

# CHAPTER-I

## INTRODUCTION

### 1.1 Background of the Study

Government involvement in business, trade and transit was indispensable till the end of 18<sup>th</sup> Century though few sole trading were also in existence during that period. Adam Smith, through his ever-popular 'Wealth of Nations', advocated minimum government intervention in business in 1776 AD.

Organization who transacts money is called bank in normal terms. Bank and banking has always played a significant role for the financial activities in the business. So bank is the major need for various developments. Bank collects fund as a saving from the community and invest them into most desirable and highly yielding sector as a full to a process of economic development. It develops saving habits of people. "The importance of the banking as the nerve center of economic development can not be over emphasized and it is said that bank which are the need of and great wealth of country have get to be kept very scared. Just as water for irrigation, good banks are for the country's industry and trade."<sup>1</sup>

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

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<sup>1</sup> Desai, V.R. Mutalik, "Banking Development in India". Bombay: Pc Mansktol and Sons PVT LTD, 1967, P-120

The mobilization of domestic resources is one of the key factors in the economic development of a country.

Bank is resource for economic development that maintains economic confidence of various segments and expands credit to people. Bank means “A financial establishment for the deposit, loans exchange or issue of money and for the transmission of funds.”<sup>2</sup>

The bank draws surplus money from the public, who cannot use the money at the time and lends to those who give attention to use for productive purposes. Bank lends the loan to the customers; gain interest amount, the bank draw the money from institution or individual or people pay the interest amount by certain interest rate. Banking institutions collect scattered financial resources from the mass and invest them among those who are associated with the economic, commercial, and social activities of the country.

“Bank assists both the flow of goods and services from the products to the consumers and the financial activities of the government. Banking provides the country with a monetary system of making payment and is an important part of financial system, which makes loans to maintain and increase the level of consumption and production in the economy.”<sup>3</sup>

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

## **1.2 Development of Banks**

### **1.2.1 In Worldwide Context**

The concept of banking developed from the very beginning of the economic activities. First of all, the effort was made by the ancient gold and valuables. Under such arrangements, the depositors would have their gold for safekeeping and in turn were given a receipt. Whenever receipt was presented, the depositors would return back their gold and valuable after receiving a small payment as fee.<sup>4</sup>

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<sup>2</sup> Bhandari, Dilli Raj, “**Banking & Insurance**”, Aayush Publication, Kathmandu, January 2003, P-119

<sup>3</sup> The American Bankers Association, “**Principle of Bank operation**”, American Institute of Banking, 1972, p-162

<sup>4</sup> Samulson Paul A., “**Economics**”, Ed. New York Mc Graw Hill Company, Quoted Mahendra Mandal, Comparative Financial Performance Appraisal of Joint Venture Banks, Unpublished master level degertation, (TU) 1998, P-1.

The word “**Bank**” is orient in medieval age in 1171 AD from an Italian word “**Banko.**” That means the place where people come together for different transaction. The “**Bank of Vanice**” was the first bank, which established in Italy in 1157 AD as a first modern bank. Then after in 1401 AD “**Bank of Barcelona**” is established in Spain, Bank of Geneva established in 1407 AD, Bank of Amsterdam established in 1609 AD. But the credit of the development of modern banks goes to “**The Bank of England**” which was established in 1694 AD in London. The growth of banking accelerated only after the introduction of the banking Act 1883 in United Kingdom as it allowed opening joint stock company banks.

### 1.2.2 In Nepalese Context

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

“In the overall development of banking system in Nepal, the “**Tejarath Adda**” may be regarded as the father of modern banking institution and for quite a long time it tendered a good servants as well as to the general public.”<sup>5</sup>

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

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<sup>5</sup> Shrestha, Sunity, “**Portfolio Behaviour of Commercial Banks in Nepal,**” 1995, P-4

commercial bank and in 2022 BS(1966 AD) “**Rastriya Banijya Bank**” was established as a fully government owned commercial bank. Now its branches are diversified all over the country. It made another milestone in the history of growth of banking.

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

### **1.3 Introduction of Commercial Bank**

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

“The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development; it maintains economic confidence of various segments and extends credit to people.”<sup>6</sup>

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

“Commercial bank is a corporation which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services.”<sup>7</sup>

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<sup>6</sup> Grywinski,Ronald, “**The new Fashioned Banking**”, London Howard Business Review, 1991, P-87

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

### **1.3.1 Commercial Banking Scenario in Nepal**

Nepal Arab Bank Ltd. (NABIL Bank Ltd.) was the 1<sup>st</sup> joint venture bank established in 1984 AD, joint ventured with United Arab Emirates Bank. Then two other banks, Nepal Indosuez Bank Ltd. (Nepal Investment Bank Ltd.) with Indosuez Bank of Finance and Nepal Grindlays Bank of London were established in 1986 AD. Himalayan Bank Ltd. joint ventured with Habib Bank of Pakistan and SBI Bank Ltd. with State Bank of India was established in 1993 AD. Everest Bank Ltd. joint ventured with Punjab National Bank, India (early it was joint ventured with United Bank of India, Calcutta) and Nepal Bangladesh Bank Ltd. with IFIC Bank of Bangladesh were established in 1991 AD., 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 of Sri-Lanka was established in 1997 AD. Besides this, Lumbini Bank Ltd., and NIC Bank Ltd. are also operating from 1997 AD and there are so many other new bank recently established as a new commercial bank of Nepali financial market.

Commercial banks must follow the rules and regulations as well as different directions issued by central bank, ministry of finance, and ministry of law and other while mobilizing its funds. So, the bank should invest its funds in legal securities only. Diana McNaughton in her research paper ‘Banking institutions in developing markets’ state that, investment policy should incorporate several elements such as regulatory environment, the availability of funds, the selection of risk, loan portfolio balance and term structure of the liabilities. (McNaughton, Diana, 1994). Thus, commercial banks should incorporate several elements while making investment policy. 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 bank’s investment are fully considered while making investment decisions.

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<sup>7</sup> “Principles of Bank Operations” American Institute of Banking, USA, 1972, P-345

Nowadays there are 25 commercial banks operating in Nepali financial market along with 9 joint venture with foreign investors. Lists of licensed commercial banks are presented below:

**Table: 1.1**  
**List of Licensed Commercial Banks**  
**Mid- July 2007**

S.N	Commercial Banks	Established Date(B.S)	Operation Date	Branch	Head Office
1	Nepal Bank Ltd.	1994/07/30	1994/07/30	116	Kathmandu
2	Rastriya Banijya Bank	2022/10/10	2022/10/10	117	Kathmandu
3	NABIL Bank Ltd.	2041/03/29	2041/03/29	16	Kathmandu
4	Nepal Investment Bank Ltd.	2042/11/16	2042/11/16	12	Kathmandu
5	Standard Chartered Bank Ltd.	2043/10/16	2043/10/16	7	Kathmandu
6	Himalayan Bank Ltd.	2049/10/05	2049/10/05	14	Kathmandu
7	Nepal SBI Bank Ltd.	2050/03/23	2050/03/23	11	Kathmandu
8	Nepal Bangladesh Bank Ltd.	2050/02/23	2050/02/23	16	Kathmandu
9	Everest Bank Ltd.	2051/07/01	2051/07/01	14	Kathmandu
10	Bank of Kathmandu Ltd.	2051/11/28	2051/11/28	8	Kathmandu
11	Nepal Credit & Commerce Bank Ltd.	2053/06/28	2053/06/28	16	Siddarthanagar
12	Lumbini Bank Ltd.	2055/01/01	2055/04/01	4	Narayangadh
13	Nepal Industrial & Commercial Bank Ltd.	2055/04/05	2055/04/05	6	Biratnagar
14	Machhapuchhre Bank Ltd.	2057/06/17	2057/06/17	5	Pokhara
15	Kumari Bank Ltd.	2056/08/24	2056/12/21	3	Kathmandu
16	Laxmi Bank Ltd.	2058/06/11	2058/12/21	3	Birgunj
17	Siddhartha Bank Ltd.	2058/06/12	2058/09/09	7	Kathmandu
18	Agriculture Development Bank Ltd	2062/12/03	2062/12/03		Kathmandu
19	Global Bank Ltd.	2063/09/18	2063/09/18		Birgunj
20	Citizens Bank International Ltd	2064/03/07	2064/03/07		Kathmandu
21	Prime Commercial Bank Ltd	2064/06/07	2064/06/07		Kathmandu
22	Sun Rise Bank Ltd	2064/06/25	2064/06/25		Kathmandu
23	Bank of Asia Ltd	2064/06/25	2064/06/25		Kathmandu
24	Development Credit Bank Ltd	2065/02/12	2065/02/12		Kathmandu
25	NMB Bank ltd	2065	2065		Kathmandu

**Source: Banking and Financial Statistics**

## **1.4. Role of Joint Venture Bank in Nepal**

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

“A joint venture is forming of two forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial investment, production trade).”<sup>8</sup>

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

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

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

### **a. Introducing Advanced Banking Techniques**

The joint venture banks in Nepal have been largely responsible for the introduction of new banking techniques such as computerization,

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<sup>8</sup> Gupta, G. P., “**Banking System, its role in Export Development**”, 1984, P15-25

hypothecation, consortium finance, fee-based activities and syndicating under the foreign exchange transactions by importers and exporters, merchant banking, inter-bank market for the money and securities, arranging foreign currency loans, etc.

### **b. Introducing Foreign Investment in Nepal**

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

### **c. Bringing in Healthy Competition**

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

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

## **1.5 Focus of the Study**

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

“General fund mobilizing means to flow the cash in different sectors at profit motive. Investment in its broadest sense means the sacrifice of certain present value for (possibly uncertain) future value. In pure financial sense, the subsequent use of the term investment will be in the prevalent financial sense of the placing of money in the hands of other for their use, in return for a proper instrument entitling the holders to fixed income payment or the participation in expected



profits. It can define the terms of investment at manufacturing and trading forms those long term expenditures that aim at increasing plant capacity of efficiency or at building up goodwill, there by producing an increased return over a period. Experts define the terms of investment from economic view point that investment as a productive process by means of which additional are made to capital equipment's. It is finding to clear the terms of investment at different points of view. But it needs to clear the terms of investment in financial point of view as related to this study.”<sup>9</sup>

This research focuses on the comparative study of fund mobilization of three joint venture banks; Himalayan Bank Ltd., Nepal Investment Bank Ltd. and Everest Bank Ltd. These three banks are compared as per their fund mobilization procedure by taking 7 years data from the year 2000 to 2006.

## **1.6 Profile of the Concerned Banks**

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

### **1.6.1 Himalayan Bank Limited**

Himalayan bank limited is a joint venture bank with Habib Bank of Pakistan, was established in 1992 under the company act 1964 as a fourth joint venture bank of Nepal. This is the first joint venture bank managed by Nepali Chief Executive. The operation of the bank started from 1993 February. HBL does not include government ownership. It has been established to maintain the economic welfare of the general people to facilitate loan for agriculture, industry and commerce to provide the banking services to the country and people.

It is the first commercial bank of Nepal with maximum share holding by the Nepalese private sector. Besides commercial activities, the Bank also offers industrial and merchant banking. Its ownership is composed of promoters & other institutions shareholders 85% and general public 15%.It is the first bank having domestic ownership more than 50%.HBL has been operating in high profit for the establishment's period till now. It accepts deposit through current deposit, saving deposit, fixed deposit and call deposit.

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<sup>9</sup> Swami, Radhe and Basudevan, S.V., “A text Book of Banking; Law, Practice and Theory of Banking”, S. Chanda and Co. Ltd., India 1979

At present HBL has five branches in Kathmandu valley namely Thamel, New road, Maharajgunj, Pulchowk (Patan) and Suryavinayak (moved from Nagarkot). Besides, it has twelve branches outside Kathmandu valley namely Banepa, Tandi, Bharatpur, Birgunj, Hetauda, Bhairawa, Biratnagar, Pokhara , Nepalganj, Butwal and Dharan.

HBL was access to the worldwide correspondent network of Habib bank for fund transfer, letter of credit or any other banking business any where in the world. Himalayan Bank has adopting innovative and latest banking technology. The bank provides various facilities such as:

- Tele- Banking
- Loan
- International Banking
- Himal Remit
- Safe Deposit Locker
- 24 hours banking
- Credit card facilities
- Automatic Teller Machine( ATM)
- Deposit Product
- Himalayan SMS(Short Message Service)
- Internet Banking

The ownership of HBL is composed as:

**Table: 1.2**  
**Ownership Composition**

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

The present capital structure of HBL is shown below:

**Table: 1.3**  
**Capital Structure**

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

**Source: Report of HBL**

### **1.6.2 Everest Bank Limited**

Everest Bank Ltd. was registered under the Company Act 1964 in 19<sup>th</sup> November 1993 (2049/09/03) and started banking transaction in 16<sup>th</sup> October 1994 (2051/07/01). The promoter of the bank decided to join hands with an Indian bank and entered into joint venture agreement in January 1997 AD with Punjab National Bank (PNB), which is one of the leading commercial bank of India, having over 100 years of successful banking experience and known for its strong system and procedure. A team of professionals deputed by PNB under this arrangement. Now, the bank 26 branches including main branch (i.e. head office) in Nepal.

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

- Deposit
- Loan and Advance
- FC deposit/lending
- Trade Finance Activities
- Remittance Facilities
- Facilities of NRN
- Foreign Exchange

- Underwriting of public issue
- Locker Facility
- Standing Instruction
- International Trade and Bank Guarantees
- Merchant Banking

The ownership of EBL is composed as:

**Table: 1.4**  
**Ownership Composition**

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

The authorized capital of the bank has been Rs. 240 million, issued Rs. 120 million and paid capital Rs.117.5645 million in the beginning of 2051/052. The present capital structure of EBL is shown below:

**Table: 1.5**  
**Capital Structure**

<b>Share Structure</b>	<b>Amount (Rs.)</b>
Authorized Capital	75,00,00,000
Issued Capital	52,80,00,000
Paid- Up Capital	51,80,00,000

**Source: Report of EBL**

### **1.6.3 Nepal Investment Bank Limited**

Nepal Investment Bank Ltd(NIBL), previously Nepal Indosuez Bank Ltd. was established as a third joint venture bank between Nepalese and French partners in 21<sup>st</sup> January 1986 under the Company Act 1964. The French partner (hold capital of NIBL) was credit Agricole Indosuez, a subsidiary of one of the largest banking world, 50% of the shares of Nepal Indosuez Bank Ltd. held by credit Agricole. Indosuez was sold to the Nepalese promoters on April 25, 2002 as per the transaction report of NEPSE. After the divestment of shares by Nepalese owners, the name of the company was changed to Nepal Investment Bank Limited its 15<sup>th</sup>

Annual General Meeting (A.G.M.) held on May 31, 2002. Recently NIBL has 21 branches around the country including head office.

Out of total equity shares of NIBL, 15% shares hold by a group of company, 50% shares by commercial banks, another 15% by financial institutions and remaining 20% hold by general public. It provides following facilities and services to their customers:

- Deposit
- e-banking
- ATM
- Loan & Advance
- Credit Card
- Safe Deposit Locker
- Ezee Saving
- Premier Banking
- NTC Mobile bill payment
- Vehicle loans
- Debit card
- 365 days service

The ownership of NIBL is composed as:

**Table: 1.6**  
**Ownership Composition**

<b>Subscription</b>	<b>% Holding</b>
"A" class incensed institution	15%
Commercial banks	50%
Financial Institutions	15%
General Public	20%
<b>Total</b>	<b>100%</b>

The present capital structure of NIBL is presented below:

**Table: 1.7**  
**Capital Structure**

<b>Share Structure</b>	<b>Amount (Rs.)</b>
Authorized Capital	1,00,00,00,000
Issued Capital	59,05,86,000
Paid- Up Capital	59,05,86,000

**Source: Report of NIBL**

## **1.7 Statement of the Problems**

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

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

To meet the requirement of NRB, joint venture banks must have 6% deposits of total current account and fixed deposit account of local currency with NRB. They

should have 3% minimum cash balance in their own vault of total currency of all types of accounts. Except this, they have fund from current, saving and fixed deposits borrowing, from other banks, cash margin for different purpose, amount of bills payable and retained earning, reserves share capital and other liabilities.

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

Fund mobilization is the most important factor from the shareholder and banks management point of view. This study is a comparative study on fund mobilization of Himalayan Bank Ltd, Everest Bank Ltd and Nepal Investment Bank Ltd. The problems related to fund mobilization procedures of the joint venture banks of Nepal have been presented briefly as under:

- a) Is there any stability in fund mobilization between HBL, EBL and NIBL?
- b) What is the relationship between deposit and total capital raised, deposit with total investment and loan and advances with total deposits?
- c) Does the investment decision affect the total earning capacity of the bank?
- d) Do the three joint ventures successful to utilize their available fund?
- e) Are they maintaining sufficient liquidity position?
- f) Which joint ventures have more effective investment policy among HBL, EBL and NIBL?

## **1.8 Objectives of the Study**

For any kind of research work or study, first of all the objectives should be determined. It shows the way to achieve desired goals. Likewise, the main objectives of this research work is to examine, interpret and analysis the fund mobilization procedures adopted by three joint ventures; Himalayan Bank Ltd., Everest Bank Ltd. and Nepal Investment Bank Ltd. This study is concerned with

whether HBL, EBL and NIBL are adopting efficient fund mobilizing policy or not. The main objectives related to this study are presented below:

- To study evaluate the growth and risk ratio of loan and advances and total investment with respective to growth rate of total deposit and net profit of HBL, EBL and NIBL.
- To compare and evaluate operating, financial and investment efficiency of joint venture banks under study.
- To carryout the relationship between deposits and total investment, deposits and loan and advance and net profits of HBL, EBL and NIBL.
- To evaluate and forecast the trend of deposit utilization for the next five years.
- To examine the sources and uses of funds and analysis of cash flow of these three joint venture banks.
- To suggest and recommend some measures for improvement of financial performance of HBL, EBL and NIBL.

## **1.9 Significance of the Study**

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

Optimum utilization of fund makes better impact on the economy of the nation. Fund mobilization activities must consider customer, national and government as well as its shareholders interest. Significance of the fund mobilization can be written as the following manner:

- The depositor's general public can make decision to deposit their money in the bank after analyzing the fund mobilization of joint ventures.
- By the help of this study, general public can know the funds mobilizing activities of banks.



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

### **1.10 Limitation of the Study**

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

- This study is based on secondary data and accuracy depends upon the data collected and provided by the organization.
- The whole study is based on the data of 7 years period (i.e. from F.Y. 2000 to 2006).
- This study has been only of three joint venture banks as sample i.e. HBL, EBL and NIBL.
- Non availability of the various references of sources acts as constraints for the study.
- Only the fund mobilization aspects are analyzed. Other performance of the organizations is fully neglected, while providing suggestions.

### **1.11 Organization of the Study**

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

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

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

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

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

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

# CHAPTER-II

## REVIEW OF LITERATURE

### 2.1 Concept

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

### 2.2 Theoretical Framework

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

#### 2.2.1 Features of Sound Lending and Fund Mobilization Policy

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

##### a) Safety and Security

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

Where,

M = Marketability

A = Ascertain ability

S = Stability

T = Transferability

### **b) Legality**

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

### **c) Liquidity**

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

### **d) Profitability**

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

### **e) Tangibility**

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

### **f) Purpose of loan**

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

### **g) Diversification**

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

## **2.2.2 Meaning of Some Important Terminologies**

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

### **a) Loan and Advances**

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

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

Commercial bank can earn some interest and dividend from the investment on government securities, shares and debentures. It is not the major portion of income but it is treated as a second source of banking business. A commercial bank may extent credit by purchasing government securities, bond and shares for several reasons. Some of them are given as:

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

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

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

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

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

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

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

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

### **f) Deposits**

Deposit is the most important source of the liquidity for each and every commercial bank. For financial strength of banks, it is treated as a barometer. In the word of Eugene, "a bank's deposits are the amount that it owes to its customers." A deposit is the lifeblood of the commercial banks.

Even though, they constitute the great bulk of bank liabilities, the success of a bank greatly depends upon the extent to which it may attract more and more deposits, for accounting and analyzing purpose, deposits are categorized in three headings. They are:

- Current Deposits
- Saving Deposits
- Fixed Deposits

### **2.2.3 Review of Legislative Provisions**

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

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

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

**Table: 2.1**  
**Revised Compulsory Cash Reserve Ratio (in Percentage)**

S.N	Description	20 December 2002	22 July 2002	Difference in % points
1	Cash deposit requirement in NRB by the commercial banks:			
	Total domestic current and savings deposit liabilities	7.0	7.0	
	Total domestic time deposit liabilities	4.5	4.5	
2	Cash-in-Vault requirement of the commercial banks(of total deposit liabilities)	3.0	2.0	1.0

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

For some year the receiving applications for the establishment of commercial banks was stopped from 1995. But the Nepal Rastra Bank again opens for new application with reviewing their guidelines:

#### **1) Paid up Capital**

To establish a commercial bank of national level having its office in Kathmandu, joint investment with foreign bank and financial institution or a management contract at least for 3 years with such institutions is required. The paid up capital of such bank must be at Rs. 2000 million. This provision is effective from 27 March 2007. Nepal Rastra Bank has given the deadline to achieve that target for existing banks to till Mid July 2013.

#### **2) Share Capital**

In general, the share of commercial banks will be available for the promoters (70 percent) and general public (30 percent). The foreign



banks and financial institutions could have a maximum of 67 % share in investment on the commercial banks of national level. In order to provide adequate opportunity for investment to the Nepali promoters in national level banks, only 20 % of total share capital will be made available to general public on the condition that the foreign bank and financial institutions are going to acquire 50% of the total share.

### **3) Legal Procedure**

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

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

Banks that is already in operation and those who have already acquired letter of intent before the enforcement of these provisions have to bring their capital level by Mid July 2013, as per the recently declared provision. But the capital level of new bank , They much reach that level of capital level by mid of July 2010.

### **5) Concerning up gradation**

Banks to be established outside Kathmandu Valley could be allowed to operate throughout the Country including Kathmandu Valley only on the condition that they have brought their paid up capital level to Rs. 2000 million and also fulfilled other prescribed conditions. Until and unless such banks do not get license to operate throughout the Republic of Nepal, they will not be allowed to open any office in Kathmandu Valley.

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

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

favor or against it. If it declines to issue license, it has to inform in writing with reasons to the concerned body.

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

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

### **8) Promoters Share**

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

### **9) Branch Expansion**

Previously, to establish commercial banks in national level will initially be authorized to open a main branch office in Kathmandu Valley. But now a days they can establish their main branch outside the Kathamndu. They will be authorized to open one more branch in Kathmandu Valley only after they have opened two branches outside the Kathmandu Valley.

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

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

**(Source: Economic Survey 2006/07)**

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

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

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

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

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

Following are the sources of owned funds:

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

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

##### **b) Preference Share**

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

### **c) Bonus Share**

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

### **d) Retained Earning**

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

### **e) Reserve Fund**

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

### **f) Undistributed Dividend**

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

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

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

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

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

## **b) Deposits**

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

- **Current Deposit**

It is also known as demand deposit. A customer can open a current account with a bank by making an initial deposit of Rs. 100. Any amount may be deposited in this account. The bank makes a small charge on the customer having current deposit account.

- **Saving Deposit**

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

- **Fixed Deposit**

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

## **c) Loan from the Central Bank**

NRB is the central bank of Nepal. All banks should operate their banking activities by maintaining the rules and regulations directed by the NRB. In the time of necessity, NRB provides the loans for the banks. The loan granted by the central bank is a bank capital.

#### **d) Loan from the Financial Institutions**

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

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

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

## **2. Mobilization of Funds**

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

As commercial bank they are expected to make profit. If there is no profit, there will be adverse criticism against public sector banking, both in and outside the parliament when these banks are asked to open new branches in areas which do not allow profits for years, or asked to grant loan to the priority sectors such as small industries and agriculture with a high incidence of bad debts, there is need for counter balancing profit from elsewhere. Therefore, these banks will have to show an ascending order of profits in order to ensure growth with stability. For this purpose the bank will have to allocate land able resources to different segments in such a manner these banks can ensure adequate profitability while at the same time responding to policies laid down in accordance with national objectives.

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

### **a. Liquid Funds**

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

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

### **b. Investment**

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

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

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

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

- ) To government enterprises
- ) To provide enterprises

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

### **d. Fixed Assets**

Land and buildings are essential for the establishment of bank. Bank's funds are used in buying of furniture, vehicle, computer, and other concerned instrument, which are related to banking activities. Bank cannot take direct

gain from these assets, but bank should buy it. A bank has a need of fund to purchase fixed assets for the new branches of the bank.

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

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

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

The miscellaneous expenses are

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

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



## 2.3 Review of Related Studies

### 2.3.1 Review of Books

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

“An investment is a commitment of money that is expected to generate additional money that is expected to generate additional money. Every investment entails sacrifice for a future uncertain benefit.”<sup>10</sup>

Likewise, **Cheney and Moses** are concerned with the objective of investment and indicate that the risk is in proportion with the degree of returns. They write, “The investment objective is to increase systematically the individual’s wealth, defined as assets minus liabilities. The higher the level of the desired wealth, the higher must be received. An investor seeking higher return must be willing to face higher level of risk.”<sup>11</sup>

**Charles P. Jones**, emphasizing on the proper management of an investor’s wealth says, “Investment is the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor’s wealth, which is the sum of current income and present value of all future income.”<sup>12</sup>

According to **William J. Sharpe and Alexander J. Gorden** has defined the term “investment” as the sacrifice of money today for the prospective money tomorrow. They write, “Investment in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved time and risk.

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<sup>10</sup> Francis, Jack Clark “**Investment Analysis and Management**” Mc Graw Hill, International Edition, 1991.

<sup>11</sup> Cheney, John M. and Moses, Edward A., “**Fundamental of Investment**”, St. Paul; West Publishing Company, P-12

<sup>12</sup> Charles, Jones P., “**Investment Analysis and Management**,” Bombay: Himalayan Publishing House, 1999, P-2

The sacrifice takes place in the present and is certain. The reward comes later, if at all and the magnitude is uncertain. In some cases the element of time predominates (e.g. government bond). In other cases, risk is the dominant attribute (e.g. call option on common stock). In yet both time and risk are important.”<sup>13</sup>

**James B. Baxley** expresses his opinion as “Investment policy fixed responsibilities for the investment disposition of the banks assets in term of allocating funds for investment and loan and establishing responsibility for day to day management of those assets.”<sup>14</sup>

**Preeti Singh** has defined investment in the way, “Investment is the employment of funds with the aim of achieving additional income of growth in value.”<sup>15</sup>

In the view of **Gittman and Jochnk**, “Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns.”<sup>16</sup>

**Sakespeare Baidya** has an elaborated definition on “investment” which beseeches of sound investment policy and covers wider aspects. He writes, “A sound investment policy of bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to the depositors and banks on the other hand. Moreover, risk in banking sector tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually springs from significant amount of loans that have become uncollectible due to mismanagement, illegal economic downturn. Therefore, the banks investment policy must be such that it ensures sound and prudent in order to protect public funds.

“Further in details he deals with what type of loan do banks make? And, how much of loan is to be invested? The banks make a variety of loans to a wide variety of customers from many different purposes from purchasing automobile to construct of homes and making trade with foreign countries. There, no uniform rules can be laid down to determine the portfolio of bank. The environment in which the bank operates influences its investment policy. The nature and

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<sup>13</sup> Sharpe, J. William and Gorden, J. Alexander, “**Investment**” , 5<sup>th</sup> Edition, New Delhi: Prentice Hall of India, 1996, P-1

<sup>14</sup> Baxley, James B., “**Banking Management**” , Subject Publication, New Delhi, 1987

<sup>15</sup> Singh, Preeti, “**Investment Management**” , Bombay: Himalayan Publishing House, P-87

<sup>16</sup>Gittman and Jochnk, L.J.,“**Fundamental of Investment**” 4<sup>th</sup> Edition Harper & Row Publishers, New York, 1990, P-18

availability of funds and assets also differ widely from region to region within a country or country to country. For example, the scope of operating a bank in Jumla will be different from the scope of a bank operating in Kathmandu. The investment policy to be applied in Kathmandu may not be applicable to the customer of Jumla because the demand for loans is less in rural areas whereas it is higher in urban areas.”<sup>17</sup>

**V.K. Bhalla** has derived a three- pointed basic concept of investment. His view on investment cover:

- ) Economic investment that is an economics definition of investment.
- ) Investment in a more general or extended sense which is used by the man of street or ordinary people
- ) The sense in which we are going to be very much interested namely financial investment.

He says, “Banks are those institutions which accepts deposits from the public and in return provide credit to trade, business and industry that directly makes a remarkable impact on the economic development of a country. To collect fund and collect as a good investment is a very risky job. Ad-hoc investment decision leads the bank out of the business thereby drawn the economic growth of a country. Hence sound investment policy is another secret of a successful bank.”<sup>18</sup>

**Dr. Sunity Shrestha** has expressed similar view on investment. She stresses on the fulfillment of credit needs of various sectors which ensures investments. She expressed in her books ‘Portfolio Behaviors of Commercial Banks in Nepal’ writes, “The commercial banks fulfill the credit needs of various economic sectors including policy of commercial banks is based on the profit maximization of the institute as well as the economic enhancement of the country.”<sup>19</sup>

In the view of **Reed, Cotter, Gill and Smith**, “commercial banks still remain the heart of our financial system holding the deposits of millions of persons, governments and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and governments.

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<sup>17</sup> Baidya Sakespeare, “**Banking Management: Monitor Nepal**” , 1997, P-47

<sup>18</sup> Bhalla, V. K., “**Investment Management**”, Fourth Edition, New Delhi, S. Chand and Company Ltd. 1997

<sup>19</sup> Shrestha, Sunity, “**Investment Planning of Commercial Banks in Nepal**”, Kathmandu

Commercial banks are the most important type of financial institutions in the nation in terms of aggregate assets.”<sup>20</sup>

The primary function of commercial banks is the extension of credit to worthy borrowers. In making credit available, commercial banks are rendering a great social service. Through their action, production is increased, capital investments are expanded, and a higher standard of living is realized. Although the investment activities of commercial banks are usually considered separately from lending, the economic effects and social results are the same.

Emphasizing the importance of investment policy, **H.D. Crosse** puts his opinion like this way, “Lending is the essence of commercial banking, and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit.”<sup>21</sup>

### **2.3.2 Review of Journals/Articles, Research Papers and Previous Studies**

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

**Mr. Sunil Chopra** in his article, “Role of Foreign banks in Nepal” had conducted that the joint venture banks playing an increasingly dynamic and vital role in the economic development of the country that will undoubtedly increase with time.<sup>22</sup>

**Sunity Shrestha** has analyzed in her article, “Financial performance of commercial banks using both descriptive and diagnostic approach.”<sup>23</sup> In her studies she has concluded the following points:

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<sup>20</sup> Reed, Edward W., Gill, Edward K., Cotter, Richard V., Smith, Richard K., “**Commercial Banking**”, 2<sup>nd</sup> Edition, Prentice Hall, Inc. Englewood Cliffs, 1980, New Jersey, P 1-5

<sup>21</sup> Crosse, H.K., “**Management Policies for Commercial Banks**”, Englewood Cliffs, Prentice Hall, Inc., New Jersey, 2<sup>nd</sup> Edition, 1963, P-38

<sup>22</sup> Chopra, Sunil,” **Role of Foreign Banks in Nepal**”, Nepal Rastra Bank Samachar, NRB-1989, Kathmandu, P 1-2

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

Likewise, **Mr. Ramesh Lal Shrestha** in his article, “A study on deposit and credit of commercial banks in Nepal”<sup>24</sup> concluded that the credit deposit ratio would be 51.30%, other things remaining the same in Nepal, which was the lowest under the period of review. Therefore, he had strongly recommended that the joint venture banks should try to give more credit entering new field as far as possible, otherwise, they might not be able to absorb even the total expenses.

**Mr. Shiva Raj Shrestha** has presented a short scenario of investment management from his article “Portfolio Management in Commercial Bank, Theory and Practice.”<sup>25</sup> He has stressed in the following issues, in case of investors having lower income, portfolio management may be limited to small saving incomes. But, on the other hank, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore, portfolio management becomes very important both for an individuals as well as institutional investors. Large investors would like to select a best mix of investment assets and subject to the following aspects:

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<sup>23</sup> Shrestha , Sunity, “**Lending operations of Commercial Banks of Nepal and its impact on GDP**”, The Business Voice of Nepal (the special issue of Banijya Sansar), T.U. 1997, P 23-27

<sup>24</sup> Shrestha, Ramesh Lal, “**A study on deposit and credits of commercial banks in Nepal**”, Nepal Rastra Bank Samachar, NRB-1988

<sup>25</sup> Shrestha, Shiv Raj, “**Portfolio Management in Commercial Bank, theory and Practice**”, Nepal Bank Patrika, Baishakh Masanta, 2055, Page-13

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

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

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

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

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

According to **Mr. Bodi B. Bajracharya** in his article “Monetary Policy and Deposit Mobilization in Nepal” that “the mobilization of domestic saving is one of the prime objectives of monetary policy in Nepal. For this purpose, commercial

banks stood as the active and vital financial intermediary for generating resources in form of deposit of the investors in different aspects of the economy.”<sup>26</sup>

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

Similarly, **Mr. Bhaskar Sharma** has found same results that all the commercial banks are establishing and operating in urban areas, in this study, “banking the future on competition.”<sup>27</sup> His achievements are:

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

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

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

In the view of **Mr. Shekhar Bahadur Pradhan**, in his articles, “Deposit mobilization, its problem and prospects”<sup>28</sup> He has presented the following problems in the context of Nepal:

- People do not have knowledge and proper education for saving in institutional manner. They so now know financial organizational process, withdrawal system, depositing system etc.
- Financial institutions do not want to operate and provide their services in rural areas.

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<sup>26</sup> Bajracharya, Bodhi B., “**Monetary Policy and Deposit Mobilization in Nepal**” , Rajat Jayanti Smarika, Rastriya Banijya Bank, Kathmandu 2047, P-93-97

<sup>27</sup> Sharma, Bhaskar, “**Banking the future on Competition**”, Business age, October, 2000, P-13

<sup>28</sup> Pradhan, Shekhar Bahadur, “**Deposit Mobilization, its Problem and Prospects**”, Nepal Bank Patrika, Baishakh Masanta, 2053, P-9

- He has also recommended about how to mobilize the deposit collection by the financial institutions by rendering their services in rural areas, by adding various services.
- By operating rural banking programmes and unit
- Nepal Rastra Bank must organize training programmes to develop the skilled human resources
- By spreading a numbers of co-operative societies to develop mini banking services and improves the habits of public on deposit collection to the rural areas.

**Dr. Radhe Shyam Pradhan** has done a research for which he carried out a survey of 78 enterprises. Through his research entitled, “Financial management practices in Nepal.” He found some of the major features of the Nepalese financial management. According to him “the most important one appeared to be maintaining good relation with stockholder. The finding reveals that banks and retained earning are most widely used financing sources. Most enterprises do not borrow from one bank only and they do switch between banks to banks whichever offers best interest rates. Most enterprises find that banks are faxable in interest rate. Among the banks loan, bank loan of less than one year are more popular in public sector where as banks loan of 1-5 years are more popular in private sector. In period of light money, the majority of private sector enterprises fell that bank will treat all firms equally while public sector does not feel so. Similarly, he concluded that the majority of enterprises in traded sector find that bank’s interest rate is just right while the majority of non-traded sector find that the some is one higher side.”<sup>29</sup>

### 2.3.3 Review of Theses

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

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<sup>29</sup> Pradhan, Radhe Shyam, “**Financial Management Practice in Nepal**”, Vikash Publishing House, New Delhi, India



**Mahendra Mandala**, in his thesis paper “A Comparative Financial Performance Appraisal of Joint Venture Banks.”,<sup>30</sup> has studied primarily three joint venture banks i.e. NABIL, NGBL and Nepal Indosuez Bank Ltd. His main objectives is to find out the both banks, NGBL and NABIL have mobilized the debt funds in proper way for generating more return but Nepal Indosuez Bank (NIBL) could not mobilize as NABIL and NGBL. He has recommended that all the banks should provide their facilities in rural areas and encourage the small entrepreneur’s development programmes, play merchant role, mobilize the deposit funds in productive sectors and grant priority to the local manpower.

He has not attempted to show the investment policy and concentrated only on financial performance of JVBs, therefore it can not represent the performance appraisal of JVBs. His study is comparative study of only three JVBs. His study period is up to FY 1997/98 and it can not analyze the investment policy after this fiscal year.

**Udaya Bahadur Silwal** has conducted a study on “Lending Policy of Commercial Banks in Nepal”<sup>31</sup> having following objectives:

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

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

- Effectiveness of lending policy is directly based upon a sound banking system. But due to geographical variation, transportation and other regional disparities, it is very difficult to expand branches in different rural areas. So, it can be said that commercial banks in Nepal are not playing an active role to utilize their sources collected from different sectors.
- By paying higher interest rate, the banks are increasing deposits, which in turn increase saving habits of the general people. Then the banks will

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<sup>30</sup>Mandala, Mahendra, “A Comparative Financial Appraisal of Joint Venture Banks”, an Unpublished Masters Degree thesis, T.U. Kathmandu, 1998

<sup>31</sup> Silwal, Udaya Bahadur, “Lending Policy of Commercial Banks in Nepal”, Unpublished Masters thesis, Kritipur, 1980

be able to utilize these idle funds in productive channels. This type of business of commercial bank is really a necessary one in an agricultural country like Nepal, where public investment has limited capacity.

**Mr. M.N. Karmacharya**, in his thesis paper “A study on the Deposit Mobilization by the joint venture banks”<sup>32</sup> has mentioned that the bank has successfully maintained its liquid asset position but could not mobilize its resources efficiently. He has concluded that Nepal Bank’s utilization side is weak as compare to the collection of resources. He suggested for extending its branches, so NBL’s deposit collection and also long-term as well as short-term credit may increase. He has recommended not to consider security factor only but to provide loan to genuine projects without securing.

**Uttam Raj Panta**, in his thesis paper “A Study of Commercial Bank Deposits and Utilizations”<sup>33</sup> has tried to examine the resources collection and utilization. He has concluded that commercial banks have failed to utilize their resources due to lending for short term only. So that he has suggested that all commercial banks should give preference on long term lending sectors for the better utilization of the deposits and improvement of their existing situation.

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

**Bhoj Raj Bohara**, in his thesis paper “A Comparative Study of the Financial Performance of Nepal Arab Bank Ltd. and Nepal Indosuez Bank Ltd.”<sup>34</sup> has studied mainly financial performance of two joint venture banks. His main objective is to examine the comparative financial performance (during FY 1986/87 to 1990/91) of NABIL and SCBNL in terms of their liquidity, activity and profitability. He has summarized and concluded that the increasing trend of SCBNL’s earning per share, cash dividend per share, tax per share, net profit, total loans, total deposits and advances and market value per share in the last deposits,

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<sup>32</sup> Karmacharya, M.N., “A study on the Deposit Mobilization of the Nepal Bank Ltd”, Unpublished Masters level thesis, T.U., 1998

<sup>33</sup> Panta, Uttam Raj, “A study of Commercial Bank Deposits and its Utilization”, an Unpublished Masters Degree Thesis, T.U., Kathmandu, 1976

<sup>34</sup> Bohara, Bhoj Raj, “A Comparative Study of the Financial Performance of Nepal Arab Bank Ltd and Nepal Indosuez Bank Ltd”, an Unpublished Masters Degree Thesis, T.U., Kathmandu, Dec. 1992

total loans and advances and market value per share in the last three years of the study period had shown improvement than that of NABIL.

He has also shown the comparative performance appraisal of only two joint venture banks. Although he has tried to analyze and explain the liquidity and explain the liquidity, activity and profitability position of two JVBs, he has not explained the investment policy and various types of risks. His study can not show the performance of the selected firms for the succeeding years because of time limitation i.e. up to 1990/91.

**Samiksha Thapa**, in her thesis paper “A Comparative Study on Investment Policy of Nepal Bangladesh Bank Ltd. and other Joint Venture Bank of Nepal”<sup>35</sup> she has compared the investment activities of NBBL with only two joint venture bank i.e. Nepal Arab Bank Ltd. and Nepal Grindlays Bank Ltd. by taking five years data. She has recommended in two ways:

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

**Uddab Prasad Sapkota**, in his thesis paper “A study on fund mobilizing policy of Standard Chartered Bank Ltd in comparison to Nepal Bangladesh Bank Ltd and Himalayan Bank Ltd” having main objectives to examine the fund mobilizing policy adopted by three joint venture banks viz. SCBNL, NBBL and HBL and the way these banks mobilized their funds during five year study period i.e. from 1996/97 to 1999/2000.

He found the overall condition of SCBNL seems in satisfactory position in comparison to NBBL and HBL. In other words, he recommends that banks are strongly recommended to provide information about its services, facilities and extension of their services towards rural areas. These three banks is recommended

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<sup>35</sup> Sapkota, Uddav Prasad, “A study on Fund Mobilizing Policy of Standard Chartered Bank Ltd in Comparison to Nepal Bangladesh Bank Ltd and Himalayan Bank Ltd”, an Unpublished Masters Degree Thesis, T.U., Kathmandu, 2002

to increase cash and bank balance to meet the need of investment and demand of loan and advances. And banks are to be investing its funds in the purchase of shares and debentures of other financial, non-financial companies, hotels and government companies.

Mr. Sapkota has not explained about the risk ratios which have to be faced by these joint venture banks. His study can not show the fund mobilizing policy of the selected banks for the succeeding years because of time limitation i.e. up to 1999/2000.

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

Similarly, There is one study By Ms. Bimala Bhattarai in name of "A study on Fund mobilization". She has taken EBL, HBL and NIBL bank for her thesis work. According to her, NIBL has better position in liquidity position than other two. From Assets management aspect , EBL is relatively successful to invest in production sector and has mobilized its collected deposits to provide loan and advances for the purposed of earning profit. NIBL has higher liquidity risk ratio and it is also successful to earn net profit in comparison with other two banks. She has recommended to all three bank to maintain effective liquidity position, to increase deposit collection and make more investment in government securities. She has also suggested to make more investment on share and debentures as well as in most profitable sector. The main objectives of any commercial banks must be profit motive.

# **CHAPTER-III**

## **RESEARCH METHODOLOGY**

### **3.1 Introduction**

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

“Research methodology refers to the various sequential steps to be adopted by a research in studying a problem with certain objectives in view.”<sup>36</sup>

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

### **3.2 Research Design**

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

“A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.”<sup>37</sup>

The research examines the facts and postulates in certain frameworks on details and supplies the important information on subject matter, summary of the study, major findings of the study, recommendations, conclusion etc. are the most significant information among them, they are derived with the help of some

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<sup>36</sup> Kothari, C. R., “**Research Methodology; Methods and Techniques**”, New Delhi: Willey Eastery Limited, 1989, P-30

<sup>37</sup> Kothari,C.R., “**Quantitative Techniques**” Vikash Publishing House Pvt. Ltd, New Delhi., 1992, P-25

financial and statistical tools were adapted to evaluate the fund mobilization of joint venture banks viz. EBL, HBL, and NIBL in consideration not only to research about them but also to facilitate among them.

### **3.3 Sources of Data**

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

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

### **3.4 Nature of Data**

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

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

### **3.5 Population and Sample**

There are altogether 25 commercial banks functioning all over the kingdom and most of their stocks are traded actively in the stock market. Among them nine are JVBs and eight are domestic commercial banks. In this study three joint venture banks are to be taken for research work. These banks are compared as per fund mobilizing activities. EBL, HBL, and NIBL are selected from population and population is presented below:

1. Nepal Bank Ltd.
2. Rastriya Banijya Bank Ltd.
3. Nabil Bank Ltd.
4. Nepal Investment Bank Ltd.
5. Standard Chartered Bank Ltd.
6. Himalayan Bank Ltd.
7. Nepal SBI Bank Ltd.
8. Nepal Bangladesh Bank Ltd.
9. Everest Bank Ltd.
10. Bank of Kathmandu Ltd.
11. Nepal Credit and Commercial Bank Ltd.
12. Lumbini Bank Ltd.
13. Nepal Industrial and Commercial Bank Ltd.
14. Machhapuchhre Bank Ltd.
15. Kumari Bank Ltd.
16. Laxmi Bank Ltd.
17. Siddhartha Bank Ltd.
18. Agriculture Development Bank Ltd
19. Global Bank Ltd
20. Citizens Bank International Ltd
21. Prime Commercial Bank Ltd
22. Sun rise bank ltd
23. Bank of Asia Ltd
24. Development Credit Bank Ltd
25. NMB Bank Ltd

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

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

### 3. Nepal Investment Bank Ltd.

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

## 3.6 Data Analysis Tools

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

The various results obtained with the help of financial, accounting and statistical tools are tabulated under different headings. Then they are compared with each other to interpret the results. Two kinds of tools have been used to achieve the certain goals.

1. Financial Tools
2. Statistical Tools

### 3.6.1. Financial Tools

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

- I. Ratio Analysis
- II. Sources and Uses of Funds
- III. Cash flow Analysis

#### I. Ratio Analysis

Ratio analysis is the powerful tool of financial analysis. A ratio is defined as “the indicated quotient of two mathematical expressions “the relationship between two or more things.”<sup>38</sup> In financial analysis, a ratio is used as a benchmark for

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<sup>38</sup> Merriam, G. & C., “Webster’s New Collegiate Dictionary”, 8<sup>th</sup> Edition, Springfield, 1975, P-958.



evaluating the financial position and performance of a firm. The relationship between two accounting figure expressed mathematically, is known as a financial ratio or simply a ratio. An accounting figure conveys meaning when it is related to some relevant information.<sup>39</sup>

“A ratio is a mathematical relationship between two variables. It is significant for financial analysis. It also helps us to predict the future performance of a company based on study of ratios of earlier years.”<sup>40</sup>

Thus, ratio analysis is the part of whole process of analysis of financial statements of any business or industrial concerned especially to take output and credit decision. Ratio indicates a quantitative relationship, which can be, in turn, used to make a qualitative judgment. Even though there are various types of ratios to analyze and interpret the financial statement, only six types of ratios have been taken in this study, which are related to fund mobilization of the banks. They are presented below:

### **A. Liquidity Ratios**

- i) Cash and bank balance to total deposit ratio
- ii) Cash and bank balance to current assets ratio
- iii) Investment on government securities to current assets ratio

### **B. Assets Management Ratios**

- i) Loan and advances to total deposit ratio
- ii) Total investment to total deposit ratio
- iii) Loan and advances total working fund ratio
- iv) Investment on government securities to total working fund ratio
- v) Investment on shares and debenture to total working fund ratio

### **C. Profitability Ratios**

- i) Return on loan and advances ratio
- ii) Return on total working fund ratio
- iii) Total interest earned to total working fund ratio

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<sup>39</sup> Pandey, I.M., “**Financial Management**” ,7<sup>th</sup> Revised Edition, Vikash Publishing House Pvt. Ltd., New Delhi, 1975, P-104

<sup>40</sup> Benerjee, Subir Kumar, “**Financial Management**”, S. Chand & Company Ltd., Ram Nagar, New Delhi, P-95

## D. Risk Ratios

- i) Liquidity risk ratio
- ii) Credit risk ratio

## E. Growth Ratios

- i) Growth ratio of total deposits
- ii) Growth ratio of total investment
- iii) Growth ratio of loan and advances
- iv) Growth ratio of net profit

## A. Liquidity Ratios

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

“Liquidity ratios examine the adequacy of funds, the solvency of the firms ability to pay its obligation when due.”<sup>41</sup> Various types of liquidity ratios are applied in these studies, which are explained below:

### i) Cash and Bank Balance to Total Deposit

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

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

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

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<sup>41</sup> Hampton, John J., “Financial Decision Making Concept”, P-139

## ii) Cash and Bank Balance to Current Assets Ratio

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

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

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

## iii) Investment on Government Securities to Current Assets Ratio

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

$$\text{Inv. on Govt. Sects. to Current Assets} = \frac{\text{Investment on Government Securities}}{\text{Current Assets}}$$

Where, Investment on government securities involves treasury bills and development bonds etc.

## B. Assets Management Ratios (Activity Ratio)

The asset management ratios, measures how effectively the firm is managing its assets. These ratios are designed to answer this question: does the total amount of each type of asset as reported on the balance sheet seem reasonable or not. If a firm has excessive investments in assets then its capital costs will be unduly high and its stock price will suffer.<sup>42</sup>

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<sup>42</sup> Brigham, Eugene F., "Financial Management", A Harcourt Publishers, International Company, P-74

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

### **i) Loan and Advances to Total Deposit Ratio**

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

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

### **ii) Total Investment to Total Deposit Ratio**

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

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

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

### **iii) Loan and Advances to Total Working Fund Ratio**

The main element of total working fund is loan and advances. This ratio indicates the ability of selected banks in terms of earning high profit from loan and advances. Loan and advances to working fund ratio can be obtained dividing loan and advances amount by total working fund. That is formulized as,

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

Where, total working fund includes total amount of assets given in balance sheet which refers to current assets, net fixed assets, total loans for development banks and other sundry assets except off balance sheet items i.e. letter of credit, letter of guarantee etc.

#### **iv) Investment on Government Securities to Total Working Fund Ratio**

Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage. It can be obtained by:

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

Where, investment on government securities includes investment on debentures, bonds and shares of other companies.

#### **v) Investment on Shares and Debentures to Total Working Fund Ratio**

Investment on shares and debentures to total working fund ratio shows the investment of banks on the shares and debentures of other companies in terms of total working fund. This ratio can be obtained dividing on shares and debentures by total working fund. It is calculated as:

$$\text{Inv. on Shares and Debn. to TWF Ratio} = \frac{\text{Inv. on Shares and Debn.}}{\text{Total Working Fund}}$$

Where, total investment includes investment on government securities, investment on debenture and bonds, shares of other companies.

## **C. Profitability Ratios**

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

### **i) Return on Loan and Advances Ratio**

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

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

### **ii) Return on Total Working Fund Ratio**

Return on total working fund ratio measures the profit earning capacity of the banks by utilizing available resources i.e. total assets. If the bank's well managed and efficiently utilized its working fund, it will get higher return. Maximizing taxes, this in the legal options available will also improve the return. It is computed as:

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

### **iii) Total Interest Earned to Total Working Fund Ratio**

This ratio reflects the extent to which the banks are successful in mobilizing these total assets to acquire income as interest. This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the income as interest. We have,

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

### iii) Total Interest paid to Total Working Fund Ratio

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher interest expenses on total working fund and vice-versa. This ratio is calculated as:

$$\text{Total Interest paid to Total Working fund Ratio} = \frac{\text{Total Interest paid}}{\text{Total Working fund}}$$

## D. Risk Ratios

Generally, risk means uncertainty which lies in the business transaction of investment management. When a firm wants to bear risk and uncertainty, profitability and effectiveness of the firm is increased. This ratio checks the degree of risk involved in the various financial operations. For this study, following risk ratios are used to analyze and interprets the financial data and investment policy.

### i) Liquidity Risk Ratio

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

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

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

## ii) Credit Risk Ratio

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

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

## E. Growth Ratios

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

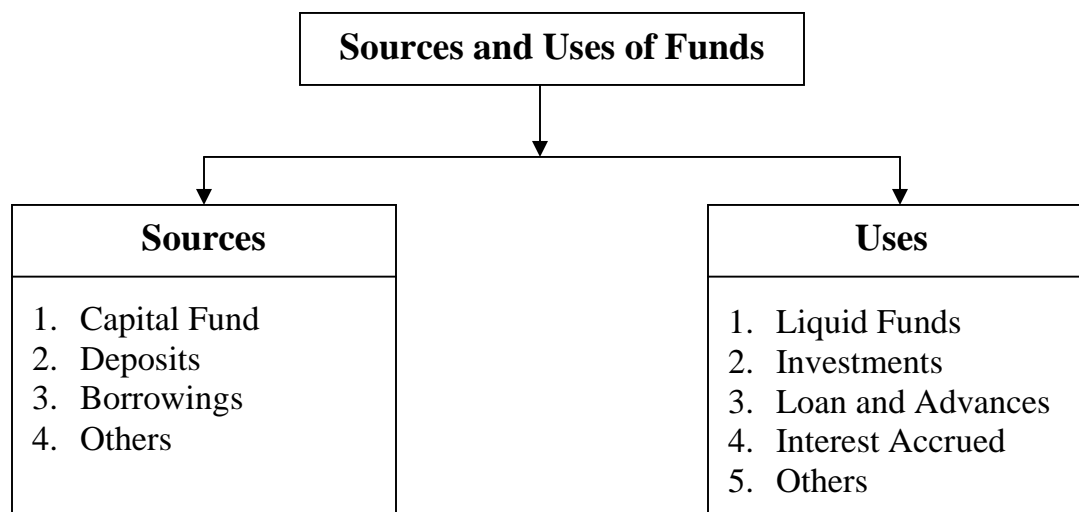
- i) Growth ratio of total deposits
- ii) Growth ratio of total investment
- iii) Growth ratio of loan and advances
- iv) Growth ratio of net profit

## II. Sources and Uses of Funds

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



**Figure: 3.1**  
**Sources and Uses of Fund**



### **III. Cash Flow Analysis**

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

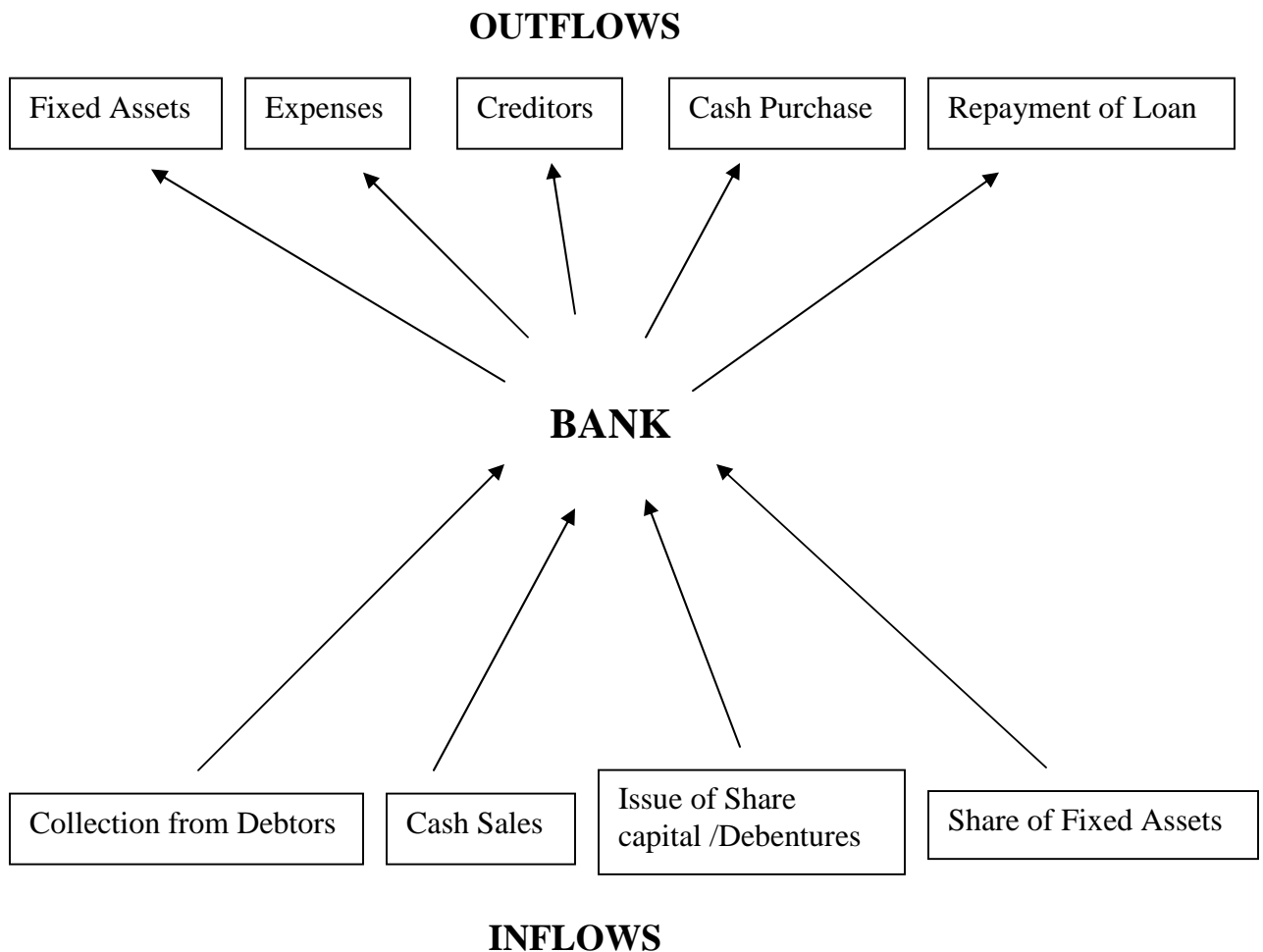
The analysis of events and transactions that affects the cash position of company is termed as cash flow analysis. Cash flow analysis is done through statement of cash flows. A cash flow statement is a statement of company's ability to generate cash from various activities such as **operating, investing, and financing** and their need of cash. It is a statement which shows the inflows and outflows of cash and cash equivalents during the year.<sup>43</sup>

This statement is prepared to know clearly the various items of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis relates to the movement of cash rather than the inflow and outflow of working capital. It summarized the causes of change in cash position between dates of two balance sheets. While preparing cash flow statement, only cash receipts from debtor against credit dates are recognized as the source of cash. Similarly, cash purchases and cash payment to supply for credit purpose is regarded as the use of cash. The

<sup>43</sup> Wagle, Keshab Nath & Dahal, Rewan Kumar, "**Management Accounting**", First Edition, Khanal Publications, Min Bhawan, Kathmandu, 2003, P-11.2

projection of cash flow for near future can be made to determine the availability of cash. This cash balance can be matched with the firm's need for cash during the period and accordingly, arrangements can be made to meet the deficit or invest the surplus cash temporarily. A historical analysis of cash flows provides insight to prepare reliable cash flow projections for the immediate future.

**Figure: 3.2**  
**Flow of Cash in Business**



### 3.6.2 Statistical Tools

In this study, some important statistical tools have been used to present and analyze the data for achieving the objectives. Such as coefficient of correlation

between different variables, trend analysis of important variables as well as hypothesis test (t-statistic) has been used, which are presented below:

- i) Karl Pearson's of Coefficient of Correlation Analysis
- ii) Coefficient of Variation (C.V)
- iii) Standard Deviation (S.D)
- iv) Probable Error (P.E)
- v) Trend Analysis
- vi) Testing of Hypothesis
- vii) T-test

### **i) Karl Pearson's Coefficient of Correlation Analysis**

This statistical tool has been used to analyze, identify and interpret the relationship between two or more variables. It interprets whether two or more variables are correlated positively or negatively. Statistical tool analyses the relationship between those variables and helps the selected banks to make appropriate investment policy regarding to profit maximization and deposit collection; fund mobilization through providing loan and advances.

For the purpose of decision-making, interpretation is based on following term:

- When  $r = 1$ , there is perfect positive correlation.
- When  $r = -1$ , there is perfect negative correlation.
- When  $r = 0$ , there is no correlation.
- When 'r' lies between 0.7 to 0.999 (-0.7 to 0.999), there is a high degree of positive (or negative) correlation.
- When 'r' lies between 0.5 to 0.699, there is moderate degree of correlation.
- When 'r' is less than 0.5, there is low degree of correlation.

Karl Pearson's correlation coefficient has been used to find out the relationship between the following variables:

#### **a) Coefficient of correlation between deposit and loan and advances**

Correlation coefficient between deposits and loan and advances measures the degree of relationship between two variables i.e. X and Y. In this analysis, deposit is independent variables (X) and loan and advances is dependent variables (Y). The main purpose of calculating correlation coefficient is to justify whether the deposits are significantly used in proper way or not and whether there is any relationship between these two variables.

## b) Coefficient of correlation between deposit and total investment

Correlation coefficient between deposit and investment is to measure the degree of relationship between deposit and total investment. In this analysis, deposit is independent variables (X) and total investment is dependent variables (Y).

Karl Pearson's Correlation coefficient(r) can be obtained as:

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

Where,

n = number of observations in series X and Y

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

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

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

$\sum Y^2$  = sum of squared observations in series Y

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

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

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

$$C.V = \frac{\text{Standard deviation } (\sigma)}{\text{Expected Return } (\bar{X})} \times 100$$

## iii) Standard Deviation (S.D)

The standard deviation is an important and widely used measure of dispersion. The measurement of the scatter ness of the mass of figure in a series about an average is known as dispersion. The greater the amount of dispersion, greater the standard deviation. A small standard deviation means a high degree of uniformity

of the observation as well as homogeneity of a series; a large standard deviation means just the opposite it is denoted by the letter † .

$$\text{S.D} (\dagger) = \sqrt{\frac{1}{N} \sum (X - \bar{X})^2}$$

Where,

N = Number of observations

X = Expected return of the historical data

#### iv) Probable Error (P.E)

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

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

Where,

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

r = Correlation coefficient

n = Number of observations

#### v) Trend Analysis

The easiest way to evaluate the performance of a firm is to compare its current ratios with past ratios. When financial ratios over a period of time are compared it is known as the trend analysis. It gives an indication of the direction of change and reflects whether the firm's financial performance has improved, deteriorated or remain constant over time. This type of statistical analysis interprets the trend of deposits, loan and advances, investments and net profit of EBL, HBL, and NIBL from 1998/99 to 2003/2004. It is necessary to calculate the forecasting for next five years till 2008/09.

The projections are based on the following assumptions:

- i) Other things will remain unchanged.
- ii) The bank will run in present position.
- iii) The economy will remain in the present stage.

iv) NRB will not change its guidelines to commercial banks.

The trend values used in this study are presented below:

- a) Trend Analysis of total investment to total deposits ratio
- b) Trend Analysis of loan and advances to deposit ratio

## **vi) Test of Hypothesis**

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

- a) Formulating hypothesis
  - i) Null Hypothesis ( $H_0$ )
  - ii) Alternative Hypothesis ( $H_1$ )
- b) Computing the t- statistic
- c) Fixing the significance level
- d) Finding critical region
- e) Deciding two-tailed or one-tailed test
- f) Decision making

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

**Null Hypothesis ( $H_0$ ):**  $\mu_1 = \mu_2 = \mu_3$  i.e., there is no significant difference between mean ratios of loan and advances to total deposit of HBL, EBL and NIBL.

**Alternative Hypothesis ( $H_1$ ):**  $\mu_1 \neq \mu_2 \neq \mu_3$  i.e., there is significant difference between mean ratios of loans and advances to total deposits of HBL, EBL and NIBL.

## **vii) t- test**

If we draw a large number of small samples i.e. ( $n < 30$ ) and compute the mean for each sample and then plot the frequency distribution of these means, the resulting sampling distribution would be t-test. On these study sample are taken only for seven years i.e. ( $7 < 30$ ).

**Assumptions:**

- a) The present population from which the sample is drawn is normal or approximately normal.
- b) The given sample is drawn by random sampling method.
- c) The population standard deviation ( $\sigma$ ) is not known.

# CHAPTER-IV

## PRESENTATION AND ANALYSIS OF DATA

In this study effort has been made to analyze the collected data by using financial and statistical tools as well as various graphical presentations. Likewise, comparative balance sheet and comparative profit and loss account from the year 2000 to 2006 of HBL, EBL and NIBL are presented in appendices. This chapter is primarily concerned with presentation and analysis of data.

### 4.1 Ratio Analysis

#### 4.1.1 Liquidity Ratios

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

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

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

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

Year	Ratio (%)		
	HBL	EBL	NIBL
2000	6.42	9.11	51.41
2001	8.19	18.25	12.28
2002	6.79	10.84	9.32
2003	9.42	17.02	11.69
2004	9.09	7.84	10.65
2005	8.12	10.40	9.40
2006	6.48	11.25	12.34
<b>Mean(<math>\bar{X}</math>)</b>	<b>7.79</b>	<b>12.10</b>	<b>16.73</b>
<b>S.D. (<math>\dagger</math>)</b>	<b>1.15</b>	<b>2.93</b>	<b>14.20</b>
<b>C.V.</b>	<b>14.76</b>	<b>24.21</b>	<b>84.88</b>

Source: Appendix –I

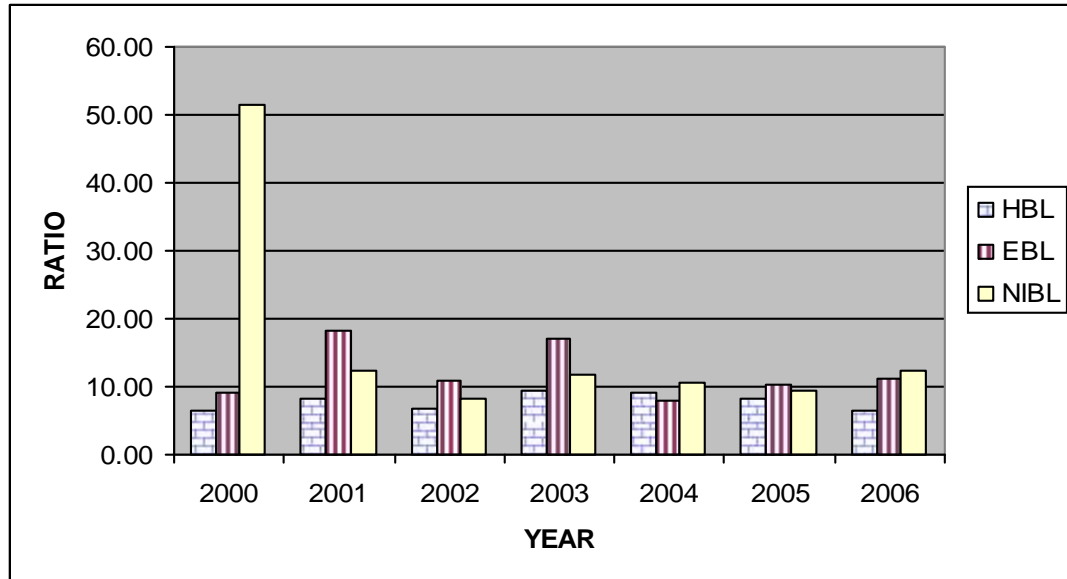


From the above comparative table, cash and bank balance to total deposit ratio of the three banks followed a fluctuating trend. NIBL has maintained the higher average ratio i.e. 30.66% of cash and bank balance to total deposit than HBL and EBL average ratio 8.67% and 15.66% respectively.

The average ratio of NIBL is higher than HBL and EBL. The variability of the ratio is lower in HBL. It states that HBL is more consistent among three banks. Similarly, the variability of the ratio is higher in NIBL among three banks.

This ratio can be presented by the help of diagram, which is shown below:

**Figure: 4.1**  
**Comparative Cash and Bank Balance to Total Deposit Ratios**



#### 4.1.1.2 Cash and Bank Balance to Current Assets

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

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

**Table: 4.2**  
**Comparative Cash and Bank Balance to Current Assets Ratios**

Year	Ratio (%)		
	HBL	EBL	NIBL
2000	5.78	8.35	40.39
2001	8.27	16.53	15.27
2002	8.93	9.32	10.15
2003	11.72	14.54	12.32
2004	10.76	6.72	11.01
2005	9.50	8.97	9.60
2006	7.34	10.21	12.99
<b>Mean( <math>\bar{X}</math> )</b>	<b>8.90</b>	<b>10.66</b>	<b>15.96</b>
<b>S.D. († )</b>	<b>1.86</b>	<b>3.28</b>	<b>10.13</b>
<b>C.V.</b>	<b>20.95</b>	<b>30.74</b>	<b>63.45</b>

**Source: Appendix -I**

From the above comparative table, it reveals that cash and bank balance to current assets ratios of HBL has less fluctuating trend. Standard deviation of HBL is only 1.86 whereas Standard deviation of EBL and NIBL are 3.28 and 10.13. It refers that cash and bank balance to current assets ratio of HBL is less fluctuating than EBL and NIBL.

Similarly, C.V. ratio of HBL is less than that of two banks i.e. 20.95%. It indicates that ratio of HBL is more stable than that of EBL and NIBL.

#### **4.1.1.3 Investment on Government Securities to Current Assets**

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

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

**Table: 4.3**  
**Comparative Investment on Government Securities to Current Assets Ratios**

Year	Ratio (%)		
	HBL	EBL	NIBL
2000	13.54	7.73	0.00
2001	12.81	16.30	8.76
2002	21.52	24.20	6.72
2003	23.69	20.41	5.32
2004	14.90	26.24	17.96
2005	25.79	17.95	12.38
2006	21.98	23.32	12.02
<b>Mean(<math>\bar{X}</math>)</b>	<b>19.18</b>	<b>19.45</b>	<b>9.02</b>
<b>S.D. (<math>\uparrow</math>)</b>	<b>4.90</b>	<b>5.78</b>	<b>5.35</b>
<b>C.V.</b>	<b>26.55</b>	<b>29.73</b>	<b>59.33</b>

**Source: Appendix -I**

The above comparative table shows that HBL and EBL have invested their fund in government securities in fluctuating trend in comparison to NIBL. NIBL has not invested any amount in government securities in the year 2000. EBL has invested more portions of current assets in government securities i.e. 26.24% in the year 2004 in comparison to HBL and NIBL during the study period. And we can figure out that NIBL ratio is in increasing trend than other two.

The mean ratio of EBL is the highest i.e.19.45% than that of HBL and NIBL. Coefficient of variation of HBL is 26.55%. It seems that HBL is more consistent to make investment in government securities than EBL and NIBL.

### **4.1.2 Assets Management Ratios**

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

### 4.1.2.1 Loan and Advances to Total Deposit

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

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

**Table: 4.4**  
**Comparative Loan and Advances to Total Deposit Ratios**

Year	Ratio (%)		
	HBL	EBL	NIBL
2000	51.45	74.25	69.41
2001	51.42	65.71	57.07
2002	47.87	72.23	61.43
2003	47.61	73.32	72.86
2004	54.30	72.97	61.87
2005	50.07	75.45	71.04
2006	55.27	71.01	67.50
<b>Mean( <math>\bar{X}</math> )</b>	<b>51.14</b>	<b>72.13</b>	<b>65.88</b>
<b>S.D. († )</b>	<b>2.71</b>	<b>2.93</b>	<b>5.40</b>
<b>C.V.</b>	<b>5.30</b>	<b>4.06</b>	<b>8.19</b>

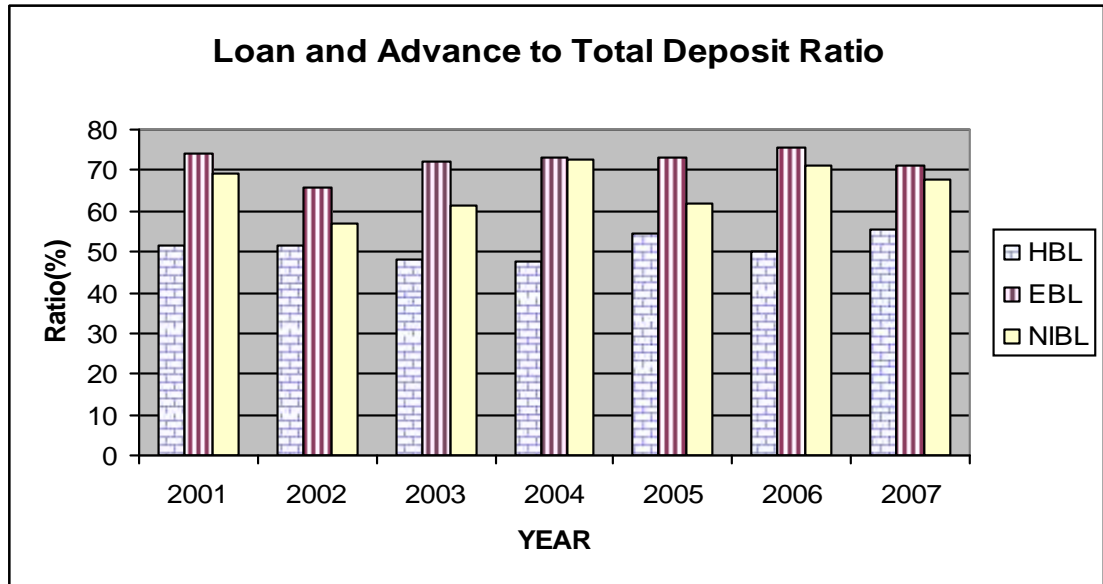
**Source: Appendix -I**

The above comparative table shows that these three banks have mobilized their collected deposits in fluctuating trend as loan and advances during the study period. The highest ratio of loan and advances to total deposit of HBL, EBL and NIBL are 55.27%, 75.45% and 72.86% respectively.

HBL has mobilized 51.14% of its collected deposit in loan and advances which is less than that of EBL and NIBL in average. Coefficient of variation of EBL is 4.06%, which shows that EBL is more stable than HBL and NIBL in mobilizing collected deposit.

This ratio can be presented by the help of graph:

**Figure: 4.2**  
**Loan and Advance to Total Deposit Ratio**



#### 4.1.2.2 Total Investment to Total Deposit

This ratio is computed by using following formula:

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

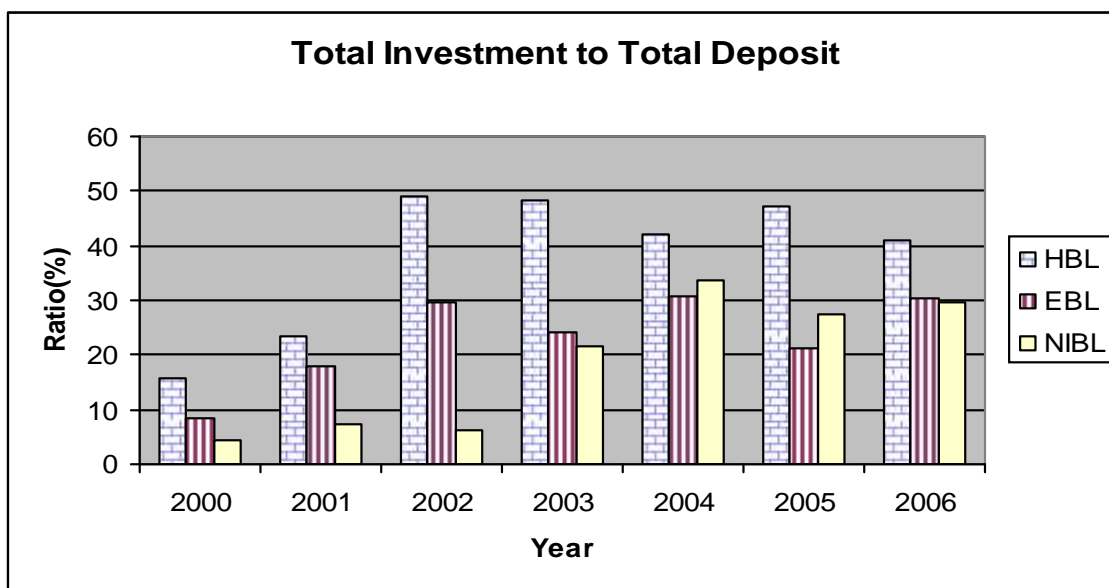
**Table: 4.5**  
**Comparative Total Investment to Total Deposit Ratios**

Year	Ratio (%)		
	HBL	EBL	NIBL
2000	15.78	8.51	4.26
2001	23.29	18.07	7.35
2002	49.18	29.79	6.28
2003	48.44	24.15	21.52
2004	42.22	30.80	33.51
2005	47.12	21.08	27.60
2006	41.10	30.43	29.60
<b>Mean (<math>\bar{X}</math>)</b>	<b>38.18</b>	<b>23.26</b>	<b>15.59</b>
<b>S.D. (<math>\dagger</math>)</b>	<b>12.26</b>	<b>7.57</b>	<b>11.44</b>
<b>C.V.</b>	<b>32.11</b>	<b>32.54</b>	<b>61.57</b>

Source: Appendix -I

From the above comparative table, it can be concluded that all three banks have the ratios of fluctuating trend during the study period. In average HBL has invested more amount of its total deposit in comparison to EBL and NIBL i.e. 38.18%. The coefficient of variation of HBL is 32.11%. It indicates that HBL is more consistent to make investment of total deposits than EBL and NIBL.

**Figure: 4.3**  
**Total Investment to Total Deposit**



#### 4.1.2.3 Loan and Advances to Total Working Fund

Loan and advances to working fund ratio can be obtained dividing loan and advances amount by total working fund. That is formulized as,

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

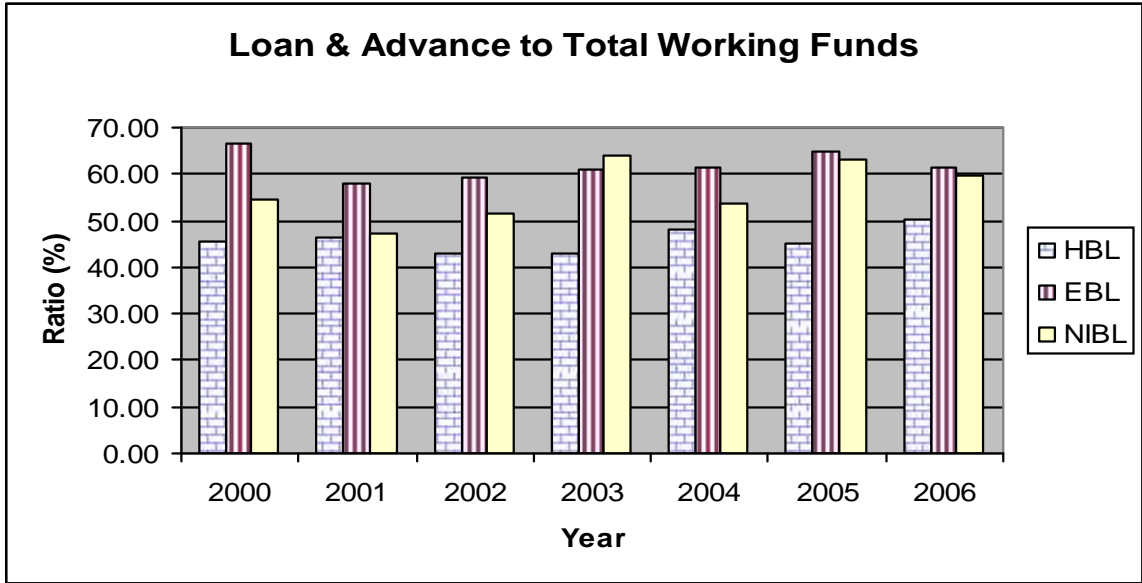
**Table: 4.6**  
**Comparative Loan and Advances to Total Working Fund Ratios**

Year	Ratio (%)		
	HBL	EBL	NIBL
2000	45.54	66.54	54.54
2001	46.23	57.77	47.37
2002	43.12	59.20	51.56
2003	42.82	60.96	64.03
2004	48.26	61.37	53.81
2005	44.99	64.94	64.04
2006	50.23	61.41	59.90
<b>Mean(<math>\bar{X}</math>)</b>	<b>45.88</b>	<b>61.71</b>	<b>56.46</b>
<b>S.D. (†)</b>	<b>2.47</b>	<b>2.84</b>	<b>5.90</b>
<b>C.V.</b>	<b>5.38</b>	<b>4.60</b>	<b>10.45</b>

**Source: Appendix -I**

Above table describes the loan and advances to total working fund ratio of HBL, EBL and NIBL in fluctuating trend. During the study period HBL, EBL and NIBL have highest ratio of 50.23%, 66.54% and 64.03% in year 2006, 2000 and 2003 respectively. On average, EBL maintains highest ratio of 61.71% than HBL and NIBL of 45.88% and 56.46% respectively. The coefficient of variation of EBL is more consistent than HBL and NIBL because it has the ratio of lowest variation i.e.4.60%.

**Figure: 4.4**  
**Loan & Advance to Total Working Funds**



#### **4.1.2.4 Investment on Government Securities to Total Working Fund**

Investment on government securities to working fund ratio shows how much part of total investment is there on government securities. It can be obtained by:

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



**Table: 4.7**  
**Comparative Investment on Government Securities to Total Working Fund Ratios**

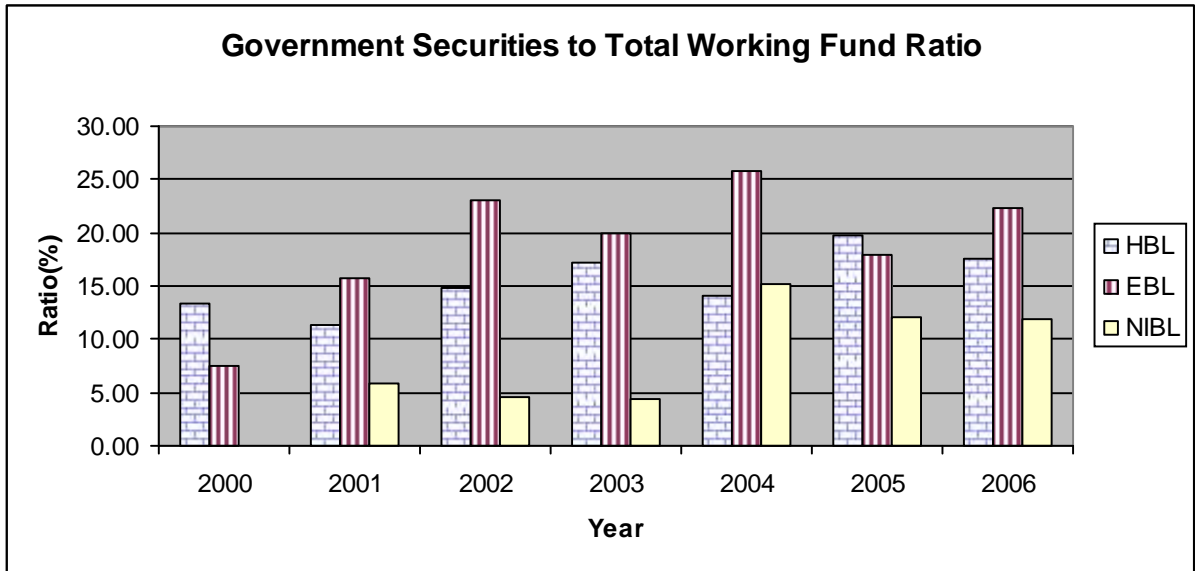
Year	Ratio (%)		
	HBL	EBL	NIBL
2000	13.32	7.55	0.00
2001	11.41	15.82	5.85
2002	14.74	23.07	4.51
2003	17.12	19.86	4.44
2004	14.02	25.73	15.10
2005	19.81	17.90	12.13
2006	17.65	22.24	11.83
<b>Mean(<math>\bar{X}</math>)</b>	<b>15.44</b>	<b>18.88</b>	<b>7.69</b>
<b>S.D. (†)</b>	<b>2.67</b>	<b>5.55</b>	<b>5.00</b>
<b>C.V.</b>	<b>17.32</b>	<b>29.38</b>	<b>64.98</b>

**Source: Appendix-I**

Above comparative table of Investment on government securities to Total working fund ratio shows the average ratio of EBL is higher than HBL and NIBL i.e. 18.88%. It refers the EBL has invested more in government securities of its Total working fund. HBL has less fluctuation in investment during study period.

Co efficient of variance seems more constant of HBL than other two bank EBL and NIBL i.e. 17.32%.

**Figure: 4.5**  
**Government Securities to Total Working Fund Ratio**



#### **4.1.2.5 Investment on Shares and Debentures to Total Working Fund**

This ratio can be obtained dividing shares and debentures by total working fund. It is calculated as:

$$\text{Inv. on Shares and Debn. to TWF Ratio} = \frac{\text{Inv. on Shares and Debn.}}{\text{Total Working Fund}}$$

**Table: 4.8**  
**Comparative Investment on Shares and Debentures to Total Working Fund Ratios**

Year	Ratio (%)		
	HBL	EBL	NIBL
2000	5.98	7.33	3.34
2001	5.48	7.11	2.47
2002	1.66	2.57	2.79
2003	1.47	2.12	1.54
2004	1.38	1.78	1.05
2005	0.14	0.17	0.11
2006	0.13	0.12	0.08
<b>Mean( <math>\bar{X}</math> )</b>	<b>2.32</b>	<b>3.03</b>	<b>1.63</b>
<b>S.D. († )</b>	<b>2.24</b>	<b>2.79</b>	<b>1.20</b>
<b>C.V.</b>	<b>96.34</b>	<b>92.04</b>	<b>73.64</b>

**Source: Appendix -I**

From the above analysis, investment on shares and debentures to total working fund ratio of HBL, EBL and NIBL are in fluctuating trend during the seven years study period. Also we can find out seeing seven years data of each bank is the ratio of investment is in decreasing trend. In 2000 each bank has highest ratio i.e. 5.98 %, 7.33% and 3.34% whereas at 2006 each bank has lower level i.e. 0.13%, 0.12% and 0.08% of HBL, EBL and NIBL respectively. The Coefficient of variation shows more stable ratio of NIBL than HBL and EBL.

### **4.1.3 Profitability Ratios**

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

#### **4.1.3.1 Return on Loan and Advances**

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

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

**Table: 4.9**  
**Comparative Return on Loan and Advances Ratios**

Year	Ratio (%)		
	HBL	EBL	NIBL
2000	2.76	1.82	3.51
2001	3.11	2.32	2.32
2002	2.64	2.16	2.23
2003	2.12	1.92	2.02
2004	2.20	2.44	2.14
2005	2.48	0.93	2.29
2006	3.12	1.11	2.74
<b>Mean( <math>\bar{X}</math> )</b>	<b>2.63</b>	<b>1.81</b>	<b>2.46</b>
<b>S.D. († )</b>	<b>0.37</b>	<b>0.54</b>	<b>0.47</b>
<b>C.V.</b>	<b>14.03</b>	<b>29.87</b>	<b>19.27</b>

**Source: Appendix-I**

In the above analysis the return on loan and advances of HBL, EBL and NIBL have the ratio of fluctuating trend. During the study period NIBL has the highest ratio of 3.51% than that of HBL and EBL i.e. 3.12% and 2.44% respectively. In average NIBL has the highest mean ratio of 2.46% where as HBL and EBL has the mean ratio of 2.63% and 1.81%. Coefficient of variation indicates that EBL has no more variance between seven years study period than HBL and NIBL.

#### **4.1.3.2 Return on Total Working Fund**

Return on total working fund ratio is computed as:

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

**Table: 4.10**  
**Comparative Return on Total Working Fund Ratios**

Year	Ratio (%)		
	HBL	EBL	NIBL
2000	1.26	1.21	1.91
2001	1.44	1.34	1.10
2002	1.14	1.28	1.15
2003	0.91	1.17	1.30
2004	1.06	1.50	1.15
2005	1.12	0.60	1.44
2006	1.57	0.68	1.64
<b>Mean(<math>\bar{X}</math>)</b>	<b>1.21</b>	<b>1.11</b>	<b>1.38</b>
<b>S.D. (<math>\dagger</math>)</b>	<b>0.21</b>	<b>0.31</b>	<b>0.28</b>
<b>C.V.</b>	<b>17.34</b>	<b>28.30</b>	<b>20.11</b>

**Source: Appendix-I**

During the study period, NIBL has the highest ratio of 1.91% than that of HBL and EBL, i.e. 1.57% and 1.34%. HBL has the lowest ratio of 0.91% in year 2003; EBL and NIBL have the lowest ratio of 0.60% and 1.10% in year 2005 and 2001 respectively.

NIBL has highest return on total working fund i.e. 1.38% among three banks in average. In case of coefficient of variation, HBL has the lowest C.V. of 17.34%, than that of EBL and NIBL i.e. 28.30% and 20.11% respectively.

### **4.1.3.3 Total Interest Earned to Total Working Fund**

This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the income as interest. We have,

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

**Table: 4.11**  
**Comparative Total Interest Earned to Total Working Fund Ratios**

Year	Ratio (%)		
	HBL	EBL	NIBL
2000	6.52	7.84	7.37
2001	6.80	7.40	6.82
2002	5.56	6.65	6.56
2003	5.14	6.46	5.10
2004	5.03	6.86	5.52
2005	5.24	6.13	5.52
2006	5.58	5.66	5.50
<b>Mean( <math>\bar{X}</math> )</b>	<b>5.70</b>	<b>6.71</b>	<b>6.06</b>
<b>S.D. († )</b>	<b>0.64</b>	<b>0.68</b>	<b>0.79</b>
<b>C.V.</b>	<b>11.28</b>	<b>10.20</b>	<b>13.04</b>

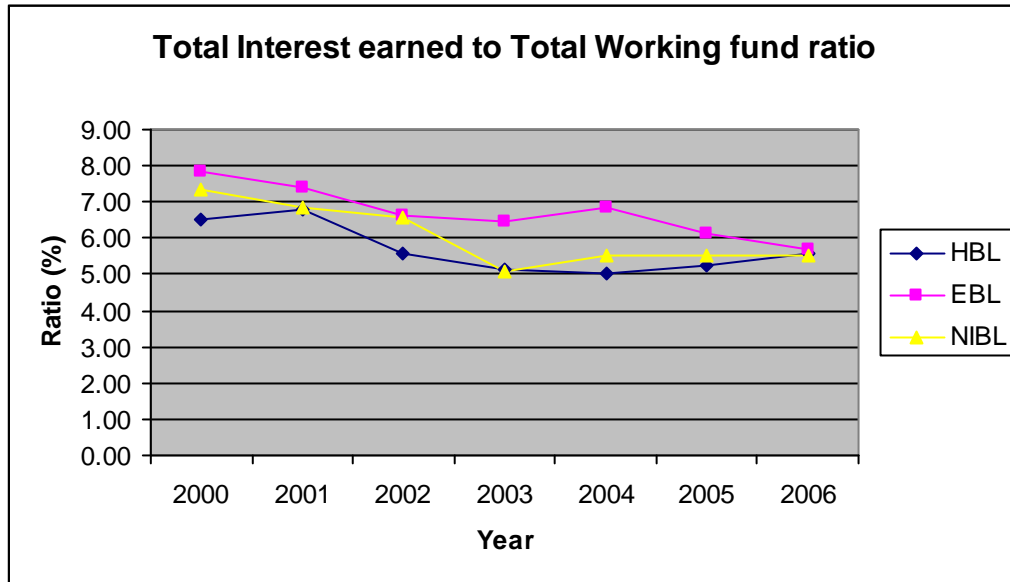
**Source: Appendix-I**

The above comparison report shows the EBL has highest interest earned to total working fund ratio of 7.84% in the year 2000 and lowest ratio of 5.66% in the year 2006. Likewise HBL and NIBL have the highest ratio of 6.80% and 7.37% in year 2001 and 2000 respectively.

EBL has 6.71% mean ratio, but HBL and NIBL have only 5.70% and 6.06% respectively. The coefficient of variation of EBL is less than HBL and NIBL i.e. 10.20%. It indicates that interest earning power of EBL is more consistent than HBL and NIBL.

This ratio can be presented by the help of graph as following:

**Figure: 4.6**  
**Total Interest Earned to Total Working Fund Ratio**



#### 4.1.3.4 Total Interest paid to Total Working Fund

Total interest paid to total working fund ratio is calculated as:

$$\text{Total Interest paid to Total Working fund Ratio} = \frac{\text{Total Interest paid}}{\text{Total Working fund}}$$

**Table: 4.12**  
**Comparative Total Interest paid to Total Working Fund Ratios**

Year	Ratio (%)		
	HBL	EBL	NIBL
2000	3.74	5.21	3.05
2001	3.76	4.54	3.18
2002	6.80	3.85	2.62
2003	2.37	3.82	2.10
2004	1.98	3.30	2.46
2005	2.04	2.55	2.21
2006	2.23	2.52	2.30
<b>Mean( <math>\bar{X}</math> )</b>	<b>3.29</b>	<b>3.68</b>	<b>2.56</b>
<b>S.D. (†)</b>	<b>1.59</b>	<b>0.92</b>	<b>0.39</b>
<b>C.V.</b>	<b>48.48</b>	<b>24.91</b>	<b>15.06</b>

Source: Appendix -I

NIBL has more consistent ratio in interest paid to total working fund during the whole study period than other two banks. Standard Deviation of NIBL is only 0.39 whereas HBL and EBL has 1.59 and 0.92 respectively.

Same way average ratio of NIBL i.e. 2.56 is lower than HBL and EBL.. HBL has 6.80% highest ratio in the year 2002 and lowest ratio of 1.98% in the year 2004. And EBL and NIBL have the highest ratio of 5.21% and 3.18% in year 2000 and 2001 respectively.

The coefficient of variation of NIBL is more stable than HBL and NIBL i.e. 15.06%.

#### 4.1.4 Risk Ratios

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

##### 4.1.4.1 Liquidity Risk Ratio

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

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

**Table: 4.13**  
**Comparative Liquidity Risk Ratios**

Year	Ratio (%)		
	HBL	EBL	NIBL
2000	6.42	9.11	51.41
2001	8.19	18.25	12.28
2002	6.79	10.84	9.32
2003	9.42	17.02	11.69
2004	9.09	7.84	10.65
2005	8.12	10.40	9.40
2006	6.48	11.25	12.34
<b>Mean(<math>\bar{X}</math>)</b>	<b>7.79</b>	<b>12.10</b>	<b>16.73</b>
<b>S.D. (<math>\dagger</math>)</b>	<b>1.15</b>	<b>3.67</b>	<b>14.21</b>
<b>C.V.</b>	<b>14.73</b>	<b>30.33</b>	<b>84.93</b>

Source: Appendix-I



The above table shows that HBL has highest cash and bank balance to total deposit ratio of 9.42% in the year 2003 and lowest ratio of 6.42% on 2000, whereas EBL and NIBL have highest ratio of 18.25% and 51.41% on 2001 and 2000 respectively. Likewise EBL and NIBL has lowest ratio of 7.84% and 9.32% in the year 2004 and 2002 respectively.

The mean ratio of HBL is lower than that of EBL and NIBL i.e. 7.79 % < 12.10 % < 16.73%. It means that HBL has maintained the lower liquidity risk ratio which means it operates with higher risk for higher profit. The coefficient of variation of NIBL i.e. 84.93% is highest than that of HBL and EBL where as HBL and EBL have 14.73% and 30.33%. It shows that the ratio of NIBL is more variable than of HBL and EBL.

#### 4.1.4.2 Credit Risk Ratio

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

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

**Table: 4.14**  
**Comparative Credit Risk Ratios**

Year	Ratio (%)		
	HBL	EBL	NIBL
2000	59.51	74.16	54.87
2001	67.69	73.66	53.47
2002	87.41	83.61	56.83
2003	86.39	81.03	82.95
2004	85.78	87.28	82.95
2005	64.95	83.00	75.28
2006	68.01	83.77	71.81
<b>Mean( <math>\bar{X}</math> )</b>	<b>74.25</b>	<b>80.93</b>	<b>68.31</b>
<b>S.D. († )</b>	<b>10.95</b>	<b>4.76</b>	<b>12.08</b>
<b>C.V.</b>	<b>14.75</b>	<b>5.88</b>	<b>17.69</b>

Source: Appendix-I

The above comparative table shows that HBL, EBL and NIBL have the credit risk ratio in fluctuating trend. First four year the ratios of all banks are in increasing trend and thereafter ratio is decreasing trends. HBL, EBL and NIBL have the highest ratio of 87.41%, 87.28% and 82.95% in the year 2002, 2004 and 2003/04 respectively whereas they have lowest ratio of 59.51%, 73.66% and 53.47% in year 2000, 2001 and 2001 respectively.

On the basis of mean ratio, it can be said that the credit risk of NIBL is lowest than that of HBL and EBL i.e. 68.31% < 74.25% and 80.93%.

NIBL has the highest coefficient of variation than that of HBL and EBL i.e. 17.69% which shows more variable ratios of NIBL.

### 4.1.5 Growth Ratios

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

#### 4.1.5.1 Growth Ratio of Total Deposits

**Table: 4.15**  
**Growth Ratio of Total Deposits**

(Rs. in million)

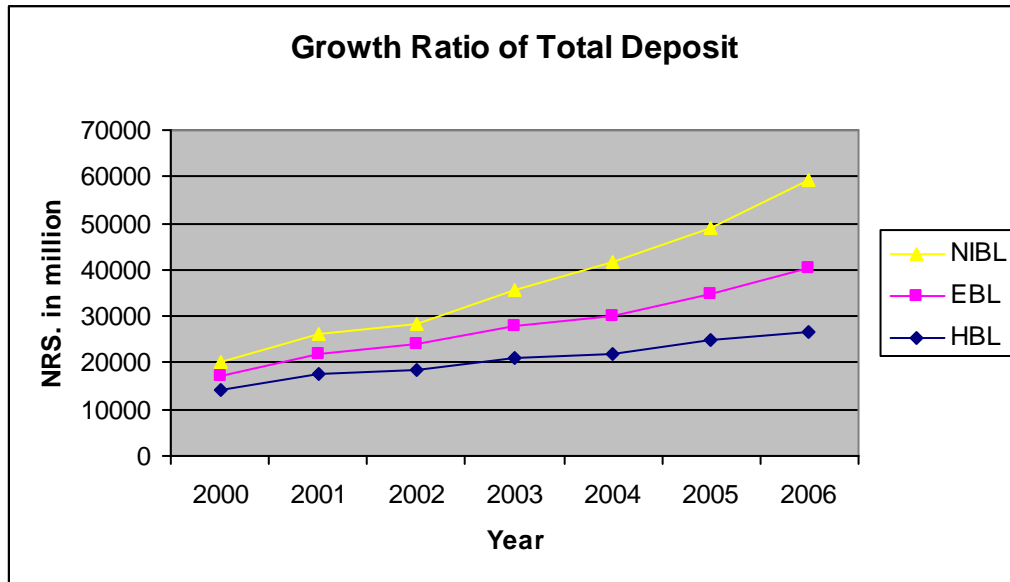
Bank s	Total Deposits							Growth Rate (%)
	2000	2001	2002	2003	2004	2005	2006	
<b>HBL</b>	14043.1 0	17532.4 0	18619.3 7	21007.3 7	22010.3 3	24814.0 1	26490.8 5	<b>11.16</b>
<b>EBL</b>	3057.43	4574.51	5466.61	6694.95	8063.90	10097.6 9	13802.4 4	<b>28.56</b>
<b>NIBL</b>	2983.28	4256.21	4174.76	7922.75	11524.6 8	14255	18927	<b>36.06</b>

**Source: Appendix-II**

The table presented above shows that HBL and EBL are increasing their deposit collection during seven years study period. But NIBL total deposits are in fluctuating trend. The growth ratio of HBL, EBL and NIBL are 11.16%, 28.56% and 36.06% respectively. The growth ratio of total deposits of HBL seems lower than EBL and NIBL.

Growth ratio of total deposit of HBL, EBL and NIBL are also shown in the following line chart.

**Figure: 4.7**  
**Growth Ratio of Total Deposit**



#### 4.1.5.2 Growth Ratio of Total Investment

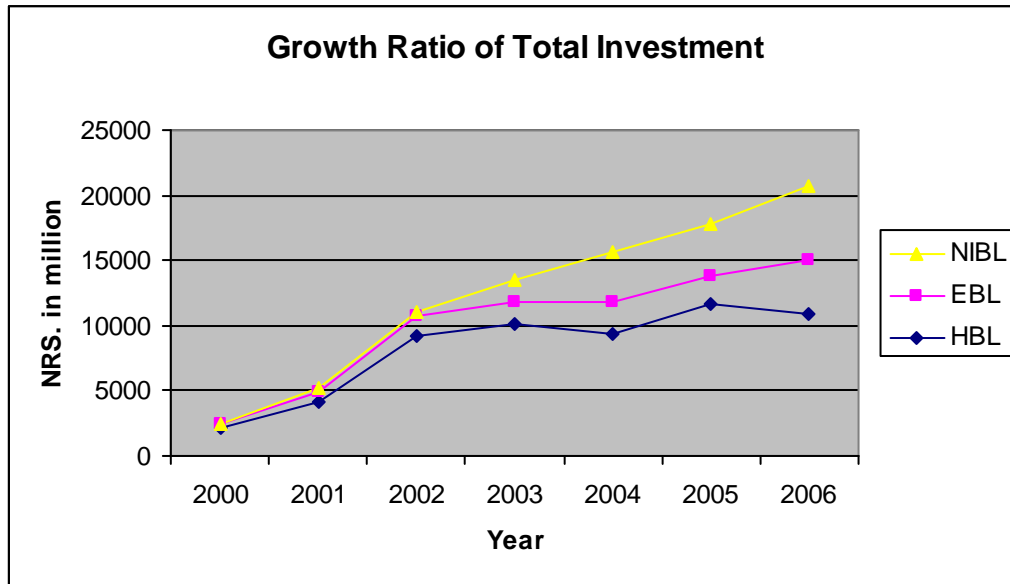
**Table: 4.16**  
**Growth Ratio of Total Investment**

Banks	Total Investment							Growth Rate (%)
	2000	2001	2002	2003	2004	2005	2006	
<b>HBL</b>	2216.41	4083.00	9157.00	10175.44	9292.10	11692.34	10889.03	<b>30.38</b>
<b>EBL</b>	260.10	826.70	1628.50	1616.50	2483.50	2128.93	4200.51	<b>58.98</b>
<b>NIBL</b>	12.69	312.70	262.00	1705.24	3862.48	3934	5603	<b>175.95</b>

The above table shows that EBL has increased its investment from the year 2000 to 2006. HBL, EBL and NIBL have the growth rate of 30.38%, 58.98% and 175.95% respectively. Among them NIBL has the highest growth rate than HBL and EBL.

It can also be presented with the help of line chart as following:

**Figure: 4.8**  
**Growth Ratio of Total Investment**



#### 4.1.5.3 Growth Ratio of Loan and Advances

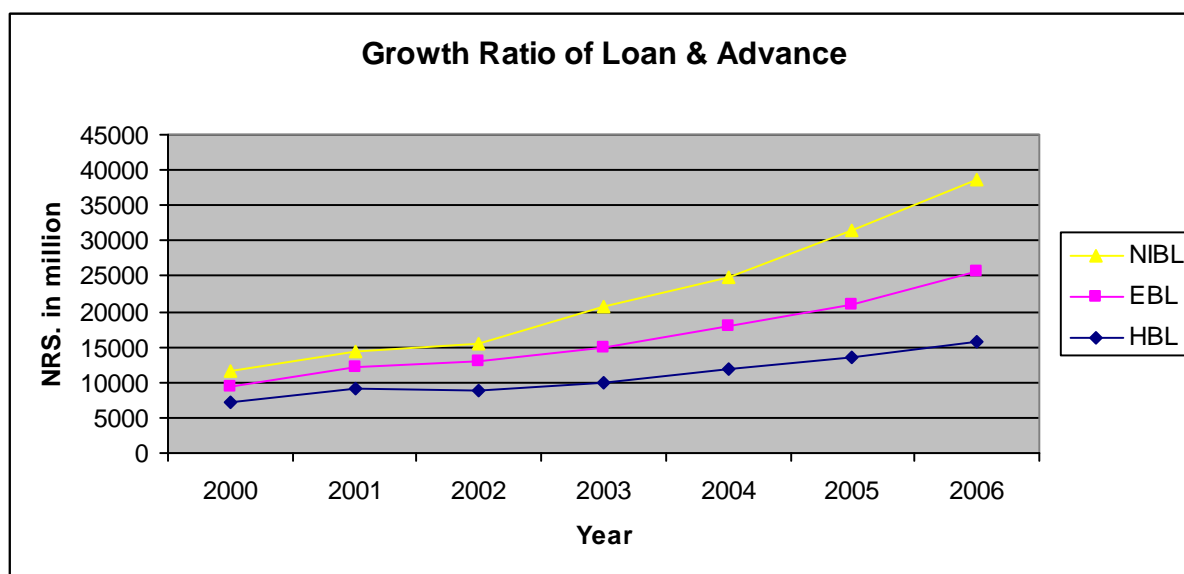
**Table: 4.17**  
**Growth Ratio of Loan and Advances**

Banks	Year (Loan and Advances)							Growth Rate (%)
	2000	2001	2002	2003	2004	2005	2006	
<b>HBL</b>	7224.73	9015.35	8913.73	10001.85	11951.87	13451.68	15761.98	<b>13.88</b>
<b>EBL</b>	2270.18	3005.76	3948.48	4908.46	5884.12	7618.67	9801.30	<b>27.61</b>
<b>NIBL</b>	2070.68	2429.03	2564.43	5772.14	7130.13	10453	13178	<b>36.13</b>

The above table describes the growth ratio of loan and advances of HBL, EBL and NIBL under seven years study period. The table shows the high growth ratio of NIBL 36.13% and low growth ratio of HBL 13.88%. But EBL has the medium growth ratio i.e. 27.61%.

Growth ratio of loan and advances of HBL, EBL and NIBL are also shown in the following line chart.

**Figure: 4.9**  
**Growth Ratio of Loan & Advance**



#### 4.1.5.4 Growth Ratio of Net Profit

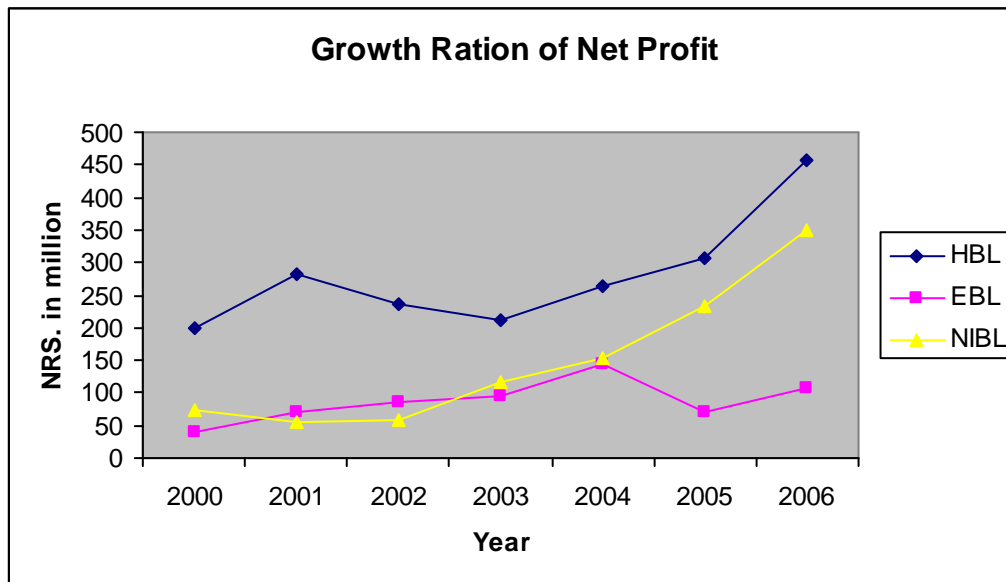
**Table: 4.18**  
**Growth Ratio of Net Profit**

Banks	Year (Net Profit)							Growth Rate (%)
	2000	2001	2002	2003	2004	2005	2006	
HBL	199.38	280.69	235.02	212.12	263.05	308.27	457.46	<b>14.84</b>
EBL	41.27	69.70	85.33	94.17	143.57	70.53	108.64	<b>17.51</b>
NIBL	72.66	56.39	57.09	116.82	152.67	232	350	<b>29.96</b>

The above table represents the growth ratio of net profit of HBL, EBL and NIBL during seven years study period. It shows that NIBL has the highest ratio of 29.96% and HBL has the lowest ratio of 14.84%.

The growth ratio of net profit is also shown by the help of line chart which is shown below:

**Figure: 4.10**  
**Growth Ratio of Net Profit**



## 4.2 Correlation Analysis

Correlations between the important variables are analyzed under this heading.

### 4.2.1 Analysis of Correlation Coefficient between Deposits and Total Investment

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

**Table: 4.19**  
**Correlation Coefficient between Deposits and Total Investment**

Banks	Base of Evaluation			
	R	R <sup>2</sup>	P.E.	6×P.E.
HBL	0.970	0.941	0.0082	0.489
EBL	0.997	0.994	0.0015	0.009
NIBL	0.988	0.975	0.006	0.038

Source: Appendix –III

From the above table, it is found that coefficient of correlation between deposits and total investment of EBL is 0.997 i.e. high degree of positive correlation between these two variables. And the value of coefficient of determination ( $R^2$ ) is also 0.994 which means 99.4% of investment decision is depend upon deposit and only 0.6% investment is depend upon other variables. Similarly probable error (P.E.) is 0.0015 and 6P.E. is 0.009 which shows that 'r' is highly greater than 6P.E. Therefore it reveals that relationship between deposit and investment is significant.

Likewise in case of HBL, coefficient of correlation between investment and deposit is 0.970 i.e. there is high degree of positive correlation between two variables. Coefficient of determination ( $R^2$ ) is 0.941, which means 94.1% of investment decision is depend upon deposit and only 5.90% investment is depend on other variables. And its P.E. is 0.0082 and similarly 6P.E. is 0.489 which is lower than 'r' i.e. 0.970. It means correlation of coefficient between deposit and Investment of HBL is significant though there is positive relationship between them.

Similarly, coefficient of correlation of NIBL is 0.988 i.e. there is high degree of positive correlation between two variables. Coefficient of determination ( $R^2$ ) is 0.975, which means 97.5% of investment decision is depend upon deposit and only 2.5% investment is depend on other variables. And P.E. is 0.006 and 6P.E. is 0.038 which is lower than 'r' i.e. 0.988. It means correlation of coefficient between deposit and investment of NIBL is not significant

#### **4.2.2 Analysis of Correlation Coefficient between Deposits and Loan and Advances**

The following table describes the relationship between deposit and loan and advances of HBL, EBL and NIBL with comparatively under seven years study period. In the following case, deposit is independent variables(X) and loan and advances is dependent variables(Y).

**Table: 4.20**  
**Correlation Coefficient between Deposits and Loan and Advances**

Banks	Base of Evaluation			
	R	R <sup>2</sup>	P.E.	6×P.E.
HBL	0.970	0.941	0.008	0.049
EBL	0.997	0.994	0.001	0.008
NIBL	0.988	0.975	0.006	0.036

**Source: Appendix –III**

From the above table, we can find that the coefficient of correlation between deposit and loan and advances value of ‘r’ of HBL, EBL and NIBL are 0.970, 0.997 and 0.988 respectively. This shows the positive relationship between these two variables i.e. loan and advances and deposits. By considering coefficient of determination (R<sup>2</sup>), the value of R<sup>2</sup> is 0.941 in case of HBL, 0.994 in case of EBL and 0.975 in case of NIBL.

The value of R<sup>2</sup> of HBL is 0.941, which means 94.1% of loan and advances decision is depend upon deposit and only 5.90% loan and advances depend upon other variables. The value of R<sup>2</sup> of EBL is 0.994 which means that 99.4% of loan and advances decision is depend upon deposit and only 0.60% loan and advances depend upon other variables. Similarly, the value of R<sup>2</sup> of NIBL is 0.975, which means 97.5% of loan and advances decision is depend upon deposit and only 2.50% loan and advances depend upon other variables.

By considering the probable error (P.E.), the value of R<sup>2</sup> is less than the 6 times of P.E., i.e. 0.941>0.049, 0.994>0.008 and 0.975>0.36 which indicates that there is significant relationship between deposits and loan and advances.

### **4.3 Trend Analysis**

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

Under this topic, an effort has been made to calculate the trend values of total investment to total deposit ratio of HBL, EBL and NIBL with comparatively under seven years study period and projects the trend for next five years.

The following table describes the trend values of total investment to total deposit ratio of HBL, EBL and NIBL for twelve years.



**Table: 4.21**  
**Trend Values of Total Investment to Total Deposit Ratio of HBL, EBL and NIBL (2000-2011)**

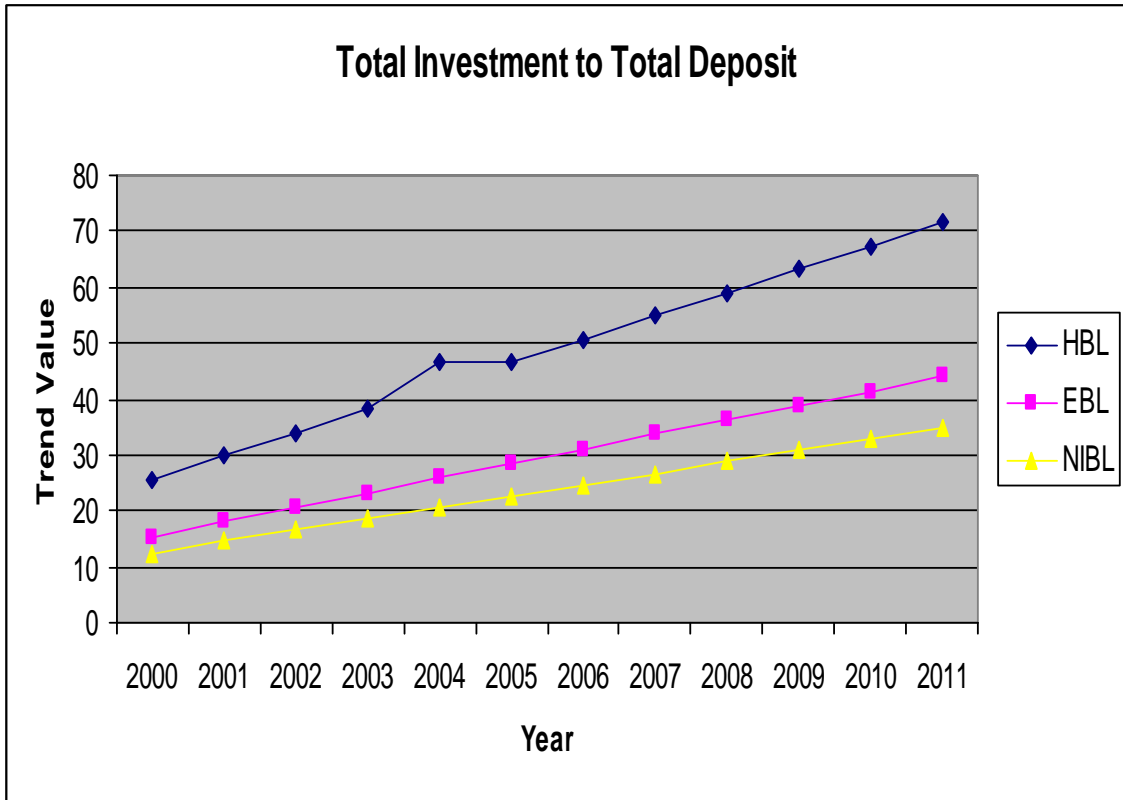
Years	Banks (Trend Value)		
	HBL	EBL	NIBL
2000	25.65	15.46	12.50
2001	29.82	18.06	14.53
2002	33.99	20.66	16.56
2003	38.16	23.26	18.59
2004	46.39	25.86	20.62
2005	46.50	28.46	22.65
2006	50.67	31.06	24.68
2007	54.84	33.66	26.71
2008	59.01	36.26	28.74
2009	63.18	38.86	30.77
2010	67.35	41.46	32.80
2011	71.52	44.06	34.83

**Source: Appendix-IV**

From the above comparative table, it has been found that the total investment to total deposit ratios of all banks are in increasing trend. Other things remaining the same, the ratio of total investment to total deposits of HBL, EBL and NIBL will be 71.52, 44.06 and 34.83 respectively in the year ended 2011.

Trend Line of Total Investment to Total Deposit Ratio of HBL, EBL and NIBL is shown below:

**Figure: 4.11**  
**Total Investment to Total Deposit**



### **4.3.2 Trend Analysis of Loan and Advances to Total Deposits Ratio**

Under this topic an attempt has been made to analyze the trend of loan and advances to total deposits ratio of HBL, EBL and NIBL with comparatively under seven years study period and projects the trend for next five years.

The following table describes the trend values of loan and advances to total deposit ratio of HBL, EBL and NIBL for twelve years.

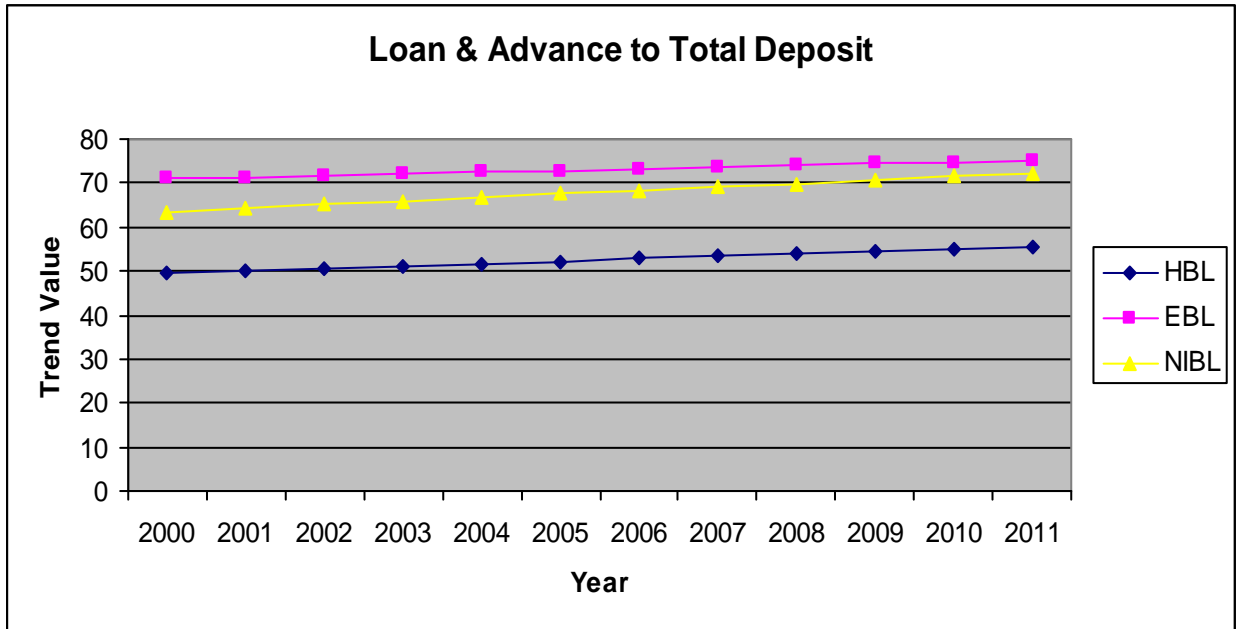
**Table: 4.22**  
**Trend Values of Loan and Advances to Total Deposit Ratio of HBL, EBL and NIBL (2000-2009)**

Years	Banks (Trend Value)		
	HBL	EBL	NIBL
2000	49.51	71	63.45
2001	50.06	71.37	64.26
2002	50.60	71.75	65.07
2003	51.14	72.12	65.88
2004	51.68	72.50	66.69
2005	52.23	72.87	67.50
2006	52.77	73.25	68.31
2007	53.31	73.65	69.12
2008	53.85	74.00	69.93
2009	54.40	74.37	70.73
2010	54.94	74.75	71.54
2011	55.48	75.12	72.35

From the above comparative table, it has been found that the loan and advances to total deposits ratio of HBL, EBL and NIBL are in increasing trend. Other things remaining the same, the loan and advances to total deposit of HBL will be 55.48 where as EBL and NIBL will be 75.12 and 72.35 respectively in the year 2011.

Trend Line of Loan and Advances to Total Deposit Ratio of HBL, EBL and NIBL is shown below:

**Figure: 4.12**  
**Loan & Advance to Total Deposit**



#### 4.4 Test of Hypothesis

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

##### 4.4.1 Test of Hypothesis on Loans and Advances to Total Deposit Ratio

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

**Table: 4.23**  
**Test of Hypothesis on Loans and Advances to Total Deposit ratios between HBL, EBL and NIBL**

S.N.	Fiscal Year	HBL			EBL			NIBL		
		X <sub>1</sub>	x <sub>1</sub>	X <sub>1</sub> <sup>2</sup>	X <sub>2</sub>	x <sub>2</sub>	x <sub>2</sub> <sup>2</sup>	X <sub>3</sub>	x <sub>3</sub>	x <sub>3</sub> <sup>2</sup>
1	2000	51.45	0.31	0.10	74.25	2.12	4.49	69.41	3.53	12.46
2	2001	51.42	0.28	0.08	65.71	-6.42	41.22	57.07	-8.81	77.62
3	2002	47.87	-3.27	10.69	72.23	0.10	0.01	61.43	-4.45	19.80
4	2003	47.61	-3.53	12.69	73.32	1.19	1.42	72.86	6.98	48.72
5	2004	54.30	3.16	9.99	72.97	0.84	0.71	61.87	-4.01	16.08
6	2005	50.07	-1.07	1.14	75.45	3.32	11.02	71.04	5.16	26.63
7	2006	55.27	4.03	17.06	71.01	-1.12	1.25	67.50	1.62	2.62
		<b>357.99</b>		<b>51.52</b>	<b>504.94</b>		<b>60.12</b>	<b>461.18</b>		<b>203.93</b>

Here,

$$\begin{aligned} \bar{X}_1 &= \frac{X_1}{n_1} = \frac{357.99}{7} = 51.14 & \bar{X}_2 &= \frac{X_2}{n_2} = \frac{504.94}{7} = 72.13 & \bar{X}_3 &= \frac{X_3}{n_3} = \frac{461.18}{7} = 65.88 \end{aligned}$$

$$\text{Again, } x_1 = X_1 - \bar{X}_1 \quad x_2 = X_2 - \bar{X}_2 \quad x_3 = X_3 - \bar{X}_3$$

**a) Test of Significance of difference between HBL and EBL**

Here,

**Null Hypothesis (H<sub>0</sub>):**  $\bar{X}_1 = \bar{X}_2$  i.e. there is no significant difference between mean ratios of loans and advances to total deposit of HBL and EBL.

**Alternative Hypothesis (H<sub>1</sub>):**  $\bar{X}_1 \neq \bar{X}_2$  i.e. there is significant difference between mean ratios of loans and advances to total deposit of HBL and EBL (Where  $\bar{X}_1$  is mean ratio of HBL and  $\bar{X}_2$  is mean ratio of EBL).

Under H<sub>0</sub>, the test statistic is given by,

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

Where,

$$S^2 = \frac{1}{n_1 + n_2 - 2} \left( \sum x_1^2 + \sum x_2^2 \right) = \frac{1}{7 + 7 - 2} (51.52 + 60.12) = 9.30$$

Now,

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

$$= \frac{51.14 - 72.13}{\sqrt{9.30 \left( \frac{1}{7} + \frac{1}{7} \right)}} = -12.87$$

Hence,  $|t| = 12.87$

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

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

**Conclusion:**

Since, the calculated value of  $|t|$  i.e. 12.87 is greater than the tabulated value i.e. 2.179.

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

**b) Test of Significance of difference between HBL and NIBL**

Here,

**Null Hypothesis (H<sub>0</sub>):**  $\bar{X}_1 = \bar{X}_3$  i.e. there is no significant difference between mean ratios of loans and advances to total deposit of HBL and NIBL.

**Alternative Hypothesis (H<sub>1</sub>):**  $\bar{X}_1 \neq \bar{X}_3$  i.e. there is significant difference between mean ratios of loans and advances to total deposit of HBL and NIBL (Where  $\bar{X}_1$  is mean ratio of HBL and  $\bar{X}_3$  is mean ratio of NIBL).

Under H<sub>0</sub>, the test statistic is given by,

$$t = \frac{\bar{X}_1 - \bar{X}_3}{\sqrt{S^2 \left( \frac{1}{n_1} + \frac{1}{n_3} \right)}}$$

Where,

$$S^2 = \frac{1}{n_1 + n_3 - 2} \left[ \sum x_1^2 - \frac{(\sum x_1)^2}{n_1} + \sum x_3^2 - \frac{(\sum x_3)^2}{n_3} \right] = \frac{1}{7 + 7 - 2} [51.52 + 203.93 - 2] = 21.29$$

Now,

$$t = \frac{\bar{X}_1 - \bar{X}_3}{\sqrt{S^2 \left( \frac{1}{n_1} + \frac{1}{n_3} \right)}}$$

$$= \frac{51.52 - 65.88}{\sqrt{21.29 \left( \frac{1}{7} + \frac{1}{7} \right)}} = -5.822$$

Hence,  $|t| = 5.822$

Degree of freedom =  $n_1 + n_3 - 2 = 7 + 7 - 2 = 12$

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

### Conclusion:

Since, the calculated value of  $|t|$  i.e. 5.822 is greater than the tabulated value i.e. 2.179. It is significant, null hypothesis is rejected hence alternative hypothesis is accepted which means that there is significant difference between mean ratios of loan and advances to total deposit of HBL and NIBL.

### c) Test of Significance of difference between EBL and NIBL

Here,

**Null Hypothesis ( $H_0$ ):**  $\bar{X}_2 = \bar{X}_3$  i.e. there is no significant difference between mean ratios of loans and advances to total deposit of EBL and NIBL.

**Alternative Hypothesis (H<sub>1</sub>):**  $\bar{X}_2 \neq \bar{X}_3$  i.e. there is significant difference between mean ratios of loans and advances to total deposit of EBL and NIBL (Where  $\bar{X}_2$  is mean ratio of EBL and  $\bar{X}_3$  is mean ratio of NIBL).

Under H<sub>0</sub>, the test statistic is given by,

$$t = \frac{\bar{X}_2 - \bar{X}_3}{\sqrt{S^2 \left( \frac{1}{n_2} + \frac{1}{n_3} \right)}}$$

Where,

$$S^2 = \frac{1}{n_2 + n_3 - 2} \left[ \sum x_2^2 - \frac{(\sum x_2)^2}{n_2} + \sum x_3^2 - \frac{(\sum x_3)^2}{n_3} \right] = \frac{1}{7+7-2} [60.12 - \frac{209.93^2}{7} + 22.50] = 22.50$$

Now,

$$t = \frac{\bar{X}_2 - \bar{X}_3}{\sqrt{S^2 \left( \frac{1}{n_2} + \frac{1}{n_3} \right)}}$$

$$= \frac{72.13 - 65.88}{\sqrt{22.50 \left( \frac{1}{7} + \frac{1}{7} \right)}} = 2.465$$

$$\text{Degree of freedom} = n_2 + n_3 - 2 = 7 + 7 - 2 = 12$$

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

**Conclusion:**

Since, the calculated value of t i.e. 2.465 is greater than the tabulated value i.e. 2.179. It is significant, null hypothesis is rejected hence alternative hypothesis is accepted which means that there is significant difference between mean ratios of loan and advances to total deposit of EBL and NIBL.



#### 4.4.2 Test of Hypothesis Total Investment to Total Deposit Ratio

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

**Table: 4.24**  
**Test of Hypothesis on Total Investment to Total Deposit ratios between HBL, EBL and NIBL**

S.N.	Fiscal Year	HBL			EBL			NIBL		
		X <sub>1</sub>	x <sub>1</sub>	x <sub>1</sub> <sup>2</sup>	X <sub>2</sub>	x <sub>2</sub>	x <sub>2</sub> <sup>2</sup>	X <sub>3</sub>	x <sub>3</sub>	x <sub>3</sub> <sup>2</sup>
1	2000	15.78	- 22.38	500.86	8.51	- 14.75	217.56	4.26	- 14.33	205.35
2	2001	23.29	- 14.87	221.12	18.07	-5.19	26.94	7.35	- 11.24	126.34
3	2002	49.18	11.02	121.44	29.79	6.53	42.64	6.28	- 12.31	151.54
4	2003	48.44	10.28	105.68	24.15	0.89	0.79	21.52	2.93	8.58
5	2004	42.22	4.06	16.48	30.80	7.54	56.85	33.51	14.92	222.61
6	2005	47.12	8.96	80.28	21.08	-2.18	4.75	27.60	9.01	81.18
7	2006	41.10	2.94	8.64	30.43	7.17	51.41	29.60	11.01	121.22
		<b>267.13</b>		<b>1054.51</b>	<b>162.63</b>		<b>400.94</b>	<b>130.12</b>		<b>916.81</b>

Here,

$$\begin{aligned} \bar{X}_1 &= \frac{X_1}{n_1} = \frac{267.13}{7} = 38.16 & \bar{X}_2 &= \frac{X_2}{n_2} = \frac{162.63}{7} = 23.26 & \bar{X}_3 &= \frac{X_3}{n_3} = \frac{130.12}{7} = 18.59 \end{aligned}$$

$$\text{Again, } x_1 = X_1 - \bar{X}_1 \quad x_2 = X_2 - \bar{X}_2 \quad x_3 = X_3 - \bar{X}_3$$

##### a) Test of Significance of difference between HBL and EBL

Here,

**Null Hypothesis (H<sub>0</sub>):**  $\bar{X}_1 = \bar{X}_2$  i.e. there is no significant difference between mean ratios of total investment to total deposit of HBL and EBL.

**Alternative Hypothesis (H<sub>1</sub>):**  $\bar{X}_1 \neq \bar{X}_2$  i.e. there is significant difference between mean ratios of total investment to total deposit of HBL and EBL (Where  $\bar{X}_1$  is mean ratio of HBL and  $\bar{X}_2$  is mean ratio of EBL)

Under H<sub>0</sub>, the test statistic is given by,

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

Where,

$$S^2 = \frac{1}{n_1 + n_2 - 2} \left[ \sum x_1^2 + \sum x_2^2 - \frac{(\sum x_1)^2}{n_1} - \frac{(\sum x_2)^2}{n_2} \right] = \frac{1}{7 + 7 - 2} [1054.51 + 400.94 - \frac{100^2}{7} - \frac{100^2}{7}] = 121.29$$

Now,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}} = \frac{38.16 - 23.26}{\sqrt{121.29 \left( \frac{1}{7} + \frac{1}{7} \right)}} = 2.5310$$

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

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

### Conclusion:

Since, the calculated value of t i.e. 2.5310 is higher than the tabulated value i.e. 2.179. It is significant, null hypothesis is rejected hence alternative hypothesis is accepted which means that there is significant difference between mean ratios of total investment to total deposit of HBL and EBL.

## b) Test of Significance of difference between HBL and NIBL

Here,

**Null Hypothesis (H<sub>0</sub>):**  $\bar{X}_1 = \bar{X}_3$  i.e. there is no significant difference between mean ratios of total investment to total deposit of HBL and NIBL.

**Alternative Hypothesis (H<sub>1</sub>):**  $\bar{X}_1 \neq \bar{X}_3$  i.e. there is significant difference between mean ratios of total investment to total deposit of HBL and NIBL (Where  $\bar{X}_1$  is mean ratio of HBL and  $\bar{X}_3$  is mean ratio of NIBL)

Under H<sub>0</sub>, the test statistic is given by,

$$t = \frac{\bar{X}_1 - \bar{X}_3}{\sqrt{S^2 \left( \frac{1}{n_1} + \frac{1}{n_3} \right)}}$$

Where,

$$S^2 = \frac{1}{n_1 + n_3 - 2} \left[ \sum x_1^2 - \frac{(\sum x_1)^2}{n_1} + \sum x_3^2 - \frac{(\sum x_3)^2}{n_3} \right] = \frac{1}{7 + 7 - 2} [1054.51 - \frac{(\sum x_1)^2}{7} + 916.81 - \frac{(\sum x_3)^2}{7}] = 164.27$$

Now,

$$t = \frac{\bar{X}_1 - \bar{X}_3}{\sqrt{S^2 \left( \frac{1}{n_1} + \frac{1}{n_3} \right)}} = \frac{38.16 - 18.59}{\sqrt{164.27 \left( \frac{1}{7} + \frac{1}{7} \right)}} = 2.8566$$

$$\text{Degree of freedom} = n_1 + n_3 - 2 = 7 + 7 - 2 = 12$$

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

### Conclusion:

Since, the calculated value of t i.e. 2.8566 is greater than the tabulated value i.e. 2.179. It is significant, null hypothesis is rejected hence alternative hypothesis is

accepted which means that there is significant difference between mean ratios of total investment to total deposit of HBL and NIBL.

### c) Test of Significance of difference between EBL and NIBL

Here,

**Null Hypothesis (H<sub>0</sub>):**  $\bar{X}_2 = \bar{X}_3$  i.e. there is no significant difference between mean ratios of total investment to total deposit of EBL and NIBL.

**Alternative Hypothesis (H<sub>1</sub>):**  $\bar{X}_2 \neq \bar{X}_3$  i.e. there is significant difference between mean ratios of total investment to total deposit of EBL and NIBL. (Where  $\bar{X}_2$  is mean ratio of EBL and  $\bar{X}_3$  is mean ratio of NIBL)

Under H<sub>0</sub>, the test statistic is given by,

$$t = \frac{\bar{X}_2 - \bar{X}_3}{\sqrt{S^2 \left( \frac{1}{n_2} + \frac{1}{n_3} \right)}}$$

Where,

$$S^2 = \frac{1}{n_2 + n_3 - 2} \left( \sum x_2^2 - \frac{(\sum x_2)^2}{n_2} + \sum x_3^2 - \frac{(\sum x_3)^2}{n_3} \right) = \frac{1}{7+7-2} (400.94 - \frac{167^2}{7} + 916.81 - \frac{191^2}{7}) = 109.81$$

Now,

$$t = \frac{\bar{X}_2 - \bar{X}_3}{\sqrt{S^2 \left( \frac{1}{n_2} + \frac{1}{n_3} \right)}} = \frac{23.26 - 18.59}{\sqrt{109.81 \left( \frac{1}{7} + \frac{1}{7} \right)}} = 0.8337$$

Degree of freedom =  $n_2 + n_3 - 2 = 7 + 7 - 2 = 12$

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

**Conclusion:**

Since, the calculated value of  $t$  i.e. 0.8337 is less than the tabulated value i.e. 2.179. It is not significant, null hypothesis is accepted hence alternative hypothesis is rejected which means that there is no significant difference between mean ratios of total investment to total deposit of EBL and NIBL.

**4.5 Major Findings of the Study**

Basically in this research work, all the data has been obtained from secondary sources. Data has been analyzed by using financial as well as statistical tools. This topic focuses on the major findings of the study, which are derived from the analysis of fund mobilization of HBL, EBL and NIBL with comparatively applying seven years data from 2000 to 2006.

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

**1. Findings from Liquidity Ratios**

- i) The mean ratio of cash and bank balance to total deposits of NIBL is higher than HBL and EBL and HBL has lowest mean ratio. It states that the liquidity position of NIBL is better in this regard. The ratio of NIBL is less consistent and HBL has more consistent ratio. It shows HBL has taken more risk to meet the daily cash requirements.
- ii) The mean ratio of cash and bank balance to current assets of NIBL is higher than HBL and EBL and HBL has lowest mean ratio. It reveals that liquidity position of NIBL is better than two banks. It also indicates that NIBL has the higher capacity to meet the cash demand of its customer deposit than that of other commercial banks. The ratio of NIBL is less consistent and HBL has more consistent ratio.
- iii) The average ratio of investment of government securities to current assets of EBL is higher than that of HBL and NIBL. It reveals that investment on government securities of EBL is stronger than HBL and NIBL. Analysis shows that investment on government

securities of HBL is more consistent. NIBL has lower ratio than other two bank HBL & EBL.

The above result shows that the liquidity position of NIBL is comparatively better than HBL and EBL. NIBL has the highest cash and bank balance to total deposit and cash and bank balance to current assets ratio. EBL has made enough investment on government securities. At last, it can be concluded that NIBL has good deposit collection and higher ability to meet the cash requirements. NIBL has not invested any amount in year 2000 and has less consistent mean ratio.

## **2. Findings from Assets Management Ratios**

- i) The mean ratio of loan and advances to total deposit of EBL is greater than HBL and NIBL. The variability ratio of EBL is lower than that of other two banks. It seems more consistent than HBL and NIBL.
- ii) The average ratio of total investment to total deposit ratio of HBL is higher than that of EBL and NIBL. The variability ratio EBL is lower than that of other two banks. It seems more consistent than EBL and NIBL.
- iii) The average ratio of loan and advances to total working fund of EBL is higher than HBL and NIBL. The variability ratio of HBL is lower than that of EBL and NIBL. It is the indication of more consistency of loan and advances.
- iv) The average ratio of investment on government securities to total working fund of EBL is higher than that of HBL and NIBL. But the variability ratio of EBL is higher than HBL and NIBL. It seems NIBL has less consistent to make investment on government securities.
- v) The mean ratio of investment on shares and debentures to total working fund of EBL is greater than HBL and NIBL. Where as NIBL has the lower variability of the ratio. It shows the stable investment on shares and debentures.

From the above analysis it helps to conclude that EBL is comparatively successful to invest in productive sector and has mobilized its collected deposits to provide loan and advances. It seems stronger incase of investing fund. Similarly, HBL has mobilized its collected deposits in investment.

### **3. Findings from Profitability Ratios**

- i) The mean ratio of return on loan and advances of EBL is lower than HBL and NIBL. The variability ratio of EBL is higher than HBL and NIBL. It seems EBL has less stable return.
- ii) The mean ratio of return on total working fund of NIBL is greater than HBL and EBL. Where as the variability ratio of HBL is lower than EBL and NIBL. It indicates that the return on total working fund of HBL is stable.
- iii) In case of mean ratio of total interest earned to total working fund of EBL is highest among three banks. The variability ratio of HBL is lower than EBL and NIBL. It reveals that NIBL is mobilizing its working fund successfully so that it has high earning capacity.
- iv) The mean ratio of total interest paid to total working fund of NIBL is lower than HBL and EBL. It reveals that NIBL has not paid high interest as HBL and EBL. The ratio of NIBL is more consistent than that of other two banks.

From the above analysis of profitability ratios, it can be concluded that the NIBL is profitable in comparison to other compared banks.

### **4. Findings from Risk Ratios**

- i) The mean ratio of liquidity risk of HBL is lower than EBL and NIBL and in case of NIBL it is higher than HBL and EBL. Degree of risk and variability of risk is also lower in HBL in comparison to two banks. It seems liquidity risk ratio is consistent.
- ii) In case of credit risk ratio, NIBL has the lower risk than HBL and EBL. The variability ratio of EBL is lower than HBL and NIBL. It indicates that the credit risk ratio is consistent. But in case of HBL and EBL, they have comparatively high credit risk ratios.

From the above analysis, HBL has maintained the lower liquidity risk and NIBL has maintained lower credit risk. And lower liquidity risk means higher risk for higher profit.

## **5. Findings from Growth Ratios**

- i) The growth ratio of total deposits of all banks i.e. HBL, EBL & NIBL are increasing every year. Out of three banks growth rate of total deposits of NIBL is greater than HBL and EBL. It shows that NIBL has increased its deposit collection capacity.
- ii) The growth rate of total investment of NIBL is highly fluctuated (i.e. 175.95%) than that of HBL and EBL. Although HBL is investing more funds but it seems weak in comparison to EBL and NIBL because of lowest growth ratio. It shows that HBL had adopted a policy to keep on increasing its investment.
- iii) The growth ratio of loan and advances of NIBL is in increasing trend whereas HBL and EBL has highly fluctuating trend. Growth rate of NIBL is higher among three banks. Though HBL is providing more funds in loan and advances it appears too weak in growth rate point of view.
- iv) The growth ratio of net profit of NIBL is in increasing trend the during study period. HBL and EBL has fluctuating trend. NIBL has the highest growth ratio of net profit among three banks. EBL has low growth rate and fluctuating trend.

From the above findings it can be observed that the EBL has maintained the high growth ratio in total deposits, loan and advances and net profit but it has moderate position in investment. The growth rate of total investment of NIBL is better than HBL and EBL.

## **6. Findings from Coefficient of Correlation Analysis**

- i) Correlation coefficient between deposit and total investment of EBL is higher than other compared banks. It indicates that EBL is successfully mobilizing its deposits as investment. There is significant relationship between correlation coefficient of deposit and total investment of HBL and NIBL



- ii) EBL has the highest degree of correlation coefficient between deposit and loan and advances than other two banks. It states that the EBL is in better position of mobilization of deposit as loan and advances in comparison to HBL and NIBL. There is significant relationship between correlation coefficient of deposit and loan and advances of HBL, EBL and NIBL

## **7. Findings from Trend Analysis**

- i) The total deposit to total investment ratio of HBL, EBL and NIBL are in increasing trend. The trend value of HBL is higher than two banks. It indicates that HBL is more successful to utilize its deposit in investment.
- ii) The trend value of loan and advances to total deposit ratio of HBL, EBL is in low rate increasing trend whereas NIBL has increasing trend. Loan and advances to total deposit ratio of NIBL is proportionately better than HBL and EBL.

## **8. Findings from Test of Hypothesis**

- i) There is significant difference between mean ratios of loan and advances to total deposit of HBL and EBL.
- ii) There is significant difference between mean ratios of loan and advances to total deposit of HBL and NIBL.
- iii) There is significant difference between mean ratios of loan and advances to total deposit of EBL and NIBL.
- iv) There is no significant difference between mean ratios of total investment to total deposit of HBL and EBL.
- v) There is no significant difference between mean ratios of total investment to total deposit of HBL and NIBL
- vi) There is no significant difference between mean ratios of total investment to total deposit of EBL and NIBL.

# **CHAPTER-V**

## **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Summary**

Basically the entire research work focuses on the comparative study on fund mobilization of three joint venture banks; Himalayan Bank Ltd., Everest Bank Ltd. and Nepal Investment Bank Ltd. These three joint venture banks are composed as per their fund mobilization activities by taking seven years data from the year 2000 to 2006.

The study is mainly based on secondary sources. All data are taken from concerned banks annual report, literature publication, balance sheet, profit and loss account, previous thesis report, different website, related books and booklets, journals and articles. After collecting data from different sources, it is analyzed by using financial and statistical tools. Findings are drawn by applying various financial tools viz. liquidity ratio, assets management ratio, profitability ratio, growth ratio, risk ratio, sources and uses of funds and cash flow analysis. Similarly, statistical tools have been used viz. mean, standard deviation, coefficient of variation, coefficient of correlation and least square trend.

In an attempt to fulfill the objectives of the research work, all secondary data are compiled, processed and tabulated as per necessity and figures, diagrams, different types of chart are also used.

This study suffers from different limitations; it considers three banks only and time and resource are the constraints of the study. Therefore the study may not be generalized in all cases and accuracy depends upon the data collected and provided by the organization.

### **5.2 Conclusion**

From the analysis of liquidity ratio, the liquidity position of NIBL is comparatively better than HBL and EBL. NIBL has the highest cash and bank balance to total deposit and cash and bank balance to current assets ratio. Liquidity

position of HBL is comparatively lower than NIBL and EBL. EBL has made enough investment on government securities. NIBL has invested less part of current assets in government securities.

Considering asset management aspect of three banks, EBL is relatively successful to invest in productive sector and has mobilized its collected deposits to provide loan and advances for the purpose of earning profit. HBL has weak condition in mobilizing its collected deposits and total working fund in loan and advances. NIBL is weak in investing its collected deposits in comparison to HBL and EBL. In comparison to HBL and NIBL, EBL seems more successful in mobilizing total fund on different types of government securities to maximize its earning capacity. NIBL has not invested its fund efficiently towards productive activities. HBL has successfully invested more working funds in debentures and shares of other company whereas NIBL is in weak position to make investment on shares and debentures.

The liquidity risk ratio of NIBL is higher than that of HBL and EBL which appears to be less profitable return of NIBL. On the other hand liquidity risk ratio of HBL has the lowest among three banks which specified that HBL has kept idle funds in the form of cash and bank balance but this reduces profitability. NIBL has the lowest credit risk ratio among three banks. Credit risk involved in loan and advances and total investment of EBL is more than HBL and NIBL. It may arise due to default risk or non-repayment of loan.

NIBL appears to be more successful to earn profit on loan and advances than HBL and EBL. Profit earning capacity of EBL is considered too weak. The average ratio of return on total working fund indicates that working fund of NIBL is well managed and efficiently utilized. Alternatively total asset of HBL has not well managed. EBL was not able to receive high interest on its total working fund in comparison with HBL and NIBL. On the other hand, NIBL has mobilized its working fund properly and its earning capacity is also high. NIBL is in better position from the viewpoint of interest expenses. It seems to be successful to collect its working fund from less expensive sources in comparison to HBL and EBL whereas EBL is in weak position.

Growth ratio of total deposits, total investment and net profit of NIBL seem too weak in comparison to HBL and EBL. HBL has low growth ratio of loan and advances in comparison to EBL and NIBL. EBL has maintained high growth ratios in total deposit, loan and advances and net profit but it has moderate

position in investment. Therefore, we must say that the bank is successful to increasing its sources of funds and its mobilization.

Deposit is the strongest sources of fund whereas borrowings cover fewer portions of sources of fund. NIBL has kept fewer amounts in deposits in comparison to other two banks. Among the uses of funds, loan and advances covers maximum portion and interest accrued covers less portion. HBL has invested fewer amounts into loan and advances in comparison to EBL and NIBL.

The operating activities of HBL, EBL and NIBL have been occurred cash inflows throughout the study period. Operating efficiency of EBL is in increasing trend during the study period. The investing activities of three banks have deserved cash outflows throughout the study period. By the help of investing activities, these three banks are able to increase long term assets as well as carry out profitable opportunity. It shows that cash acquisition capacity of HBL is more than other two banks. During the year 2002, NIBL is unable to generate cash inflow from financing activities. The condition may arise due to the unavailability of cash flow from share, insufficient profit, dividend payment.

Correlation coefficient between deposit and total investment of HBL, EBL and NIBL elucidates the positive relationship or there is high degree of positive correlation. Most of the investment decision of these three banks depends upon deposits and only few decisions are depend upon other variables. Moreover by considering the probable error, the value of coefficient of determination of EBL is less than 6 P.E. so it is insignificant i.e. there is no significant relationship between deposits and total investment though there is positive relation between them. On the other hand there is significant relationship between deposits and total investment of HBL and NIBL.

Correlation coefficient between deposits and loan and advances indicates the positive relationship between the variables of HBL, EBL and NIBL. In most of the cases it has been found that investment decision depends upon the deposits and only few decisions depend upon other variables. By considering the probable error, the value of coefficient of determination of all banks is greater than that of 6 P.E. so it can be concluded that the value of correlation coefficient is significant i.e. there is significant relationship between total deposits and loan and advances.

By considering the trend values, HBL is more successful to utilize its total collected deposit in investment than EBL and EBL appears more successful than

NIBL. Deposit utilization position in relation to loan and advances to total deposit ratio of HBL is not proportionately better than EBL and NIBL.

In case of testing of hypothesis we can conclude that there is significant difference between mean ratio of loan and advances to total deposits of HBL, EBL and NIBL. Alternatively there is no significant difference between mean ratio of total investment to total deposit of HBL, EBL and NIBL.

### **5.3 Recommendations**

Suggestion is the output of the whole study. It helps to take corrective action in their activities in future. Different analysis were done till arrive this step. On the basis of above analysis and findings of the study, following suggestions may be referred to overcome weakness, inefficiency and to fund mobilization of HBL, EBL and NIBL.

#### **➤ To maintain effective liquidity position**

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

#### **➤ To increase deposit collection**

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

➤ **To make more investment in government securities**

From the study, it has been revealed that NIBL has not invested more funds in government securities than that of HBL and EBL. NIBL has made lower investment amount on government securities. Increasing large amount on assets, as cash and bank balance is not considered good from the profitability point of view of the bank as it doesn't earn any return. NIBL's investment on government securities is not in satisfactory position. Investment on those securities issued by government i.e. treasury bills, development bonds, saving certificates are free of risk and highly liquid in nature and such securities yield the low interest rates of a particular maturity due to lowest risk in future, it is more better in regard to safety than other means of investment. So, NIBL is strongly recommended to give more importance to invest more funds in government securities instead of keeping them idle with this proverb "something is better than nothing"

➤ **To make more investment on share and debentures**

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

➤ **To make profitable return**

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

➤ **To prefer aggressive-defensive policy**

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

➤ **To invest deprive and priority sector**

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

➤ **To make effective portfolio management**

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

Portfolio management is very important for every investor. In each investment, risk is involved. Risk is the chance of loss or the variability of the returns of a period. The greater the variability of the returns project will be riskier. So it is kept in mind while investing in the project which would be lower risk and higher return. Portfolio management plays vital role with dividing total investment in different areas. Portfolio management of the bank assets

basically means allocation of funds in different components of banking assets having different degrees of risk and varying rate of return in such a way that the conflicting goal of maximum yield and minimum risk can be achieved. So, portfolio conditions of HBL , EBL and NIBL should be examine carefully from time to time and alteration should be made to maintain equilibrium in the portfolio condition as far as possible. So, it can be said “all eggs should not be kept in the same basket”. The bank should make continuous efforts to explore new, competitive and high yielding investment opportunities to optimize their investment portfolio.

➤ **Liberal lending policy and sound credit collection policy**

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

➤ **To adopt innovative approach to bank marketing**

In the light of growing competition in the banking sector, the business of the bank should be customer oriented. Marketing is an effective tool to attract and retain the customers. Without effective marketing strategy any one be along behind in today’s competitive environment. Different marketing techniques like advertisement through audio-visual, published web site, documentary etc. are flowed. Similarly, draw attentions of customers through new technologies like, E-banking, increase investment through their wide international banking network should be introduced.



➤ **To extend branches all over the country**

Economic development of the country depends upon the growth of commercial banks. If the service of commercial banks expands all over the country it collects idle money from every corner of the country and can be utilized for income generation purpose. 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. Therefore, all banks are recommended to expand their branch and providing banking service and facilities to the rural areas and communities to accelerate the economic development of the country.

Being a developing country, economic environment of Nepal is not in a good condition. The strong economic structure is needed for the rapid overall development. Commercial banks play vital role in the developing country like Nepal. Commercial banks are facing several problems related to fund mobilization. They have to rush with modern banking technology so that, they would be a professional institutions. If commercial banks follow above-mentioned suggestions, they would be successful in reaching to the modern innovative and competitive banking market.

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## APPENDIX- I

### Himalayan Bank Limited Comparative Balance Sheet for FY (2000-2006)

(Rs. in

illion)

Particulars	Fiscal Year						
	2000	2001	2002	2003	2006	2005	2006
<b>ASSETS</b>							
<b>Current Assets</b>	<b>15605.42</b>	<b>17359.42</b>	<b>14165.33</b>	<b>16881.45</b>	<b>18605.75</b>	<b>20899.57</b>	<b>23174.90</b>
1. Cash and Bank Balance	901.91	1435.18	1264.67	1979.21	2001.18	2014.46	1717.34
2. Money at call and short notice	4682.76	4057.65	352.35	150.10	368.90	441.08	1005.28
3. Loan & advances	7224.73	9015.35	8913.73	10001.85	11951.87	12424.52	14642.56
4. Inv. on govt. securities	2112.88	2224.30	3047.75	3998.87	3471.73	5469.73	5144.32
5. Interest Receivable	386.56	335.75	330.38	418.46	526.65		
6. Miscellaneous Current Assets	202.54	291.19	256.45	332.96	285.41	549.78	665.35
Fixed Assets	193.05	201.68	318.85	229.87	299.64	295.82	540.82
Investment on Shares	9.49	10.69	34.27	34.27	34.27	39.91	39.91
Other investment	0.00	1848.17	6075.09	6142.30	5826.11	6182.70	5704.80
<b>Total Assets(Working Fund)</b>	<b>15863.74</b>	<b>19500.58</b>	<b>20672.45</b>	<b>23355.23</b>	<b>24765.77</b>	<b>27814</b>	<b>29460.40</b>
<b>LIABILITIES</b>							
<b>Current Liabilities</b>	<b>15311.04</b>	<b>18747.46</b>	<b>19978.61</b>	<b>22370.12</b>	<b>23673.67</b>		
7. Deposits and other A/C's	14043.10	17532.40	18619.37	21007.37	22010.33	24814.01	26490.85
8. Short term loan	128.65	79.53	605.35	608.13	659.01	506.05	504.62
9. Bills Payable	65.80	22.90	55.58	46.73	64.38	68.40	73.58
10. Tax Provision	115.25	154.46	114.02	147.90	157.52	3250.51	
11. Staff Bonus	34.86	48.34	38.78	40.00	46.73	58.06	67.24
12. Dividend Payables	9.06	14.72	6.44	7.86	6.32	80.12	238.41
13. Misc. current liabilities	914.32	895.11	539.07	512.13	729.38	346.52	319.51
<b>Net Worth</b>	<b>526.05</b>	<b>720.59</b>	<b>858.11</b>	<b>1063.13</b>	<b>1324.17</b>		
Share Capital	240.00	300.00	390.00	429.00	536.25	643.50	772.20
Shareholder's Reserves	286.05	420.59	468.11	634.13	787.92	898.25	993.98
<b>Total Liabilities</b>	<b>15863.74</b>	<b>19500.58</b>	<b>20672.45</b>	<b>23355.23</b>	<b>24765.77</b>		

Source: Annual Report of HBL

## APPENDIX- II

### Everest Bank Limited Comparative Balance Sheet for FY (2000-2006)

(Rs. in

million)

Particulars	Fiscal Year						
	2000	2001	2002	2003	2006	2005	2006
<b>ASSETS</b>							
<b>Current Assets</b>	3334.59	5049.85	6359.66	7836.89	9399.97	11699.74	15216.07
1. Cash and Bank Balance	278.60	834.99	592.78	1139.57	631.81	1049.99	1552.96
2. Money at call and short notice	410.35	240.08	86.13	0.00	187.45	570	66.96
3. Loan & advances	2270.18	3005.76	3948.48	4908.46	5884.12	7618.67	9801.31
4. Invt. on govt. securities	257.61	823.00	1538.90	1599.35	2466.43	2100.29	3548.61
5. Interest Receivable	76.16	94.28	105.29	122.74	145.26	281.48	161.34
6. Miscellaneous Current Assets	41.69	51.74	88.10	66.77	84.90	79.37	84.89
Fixed Assets	49.05	50.37	93.39	109.59	118.37	134.07	152.09
Investment on Shares	2.50	3.70	17.11	17.11	17.11	19.38	19.09
Other investment	0.00	75.02	101.86	37.51	52.12	0	0
<b>Total Assets(Working Fund)</b>	<b>3411.70</b>	<b>5202.58</b>	<b>6670.18</b>	<b>8052.20</b>	<b>9587.57</b>	<b>11,732.51</b>	<b>15,959.28</b>
<b>LIABILITIES</b>							
<b>Current Liabilities</b>	<b>3190.81</b>	<b>4874.79</b>	<b>6102.30</b>	<b>7461.11</b>	<b>8984.55</b>	<b>11539.19</b>	<b>14839.40</b>
7. Deposits and other A/C's	3057.43	4574.51	5466.61	6694.95	8063.90	10097.69	13802.44
8. Short term loan	0.00	80.00	81.77	0.00	0.00	0.00	0
9. Bills Payable	3.85	11.62	2.13	22.10	22.03	17.78	15.81
10. Tax Provision	19.51	32.35	38.43	41.71	67.55	81.91	108.31
11. Staff Bonus	6.75	11.34	14.15	15.10	23.46	28.08	34.56
12. Dividend Payables	2.02	1.63	1.34	1.29	7.36	23.52	114.67
13. Misc. current liabilities	101.25	163.34	497.87	686.96	800.25	457.59	763.56
<b>Net Worth</b>	<b>202.85</b>	<b>319.40</b>	<b>290.91</b>	<b>172.83</b>	<b>540.32</b>	<b>832.62</b>	<b>962.81</b>
Share Capital	118.42	220.86	259.32	315.00	315.00	518	518
Shareholder's Reserves	84.43	98.54	131.59	157.83	225.32	314.62	444.81
<b>Total Liabilities</b>	<b>3411.70</b>	<b>5202.58</b>	<b>6670.18</b>	<b>8052.20</b>	<b>9587.57</b>	<b>11732.51</b>	<b>15959.28</b>

Source: Annual Report of EBL

## APPENDIX- III

### Nepal Investment Bank Limited Comparative Balance Sheet for FY (2000-2006)

(Rs.

in million)

Particulars	Fiscal Year						
	2000	2001	2002	2003	2006	2005	2006
<b>ASSETS</b>							
<b>Current Assets</b>	<b>3744.09</b>	<b>3423.11</b>	<b>3340.25</b>	<b>7517.89</b>	<b>11140.23</b>	<b>13967.79</b>	<b>17984.85</b>
1. Cash and Bank Balance	1533.64	522.86	338.90	926.53	1226.92	1340.48	2336.51
2. Money at call and short notice	1170.72	0.00	0.00	40.00	310.00	140	70
3. Loan & advances	2070.68	2429.03	2564.43	5772.14	7130.13	10126.06	12776.21
4. Invt. on govt. securities	0.00	300.00	224.40	400.00	2001.10	1948.50	2522.30
5. Interest Receivable	71.25	103.50	55.64	83.47	77.01	81.58	77.94
6. Miscellaneous Current Assets	68.52	67.72	156.86	295.75	395.07	331.17	201.89
Fixed Assets	39.92	33.98	35.89	191.11	249.79	320.59	343.45
Investment on Shares	12.69	12.69	13.89	13.89	13.89	17.74	17.74
Other investment	0.00	1657.58	1583.87	1291.35	1847.49	1985.69	3080.57
<b>Total Assets(Working Fund)</b>	<b>3796.70</b>	<b>5127.36</b>	<b>4973.90</b>	<b>9014.24</b>	<b>13251.40</b>	<b>16063.54</b>	<b>21330.14</b>
<b>LIABILITIES</b>							
<b>Current Liabilities</b>	<b>3395.67</b>	<b>4666.46</b>	<b>4431.22</b>	<b>8412.79</b>	<b>12584.3</b>	<b>15232.50</b>	<b>19500.40</b>
7. Deposits and other A/C's	2983.28	4256.21	4174.76	7922.75	11524.68	14254.57	18927.30
8. Short term loan	140.00	120.00	98.50	6.83	361.50	350	50
9. Bills Payable	8.85	5.18	6.82	31.63	57.84	15	18.82
10. Tax Provision	33.23	37.44	21.01	53.33	78.80	101.53	154.37
11. Staff Bonus	11.77	10.43	8.68	18.91	25.72	37.08	50.49
12. Dividend Payables	4.35	5.38	1.81	1.69	5.25	5.89	11.81
13. Misc. current liabilities	214.19	231.82	119.64	377.65	530.51	468.41	287.63
<b>Net Worth</b>	<b>410.24</b>	<b>469.08</b>	<b>523.46</b>	<b>638.53</b>	<b>729.04</b>	<b>1180.16</b>	<b>1415.44</b>
Share Capital	135.35	169.98	169.98	295.29	295.29	587.73	590.59
Shareholder's Reserves	274.89	299.10	253.48	343.24	433.75	592.43	824.85
<b>Total Liabilities</b>	<b>3744.09</b>	<b>3423.11</b>	<b>3340.25</b>	<b>7517.89</b>	<b>11140.23</b>	<b>16063.54</b>	<b>21330.14</b>

Source: Annual Report of NIBL



## APPENDIX- IV

### Himalayan Bank Limited Comparative Profit and Loss Account

(Rs. in

million)

Particulars	Fiscal Year						
	2000	2001	2002	2003	2006	2005	2006
A. Operating Income	1241.01	1572.01	1387.34	1443.54	1516.33	1757.89	1990.05
1. Interest (Earned)	1033.66	1326.38	1149.00	1201.23	1245.90	1446.47	1626.47
2. Commission & Discount	110.33	125.97	101.70	102.56	123.93	132.82	165.45
3. Exchange Income	87.33	114.22	104.60	109.60	112.42	137.30	198.13
4. Dividend	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5. Other	9.69	6.35	32.04	30.15	34.08	41.30	52.32
B. Cost of Services	653.32	809.59	679.67	674.28	644.05	740.52	883.43
6. Interest Paid	593.44	732.69	578.13	554.13	491.54	561.93	648.84
7. Salaries, Allowances & P.F.	59.88	76.90	101.54	120.15	152.51	178.59	234.59
C. Provision for Bonus	34.86	48.34	38.78	40.00	46.73	58.06	67.24
D. Other General Expenses	221.24	259.60	298.56	356.72	257.78	403.45	329.70
E. GROSS PROFIT	331.59	455.39	370.33	372.54	452	555.86	709.68
F. Depreciation	19.58	22.70	23.74	23.28	34.73	36.10	39.17
G. Operating Profit (E-F)	312.01	432.69	346.59	349.26	417.27	519.76	670.51
H. Income from other sources	1.69	2.32	2.45	10.76	3.30	2.79	1.89
I. Pre- tax Profit(G+H)	313.70	435.01	349.04	360.02	420.57	522.55	672.40
J. Provision for Taxes	114.32	154.32	114.02	147.90	157.52	214.27	214.94
<b>K. Net Profit(I-J)</b>	<b>199.38</b>	<b>280.69</b>	<b>235.02</b>	<b>212.12</b>	<b>263.05</b>	<b>308.28</b>	<b>457.46</b>

Source: Annual Report of HBL

## APPENDIX- V

### Everest Bank Limited Comparative Profit and Loss Account

(Rs. in

million)

Particulars	Fiscal Year						
	2000	2001	2002	2003	2006	2005	2006
A. Operating Income	325.78	464.12	539.78	634.08	783.19	855.99	1063.55
1. Interest (Earned)	267.44	385.02	443.82	520.17	657.25	719.30	903.41
2. Commission	25.90	30.56	36.77	61.50	74.33	78.13	96.84
3. Exchange Income	3.50	16.50	45.41	32.21	27.79	27.08	14.40
4. Dividend	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5. Other	28.94	32.04	13.78	20.20	23.82	31.48	48.90
B. Cost of Services	196.52	262.14	289.24	343.78	364.90	360.17	472.32
6. Interest Paid	177.89	236.14	257.05	307.64	316.37	299.57	401.40
7. Salaries, Allowances & P.F.	18.63	26.00	32.19	37.37	48.53	60.60	70.92
C. Provision for Bonus	6.75	11.34	14.15	15.10	23.46	28.08	34.56
D. Other General Expenses	55.90	81.07	100.10	121.07	127.27	181.59	143.56
E. GROSS PROFIT	66.61	109.57	136.29	154.13	228.99	286.15	413.11
F. Depreciation	7.30	8.91	10.06	19.50	19.74	28.19	67.50
G. Operating Profit (E-F)	59.31	100.66	126.23	134.63	209.25	257.96	345.61
H. Income from Other sources	1.47	1.39	1.14	2.25	1.87	-5.25	0.00
I. Pre- tax Profit(G+H)	60.78	102.05	127.37	135.88	211.12	252.71	345.61
J. Provision for Taxes	19.51	32.35	42.04	41.71	67.55	84.50	108.32
<b>K. Net Profit(I-J)</b>	<b>41.27</b>	<b>69.70</b>	<b>85.33</b>	<b>94.17</b>	<b>143.57</b>	<b>168.21</b>	<b>237.29</b>

Source: Annual Report of EBL

## APPENDIX-VI

### Nepal Investment Bank Limited Comparative Profit and Loss Account

(Rs. in

million)

Particulars	Fiscal Year						
	2000	2001	2002	2003	2006	2005	2006
A. Operating Income	350.25	421.58	415.68	577.44	911.95	1108.44	1450.33
1. Interest (Earned)	279.86	349.75	326.22	459.51	731.40	886.80	1172.74
2. Commission	18.35	16.20	16.20	40.81	55.75	93.55	115.94
3. Exchange Income	44.80	49.83	42.86	50.83	87.98	102.52	125.75
4. Dividend	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5. Other	7.24	5.80	30.40	26.29	36.82	25.57	35.90
B. Cost of Services	138.98	194.25	172.16	250.50	415.95	451.55	601.99
6. Interest Paid	115.73	163.15	130.44	189.21	326.20	354.55	490.94
7. Salaries, Allowances & P.F.	23.25	31.10	41.72	61.29	89.75	97.00	111.05
C. Provision for Bonus	11.77	10.43	8.68	18.91	25.72	37.08	50.49
D. Other General Expenses	84.40	114.25	151.25	126.50	175.20	182.92	200.21
E. GROSS PROFIT	115.10	102.65	83.59	181.53	256.64	436.89	597.64
F. Depreciation	9.32	8.82	8.59	11.87	23.40	109.41	93.13
G. Operating Profit (E-F)	105.78	93.83	75.00	169.66	233.24	327.48	504.51
H. Income from Other sources	0.11	0.00	3.10	0.49	1.77	6.19	0.40
I. Pre- tax Profit(G+H)	105.89	93.83	78.10	170.15	231.47	333.67	504.91
J. Provision for Taxes	33.23	37.44	21.01	53.33	78.80	101.53	154.37
<b>K. Net Profit(I-J)</b>	<b>72.66</b>	<b>56.39</b>	<b>57.09</b>	<b>116.82</b>	<b>152.67</b>	<b>232.14</b>	<b>350.54</b>

Source: Annual Report of NIBL