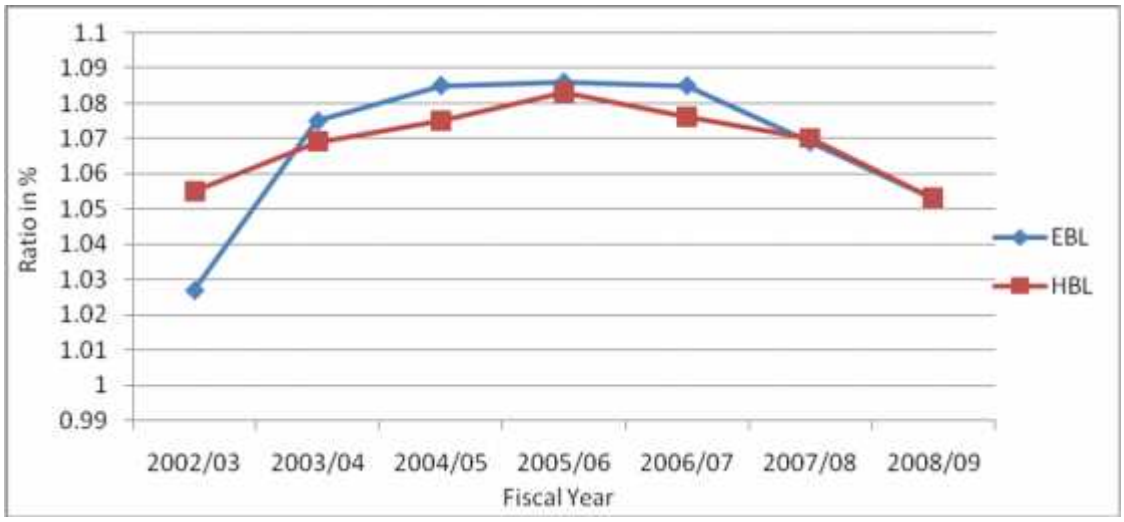
Table 4.1
Status of Current Ratio (Times)

Fiscal Year	Banks	
	EBL	**HBL**
2002/03	1.027	1.055
2003/04	1.075	1.069
2004/05	1.085	1.075
2005/06	1.086	1.083
2006/07	1.085	1.076
2007/08	1.069	1.070
2008/09	1.053	1.053
Mean	1.068	1.069
S.D.	0.0218	0.0111
C.V	2.0	1.0

(Source: Appendix-1.1)

The above table 4.1 shows that the current assets of both banks have exceeded current liabilities in average in the study period from 2002/03 to 2008/09. The highest ratio is 1.086 in F.Y. 2005/06 while the lowest ratio is 1.027 in the F.Y 2002/03 of EBL with an average ratio of EBL with an average ratio of 1.068 during the study period. The highest ratio of HBL is 1.083 and the lowest is 1.053 in F.Y 2005/06 and 2008/09 respectively. The coefficient of variation between the current ratio of EBL is 2.0% which is comparatively lower than 10% of HBL. It shows the current ratios of HBL are less homogeneous than EBL. Thus liquidity position of HBL is not satisfactory since its current ratios are less than EBL. The chart of current ratio is given below:-

Figure 4.1
Status of Current Ratio



4.1.1.2 Cash and Bank Balance to Total Deposit Ratio

This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors. This ratio is computed by dividing cash and bank balance by total deposit (Detail in appendix 1.2). Both higher and lower ratios are not desirable. The reason is that if a bank maintains higher ratio of cash it has to pay interest on deposits and some earning may be lost. In contrast, if the bank maintains low ratio of cash it may fail to make payment for the demands of the depositors. So, sufficient and appropriate cash reserve should be maintained properly.

Table 4.2
Cash and Bank Balance to Total Deposit Ratio (%)

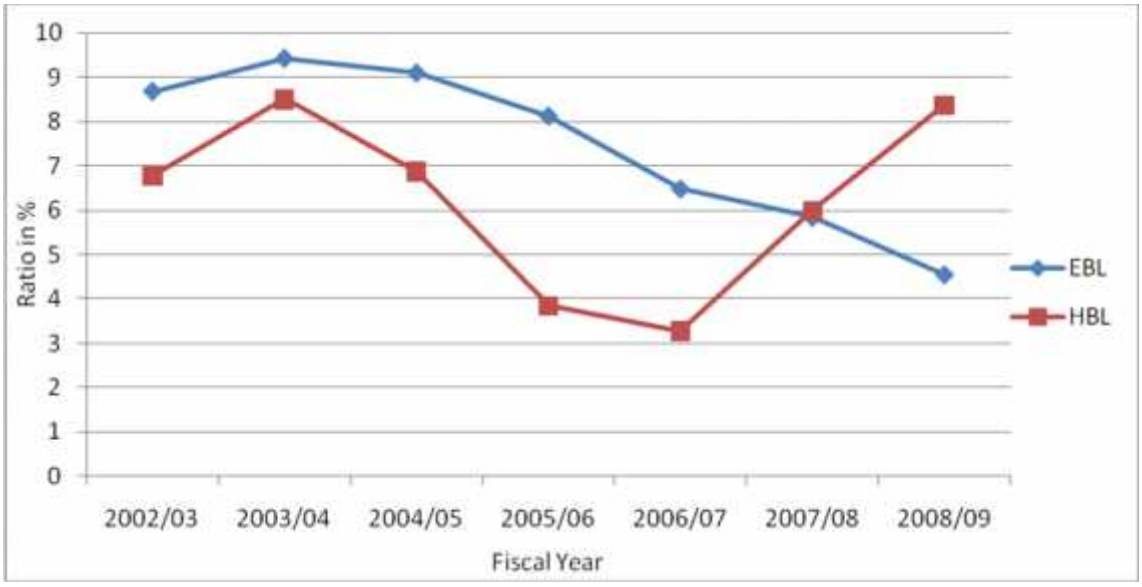
Fiscal Year	Banks	
	EBL	HBL
2002/03	8.68	6.78
2003/04	9.42	8.51
2004/05	9.09	6.87
2005/06	8.12	3.83
2006/07	6.48	3.26
2007/08	5.84	5.99
2008/09	4.55	8.37
Mean	7.454	6.23
S.D.	1.847	2.046
C.V	24.8	32.8

(Sources: Appendix-1.2)

The above table 4.2 shows that the cash and bank balance to total deposit ratio of EBL has in decreasing trend and HBL has decreased in 2006/07 after that it increased in F.Y 2008/09. Between two banks EBL has maintain highest ratio 9.42% in F.Y 2003/04 and lowest ratio 4.55% in F.Y 2008/09. In addition, the HBL has maintained highest ratio 8.51% in F.Y 2003/04 and lowest ratio 3.26% in F.Y 2006/07 during the study period. The mean of the ratios for the study period of EBL is 7.454%, C.V is 24.8%, the mean of HBL is 6.23% and C.V is 32.8%. It can be concluded that the ratios are variables and less consistent. The chart of the cash and bank balance to total deposit ratio is given below:-

Figure 4.2

Cash and Bank Balance to Total Deposit



4.1.1.3 Cash and Bank Balance to Current Assets Ratio

Cash and bank balance to current assets ratio of HBL and EBL from the fiscal year 2002/03 to 2008/09 are given below in table 4.3 (detail in appendix 1.3)

Table 4.3

Cash and Bank Balance to Current Assets Ratio (%)

Fiscal Year	Banks	
	EBL	HBL
2002/03	7.94	6.05
2003/04	8.25	7.02
2004/05	7.87	5.91
2005/06	7.05	3.32
2006/07	5.71	2.86
2007/08	5.24	5.20
2008/09	4.08	7.31
Mean	6.5914	5.381
S.D.	1.598	1.72
C.V	24.2	31.9

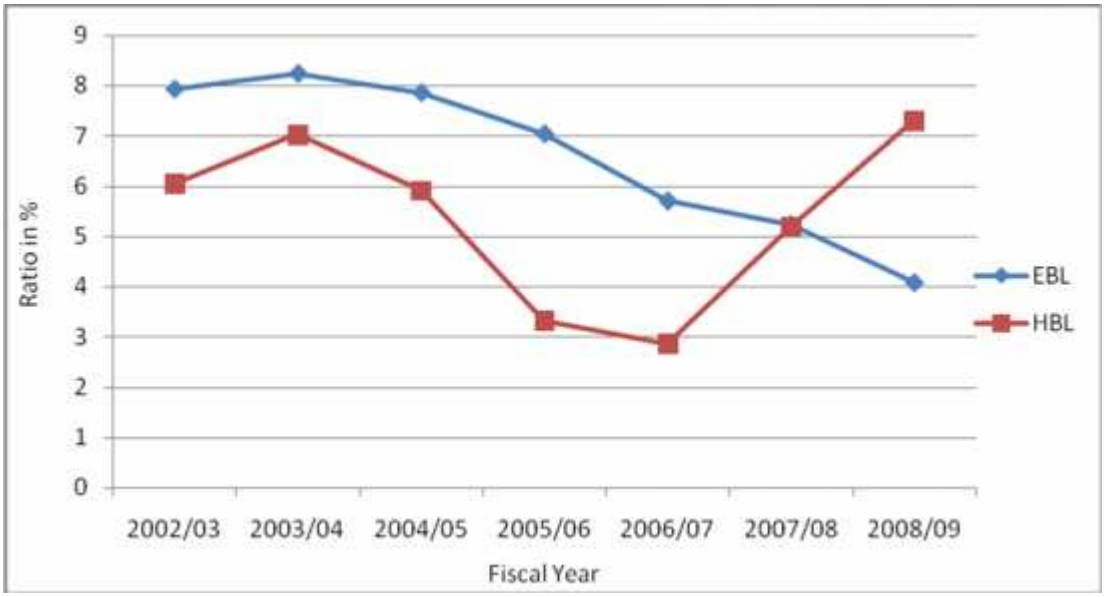
(Source: Appendix-1.3)

The above table shows the cash and bank balance to current assets ratio of two banks are better as they shows the ability to mange the deposit withdrawal from the customers. EBL has followed the decreasing trend and HBL has decreasing trend in first four year and after that it has increased to 7.31% in Fiscal Year 2008/09. Between two banks EBL has maintained highest ratio of 7.31% in F.Y 2008/09 during the study period. The mean ratio of EBL is 6.594% and C.V 24.2% which is complainingly higher than 5.381% and 31.9% of HBL respectively.

Comparatively, EBL seems to have better position maintaining the cash and bank balance to current ratio but less consistent than HBL. In contrast, EBL and HBL may have mobilized their more funds in productive sectors.

Figure 4.3

Cash and Bank Balance to Current Assets Ratio



4.1.1.4 Investment on Government Securities to Current Assets Ratio

Investment on government securities to current assets ratio of EBL and HBL from the fiscal year 2002/03 to 2007/06 are given below in table 4.4.

Table 4.4

Investment on Government Securities to Current assets (%)

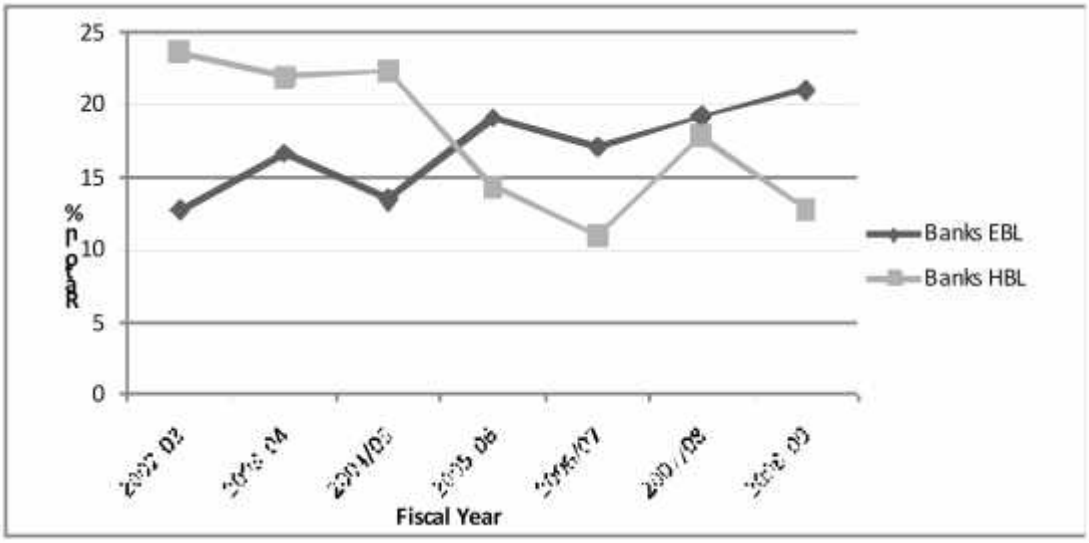
Fiscal Year	Banks	
	EBL	HBL
2002/03	12.72	23.69
2003/04	16.68	22.00
2004/05	13.49	22.38
2005/06	19.14	14.35
2006/07	17.12	10.99
2007/08	19.23	17.83
2008/09	21.08	12.72
Mean	17.065	17.708
S.D.	3.080	5.12
C.V	18	28.9

(Sources: Appendix-1.4)

The table 4.4 shows that EBL have followed in fluctuating trend and HBL have followed in decreasing trend. In average EBL has maintained higher ratio of investing in government securities than HBL. EBL investing higher position of current assets as government securities indicates that it wants to invest more in other production sectors. The chart of the investment on government securities to current assets ratio is given below:-

Figure 4.4

Investment on Government Securities to Current Assets



4.1.2 Asset Management Ratio

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

4.1.2.1 Loan and Advances to Total Deposit Ratio

This ratio measures the extent to which the bank is successful to mobilize its total deposit on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of collected deposits and vice versa. But it should be noted that too high ratio might not be better from liquidity point of view. This ratio is calculated by dividing

loans and advances by dividing loans and advances by total deposits. Loan and advances to total deposit ratio of EBL and HBL are given below in table 4.5.

Table 4.5

Loan and Advances to Total Deposit Ratio (%)

Fiscal Year	Banks	
	EBL	**HBL**
2002/03	51.33	50.31
2003/04	51.62	55.43
2004/05	58.69	56.33
2005/06	54.21	71.75
2006/07	59.49	65.55
2007/08	59.21	65.57
2008/09	63.37	67.52
Mean	56.845	61.78
S.D.	4.532	7.773
C.V	7.97	12

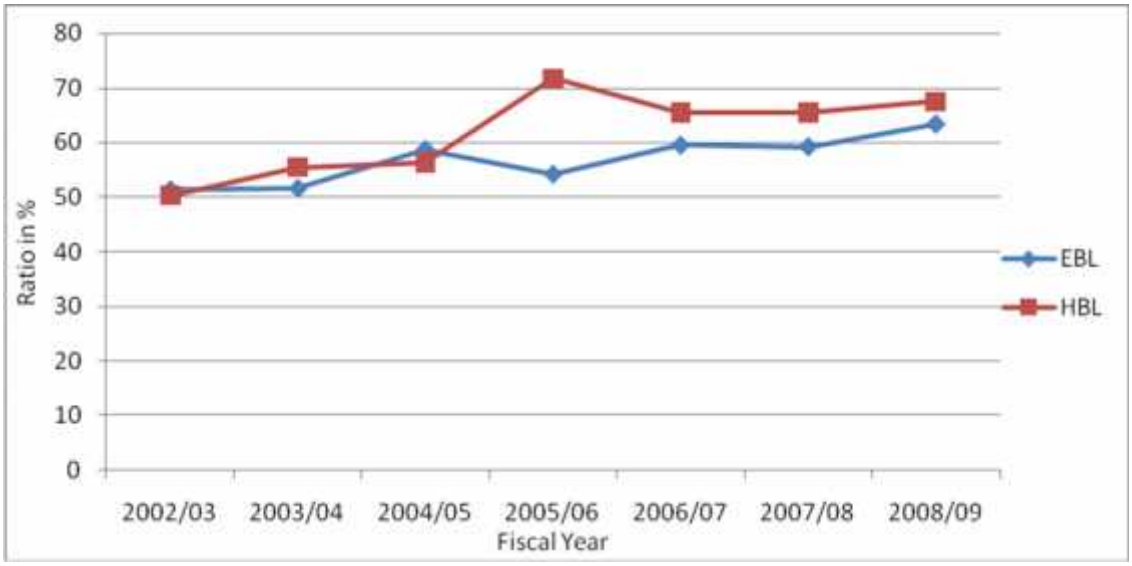
(Sources: Appendix-1.5)

The above table reveals that the ratio of EBL have followed fluctuating trend and HBL have followed increasing trend. HBL ratio has increase from 50.31% to 67.52% for the fiscal year 2002/03 to 2008/09; EBL has maintained 63.37% as a highest ratio of 51.62% as a lowest ratio in F.Y 2008/09 and 2003/04 respectively during the study period.

In average HBL has maintained higher loan and advances to total deposit ratio than EBL. It states that the position of HBL is better in this regard. But the coefficient of variation between the above ratios of EBL is 7.97% which is comparatively lower than of HBL. It shows that the loan and advances of EBL is more stable and consistent than that of HBL. From the above table, it can be concluded that EBL has strong position regarding the mobilization of total deposit on loan and advances and acquiring high profit with compare to HBL. But high ratio is not better from the point of view of liquidity as the loan and advances is not as liquid as cash and bank balance. The chart of loan and advance to deposit ratio is given:-

Figure 4.5

Loan and Advances to Total Deposit Ratio



4.1.2.2 Total Investment to Total Deposit Ratio

The ratio indicates the proportion of deposit utilized for the purpose of maintaining liquidity in appropriate level. A high ratio is the indicator of high success to mobilize deposits in securities and vice-versa. This ratio is calculated by dividing total deposit. Total investment to total deposit ratio of HBL and EBL from fiscal year 2002/03-2008/09 are given below in table 4.6.

Table 4.6

Total Investment to Total Deposit Ratio (%)

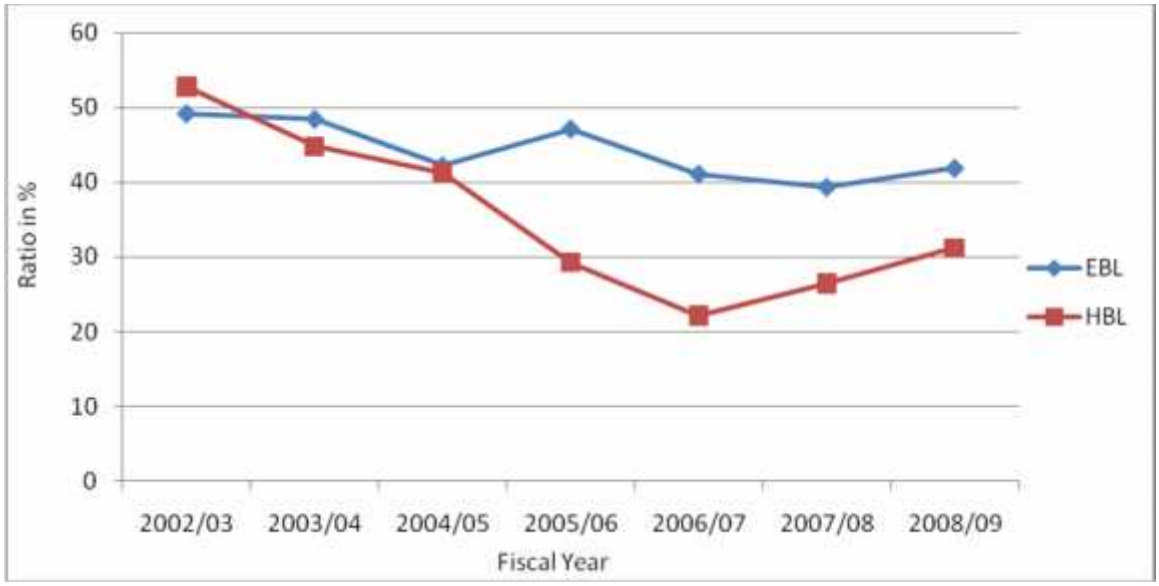
Fiscal Year	Banks	
	EBL	HBL
2002/03	49.18	52.87
2003/04	48.43	44.85
2004/05	42.22	41.33
2005/06	47.12	29.27
2006/07	41.10	22.11
2007/08	39.34	26.48
2008/09	41.89	31.23
Mean	44.183	35.448
S.D.	3.952	11.112
C.V	0.09	0.31

(Sources: Appendix-1.6)

The above table reveals that investment to total deposit ratio of HBL bank are less than that of EBL. The ratios of HBL are in decreasing trend in first five fiscal year during the study period and have increased fiscal year 2008/09. But the EBL have in fluctuating trend. EBL has maintained the highest ratio 49.18% in FY 2002/03 and the lowest ratio 39.34% in FY 2007/08. The mean and S.D of EBL is 44.183 and 3.95%, HBL is 35.448% and 11.112% respectively. In average EBL has invested higher percentage of total deposit in investment in securities and shares than HBL. HBL invested lower percentage of total deposit in securities and shares indicate that the bank is able to invest in more profitable sectors besides investing in lower return sectors. The chart of total investment to total deposit ratio is given below:-

Figure 4.6

Total Investment to Total Deposit Ratio



4.1.2.3 Loan and Advance to Total Working Fund Ratio

Loan and advances of any Commercial bank represent the major portion in the volume of total working fund. This ratio measures the volume of loan and advances in the structure of total assets. The high degree of ratio indicates the good performance of bank in mobilizing its funds by way of lending function. However its reverse side, high degree of this ratio representative of low liquidity ratio either. Granting the loan and advances

always carries a certain degree of risk. Thus, this asset of banking business is regarded as risky assets. This ratio measures the management attitude towards risk assets. The low ratio is indicative of low productivity and high degree of safety in liquidity and vice-versa. The interaction between risk and return determines this ratio. This ratio also shows credit risk taken by the bank towards mobilizing its funds into different types of assets. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loans and advances for the purpose of income generation. This ratio is computed by dividing loan and advances to total working fund ratio of HBL and EBL from fiscal year 2002/03 to 2008/09 are given below in table 4.7.

Table 4.7

Loan and Advances to Total Working Fund Ratio (%)

Fiscal Year	Banks	
	EBL	HBL
2002/03	46.23	44.23
2003/04	46.43	47.14
2004/05	52.17	49.62
2005/06	48.31	62.98
2006/07	53.35	58.37
2007/08	53.08	57.46
2008/09	55.78	58.03
Mean	50.764	53.978
S.D.	3.754	6.943
C.V	7.4	12.8

(Sources: Appendix-1.7)

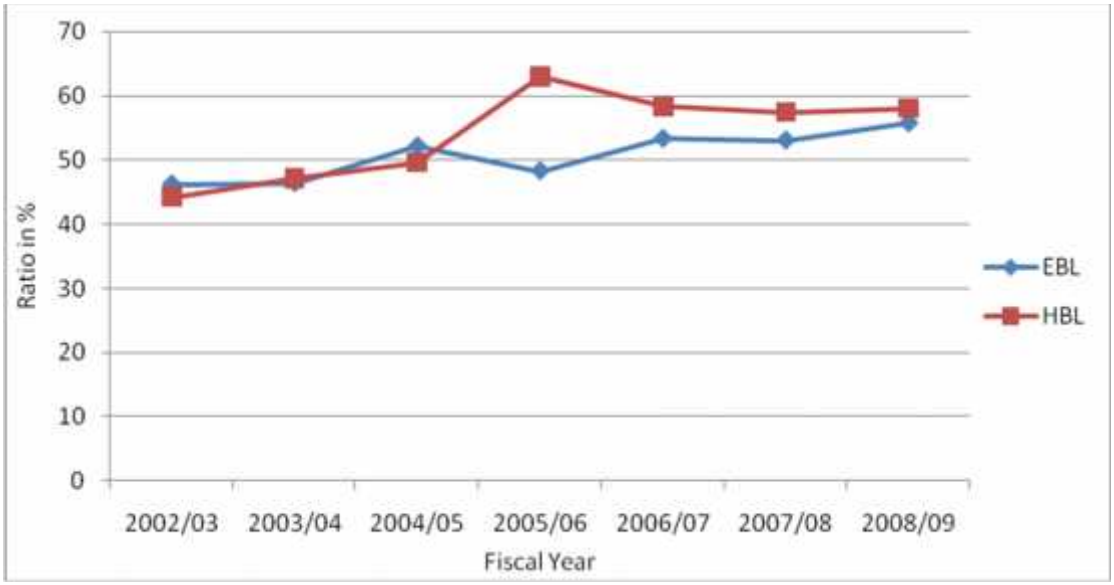
Table 4.7 shows that the ratio ranges of EBL from minimum 46.23% in 2002/03 to maximum 55.78% in 2008/09 and ratio ranges of HBL from the minimum of 44.25% in 2002/03to maximum of 62.98% in 2005/06. The mean of the ratio of EBL is 50.764%, HBL is 53.978% and the coefficient of variance between the above ratios of EBL is 7.40% that is comparatively lower than 12.80% of HBL. It shows that loan and advances of HBL are less stable and consistent than that of EBL. Above two of banks, the loan and advances of EBL are highly stable and consistent

In average, HBL has maintained higher loan and advances to total working fund ratios than EBL. It states that the position of HBL is better in this regard. The coefficient of variance between the above ratios of HBL 12.80% which is comparatively higher than 7.40% of EBL. It shows that loan and advances of EBL, HBL are less stable and consistent than that if EBL.

From the above analysis it can be concluded that the mobilization of working fund as loan and advances of HBL is good comparing to EBL. The chart of loan and advance to total working fund ratio is given below:-

Figure 4.7

Loan and Advances to Total Working Fund Ratio



4.1.2.4 Investment on Government Securities to Total Working Fund Ratio

Investment on government securities to total working fund ratio of HBL and EBL from the fiscal year 2002/03 to 2008/09 are given below in table no.4.8

Table 4.8

Investment on Government Securities to Total working Fund Ratio (%)

Fiscal Year	Banks	
	EBL	**HBL**
2002/03	12.52	23.37
2003/04	14.30	21.67
2004/05	13.85	21.93
2005/06	19.64	14.04
2006/07	17.46	10.31
2007/08	19.26	17.64
2008/09	20.65	12.51
Mean	16.811	17.353
S.D.	3.231	5.162
C.V	19.2	29.7

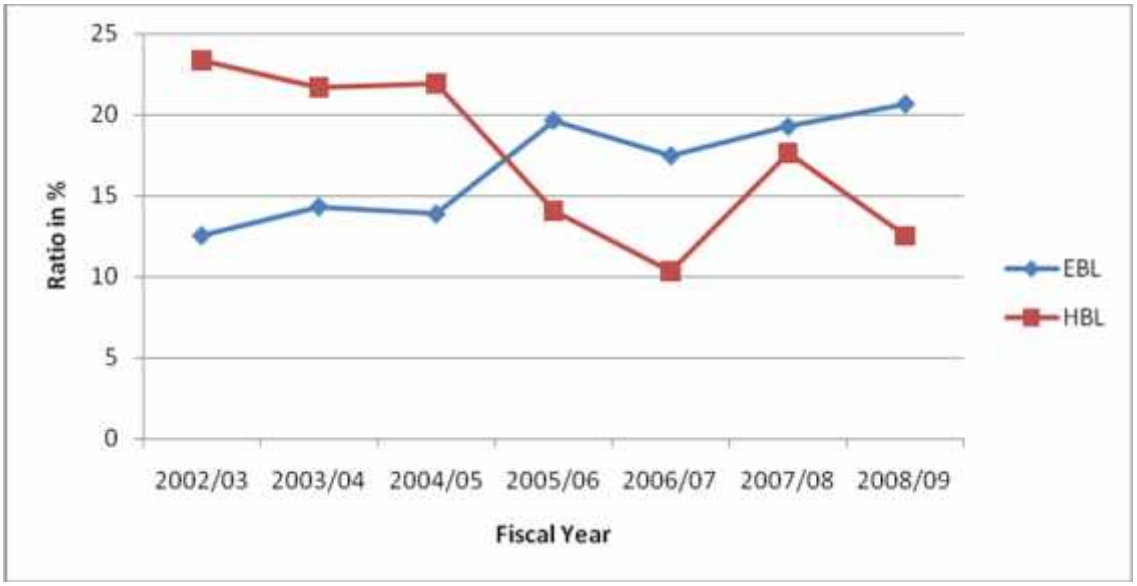
(Sources: Appendix-1.8)

From the above table, the ratio of EBL has followed the fluctuating trend. The maximum ratio is 20.65% in F.Y 2008/09 and the minimum ratio is 12.52% in F.Y 2002/03. The HBL has also followed the fluctuating trend. In F.Y 2002/03, it has maximum ratio is 23.37% and 10.31% is the minimum ratio in F.Y 2006/07.

In average, HBL has maintained higher ratio of investment on government securities to total working fund ratio than EBL. Both the bank EBL and HBL are more successful in utilizing it fund in government securities but have no consistence policy on its investment government securities. The chart of investment on government securities to total working fund ratio is given below:-

Figure 4.8

Investment on Government Securities to Total Working Fund Ratio



4.1.2.5 Investment on Shares and Debentures to Total Working Fund Ratio

Investments on shares are debentures to total working fund ratio of EBL and HBL from the fiscal year 2002/03 to 2008/09 are given below in table 4.9.

Table 4.9

Investment on Shares and Debentures to Total Working Fund Ratio (%)

Fiscal Year	Banks	
	EBL	HBL
2002/03	0.166	0.126
2003/04	0.147	0.134
2004/05	0.138	0.133
2005/06	0.143	0.234
2006/07	0.131	0.467
2007/08	0.219	1.053
2008/09	0.247	0.870
Mean	0.170	0.431
S.D.	0.045	0.385
C.V	26	89.32

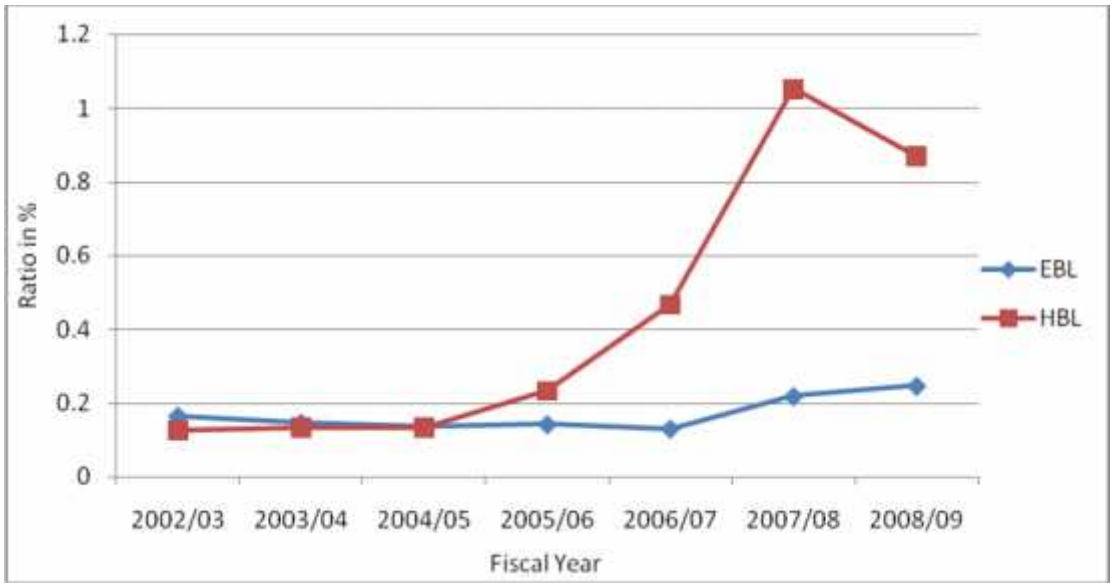
(Sources: Appendix-1.9)

The above table reveals that both banks are almost reluctant to make investment on shares and debentures of other companies. Most of the ratios are in below one. The ratio of EBL is in fluctuating trend but HBL has in increasing trend. The highest ratio of EBL has 0.247% in F.Y 2008/09 and 0.131% is the minimum ratio in F.Y 2006/07. Similarly, HBL has highest ratio of 1.053 in F.Y 2007/08 and lowest of 0.133 in F.Y 2004/05.

In average, HBL has maintained higher investment on share and debenture to total working fund ratio than EBL. It states that the position of HBL is better in this regard. The co-efficient of variance between the ratios of HBL is 89.32% which is greater than 26% of EBL. Is means the investment ratios of EBL are stable and consistent than that if HBL. EBL has invested higher percentage of it total assets into other companies' shares and debentures. The chart of investment on share and debenture to total working fund ratio is given below:-

Figure 4.9

Investment on Shares and debentures to Total Working Fund Ratio



4.1.2.6 Loan Loss Ratio

The ratio of loan loss provision to total loans and that a bank is holding. Loan loss ratios of HBL and EBL from the fiscal year 2002/03 to 2008/09 are given below:

Table 4.10

Loan Loss Ratio

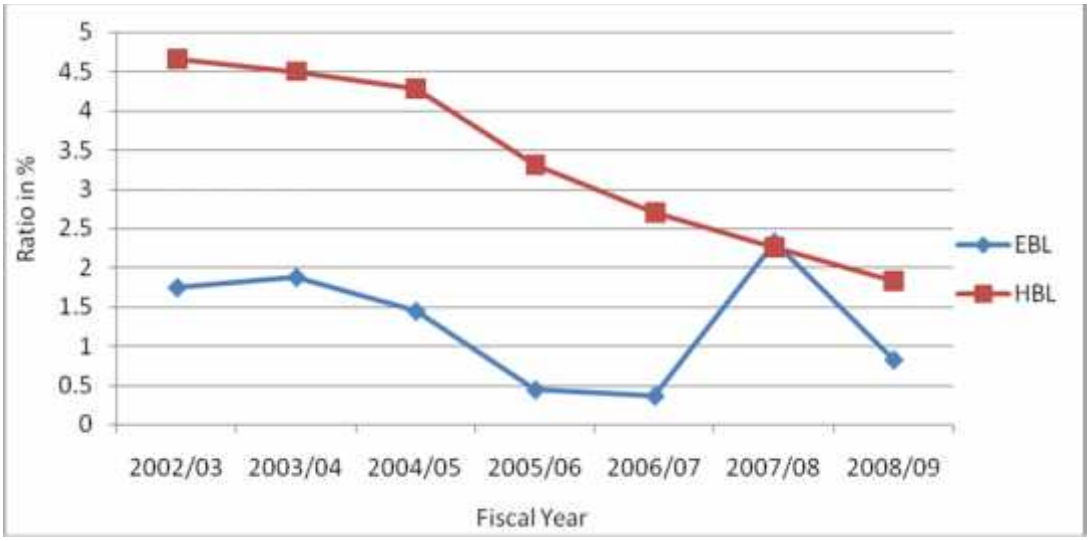
Fiscal Year	Banks	
	EBL	**HBL**
2002/03	1.74	4.66
2003/04	1.87	4.50
2004/05	1.44	4.28
2005/06	0.44	3.31
2006/07	0.36	2.70
2007/08	2.32	2.26
2008/09	0.82	1.83
Mean	1.28	3.36
S.D.	0.75	1.14
C.V	58.00	34.00

(Sources: Appendix-1.10)

As per above loan loss ratio of both banks are in decreasing trend. The loan loss ratio of HBL has decreased from 4.50% to 1.83% for F.Y 2003/04 to 2006708. Similarly the loan loss ratio of EBL has decreased from 1.87% to 0.36% for F.Y 2003/04 to 2006/07. But in F.Y 2007/08 it has increased to 2.32% and again in F.Y. 2008/09 it has decreased to 0.82%. The mean and S.D of EBL and HBL are 1.28%, 3.36%, 0.75% and 1.14%. The C.V between them of EBL is 58% and HBL is 34% which indicates that the ratio is variable and not consistent with increasing trend.

From the above analysis, it can be concluded that the performance of HBL in terms of recovery of loan is better in comparison to EBL due to lower loan loss ratio, during the study period. The chart of Loan loss ratio is given below:-

Figure 4.10
Loan Loss Ratio



4.1.3 Profitability Ratio

Profitability ratios are calculated to measure the overall efficiency of a firm in terms of profit. It is the indicator of the financial performance of any institution. Higher the profitability ratio better will be the financial performance of bank and vice versa. Profitability positions can be viewed in different ways.

4.1.3.1 Return on Loan and Advances Ratio

Return in loan and advances ratio of EBL and HBL from the fiscal year 2002/03 to 2008/09 are given below in table 4.11.

Table 4.11
Return on Loan and Advances Ratio (%)

Fiscal Year	Banks	
	EBL	HBL
2002/03	1.45	3.48
2003/04	1.96	5.33
2004/05	2.04	5.48
2005/06	2.29	4.79
2006/07	2.90	4.87
2007/08	2.76	4.30
2008/09	3.15	3.46
Mean	2.36	4.53
S.D.	0.60	0.82
C.V	25.00	18.00

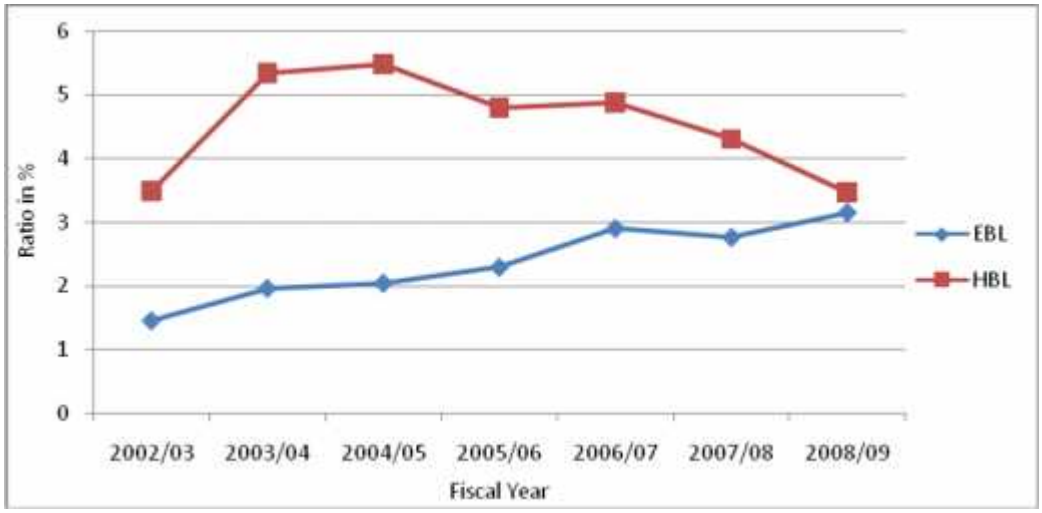
(Sources: Appendix-1.11)

During the study period, the ratios of EBL are in increasing trend. It has highest ratio of 3.15% on F.Y 2008/09 and lowest of 1.45% on F.Y 2002/03. The ratio of HBL has followed in fluctuating trend. It has decreased from 5.33% to 3.46% for the F.Y 2003/04 to 2008/09.

In average ratio of EBL is 2.36% which is lower than HBL i.e. 4.53%. The co-efficient of variance of EBL is 25.00%. This is lower than HBL i.e. 18.00%. HBL has failed to maintain sufficient ratio as compared to EBL. The chart of return on loan and advance ratio is given below:-

Figure 4.11

Return on Loan and Advances Ratio



4.1.3.2 Return on Total Assets Ratio

Return on total assets ratio EBL and HBL from the fiscal year 2002/03 to 2008/09 are given below in table 4.12

Table 4.12

Return on Total assets Ratio (%)

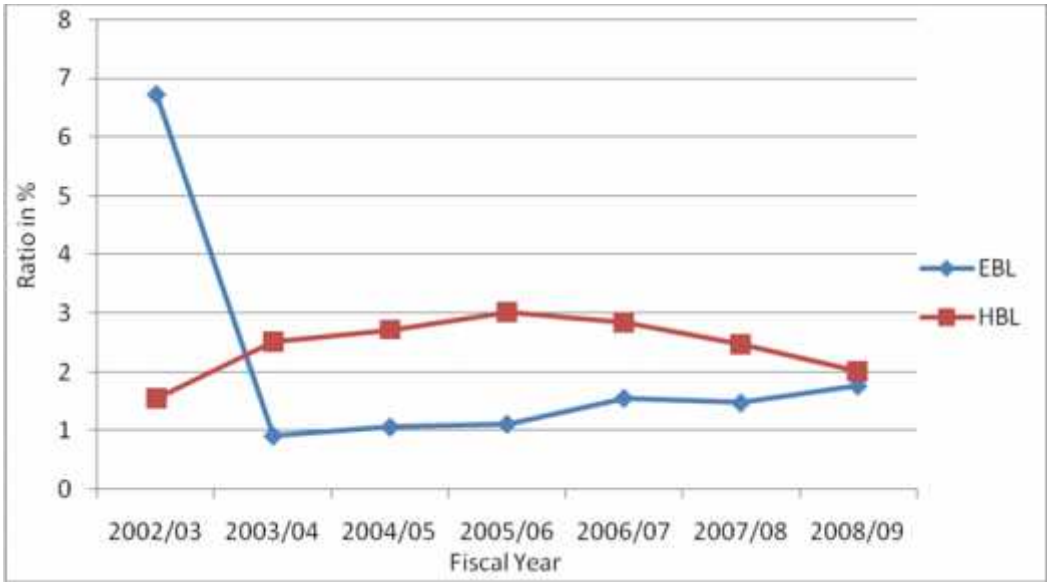
Fiscal Year	Banks	
	EBL	**HBL**
2002/03	6.72	1.54
2003/04	0.91	2.51
2004/05	1.06	2.72
2005/06	1.11	3.02
2006/07	1.55	2.84
2007/08	1.47	2.47
2008/09	1.76	2.01
Mean	2.08	2.44
S.D.	2.07	0.51
C.V	99.51	20.90

(Sources: Appendix-1.12)

As per above ratio of EBL is in increasing trend. It has the highest ratio of 1.55% in F.Y2006/07 and lowest ratio of 0.91% in F.Y 2003/04. The HBL is in increasing trend until 3rd year and then decreasing trend until 5th year.

In average HBL has maintained the higher ratio than EBL, which reveals the position of the bank is good. The C.V of EBL is 99.51%. This is comparatively higher than 20.90% of HBL. From the above it can be concluded that the profitability with respect to financial resources investment of bank assets is high as well as stable. The chart of return on working fund ratio is given below:-

Figure 4.12
Return on Total Assets Ratio



4.1.3.3 Total Interest Earned to Total Working Fund Ratio (%)

This ratio reflects the extended to which bank is successful in mobilizing its total assets to generate high income as interest. A high ratio is an indicator of high earning power of the banks total assets and vice versa. This ratio is calculating by dividing total interest income by total assets. Total interest earned to working fund ratio of EBL and HBL from the fiscal year 2002/03 to 2008/09 are given below in table 4.13.

Table 4.13

Total Interest Earned to Total Working Fund Ratio

Fiscal Year	Banks	
	EBL	HBL
2002/03	5.56	6.35
2003/04	5.14	6.15
2004/05	5.03	5.98
2005/06	5.19	6.22
2006/07	5.52	5.87
2007/08	5.29	5.82
2008/09	5.43	5.33
Mean	5.31	5.96
S.D.	0.20	0.34
C.V	3.76	5.70

(Sources: Appendix-1.13)

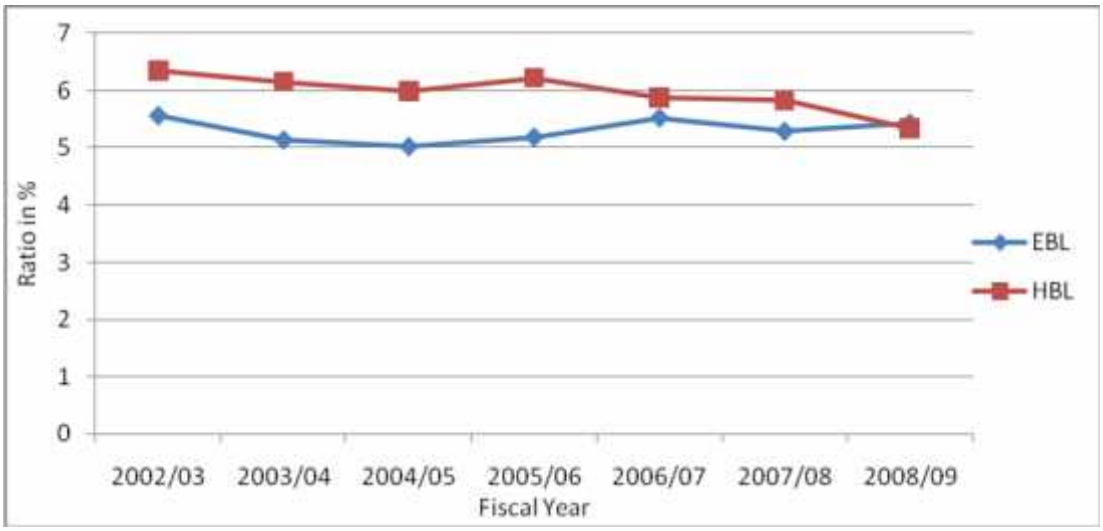
The above table shows that the ratio of EBL exhibits increasing trend during the study period. The highest ratio is 5.56% in F.Y 2002/03 and lowest ratio is 5.03 in F.Y 2004/05. The ratio of HBL has also in fluctuating trend. The highest ratio has 6.35 in F.Y 2002/03 and the lowest ratio has 5.33 in F.Y 20007/08.

In average, the mean ratio of HBL is 5.96%, which is higher than 5.31% of EBL. The C.V ratio of EBL is 3.76% and HBL is 5.70%.

From the above, it can be concluded that the ratio of total interest earned to total working fund of HBL is satisfactory in compare to EBL. It reveals that the bank has high earning power in comparison to EBL. The chart of total interest earned to total working fund ratio is given below:

Figure 4.13

Total Interest Earned to Total Working Fund Ratio



4.1.3.4 Total Interest Earned Total Operating Income Ratio (%)

Total interest earned to total operating income ratio of HBL and EBL from the fiscal year 2002/03 to 2008/09 are given below in table 4.14 (appendix 1.14).

Table 4.14

Total Interest Earned to Total Operating Income Ratio (%)

Fiscal Year	Banks	
	EBL	HBL
2002/03	58.45	53.31
2003/04	135.06	99.48
2004/05	121.58	95.24
2005/06	120.95	89.44
2006/07	116.72	96.36
2007/08	127.43	107.27
2008/09	122.92	118.45
Mean	114.73	94.22
S.D.	25.49	20.36
C.V	22.21	21.61

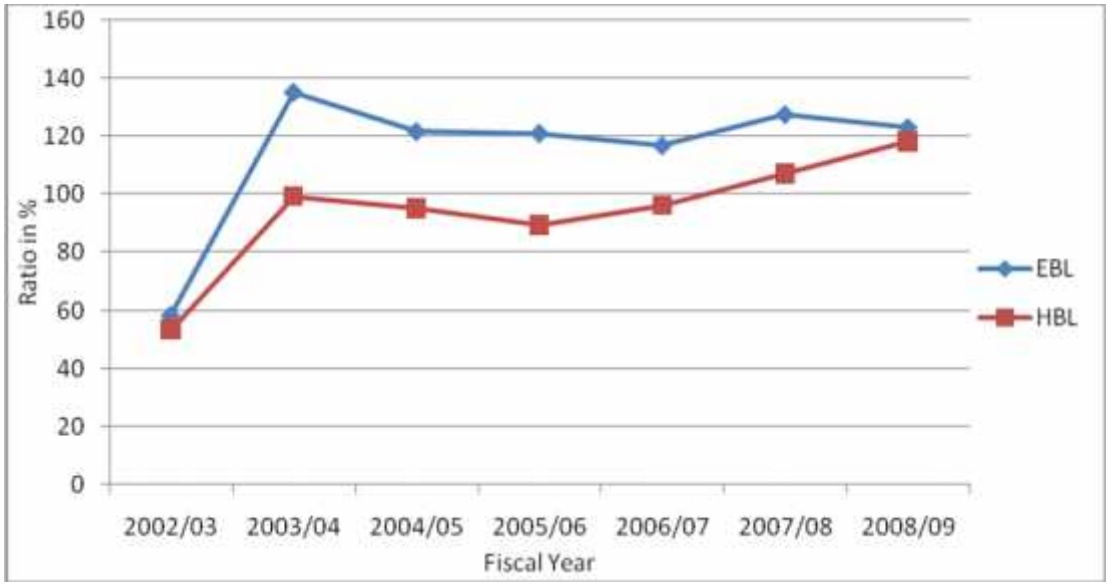
(Sources: Appendix-1.14)

The above table shows that the ratio of EBL exhibits decreasing trend during the study period. The ratio has decreased from 135.06 to 116.72 in 2003/04 to 2006/07 and then increased to 127.43% for the F.Y 2007/08 and in F.Y.2008/09 it decreased to 122.92. The ratio of the HBL is also in decreasing trend. It has decreased from 99.48% to 89.44% in F.Y 2003/04 to 2005/06 and then increased to 18.45% for the F.Y 2008/09.

If the mean of the ratio are observed, it is found that HBL has lowest mean i.e. 94.22% against the 114.73% of EBL. The C.V ratio of HBL is 21.61% that is comparatively higher than 22.21% of EBL. It indicates the total interest earned to total operating income ratio of HBL in variable than EBL. From the above it can be concluded that the ratios of total interest earned to total operating income of HBL is not satisfactory. The chart of total interest earned to total operating income is given below:-

Figure 4.14

Total Interest Earned to Total Operating Income Ratio



4.1.3.5 Total Interest Paid to Total Working Fund Ratio

Total interest paid to total working fund ratio of EBL and HBL from the fiscal year 2002/03 to 2008/09 are given below in table no. 4.15 (detail in appendix 1.15)

Table 4.15

Total Interest Paid to Total Working Fund Ratio (%)

Fiscal Year	Banks	
	EBL	HBL
2002/03	2.68	2.62
2003/04	2.37	1.92
2004/05	1.98	1.68
2005/06	2.02	1.42
2006/07	2.20	1.59
2007/08	2.29	2.04
2008/09	2.28	2.04
Mean	2.26	1.90
S.D.	0.23	0.39
C.V	10.00	20.00

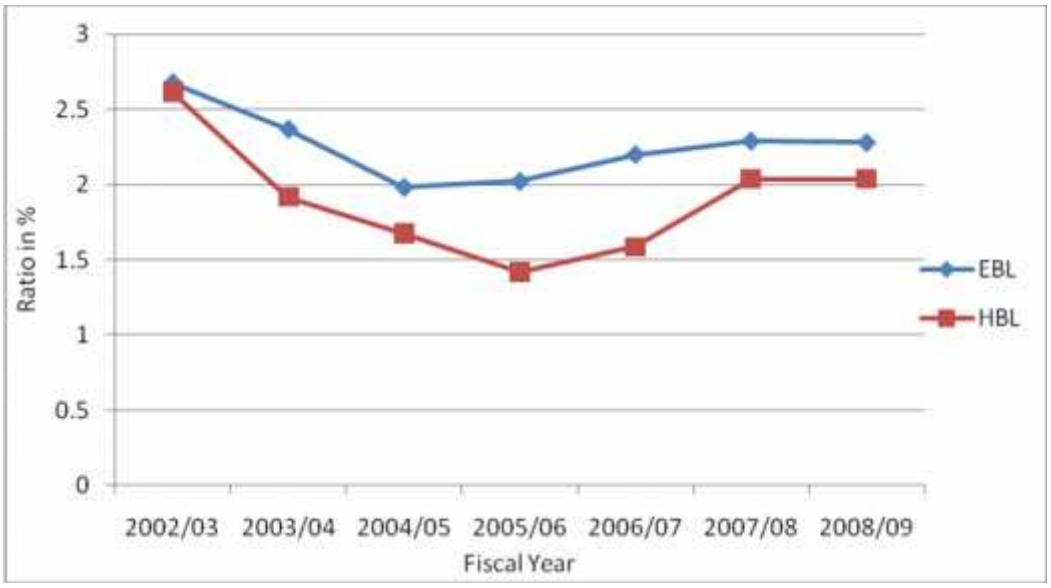
(Sources: Appendix-1.15)

The above table shows that the ratios of EBL are in decreasing trend for first three year and then it has increased to 2.28% in F.Y 2008/09. The lowest ratio has 1.98% in F.Y2004/05. The ratio of HBL has also followed decreasing trend for the first four year and then it has also increased to 2.04% in F.Y 2008/09. If the mean ratios are observed, it is found that the EBL has the highest of HBL. It has the mean ratio of 2.26% against the 1.90% of HBL. It means the EBL has paid higher interest in compare to HBL. The C.V ratio of EBL is 10% that is comparatively lower than 20% of HBL. It indicates the total interest paid to total working fund ratio of EBL is stable and consistent than HBL.

It can be concluded that the position of the EBL is not better as it has paid higher interest on total working fund in comparison to HBL. It also reveals that EBL is collecting the fund from expensive sources, which may be higher portion of fixed deposit in its total deposit. The chart of total interest paid to total working fund ratio is given below:-

Figure 4.15

Total Interest Paid to Total Working Fund Ratio



4.1.3.6 Return on Equity Ratio

Return on equity ratio of HBL and EBL from the fiscal year 2003/04 to 2007/08 are given below in table 4.16.

Table 4.16

Return on Equity Ratio (%)

Fiscal Year	Banks	
	EBL	HBL
2002/03	16.19	23.69
2003/04	11.13	24.89
2004/05	11.48	24.74
2005/06	12.00	25.70
2006/07	16.38	28.47
2007/08	15.06	27.91
2008/09	25.30	30.63
Mean	15.36	26.57
S.D.	4.91	2.48
C.V	30.97	9.33

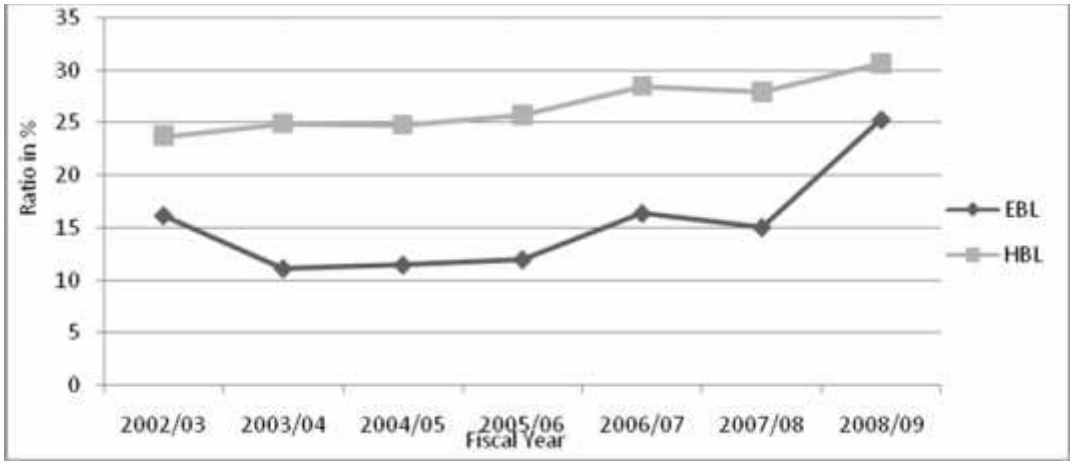
(Sources; Appendix-1.16)

The above table reveals that return on equity ratio of EBL and HBL both has followed in increasing trend. HBL has highest ratio of 30.63% in F.Y. 2008/09 and lowest of 23.69% in F.Y. 2002/03.

In average EBL has the lower mean return on equity of 15.36%against the 26.57% of HBL. The coefficient of variation of EBL is 30.97%, which is comparatively higher than 9.33% of HBL. It can be concluded that comparatively has efficiently utilized its equity capital than HBL. The chart is given below:-

Figure 4.16

Return on Equity Ratio



4.1.4 Risk Ratio

Risk is always associated with return. If there is return, risk will definitely be there. Higher the risk, higher will be return and vice versa. Risk is very closely associated with investment. A bank has to take high risk if it expects to earn high return on its investment. Therefore, bank has to accept and manage high risk to get high profit.

4.1.4.1 Credit Risk Ratio

Bank utilizes its collected funds by providing credit to different sectors. While making investment, bank has to examine the risk involved in it to avoid of default or non-repayment of loan. This ratio measures the risk behind making investment or granting loan. It shows the proportion of non-performing assets in the total loan and advances of a bank. But due to unavailability of the relevant data, ratio is calculated with the help of loan and advance and total assets. Credit risk ratio of EBL and HBL from the fiscal year 2002/03 to 2008/09 are given below in table 4.17.

Table 4.17

Credit Risk Ratio (%)

Fiscal Year	Banks	
	EBL	HBL
2002/03	46.23	44.25
2003/04	46.23	47.14
2004/05	52.17	49.96
2005/06	48.31	62.98
2006/07	53.50	58.37
2007/08	53.09	573.46
2008/09	55.78	58.03
Mean	50.79	54.03
S.D.	3.77	6.90
C.V	7.00	13.00

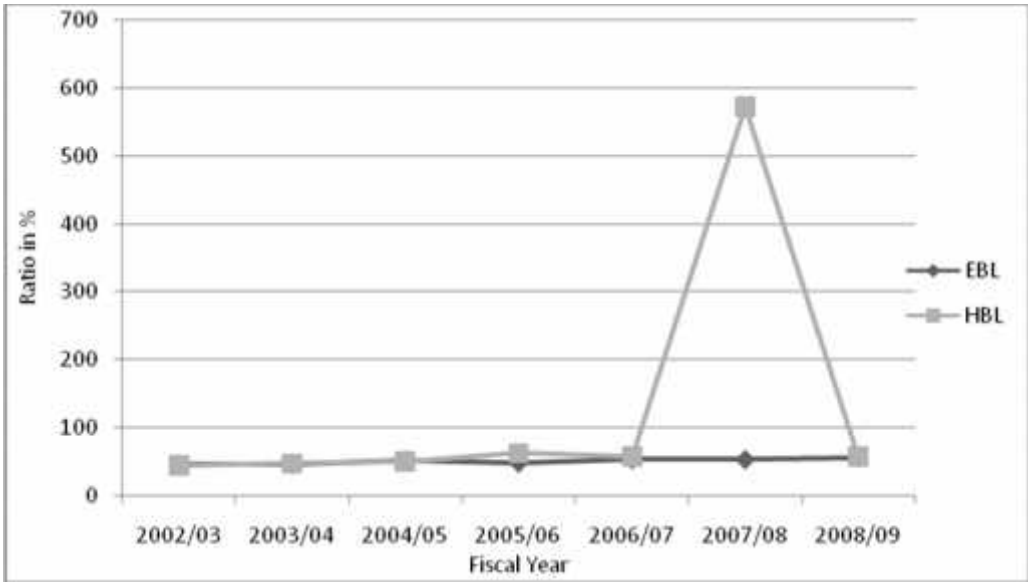
(Sources: Appendix-1.17)

The above table shows that the ratio of EBL is in fluctuating trend. The highest ratio of EBL is 53.78% in F.Y 2008/09 and HBL is 62.98% in F.Y 2005/06. In average, the ratio of EBL is 50.79% that is comparatively lower than 54.03% of HBL. The C.V of ratio of

EBL is 7% that is lower than 13% of HBL. It indicates the CRR of EBL is less consistent than HBL. The chart of Credit risk ratio is given below:-

Figure 4.17

Credit Risk Ratio



4.1.4.2 Interest Rate Risk Ratio

Interest rate risk ratio of BL and HBL from the fiscal year 2002/03 to 2008/09 is given below in table 4.18 (Detail in appendix 1.18).

Table 4.18

Interest Rate Risk Ratio (%)

Fiscal Year	Banks	
	EBL	HBL
2002/03	57.40	97.64
2003/04	75.99	109.38
2004/05	87.03	112.75
2005/06	93.13	124.58
2006/07	98.39	98.23
2007/08	103.46	99.79
2008/09	73.82	81.58
Mean	84.17	103.42
S.D.	16.09	13.67
C.V	19.11	13.22

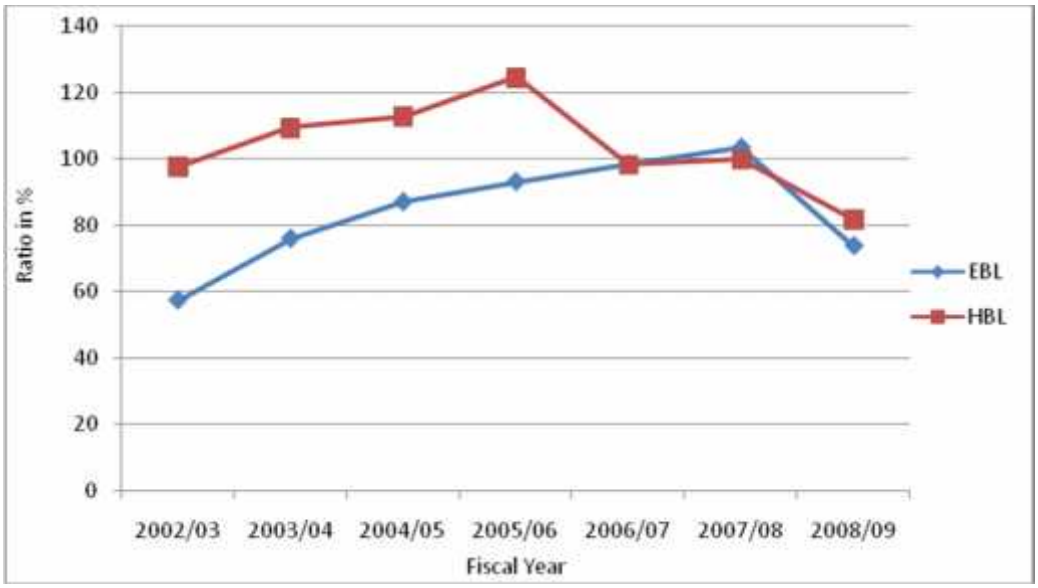
(Sources: Appendix-1.18)

The above table shows that the ratios of EBL has followed increasing trend from 2003/04 to 2007/08 and it has decreased in 2008/09. The ratio of HBL has followed increasing trend till F.Y 2002/03 and then decreasing trend till F.Y 2006/07. The highest ratio of EBL and HBL has 103.46% and 124.58%respectively.

In average, the mean of EBL is 84.17% which is lower than 103.42% HBL. The C.V of ratio of EBL is 19.11% that is greater than 13.22% of HBL. It indicates the interest rate risk ratio of EBL is less variable that HBL. From the above table it can be concluded the interest rate structure. The chart is given below:-

Figure 4.18

Interest Rate Risk Ratio



4.1.5 Trend Analysis and Projection for Seven Year

The purpose of this topic is to analyze the trend of deposit collection, utilization and net profit of HBL and EBL. To utilize deposits, a commercial bank may grant loan and advances, invest in government securities and chare debenture of other companies. Here the trend of deposit, loan and advances, total investment and net profit are forecasted for the next seven years. The projections are based on the following assumptions:

a. The main assumption is that other things will remain unchanged.
b. The forecast will be true only when the limitations of least square method are carried out.

c. The economy will remain in the present stage.
d. The bank will remain in the present stage.
e. Nepal Rastra Bank will not change it's guidelines to commercial banks.

4.1.5.1 Trend Analysis of Total Deposit

Under this topic, the trend values of total deposit for seven years from the 2002/03 to 2008/09 have been calculated. Forecast for next five years from the 2008/09 to 2013/14 is done.

The following table shows the trend values of total deposit for next 12 years from 2002/03 to 2013/14 of EBL and HBL.

Table 4.19

Trend values of Total Deposit of EBL and HBL

(Rs In '000)

Fiscal Year	Trend Values EBL	Trend Values HBL
2002/03	18619375	15506428
2003/04	21007379	13447661
2004/05	22010333	14119032
2005/06	24814012	14586609
2006/07	26490852	19347399
2007/08	30048400	23342285
2008/09	31842790	31915047
2009/10	35092944	10538452
2010/11	35122978	13172584
2011/12	35153013	15806716
2012/13	35183048	18440908
2013/14	35213082	21134980

(Sources: Appendix-2.1)

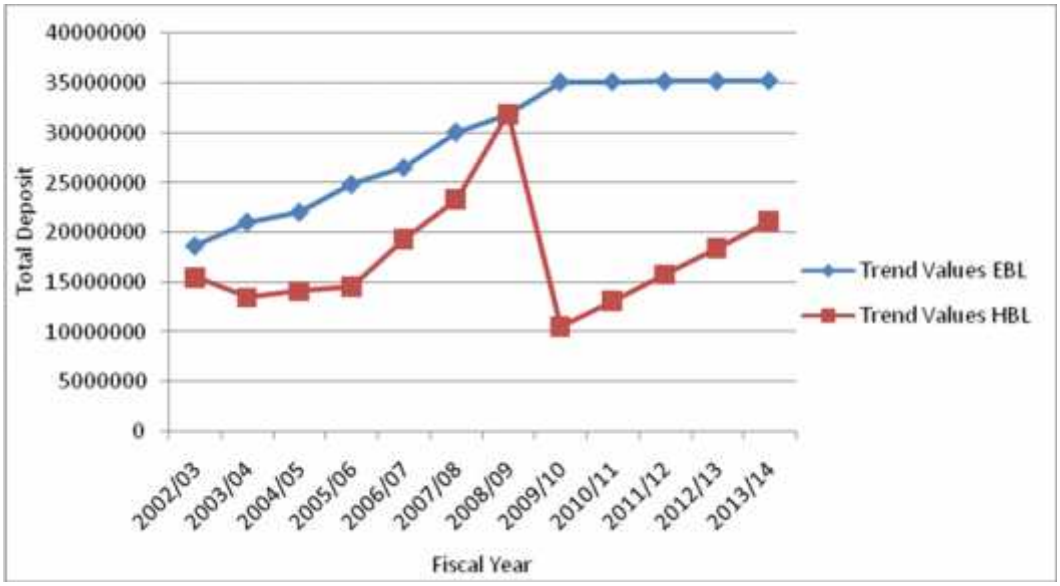
The above table shows that the deposits of both banks have in the increasing trend. If other things remaining the same, the total deposits of the EBL will be Rs. 35213082 thousands in the fiscal end of 2013/14 that is the highest deposit among the study period.

Similarly, the total deposit of HBL will be Rs 21134980 thousands in fiscal end of 2013/14.

From above trend analysis, it is found that the deposit collection position of HBL is not better in compare to EBL. The calculated trend values of total deposit of EBL and HBL are fitted in the trend column given in the below:-

Figure 4.19

Trend Values of Total Deposit of EBL and HBL



4.1.5.2 Trend Analysis of Loan and Advances

Under this topic, the trend values of Loan and advances for 7 years from the 2002/03 to 2008/09 have been calculated. Forecast for next 5 years from the 2008/09 to 2013/14 is done.

The following table shows the trend values of loan and advance for 12 year from 2002/03 to 2013/14 of EBL and HBL.

Table 4.20

Trend values of Loan and Advances of EBL and HBL

(Rs In '000)

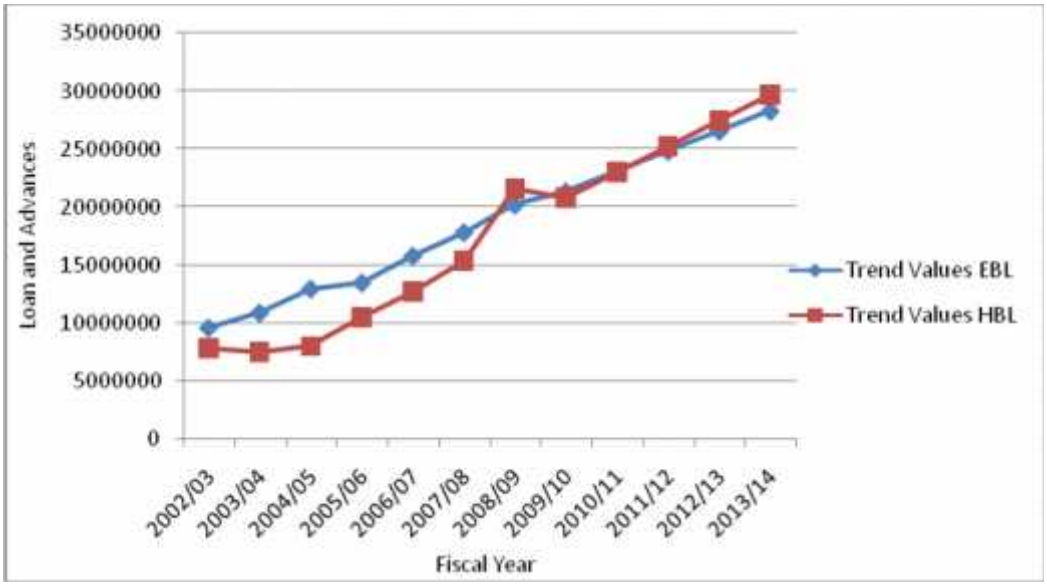
Fiscal Year	Trend Values EBL	Trend Values HBL
2002/03	9557138	7801848
2003/04	10844600	7454263
2004/05	12919600	7953760
2005/06	13451200	10465266
2006/07	15762000	12681666
2007/08	17793700	15305910
2008/09	20179600	21549684
2009/10	21327514	20765206
2010/11	23069829	22984636
2011/12	24812144	25204066
2012/13	26554458	27423496
2013/14	28296773	29642926

(Sources: Appendix-2.2)

The above table shows that the loan and advances of both banks have the increasing trend. If other things remaining the same, the total loan and advances of EBL will be Rs.28296773 thousands in end of 2013/14 is the highest among the study period. Similarly the loan and advances of HBL will be Rs. 29642926 thousands for the year 2013/14.

From above analysis, it is found that the lending position of HBL is not better in compare to EBL. The calculated trend values of total loan and advances of EBL and HBL are fitted in the trend column given on the next page.

Figure 4.20
Trend Values of Loan and Advances of EBL and HBL



4.1.5.3 Trend Analysis of Total Investment

Under this topic, the trend values of total investment for 7 years from the year2002/03 to 2008/09 have been calculated. Forecast for next 5 years from 2008/09 to 2013/14 is done. The following table shows the trend values of total investment for 12 years from 2002/03 to 2013/14 of EBL and HBL

Table 4.21
Trend Values of Total Investment of EBL and HBL

(Rs In '000)

Fiscal Year	EBL	HBL
2002/03	9157100	8199515
2003/04	10175400	6031176
2004/05	9292100	5836068
2005/06	11692300	4269658
2006/07	10889200	4277953
2007/08	11823000	6180658
2008/09	13340200	9966562
2009/10	114467790	6971940
2010/11	114530481	7116296
2011/12	114593172	7260653
2012/13	114655863	7405010
2013/14	114718554	7549367

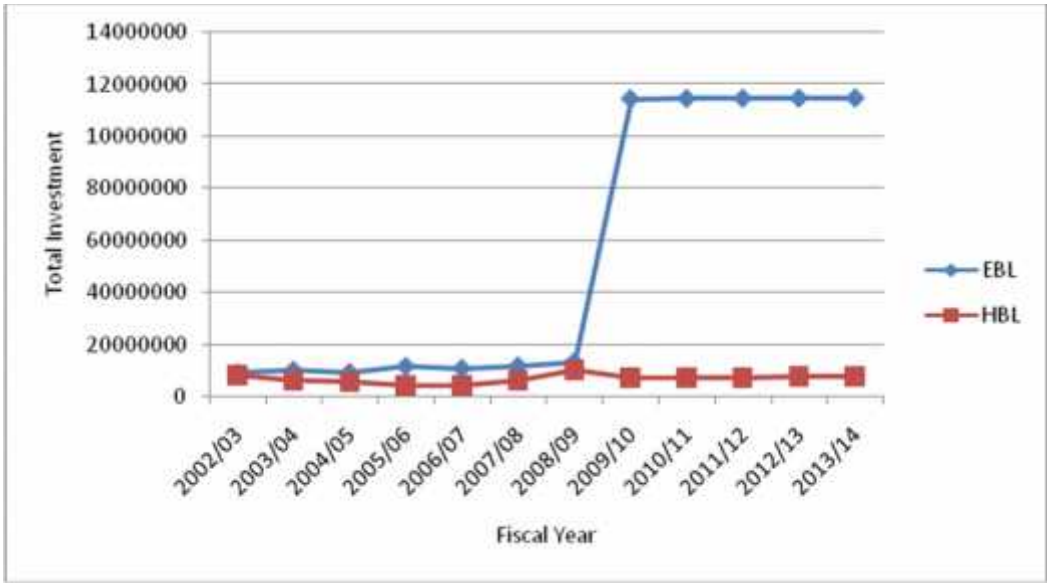
(Sources: Appendix-2.3)

The above table shows that total investment of EBL have the increasing trend but HBL have the decreasing trend. If other things remaining the same, the total investment of HBL will be decreased to 7549367 thousand in end year 2013/14. But the total investment of EBL will be increased to 11142718554 thousands for the year 2013/14.

From above analysis, it is found that the investment position of EBL is better in compare to HBL. The calculated trend values of total investment of EBL & HBL are fitted in the trend column given on the next page.

Figure 4.21

Trend Values of Total Investment of EBL and HBL



4.1.5.4 Trend Analysis of Net Profit

Under this topic, the trend values of net profit for 7 years from the year2002/03 to 2008/09have been calculated. Forecast for next 5 year from the year2008/09 to 2013/14 is done.

The following table shows the trend values of net profit for 12 years from 2002/03 to 2013/14 of EBL and HBL

Table 4.22

Trend Values of Net Profit of EBL and HBL

(Rs In '000)

Fiscal Year	EBL	HBL
2002/03	138979	271638
2003/04	212128	416236
2004/05	263053	455311
2005/06	308275	518636
2006/07	457458	635262
2007/08	491823	673959
2008/09	635868	746468
2009/10	678866	833412
2010/11	759025	909122
2011/12	838481	984832
2012/13	918640	1060542
2013/14	999503	1136252

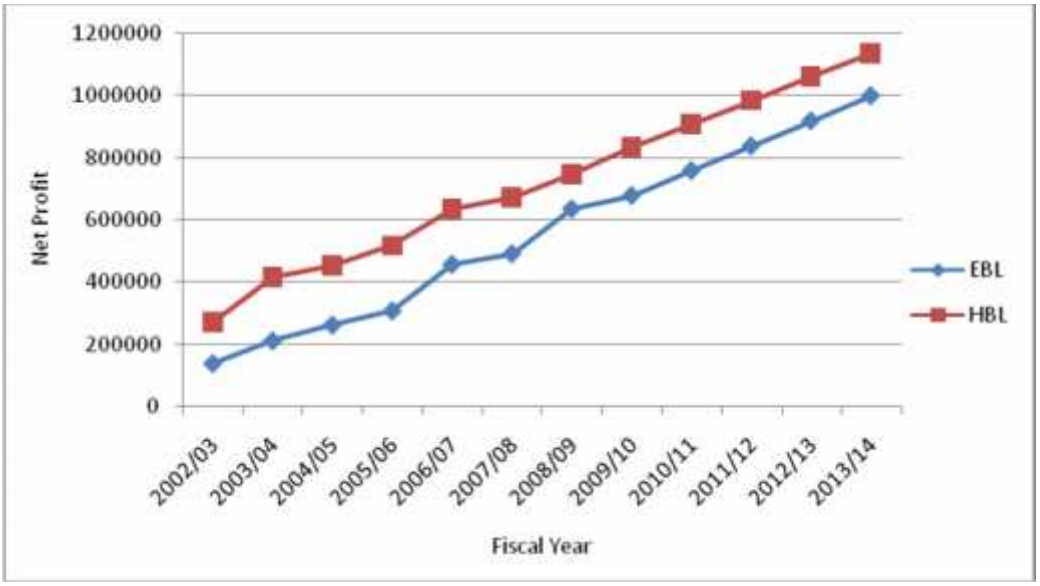
(Sources: Appendix-2.4)

The above table shows that net profit of EBL and HBL have the increasing trend. If other things remaining the same, the total net profit of EBL will be 999503 thousands in the year 2013/14, is the highest among the study period. Similarly, the total net profit of HBL will be 1136252 thousands for the year 2013/14.

From above analysis, it is found that the net profit position of EBL and HBL is very similar to each other. The calculated trend values of net profit of EBL and HBL are fitted in the trend line given on the next page.

Figure 4.22

Trend Values of Net Profit of EBL and HBL



4.1.6 Test of Hypothesis

In this topic, an effort has been made to test the significance regarding the parameter of the population on the basis of sample drawn from the population.

4.1.6.1 Test of Hypothesis on Loan and Advances to Total Deposit Ratio of EBL and HBL

To test the level of difference between the mean ratio of loan and advance to total deposit of EBL and HBL. F test has been calculated as follows:

Null Hypothesis (H0): $\mu 1 = \mu 2$ i.e. there is no significance difference between mean ratio of loan and advance to total deposit of EBL and HBL.

Alternative Hypothesis (H1): $\mu 1 \neq \mu 2$ i.e. there is no significance difference between mean ratio of loan and advance to total deposit of EBL and HBL.

ANOVA Table

	Fiscal Year							
Banks	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	**Total**
EBL	51.33	51.62	58.69	54.21	59.49	59.21	63.37	397.92
HBL	50.31	55.43	56.33	71.75	65.55	65.57	67.52	432.46
Grand Total (T)								830.38

(Sources: Appendix-3.1)

Correlation factor (C.F.) = T^2/n

$= (830.38)^2/14$

$= 49252.21$

Total Sum of square (SST) =

$(51.33)^2 + (51.62)^2 + (58.69)^2 + (54.21)^2 + (59.49)^2 + (59.21)^2 + (63.37)^2 + (50.31)^2 +$

$(55.43)^2 + (56.33)^2 + (71.75)^2 + (65.55)^2 + (65.57)^2 + (67.52)^2$ - C.F

$= 49817.23 – 49252.21$

$= 565.02$

Total Sum of Square between columns (SSC) = $(397.92)^2/7 + (432.46)^2/7 –$ 49252.21

$= 85.21$

Sum of Square of Due to Error (SSE) = SST-SSC

$= 565.02 – 85.21$

$= 479.81$

ANOVA Table

Source of variation	Sum of square	d.f.	Mean square	F ratio
Between Sample	SSC=85.21	2-1=1	85.21/1=85.21	F=85.21/39.98 =2.131
With in Sample	SSE=479.81	14-2=12	479.81/12=39.98	
Total	SST=565.02	14-1=13		

Tabulated value, F0.05 (1, 8) = 5.82

Decision:-

Since, the calculated F i.e. 2.131 is lower than tabulated F i.e. 5.82.so, H1 is rejected. In other word, there is no significance difference between mean ratio of loan and advance to total deposit of EBL and HBL.

4.1.6.2 Test of Hypothesis on Return on Loan and Advance Ratio of EBL and HBL

To test the level of difference between the mean ratio of return on loan and advance ratio of EBL and HBL. F test has been calculated as follows:

Null hypothesis (H0): $\mu 1 = \mu 2$ i.e. there is no significance difference between mean ratio of return on loan and advances of EBL and HBL.

Alternative hypothesis (H1): $\mu 1 \neq \mu 2$ i.e. there is significance difference between mean ratio of return on loan and advance of EBL and HBL.

ANOVA Table

Banks	**Fiscal Year**							**Total**
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	
EBL	1.45	1.96	2.04	2.29	2.90	2.76	3.15	**16.55**
HBL	3.48	5.33	5.48	4.79	4.87	4.33	3.46	**31.74**
Grand Total (T)								**48.29**

(Sources: Appendix-3.2)

Correlation factor (C.F.) $= T^2 / n$

$= (48.29)^2/14$

$= 166.56$

Total Sum of square (SST) $= (1.45)^2 + (1.96)^2 + (2.04)^2 + (2.29)^2 + (2.90)^2 + (2.76)^2 + (3.15)^2 + (3.48)^2 + (5.33)^2 + (5.48)^2 + (4.79)^2 + (4.87)^2 + (4.30)^2 + (3.46)^2 - C.F$

$= 188.96 – 166.56$

= 22.40

Total Sum of Square between columns (SSC) = $(16.55)^2/7 + (31.74)^2/7 - 166.56$

= 16.49

Sum of Square of Due to Error (SSE) = SST-SSC

= 22.40 – 16.49

= 5.91

ANOVA Table

Source of variation	**Sum of square**	**d.f.**	**Mean square**	**F ratio**
Between Sample	SSC=16.49	2-1=1	16.49/1=16.49	F = 16.49/0.4925 = 33.48
With in Sample	SSE=5.91	14-2=12	5.91/12=0.4925	
Total	SST=22.40	14-1=13		

Tabulated value, F0.05 (1, 8) = 5.32

Decision:-

Since calculated value of F i.e. 33.48 is higher than tabulated value F i.e. 5.32. Therefore, Alternative hypothesis (H1) is accepted. There is significance difference between in mean ratio on loan and advance ratio of EBL and HBL.

4.1.6.3 Test of Hypothesis on Total Interest Earned to Total Assets Ratio (Total Working Fund)

To test the level of difference between the total interest earned to total assets ratio of EBL and HBL. F test has been calculated as follows:

Null hypothesis (H0): $\mu1 = \mu2$ i.e. there is no significance difference between mean ratio of total interest earned to total working fund of EBL and HBL.

Alternative hypothesis (H1): $\mu1 \neq \mu2$ i.e. there is significance difference between mean ratio of total interest earned to total working fund of EBL and HBL.

ANOVA Table

	Fiscal Year							
Banks	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	**Total**
EBL	5.56	5.14	5.03	5.19	5.52	5.29	5.43	**37.16**
HBL	6.35	6.15	5.98	6.22	5.87	5.82	5.33	**41.72**
Grand Total (T)								**78.88**

(Sources: Appendix-3.3)

Correlation factor (C.F.) = T^2/n

= $(78.88)^2/14$

= 444.43

Total Sum of square (SST) =

$(5.56)^2 + (5.14)^2 + (5.03)^2 + (5.19)^2 + (5.52)^2 + (5.29)^2 (5.43)^2 + (6.35)^2 + (6.15)^2 + (5.98)^2 + (6.22)^2 + (5.87)^2 + (5.82)^2 + (5.33)^2$- C.F

= 446.82 – 444.43

=2.39

Total Sum of Square between columns (SSC) = $(37.16)^2/7 + (41.72)^2/7 – 444.43$

= 1.48

Sum of Square of Due to Error (SSE) = SST-SSC

= 2.39 – 1.48

= 0.91

ANOVA Table

Source of variation	**Sum of square**	**d.f.**	**Mean square**	**F ratio**
Between Sample	SSC=1.48	2-1=1	1.48/1=1.48	F = 1.48/0.075
With in Sample	SSE=0.91	14-2=12	0.91/12=0.075	= 19.73
Total	SST=2.39	14-1=13		

Tabulated value, F0.05 (1, 8) = 5.32

Decision:

Since, calculated value of F i.e. 19.73 is higher than tabulated F i.e. 5.32. Therefore, Alternative hypothesis (H1) is accepted. There is significance difference between mean ratio of total interest earned to total working fund of EBL and HBL.

4.2 Major Findings of the Study

From the analysis of data following findings can be made:

1. The mean liquidity ratio of EBL and HBL is approximately equal i.e. 1.068 and 1.069, which indicates that both bank is succeed to maintain its ideal liquidity position. Both banks have good rate of stability and consistence but in comparison, EBL has the high rate of stability and consistency.
2. The mean cash reserve ratio of EBL is greater than HBL, which indicates that EBL has maintained sufficient cash reserve. And coefficient of variance of HBL and EBL are little bite similar with each other which are 32.8 and 24.8 respectively.
3. The mean ratio of cash and bank balance to current assets of EBL is higher than HBL i.e.6.59 and 5.38 respectively, which indicated that EBL have capacity to manage the deposit withdrawal from the customers.
4. The mean ratio of investment on government securities to current assets ratio of EBL is higher than HBL, which indicates that EBL is, succeed it invest its deposits to government securities. As we know that "high shows that EBL is more stable and more consistent than HBL.
5. The mean ratio of loan and advances to total deposit ratio of HBL is higher than EBL, which indicates that HBL has strong position in mobilizing its deposits to loan and advances but the coefficient of variance of EBL is less than HBL i.e.7.97 and 12.00 respectively, which means that EBL is more stable and more consistent in comparison on HBL.
6. The mean ratio of total investment tot total deposit ratio of EBL is higher than HBL, which indicates that EBL invest its deposit in a profitable sector, and gets higher percentage of return. The coefficient of variance of EBL is less than HBL,

which indicates that EBL is able to maintain its stability and consistency more than HBL.

7. The average ratio of loans and advances to total working fund ratio of HBL is higher than that of EBL i.e.50.764 and 58.03
8. The mean ratio of investment in government securities to total working fund of EBL is higher than that of HBL i.e.16.811 and17.353, which shows that HBL has maintained higher working fund than that of EBL. It states that HBL's position is better than EBL. The ratio of EBL are highly variable and consistence than that of HBL.
9. The mean ratio of investment in government securities to total working fund of EBL is higher than that of HBL, which shows that EBL is succeed in investing its working fund in government securities in comparison to HBL. Moreover HBL is high variable and high consistent than that of EBL.
10. The mean ratio of investment in shares and debenture to total working fund of HBL is higher than EBL i.e. 1.28 and 3.36. Both banks have the mean less than equity, which shows that both banks are reluctant to invest their working fund in share and debenture of others company.
11. The mean ratio of loan loss of HBL is higher than EBL, which shows the higher proportion of inactive loan and advances of HBL with less coefficient of variance EBL is less variable and stable in regard to HBL i.e. 25.00 and 18.00 respectively.
12. The mean ratio of return on loan and advances of HBL is higher than that of EBL. This indicates that HBL is failed in gaining adequate returns on loan and advances than that of HBL. This shows that HBL has been sanctioning loan advances in profitable sector.
13. The mean ratio of return on working fund of HBL is 5.96 which are higher than that of EBL which is 5.31, which means that HBL is succeeded in taking better return on its total working fund in comparison to EBL.
14. The mean ratio of total interest earned to total working fund ratio of HBL is higher than that of EBL which are 114.73 and 94.22 respectively, which means that HBL is succeeded to achieve better return in comparison to EBL.

15. The mean ratio of total interest earned to total operating income ratio of EBL is higher than that of HBL, which means that EBL is succeeded to achieve better return in total operating returning comparison to HBL. The standard deviation of EBL and HBL are 4.91 and 2.48 respectively.
16. The mean ratio of credit risk ratio of HBL is higher than that of EBL, which means that there is a higher risk and EBL is more stable and more consistent than HBL.
17. The mean ratio of interest risk of HBL is higher than that of EBL, which indicates that HBL has higher interest rate in comparison of EBL and HBL is less stable and less consistence in regard to EBL. The C.V. of EBL is 7 and HBL has 13.00.
18. The deposits of both two banks have the increasing trend. The total deposit of EBL and HBL will be Rs.35213082 thousands and Rs.21134980 thousands respectively, at the end of F.Y 2013/14. It states that the collection of EBL is far better in comparison to HBL.
19. The loans and advances of both banks have the increasing trend. The total loans and advances of EBL and HBL will be Rs.28296773 thousands and Rs29642926 thousands respectively, at the end of F.Y 2013/14. It states that the lending position of EBL is little bit better in comparison to HBL.
20. The investments of EBL is in increasing trend but the HBL I is in decreasing trend. The total investment of EBL and HBL is respectively Rs114718554 thousands and Rs.7549367 thousands at the end of F.Y. 2013/14. It states that the investment position of EBL is far better than HBL.
21. The net profits of both banks have the increasing trend. The total net profit of EBL and HBL will be Rs.999503 thousands and Rs.1136252 thousands respectively at the end of F.Y 2013/14. This indicates that the position of HBL is better in comparison to EBL.
22. Since the Null hypothesis is accepted, there is a little bit difference between loans and advances to total deposits ratios of EBL and HBL.
23. Since the alternative hypothesis is accepted, there is significance difference between the return on loan and advances of the two banks.

24. Since the Alternative hypothesis is accepted, there is significance difference between mean ratio of total interest earned to total working fund ratio of EBL and HBL.

CHAPTER - V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The last chapter of this study is summary, conclusion and recommendations developed from the comparative analysis of various aspects of the investment of commercial banks by using some important financial as well as statistical tools. After completing the basic analysis required for the study the final and the most important task of the researcher is to be summarized the study and recommend for the further importance. This would be meaningful to the top management of the bank to initiate the action and achieve the desired result. The finding of the study are summarized and conclusion and some recommendation drawn as below:

5.1 Summary

Economic development can be defined as process whereby an economy's real national income is carried on from a lower to a higher over a long period of time. The process of economic development is impossible without the development of different sectors of the economy like agriculture, industry, trade, tourism etc, of the country. These sectors need continuous flow of financial resources for development. In this regard, the network of well-organized financial system of the country has a great bear. They collect financial resources from the public and use these funds to provide loans and advances and overdrafts or to make investments in different securities. In the way, financial institutions provide savers highly liquid divisible assets at a lower risk while the investors get a large pool of resources.

Commercial banks are major financial institutions which occupy quite an important place in the framework of every country. The not only collect the scattered saving from individual by accepting deposits but also provides various types of loan. And they

themselves invest in various shares and debentures of other companies. A healthy development of any bank depends heavily upon its investment policy.

In this study, the word investment conceptualized the investment of saving or other collected fund. The term investment covers a wide range of activities. It is commonly known fact that investment is possible only when there is adequate saving. The amount of saving of typical household in Nepal is small because they prefer to spend saving on commodities rather than on financial assets. If all the income and saving are consumed to the problem of hand to mouth and to other basic needs, then is no existence of investment. Therefore, both saving and investment are interrelated.

In general sense, investment means to pay out money to get more. But in the broadest sense, investment means the sacrifice of current money for future money. Investment is the management of surplus resources in such a way as to make it for providing benefits to the suppliers of the funds by letting the third party to use such resources. Investment involves uses of funds to long term assets that would yield benefits in the future. In other words, investment means to trade money for expected money for future stream of payment or benefits that will exceed the current cash outflow which is the benefits to the investors for sacrificing the time and commitment or due to certainty and risk factors. Financial institutions must be able to mobilize their deposits in profitable, secured and marketable sector so that they can earn good return to their investment.

A key factor in the development of the country is the mobilization of domestic resources and their investment for productive use to the various sectors. To make it more effective, commercial banks formulae sound investment policies, which eventually contribute to the economic development of a country? The sound policies help commercial bank to maximize quality and quantity of investment and thereby, achieve their own objective of profit maximization and social welfare.

Investment has to undergo various types of risk, e.g. Business risk, possibility if being weak in earning power of investment due to competition, uncontrollable casts, and

change in market demand etc. market risk possibility of strong change in market price and collateral, value of securities and real properties. All the investor does not achieve success. Therefore, simply making an investment is not sufficient. One should follow sound investment policy.

Thus, investment is one of the most important functions of commercial bank, which is the long term commitment of bank in the risky and environment. Bank has to be very cautions while investing their funds in various sectors which may or may not be able to pay their loan, so it is challenging jog for commercial bank. Especially, investment management of bank is guided by the investment policy adopted by the bank. The investment policy of the bank helps the investment operation of the bank to be efficient and profitable by minimizing the interest risk.

Banks which serve as a repository of the cash resources of the public and as purveyors of finance for trade and industry play a vital role in the economic and financial life of a country. Unlike other joint stock companies, banks generally obtain a very large proportion of their working capital from the depositors rather than from the share holders. Therefore, it should wisely and carefully use its collected fund and pay due consideration while formulating investment policy regarding loan and investment. Investment policy should ensure minimum risk and maximum profit from lending.

The basic objective of this study is to find out position HBL bank on fund mobilization and investment policy in comparison to Himalayan Bank. The subsidiary objectives determined to achieve the foresaid objectives are: to evaluate the liquidity, profitability, risk portion, assets management efficiency and investment practices of HBL in comparison to EBL; to analyze relationship between various important variables of HBL i.e. investment, loans and advances, total deposit and net profit in comparison to EBL; to provide suggestion for improving the investment policy of HBL in comparison to EBL on the basis of findings of the analysis.

To achieve these objectives, an appropriate research mythology has been developed which include the analysis of time series and test of hypothesis.

5.2 Conclusion

From the study it is found that the role of banking sector is very crucial in the sustainable development of least development countries. The major sources of financial resources to industries in the least developed countries are the commercial banks. In a situation when government commercial banks were unable to supply credit timely and carry capital market activates private joint venture commercial banks have contributed a lot.

The overall performance of joint venture commercial banks is satisfactory and they are running in profit. The analysis of liquidity position of the banks under study is found to be satisfactory. HBL has lower liquidity position than that of EBL. The lending and investment activates of both the banks are not satisfactory. The profitability position of HBL is higher than that of EBL. In case of trend analysis, both the banks have increasing trend value in total deposit, loan and advances, total investment and net profit. The increasing ration of HBL is higher which shows the proficiency of HBL in those aspects. The commercial banks have to prove that they can really contribute to the national economy, are efficient and viable agencies for mobilization of saving and its canalization into productive sectors, are professionally managed and competent enough to ensure adequate rate of return investment and are strategically well planned to be competitive with other agencies and are trust worthy.

5.3 Recommendations

On the basis of analysis and finding of the study, following recommendations can be advised to overcome weakness, inefficiency and to improve present fund mobilization and investment of HBL and EBL.

1. Current ratio of three sample banks are not sufficient to achieve standard ratio i.e. 2:1, so it is recommended to both banks to maintain required current ratio. They need to maintain the current mean ratio for the proper management of their liquidity position.
2. The liquidity position of the bank may be affected by external as well as internal factors. The affecting factor may be interest rate, supply as demand position of loan and advance as well as savings investment situation, central banks directives, the

leading policies, capacity of management, strategic planning and funds flow situation. As HBL has maintained lower cash and bankers to total deposit and current assets ratios, HBL is recommended to increase each and bank balance to meet current obligation and loan demand.

3. To get success is competitive banking environment, depositors money must be utilized as loan and advance. Negligence in administering this asset could be the main cause of liquidity crisis in the bank and one of the main reasons of bank failure. It has found from the study that HBL has greater ratios at all, because its large portion of fund invested as loan and advances and negligence to invest on other sector. EBL have not properly used their existing fund as loan and advances to over come this situation, HBL are strongly recommended to follow liberal lending policy.
4. As bank of private sector commercial banks cannot keep this eyes closed from the profit motive. They should be careful is increasing is a real sense to maintain the confidence of shareholders, depositors and it's all customers. HBL has high earning capacity, but EBL's profitability position is worse than that of other two banks. So EBL is strongly recommended to utilize risk assets and shareholders fund to gain highest profit margin. Similarly, it should reduce its expenses and should try to collect cheaper fund being more profitable
5. Out of working fund, HBL has not invested its more funds as total investment in comparison to other two banks. Through, the percentage of invested by all three banks have very nominal. So, it is recommended to all three banks to invest their more funds in different types of companies' indifferent areas.
6. Portfolio condition of all three banks should be examined carefully from time to time and attention should be made to maintain equilibrium in the portfolio condition as far as possible. So it ca be said, "All eggs should not be kept in the same basket". The bank should make continuous efforts to explore new competitive and high yielding investment opportunities to optimize their investment portfolio
7. In terms of recovery of the loan of HBL is worse in comparison to EBL. The loan loss ratio is comparatively high that makes negative impact on profit. It may be facing a lot of problems on recovering loans. It has large no-performing asset as

loan unrecovered. Therefore it is recommended to apply recovery act that would help to realize overdue loan in time.

8. Most of the joint venture banks have focused their banking services especially to big clients such as multinational companies, large-scale industries, manufactures and exporters of garments and carpets. The minimum level bank balance and the amount needed to open an account in there banks are very high amount. So, small depositors and entrepreneurs for promoting and mobilizing small investors' funds and to attract depositors through variety of deposit schemes and facilities like cumulative deposit scheme, prize bonds scheme, gift cheque scheme, recurring deposit scheme (life insurance). Monthly interest scheme etc.
9. The projected oriented approach has to be encouraged in lending business of the bank, in which , security is not necessary, risk is high but the project is important from the point of view of national economy ./ the project should be allow to make them capable to generate their own fund and to repay loans timely . So, it is recommended to all three banks should followed project oriented approach for the efficient performances. Because the chance of loan can be minimize by the project –oriented approach.
10. One of the main objectives to operate joint venture banks of Nepal is to boost foreign investment in to the kingdom. However, these three banks don't seem to be successful in this aspect. Therefore, all three banks are recommended to activate for increasing foreign investment in Nepal by means of their wide international banking networks.
11. Thought joint venture banks have played an important role in the economic development of the country, they are not efficiently playing the role of merchant bank. So, the three banks is suggested to play the role of financial intermediary and merchant banking like underwriting of securities brokers, development of capital markets and supportive role to the security exchange center.
12. In the light of growing competition in the banking sector, the business of the bank should strengthen and activate its marketing function, as it is and effective tool of attracting and retaining customers. For this purpose, the banks should develop an

"innovative approach to Bank marketing" and formulate new strategies of serving customers in a more convention and satisfactory way.

13. Although HBL has recently expanded its nine branches all over the country but HBL do not have branches in the rural areas of the country. Its branches are limits to the urban areas only. Therefore, HBL Bank is recommended to open branches in rural areas too to help in economic development of the country. HMG/N has also encouraged the joint venture banks to expand banking service in rural areas and communities without making unfavorable impact in their profit.
14. HBL Bank is taken as the one of the most leading commercial bank in Nepal. It is the one of the most successful bank in Nepal with widest network than any other joint venture banks in Nepal. Today is the world of competition; the competition is growing day by day in the banking sector. It mobilizes its deposits and other funds to profitable, secured and marketable sector so that it can earn a handsome profit as well as it should be secured and can be converted onto cash whenever needed.

An income and profit of the bank depends upon its lending procedure, lending policy and investment of its fund in different securities the greater the credit created by the bank the higher will be the profitability. HBL Bank limited has achieved a remarkable success in banking sector in terms of market share and profitability compared to joint venture banks because of its reliable and professional services. HBL Bank is the innovator in introducing many new products such as credit cards, Tele Banking, Any branch Banking, ATM, E-banking, 24 hours Banking correspondent network. Due to their prompt and quality services HBL Bank has achieved its remarkable success in banking Sector and has proved its high status on the eye of public. HBL Bank has been improving its performance from very beginning since its establishment.

The bank is recognized as a premier financial institution in Nepal in term of its range and quality banking services, human capital, asset quality and income. After two decades of operation the bank has clearly exhibited that through consistently keeping its philosophy and its customer at the core of its business it stands today as the premier bank in the kingdom, poised to be the Bank of 1st choice to all its stakeholders, going forward. HBL

Bank today is full service bank in every sense, able to meet the entire large range of financial requirements of its customers. To achieve its mission, HBL Bank has set its values of Customer Focused, Result Oriented, Innovative, Synergistic and Professional (CRISP).

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APPENDICES

Appendix 1.1

Current Ratio

Everest bank Ltd.

In"000"

Fiscal Year	Current Assets (Rs.)	Current Liabilities (Rs.)	Ratio (Times)
2001/02	20353590	19814319	1.027
2002/03	23968103	22292091	1.075
2003/04	25430144	23437859	1.085
2004/05	28575521	26302948	1.086
2005/06	30038983	27694215	1.085
2006/07	33560700	31372500	1.069
2007/08	35449464	33662536	1.053

Himalayan Bank ltd.

In"000"

Fiscal Year	Current Assets (Rs.)	Current Liabilities (Rs.)	Ratio (Times)
2001/02	17391613	16482825	1.055
2002/03	16310709	15248437	1.069
2003/04	16407360	15263805	1.075
2004/05	16825096	15528693	1.083
2005/06	22010885	20454977	1.076
2006/07	26966498	25196344	1.070
2007/08	36534720	34695560	1.053

Appendix - 1.2

Cash and Bank Balance to Total Deposit Ratio

Everest Bank Ltd.

In"000"

Fiscal Year	Cash & Bank Balance (Rs.)	Total Deposit (Rs.)	Ratio (%)
2001/02	1617022	18619375	8.68
2002/03	1979209	21007379	9.42
2003/04	2001184	22010333	9.09
2004/05	2014471	24814012	8.12
2005/06	1717352	26490852	6.48
2006/07	1757200	30048400	5.84
2007/08	1448143	31842790	4.55

Himalayan Bank ltd.

In"000"

Fiscal Year	Cash & Bank Balance (Rs.)	Total Deposit (Rs.)	Ratio (%)
2001/02	1051820	15506428	6.78
2002/03	1144767	13447661	8.51
2003/04	970486	14119032	6.87
2004/05	559381	14586609	3.83
2005/06	630237	19347399	3.26
2006/07	1399825	23342285	5.99
2007/08	2671139	31915047	8.37

Appendix - 1.3

Cash and Bank Balance to Current Assets

Everest Bank Ltd.

In"000"

Fiscal Year	Cash & Bank Balance (Rs.)	Current Assets (Rs.)	Ratio (%)
2001/02	1617022	20353590	7.94
2002/03	1979209	23968103	8.25
2003/04	2001184	25430144	7.87
2004/05	2014471	28575521	7.05
2005/06	1717352	30038983	5.71
2006/07	1757200	33560700	5.24
2007/08	1448143	35449464	4.08

Himalayan Bank ltd.

In"000"

Fiscal Year	Cash & Bank Balance (Rs.)	Current Assets (Rs.)	Ratio (%)
2001/02	1051820	17391613	6.05
2002/03	1144767	16310709	7.02
2003/04	970486	16407360	5.91
2004/05	559381	16825096	3.32
2005/06	630237	22010885	2.86
2006/07	1399825	26966498	5.20
2007/08	2671139	36534720	7.31

Appendix - 1.4

Investment on Government Securities to Current Assets ratio

Everest Bank Ltd.

In"000"

Fiscal Year	Investment in Government Securities (Rs.)	Current Assets (Rs.)	Ratio (%)
2001/02	2588562	20353590	12.72
2002/03	3998900	23968103	16.68
2003/04	3431700	25430144	13.49
2004/05	546900	28575521	19.14
2005/06	5142900	30038983	17.12
2006/07	6454900	33560700	19.23
2007/08	7471700	35449464	21.08

Himalayan Bank ltd.

In"000"

Fiscal Year	Investment in Government Securities (Rs.)	Current assets (Rs.)	Ratio (%)
2001/02	4120295	17391613	23.69
2002/03	3588773	16310709	22.00
2003/04	3672626	16407360	22.38
2004/05	2413939	16825095	14.35
2005/06	2301462	22010885	10.99
2006/07	4808348	26966498	17.83
2007/08	4646883	36534720	12.72

Appendix - 1.5

Loan and Advances to Total Deposit Ratio

Everest Bank Ltd.

In"000"

Fiscal Year	Loan & Advances (Rs.)	Total Deposit (Rs.)	Ratio (%)
2001/02	9557138	18619375	51.33
2002/03	10844600	21007400	51.62
2003/04	12919600	22010300	58.69
2004/05	13451200	24814000	54.21
2005/06	15762000	26490800	59.49
2006/07	17793700	30048400	59.21
2007/08	20179600	31842790	63.37

Himalayan Bank Ltd.

In"000"

Fiscal Year	Loan & Advances (Rs.)	Total Deposits (Rs.)	Ratio (%)
2001/02	7801848	15506428	50.31
2002/03	7454263	13447661	55.43
2003/04	7953760	14119032	56.33
2004/05	10465266	14586608	71.75
2005/06	12681666	19347399	65.55
2006/07	15305910	23342285	65.57
2007/08	21549684	31915047	67.52

Appendix - 1.6

Total Investment to Total Deposit Ratio

Everest Bank Ltd.

In"000"

Fiscal Year	Total Investment (Rs.)	Total Deposit (Rs.)	Ratio (%)
2001/02	9157100	18619375	49.18
2002/03	10175400	21007400	48.43
2003/04	9292100	22010300	42.22
2004/05	11692300	24814000	47.12
2005/06	10889200	26490800	41.10
2006/07	11823000	30048400	39.34
2007/08	13340200	31842790	41.89

Himalayan Bank ltd.

In"000"

Fiscal Year	Total Investment (Rs.)	Total Deposit (Rs.)	Ratio (%)
2001/02	8199515	15506428	52.87
2002/03	6031176	13447667	44.85
2003/04	5836068	14119032	41.33
2004/05	4269658	14586608	29.27
2005/06	4277953	19347399	22.11
2006/07	6180658	23342285	26.48
2007/08	9966562	31915047	31.23

Appendix - 1.7

Loan and Advances to Total Working Fund Ratio

Everest Bank Ltd.

In"000"

Fiscal Year	Loan & Advances (Rs.)	Total Working Fund (Rs.)	Ratio (Times)
2001/02	9557138	20672434	46.23
2002/03	10844600	23355223	46.43
2003/04	12919600	24762025	52.17
2004/05	13451200	27844695	48.31
2005/06	15762000	29460390	53.35
2006/07	17793700	33519141	53.08
2007/08	20179600	36175531	55.78

Himalayan Bank Ltd.

In"000"

Fiscal Year	Loan & Advances (Rs.)	Total Working Fund (Rs.)	Ratio (Times)
2001/02	7801848	17629252	44.25
2002/03	7808176	16562625	47.14
2003/04	8309200	16745487	49.62
2004/05	10823650	17186331	62.98
2005/06	13033253	22329971	58.37
2006/07	15659957	27253393	57.46
2007/08	21549684	37132759	58.03

Appendix - 1.8

Investment on Government Securities to Total Working Fund Ratio

Everest Bank Ltd.

In"000"

Fiscal Year	Investment on Government Securities (Rs.)	Total Working Fund (Rs.)	Ratio
2001/02	2588562	20672434	12.52
2002/03	3347102	23355223	14.3
2003/04	3431729	24762025	13.85
2004/05	5469729	27844695	19.64
2005/06	5144313	29460390	17.46
2006/07	6454874	33519141	19.26
2007/08	7471700	36175531	20.65

Himalayan Bank Ltd.

In"000"

Fiscal Year	Investment on Government Securities(Rs.)	Total Working Fund (Rs.)	Ratio
2001/02	4120295	17629252	23.37
2002/03	3588773	16562625	21.67
2003/04	3672626	16745487	21.93
2004/05	2413939	17186331	14.04
2005/06	2301462	22329971	10.31
2006/07	4808348	27253393	17.64
2007/08	4646883	37132759	12.51

Appendix - 1.9

Investment on Share and Debenture to Total Working Fund Ratio

Everest Bank Ltd.

In"000"

Fiscal Year	Investment on Share and Debenture(Rs.)	Total Working Fund (Rs.)	Ratio
2001/02	34266	20672434	0.166
2002/03	34266	23355223	0.147
2003/04	34266	24762025	0.138
2004/05	39909	27844695	0.143
2005/06	38567	29460390	0.131
2006/07	73424	33519141	0.219
2007/08	89558	36175531	0.247

Himalayan Bank Ltd.

In"000"

Fiscal Year	Investment on Share and Debenture(Rs.)	Total Working Fund (Rs.)	Ratio
2001/02	22220	17629252	0.126
2002/03	22220	16562625	0.134
2003/04	22220	16745487	0.133
2004/05	440287	17186331	0.234
2005/06	104192	22329971	0.467
2006/07	286957	27253393	1.053
2007/08	323235	37132759	0.870

Appendix - 1.10

Loan Loss Ratio

Everest Bank Ltd.

In"000"

Fiscal Year	Loan Loss Provision	Loan & Advance	Ratio (%)
2001/02	166505	9557138	1.74
2002/03	202873	10844600	1.87
2003/04	186226	12919600	1.44
2004/05	58886	13451200	0.44
2005/06	56562	15762000	0.36
2006/07	412654	17793700	2.32
2007/08	166058	20179600	0.82

Himalayan Bank Ltd.

In"000"

Fiscal Year	Loan Loss Provision	Loan & Advance	Ratio (%)
2001/02	363954	7801848	4.66
2002/03	353853	7808176	4.50
2003/04	355441	8309200	4.28
2004/05	358384	10823650	3.31
2005/06	351586	13033253	2.70
2006/07	354047	15659957	2.26
2007/08	394407	21549684	1.83

Appendix - 1.11

Return on Loan and Advances Ratio

Everest Bank Ltd.

In"000"

Fiscal Year	Net Profit	Loan & Advance	Ratio (%)
2001/02	1389792	95571380	1.45
2002/03	212128	10844600	1.96
2003/04	263053	12919600	2.04
2004/05	308275	13451200	2.29
2005/06	457458	15762000	2.90
2006/07	491823	17793700	2.76
2007/08	635868	20179600	3.15

Himalayan Bank Ltd.

In"000"

Fiscal Year	Net Profit	Loan & Advance	Ratio (%)
2001/02	271638	7801848	3.48
2002/03	416236	7808176	5.33
2003/04	455311	8309200	5.48
2004/05	518636	10823650	4.79
2005/06	635262	13033253	4.87
2006/07	673959	15659957	4.30
2007/08	746468	21549684	3.46

Appendix - 1.12

Return on Working Fund Ratio

Everest Bank Ltd.

In"000"

Fiscal Year	Net Profit	Total Working Fund (Rs.)	Ratio (%)
2001/02	1389792	20672434	6.72
2002/03	212128	23355223	0.91
2003/04	263053	24762025	1.06
2004/05	308275	27844695	1.11
2005/06	457458	29460390	1.55
2006/07	491823	33519141	1.47
2007/08	635868	36175531	1.76

Himalayan Bank Ltd.

In"000"

Fiscal Year	Net Profit	Total Working Fund (Rs.)	Ratio (%)
2001/02	271638	17629252	1.54
2002/03	416236	16562625	2.51
2003/04	455311	16745487	2.72
2004/05	518636	17186331	3.02
2005/06	635262	22329971	2.84
2006/07	673959	27253393	2.47
2007/08	746468	37132759	2.01

Appendix - 1.13

Total Interest Earned to Total Working Fund Ratio

Everest Bank Ltd.

In"000"

Fiscal Year	Interest Earned	Total Working Fund (Rs.)	Ratio (%)
2001/02	1148998	20672434	5.56
2002/03	1201234	23355223	5.14
2003/04	1245895	24762025	5.03
2004/05	1446468	27844695	5.19
2005/06	1626474	29460390	5.52
2006/07	1775583	33519141	5.29
2007/08	1963647	36175531	5.43

Himalayan Bank Ltd.

In"000"

Fiscal Year	Interest Earned	Total Working Fund (Rs.)	Ratio (%)
2001/02	1120184	17629252	6.35
2002/03	1017873	16562625	6.15
2003/04	1001617	16745487	5.98
2004/05	1068747	17186331	6.22
2005/06	1309998	22329971	5.87
2006/07	1587759	27253393	5.82
2007/08	1978696	37132759	5.33

Appendix - 1.14

Total Interest Earned to Total Operating Income Ratio

Everest Bank Ltd.

In"000"

Fiscal Year	Interest Earned	Operating Income (Rs.)	Ratio (%)
2001/02	1148998	1965473	58.45
2002/03	1201234	889420	135.06
2003/04	1245895	1024776	121.58
2004/05	1446468	1195922	120.95
2005/06	1626474	1393535	116.72
2006/07	1775583	1393362	127.43
2007/08	1963647	1597495	122.92

Himalayan Bank Ltd.

In"000"

Fiscal Year	Interest Earned	Operating Income (Rs.)	Ratio (%)
2001/02	1120184	2101193	53.31
2002/03	1017873	1023156	99.48
2003/04	1001617	1050706	95.24
2004/05	1068747	1194898	89.44
2005/06	1309998	1359513	96.36
2006/07	1587759	1480158	107.27
2007/08	1978696	1670427	118.45

Appendix - 1.15

Total Interest Paid to Total Working Fund Ratio

Everest Bank Ltd

In"000"

Fiscal Year	Total Interest Expenses	Total Working Fund	Ratio (%)
2001/02	554128	20672434	2.68
2002/03	554128	23355223	2.37
2003/04	4915435	24762025	1.98
2004/05	561964	27844695	2.02
2005/06	648842	29460390	2.20
2006/07	767411	33519141	2.29
2007/08	823745	36175531	2.28

Himalayan Bank Ltd.

In"000"

Fiscal Year	Total Interest Expenses	Total Working Fund (Rs.)	Ratio (%)
2001/02	462078	17629252	2.62
2002/03	317348	16562625	1.92
2003/04	282948	16745487	1.68
2004/05	243545	17186331	1.42
2005/06	357161	22329971	1.59
2006/07	555710	27253393	2.04
2007/08	758436	37132759	2.04

Appendix - 1.16

Return on Equity

Everest Bank Ltd.

In"000"

Fiscal Year	Net Profit	Equity (Rs.)	Ratio (%)
2001/02	138979	858115	16.19
2002/03	212128	1905883	11.13
2003/04	263053	2291927	11.48
2004/05	308275	2568393	12.00
2005/06	457458	2792823	16.38
2006/07	491823	3265916	15.06
2007/08	635868	2512991	25.30

Himalayan Bank Ltd.

In"000"

Fiscal Year	Net Profit	Equity (Rs.)	Ratio (%)
2001/02	271638	1146428	23.69
2002/03	416236	1671919	24.89
2003/04	455311	1840345	24.74
2004/05	518636	2018204	25.70
2005/06	635262	2231233	28.47
2006/07	673959	2414294	27.91
2007/08	746468	2437198	30.63

Appendix - 1.17

Credit Risk Ratio

Everest Bank Ltd.

In"000"

Fiscal Year	Loan & Advance	Total Working Fund (Rs.)	Ratio (%)
2001/02	9557138	20672434	46.23
2002/03	10844600	23355223	46.43
2003/04	12919600	24762025	52.17
2004/05	13451200	27844695	48.31
2005/06	15762000	29460390	53.50
2006/07	17793700	33519141	53.09
2007/08	20179600	36175531	55.78

Himalayan Bank Ltd.

In"000"

Fiscal Year	Loan & Advance	Total Working Fund (Rs.)	Ratio (%)
2001/02	7801848	17629252	44.25
2002/03	7808176	16562625	47.14
2003/04	8309200	16745487	49.96
2004/05	10823650	17186331	62.98
2005/06	13033253	22329971	58.37
2006/07	15659957	27253393	57.46
2007/08	21549684	37132759	58.03

Appendix - 1.18

Interest Rate Risk Ratio

Everest Bank Ltd.

In"000"

Fiscal Year	Interest Bearing Assets (Rs.)	Interest Bearing Liabilities (Rs.)	Ratio (%)
2001/02	8913723	15528390	57.40
2002/03	13499050	17763245	75.99
2003/04	15752498	18098871	87.03
2004/05	18335330	19688855	93.13
2005/06	20779817	21119295	98.39
2006/07	25162894	24319779	103.46
2007/08	19497520	26413386	73.82

Himalayan Bank Ltd.

In"000"

Fiscal Year	Interest Bearing Assets (Rs.)	Interest Bearing Liabilities (Rs.)	Ratio (%)
2001/02	12437895	13142565	94.64
2002/03	12014929	10984430	109.38
2003/04	12781352	11335759	112.75
2004/05	14281456	11463260	124.58
2005/06	15956542	16244216	98.23
2006/07	20424250	20466749	99.79
2007/08	21365053	26187493	81.58

Appendix -2

Statistical Ratio

Trend Analysis

Sample of Calculation of Co-efficient and Trend Values of Deposit of EBL

(Rs. In '000')

Fiscal Year	Base Year (X)	Total Deposit (Y)	X^2	XY
2001/02	2002	18619375	4008004	37275988750
2002/03	2003	21007379	4012009	42077780137
2003/04	2004	22010333	4016016	44108707332
2004/05	2005	24814012	4020025	49752094060
2005/06	2006	26490852	4024036	53140649112
2006/07	2007	30048400	4028049	60307138800
2007/08	2008	31842790	4032064	63940322320
Total:	10025	124370976	20100135	350602680511

Here, N=7,

a-Coefficient = $\frac{\sum Y}{N} - \frac{b\sum X}{N}$ = -25246526.93

b-Coefficient = $\frac{N\sum XY - \sum X\sum Y}{N\sum X^2 - (\sum X)^2}$ =30034.58

Now, equation becomes Y= a + bX

Where Y is the predicted values for deposits,

X is the base Fiscal year.

Predicted value of deposits for the year 2008/09

= -25246526.93 + 30034.58 × 2009 = 35092944.29

Similarly, predicted values of the deposits for the year

2008/09 = 35092944

2009/10 = 35122978

2010/11 = 35153013

2011/12 = 35183048

2012/13 = 35213082

The trend coefficient and the prediction values for the entire variable have been calculated in the similar manner

Appendix – 2.1

Trend of Total Deposit

Fiscal Year	Year (X)	EBL Y^1	HBL Y^2	$X \times Y^1$	$X \times Y^2$	X^2
2001/02	2002	18619375	15506428	37275988750	31043868856	4008004
2002/03	2003	21007379	13447661	42077780137	26935664983	4012009
2003/04	2004	22010333	14119032	44108707332	28294540128	4016016
2004/05	2005	24814012	14586609	49752094060	29246151045	4020025
2005/06	2006	26490852	19347399	53140649112	38810882394	4024036
2006/07	2007	30048400	23342285	60307138800	46847965995	4028049
2007/08	2008	31842790	31915047	63940322320	64085414376	4032064
Total:	14035	174833141	132264461	350603000000	265264000000	28140203

Trend Values

	EBL	**HBL**
a=	-25246526	-5281432655
b=	30034	2634132

Predicted Values for:

Fiscal Year	**Base Year**	**EBL**	**HBL**
2008/09	2009	35092944	10538452
2009/10	2010	35122978	13172584
2010/11	2011	35153013	15806716
2011/12	2012	35183048	18440908
2012/13	2013	35213082	21134980

Appendix – 2.2

Trend of Loan and Advances

Fiscal Year	Year (X)	EBL Y^1	HBL Y^2	$X \times Y^1$	$X \times Y^2$	X^2
2001/02	2002	9557138	7801848	19133390276	15619299696	4008004
2002/03	2003	10844600	7454263	21721733800	14930888789	4012009
2003/04	2004	12919600	7953760	25890878400	15939335040	4016016
2004/05	2005	13451200	10465266	26969656000	20982858330	4020025
2005/06	2006	15762000	12681666	31618572000	25439421996	4024036
2006/07	2007	17793700	15305910	35711955900	30718961370	4028049
2007/08	2008	20179600	21549684	40520636800	43271765472	4032064
Total	14035	100507838	83212397	201567000000	166903000000	28140203

Trend Values

	EBL	**HBL**
a=	-3478982597	-4438069925
b=	1742314	2219430

Predicted Values for:

Fiscal Year	**Base Year**	**EBL**	**HBL**
2008/09	2009	21327514	20765206
2009/10	2010	23069829	22984636
2010/11	2011	24812144	25204066
2011/12	2012	26554458	27423496
2012/13	2013	28296773	29642926

Appendix – 2.3

Trend of Total Investment:

Fiscal Year	Year (X)	EBL Y^1	HBL Y^2	$X \times Y^1$	$X \times Y^2$	X^2
2001/02	2002	9157100	8199515	18332514200	16415429030	4008004
2002/03	2003	10175400	6031176	20381326200	12080445528	4012009
2003/04	2004	9292100	5836068	18621368400	11695480272	4016016
2004/05	2005	11692300	4269658	23443061500	8560664290	4020025
2005/06	2006	10889200	4277953	21843735200	8581573718	4024036
2006/07	2007	11823000	6180658	23728761000	12404580606	4028049
2007/08	2008	13340200	9966562	26787121600	20012856496	4032064
Total	14035	76369300	44761590	1.53138E+11	89751029940	28140203

Trend Values

	EBL	**HBL**
a=	-114785695	-283040831
b=	626910.7	144356

Predicted Values for:

Fiscal Year	**Base Year**	**EBL**	**HBL**
2008/09	2009	114467790	6971940
2009/10	2010	114530481	7116296
2010/11	2011	114593172	7260653
2011/12	2012	114655863	7405010
2012/13	2013	114718554	7549367

Appendix – 2.4

Trend of Profit

Fiscal Year	Year	EBL	HBL	$X \times Y^1$	$X \times Y^2$	X^2
	(X)	Y^1	Y^2			
2001/02	2002	138979	271638	278235958	543819276	4008004
2002/03	2003	212128	416236	424892384	833720708	4012009
2003/04	2004	263053	455311	527158212	912443244	4016016
2004/05	2005	308275	518636	618091375	1039865180	4020025
2005/06	2006	457458	635262	917660748	1274335572	4024036
2006/07	2007	491823	673959	987088761	1352635713	4028049
2007/08	2008	635868	746468	1276822944	1498907744	4032064
Total	14035	2507584	3717510	5029950382	7455727437	28140203

Trend Values

	EBL	**HBL**
a=	-160361268	-151267978
b=	80159	75710

Predicted Values for:

Fiscal Year	**Base Year**	**EBL**	**HBL**
2008/09	2009	678866	833412
2009/10	2010	759025	909122
2010/11	2011	838481	984832
2011/12	2012	918640	1060542
2012/13	2013	999503	1136252

Appendix – 3

Sample Hypothesis Testing

Appendix -3.1

Loan and Advances to Total Deposit Ratio

ANOVA Table:

Banks	Fiscal Year							Total
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	
EBL	51.33	51.62	58.69	54.21	59.49	59.21	63.37	397.92
HBL	50.31	55.43	56.33	71.75	65.55	65.57	67.52	432.46
Grand Total (T)								830.38

Correlation factor (C.F.) = T^2/n

= $(830.38)^2/14$

= 49252.21

Total Sum of square (SST) =

$(51.33)^2 + (51.62)^2 + (58.69)^2 + (54.21)^2 + (59.49)^2 + (59.21)^2 + (63.37)^2 + (50.31)^2 +$

$(55.43)^2 + (56.33)^2 + (71.75)^2 + (65.55)^2 + (65.57)^2 + (67.52)^2$ - C.F

= 49817.23 – 49252.21

= 565.02

Total Sum of Square between columns (SSC) = $(397.92)^2/7 + (432.46)^2/7 – 49252.21$

= 85.21

Sum of Square of Due to Error (SSE) = SST-SSC

= 565.02 – 85.21

= 479.81

Decisions:

H0: Accept

H1: Reject

Appendix - 3.2

Return on Loan and Advances Ratio

ANOVA Table:

Banks	Fiscal Year							Total
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	
EBL	1.45	1.96	2.04	2.29	2.90	2.76	3.15	16.55
HBL	3.48	5.33	5.48	4.79	4.87	4.33	3.46	31.74
Grand Total (T)								48.29

Correlation factor (C.F.) = T^2/n

= $(48.29)^2/14$

= 166.56

Total Sum of square (SST) =

$(1.45)^2 + (1.96)^2 + (2.04)^2 + (2.29)^2 + (2.90)^2 + (2.76)^2 + (3.15)^2 + (3.48)^2 + (5.33)^2 + (5.48)^2 + (4.79)^2 + (4.87)^2 + (4.30)^2 + (3.46)^2$ - C.F

= 188.96 – 166.56

= 22.40

Total Sum of Square between columns (SSC) = $(16.55)^2/7 + (31.74)^2/7 – 166.56$

= 16.49

Sum of Square of Due to Error (SSE) = SST-SSC

= 22.40 – 16.49

= 5.91

Decisions:

H0: Reject

H1: Accept

Appendix -3.3

Total Interest Earned to Total Assets Ratio (Total Working Fund)

ANOVA Table:

Banks	Fiscal Year							Total
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	
EBL	5.56	5.14	5.03	5.19	5.52	5.29	5.43	37.16
HBL	6.35	6.15	5.98	6.22	5.87	5.82	5.33	41.72
Grand Total (T)								78.88

Correlation factor (C.F.) = T^2/n

= $(78.88)^2/14$

= 444.43

Total Sum of square (SST) =

$(5.56)^2 + (5.14)^2 + (5.03)^2 + (5.19)^2 + (5.52)^2 + (5.29)^2 (5.43)^2 + (6.35)^2 + (6.15)^2 + (5.98)^2 + (6.22)^2 + (5.87)^2 + (5.82)^2 + (5.33)^2$ - C.F

= 446.82 – 444.43

=2.39

Total Sum of Square between columns (SSC) = $(37.16)^2/7 + (41.72)^2/7 – 444.43$

= 1.48

Sum of Square of Due to Error (SSE) = SST-SSC

= 2.39 – 1.48

= 0.91

Decisions:

H0: Reject

H1: Accept