

# CHAPTER-I

## INTRODUCTION

### 1.1 Background of the Study

Overall national development of any country depends upon the economic development of that country and economic development largely depends upon the financial infrastructure of the country. Therefore, the primary goal of any nation including Nepal is rapid economic development to promote the welfare of the people and the nation as well. Nepal being one of the least developed countries has been trying to embark upon the path of economic development by economic growth rate and developing all sectors of economy.

The proper mobilization and utilization of domestic resources is one of the key factors in the economic development of a country. Similarly, integrated and speedy development of the country is only possible when competitive and reliable banking services are reached and operated to every corner of the country. It has been well established that the economic activities of any country can hardly be carried without the assistance and support of the financial institutions. Financial institutions have catalytic role in the process of economic development. The investment policy of financial institutions, especially banks has long term impact not only on their growth and sustainability but also on the economic development of the country. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of banks and other financial institutions. Good investment policy has a positive impact on economic development of the country and vice-versa.

Generally the organization that transacts money is called bank. 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 funds from the community and invests them into the most desirable and highly yielding sectors. It develops the saving habit of the people. “The importance of the banking as the nerve center of economic development cannot be over emphasized and it is

said that bank which are the need of and great wealth of country have to be kept very scared. Just as water for irrigation, good banks are for the country's industry and trade.”(Desai, 1967:120)

The main objectives of the bank are collection of amount from public in a form of saving and providing short-term loan (for the development of industry, trade, and business) to the ones in need. The development of country's economy is impossible without the expansion of banking function in both rural and urban areas. Development of trade and industry is dependent on the development of banking facilities. Therefore, it is said that the bank is the 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, businesses, organizations, government and other small financial institutions. The development of a country is always measured by its economic development through economic indices. That's why every country has given emphasis on boosting up its economy. At present, the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country.

Bank is resource for economic development that maintains economic confidence of various segments and expands credit to people. Bank means “A financial establishment for the deposit, loans exchange or issue of money and for the transmission of funds,” (Bhandari; 2002:201).

The bank draws surplus money from the public, who cannot use the money at the time and lends to those who give attention to its use for productive purposes. Bank lends the loan to the customers. The bank draws the money from institutions or individual and pays the 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,” (*Bhandari; 2001:211*).

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. In ancient times, the effort was made by the activities with 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 take their gold and valuables back after receiving a small payment as fee. (*Paul; 1998:201*).

The word “**Bank**” is oriented in medieval age in 1171 AD from an Italian word “**Banko.**” that means the place where people come together for different transactions. The “**Bank of Vanice**” was the first bank, was established in Italy in 1157 AD as the first modern bank. Then after in 1401 AD “**Bank of Barcelona**” was established in Spain, Bank of Geneva established in 1407 AD and 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 - the King of Kantipur classified people in 64 groups according to their occupations. “**Tanka Dhari**” was one amongst them who used to lend money at a fixed rate of interest. During the period of Ranodip Singh, the then 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 servant as well as to the general public.” (*Shrestha; 1995:4*).

The development of the 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. 51% of the authorized capital was contributed by the government and remaining 49% by public. It started the 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 got popular and more complicated, thus NRB suggested for the establishment of another commercial bank and in 2022 BS(1966 AD) “**Rastriya Banijya Bank**” was established as a fully government owned commercial bank. Now its branches are diversified all over the country. It made another milestone in the history of growth of banking.

Apart from this, NIDC was established in 1959 AD & Agricultural Development Bank established in 1976 AD and other development banks and financial institutions were established and are still continuing and 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 banks are permitted 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 the 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 as 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 the 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.”(Ronald; 1991:87).

“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” (Thapa and Neupane;2008:16).

The main purpose of establishing RBB was to contribute 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 France and Nepal Grindlays with 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 Kumari Bank Ltd. & Siddhartha Bank Ltd. served as a new commercial bank of Nepali financial market.

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

Today there are 26 commercial banks operating in Nepali financial market along with 9 in joint venture with foreign investors. Lists of licensed commercial banks are presented below:

**Table 1.1**  
**List of Licensed commercial Banks in Nepal**

<b>S.N</b>	<b>Name of Commercial Banks</b>	<b>Establishment Year</b>
1.	Nepal Bank Limited	1937
2.	Rastriya Banijya Bank	1965
3.	Agriculture Development Bank Limited	1968
4.	NABIL (Nepal Arab Bank)	1984
5.	Nepal Investment Bank (Nepal Indosuez Bank)	1985
6.	Standard Chartered Bank (Grindlays Bank)	1986
7.	Himalayan Bank Limited	1992
8.	Nepal SBI Limited	1993
9.	Nepal Bangladesh Bank Limited	1993
10.	Everest Bank Limited	1994
11.	Bank of Kathmandu Limited	1994
12.	Nepal Credit and Commerce Bank (Nepal Bank of Ceylon)	1996
13.	Lumbini Bank Limited	1998
14.	Nepal Industrial and Commercial Bank	1998
15.	Machhapuchhre Bank Limited	2000
16.	Kumari Bank Limited	2000
17.	Laxmi Bank Limited	2001
18.	Siddhartha Bank Limited	2001
19.	Global Bank Limited	2006
20.	Citizen Bank International Limited	2007

21.	Prime Bank Limited	2007
22.	Sunrise Bank Limited	2007
23.	Bank of Asia Nepal Limited	2007
24.	NMB Bank	2008
25.	Development Credit Bank	2008
26.	Kist Commercial Bank	2009

*(Source: NRB)*

#### **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 enterprises 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 associated with trade, business, industry etc. That means they are required to mobilize their resources properly to acquire profit.

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

**The 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 individuals 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. Additionally, 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 played by the joint venture banks in Nepal can be classified into three categories:

**a. Introducing Advanced Banking Techniques**

The joint venture banks in Nepal have been largely responsible for the introduction of new banking techniques such as computerization, hypothecation, consortium finance, fee-based activities and syndicating under the foreign exchange transactions by importers and exporters, merchant banking, inter-bank market for the money and securities, arranging foreign currency loans etc.

**b. Introducing Foreign Investment in Nepal**

When looking at the possibility of investment in Nepal, multinational companies are unfamiliar with the local rules, regulations and practices. There are many systems that actually operate during its 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 introduction of joint venture banks also brings the benefit of healthy competition where the main beneficiaries are the bank customers and the economy. The increase in competition also forces 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 Profile of the Sample Companies**

Since there are 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:

### **1.5.1 Himalayan Bank Limited**

Himalayan bank limited is a joint venture bank with Habib Bank of Pakistan and 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 a Nepalese Chief Executive. The operation of the bank started from February, 1993. 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 the people.

It is the first commercial bank of Nepal with maximum share holding by the Nepalese private sector. Besides commercial activities, the Bank also offers industrial and merchant banking. Its ownership is composed of founder shareholders 51%, Habib bank of Pakistan 20%, Karmachari Sanchaya Kosh 14% and public 15%. It is the first bank having domestic ownership more than 50%. HBL has been operating in high profit from the establishment period till now. It accepts deposit through current deposit, saving deposit, fixed deposit and call deposit.

At present HBL has five branches inside the Kathmandu valley at Thamel, New road, Maharajgunj, Pulchowk (Patan) and Suryavinayak (moved from Nagarkot). Besides these, it has nine branches outside Kathmandu valley at Banepa, Tandi, Bharatpur, Birgunj, Hetauda, Bhairawa, Biratnagar, Pokhara and Dharan. The bank is also operating a counter in the premise of the Narayanhiti Museum. The Bank has a very aggressive plan of establishing more branches in different parts of the kingdom in near future.

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

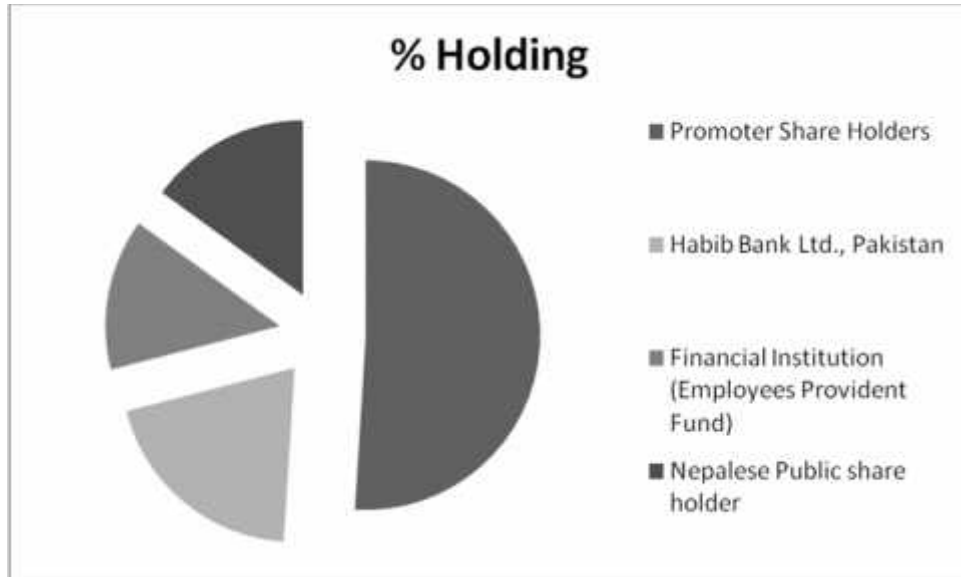
- Tele-Banking
- 24 hours banking
- Credit card facilities
- Automated Teller Machine( ATM)
- Visa card
- L.C. service
- Safe deposit locker
- Himalayan SMS(Short Message Service)
- Foreign currency transaction etc.

**Table: 1.2**  
**The ownership Pattern of HBL**

<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>

*Source: Report of HBL*

**Figure 1.1**  
**The ownership Pattern of HBL**



The present capital structure of HBL is shown below:

<b>Share Structure</b>	<b>Amount (Rs.)</b>
Authorized Capital	1,000,000,000
Issued Capital	650,000,000
Paid- Up Capital(5,362,500 equity shares of NRS 100.00 each, fully paid)	536,250,000

*Source: Report of HBL*

### **1.5.2 Everest Bank Limited**

Everest Bank Ltd. was registered under the Company Act 1964 on 19<sup>th</sup> November 1993 (2049/09/03) and started banking transaction on 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 banks in India, having over 100 years of successful banking experience and known for its strong system and procedure. A team of professionals was deputed by PNB under this arrangement and now the bank has 14 branches including main office (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 Nepalese investors. Nepalese promoter holding 50% and rest 30% held by General Public. The main purpose of EBL is to extend professional banking services to various sectors of the society in Nepal and thereby contributing in the economic development of the country. It provides following facilities and services to their customers:

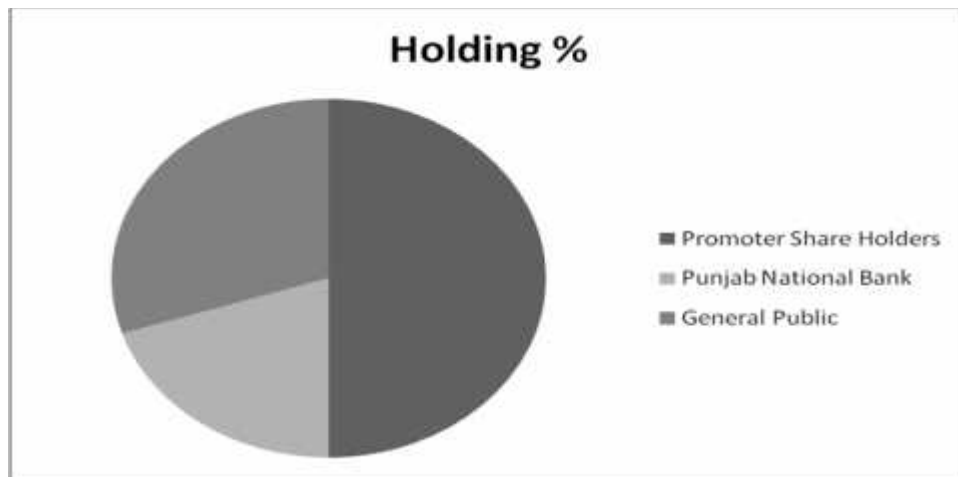
- Cumulative Deposit Scheme
- Unfix Fixed Deposit
- Remittance
- ATM Facilities
- FC Deposit/ Lending
- Facilities of NRN
- Required Deposit Plan
- Telegraphy transfer (T.T)
- Letter of Credit
- Drawing Arrangement
- SWIFT Transfer
- Foreign Exchange
- International Trade and Bank Guarantees
- Merchant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

**Table 1.3**  
**The ownership Pattern of EBL**

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

*Source: Report of EBL*

**Figure 1.2**  
**The ownership Pattern of EBL**



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 1.4**  
**The ownership Pattern of EBL**

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

*Source: Report of EBL*

### **1.5.3 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 on 21<sup>st</sup> January 1986 under the Company Act 1964. The French partner (holds capital of NIBL) was credited to Agricole Indosuez, a subsidiary of one of the largest banking world. 50% of the share of Nepal Indosuez Bank Ltd. is 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 on its 15<sup>th</sup> Annual General Meeting (A.G.M.) held on May 31, 2002.

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

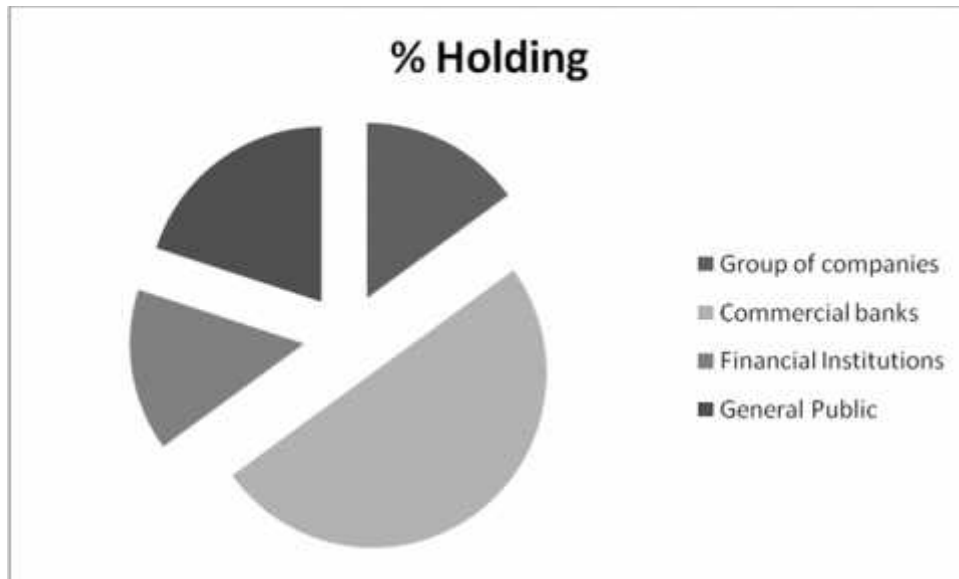
- Trade Finance
- Remittance
- Export Credit
- Tele Banking
- ATM with any Branch Banking
- Vehicle Loan
- E-Banking Service
- Locker Facilities
- Any Branch Banking
- Ezee Saving Scheme
- 365 Days Banking

**Table 1.5**  
**The ownership Pattern of NIBL**

<b>Subscription</b>	<b>Holding %</b>
Group of companies	15%
Commercial banks	50%
Financial Institutions	15%
General Public	20%
<b>Total</b>	<b>100%</b>

*Source: Report of NIBL*

**Figure 1.3**  
**The ownership Pattern of NIBL**



The present capital structure of NIBL is presented below:

<b>Share Structure</b>	<b>Amount (Rs.)</b>
Authorized Capital	59,00,00,000
Issued Capital	29,52,93,000
Paid- Up Capital	29,52,93,000

*Source: Report of NIBL*

## **1.6 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 the flow of the cash in different sectors for the 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 point of view 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.”

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 2001 to 2008.

## **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, development banks and financial institutions are operating their work to assist in the process of economic development of the

country. Due to the high competition between the financial institutions the huge amount collected from public is comparatively lower than fund mobilization and investment practice of collected funds. Therefore, it raised the problem 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 taking consideration of any financial risk, business risk and other related facts, the bank cannot obtain profitable return as well as it sometimes loses 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 banks 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% of 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 earnings, reserves share capital and other liabilities.

Commercial banks are reported to be criticized by customers due to implementation of wrong investment policies. They are said to be investing less risky and highly liquid sectors, they keep high liquid position and flow less funds in productive sectors. So these types of functions prove less investment opportunity of the fund. Sometimes they seem to be ready to invest the idle fund even in those investments, which have lower risk and comparatively greater profit. The other problem is diversification of the 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 are mentioned 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) Are these three joint ventures successful to utilize their available fund?
- e) Are they maintaining sufficient liquidity position?
- f) Which joint venture has 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 objective 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 the point whether HBL, EBL and NIBL are adopting efficient fund mobilizing policy or not. The main objectives related to this study are presented below:

- To 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 evaluate comparatively operating, financial and investment efficiency of three joint venture banks.
- To carry out 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 analyze the sources and uses of funds and analysis of cash flow of these three joint venture banks.

## 1.9 Significance of the Study

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

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 i.e. 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 banks.
- 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 will 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 and general public. (customer, depositors and creditors)

## **1.10 Limitations 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. 2001/02 to 2007/08).
- 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 study has been organized into five chapters. They are as follows:

### **Chapter I: Introduction**

This is the introductory chapter, which has covered background of the study, focus of the study, statement of the problem, objectives of the study, significance of the study etc.

### **Chapter II: Review of Literature**

This chapter has included conceptual framework i.e. theoretical analysis and review of related different studies. This chapter also emphasizes on how this present studies are different from previous studies.

### **Chapter III: Research Methodology**

This chapter deals with the research design, population and sample, sources of data, data collection techniques and data analysis tools (financial tools and statistical tools) and methods of analysis and presentations.

### **Chapter IV: Presentation and Analysis of Data**

This chapter describes the research methodology employed in the study. It will include secondary data and primary data presentation, data analysis, interpretation, testing of hypothesis and major findings.

### **Chapter V: Summary, Conclusion and Recommendations**

The last chapter states the summaries, conclusions of the whole study and recommendations. It also offers several avenues for future research. The exhibits and bibliography are incorporated at the end of the study.

## CHAPTER-II

### REVIEW OF LITERATURE

This chapter deals with the theoretical aspect of the topic on investment policy in more detail and descriptive manner. It provides the foundation for developing a comprehensive theoretical framework and knowledge of the status relevant to the field of research in order to explore the relevant and true facts for the reporting purpose. Hence, in this chapter, the focus has been made on the review of literature relevant to the investment policy of commercial banks. For this study, different books, journals, articles, annual reports and some research paper related with this topic has been reviewed. Therefore, this chapter is arranged in the following order

#### 2.1 Conceptual Framework

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

Banks are that kind of institutions, which deal 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 sectors. An investment of fund decides the life and death of the bank.

“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,” (*Francis, 1991:212*).

“The investment objective is to increase systematically the individual’s wealth, defined as assets minus liabilities. The higher the level of the desired wealth, the higher must be received. An investor seeking higher return must be willing to face higher level of risk,” (*Cheney and Moses; 1996:12*).

“Investment is the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor’s wealth, which is the sum of current income and present value of all future income,” (*Charles; 1999:2*).

“Investment in its broadest sense means the sacrifice of current dollars for the future dollars. Two different attributes are generally involved, time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all and the magnitude is uncertain. In some cases the element of time predominates (e.g. government bond). In other cases, risk is the dominant attribute (e.g. call option on common stock). Yet both time and risk are important.” (*Charles; 1999, 220*)

“Investment policy fixed responsibilities for the investment disposition of the bank’s assets in term of allocating funds for investment and loan and establishing responsibility for day to day management of those assets,” (*Baxley; 1987:511*).

“Investment is the employment of funds with the aim of achieving additional income of growth in value,” (*Singh; 2001:87*).

“Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns,” (*Gittman and Jochnk; 1990:18*).

“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 and illegal economic downturn. Therefore, the banks investment policy must be such that it ensures sound and prudent in order to protect public funds.” (*Baidya;2004:201*)

“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 the construction of homes and making trade with foreign countries. Therefore 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 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,” (*Baidya; 1997:47*).

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

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

“Banks are those institutions which accept 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 it 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.” (*Bhalla; 2007:208*)

“The commercial banks fulfill the credit needs of various economic sectors. The policy of commercial banks is based on the profit maximization of the institute as well as the economic enhancement of the country.”(*Shrestha; 2004:208*)

“Commercial banks still remain the heart of our financial systems 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. Commercial banks are the most important type of financial institutions in the nation in terms of aggregate assets.”(*Reed, Cotter, Gill; 2007:218*)

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.

“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,” (*Crosse; 1963:38*).

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

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

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

Financial institutions should inlet 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 institutions follow the rules and regulation of the company, government and various directions supplied by Nepal Rastra Bank and Ministry of Finance while issuing securities and mobilizing their fund. Illegal securities will bring out the 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 property doesn't yield an income apart from intangible securities, which have lost their value due to price level inflation.

**f) Purpose of loan**

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

**g) Diversification**

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

**2.1.2 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 institutions 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 the staff of the banks as home loan, vehicle loan, personal loan and other loan.

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

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

- It may want to space its maturing so that the inflow of cash coincides with expected withdrawals by depositors of large loan demand 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 fund and least opportunity to invest these funds in much more profitable sectors and to meet the requirement of NRB directives, many commercial banks have to utilize their fund to purchase shares and debentures of 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 examples of these items are letter of credit (L/C), letter of guarantee, bills of collections etc. Nowadays, such activities are stressfully highlighted by some economists 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 bank, 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 bank. 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 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 confirm 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 2008	22 July 2008	Difference in % points
1	Cash deposit requirement in NRB by the commercial banks:			
	Total domestic current and savings deposit liabilities	7.0	7.0	0
	Total domestic time deposit liabilities	4.5	4.5	0
2	Cash-in-Vault requirement of the commercial banks(of total deposit liabilities)	3.0	2.0	1.0

*Source: Nepal Rastra Bank*

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

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

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

### **2) Share Capital**

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

maximum of 67 % share in investment on the commercial banks of national level. In order to provide adequate opportunity for investment to the Nepali promoters in national level banks, only 20 % of total share capital will be made available to general public on the condition that the foreign banks and financial institutions are going to acquire 50% of the total share. In case of commercial banks to be established outside Kathmandu Valley, share investment of promoters and general public should stand at 70% and 30% respectively.

### **3) Legal Procedure**

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

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

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

### **5) Concerning upgradation**

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

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

Of the total committed share capital, the promoters have 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 the 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 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 written form 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 being on any stage of process for license issuance if the above events are proved. Of the total promoters, one-third should be its chartered accountant or at least a graduate of Tribhuvan University or recognized institutions with major in economics or accountancy, finance, law, banking or statistics. Likewise, one-fourth promoters should have the work experience of bank or financial institution or similar nature.

#### **8) Promoters Share**

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

#### **9) Branch Expansion**

The commercial banks established in national level will initially be authorized to open a main branch office in Kathmandu Valley. They will be authorized to open one more

branch in Kathmandu Valley only after they have opened two branches outside the Kathmandu Valley.

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

An individual who is already serving as a director in one of the bank or financial institutions licensed by NRB cannot be considered eligible to be 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, (Economic Survey 2002/03).

### **2.2.1 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 bank's prosperity and its growth. Banks have some fund mobilizing procedures. They are summarized below:

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

In the economic activities there are so many sources of fund. Issuing share and borrowing loan from different sectors are the examples. 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. Bank's promoters issue ordinary shares to the public in fixed number. Bank collects the fund by selling fixed ordinary shares to the public by adopting fixed rules and regulation. The public become shareholders after purchasing the issued share.

**b) Preference Share**

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

**c) Bonus Share**

Company issues the extra shares to the shareholder from the saving from profit and reserve fund by capitalizing these funds. This is known as bonus share. Bank issues 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 sectors through the principle of profit earning. Bank 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 fund's size is based on bank's 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 the 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 sectors. 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 needs fund, it can collect capital by issuing debenture. The money is also collected as bank capital, which is 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 the care of the deposits but also agrees to honors the demands of the depositor for withdraw of money from the deposits. Deposits accepted by the bank are of different types. They are:

- **Current Deposit**

It is also known as demand deposit. A customer can open a current account with a bank by making an initial 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 restriction 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 account during this period the bank is free to make use 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 bank needs money, it can receive 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 one of the types of bank capital.

**2. Mobilization of Funds**

Bank utilizes its funds in suitable area and right sectors. Bank cannot achieve its goals until and unless it mobilizes its funds in right sectors and by performing different activities. Much kind of activities and other things can origin for the purpose of receiving investment from the bank. But bank should separate the useful and profitable sectors for mobilization its funds. Banker being only a financial intermediary, he 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 banks, 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, bank should mobilize its funds in suitable and profitable banking activities and right sector. Generally bank mobilizes its funds in the following activities.

#### **a. Liquid Funds**

A bank keeps volume of amount in liquid funds. The funds have so many responsibilities in banking activities. Liquid funds cover 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 bank invests 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**

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

- ) To government enterprises
- ) To private enterprises

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

#### **d. Fixed Assets**

Land and buildings are essential for the establishment of bank. Bank's funds are used in buying of furniture, vehicle, computer, and other concerned instrument, which are related to banking activities. Bank cannot take direct gain from these assets, but bank should buy it. A bank needs 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. Bank is 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 Journals and Articles**

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

**Sunil Chopra** (1998) in his article, “*Role of Foreign Banks in Nepal*” had concluded 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.

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

- a. The structural ratio of commercial banks shows 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 the conclusion that the commercial banks are highly leveraged and highly risk. Joint venture banks had higher capital adequacy ratio but have been dealing every day.
- e. In case of the analysis of the management achievement, foreign banks have comparatively higher total management achievement index.

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

**Shiva Raj Shrestha** (2004) has presented a short scenario of investment management from his article “*Portfolio Management in Commercial Bank, Theory and Practice.*” He has stressed in the following issues. In case of investors having lower income, portfolio management may be limited to small saving incomes. But, on the other hand, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors

with surplus income. Therefore, portfolio management becomes very important both for an individual as well as institutional investors. Large investors would like to select the best mix of investment assets and subject to the following aspects:

- a. Higher return which is comparable with alternative opportunities available according to the risk class of investors.
- 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 strategies:

- 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.

**Bodi B. Bajracharya** (2005) in his article “*Monetary Policy and Deposit Mobilization in Nepal*” has mentioned that the mobilization of domestic saving is one of the prime objectives of

monetary policy in Nepal. For this purpose, commercial banks stood as the active and vital financial intermediary for generating resources in form of deposit of the investors in different aspects of the economy.”

He has explained that only commercial banks can play an important role to mobilize the national savings. Nowadays 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.

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

Commercial banks are establishing and providing their services in urban areas only. They do not have interest to establish in rural areas. Only the branches 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.

**Shekhar Bahadur Pradhan**, (2001) in his article, “*Deposit Mobilization, its Problem and Prospects*” presented the following problems in the context of Nepal:

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

He has also recommended about how to mobilize the deposit collection by the financial institutions by rendering their services in rural areas and by adding various services.

- By operating rural banking programs and unit.
- Nepal Rastra Bank must organize training programs to develop the skilled human resources.
- By spreading a numbers of co-operative societies to develop mini banking services and improve the habits of public on deposit collection to the rural areas.

**RadheShyam Pradhan** (2001) has done a research for which he carried out a survey in 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 revealed that banks and retained earnings are most widely used as financing sources. Most enterprises do not borrow from only one bank but they do switch between banks to banks whichever offer them the best interest rates. Most enterprises find that banks are flexible in interest rate. Among the bank’s loan, bank loan of less than one year are more popular in public sector where as bank’s 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 in higher side.”

### **2.3.2 Review of Thesis**

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:

**Uttam Raj Pant**, (1978) in his thesis “*A Study of Commercial Bank Deposits and Utilizations*” has tried to examine the resources collection and utilization. He has concluded that commercial banks have failed to utilize their resources due to lending for short term only. So 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 also explained the risk factors. His main focus is deposit collection, which cannot show and analyze the financial position and proper investment policy. His study period is up to FY 1975/76 which also do not show deposit position and its utilization for succeeding years.

**Bhoj Raj Bohara** (1992) in his thesis “*A Comparative Study of the Financial Performance of Nepal Arab Bank Ltd. and Nepal Indosuez Bank Ltd.*” 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, 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, activity and profitability position of two JVBs, he has not explained the investment policy and various types of risks. His study cannot show the performance of the selected firms for the succeeding years because of time limitation i.e. up to 1990/91.

**Uddab Prasad Sapkota** (1998) in his thesis “*A Study on Fund Mobilizing Policy of Standard Chartered Bank Ltd in Comparison to Nepal Bangladesh Bank Ltd and Himalayan Bank Ltd*” has 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 are recommended to increase cash and bank balance to meet the need of investment and demand of loan and advances. And banks are to be investing its funds in the purchase of shares and debentures of other financial, non-financial companies, hotels and government companies.

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

**Samiksha Thapa**(2003) in her thesis "*A Comparative Study on Investment Policy of Nepal Bangladesh Bank Ltd. and other Joint Venture Bank of Nepal*" 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.(2002)

**Mahendra Mandala**, (2004) in his thesis "*A Comparative Financial Performance Appraisal of Joint Venture Banks.*" has studied primarily three joint venture banks i.e. NABIL, NGBL and

Nepal Indosuez Bank Ltd. As per his main objective, he found that 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 programs, play merchant role, mobilize the deposit funds in productive sectors and grant priority to the local manpower.

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

**Udaya Bahadur Silwal** (2004) in his thesis "*Lending Policy of Commercial Banks in Nepal*" having following objectives:

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

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

- Effectiveness of lending policy is directly based upon a sound banking system. But due to geographical variation, transportation and other regional disparities, it is very difficult to expand branches in different rural areas. So, it can be said that commercial banks in Nepal are not playing an active role to utilize their sources collected from different sectors.

- By paying higher interest rate, the banks are increasing deposits, which in turn increase saving habits of the general people. Then the banks will be able to utilize these idle funds in productive channels. This type of business of commercial bank is really a necessary one in an agricultural country like Nepal, where public investment has limited capacity.

**M.N. Karmacharya** (2006) in his thesis “*A Study on the Deposit Mobilization by the Joint Venture Banks*” 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 only to consider security factor only but also to provide loan to genuine projects without securing.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

#### **3.1 Research Design**

Research methodology is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives. This chapter refers to the overall research method from the theoretical aspects to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspects and logical aspects. This research tries to perform well-designed quantities and qualitative research in a very clear and direct way using both financial and statistical tools.

#### **3.2 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 or used by someone previously. The secondary sources of data are Balance Sheet, Profit & Loss account and literature publication of the concerned banks. The NEPSE report of the concerned bank has furnished some important data to this research work. Some supplementary data and information have been collected from the authoritative sources like Nepal Rastra Bank, Central Library of T.U., 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.

### **3.3 Population and Sample**

There are altogether 26 commercial banks functioning all over the country 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 taken for research work. These banks are compared as sample for the study.

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.

### **3.4 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 the 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

### **3.4.1. Financial Tools**

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

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

### **Ratio Analysis**

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as “the indicated quotient of two mathematical expressions; the relationship between two or more things.” In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The relationship between two accounting figures 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.

“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.”

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.

### **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 firm’s ability to pay its obligation when due.” 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.

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

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

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

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

### **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.

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 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 by 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 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 is well managed and efficiently utilizes 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 so does 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 nonperforming 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. Growth ratios are directly related to the fund mobilization and investment of those firms. The following growth ratios are calculated.

- 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.

### **i). 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. In sources and uses analysis, the proportion of each source and each use to the total funds of the bank is calculated and it is expressed in percentage. And the percentage is compared with the standard percentage of a typical bank. This analysis is also concerned with the behaviors of the sources of funds. The uses are 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.

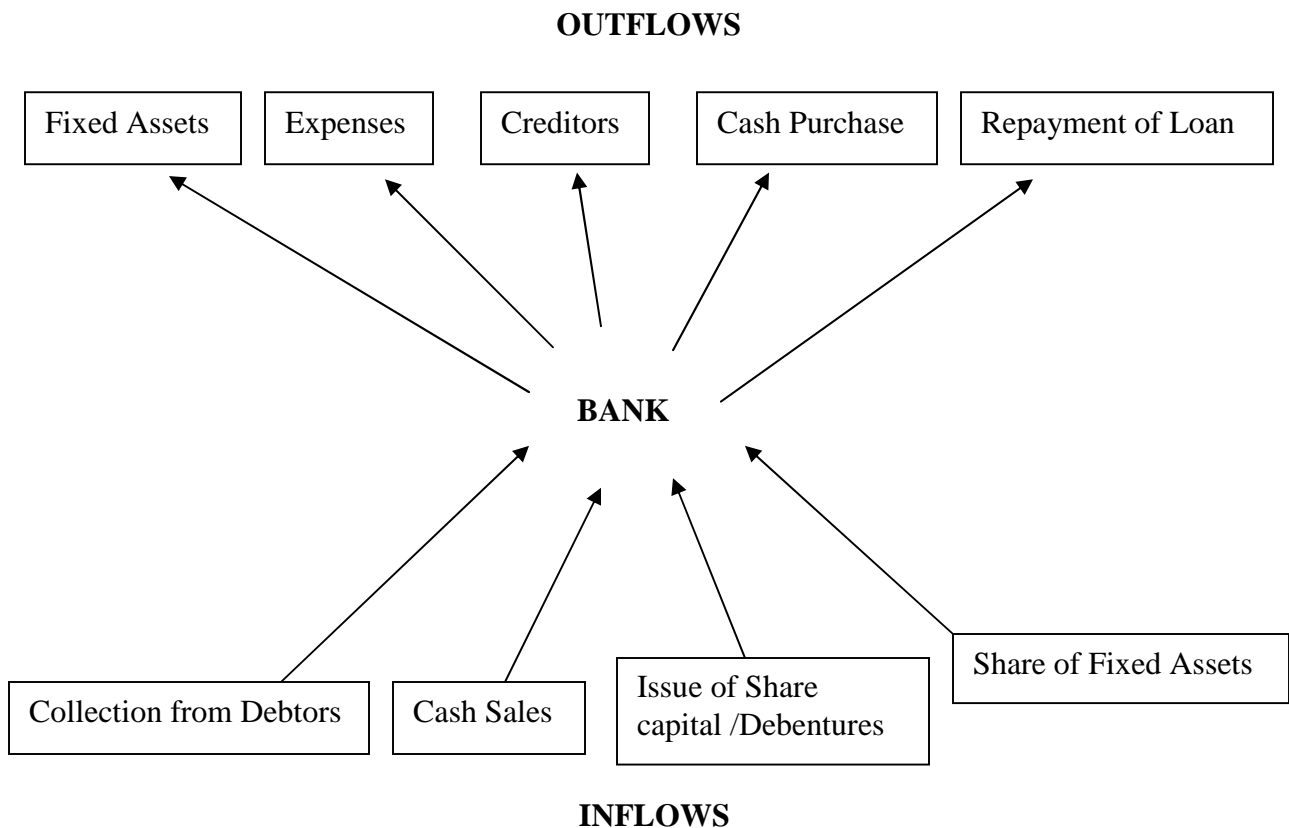
### **ii). Cash Flow Analysis**

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

The analysis of events and transactions that affects the cash position of company is termed as cash flow analysis. Cash flow analysis is done through statement of cash flows. A cash flow

statement is a statement of company's ability to generate cash from various activities such as **operating, investing, and financing** and their need of cash. It is a statement which shows the inflows and outflows of cash and cash equivalents during the year. (*Wagle and Dahal, 2003; 11.2*)

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



### 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:

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

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 where as more consistent, more uniform, more stable and homogeneous.

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

## iii) Standard Deviation (S.D)

The standard deviation is an important and widely used measure of dispersion. The measurement of the scatter of the mass of figure in a series about an average is known as dispersion. The greater the amount of dispersion, greater will be the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposite and 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:

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

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 2001/2002 to 2007/2008. It is necessary to calculate the forecasting for next five years till 2012/13.

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

This is an analytical chapter, where an attempt has been made to analyze and evaluate major financial items, which have impact on investment management and fund mobilization of NIBL, HBL and EBL. A number of financial ratios are crucial in evaluating the funds mobilization system of commercial banks which have been calculated and analyzed in this chapter.

#### 4.1 Ratio Analysis

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as “the indicated quotient of two mathematical expressions; the relationship between two or more things.” In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The relationship between two accounting figures 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.

##### 4.1.1 Liquidity Ratios

Liquidity ratios are applied to measure the ability of the firms to meet short term obligations.

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

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

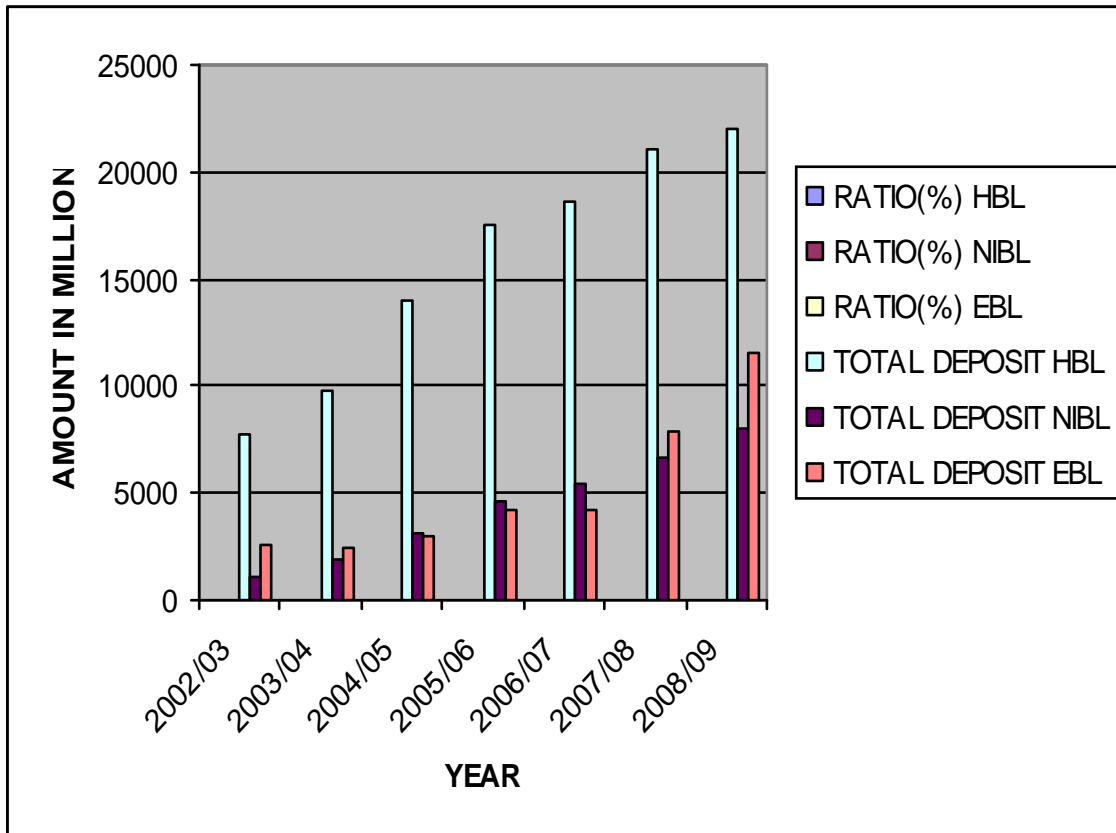
Cash and bank balance are the most liquid current assets of a firm. Cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositors immediately. This ratio is computed dividing the amount of cash and bank balance by the total deposits. It can be presented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

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

**Table 4.1**

**Comparative Cash and Bank Balance to Total Deposit Ratios (Rs. in million)**

YEAR	RATIO(%)			TOTAL DEPOSIT		
	HBL	NIBL	EBL	HBL	NIBL	EBL
2002/03	13.34	58.84	22.68	7713.60	1124.90	2582.20
2003/04	7.43	60.40	23.64	9779.72	1948.94	2438.88
2004/05	6.42	51.41	9.11	14043.10	3057.43	2983.28
2005/06	8.19	12.28	18.35	17532.40	4574.51	4256.21
2006/07	6.79	9.32	10.84	18619.37	5466.61	4174.76
2007/08	9.42	11.69	17.02	21007.37	6694.95	7922.75
2008/09	9.09	10.65	7.84	22010.33	8063.90	11524.68



*Source: Present in Appendix-I (Table No.1)*

**Diagram presentation and analysis:**

Table 4.1 shows cash and bank balance to total deposit ratio of the three banks that are following fluctuating trend. NIBL has maintained the higher ratio i.e. 60.40 % of cash and bank balance to total deposit than other two banks during the observation period.

**Interpretation:**

The average ratio of NIBL is higher than HBL and EBL. NIBL has the ratio of 30.66%. 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 amongst them.

The average ratio of the HBL is 13.34, 7.43, 6.42, 8.19, 6.79, 9.42 and 9.09 respectively within the observed years 2002/03 to 2008/09.

Similarly the average ratio of the NIBL is 58.84, 60.40, 51.41, 12.28, 9.32, 11.69 and 10.65 respectively within the observed years 2002/03 to 2008/09.

Likewise the average ratio of the EBL is 22.68, 23.64, 9.11, 18.25, 10.84, 17.02 and 7.84 respectively within the observed years 2002/03 to 2008/09.

The table clearly shows the total deposit of NIBL is higher than other two banks and every year the deposit trend is in increasing trend.

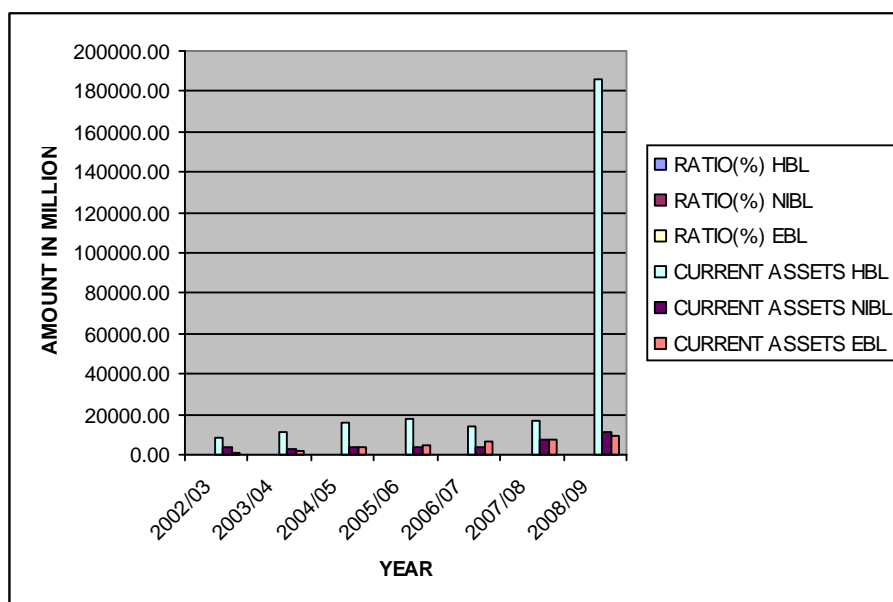
### 4.1.1.2 Cash and Bank Balance to Current Assets Ratio

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 firm to meet the cash demand. This ratio is calculated dividing cash and bank balance by total current assets and can be calculated as,

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

**Table 4.2**  
**Comparative Cash and Bank Balance to Current Assets Ratios (Rs. in million)**

YEAR	RATIO(%)			CURRENT ASSETS		
	HBL	NIBL	EBL	HBL	NIBL	EBL
2002/03	11.94	45.73	19.90	8620.84	3286.00	1282.26
2003/04	6.62	47.43	22.18	10988.05	3057.24	2077.32
2004/05	5.78	40.39	8.35	15605.42	3744.09	3334.59
2005/06	8.27	10.20	16.53	17359.33	3423.11	5049.85
2006/07	8.93	6.81	9.32	14165.33	3340.25	6359.66
2007/08	11.72	10.28	14.54	16881.45	7517.89	7836.89
2008/09	10.76	9.26	6.72	186054.75	11140.23	9399.97
<b>MEAN ( <math>\bar{x}</math> )</b>	<b>9.15</b>	<b>13.93</b>	<b>24.30</b>			
<b>S.D ( <math>\bar{T}</math> )</b>	<b>2.25</b>	<b>5.54</b>	<b>17.65</b>			
<b>C.V</b>	<b>24.59</b>	<b>39.77</b>	<b>72.63</b>			



Source: Present in Appendix-I (Table No.2)

### **Diagram presentation and analysis:**

Table no 4.2 shows that cash and bank balance to current assets ratios of HBL has less fluctuating trend. The highest ratio of HBL is 11.94 % in the fiscal year 2002/03 and lowest ratio is 5.78% in the fiscal year 2004/05 , where as EBL and NIBL ratios is in more fluctuating trend . EBL has highest ratio of 22.18% and lowest ratio of 6.72%. In the same way NIBL has the highest ratio of 47.43% and lowest ratio of 6.81%. Among three banks, NIBL has maintained the highest ratio than other banks in the observed periods.

Similarly, C.V ratio of HBL is less than that of two banks i.e. 24.59%. It indicates that ratio of HBL is more than that of EBL and NIBL.

The average ratio of the HBL is 11.94, 6.62, 5.78, 8.27, 8.93, 11.72 and 10.76 respectively between observed years 2002/03 to 2008/09.

Similarly the average ratio of the NIBL is 45.73, 47.43, 40.39, 10.20, 6.81, 10.28 and 9.26 respectively within the observed years 2002/03 to 2008/09.

Likewise the average ratio of the EBL is 19.90, 22.18, 8.35, 16.53, 9.32, 14.52 and 6.72 respectively within the observed years 2002/03 to 2008/09.

The table clearly shows the total deposit of NIBL is higher than other two banks and every year the deposit of all banks are in increasing trend.

Likewise the ratio of NIBL is three times more than HBL and four times higher than EBL.

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

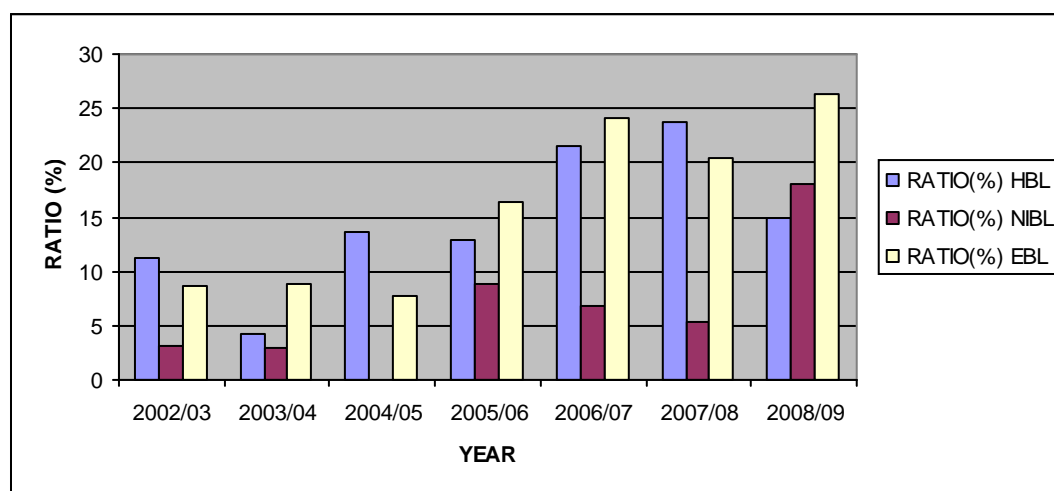
This ratio is used to find the percentage of current assets invested on government securities, treasury bills and development bonds. It can be mentioned as:

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

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

**Table 4.3**  
**Comparative Investment on Government Securities to Current Assets Ratio**

YEAR	RATIO (%)		
	HBL	NIBL	EBL
2002/03	11.26	3.04	8.66
2003/04	4.18	2.94	8.90
2004/05	13.54	0.00	7.73
2005/06	12.81	8.76	16.30
2006/07	21.52	6.72	24.20
2007/08	23.69	5.32	20.41
2008/09	14.90	17.96	26.24
<b>MEAN ( <math>\bar{X}</math> )</b>	<b>14.56</b>	<b>6.39</b>	<b>16.06</b>
<b>S.D ( <math>\uparrow</math> )</b>	<b>6.03</b>	<b>5.41</b>	<b>7.21</b>
<b>C.V</b>	<b>41.41</b>	<b>84.66</b>	<b>44.89</b>



*Source: Present in Appendix-I (Table No.3)*

### **Diagram presentation and analysis:**

Table no 4.3 shows that HBL and NIBL have invested their fund in government securities which is in fluctuating trend in comparison to EBL. NIBL has not invested any amount in government securities in the year 2004/05. EBL has invested more portions of current assets in government securities i.e. 26.24% in the year 2008/09 in comparison to HBL and NIBL during the observed period.

The average ratio of Investment on Government Securities to Current Assets Ratios of the HBL is 11.26, 4.18, 13.54, 12.81, 21.52, 23.69 and 14.90 respectively between the observed years 2002/03 to 2008/09.

Similarly the average ratio of Investment on Government Securities to Current Assets Ratios of the NIBL is 3.04, 2.94, 0.00, 8.76, 6.72, 5.32 and 17.96 respectively between the observed years 2002/03 to 2008/09.

Likewise, the average ratio of Investment on Government Securities to Current Assets Ratios of the EBL is 8.66, 8.90, 7.73, 16.30, 24.20, 20.41 and 26.24 respectively between the observed years 2002/03 to 2008/09.

The mean ratio of EBL is the highest i.e. 16.06% than that of HBL and NIBL. Coefficient of variation (C.V) of HBL is 41.41%. It seems that HBL is more consistent in making investment in Government securities than EBL and NIBL.

## 4.1.2 Assets Management Ratio

The asset management ratio, measures how effectively the firm is managing its assets.

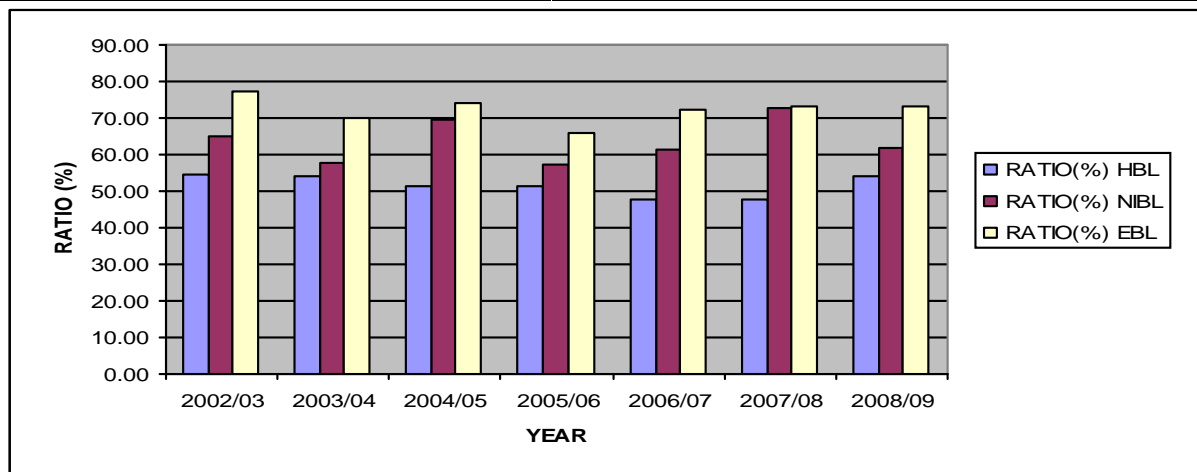
### 4.1.2.1 Loan and Advances to Total Deposit Ratio

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,

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

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

YEAR	RATIO (%)		
	HBL	NIBL	EBL
2002/03	54.75	64.81	77.48
2003/04	54.31	57.86	70.03
2004/05	51.45	69.41	74.25
2005/06	51.42	57.07	65.71
2006/07	47.87	61.43	72.23
2007/08	47.61	72.86	73.32
2008/09	54.30	61.87	72.97
<b>MEAN ( <math>\bar{X}</math> )</b>	<b>51.67</b>	<b>63.62</b>	<b>72.28</b>
<b>S.D ( <math>\uparrow</math> )</b>	<b>2.79</b>	<b>5.40</b>	<b>3.40</b>
<b>C.V</b>	<b>5.40</b>	<b>8.49</b>	<b>4.70</b>



*Source: Present in Appendix-I (Table No.4)*

### **Diagram presentation and analysis:**

Table no 4.4 shows that these three banks have mobilized their collected deposits on loan and advances for the purpose of earning profit which is in fluctuating trend. The highest ratio of loan and advance to total deposit of HBL, NIBL and EBL are 54.75%, 69.41% and 77.48% respectively.

The average deposits on loan and advances to total deposit ratios of the HBL is 54.75, 54.31, 51.45, 51.42, 47.87, 47.61 and 54.30 respectively between the observed years 2002/03 to 2008/09.

Similarly the average deposits on loan and advances to total deposit ratios of the NIBL is 64.81, 57.86, 69.41, 57.07, 61.43, 72.86 and 61.87 respectively between the observed years 2002/03 to 2008/09.

Likewise the average deposits on loan and advances to total deposit ratios of the EBL is 77.48, 70.03, 74.25, 65.71, 72.23, 73.32 and 72.97 respectively between the observed years 2002/03 to 2008/09.

HBL has mobilized 51.67% of its collected deposit on loan and advances which is less than that of EBL and NIBL in average. Coefficient of variation of EBL is 4.70%, which shows that EBL is more stable than HBL and NIBL in mobilizing collected deposits.

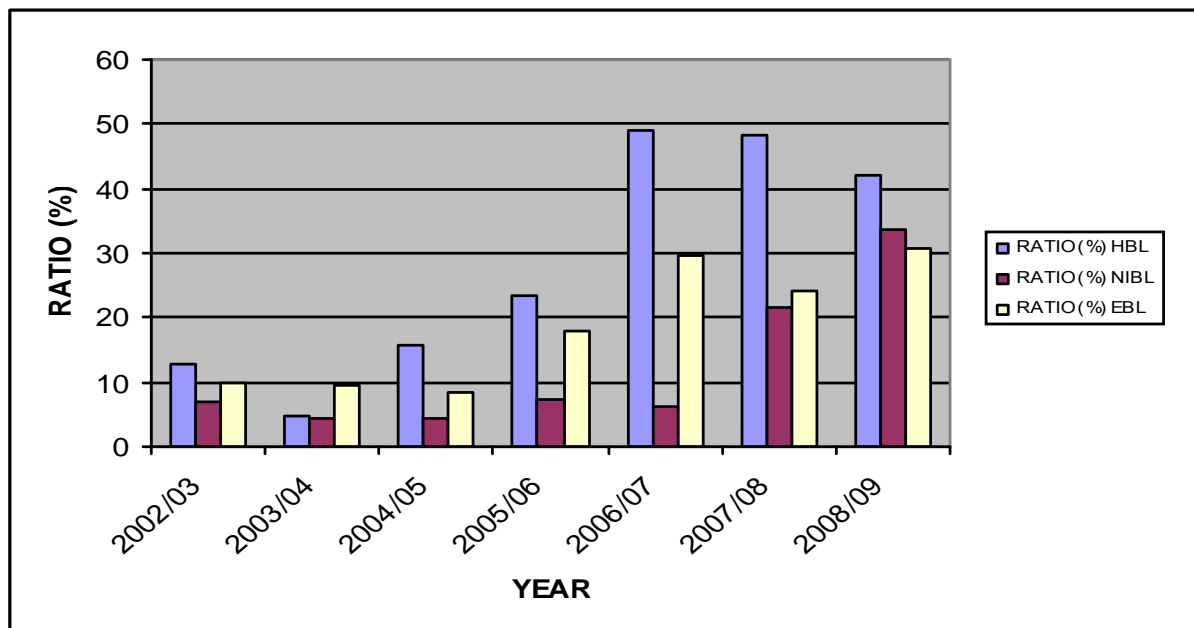
### 4.1.2.2 Total Investment to Total Deposit Ratio

Investment is one of the major sources of earning 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:

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

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

YEAR	RATIO (%)		
	HBL	NIBL	EBL
2002/03	12.63	6.78	9.88
2003/04	4.80	4.21	9.62
2004/05	15.78	4.26	8.51
2005/06	23.29	7.35	18.07
2006/07	49.18	6.28	29.79
2007/08	48.44	21.52	24.15
2008/09	42.22	33.51	30.80
<b>MEAN ( <math>\bar{x}</math> )</b>	<b>28.05</b>	<b>11.99</b>	<b>18.69</b>
<b>S.D ( <math>\sigma</math> )</b>	<b>16.96</b>	<b>10.39</b>	<b>8.97</b>
<b>C.V</b>	<b>60.46</b>	<b>86.66</b>	<b>47.99</b>



*Source: Present in Appendix-I (Table No.5)*

### **Diagram presentation and analysis:**

Table no 4.5 shows that these three banks have mobilized their collected deposits on investment in different sectors for the purpose of earning profit which is in fluctuating trend. In average HBL has invested more amount of its total deposit in comparison to NIBL and EBL i.e. 28.05%. The coefficient of variation of EBL is 47.99%. It indicates that EBL is more consistent to make investment of total deposits than HBL and NIBL.

The average ratio of total investment to total deposit ratios of the HBL is 12.63, 4.80, 15.78, 23.29, 49.18, 48.44 and 42.22 respectively between the observed years 2002/03 to 2008/09.

Similarly the average ratio of total investment to total deposit ratios of the NIBL is 6.78, 4.21, 4.26, 7.35, 6.28, 21.52 and 33.51 respectively between the observed years 2002/03 to 2008/09.

Likewise the average ratio of total investment to total deposit ratios of the EBL is 9.88, 9.62, 8.51, 18.07, 29.79, 24.15 and 30.80 respectively between the observed years 2002/03 to 2008/09.

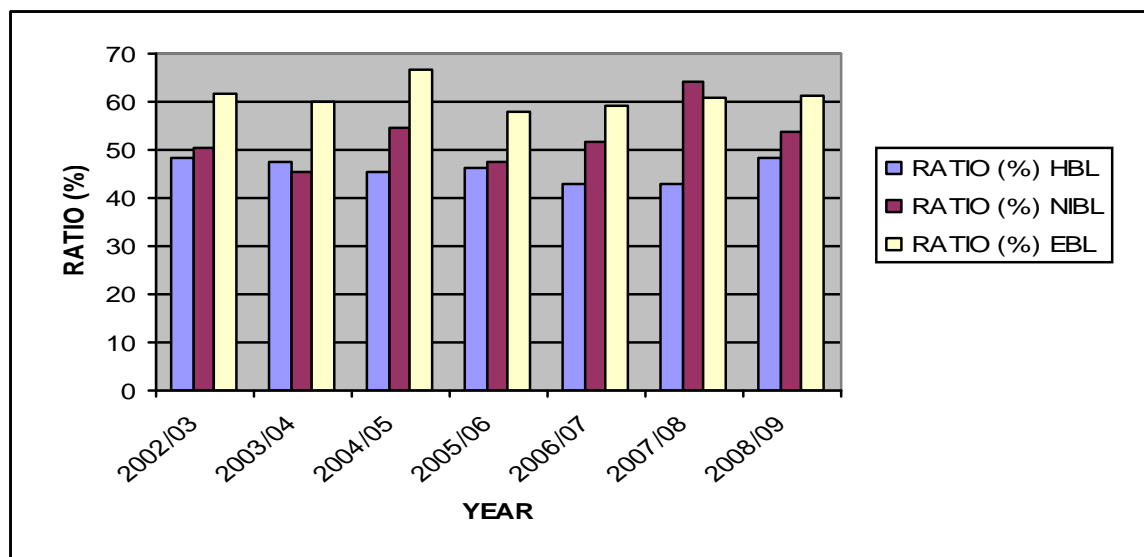
### 4.1.2.3 Loan and Advances to Total Working Fund Ratio

Loan and advances to working fund ratio can be obtained by 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 Ratio**

YEAR	RATIO (%)		
	HBL	NIBL	EBL
2002/03	48.35	50.37	61.53
2003/04	47.56	45.43	59.99
2004/05	45.54	54.54	66.54
2005/06	46.23	47.37	57.77
2006/07	43.12	51.56	59.20
2007/08	42.82	64.03	60.96
2008/09	48.26	53.81	61.37
<b>MEAN ( <math>\bar{x}</math> )</b>	<b>45.98</b>	<b>52.44</b>	<b>61.05</b>
<b>S.D ( <math>\dagger</math> )</b>	<b>2.13</b>	<b>5.61</b>	<b>2.56</b>
<b>C.V</b>	<b>4.63</b>	<b>10.70</b>	<b>4.19</b>



*Source: Present in Appendix-I (Table No.6)*

### **Diagram presentation and analysis:**

Table no 4.6 shows the loan and advances to total working fund ratio of HBL, NIBL and EBL which is in fluctuating trend. During the study period HBL, NIBL and EBL have the highest ratio of 48.35%, 6.03% and 66.54% in year 2002/03, 2007/08 and 2004/05. On average EBL maintains highest ratio of 61.05% than HBL and NIBL. The coefficient of variation of EBL is more consistent than HBL and NIBL because it has the lowest variation.

The average loan and advances to working fund ratios of the HBL is 48.35, 47.56, 45.54, 46.23, 43.12, 42.82 and 48.26 respectively between the observed years 2002/03 to 2008/09.

Similarly the average loan and advances to working fund ratios of the NIBL is 50.73, 45.43, 54.54, 47.37, 51.56, 64.03 and 53.81 respectively between the observed years 2002/03 to 2008/09.

Likewise the average loan and advances to working fund ratios of the EBL is 61.53, 59.99, 66.54, 57.77, 59.20, 60.96 and 61.37 respectively between the observed years 2002/03 to 2008/09.

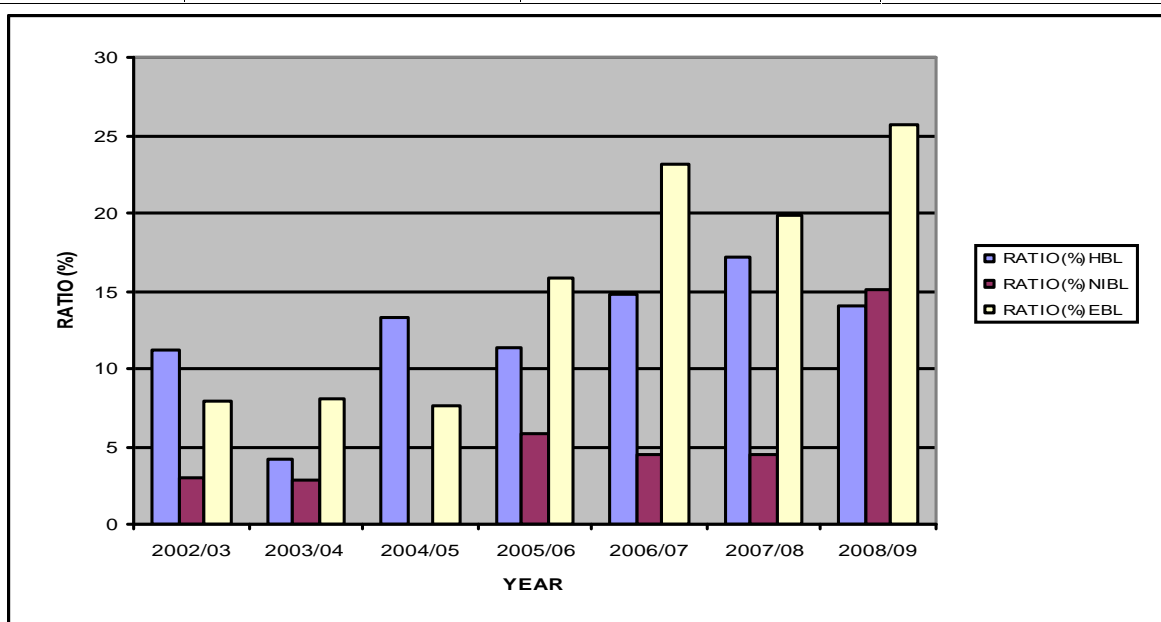
#### 4.1.2.4 Investment on Government Securities to Total Working Fund Ratio

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:

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

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

YEAR	RATIO (%)		
	HBL	NIBL	EBL
2002/03	11.12	3.01	7.84
2003/04	4.11	2.90	8.13
2004/05	13.32	0.00	7.55
2005/06	11.41	5.85	15.82
2006/07	14.74	4.51	23.07
2007/08	17.12	4.44	19.86
2008/09	14.02	15.10	25.73
<b>MEAN ( <math>\bar{x}</math> )</b>	<b>12.26</b>	<b>5.12</b>	<b>15.43</b>
<b>S.D ( <math>\dagger</math> )</b>	<b>3.83</b>	<b>4.42</b>	<b>7.14</b>
<b>C.V</b>	<b>31.20</b>	<b>86.26</b>	<b>46.30</b>



Source: Present in Appendix-I (Table No.7)

### **Diagram presentation and analysis:**

Table no 4.7 shows the Investment on government securities to working fund ratio of HBL, NIBL and EBL which is in fluctuating trend. NIBL has not invested its fund in government securities in year 2002/03. HBL, EBL and NIBL have the highest ratio of 11.12%, 25.73% and 15.10% in the year 2007/08, 2008/09 and 2008/09 respectively.

The average ratio of the investment on government securities to working fund of the HBL is 11.12, 4.11, 13.32, 11.41, 14.74, 17.12 and 14.02 respectively between the observed years 2002/03 to 2008/09.

Similarly the average ratio of the investment on government securities to working fund of the NIBL is 3.01, 2.90, 0.00, 5.85, 4.51, 4.44 and 15.10 respectively between the observed years 2002/03 to 2008/09.

Likewise the average ratio of the investment on government securities to working fund of the EBL is 7.84, 8.13, 7.55, 15.82, 23.07, 19.86 and 25.73 respectively between the observed years 2002/03 to 2008/09.

HBL, EBL and NIBL have the lowest ratio of 4.11% in the fiscal year 2003/04, 7.55% in the fiscal year 2004/05 and 0.00% in the fiscal year 2004/05 respectively. EBL has the highest mean among three banks i.e. 15.43%. The coefficient of variation indicates HBL has more stable ratio than other remaining banks that we have studied above.

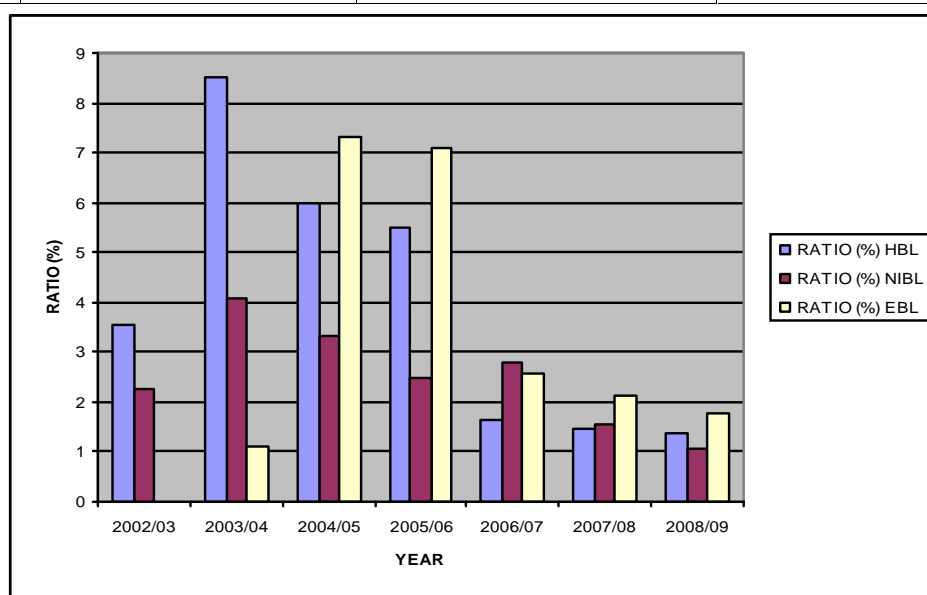
### 4.1.2.5 Investment on Shares and Debentures to Total Working Fund Ratio

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. It is calculated as:

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

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

YEAR	RATIO (%)		
	HBL	NIBL	EBL
2002/03	3.55	2.26	0.00
2003/04	8.51	4.09	1.10
2004/05	5.98	3.34	7.33
2005/06	5.48	2.47	7.11
2006/07	1.66	2.79	2.57
2007/08	1.47	1.54	2.12
2008/09	1.38	1.05	1.78
<b>MEAN ( <math>\bar{x}</math> )</b>	<b>4.00</b>	<b>2.51</b>	<b>3.14</b>
<b>S.D ( <math>\dagger</math> )</b>	<b>2.55</b>	<b>0.91</b>	<b>2.69</b>
<b>C.V</b>	<b>63.66</b>	<b>36.44</b>	<b>85.60</b>



*Source: Present in Appendix-I (Table No.8)*

### **Diagram presentation and analysis:**

Table no 4.8 shows the investment on shares and debentures to total working fund ratio of HBL, NIBL and EBL which is in fluctuating trend .During the study period HBL, NIBL and EBL have the highest ratio of 8.51%, 4.09% and 7.33% in year 2003/04, 2003/04 and 2004/05. HBL has invested more amounts of shares and debentures i.e. 4% as compare to EBL and NIBL in average. The coefficient of variation of NIBL is more consistent than HBL and EBL.

The average investment on shares and debentures to working fund ratios of the HBL is 3.55, 8.51, 5.98, 5.48, 1.66, 1.47 and 1.38 respectively between the observed years 2002/03 to 2008/09.

Similarly the average investment on shares and debentures to working fund ratios of the NIBL is 2.26, 4.09, 3.34, 2.47, 2.79, 1.54 and 1.05respectively between the observed years 2002/03 to 2008/09.

Likewise the average investment on shares and debentures to working fund ratios of the EBL is 0.00, 1.10, 7.33, 7.11, 2.57, 2.12 and 1.78 respectively between the observed years 2002/03 to 2008/09.

### 4.1.3 Profitability Ratios

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.

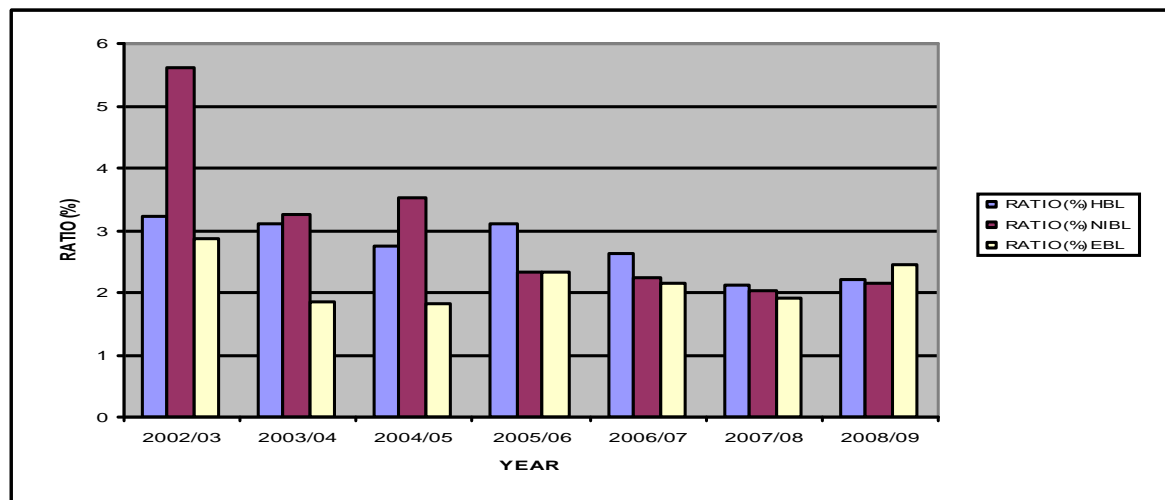
#### 4.1.3.1 Return on Loan and Advances Ratio

Return on loan and advances ratio shows how efficiently the banks have utilized their resources to earn good return from provided loan and advances. It is calculated 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 Ratio**

YEAR	RATIO (%)		
	HBL	NIBL	EBL
2002/03	3.22	5.61	2.87
2003/04	3.11	3.24	1.85
2004/05	2.76	3.51	1.82
2005/06	3.11	2.32	2.32
2006/07	2.64	2.23	2.16
2007/08	2.12	2.02	1.92
2008/09	2.20	2.14	2.44
<b>MEAN ( <math>\bar{X}</math> )</b>	<b>2.74</b>	<b>3.01</b>	<b>2.20</b>
<b>S.D ( <math>\uparrow</math> )</b>	<b>0.41</b>	<b>1.19</b>	<b>0.35</b>
<b>C.V</b>	<b>14.96</b>	<b>39.49</b>	<b>15.93</b>



Source: Present in Appendix-I (Table No.9)

**Diagram presentation and analysis:**

Table no 4.9 shows the return on loan and advances ratios of HBL, NIBL and EBL which is in fluctuating trend .During the study period, NIBL has the highest ratio of 5.61% than that of HBL and EBL i.e. 3.22% and 2.87 % respectively. In average NIBL has the highest ratio of 3.01% where as HBL and EBL has the ratio of 2.74% and 2.20% respectively.

The average return on loan and advances ratios of the HBL is 3.22, 3.11, 2.76, 3.11, 2.64, 2.12 and 2.20 respectively between the observed years 2002/03 to 2008/09.

Similarly the average return on loan and advances ratios of the NIBL is 5.61, 3.24, 3.51, 2.32, 2.23, 2.02 and 2.14 respectively between the observed years 2002/03 to 2008/09.

Likewise the average return on loan and advances ratios of the EBL is 2.87, 1.85, 1.82, 2.32, 2.16, 1.92 and 2.44 respectively between the observed years 2002/03 to 2008/09.

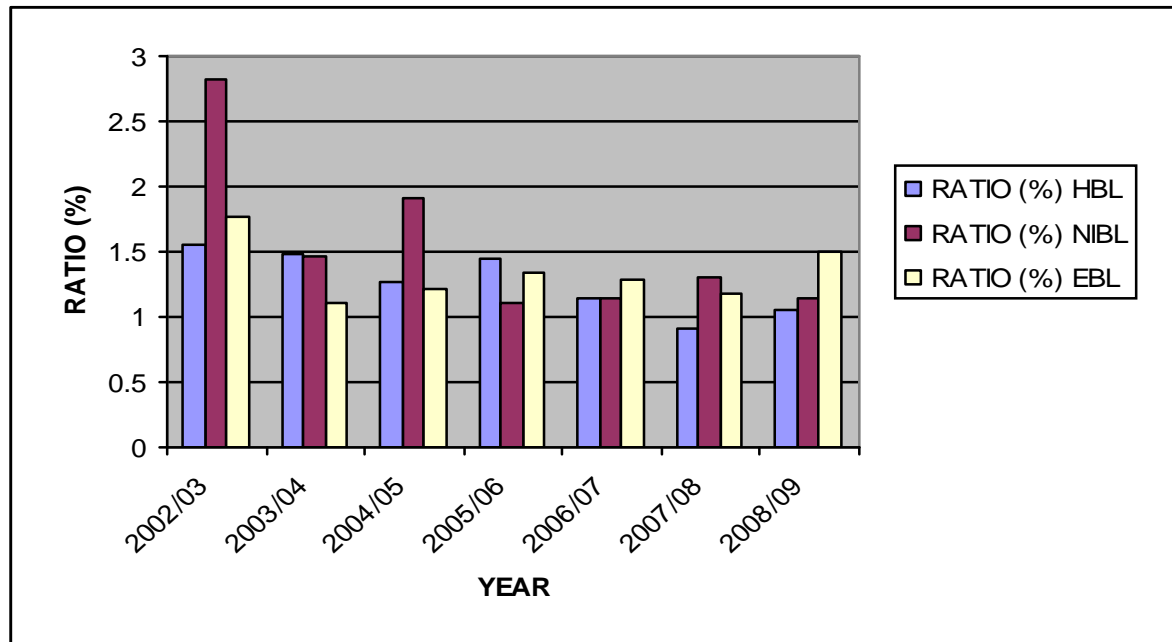
### 4.1.3.2 Return on Total Working Fund Ratio

Return on total working fund ratio measures the profit earning capacity of the banks by utilizing available resources i.e. total assets. It is calculated as

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

**Table 4.10**  
**Comparative Return on Total Working Fund Ratio**

YEAR	RATIO (%)		
	HBL	NIBL	EBL
2002/03	1.56	2.82	1.77
2003/04	1.48	1.47	1.11
2004/05	1.26	1.91	1.21
2005/06	1.44	1.10	1.34
2006/07	1.14	1.15	1.28
2007/08	0.91	1.30	1.17
2008/09	1.06	1.15	1.50
<b>MEAN ( <math>\bar{x}</math> )</b>	<b>1.26</b>	<b>1.56</b>	<b>1.34</b>
<b>S.D ( <math>\dagger</math> )</b>	<b>0.22</b>	<b>0.58</b>	<b>0.21</b>
<b>C.V</b>	<b>17.49</b>	<b>37.06</b>	<b>15.67</b>



*Source: Present in Appendix-I (Table No.10)*

### **Diagram presentation and analysis:**

Table no 4.10 shows the return on total working fund ratios of HBL , NIBL and EBL which is in fluctuating trend .During the study period, NIBL has the highest ratio of 2.82% other than that of HBL and EBL i.e. 1.56% and 1.77 % respectively. HBL has the lowest ratio of 1.06% in the fiscal year 2008/2009 where as NIBL and EBL has the lowest ratio of 1.10% and 1.11% in the fiscal year 2005/06 and 2003/04 respectively.

The average return on total working fund ratios of the HBL is 1.56, 1.48, 1.26, 1.44, 1.14, 0.91 and 1.06 respectively between the observed years 2002/03 to 2008/09.

Similarly the average return on total working fund ratios of the NIBL is 2.82, 1.47, 1.91, 1.10, 1.15, 1.30 and 1.15 respectively between the observed years 2002/03 to 2008/09.

Likewise the average return on total working fund ratios of the EBL is 1.17, 1.11, 1.21, 1.34, 1.28, 1.17 and 1.50 respectively between the observed years 2002/03 to 2008/09.

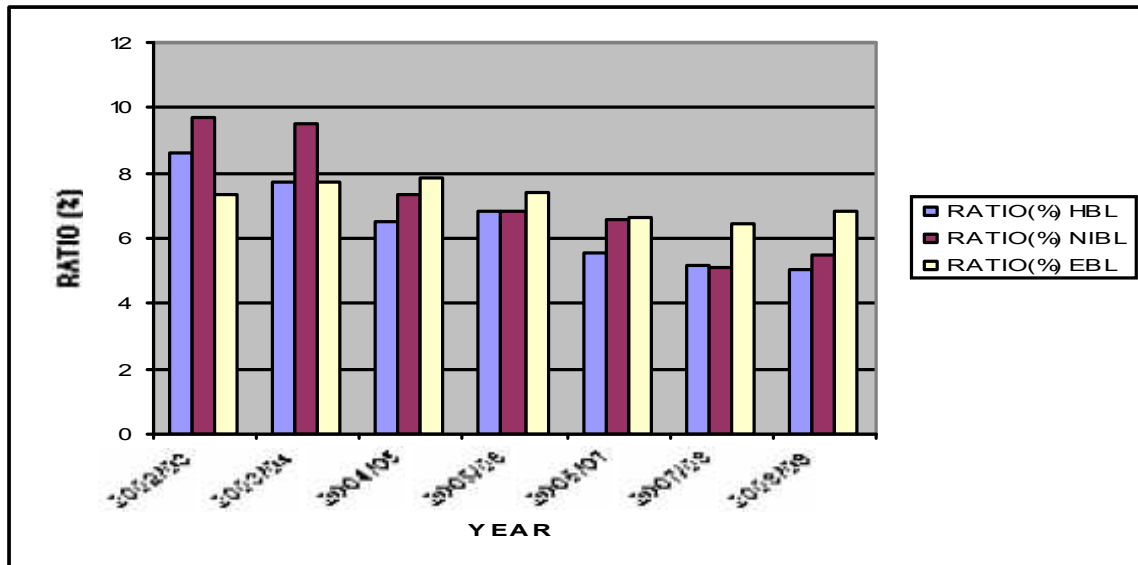
### 4.1.3.3 Total Interest Earned on Total Working Fund Ratio

This ratio reflects the extent to which the banks are successful in mobilizing these total assets to acquire income as interest. It is calculated as

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

**Table 4.11**  
**Comparative Total Interest Earned on Total Working Fund Ratio**

YEAR	RATIO (%)		
	HBL	NIBL	EBL
2002/03	8.63	9.70	7.36
2003/04	7.72	9.53	7.73
2004/05	6.52	7.37	7.84
2005/06	6.80	6.82	7.40
2006/07	5.56	6.56	6.65
2007/08	5.14	5.10	6.46
2008/09	5.03	5.52	6.86
<b>MEAN ( <math>\bar{X}</math> )</b>	<b>6.49</b>	<b>7.23</b>	<b>7.19</b>
<b>S.D ( <math>\dagger</math> )</b>	<b>1.25</b>	<b>1.66</b>	<b>0.49</b>
<b>C.V</b>	<b>19.26</b>	<b>22.96</b>	<b>6.82</b>



Source: Present in Appendix-I (Table No.11)

### **Diagram presentation and analysis:**

Table no 4.11 shows the total interest earned to total working fund ratios of HBL, NIBL and EBL which is in fluctuating trend. During the study period, NIBL has the highest interest ratio of 9.70% in the fiscal year 2002/03 and lowest ratio of 5.10% in the fiscal year 2007/08. Likewise, HBL and EBL have the highest ratio of 7.84% and 9.70% in the fiscal year 2004/05 and 2002/03 respectively.

The average total interest earned to total working fund ratios of the HBL is 8.63, 7.72, 6.52, 6.80, 5.56, 5.14 and 5.03 respectively between the observed years 2002/03 to 2008/09.

Similarly the average total interest earned to total working fund ratios of the NIBL is 9.70, 9.53, 7.37, 6.82, 6.56, 5.10 and 5.52 respectively between the observed years 2002/03 to 2008/09.

Likewise the average total interest earned to total working fund ratios of the EBL is 7.36, 7.73, 7.84, 7.40, 6.65, 6.46 and 6.86 respectively between the observed years 2002/03 to 2008/09.

NIBL has 7.27% mean ratio, but HBL and EBL have only 7.17% and 6.49% respectively. The coefficient of variation of HBL is less than EBL and NIBL i.e. 6.82%.

It indicates that interest earning power of HBL is more consistent than EBL and NIBL.

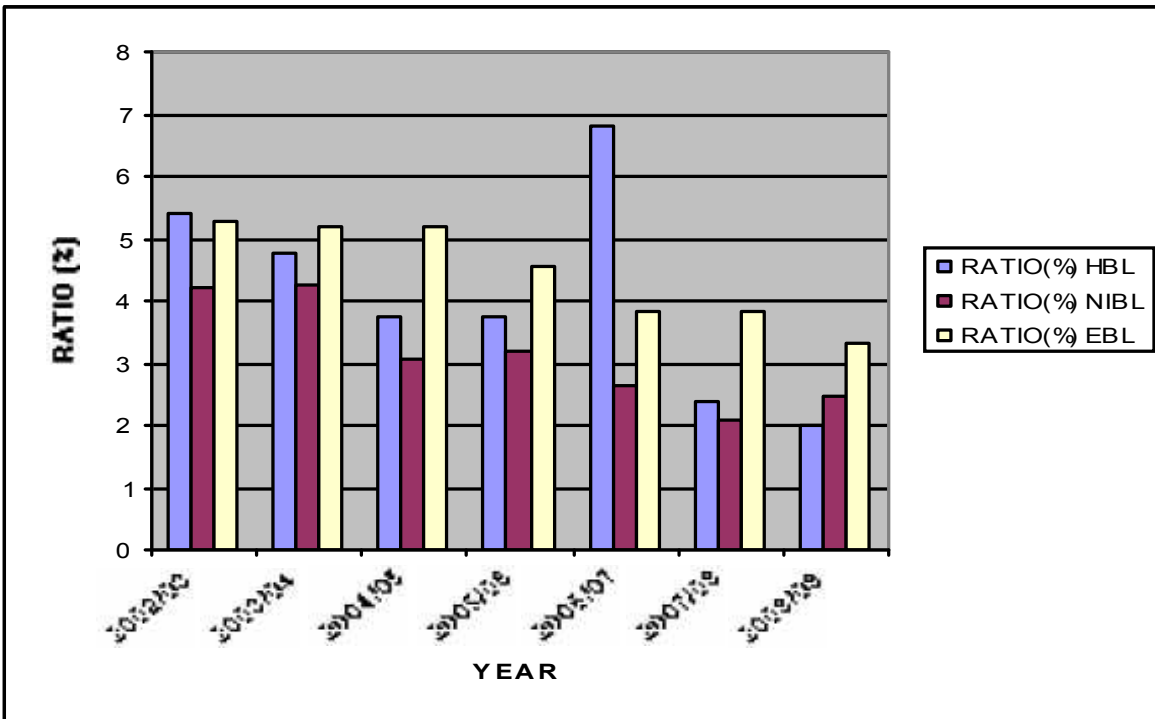
### 4.1.3.4 Total Interest Paid to Total Working Fund Ratio

This ratio measures the percentage of total interest expenses against total working fund. It 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 Ratio**

YEAR	RATIO (%)		
	HBL	NIBL	EBL
2002/03	5.42	4.21	5.26
2003/04	4.77	4.25	5.19
2004/05	3.74	3.05	5.21
2005/06	3.76	3.18	4.54
2006/07	6.80	2.62	3.85
2007/08	2.37	2.10	3.82
2008/09	1.98	2.46	3.30
<b>MEAN ( <math>\bar{x}</math> )</b>	<b>4.12</b>	<b>3.12</b>	<b>4.45</b>
<b>S.D ( <math>\uparrow</math> )</b>	<b>1.57</b>	<b>0.78</b>	<b>0.74</b>
<b>C.V</b>	<b>38.05</b>	<b>24.85</b>	<b>16.73</b>



Source: Present in Appendix-I (Table No.12)

### **Diagram presentation and analysis:**

Table no 4.12 shows that NIBL and HBL have interest paid to total working fund ratio in fluctuating trend. Similarly, EBL has the ratio in decreasing trend from the year 2004/05 to 2008/09. HBL has the highest ratio 6.80% in the year 2006/07 and lowest ratio of 2.37% in the fiscal year 2007/08. EBL and NIBL have the highest ratio of 5.26% and 4.25% in the fiscal year 2002/03 and 2003/04 respectively. EBL has 4.45% mean ratio, which is greater than that of HBL and NIBL i.e. 4.12% and 3.12% respectively.

The average total interest paid to total working fund ratios of the HBL is 5.42, 4.77, 3.74, 3.76, 6.80, 2.37 and 1.98 respectively between the observed years 2002/03 to 2008/09.

Similarly the average total interest paid to total working fund ratios of the NIBL is 4.21, 4.25, 3.05, 3.18, 2.62, 2.10 and 2.46 respectively between the observed years 2002/03 to 2008/09.

Likewise the average total interest paid to total working fund ratios of the EBL is 5.26, 5.19, 5.21, 4.54, 3.85, 3.82 and 3.30 respectively between the observed years 2002/03 to 2008/09.

The coefficient of variation of EBL is more stable than HBL and NIBL i.e. 16.73%.

## 4.1.4 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 interpret the financial data and investment policy.

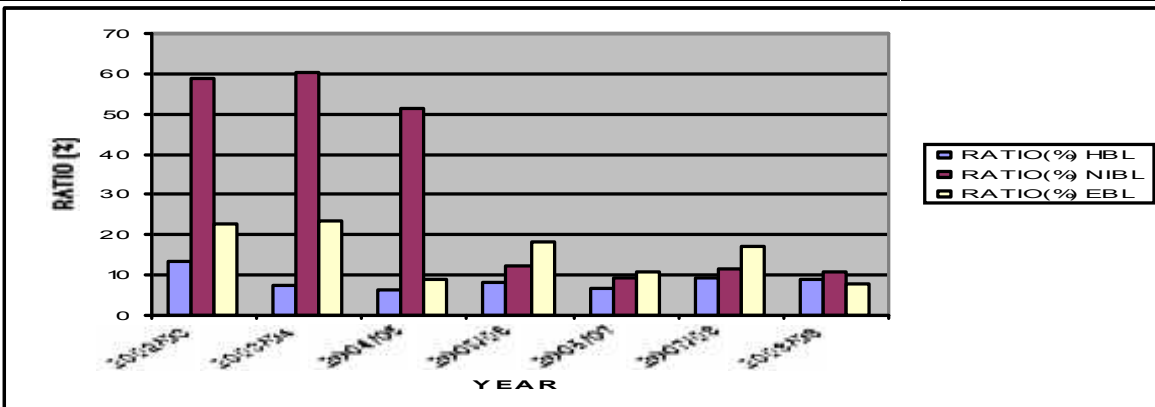
### 4.1.4.1 Liquidity Risk Ratio

The liquidity risk of the bank defines its liquidity need for deposit. It is calculated as

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

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

YEAR	RATIO (%)		
	HBL	NIBL	EBL
2002/03	13.34	58.84	22.68
2003/04	7.43	60.40	23.64
2004/05	6.42	51.41	9.11
2005/06	8.19	12.28	18.25
2006/07	6.79	9.32	10.84
2007/08	9.42	11.69	17.02
2008/09	9.09	10.65	7.84
<b>MEAN ( <math>\bar{X}</math> )</b>	<b>8.67</b>	<b>30.66</b>	<b>15.63</b>
<b>S.D ( <math>\uparrow</math> )</b>	<b>2.17</b>	<b>22.87</b>	<b>5.96</b>
<b>C.V</b>	<b>25.01</b>	<b>74.61</b>	<b>38.14</b>



Source: Present in Appendix-I (Table No.13)

### **Diagram presentation and analysis:**

Table no 4.13 shows the liquidity ratio of the HBL, NIBL and EBL. HBL has the highest ratio of 13.34% in the fiscal year 2002/03 and lowest ratio of 6.42% in the fiscal year 2004/05. Whereas EBL and NIBL have the highest ratio of 23.64% and 60.40% in the fiscal year 2003/04 and lowest ratio of 7.84% and 9.32% in the fiscal year 2008/09 and 2006/07 respectively.

The average liquidity ratio of the HBL is 13.34, 7.43, 6.42, 8.19, 6.79, 9.42 and 9.09 respectively between the observed years 2002/03 to 2008/09.

Similarly the average liquidity ratio of the NIBL is 58.84, 60.40, 51.41, 12.28, 9.32, 11.69 and 10.65 respectively between the observed years 2002/03 to 2008/09.

Likewise the average liquidity ratio of the EBL is 22.68, 23.64, 9.11, 18.25, 10.84, 17.02 and 7.84 respectively between the observed years 2002/03 to 2008/09.

The mean ratio of HBL is lower than that of EBL and NIBL i.e.  $8.67\% < 15.63\% < 30.66\%$ . It means, HBL has maintained the lower liquidity risk ratio which results that HBL operates with higher risk to gain higher profit. The coefficient of variation of NIBL i.e. 74.61% is higher than that of HBL and EBL where as HBL and EBL have 25.01% and 38.14%.

#### 4.1.4.2 Credit Risk Ratios

Credit risk ratio shows the proportion of nonperforming 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	NIBL	EBL
2002/03	59.50	50.90	69.38
2003/04	51.76	48.74	68.23
2004/05	59.51	54.87	74.16
2005/06	67.69	53.47	73.66
2006/07	87.41	56.83	83.61
2007/08	86.39	82.95	81.03
2008/09	85.78	82.95	87.28
<b>MEAN ( <math>\bar{x}</math> )</b>	<b>71.15</b>	<b>61.53</b>	<b>76.76</b>
<b>S.D ( <math>\uparrow</math> )</b>	<b>13.99</b>	<b>13.76</b>	<b>6.79</b>
<b>C.V</b>	<b>19.66</b>	<b>22.76</b>	<b>8.85</b>

*Source: Present in Appendix-I (Table No.14)*

#### Diagram presentation and analysis:

Table no 4.14 shows that HBL, EBL and NIBL have the credit risk ratio in fluctuating trend. HBL, EBL and NIBL have the highest ratio of 71.15% , 76.76% and 61.53% in the fiscal year 2002/03 , 2004/05 and 2007/08 respectively whereas they have lowest ratio of 51.76% , 68.23% and 48.74% in the fiscal year 2007/08 , 2005/06 and 2003/04 respectively.

On the basis of mean ratio, the credit risk of NIBL is lowest than that of HBL and EBL i.e. 61.53% < 71.15% < 76.76%.

NIBL has the highest coefficient of variation than that of HBL and EBL i.e. 22.76%.

## 4.1.5 Growth Ratios

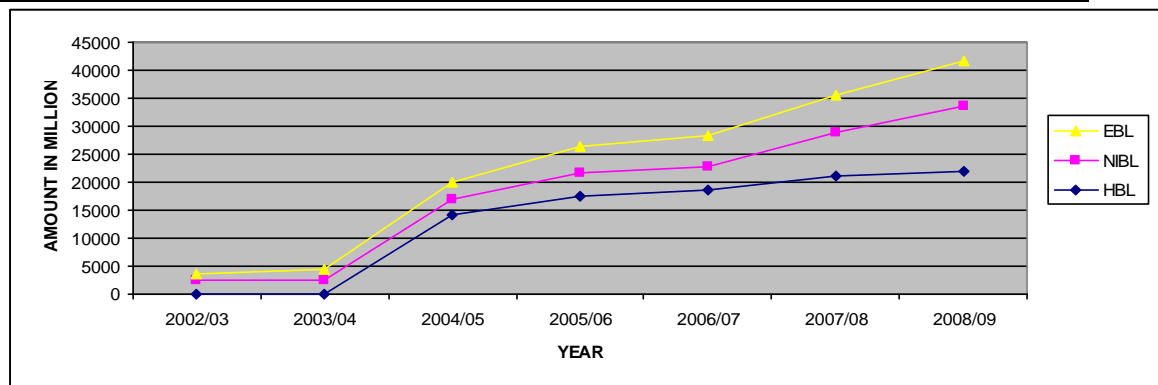
The growth ratios represent how well the commercial banks are maintaining their economic and financial position. The higher ratios represent the better performance of the selected firms to calculate, check and analyze the expansion and growths of the selected banks. Growth ratios are directly related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

### 4.1.5.1 Growth Ratio of Total Deposits

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

(Rs. in million)

BANKS	TOTAL DEPOSITS IN DIFFERENT YEARS							GROWTH RATE (%)
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	
HBL	7713.60	9779.72	14043.10	17532.40	18619.37	21007.37	22010.33	19.09
NIBL	2582.20	2438.80	2983.28	4256.21	4174.76	7922.75	11524.68	38.85
EBL	1124.90	1948.94	3057.43	4574.51	5466.61	6694.95	8063.90	28.31



*Source: Annual Report of HBL, NIBL and EBL*

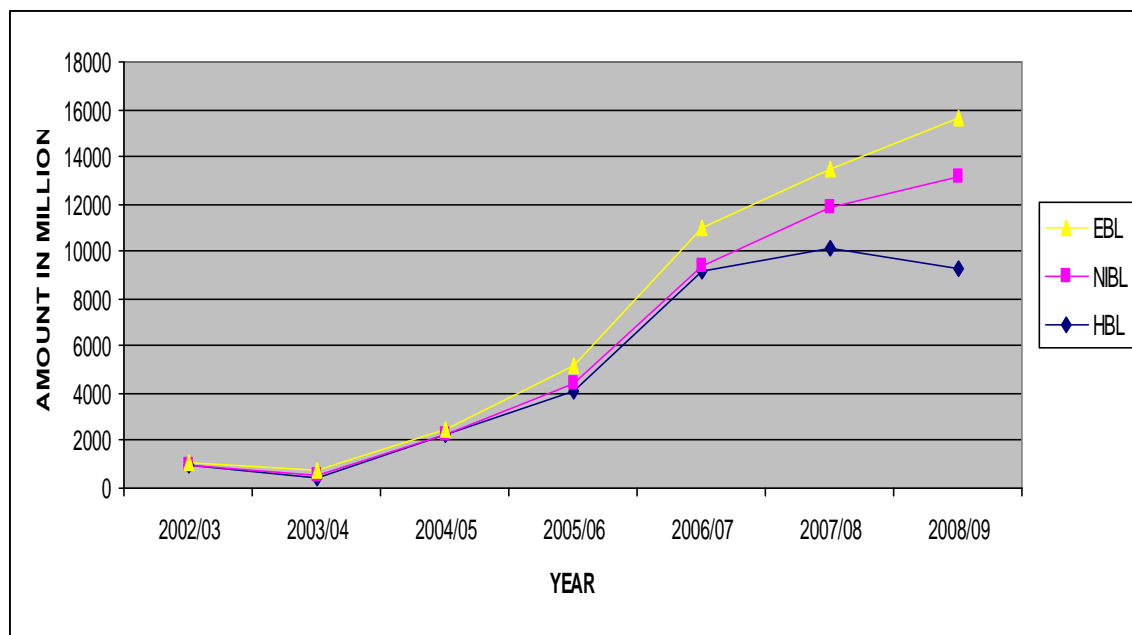
Table no 4.15 shows that HBL and EBL have their deposit collection in increasing trend as compare to NIBL during the seven years of study period. But NIBL total deposits are in fluctuating trend. The growth ratio of HBL, EBL and NIBL are 19.09%, 38.85% and 28.31% respectively. The growth ratio of total deposits of HBL seems lower than EBL and NIBL.

#### 4.1.5.2 Growth Ratio of Total Investment

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

(Rs. in million)

BANKS	TOTAL INVESTMENT IN DIFFERENT YEARS							GROWTH RATE (%)
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	
<b>HBL</b>	973.98	468.95	2216.41	4083.00	9157.00	10175.44	9292.10	<b>45.63</b>
<b>NIBL</b>	17.50	102.69	12.69	312.70	262.00	1705.24	3863.48	<b>67.83</b>
<b>EBL</b>	111.10	187.40	260.10	826.70	1628.50	1616.50	2483.50	<b>145.83</b>



*Source: Annual Report of HBL, NIBL and EBL*

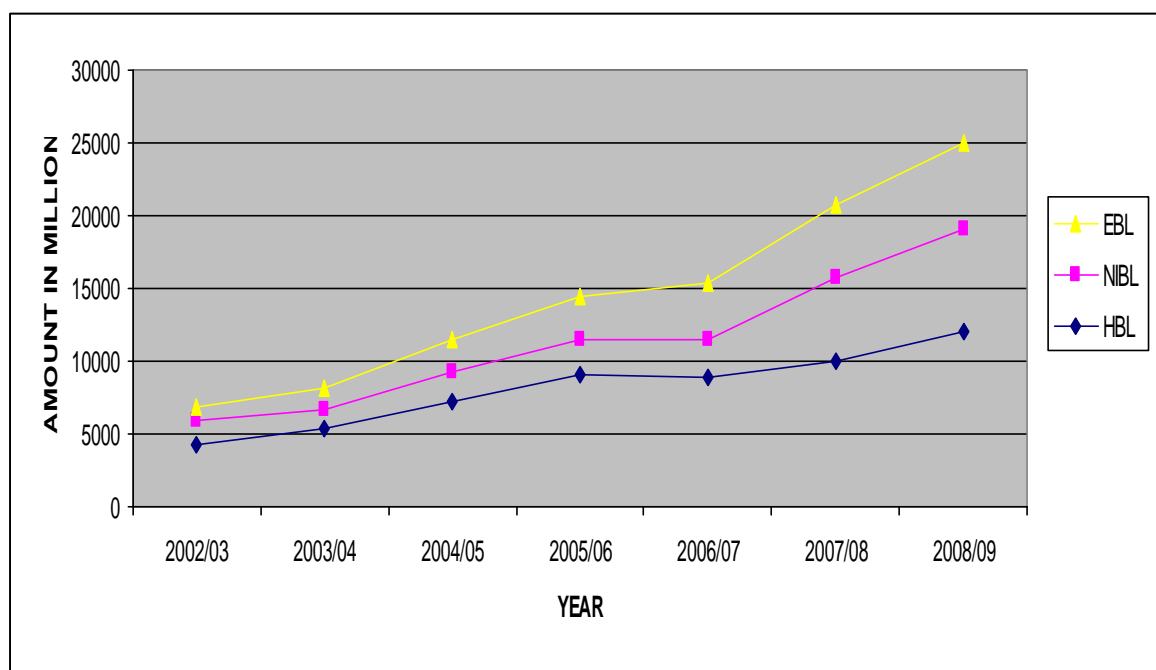
Table no 4.16 shows that EBL has increased its investment from year 2002/03 to 2008/09. HBL, NIBL and EBL have the growth rate of 45.63%, 67.83% and 145.83% respectively. Among them EBL has the highest growth rate.

### 4.1.5.3 Growth Ratio of Loan and Advances

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

(Rs. in million)

BANKS	LOAN AND ADVANCES IN DIFFERENT YEARS							GROWTH RATE (%)
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	
HBL	4223.06	5311.66	7224.73	9015.35	8913.73	10001.85	11951.87	<b>18.93</b>
NIBL	1673.47	1411.24	2070.68	2429.03	2564.43	5772.14	7130.13	<b>37.47</b>
EBL	871.68	1364.89	2270.18	3005.76	3948.48	4908.46	5884.12	<b>27.32</b>



*Source: Annual Report of HBL, NIBL and EBL*

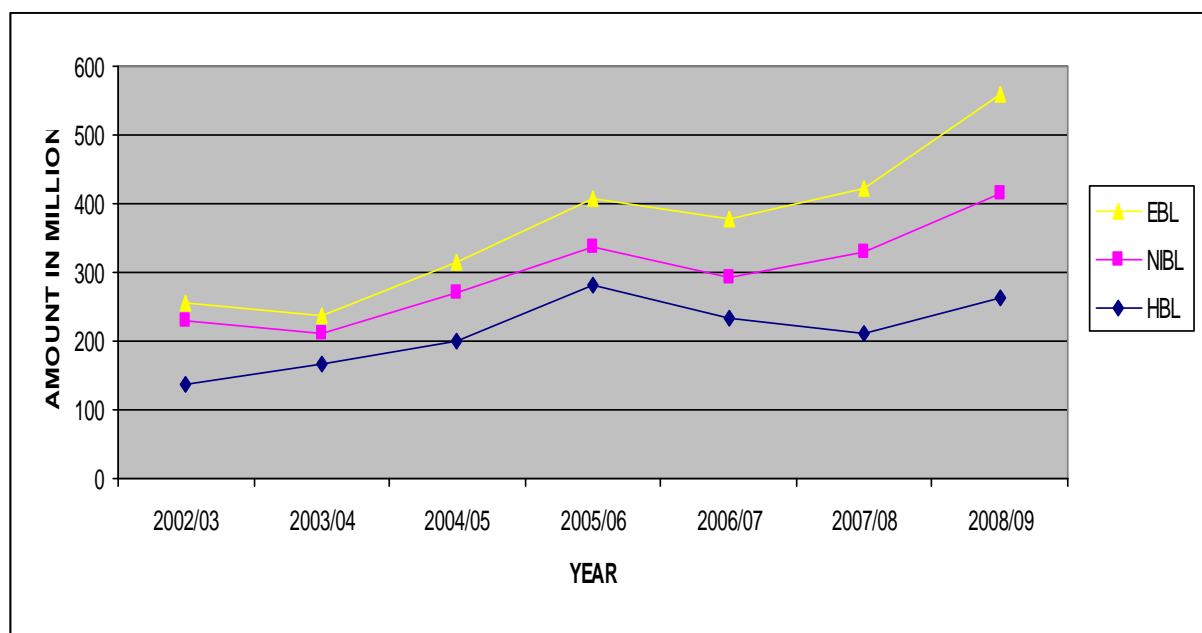
Table no 4.17 describes the growth ratio of loan and advances of HBL, EBL and NIBL in the different fiscal years. The table shows the high growth ratio of NIBL 37.47% and low growth ratio of HBL 18.93% but EBL has the medium growth ratio i.e. 27.32%.

### 4.1.5.3 Growth Ratio of Net Profit

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

(Rs. in million)

BANKS	NET PROFIT IN DIFFERENT YEARS							GROWTH RATE (%)
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	
<b>HBL</b>	135.98	165.25	199.38	280.69	235.02	212.12	263.05	<b>11.62</b>
<b>NIBL</b>	93.84	45.68	72.66	56.39	57.09	116.82	152.67	<b>8.45</b>
<b>EBL</b>	25.03	25.24	41.27	69.70	85.33	94.17	143.57	<b>33.79</b>



*Source: Annual Report of HBL, NIBL and EBL*

Table no 4.18 represents the growth ratio of net profit of HBL, EBL and NIBL during the observed year. It shows EBL has the highest ratio of 33.79% and NIBL has the lowest ratio of 8.45%.

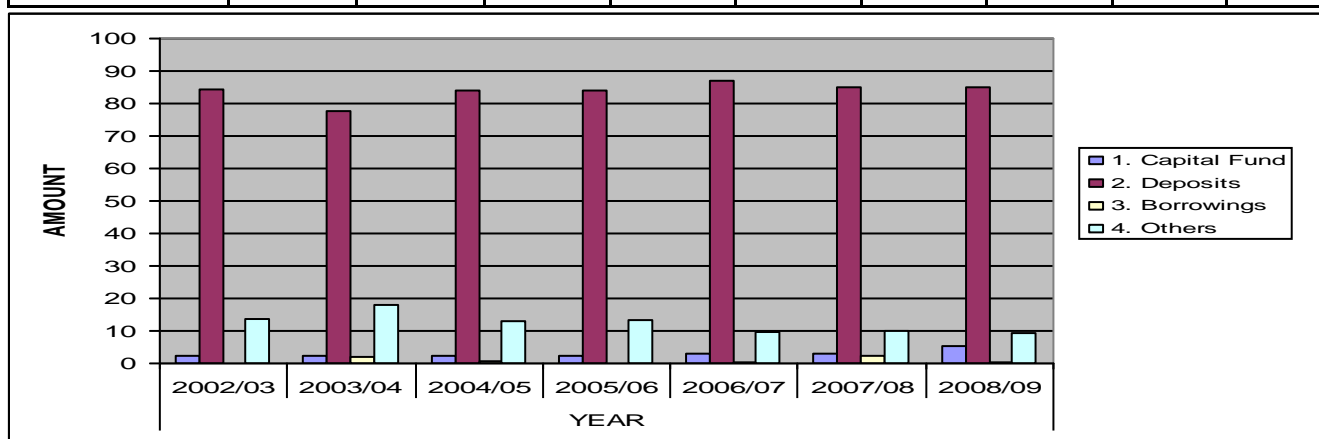
## 4.2 Analysis of Sources and Uses of Funds

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.

### 4.2.1 Analysis of Sources and Uses of Funds of HBL

**Table 4.19**  
**Percentage of Various Sources of Funds from Total Sources of HBL**  
(Rs. in million)

PARTICULARS	YEAR							TOTAL	AVERAGE
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09		
1. Capital Fund	2.24	2.50	2.37	2.40	3.05	3.00	5.37	<b>20.93</b>	<b>2.99</b>
2. Deposits	84.21	77.62	83.92	84.15	86.96	84.95	85.08	<b>586.89</b>	<b>83.84</b>
3. Borrowings	0.00	1.85	0.77	0.03	0.23	2.18	0.25	<b>5.31</b>	<b>0.76</b>
4. Others	13.55	18.03	12.94	13.42	9.76	9.87	9.30	<b>86.87</b>	<b>12.41</b>
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>700</b>	<b>100</b>



*Source: Present in Appendix-V (Table No.21)*

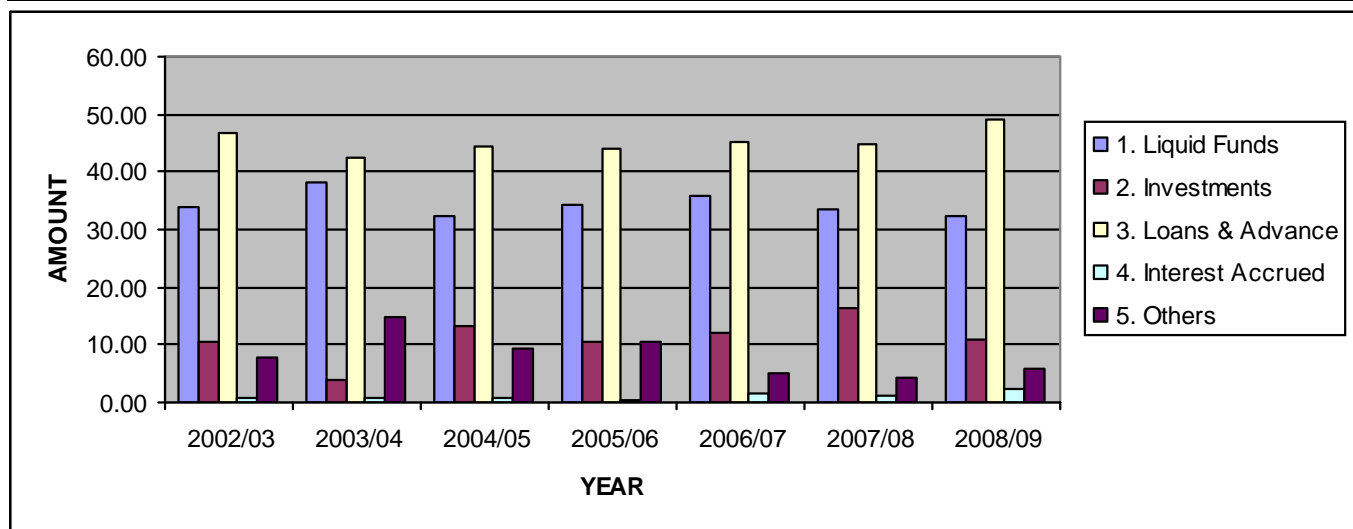
#### Diagram presentation and analysis:

Table no. 4.19 shows the percentage of various sources of fund from total resources of HBL. Funds of HBL are composed of capital fund, deposits, borrowings and others. Contribution of capital fund is 2.99% approximately. HBL has allocated its basic fund from the deposit which is 83.84% approximately. Considering the contribution of borrowings to total sources, which is approximately 0.76%, which is lowest among other sources of funds. Deposit is the only reliable source of funds of HBL.

**Table 4.20**  
**Percentage of Various Uses of Funds from Total Funds of HBL**

(Rs. in million)

PARTICULARS	YEAR							TOTAL	AVERAGE
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09		
1. Liquid Funds	34.09	38.00	32.46	34.37	35.82	33.50	32.20	<b>240.44</b>	<b>34.35</b>
2. Investments	10.63	3.72	13.20	10.68	12.27	16.23	10.76	<b>77.49</b>	<b>11.07</b>
3. Loans & Advance	46.66	42.63	44.24	43.85	45.24	44.80	48.90	<b>316.32</b>	<b>45.19</b>
4. Interest Accrued	0.93	0.93	0.86	0.55	1.47	1.27	2.47	<b>8.48</b>	<b>1.21</b>
5. Others	7.69	14.72	9.24	10.55	5.20	4.20	5.67	<b>57.27</b>	<b>8.18</b>
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>700</b>	<b>100</b>



*Source: Present in Appendix-V (Table No.21)*

**Diagram presentation and analysis:**

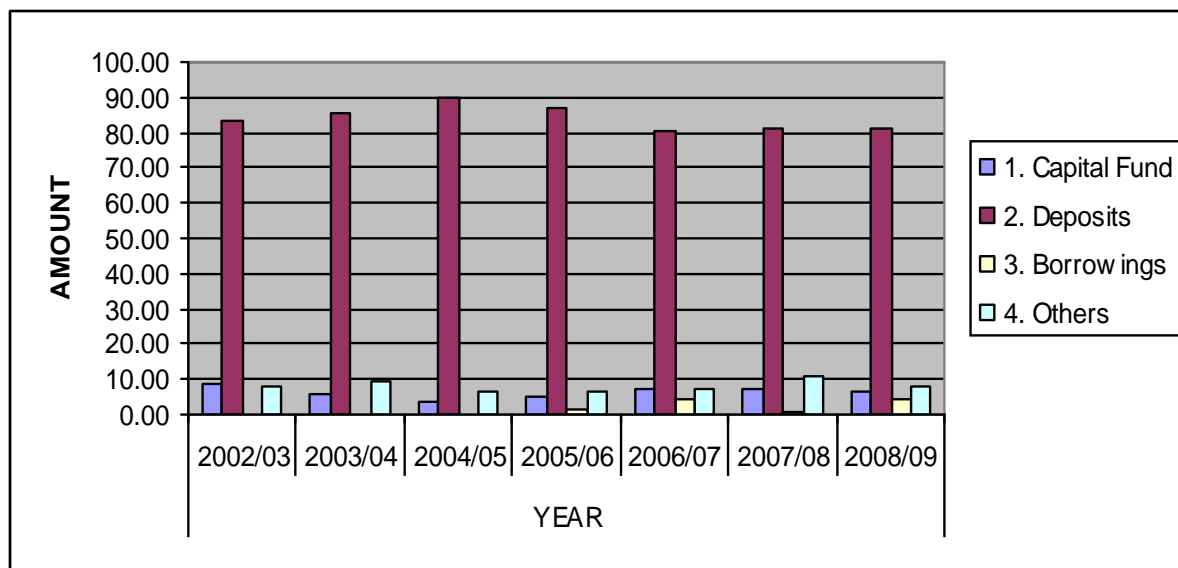
Table no. 4.20 shows the percentage of various uses of funds from total funds of HBL. It shows that HBL has maintained liquid funds of 34.35%. It has maintained sufficient liquid funds in the observed periods. HBL makes average investment of 11.07%. Similarly, it provides loan and advance of 45.19% for its customers to fulfill their daily cash requirements and different purposes. Similarly interest accrued and other uses covers 1.21% and 8.18% respectively.

## 4.2.2 Analysis of Sources and Uses of Funds of EBL

**Table 4.21**  
**Percentage of Various Sources of Funds from Total Sources of EBL**

(Rs. in million)

PARTICULARS	YEAR							TOTAL	AVERAGE
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09		
1. Capital Fund	8.80	5.61	3.74	4.76	7.35	7.11	6.68	<b>44.05</b>	<b>6.29</b>
2. Deposits	83.44	85.19	89.62	87.30	80.62	81.05	80.91	<b>588.13</b>	<b>84.02</b>
3. Borrowings	0.00	0.00	0.00	1.52	4.58	1.00	4.35	<b>11.45</b>	<b>1.64</b>
4. Others	7.76	9.20	6.64	6.42	7.45	10.84	8.06	<b>56.37</b>	<b>8.05</b>
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>700</b>	<b>100</b>



*Source: Present in Appendix-VI (Table No.22)*

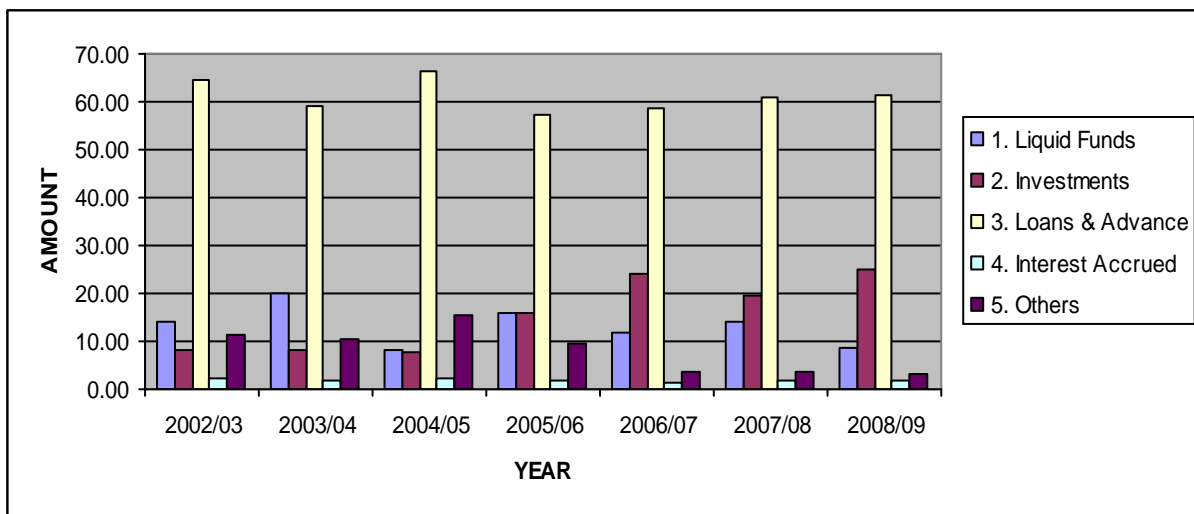
### Diagram presentation and analysis:

Table no. 4.21 shows the percentage of various sources of fund from total resources of EBL. Funds of EBL are composed of capital fund, deposits, borrowings and others. Contribution of capital fund is 6.29% approximately. EBL has allocated its basic fund from the deposit which is 84.02% approximately. Considering the contribution of borrowings to total sources, which is 1.64% approximately, which is lowest among other sources of funds and other sources of funds is 8.05% approximately. Deposit is the main source of funds of EBL.

**Table 4.22**  
**Percentage of Various Uses of Funds from Total Funds of EBL**

(Rs. in million)

PARTICULARS	YEAR							TOTAL	AVERAGE
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09		
1. Liquid Funds	13.89	20.14	8.17	15.73	11.95	14.00	8.73	<b>92.61</b>	<b>13.23</b>
2. Investments	8.24	8.19	7.62	15.78	24.04	19.57	24.92	<b>108.36</b>	<b>15.48</b>
3. Loans & Advance	64.36	59.23	66.54	57.37	58.79	61.12	61.51	<b>428.92</b>	<b>61.27</b>
4. Interest Accrued	2.36	2.02	2.23	1.80	1.47	1.79	1.77	<b>13.44</b>	<b>1.92</b>
5. Others	11.15	10.42	15.44	9.32	3.75	3.52	3.07	<b>56.67</b>	<b>8.10</b>
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>700</b>	<b>100</b>



*Source: Present in Appendix-VI (Table No.22)*

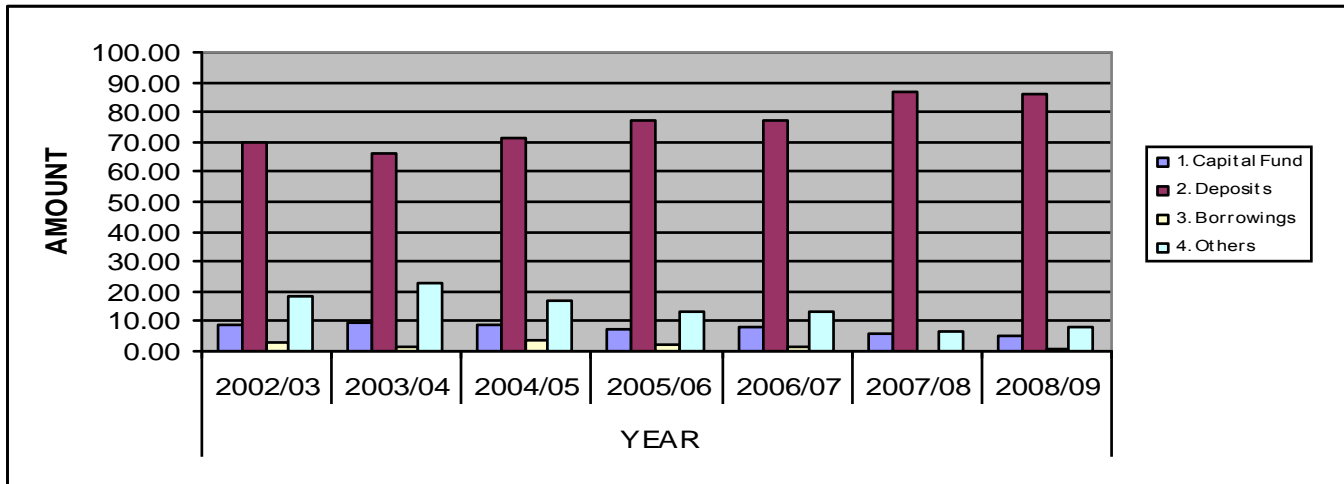
**Diagram presentation and analysis:**

Table no. 4.22 shows the percentage of various uses of funds from total funds of EBL. It shows that EBL has maintained liquid funds of 13.23%. It has maintained sufficient liquid funds in the observed periods. EBL makes an average investment of 15.48%. Similarly, it provides loan and advance of 61.27% for its customers to fulfill their daily cash requirements and different purposes. Similarly interest accrued and other uses covers 1.92% and 8.10% respectively.

### 4.2.3 Analysis of Sources and Uses of Funds of NIBL

**Table 4.23**  
**Percentage of Various Sources of Funds from Total Sources of NIBL**  
**(Rs. in million)**

PARTICULARS	YEAR							TOTAL	AVERAGE
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09		
1. Capital Fund	8.88	9.44	8.54	7.36	7.79	6.13	5.46	<b>53.60</b>	<b>7.66</b>
2. Deposits	69.88	66.44	71.35	76.92	77.49	87.04	86.30	<b>535.42</b>	<b>76.49</b>
3. Borrowings	2.71	1.36	3.35	2.17	1.83	0.07	0.45	<b>11.94</b>	<b>1.71</b>
4. Others	18.53	22.76	16.76	13.55	12.89	6.76	7.79	<b>99.04</b>	<b>14.15</b>
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>700</b>	<b>100</b>



*Source: Present in Appendix-VII (Table No.23)*

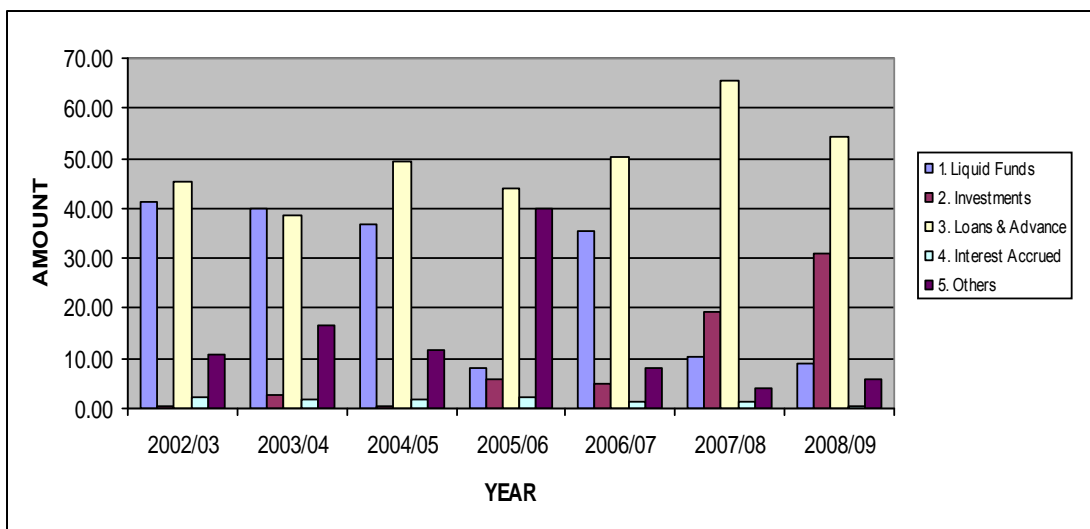
#### **Diagram presentation and analysis:**

Table no. 4.23 shows the percentage of various sources of fund from total resources of NIBL. Funds of NIBL are composed of capital fund, deposits, borrowings and others. Contribution of capital fund is 7.66% approximately. NIBL has allocated its basic fund from the deposit which is 76.49% approximately. Considering the contribution of borrowings to total sources, which is 1.71% approximately, which is lowest among other sources of funds and other sources of funds is 14.15% approximately. Deposit is the main source of funds of NIBL.

**Table 4.24**  
**Percentage of Various Uses of Funds from Total Funds of NIBL**

(Rs. in million)

PARTICULARS	YEAR							TOTAL	AVERAGE
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09		
1. Liquid Funds	41.12	39.85	36.69	8.07	35.25	10.18	8.96	<b>180.12</b>	<b>25.73</b>
2. Investments	0.47	2.80	0.30	5.65	4.86	19.17	30.76	<b>64.01</b>	<b>9.14</b>
3. Loans & Advance	45.42	38.73	49.57	43.94	50.41	65.36	54.23	<b>347.66</b>	<b>49.67</b>
4. Interest Accrued	2.34	1.98	1.97	2.18	1.47	1.22	0.33	<b>11.49</b>	<b>1.64</b>
5. Others	10.65	16.64	11.47	40.16	8.01	4.07	5.72	<b>96.72</b>	<b>13.82</b>
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>700</b>	<b>100</b>



*Source: Present in Appendix-VII (Table No.23)*

**Diagram presentation and analysis:**

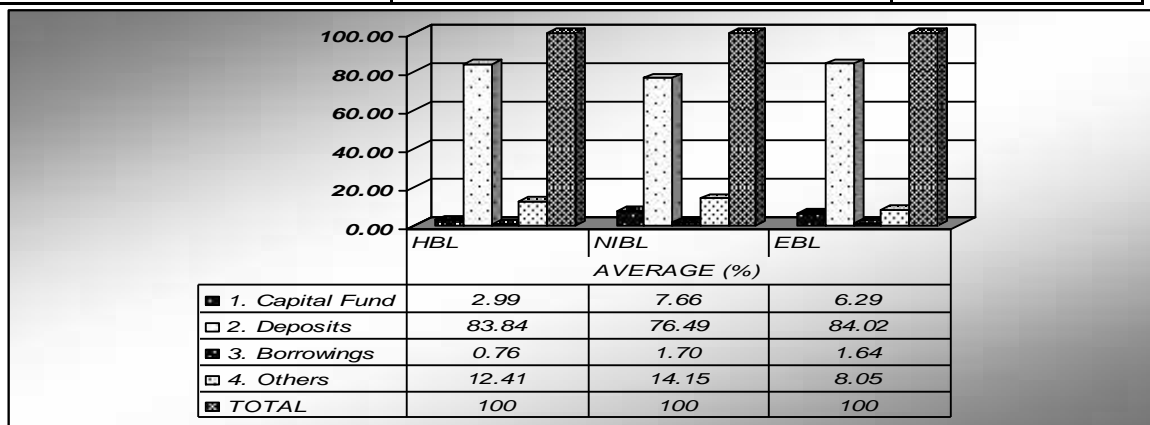
Table no. 4.24 shows the percentage of various uses of funds from total funds of NIBL. It shows that NIBL has maintained liquid funds of 25.73%. It has maintained sufficient liquid funds in the observed periods. NIBL makes average investment of 9.14%. Similarly, it provides loan and advance of 49.67% for its customers to fulfill their daily cash requirements and different purposes. Similarly interest accrued and other uses covers 1.64% and 13.82% respectively.

#### 4.2.4 Comparative Analysis and Study Regarding Sources of Funds

The following table represents the average sources of funds of the three joint venture banks.

**Table 4.25**  
**Comparative Sources of Funds of HBL, NIBL and EBL**

PARTICULARS	AVERAGE (%)		
	HBL	NIBL	EBL
1. Capital Fund	2.99	7.66	6.29
2. Deposits	83.84	76.49	84.02
3. Borrowings	0.76	1.70	1.64
4. Others	12.41	14.15	8.05
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>



*Source: Present in Appendix-V, VI, VII (Table No.21, 22 and 23)*

#### Diagram presentation and analysis:

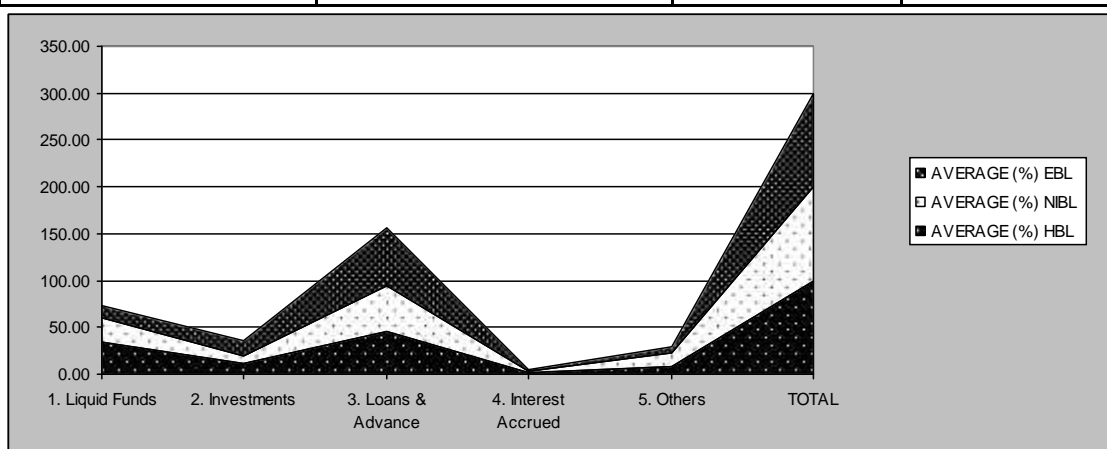
Table no. 4.25 shows the comparative average sources of funds of three joint venture banks i.e. HBL, NIBL and EBL. Observing the above figure we can analyze that capital fund of NIBL is higher than that of other two presented subject i.e. EBL and HBL. As the deposit of funds is very high, HBL, NIBL and EBL seem to be high liquidity sensitive banks. The deposit proportion of EBL is little bit higher than that of HBL and NIBL. Considering the contribution of borrowing to total sources, NIBL has borrowed proportionately high than remaining banks. EBL has nominal proportion of borrowings among three banks, but deposit proportion of NIBL is lower than that of HBL and EBL. Likewise involvement of other sources of funds of NIBL is 14.15% which is greater among the three banks.

## 4.2.5 Comparative Analysis and Study Regarding Uses of Funds

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

**Table 4.26**  
**Comparative Uses of Funds of HBL, NIBL and EBL**

PARTICULARS	AVERAGE (%)		
	HBL	NIBL	EBL
1. Liquid Funds	34.35	25.73	13.23
2. Investments	11.07	9.14	15.48
3. Loans & Advance	45.19	49.67	61.27
4. Interest Accrued	1.21	1.64	1.92
5. Others	8.18	13.82	8.10
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>



*Source: Present in Appendix-V, VI, VII (Table No.21, 22 and 23)*

### Diagram presentation and analysis:

Table no. 4.26 shows the comparative uses of funds of HBL, NIBL and EBL. Analyzing the table and figure, HBL has maintained high liquid funds compare to other two remaining banks i.e. EBL and NIBL which is 34.35%. EBL is successful to make investment in different sectors in comparison to other remaining banks. EBL has higher investment i.e. 15.48%. Out of total funds EBL contribute 61.27% in loans and advances. HBL has low proportion of interest receivable i.e. 1.21%. EBL has least allocation of funds under other assets compared to HBL and NIBL.

### 4.3 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 flow is useful for short-run planning. A firm needs sufficient cash to pay debts maturing in the near future, to pay interest and other expenses and to pay dividends to shareholders.

The analysis of events and transactions that affects the cash position of company is termed as cash flow analysis. Cash flow analysis is done through statement of cash flows. A cash flow statement is a statement of company's ability to generate cash from various activities such as **operating, investing, and financing** and their need of cash. It is a statement which shows the inflows and outflows of cash and cash equivalents during the year. (*Wagle and Dahal, 2003; 11.2*)

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: (*Detail about the topic present in Page no. 59 -64*)

- viii) Karl Pearson's of Coefficient of Correlation Analysis
- ix) Coefficient of Variation (C.V)
- x) Standard Deviation (S.D)
- xi) Probable Error (P.E)
- xii) Trend Analysis
- xiii) Testing of Hypothesis
- xiv) T-test

### 4.3.1 Cash Flow Analysis of HBL

**Table 4.27**  
**Cash Flow from Different Banking Activities of HBL**

(Rs. in million)

Particulars	Year						
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
<b>A) Cash Flow from Operating Activities (CFOA)</b>		<b>345.01</b>	<b>453.16</b>	<b>652.30</b>	<b>589.74</b>	<b>636.56</b>	<b>725.69</b>
<b>1. Cash Receipts</b>	<b>906.44</b>	<b>1034.67</b>	<b>1242.7</b>	<b>1575.25</b>	<b>1389.79</b>	<b>1454.31</b>	<b>1519.62</b>
1.1 Interest Income	753.97	862.05	1033.66	1326.38	1149.00	1201.23	1245.90
1.2 Commission and Discount Income	71.68	101.98	110.33	125.97	101.70	102.56	123.93
1.3 Exchange Gain	75.78	63.96	87.33	114.22	104.60	109.60	112.42
1.4 Non-Operating Income	0.62	1.06	1.69	2.32	2.45	10.76	3.30
1.5 Other Income	4.39	5.62	9.69	6.35	32.04	30.15	34.08
<b>2. Cash Payments</b>	<b>(519.92)</b>	<b>(689.66)</b>	<b>(789.54)</b>	<b>(922.95)</b>	<b>(800.05)</b>	<b>(817.74)</b>	<b>(793.93)</b>
2.1 Interest Expenses	473.79	532.55	593.44	732.69	578.13	554.13	491.54
2.2 Staff Expenses	45.25	47.36	59.88	76.90	101.54	120.15	152.51
2.3 Office Overhead Expenses	0.88	109.75	132.55	113.36	120.38	143.47	149.87
2.4 Exchange Loss	-	-	-	-	-	-	-
2.5 Non-operating Expenses	-	-	-	-	-	-	-
2.6 Other Expenses	-	-	-	-	-	-	-
<b>B) Cash Flow from Investing Activities (CFIA)</b>	<b>(1862.44)</b>	<b>(2644.65)</b>	<b>(4346.58)</b>	<b>(3673.57)</b>	<b>(1524.22)</b>	<b>(3134.27)</b>	<b>(1921.65)</b>
1.Changes in Balance with Banks	27.38	(302.12)	174.92	537.24	(483.32)	780.12	144.93
2.Changes in Money at Call and Short Notice	(1291.82)	(1978.93)	(556.91)	(625.11)	(3705.30)	(202.25)	21.88
3.Changes in Investments	(378.20)	(505.03)	(1747.47)	1866.74	5073.95	1018.33	(883.33)
4.Changes in Loans, Advances and Bills Purchased	901.20	1022.91	1978.75	1790.62	376.06	1088.12	2136.25
5.Changes in Fixed Assets	9.83	60.71	21.74	31.34	140.90	(65.69)	102.30
6.Changes in Other Assets	91.65	178.94	215.08	72.74	121.94	515.64	202.71
<b>(C)Cash Flow from Financing activities(CFFA)</b>	<b>1756.09</b>	<b>2386.96</b>	<b>4100.72</b>	<b>3019.16</b>	<b>1247.30</b>	<b>2432.12</b>	<b>1073.00</b>
1.Changes in Borrowings	(264.77)	232.65	(104.00)	(49.12)	454.49	111.83	50.87
2.Changes in Deposits	1874.56	2066.12	4263.38	3489.31	982.53	2388.00	965.25
3.Changes in Bills Payable	3.01	2.12	54.36	(42.90)	29.66	(8.85)	17.65
4.Changes in Other Liabilities	203.29	86.07	277.86	(378.13)	(219.38)	(58.86)	39.22
5.Dividend Paid	-	-	-	-	-	-	-
<b>(D) Net Cash Flow of the Year (A+B+C)</b>	<b>(6.58)</b>	<b>87.32</b>	<b>14.01</b>	<b>(3.97)</b>	<b>312.82</b>	<b>(65.59)</b>	<b>(122.95)</b>
<b>(E) Opening Cash Balance</b>	<b>87.20</b>	<b>80.62</b>	<b>167.94</b>	<b>153.93</b>	<b>149.96</b>	<b>462.78</b>	<b>397.19</b>
<b>(F) Closing Balance (D+E)</b>	<b>80.62</b>	<b>167.948</b>	<b>153.93</b>	<b>149.96</b>	<b>462.78</b>	<b>397.19</b>	<b>274.24</b>

*Source: Present in Appendix- VIII*

### **Interpretation:**

Table no. 4.27 shows the cash flow of HBL regarding the different banking activities. The table represent the cash inflow and outflow of HBL from 2001-2008 which is in fluctuating trend. From the above figure, we find that operating efficiency of this bank is increasing from the year 2006/07 to 2007/08. HBL has the maximum operating activities in the fiscal year 2007/08. Investing activities of HBL is increasing from the fiscal year 2002/03 to 2004/05. But it fluctuates from year 2005/06 to 2007/08. HBL has the maximum investment of (Rs. 4346.58 million) in the fiscal year 2003/04. By investing more cash in different investment sectors it can achieve its objective and profit.

Cash flow from different financing activities is in increasing trend from the year 2003/03 to 2004/05. But in the year between 2004/05 and 2007/08, it is in fluctuating trend. HBL has more cash flow from investing activities in the fiscal year 2003/03 i.e. (Rs. 4100.72).

Observing and analyzing the table 4.27 it appears that cash acquisition efficiency of bank is better in fiscal year 2003/04.

### **4.3.2 Cash Flow Analysis of EBL**

The cash flow of EBL from different activities is shown in the table 4.28.

Analyzing contains and data of table 4.28, it represent the cash inflow and outflow of EBL from year 2001-2008. The operating efficiency of EBL is in increasing trend. Cash flow from investing activities is increased from the year 2001/02 to 2004/05. Cash flow from the investment is maximum in the year 2004/05 i.e. (Rs. 1733.48 million). Cash from financing activities is increasing from the year 2001/02 to 2004/05, but it is fluctuating from the year 2005/06 to 2007/08.

**Table 4.28**  
**Cash Flow from Different Banking Activities of EBL**

(Rs. in million)

Particulars	Year						
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
<b>A) Cash Flow from Operating Activities (CFOA)</b>	<b>33.42</b>	<b>36.79</b>	<b>58.92</b>	<b>105.37</b>	<b>131.35</b>	<b>138.95</b>	<b>273.18</b>
<b>1. Cash Receipts</b>	<b>139.24</b>	<b>219.46</b>	<b>327.25</b>	<b>465.51</b>	<b>540.93</b>	<b>635.33</b>	<b>785.06</b>
1.1 Interest Income	104.20	175.94	267.44	385.02	443.82	520.17	657.25
1.2 Commission and Discount Income	14.73	23.56	25.90	30.56	36.77	61.50	74.33
1.3 Exchange Gain	2.39	3.18	3.50	16.50	45.41	32.21	27.79
1.4 Non-Operating Income	2.56	3.96	1.47	1.39	1.14	1.25	1.87
1.5 Other Income	15.36	12.82	28.94	32.04	13.78	20.20	23.82
<b>2. Cash Payments</b>	<b>(105.82)</b>	<b>(182.67)</b>	<b>(268.33)</b>	<b>(360.14)</b>	<b>(409.58)</b>	<b>(496.38)</b>	<b>(511.88)</b>
2.1 Interest Expenses	74.45	118.12	177.89	236.14	257.05	307.64	316.37
2.2 Staff Expenses	7.69	13.39	18.63	26.00	32.19	37.37	48.53
2.3 Office Overhead Expenses	17.48	29.15	42.10	50.45	63.73	71.90	78.96
2.4 Exchange Loss	-	-	-	-	-	-	-
2.5 Non-operating Expenses	3.22	4.13	3.45	3.86	-	-	-
2.6 Other Expenses	2.98	17.88	26.26	43.69	56.62	56.14	68.03
<b>B) Cash Flow from Investing Activities (CFIA)</b>	<b>(839.24)</b>	<b>(764.61)</b>	<b>(1529.75)</b>	<b>(1733.48)</b>	<b>(1455.47)</b>	<b>(1543.64)</b>	<b>(1670.90)</b>
1.Changes in Balance with Banks	176.24	168.17	(165.93)	488.16	(300.58)	(577.64)	499.86
2.Changes in Money at Call and Short Notice	-	-	314.68	(170.27)	(153.95)	86.13	(187.45)
3.Changes in Investments	85.66	65.12	387.38	641.61	(791.31)	39.06	(881.68)
4.Changes in Loans, Advances and Bills Purchased	569.49	493.21	905.30	735.58	(1040.25)	(1026.17)	(1051.07)
5.Changes in Fixed Assets	7.85	15.68	14.77	28.17	(65.13)	(38.68)	(20.44)
6.Sales of Fixed Assets	-	-	-	-	0.18	1.09	0.12
7.Changes in Other Assets	38.99	22.43	73.55	28.17	(65.13)	(31.63)	(40.64)
8. Sales of Non-banking Assets	-	-	-	1.36	18.90	4.20	10.40
<b>(C) Cash Flow from Financing Activities(CFFA)</b>	<b>715.47</b>	<b>849.87</b>	<b>1082.78</b>	<b>1676.69</b>	<b>1382.47</b>	<b>1364.13</b>	<b>1389.82</b>
1.Changes in Borrowings	(20)	-	-	80	1.77	(81.77)	-
2.Changes in Deposits	653.24	824.04	1108.49	1517.08	892.10	1228.35	1368.94
3.Changes in Bills Payable	9.33	(2.82)	(3.93)	7.77	(9.50)	19.97	(0.07)
4.Changes in Other Liabilities	24.67	27.78	(21.77)	33.38	319.64	238.78	90.48
5.Changes in Share Capital	57.56	0.87	(0.01)	38.46	178.46	4.28	-
6.Share Premium	-	-	-	-	-	6.43	-
7.Dividend Paid	-	-	-	-	-	(51.91)	(69.53)
<b>(D) Net Cash Flow of the Year (A+B+C)</b>	<b>(8.42)</b>	<b>37.42</b>	<b>(16.18)</b>	<b>68.23</b>	<b>58.35</b>	<b>(40.55)</b>	<b>(7.90)</b>
<b>(E) Opening Cash Balance</b>	<b>37.84</b>	<b>29.42</b>	<b>66.81</b>	<b>50.63</b>	<b>118.86</b>	<b>177.21</b>	<b>136.66</b>
<b>(F) Closing Balance (D+E)</b>	<b>29.42</b>	<b>66.81</b>	<b>50.63</b>	<b>118.86</b>	<b>177.21</b>	<b>136.66</b>	<b>128.76</b>

*Source: Present in Appendix- IX*

### 4.3.3 Cash Flow Analysis of NIBL

**Table 4.29**  
**Cash Flow from Different Banking Activities of EBL**

(Rs. in million)

Particulars	Year						
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
<b>A) Cash Flow from Operating Activities (CFOA)</b>	<b>160.02</b>	<b>124.11</b>	<b>130.43</b>	<b>148.41</b>	<b>141.46</b>	<b>202.78</b>	<b>348.06</b>
<b>1. Cash Receipts</b>	<b>397.91</b>	<b>353.33</b>	<b>350.36</b>	<b>423.43</b>	<b>392.69</b>	<b>563.01</b>	<b>905.78</b>
1.1 Interest Income	322.37	296.17	279.86	349.76	326.22	459.51	731.40
1.2 Commission and Discount Income	18.22	17.39	18.35	16.20	16.20	40.81	55.75
1.3 Exchange Gain	53.21	35.27	44.80	51.67	42.86	50.83	87.98
1.4 Non-Operating Income	0.02	0.00	0.11	-	3.10	1.11	13.81
1.5 Other Income	4.09	4.50	7.24	5.80	4.31	10.74	16.84
<b>2. Cash Payments</b>	<b>(237.89)</b>	<b>(229.22)</b>	<b>(219.93)</b>	<b>(275.02)</b>	<b>(251.23)</b>	<b>(360.23)</b>	<b>(557.72)</b>
2.1 Interest Expenses	139.80	132.03	115.73	163.43	130.44	189.21	326.20
2.2 Staff Expenses	18.88	20.95	23.25	29.78	36.06	58.43	85.09
2.3 Office Overhead Expenses	64.32	66.43	69.18	71.36	76.06	93.68	120.71
2.4 Exchange Loss	-	-	-	-	-	-	-
2.5 Non-operating Expenses	-	-	-	0.25	-	-	-
2.6 Other Expenses	14.89	9.81	11.77	10.43	8.68	18.91	25.72
<b>B) Cash Flow from Investing Activities (CFIA)</b>	<b>(704.44)</b>	<b>(568.87)</b>	<b>(968.61)</b>	<b>(1316.28)</b>	<b>(4.92)</b>	<b>(3967.05)</b>	<b>(4333.18)</b>
1.Changes in Balance with Banks	77.97	98.76	113.77	(45.07)	97.79	(448.16)	(185.98)
2.Changes in Money at Call and Short Notice	680.25	127.84	(38.72)	-	-	(40.00)	(270.00)
3.Changes in Investments	(101.80)	80	(90)	(786.86)	148.12	116.92	(2157.24)
4.Changes in Loans, Advances and Bills Purchased	(35.95)	(262.23)	659.44	(363.04)	(294.68)	(3222.51)	(1416.78)
5.Changes in Fixed Assets	(2.75)	7.48	3.69	(9.27)	(10.50)	(170.79)	(99.21)
6.Changes in Other Assets	86.72	4.37	102.34	(112.03)	64.20	(202.51)	(203.97)
<b>(C) Cash Flow from Financing Activities(CFFA)</b>	<b>595.90</b>	<b>410.56</b>	<b>816.16</b>	<b>1206.56</b>	<b>(156.36)</b>	<b>3903.72</b>	<b>4099.53</b>
1.Changes in Borrowings	41.07	(50.00)	90.00	(20.00)	21.50	(91.67)	354.67
2.Changes in Deposits	477.96	(143.32)	544.40	1272.93	(81.45)	3748.00	3601.91
3.Changes in Bills Payable	20.69	(17.68)	(1.27)	(3.67)	1.64	24.81	26.20
4.Changes in Other Liabilities	11.18	-	25.94	(42.70)	(55.05)	222.58	175.80
5.Dividend Paid	45.00	64.78	43.91	-	-	-	(59.06)
<b>(D) Net Cash Flow of the Year (A+B+C)</b>	<b>12.81</b>	<b>(31.88)</b>	<b>(14.55)</b>	<b>38.70</b>	<b>(9.98)</b>	<b>139.45</b>	<b>114.41</b>
<b>(E) Opening Cash Balance</b>	<b>66.42</b>	<b>79.24</b>	<b>47.35</b>	<b>32.80</b>	<b>71.50</b>	<b>61.52</b>	<b>200.97</b>
<b>(F) Closing Balance (D+E)</b>	<b>79.24</b>	<b>47.35</b>	<b>32.80</b>	<b>71.50</b>	<b>61.52</b>	<b>200.97</b>	<b>315.38</b>

*Source: Present in Appendix- X*

**Interpretation:**

Table no. 4.29 shows the cash flow of NIBL regarding the different banking activities. The table represent the cash inflow and outflow of NIBL from 2001-2008 which is in fluctuating trend. In the initial years of the observed period, operating activities of NIBL is greater but it is decreasing in year 2001/02 to 2005/06. Cash available for operating activities is maximum in the year 2007/08 i.e. Rs. 348.06 million.

Cash flow from investing activities is increasing from the year 2001/02 to 2003/04. But in year 2005/06 cash outflows from investing activities is significantly lower i.e. (Rs. 4.92 million) than other years. In year 2006/07, bank drastically increased its investment activities having an outflow of (Rs. 3967.05 million).

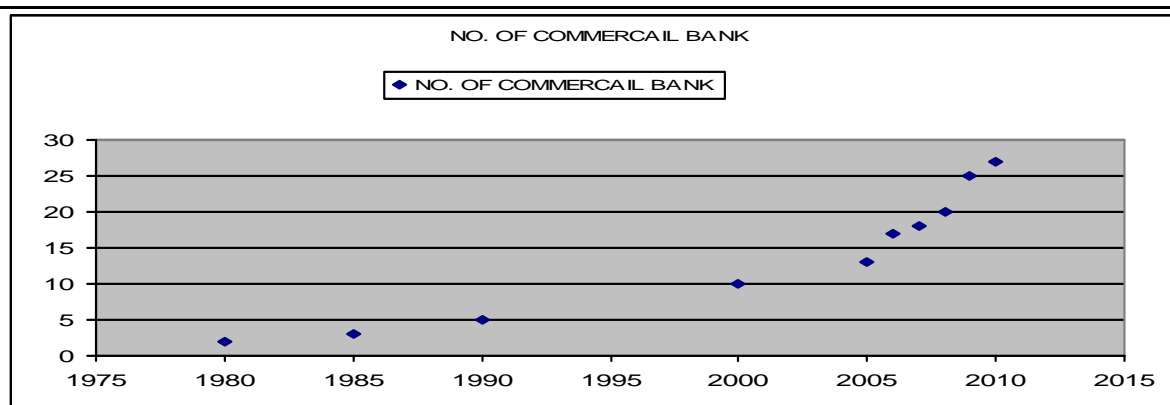
NIBL is unable to create cash inflow from financing activities during the year 2005/06. It has out flow of (Rs. 156.36 million). Its cash acquisition capacity is maximum in year 2007/08 i.e. (Rs. 4099.53 million).

#### 4.4 Structure and Growth of Commercial Banks in Nepal

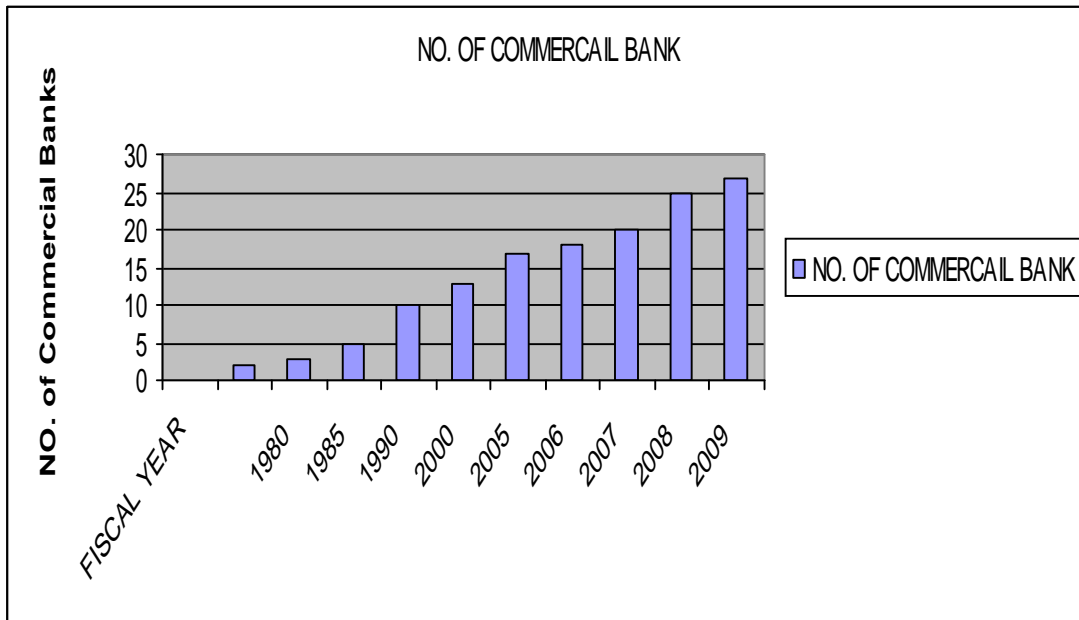
There is tremendous growth in the number of financial institutions in Nepal during these two decades. At the beginning of 1980 when financial sectors were not liberalized there were only two commercial banks in Nepal, one is Nepal Bank Limited and another is Rastriya Banijya Bank. After the economic liberalization in the financial sector, these sectors made a hall-mark progress both in terms of the number of financial institutions and beneficiaries of financial services. By Mid-July 2010, the numbers of commercial banks licensed from NRB were twenty seven in figure. The movement of the numbers of the commercial bank for the ten years period can be shown as follows:

**Table 4.30**  
**Commercial Banks in Nepal**

FISCAL YEAR	NO. OF COMMERCIAL BANK	CHANGES IN NO. OF COMMERCIAL BANK
1980	2	-
1985	3	1
1990	5	20
2000	10	5
2005	13	3
2006	17	4
2007	18	1
2008	20	2
2009	25	2
2010	27	-



*Sources: Banking and Financial Statistics, NRB Mid-July 2010*



*Sources: Banking and Financial Statistics, NRB Mid-July 2010*

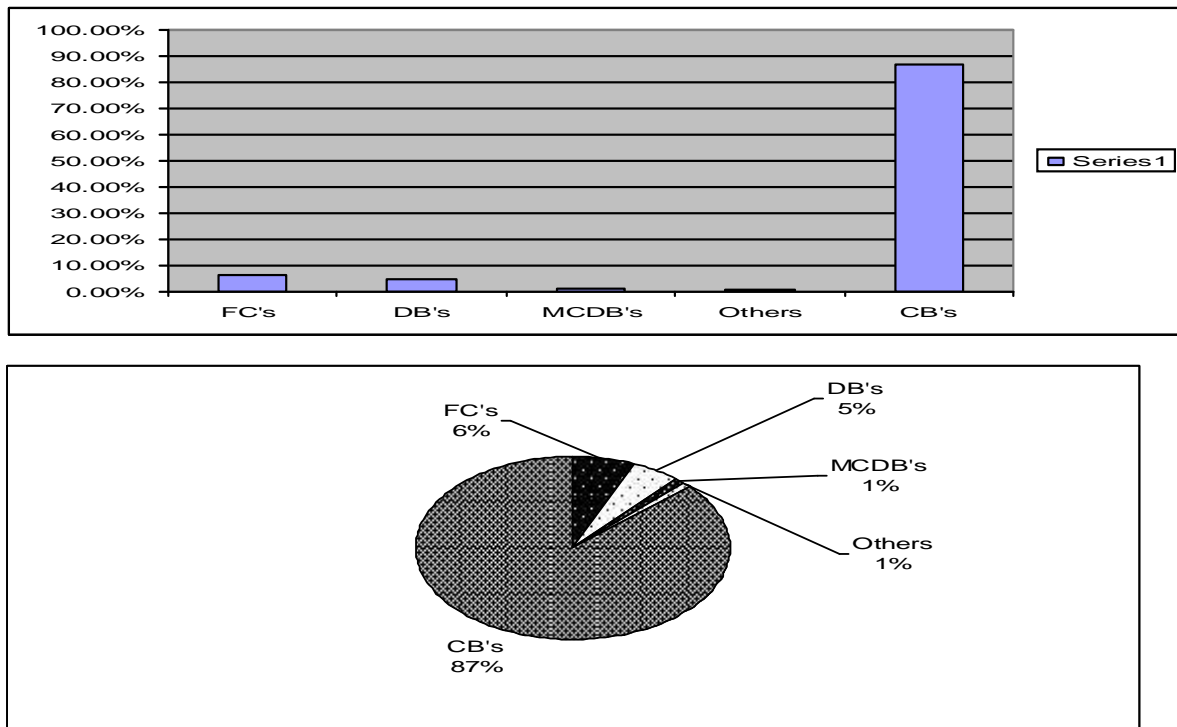
Table no. 4.30 shows the number of commercial banks established and changed during the period of 1980-2010. It took about 30 years of time to achieve this development. The figure shows the continuous growth of the commercial banks is in the financial and economic sector but still not sufficient to fulfill every citizen of our country. Most of the commercial banks of our country cover and provide maximum of it services in the urban areas only. From the present scenario, we can interpret that urban people can take financial and economic benefits that can be obtain through these commercial banks which directly as well as indirectly causes deviations in the income level of people as most of our population is allocated in rural areas. People who are comparatively rich are becoming richer and vice-versa.

## 4.5 Market Share of Commercial Banks in Total Assets

Nowadays most of the financial indicators show the negative growth, although the size of total assets of the commercial banks has increased significantly. Only commercial banks account for 86.78% approximately in the total assets of the financial system till Mid-July 2010. It can justify that commercial banks alone hold a dominant financial position in financial and economic sector of our country.

**Figure 1.5**

**Bar Diagram and Pie Chart Representing Market Share of Commercial Banks in Total Assets**



*Sources: Banking and Financial Statistics, NRB Mid-July 2010*

The above figure shows the market share of commercial banks in total assets. From the above figure we know that commercial banks hold the most of the assets which is 87% approximately in total assets. This shows that the role of commercial banks is vital for the development of the total economic sector of the country.

## 4.6 Assets and Liabilities of Commercial Banks

The total assets and liabilities of commercial banks are increasing continuously over the studied period. The total assets which were Rs.145860.3 million in Mid-July 1998/1999 expanded to Rs. 441468.1 million in Mid-July 2008/09. On the assets side, private sectors occupy the first position, which increased to Rs. 148073.2 million from Rs. 75643.9 million over the ten year periods. Similarly government, other assets, foreign assets and cash in hand occupy the second, third and fourth position respectively. The other components and amounts of the assets of the commercial banks are shown in the following table.

**Table 4.31**  
**Assets Structure of Commercial Banks**

FISCAL YEAR	CASH IN HAND	INTER BANK DEPOSIT	FOREIGN ASSETS	CLAIMS ON GOVERNMENT	CLAIMS ON GOVERNMENT ENTERPRISES	CLAIMS ON PRIVATE SECTOR	OTHER ASSETS	TOTAL ASSETS
1989/99	13432.8	753.5	17720.9	10280.7	5607.1	75643.9	22421.4	145860.3
1999/00	15168.1	890.9	23472.5	12659.1	7463.1	89433.1	23800.9	172887.7
2000/01	16387.9	1560.6	28208.0	18176.7	8684.3	107343.1	30534.2	210894.8
2001/02	20101.6	1869.6	30047.1	25392.9	10225.4	123417.4	42056.5	253110.5
2002/03	21061.0	1139.3	25201.7	29143.8	12760.5	130088.4	51542.8	270937.5
2003/04	20413.6	1862.5	21263.3	34969.3	13104.4	148073.2	61340.0	305526.3
2004/05	28510.8	3787.9	22289.2	43796.3	14690.6	168692.8	27960.8	309728.4
2005/06	25007.1	2458.7	25472.6	48550.7	17993.9	193270.0	283977.7	309728.4
2006/07	28961.7	4007.9	33065.4	58861.9	5381.5	240361.9	25776.1	398130.8
2007/08	30228.1	4776.1	35499.6	65850.0	6161.4	265360.6	31721.9	441468.1

*Sources: Quarterly Economic Bulletin, NRB Various Issues*

To understand the above table, the following terms should be known:

**Cash in hand = Notes and Coins + Balance with NRB**

**Foreign Assets = Foreign Notes and Coins + Balance with Foreign Banks + Foreign Bills Purchased and Discounts**

**Claims on Government = Treasury Bills + Development Bonds**

**Claims on Government Enterprises = Financial + Non-Financial**

The above table shows that all components of assets of the commercial banks are increasing in every fiscal year. It shows that the performance of commercial banking is increasing every year and in every sector.

**Table 4.32**  
**Liabilities Structure of Commercial Banks**

FISCAL YEAR	CURRENT DEPOSIT	SAVING DEPOSIT	FIXED DEPOSIT	MARGIN DEPOSIT	BORROWING FROM NRB	PAID-UP CAPITAL	GENERAL RESERVES	OTHERER LIABILITIES	TOTAL LIABILITIES
1989/99	16547.8	36885.3	47303.2	1807.3	5.5	2966.0	1271.9	39073.3	145860.3
1999/00	17950.9	50140.8	56960.3	2010.9	5.5	3767.1	1256.4	40795.8	172887.7
2000/01	20638.1	65703.6	66596.2	2002.9	45.1	4140.3	1971.5	49797.1	210894.8
2001/02	25100.7	80987.8	73488.8	2097.6	5.5	5047.9	2229.9	64152.3	253110.5
2002/03	24352.2	83817.7	74373.7	1787.5	1043.8	6183.4	2540.1	76839.1	270937.5
2003/04	28862.6	97236.4	75348.4	1849.6	947.5	7726.0	2818.0	90737.8	305526.3
2004/05	33755.2	114106.3	83268.2	2163.1	477.9	8350.6	3384.9	64222.2	309728.4
2005/06	34663.1	130013.6	84137.4	2194.0	1724.0	9723.9	3825.7	74740.8	341022.5
2006/07	36298.1	151710.7	100068.2	2480.9	329.2	17049.7	5149.2	85044.8	398130.8
2007/08	45031.6	174633.9	114032.5	3094.7	1870.8	20017.1	6586.0	76261.5	441468.1

*Sources: Quarterly Economic Bulletin, NRB Various Issues*

To understand the above table, the following terms should be known:

**Current Deposit = Private Sector + Government + Inter-Bank + Foreign Deposits**

**Saving Deposit = Private Sector + Foreign Deposits**

**Fixed Deposit = Private Sector + Foreign Deposits**

**Other Liabilities = Domestic + Foreign Liabilities**

The above table shows that all components of the liabilities are increasing every fiscal year besides margin deposits and borrowing from NRB. Although margin deposit and borrowing from NRB has increased amount in the whole period.

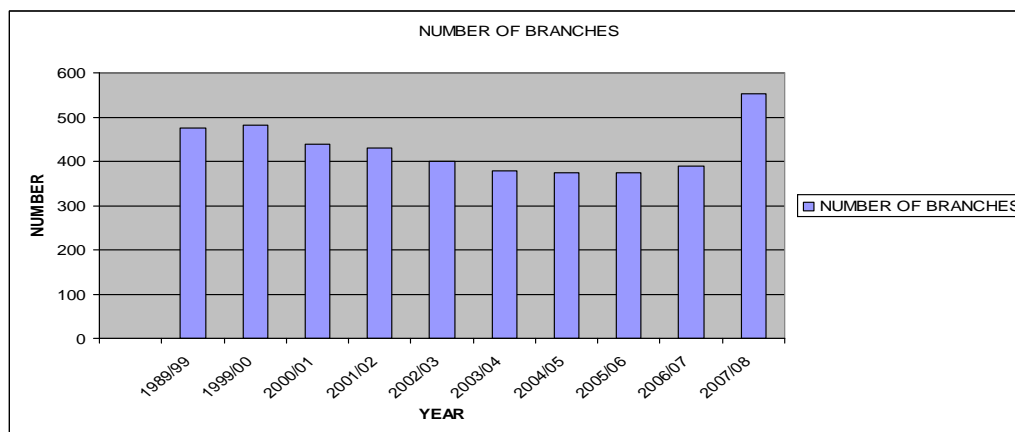
## 4.7 Branches of Commercial Banks

Until Mid-July 2008 the total number of commercial banks, branches reached up to 552. The number of branches seems insufficient in consideration of the growing needs of the country and the state of economy. Within the period of 9 years from Mid-July 1998-2009, we can see that in the initial periods, development of branches was increasing but it seemed to be in downward trend i.e. from 2001/02 to 2006/07. Maximum numbers of the branches are established in the urban areas rather than rural areas. The structure and growth of the commercial banks is shown in the following figure:

**Table 4.33**  
**Number of Branches of Commercial Banks**

FISCAL YEAR	NUMBER OF BRANCHES	CHANGE IN BRANCHES	GROWTH RATE (%)
1989/99	475	14	3.04
1999/00	481	6	1.26
2000/01	439	-42	-8.73
2001/02	430	-9	-2.05
2002/03	400	-30	-6.98
2003/04	379	-21	-5.25
2004/05	375	-4	-1.05
2005/06	375	0	-
2006/07	390	15	4
2007/08	552	162	41.54

**Figure 1.6**  
**Bar Diagram and Pie Chart Representing Number of Branches of Commercial Banks**



Sources: Quarterly Economic Bulletin, NRB Various Issues

**Interpretation:**

Table no: 4.33 shows the growing rate of branches of commercial banks is high in the initial phase and it started declining. The growing rate as well as declining rate is fluctuating. During the study period, the number of branches was increased from fiscal year 1998 to 2003.

Under 5<sup>th</sup> year plan, Government of Nepal promulgated a policy for the provision of bank branch for thirty thousand people, where banking development scheme by NRB was that at least one bank branches should be established in every district.

NRB discounted the loss compensation policy to the newly established branches under the banking development scheme and change its existing policy to compel the commercial banks to open new branches in rural areas where there is no financial benefit. Development banks and other financial institution like cooperatives, finance companies, NGO's are allowed to operate the banking business with some restrictions in the different parts of the country.

Besides this problem in the financial sector, other problems like internal insurgency also played a main role for closing the branches of commercial banks. The internal insurgency problem like Maoist played more vital role for closing the branches. Due to this insurgency there was financial insecurity and financial institutions suffered from such stagnation. This caused te merging of the branches of the commercial banks located in rural areas of the country. Due to which the area with poor financial activities were isolated from the banking activities.

## 4.8 Major Findings of the Study

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 focus on the major findings of the study, which are derived from analysis of fund mobilization of HBL, EBL and NIBL with comparatively applying data from period 2001 to 2009.

On the basis of the detailed analysis of commercial banks of Nepal, the following findings come to existence:

- ) The number of commercial bank branches operating in the country reached 552 including 29 commercial banks. Of the total branches more than 80% of the branches are concentrated in urban areas.
- ) As an increment of number and business, the commercial banks contributed to impressive growth in the size of total assets.
- ) Loans and advances, the major components of assets constituted the 46.66% of the total assets. Similarly, investment and liquid funds registered the 19.06% of the total assets.
- ) In the current year the loan and advances increased by higher rate of 32.05% compare to the previous year of observed period.
- ) The share of borrowing to total liabilities accounted to 2.60% in Mid-July 2006. It was 2.20% in the previous year.
- ) The total outstanding loans and advances reached to Rs.231844.7 million in Mid-July 2007. Out of them the production sector constituted the highest share of 26.90%.

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

### **1. Finding from Liquidity Ratios**

- ) The main ratio of cash and bank balance to total deposits of NIBL is higher than EBL and HBL. HBL has the 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 that HBL has taken more risk to meet the daily cash requirements.
  
- ) 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.
  
- ) 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.

## 2. Finding from Assets Management Ratios

- ) 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 EBL is more consistent than HBL and NIBL.
  
- ) 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 two banks. So, it seems EBL is more consistent than HBL and NIBL.
  
- ) The average ratio of loan and advances to total working fund of EBL is higher than HBL and NIBL. The variability ratio of EBL is lower than that of HBL and EBL. It is the indication of more consistency in loan and advances.
  
- ) The mean ratio of investment on shares and debentures to total working fund of HBL is greater than EBL and NIBL. NIBL has the lower variability ratio. It shows the stable investment on shares and debentures.
  
- ) EBL is comparatively successful to invest in productive sector and in mobilizing its collected deposits to provide loan and advances. It seems stronger incase of investing its fund.

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

- ) The mean ratio of return on total working fund of NIBL is greater than HBL and EBL. Whereas the variability ratio of EBL is lower than HBL and NIBL. It indicates that the return on total working fund of EBL is stable.
  
- ) The mean ratio of return on loan and advances of NIBL is higher than HBL and EBL. The variability ratio of HBL is lower than EBL and NIBL. It seems HBL has more stable return.
  
- ) NIBL is in more profit in comparison to HBL and EBL.

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

- ) NIBL has the lower risk than HBL and EBL. The variability ratio of NIBL is lower than HBL and NIBL. It indicates that credit risk ratio is consistent. But in case of HBL and EBL, they have comparatively high credit risk ratios.
  
- ) The mean ratio of liquidity risk of HBL is lower than EBL and NIBL. Degree of risk and variability of risk is also lower in HBL in comparison to other remaining banks.
  
- ) HBL has maintained the lower liquidity risk and NIBL has maintained lower credit risk.
  
- )

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

- ) The growth ratio of loan and advances of EBL is in increasing trend whereas HBL and NIBL has highly fluctuating trend. Growth rate of EBL is higher among the three banks. Though HBL is providing more funds in loan and advances it appears too weak in growth rate point of view.
- ) The growth ratio of total deposits of HBL and EBL are increasing every year whereas growth rate of NIBL is in fluctuating trend. EBL has the high growth rate to total deposit than NIBL and HBL. It shows that EBL has increased its deposit collection capacity.
- ) EBL has maintained high growth ratio in total deposits, loan and advances and net profit but it is moderate in position for investment. The growth rate of total investment of NIBL is better than HBL and EBL.

## **6. Findings from Analysis of Sources and Uses of Funds**

- ) HBL and EBL have been remained very successful in case of mobilizing deposits during the observed period. Whereas NIBL deposit condition is lower in comparison to two banks. HBL and EBL are considered as a high liquidity sensitive bank.
- ) Capital base of NIBL has been found significantly higher than EBL and HBL. It can be said that NIBL has been able to generate high volume of profit from operation than that of other two banks. EBL is moderate in the same parameter.
- ) In case of borrowings of funds from different sources, NIBL frequently depends upon borrowing to discharge its obligation. This is an indication that internal fund management of NIBL is not satisfactory towards meeting liquidity needs. Whereas HBL has been borrowing low proportion in comparison to EBL and NIBL. EBL is moderate in case of borrowings.

## **7. Findings from Cash Flow Analysis**

) Overall 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. HBL and EBL has fluctuating trend. As these banks are investing in different sectors financially, they are able to increase long term assets as well as to obtain profit as requirement.

## **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 i.e. HBL, EBL and NIBL. These three joint venture banks are composed as per their fund mobilization activities by taking nine years data period starting from 2001 to 2009.

The study and analysis is mainly based on secondary sources. All data are taken from concerned banks' annual report, newspapers report, balance sheet, profit and loss account report, different related websites, related books and booklets, journal and articles published in different magazines and newspapers etc. After collecting data from different sources, it is analyzed by using financial and statistical tools. Findings are drawn by applying various financial and statistical tools. Tools like liquidity ratio, assets management ratio, profitability ratio, growth ratio, risk ratio, sources and uses of funds and cash flow analysis were used as financial tools. For statistical tools viz. mean, standard deviation, coefficient of variation, coefficient of correlation and least square trend were used.

In an attempt to fulfill the objectives of the research work, all secondary data are compiled, represented in different figure, diagrams, charts, processed and tabulated as per necessity.

This study suffers from different limitations; secondary resources were collected by visiting the HBL, EBL and NIB. Therefore the study may not be generalized in all cases and accuracy depends upon the data collected and provided by the organization.

## 5.2 Conclusion

The above mentioned major findings led this study and analysis to following conclusions:

- J 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. 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.
  
- J Considering asset management aspect of three banks, EBL is relatively successful to invest in productive sectors and it 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 comparatively weak in investing its collected deposits in comparison to HBL and EBL. 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 is successfully invested more working funds in debentures and shares of other company whereas NIBL is weak to make investment on shares and debentures.
  
- J The liquidity risk ratio of NIBL is higher than that of HBL and EBL which appears to be less profitable return for NIBL. On the other hand liquidity risk ratio of HBL is the lowest amongst these three banks which specifies that HBL has kept idle funds in the form of cash and bank balance which reduces profitability. NIBL has the lowest credit risk ratio amongst the three banks. Credit risk involved in loan and advances and total investment of EBL is more than HBL and NIBL. It may have aroused due to default risk or non- payment of loan.

- ) NIBL appears to be more successful in earning 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 isn't well managed but it seems to be successful to collect its working fund from less expensive sources in comparison to NIBL and EBL.
  
- ) Growth ratio of total deposits, total investment and net profit of NIBL seem to be weak as compared 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, loans and advances and in net profit but it is moderate in position for investment. Therefore, we must say that the bank is successful for increasing its sources of fund and its mobilization.
  
- ) Deposit is the strongest sources of fund whereas borrowings cover portions of sources of fund. NIBL has kept fewer amounts in deposits in comparison to other two banks. 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 this study period. Operating efficiency of EBL is in increasing trend during the study period. Cash acquisition capacity of HBL is more than other two banks.

### 5.3 Recommendations

On the basis of analysis, findings, following recommendations are made. The banks may use these recommendations to overcome their weakness, inefficiency and improve their present fund mobilization to overall sectors and parts of the country.

- ) To maintain effective liquidity position
- ) To increase deposit collection
- ) To make more investment in government securities
- ) To make more investment on share and debentures
- ) To make profitable return
- ) To prefer aggressive-defensive policy
- ) To invest deprive and priority sector
- ) To make effective portfolio management
- ) Liberal lending policy and sound credit collection policy
- ) To adopt innovative approach to bank marketing
- ) To extend branches all over the country

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