CHAPTER- ONE

INTRODUCTION

1.1 General Background

The major concern of many countries of the world has been to accelerate their development process and thereby increase the welfare of their people. This can be done only through sound investment. This would require financing. The development of corporate culture depends upon a sound financial system. Then wealth can be 1created for increasing the welfare of people. Not only does the wealth we create depend upon the availability of finance, but also the distribution of that wealth is arranged through the money system. All the wealth created is distributed as rent; wages, interest or profits to those who helped provide it, the landlords, workers, investors and risk bearers. It is then subject to tax in such a way that a wide variety of social programs can be supported. These, includes welfare programs - education, health, defense etc. In all these arrangements the financial institution are playing their part, and their influence extends down to the grass root of our society. Since the financial institutions are rendering a wide range of services to people of different walks of life, they have become an essential part of modern society. The resource allocation of the country is done by the financial system. Financial service firms acts as an intermediaries in the allocation of financial resources. The major players of the financial system are the Banks, Insurance companies, Finance companies, Mutual Funds, Government of the country (through central bank) and other non-financial corporations. Among these Commercial banks are the kingpins of the Financial Service Industry. The history of the commercial banks starts almost from the 11th century, but it is only 7 decades old in Nepal.

Since the existence of the commercial banks, the liquidity is the key factor for them. Liquidity is defined as bank's capacity to pay cash in exchange of deposits. An asset is said to be liquid when it is readily converted into cash with little or no capital loss or price depreciation. Liquidity is the lifeblood of the commercial banks. The existence of the bank depends upon the very liquidity position of the bank. In

any institution, the liquidity does damage credit standing of the organization. In banks, if there is inadequate liquidity, it fails to repay the deposits on demand; the trust of the public in the bank fades away. This leads to 'runs' in the bank and bankruptcy thereof. Excess liquidity is detrimental to bank's profitability. Banks need liquidity to meet deposit withdrawal and to satisfy customer loan demand. Banks can either store liquidity in their assets or purchase it in money and deposit markets. Because liquid assets have lower return, stored liquidity has an opportunity costs that result in a trade off between liquidity and profitability. By holding more than required liquid assets, it reduces the bank's profitability. Therefore banks want to hold a minimum amount of such assets and still be able to meet their liquidity requirement.

1.2 Focus of the study

The study is focused on the trends of the commercial banks' liquid assets and its status in terms of the investment portfolio in the treasury bills issued by central bank. The major impact of investment portfolio of Treasury bill in the liquidity and profitability of the bank for the period by the study is 5 years i.e. from fiscal year 2059/60 to 2063/64. Sample companies are segregated into two group's i.e. larger banks and smaller banks. The investment in Treasury bill, liquidity management, and income from treasury bill will be the most important output of the study. These data will be shown to compare between the banks to find out the strength and weak part of management and hence suggesting from the finding.

1.2.1 Introduction to NRB

Nepal Rastra Bank is the central bank of Nepal. NRB was established in 1955 under The Nepal Rastra Bank Act, 2012 BS. Now, NRB is running under a new act – Nepal Rastra Bank Act, 2058 BS. Before 1955, the functions of a central bank were performed by the government itself.

NRB is the only authority to issue Nepalese Rupees currency. It has right to fix exchange rates with other convertible currencies. However, the exchange rates are extremely depended upon the Indian currency.

Being the central bank of the country, the ownership of NRB is with Government. But, the management of NRB is not controlled by Government. NRB has 12

branches throughout the Kingdom of Nepal including the Head Office at Baluwatar and the Main Banking Office at Thapathali in Kathmandu. NRB has been established as the regulatory body for banks and financial institutions of Nepal. So, it has right to constitute rules and regulations to be followed by banks and financial institutions in the country. All the banks and financial institutions operate under the regulations of NRB. The establishment of such institutions is also in discretion of NRB. To regulate the operations of commercial banks, NRB has issued various directives which include capital adequacy norms to be followed by commercial banks.

As per the Nepal Rastra Bank Act, 2058 BS the objectives of NRB are stated as follows:

a) To formulate and maintain appropriate monetary and foreign exchange policy for stable price and balance of payments situation required for sustainable economic development;

b) To manage the required liquidity and stability of banking and financial sectors;

c) To develop secure, healthy, and efficient payment system;

d) To monitor, supervise and evaluate banking and financial system; and

e) To enhance trust of citizens in overall banking and financial system within the country.

As well as, Nepal Rastra Bank Act, 2058 BS has prescribed the rights, duties and functions of NRB as follows:

a) To issue currency notes and coins in the market;

b) To formulate and implement necessary monetary policy for price stability;

c) To formulate and implement foreign exchange policy;

d) To determine the foreign exchange rate adjustment regime;

e) To operate and manage foreign exchange reserves;

f) To issue license to commercial banks and financial companies for carrying out financial transactions and regulate, inspect, supervise and monitor such transactions;

g) To function as the banker, advisor and fiscal agent of His Majesty's Government;

h) To function as a bank of commercial banks and financial institutions, and as a lender of last resort;

i) To establish, promote and regulate the systems of payments, clearing and Settlements; and

j) To carry out other important functions as necessary towards realizing the Objectives enjoined by the Act. (NRB Bulletin, 1996: 35)

1.3 Profile of Sample Company

1.3.1 Himalayan Bank Limited

Himalayan Bank Limited was incorporated in 1992 by a few distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial bank of Pakistan. Banking operation commenced from January 1993. It is the first commercial bank of Nepal whose maximum shares are held by the Nepalese private sector. Besides commercial banking services, the Bank also offers industrial and merchant banking services.Its authorized share capital is Rs 1000,000,000 and Issued and Paid Up Capital is Rs. 772,200,000 as on fiscal Year 2007/08.

Himalayan Bank Limited (HBL) is the largest private sector commercial bank of Nepal in terms of deposit base, loan portfolio and capital base. In July 2003 and again in July 2005 the Bankers Almanac ranked HBL as country's no. 1 bank. For the year 2005 it was ranked at 2368 in the worldwide rating which is fifty positions ahead of its nearest competitor in the country (www.himalayanbank.com).

Himalayan Bank has always been committed to providing a quality service to its valued customers, with a personal touch. All customers are treated with utmost courtesy as valued clients. The Bank, wherever possible, offers tailor made facilities to its clients, based on the unique needs and requirements of different clients. To further extend the reliable and efficient services to its valued customers, Himalayan Bank has adopted the latest banking technology. This has not only helped the Bank to constantly improve its service level but has also prepared the Bank for future adaptation to new technology. The Bank already offers unique services such as SMS Banking and Internet Banking to customers and will be introducing more services like these in the near future.

Himalayan Bank has access to the worldwide correspondent network of Habib Bank for fund transfer, letter of credit or any banking services.

1.3.2 Nabil Bank Limited

Nabil Bank Limited, the first joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe. As on fiscal Year 2007/08 its authorized share capital is Rs 500,000,000 and Issued and Paid Up capital were Rs 491,654,400.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. (www.nabilbank.com)

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATM's, credit cards, state-of-art world renowned software called Finacle Technologies System, Internet banking system and Tele banking system.

1.3.3 Siddartha Bank Limited

Siddhartha Bank Limited (SBL) commenced operations in 2002. The Bank was promoted by a group of highly reputed Nepalese dignitaries having wide commercial experience. SBL provide a full range of commercial banking services through six branches established In Kathmandu, Birgunj, Biratnagar and Pokhara. Currently its authorized share capital is Rs 1,000,000,000 and Issued and Paid Up Capital is Rs 500,000,000 .

The environment of Nepalese banking sector is undergoing a rapid transformation. With liberalization in financial markets and integration of domestic market with

external markets, bank operations have become more complex and dynamic. SBL is geared to meet the challenges and keep abreast with the changes.

The Vision statement of the Bank describes the core values and purposes that guide the Bank as well as an envisioned future. Fundamentally, in all dealings SBL earnestly believes in transparency, financial soundness, efficiency and better technology.

SBL's vision is to be financially sound, operationally efficient and keep abreast with technological developments. The Bank firmly believes customer focus is a core value, shareholder prosperity is a prime priority, employee growth is a commitment and economic welfare is a sincere concern.

The Bank wants to be a leader among the banks of its age in Nepal by fulfilling the interest of the stakeholders and also aims to provide total customer satisfaction by way of offering innovative product and by developing and retaining highly motivated and committed staff. It directs all its efforts to move ahead with increased profits. The following mission statement is a guide to meet the Vision of the Bank:

As a first step, SBL will strive to be in a leading position amongst the banks of its age in terms of profitability, productivity and innovation. SBL aims at total customer satisfaction by rendering efficient and diversified financial services through improved technology. SBL will build a highly motivated and committed team of staff by nurturing a good work culture to achieve superior individual performance aiming to enhance organizational effectiveness. SBL will be the place of pride to all its stakeholders.

The Bank provides long-term loan up to 20 years on EMI repayment for buying land, construction/renovation of a residential house or residential cum commercial building. (www.siddarthabank.com)

1.3.4 Lumbini Bank Limited

Lumbini Bank Limited holds the glory of being first commercial bank completely owned by Nepali private sector. Established in 2054, LBL has the head office in Narayangarh Chitwan and has the corporate office in DurbarMarg, Kathmandu. The banks have 5 branches so far. As On fiscal Year 2007/08 its authorized share capital is Rs 1,000,000,000 and Its Issued and Paid Up capital are Rs 500,000,000 and Rs 35,000,000 respectively.

The bank, although established 8 years back, have struggled a lot in the past for its existence. The bank was under the management of NRB for few years. Mismanagement and the safeguard of the money of the public was given as the reason for the takeover by NRB. The management now has been transferred to the shareholders of the bank.

Recently, LBL have come up with different customer oriented schemes and services. The bank has launched Debit Card and ATM services along with other value added services like SMS banking. The bank is also marketing vigorously to collect deposits by adopting various schemes. (www.lumbinibank.com)

The recent reshuffle in the management team is highly expected to bring about the positive changes in the bank. The new management team of experienced and reputed bankers of Nepal will definitely send the positive notes in the market.

1.4 Statement of the Research Problem

In a book published by the World Bank titled “Excess liquidity and monetary overhang”, it is stated that there is mostly excess liquidity in the financial institutions of the developing economies. Banks that are concerned about the likelihood of default on loans tend to hold greater amount of liquid assets, such as cash and bank deposits, treasury bills, government bonds, and other readily marketable securities. Bank liquidity can be a source of concern, since higher liquidity means less lending to support potentially high-yielding non-government investment. Thus an increase in overall bank liquidity is tantamount to a tightening of monetary policy, in that with higher liquidity a given monetary base will support a lower level

of economic activity. Similarly the IMF opines that excess liquidity is a great problem for the developing economies and results not from the dearth of lending opportunities or demand for funds but from a number of system and institutional shortcomings. In such a scenario, the treasury bills issued by the central banks, on behalf government is very critical tools for the commercial banks, in term of liquidity and profitability. Treasury bills are the short-term financial bill or promissory note issued by the central bank into the market on behalf of the government of the country. The major portfolio of the investment of the commercial banks of Nepal is in the treasury bills issued by the central bank. Almost 10% of the total assets of the commercial banks are invested in the treasury bills. *(Caprio & Honohan 1991: 23)*

The money supply in the market is very important variable of the economy. The cash and the near cash items of the commercial banks, which represent the liquidity position of the banks, is the major indicator of the money supply of the economy. To manage properly the money supply of the economy, the central bank is keenly managing or introducing different monetary tools and policies. The Treasury bills issued by the central bank on behalf of the government of the country is also one benchmark of the monetary situation of the economy. The inter-bank market between the commercial banks is based upon the discount rate of the treasury bills. The Standing liquidity facility given to the commercial banks by the central bank is also based upon the discount rate of the treasury bills and the investment portfolio in the treasury bills. The inter-bank market situation of Nepalese economy, the different monetary tools being used by the central bank to mange the bank liquidity is also studied in the proposed study. By all the above mentioned factors the Treasury bills is confronted as the key factor for the liquidity and profitability position of the commercial banks and the for the economy as a whole.

1.5 Objectives of the study

The main objectives of this study are given below:

- To examine how the treasury bills issued by the central bank supplement the commercial bank's liquidity needs (liquidity management).

- To examine how the commercial bank's profitability comply with the proportion of investment in the treasury bills (profitability management).
- To examine the Trade off between liquidity and profitability.
- To provide suggestions on the basis of finding.

1.6 Significance of the Study

Several research works has been done in various aspects of the commercial banks of Nepal, especially financial performance, investment policy, resource mobilization, lending policy, compliance of NRB directives by banks, risk and rates of return etc. But there hasn't been much effort to study on the effects of Treasury bill in various aspects of the banks performance viz. liquidity, profitability and risk management. By the study, it is found that 10% of the total assets of the commercial banks are to be in the treasury bills portfolio. Liquidity, profitability and the total risk weighted assets of the commercial banks are key factors for a commercial bank as a whole, so it should be very significant to study the effect of the major investment portfolio in the said matters. Since, this study is focused on the role of investment on treasury in the commercial banks; it would serve as a guideline for the same.

1.7 Limitation of the study

- The study is limited to the liquidity position of the commercial banks of Nepal.
- The study period is fiscal year 2059/60 to 2063/64.
- Data and financial statements provided by sample banks and central bank will be used which are secondary in nature.
- Sample banks viz. Nabil Bank Limited, Himalayan Bank Limited, Siddartha Bank Limited and Lumbini Bank Limited. The study is limited to four sample banks.
- The dependability of the outcomes of the research is based on the accuracy of the provided data by the central bank and commercial banks.
- This study will be done for the partial fulfillment of Masters in Business Studies program of Tribhuvan University.

1.8 Organization of the Study

The structure of the thesis report comprises a total of five chapters which have been organized as follows:

Chapter 1: Introduction

This chapter includes the background of the study, meaning, functions and importance of a central bank, introduction to banks under study, statement of problem, objective of the study, significance of the study, limitation of the study.

Chapter 2: Review of Literature

The second chapter deals with the review of literature with concept treasury bills, liquidity and profitability. For this purpose, various books, journals and periodicals as well as internet have been utilized.

Chapter 3: Research Methodology

Research design, sample selection, sources of data, data collection procedure, tools for analysis of the study, and limitations of the methodology have been included in this chapter.

Chapter 4: Presentation and Analysis of Data

Fourth chapter is the analytical presentation of the study. This chapter consists of analysis, interpretation and major findings of the study. This is the most important part of the study.

Chapter 5: Summary, Conclusions and Recommendations

In this chapter, the summary of the entire study has been comprised. This chapter further describes the major findings of the study. Conclusions of the study have also been included in this chapter. As well as, possible and viable recommendations has also been presented in this chapter.

CHAPTER- TWO

REVIEW OF LITERATURE

The review of literature is a very important aspect of the research. This chapter highlights upon the existing literature. For this, several books, dissertation, reports, handouts and articles published in journals and newspapers are reviewed.

2.1 Conceptual Review

2.1.1 Commercial Banks

2.1.1.1Origin and Development of Banks

Vaidya (1997) points out that little are known about banking before the middle ages. In spite of the establishment of the Bank of England in 1694, the development of modern commercial banking institutions had to wait for another century and four decades until the passage of Banking act of 1833 which provided freedom for the establishment of joint stock banks. While banking arose far early and more rapidly in some countries than in other, it was only in the 19th century that the modern joint stock commercial banking system developed in the leading countries of the world. When colonies were established in North and South America, old banking services were transferred to the New World. (Vaidhya, 2001:28)

2.1.1.2 Evolutions of Banking System in Nepal

The history of banking in Nepal may be described as a component of the gradual and orderly evolution in the financial and economic sphere of the Nepalese life. Even now the financial system is still in the evolutionary phase. The existence of unorganized money market consisting of landlords, (shahukars) rich merchant shopkeepers and other indigenous individual money lenders has acted as barrier to institutionalized credit. *(NRB Bulletin, 1996: 32)*

These institutions although quite underdeveloped could still mobilize funds from a wide range of different sources. For many years, the indigenous individual, wealthy agriculturists, landlords, merchants and traders conducted some banking activities

along with their other business occupations. The activities were fragmented and mostly localized.(Bulletin-40 Years of Nepal Rastra Bank)

The Tejarath Adda

Prior to establishment of the Nepal bank Ltd, there was no organized financial institution in Nepal. The population was heavily dependant upon agriculture and in the absence of any organized institution providing credit to support agriculture and other necessities. People had to rely on on borrowings from the unscrupulous money lenders who charged exorbitant rates of interest and other dues. The moneylenders even practiced the capitalization of interest upon failure to repay back the principal amount on time. These private money lenders used to extend loans to the people on the collateral of land, house and precious metal. This resulted in worshening the economic condition of the poor people. At many times people had to loose their land and property due to their inability to repay back the money on the stipulated time. The concept of saving cash was virtually non existent.

During the year around 1877 AD, a number of economic and financial reforms were introduced. The establishment of the tejarath adda fully subscribed by the government in the kathmandu valley was one of them. The 'Tejarath" disbursed credit to the people specially on the collateral of gold and silver. The government employee also eligble to get loan from this institution. The loan was repayable from salary. Thus the establishment of tejarath adda could be regarded as the premier foundation of modern banking in Nepal.

However, the instsallation of kausi tosha khana as a banking agency during the regime of king Prithvi Narayan Shah could also claim to regarded as the first step towards initiating banking development in Nepal. *(NRB Bulletin, 1996: 46)*

The Establishment of Nepal Bank Ltd

As regards trade financing, during these days, through the quantum of trade was not high, the trade with both India and Tibet flourished. Trade payment in most cases handled through various indigenous bankers. after few decades, following

the establishment of tejarath adda, it's a quite long period Nepalese people had to wait long time to get financial service.

The year 1923 was a momentous year for the country. A 'treaty of peace and friendship' was concluded between the government of Nepal and the government of Britain. As per the treaty, Nepal could carry on import trade free of duty via India. Thus this treaty was a landmark for Nepal in its quest to diversify its forign trade. The need to establish a modern bank thus acquired greater urgency. However an effort towards this end was only visible after several years around 1936 AD, the udyog parishad (industrial development board) was constituted. the major objectives of this organization is to promote joint stock companies on the behalf of government.

One year after its formation, this organization formulated the company act and the Nepal bank act in 1937 AD. This was co-operated with imperial bank of India, which was the first modern bank in Nepal. The bank was established to render the services : to accept deposits, to extend credit facilities for the promotion of trade, cottage industry and agriculture, to render customer related services, i.e. issue of bill of exchange, hundis, etc. to invest in government bonds and securities, to perform agency function and to act as banker to the government.

Sadar Mulukikhana

Until mid-1940s, only metallic coins were used as a medium of exchange. Thus to regulate on monetary service, the ;Mulukikhana Adda' established in 1945 AD at the center and the various 'Mal Addas' in the districts also undertook as the treasury function of the government.

Nepal Rastra Bank as Central Bank

After the establishment of "Sardar mulukikhana adda" an urgent necessity was felt to the development of banking and finance to promote trade and industry, to manage circulation of national currency and to maintain exchange rate stability. Hence, the Nepal rastra bank act 1955 AD was formulated under the coordination of principal royal advisor. The draft of the act was presented to GOVERNMENT

and was approved on April 1956 AD. Accordingly, the Nepal ratra bank (NRB) came into existence as the central bank of the country with an authorized capital of Rs 10 million fully subscribed by the government. This was located in a rented building 'Rain Basera' at Juddha sadak, where the bank started its early operations. The objectives with the central bank were set up are as follows:

- To ensure proper management of issuance of Nepalese currency notes
- To make proper arrangement for the circulation of Nepalese currency throughout the kingdom.
- To stabilize the exchange rate of Nepalese currency in order to maintain comfort and economic interests of the general public.
- To mobilize capital for development and encourage trade and industry in the kingdom, and whereas a national bank has become very essential.
- To develop the baking system in Nepal.

Prior to 1957 the use of Indian currency predominated in the Nepalese economy.so the first challenging task for the central bank was to increase the circulation of the Nepalese currency by replacing the use of Indian currency. Next the Nepal rastra bank took measures to stabilize the exchange rate of Nepalese currency vis-à-vis the Indian currency. Thus the entire business of currency note, exchange and other concerned activities were also entrusted by the government to this bank.

Rastria Banijya Bank

For the promotion of banking industry, trade and financial transaction, Rastra Banijya Bank was set up in 1966.

Joint Venture Commercial Banks

Nabil Bank Limited, the first joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. After than Indoswez and Standard Charted bank came as operations in 1985. these 3 banks ran for some years. Then the Himalayan bank started as first commercial banks of Nepalese investment higher than Habib Bank Pakistan. afterwards till now there are now 20

commercial banks as operating and perhaps 3 more is licensed to operate. It seems like there very high competency between the joint commercial banks on these days.

2.1.1.3 Meaning of a Bank

Banks are among the most important financial institutions in the economy and essential business in thousands of local towns and cities. In this context, there is much confusion about exactly what a bank is. Indeed many financial institutions-including security dealers, brokerage firms and insurance companies are trying to be as similar as possible to banks in the services they offer. On the contrary, bankers are challenging these non-bank competitors by lobbying for expanded authority. Hence the meaning of a bank is better to be precise and clear.

Therefore, a bank is an institution which accepts deposits from the public and in turn advances loans by creating credit. Therefore, it should be differentiated from other institutions as they cannot create credit though they accept deposits.

Summarizing the above, banks are those financial institutions that offer the widest range of financial services-especially credit, savings and payment services- and perform the widest range financial functions of any business firm in the economy. This multiplicity of bank services and functions has led to banks being labeled ‘financial supermarkets’ and to such familiar advertising slogans as Your Bank- A Full Service Financial Institution, A complete Solutions, Power to lead etc.

2.1.1.4 Concept of the Commercial Bank

"A commercial bank is one which exchanges money, deposits money, accept deposits, grants loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture industries or for such specific purpose." (Commercial Bank Act, 1974:1)

Commercial banks play a significant role in the development of a country as they become one very important means via which the major industries of the country get financial assistance. The development of commercial banks is instrumental for the

country as they act as intermediary between those who have surplus of fund and those who are in need of it. Therefore, they assist in the optimum mobilization of resources of the country which is a key to economic development.

Function of Commercial Banks

The business of commercial banks is primarily is to hold deposits and make loans and investments with the object of securing profits for its shareholders. Its primary motive is profit; other considerations are secondary.

The important functions of a commercial bank as follows:

Accepting Deposit

This is one of the major functions of a commercial bank. Commercial banks accept deposits from the general public and institutions. They not only protect the money but also provide the depositors a convenient method for transferring funds by the use of cheque leaves. It accepts deposits from people of every walk of life; it undertakes to repay the money, either in part or in full as per the requirement of the depositor or the agreement. There are different types of deposits-demand deposits, saving deposits and fixed deposits.

Advancing Loans

Another very important function of commercial banks is to provide loans and advances to the needy, from the money, which it receives in the form of deposits. Direct loans and advances are given to all, both individual and institutions against their personal guarantee or against the security of movable and immovable properties, popularly known as collateral. Loans are granted by banks in various forms such as overdrafts, cash credit, direct loans and discounting bills of exchange.

Credit Creation

Credit creation is one of the most important functions of the commercial banks. Commercial banks accept deposits and advance loans. They normally do not disburse the entire amount of deposits as loan; instead they keep a small portion

as reserve for the day-to-day transactions. When a bank advances a loan, it opens an account to draw money by cheque according to his needs. By granting a loan, the bank creates credit or deposit.

Facilities for the Financing of Foreign Trade

The other primary function of commercial banks is making arrangement for the amount of foreign exchange needed by business organization to pay in the foreign country. Bank provides more satisfactory guarantee to an individual or firms for the issuance of a commercial letter of credit, drafts, telegraphic transfer (T.T.) and an accepting traveler's cheques, Swift transfer etc.

Making Venture Capital Loans

Increasingly, banks have become active in financing the start-up costs of new companies, particularly in high-tech industries. Because of the added risk involved in such loans, this is generally through a venture capital firm that is a subsidiary of a bank holding company, and other investors are often brought in to share the risk.

Financial Advising

Their customers have long asked bankers for financial advice, particularly when it comes to the use of credit and the saving or investing of funds. Many banks offer a wide range of financial advisory services, from helping financial planning to consulting to business managers and checking on the credit standing of firms.

Offers Investment Banking and Merchant Banking Services

Banks today are following in the footsteps of leading financial institutions all over the globe in offering investment banking and merchant banking services to corporations. These services include identifying possible merger targets, financing acquisitions of other companies, dealing in security underwriting, providing strategic marketing advice, and offering hedging services to protect their customers against risk from fluctuating world currency prices and changing interest rates.

Further, they support the overall economic development of the country by various modes of financing.

Assets and Liabilities of a Commercial Bank

Vaidya (1997) points out that, "the details of the Assets and Liabilities of a commercial bank are mentioned in the balance sheet of the respective commercial banks". In Nepal, commercial banks are required to publish their audited balance sheet at the end of each Fiscal Year (FY). Each Fiscal Year runs from mid-July to mid-July (Shrawan 1st to Ashadh 32nd). As per the directives of Nepal Rastra Bank, the commercial banks are required to publish their financial statements, including the balance sheet within months of the end of the previous Fiscal Year. Also, it should be noted that, Banks are required to publish their un-audited balance sheets at the end of each quarter of the Fiscal Year, i.e., at the end of Asoj, Poush, Chaitra and Ashadh. (Vaidhya, 2001: 55)

The assets and liabilities of a commercial bank reflect their financial position. The essence of Banking, accepting deposits and disbursing credit, the outcome of both of this phenomenon affect the balance sheet because the bulk of the liability side is comprised of deposits and that of the asset side is occupied by disbursed loans. The C/D ratio, the ratio of credit to the deposits determines the level of profit for the commercial banks. Higher C/D ratio means effective mobilization of funds and this in turn means more profitability.

Therefore, the balance sheet shows how well the bank has been able to mobilize the funds. Besides, there are some other factors that can be observed through a balance sheet such as the capital, the reserves, the amount invested on fixed assets. Hence, it is utmost important to know about the items of the balance sheet of a commercial bank before analyzing the impact of the directives4 on such items. The very important items of a balance sheet of a commercial bank are as follows:

Assets

Cash

Cash is the liquid form of an asset of the commercial bank. There can be three reservoirs of cash, the bank vault, the reserve maintained with the central bank and the deposits in other commercial banks. One of the major functions of a commercial bank is to accept deposits and provide loans to its customers. In between, comes

another very important function, entertaining the cheques presented to the bank for withdrawals of the deposits. Therefore, banks need to maintain a certain level of cash with it so that it can make payments of the cheques presented in its counters. For the same, the banks keep a certain percentage of the total amount of the deposits as cash in vault.

Sometimes, due to various reasons, there are huge withdrawals, in order to meet the withdrawals; it maintains certain amount with the central bank so that it can fulfill the customers' need. Also, in some cases, when banks have excessive deposits with them, they maintain deposits with other commercial banks around at certain interest rates.

However, the banks always try to minimize the amount of cash and rather invest the amount exceeding the minimum requirement, so that they can earn and make money.

Bills Discounted and Purchased

There are normally in three forms, the promissory notes, the bills of exchange and the treasury bills. All of these are negotiable and can be easily bought and sold. These financial instruments of the banks generate income. They are safe in the sense; most of them can be further presented to the central bank for rediscounting. Therefore, commercial banks prefer to have these as part of their assets as they are supposed to be the ideal assets with safety, liquidity and profitability.

Investments

Investment is considered by many including Mr. Vaidya, the banks' third line of defense when it comes to liquidity. They generate more income than cash and bills but are less profitable compared to the loans and advances. Banks mainly invest on government securities and some gilt edged securities so that they can easily convert to cash as and when required. The amount of investments of banks on such securities increases at times of slack economy when the credit disbursements are on a decline and they sell the securities when the demand for loans and

advances increases. In Nepal, it can observe that major portion of the banks' investment is comprised of government treasury bills and bonds.

Loans and Advances, Cash Credits and Overdrafts

Loans and advances are the main sources of revenues for the commercial banks. Major portion of the funds available with the commercial banks are invested as loans and advances. Banks enjoy the interests on the loans and advances made by it, which normally is greater than the interests to be paid by it to the depositors and thereby make profit. However, loans and advances are not made to all those seeking for it. Banks analyze various factors before they advance loans and advances. The main characteristics that a bank expects to be in its borrowers are character, capital and capacity. The bank rarely disburses loans without proper collateral. Collateral is a security kept by the borrower against the loan disbursed by the bank. Collateral may be of different types ranging from property to the various types of securities. There are various forms of credit such as fixed term loan, overdrafts, working capital loan, hire purchase loan and trust receipt. loans and advances require great care and focus for a bank's success.

Fixed Assets

Furniture and office premises owned by the bank comprise fixed assets of a bank. They cannot be converted into cash easily. They are normally owned by the bank so as to avoid rental costs. Depreciation is charged against each of these assets every year at different rates depending on the type of asset.

Other Assets

Other assets of banks include valuable metals such as gold and silver, prepaid expenses, development expenses and accrued interest on investments.

Liabilities

Liabilities of a bank are the main sources of fund of the bank and mainly include the following:

Capital

When talked of a capital, the authorized capital is the maximum amount that a bank may issue during the course of its operation and is mentioned in the Memorandum of Association of the bank. The issued capital is that portion of the capital which is issued by the bank to the public for subscription. The subscribed capital is the amount of capital subscribed by the general public. It can either be whole or just a part of the issued capital. Called Up capital is the amount of capital that the shareholders need to pay. The Paid Up capital is the capital already paid by the shareholders. This is the only cash that have been realized by the bank. The difference between the Called Up capital and the Paid up capital is the Uncalled Capital.

Reserve Fund

The banks always keep aside part of the profit they make as reserves. These reserves are mainly kept by the banks to meet some uncertain contingent liabilities of the future. They provide security, not only to the shareholders but also to the depositors. There are various types of reserves, for instance, the exchange equalization fund, which is the reserve made out of the profit made from the revaluation of foreign exchange during the previous years, and kept in order to meet the contingent losses, if any, to be confronted in future due to subsequent revaluation.

Deposits

The deposits of the bank constitute major portion of the bank's liability. For instance, as per the balance sheet of HBL (2001/2002), the deposit comprises 95.7% of the total liability of the bank but in the balance sheet of 2006/2007,the deposit comprises 16.25% of the total liability. This shows how important the deposit of a bank is. They are the main sources of fund for the banks. The success of a bank highly depends on its ability to attract deposits at low interest rates and mobilize it to earn the maximum. There are mainly three types of deposits, the fixed deposit, the saving deposits and the current deposits. The fixed deposits are made by the customers for a fixed period of time and have the highest interest rates compared to saving and current deposits. The saving deposits can be withdrawn at

any times but sometimes carry restrictions on the amount that can be withdrawn and the interest rate to be paid by the bank is not as high as that of fixed deposits. The current deposits carry no interest and are mainly maintained by business houses and industries so that they can withdraw the money any time they prefer.

Nowadays, bankers have come up with innovations and one can find various other forms of deposits as well such as the Premium Saving Account (PSA) introduced first time in Nepal by HBL. Similarly the bank also introduce Millionaire Deposit Scheme (MDS) in which one of the customer can be winner of Rs 1 million in every three months. These days lots of commercial banks has started to introduce various kind of deposit with an attractive bumper planning.

Bills for Collection

The banks receive bills from customers against which payment have to made. However, the banks charge certain amount of commission on the bills collected on behalf of its customers.

Borrowings

Banks borrow funds from the central bank and other banks from time to time. All such funds are included in the liability side of the balance sheet under the head 'Borrowings'. They constitute small portion of the total liability of the bank.

Other Liabilities

Other liabilities include pension funds, staff bonus, unpaid dividends and insurance fund.

2.1.2 Treasury Bills

Treasury Bills are the most marketable security. Essentially Treasury Bills are the way for the US government to raise money from the public. The major sources of income for the government are revenue through taxation, foreign grants, domestic and foreign borrowings and foreign capital investment. There are various ways for the government to raise domestic borrowings viz. the issue of treasury bills, development bonds and national savings bonds. Bonds are issued for long-term

capital requirements, whereas treasury bills are issued for short-term capital requirements.

Shrestha (2004) in his article “Investment in Treasury Bills” says that “Treasury bills are short-term financial bills or promissory notes issued by the central bank on behalf of the government. They are issued in fixed denominations and on a discounted value basis. They are highly liquid guilt-edged bills with full government guarantee. Generally, treasury bills issued in Nepal have a tenor of 91 and 364 days. However, for the last three years the central bank has issued additional treasury bills with a tenor of 28 and 182 days. Such bills are issued through a tender and/or on tap. A financial institution bids for such bills at a discounted price with a 2.5 percent earnest money deposit. If the bid goes in its favor, the balance amount must be deposited immediately after the allotment is made, i.e., on the day of publication of the results, failing which the earnest money will be forfeited. The allotment is made, giving priority to the highest bid. The availability on tap is based on inability to be fully subscribed to the primary bid for various reasons. The sale is available only for the day on which the results of the tender are published. Currently, issue on tap is done by basis points deducting fifty or 0.5 percent from the weighted average rate for the particular issue. This gives the government an opportunity to acquire the funds at a minimum possible cost. As the market bidding reflects the most competitive rtes it shows the actual anticipated interest rate in the market for that point of time. Thus the rates of treasury bills are considered benchmark for the local currency market.

The 91 day- and 364 day-tenor treasury bills are issued every Tuesday, whereas the 28 day- and 182 day- tenor ones are issued every Thursday. They are issued in bulk as per the requirements of the government. The discounting rates are purely market-driven, meaning they are estimated on the basis of demand and supply. If the issue is large and there is a small volume of liquidity available, then the market pushes the rates to a higher level and vice versa.

Treasury bills have contributed much to the development of the bill discounting market in Nepal. The additional issue of 28 day- and 182 day-tenor bills has further helped develop the discounting market.

The majority of participants in the Treasury bill market are the commercial banks, which have resulted in a very limited, narrow, inactive and less competitive market compared to the international Treasury bill market. The interest rates on deposits published by the commercial banks are always higher than those on the treasury bills, which lure the corporate houses to invest in banks rather than in the treasury bills. This has definitely reduced the competition in the market, as the banks are the sole players. The banks, on the other hand, are focusing on placing their idle funds in short-term liquid investments. And, treasury bills are just the things. After meeting necessary statutory requirements for deposits and cash for daily use, the banks utilize the major portion of the remaining deposits in loans and advances. The excess amounts, if any, are the employed in bonds and treasury bills. Repo, a borrowing from the central banks on the pledge of treasury bills, is also an attraction for the commercial bank. The banks' priority in managing short-term fund requirements is definitely the inter-bank market. The interest rate here is determined by demand and supply, which is always lower than the Treasury bill rate. In case the inter-bank is money market exhausted, Repo is fallen back upon. As per Nepal Rastra Bank directives, Repo can be done for a maximum period of 5 days. This period is sufficient for the banks to manage their CRR, which may have gone below the requirement due to unforeseen and unexpected withdrawals. The interest rate on the same is provided by the central bank. Normally, these rates are determined by adding fifty basis points to the weighted average rate of treasury bills. This is done by the central bank to encourage the banks to participate more in the inter-bank market. It is hassle-free process but the interest rates are a bit higher than the market rate. The Monetary Policy of the fiscal year 061/62 has provided for Repo trading in the secondary market instead of with the central bank. With this facility, the interest rate on Repo will be even more competitive.

More investment in treasury bills reflects the more liquid position of the banks in the market. There is no denying that liquidity is the lifeblood of any financial institution.

The principal advantage of the Treasury bill to the Government as the borrower is that it is on the average cheaper than long-term borrowing. This cheapness to the borrower reflects the advantage the lender enjoys in having his money certainly available very soon. The creditor lends his money knowing that the exact sum will be paid to him three months hence. For such highly 'liquid' security the lender is in general willing to lend at rates appreciably lower than those he expects when he tries up his money for years (or can retrieve it only by sale on the Stock Exchange, perhaps at a big capital loss). Even when, as happened in 1956, Treasury bill rates are as high as, or even higher than, long-term rates, the Government sees advantage in borrowing on Treasury Bills in order to limit its sales of bonds that commit it to paying high rates of interest over a long period of years. The Treasury Bill has in fact been a boon to both parties: the Government, whose borrowing needs have been swollen by two great wars, and the discount market, which since 1929 has found the supply commercial paper uncomfortably small. The central bank also finds advantage in the existence of substantial volume of Treasury Bills and is ideal security for the central bank to buy and sell.

The Treasury bill is issued partly by 'tender', partly 'through tap'. The tap issue is to government departments that have funds in hand and to certain overseas monetary authorities. The rate of discount at which the bills are issued through tap is unknown and is irrelevant to the discount market. The tender issue is offered to London bankers, discount houses, and brokers. Anyone else wishing to tender must apply through one or other of these channels.

On the day a Treasury bill has been issued-when it still has three months to run-it is called a 'hot' bill. Hot bills are often in demand for the in demand for the customers of the banks. Any time after it is seven days old one of the big banks may buy it (at the ruling market rate, which will usually be a few pence less than the original tender rate), but most of the bills stay with the discount houses for at least three or four weeks. After that the banks more and more eagerly buy them, and few of them remain in the portfolios of the discount houses right to maturity. While they are held by the discount houses, the bills are used by the discount houses as security for the money that they borrow at call from the banks. For this money they have to pay

rates of interest varying from day to day and from hour to hour; on the average these rates are below the Treasury Bill rates and therefore allow the discount houses a 'running profit' on the bills in their portfolios.

2.1.3 Liquidity of the Commercial Banks

According to Dahal Sarita and Dahal Bhuvan, "Liquidity is defined as bank's capacity to pay cash in exchange of deposits". Liquidity needs of commercial banks are unique because in no other types of business there will be such a large proportions of deposits payable on demand. In other organizations too, liquidity is required for various purposes. Inadequate liquidity does damage credit standing of those organizations. But if banks fail to repay the deposits on demand, the trust of the public in the bank fades away. This lead to "runs" in the bank and bankruptcy thereof. Liquidity is important for motives cited as under: (sarita and Bhuvan, 1998: 53)

- Transaction motive:
- To meet operational liability:
- Withdrawal of deposit
- Loan disbursement
- Personnel expenses
- To make payments to vendors

2. Speculative motive:

- Foreign exchange holding
- Unforeseen opportunities
- Potential investments

3. Precautionary Motive:

- To meet contingencies like fines, errors, tax, guarantee invocation etc.

4. To meet contingencies like fines, errors, tax, guarantee invocation etc.

Liquidity is the ability to meet its obligations on time, especially in relation to repayment of inter-bank borrowings and customer deposits. This is crucial to a bank's reputation and even its continued existence. Banks have actively to manage liquidity to that end, not least because their prime economic function of

intermediation necessarily entails maturity transformation – for in general borrowers seek funds of longer term than banks' deposit liabilities.

Banks have three principal ways of arranging their liquidity, usually employing them in combination.

(a) They hold a stock of readily marketable liquid assets capable of being turned into cash quickly in response to unforeseen needs. Supervisors may prescribe which assets may be regarded as liquid, and require holdings equivalent to some percentage of total deposits or of those of short maturity.

(b) The banks use information on the residual maturity of assets and liabilities to analyze future cash flows, and set limits on mismatches or net positions in particular time bands. Supervisors, too, may set such limits and allow defined liquid assets to be included in the calculation at a maturity earlier than their final repayment date to reflect their marketability.

(c) They Borrow from the market to smooth out cash flows by reducing mismatches in particular time bands.

Four Concepts of Liquidity

As commercial banking is the oldest financial institution, predating savings and loans, insurance companies, and pension funds, the historical approaches were developed primarily for banking. However, the concepts underlying these approaches apply equally well to all financial institutions. Some of the theories as described in a book "Commercial Banking" by Reed, Cotter, Gill, and Smith are as follows:

- Commercial loan theory
- Shift ability theory
- Anticipated income theory
- Liabilities management

Commercial Loan Theory

The accepted theory for nearly two centuries (until 1920) was the commercial loan theory. Under the commercial loan theory, the ideal assets are short-term, self-liquidating loans granted for working capital purposes. Short-term loans are considered the lonely type of asset appropriate for banks because banks raise their capital with demand or near-demand commitments. If deposits decrease maturing loans can be used to meet deposit withdrawals.

Suitability Theory

The commercial loan theory persisted for nearly two centuries, and only the advent of a well-organized secondary securities market in the 1920s permitted banks to consider an alternative means of meeting liquidity requirements. Bank managers saw that they could maintain liquidity reserves by holding a portfolio or relatively short-term, high-grade, readily marketable securities. The management strategy was clear; with a buffer of very liquid investments, the bank could enter into a more profitable long-term loan market. Given good-quality liquid reserves, the bank could make such other loans as desired without respect to liquidity or maturity consideration. If needed, the reserves could be sold (shifted) without loss to meet cash demand. Elements of the shiftability theory are evident in today's approaches to bank liquidity management but shiftability theory had a lifespan of less than a decade. Because of the collapse of the securities market in the depression of the 1930s, the unprecedented outflow of deposits, and the restructuring of long-term loans, the shiftability theory was put aside. Bankers returned to a conservative loan posture and abandoned the aggressive financial structuring that had been the trend in the 1920s.

Anticipated Income Theory

Following the economic collapse of the 1930s, bank management attempted to state realistic maturity terms for all loans they made. Loans made for working capital purposes were considered in light of the ability of the borrower to repay through reduction in inventory or accounts c\receivables. If the inventory or accounts receivables we constant over time, then the banks granted a long-term loan which would be repaid from profits, not from working capital.

Similarly, real estate loans and equipments loans were put on amortization repayment schedules. Each month the borrower repaid a small portion of the loan so that at the end of 5 to 7 years the entire loan would be repaid. The development of realistic repayment schedules for working capital loans and for long-term loans provided the basis for the theory (developed in the 1940s) known as the anticipated-income theory. The concept of the anticipated-income theory is that the massive flow of funds can be committed to meet reserve deficiencies or new loan demand in the future. Every month mortgages are repaid in part, providing a regular and predictable flow of funds, which can be channeled either to provide for deposit outflows or to make new loans and commitments. The anticipated-income theory is a refreshing change from the commercial loan theory and the suitability theory because it recognized the dynamic nature of the banking business. Edward w. and Richard V., 1984: 103)

Liabilities-Management Theory

During the 1960s economic conditions changed dramatically and banking needs were altered. Banks had liquidated all their liquid assets that would qualify as shift able in an effort to expand loan portfolios. In an expansionary phase, all the funds that were being generated by loan amortization and working capital loan repayment were needed just to maintain a constant size. Banks needed more funds to grow and could not obtain these funds from asset sources that they had historically depended upon. The commercial loan theory, the suitability theory, and the anticipated-income theory were all founded upon the notion that banks needed funds to meet deposit withdrawals. However, in the 1960s the problem was not one of contracting assets but of expanding liabilities. Banks turned their attention from managing assets to managing liabilities, hence the term liabilities management. Liabilities management means that banks in need of funds can obtain them in the form of:

1.Demand deposits
2.Federal funds
3.Negotiable certificates of deposits
4.Consumer type certificates of deposits
5.Borrowings from the Federal Reserve

6.Capital notes
7.Capital stocks
8.Borrowings from branches located abroad (Eurodollar market)

Until now liabilities were considered to be determined by forces outside the banking industry. Liabilities management introduced the concept that a banker may control the level (quantity) of liabilities. Compared with the commercial loan, shift ability, and anticipated-income theories, which assumed a given level of assets and liabilities, the liability-management concept allowed institutions to vary the total size by increasing or decreasing liabilities. Managers found that they were free to change the total hold of assets to meet demand and achive optimal profitability.

Mixing Asset and Liability Liquidity Sources

The blend of asset mid liability sources of liquidity depends largely on the ability of the institution to manage liquidity and the acceptance by the market of the institution's own securities. Greater management planning and economic expertise are required with liability management than with asset management, because the institution must always place itself in a position to tap the market. For example Citicorp and its banking subsidiary, Citibank, have access to many sources of funds by borrowing front internationally diversified markets. Citicorp maintains its position as a preferred borrower so that it can tap sources of liquidity at the most favorable rates available. Likewise, finance companies maintain expert staffs to, deal with commercial banks, corporate cash managers, and commercial paper dealers to provide immediate and continuing access to numerous sources of funds. With a strong liabilities liquidity position, the need for asset liquidity is reduced and a greater proportion of assets can be invested in higher- yielding direct loans. On the other hand, a relatively unknown bank without an active money-market manager has few opportunities to borrow for liquidity purposes and is disfavored under light money market conditions. The smaller banks cannot issue sufficient volumes of negotiable certificates of deposits to remain continuously active, and they rarely have foreign branches in the Eurodollar

market. Thus, the smaller and unknown institutions must rely primarily on asset sources of liquidity.

Liquidity Reserve Estimation

Desired Reserve Consideration

Liquidity reserves can be estimated by comparing desired reserves with actual asset and liability reserves. Desired reserves are estimated by analyzing assets and liabilities in terms of three considerations:

1. Variability
2. Velocity of turnover
3. Legal commitments

Typically, assets and liabilities are grouped separately and then subdivided into groups with similar variability and velocity. An alternative method is to classify by market, such as aggregating consumer loans and deposits. For some marketing decisions, categorization by market is more meaningful than grouping by the legal constituency of the security.

Liquidity Risk: The risk stemming from the lack of marketability of an investment that cannot be bought of sold quickly enough to prevent or minimize a risk.

2.1.4 Profitability of the Commercial Banks

Profit is the essential prerequisite of a competitive banking institution and the cheapest source of funds. It is necessary to see it not merely as a result, but also as a necessity for successful banking in the period of growing competition on financial markets. The prerequisite of the profitability is the stability of the Bank. The stability of the banking sector as a whole is conditional upon the overall stability of the economic environment in applying the basic principles of a market economy and the principles of managing a modern democratic society. A stable macro-economic environment contributes to the effective growth of savings, sound investment decisions and consequently also to economic growth. Appropriate macro economic policy should support the correct functioning of the banking sector mainly in the areas of financial stabilization, transparent fiscal policy and monetary policy support. One

component in the set of instrument for removing certain negative phenomena in banking is also the setting of prudent conduct standards. Prudent conduct standards create the basic framework and certain minimum risk standards in commercial bank management, which each bank then adapts to the specific nature of its own business and prospective business objectives. Another prerequisite for achieving stability and profitability is the management of the banking institution itself. The quality of a bank's management directly influences a commercial bank's ability to work efficiently in a competitive environment. The aim of a bank's management is to achieve a profit, as the essential requirement for conducting any business. An important component of a bank's management geared to achieve a successful business result is the management of its assets and liabilities.

One of the decisive factors influencing a bank's profitability is the composition of its assets. The structure of banking assets influences not only liquidity, but also profitability and in the end is reflected on the bottom line. Banks assets are grouped into two main categories- fixed and revenue generating assets. One of the basic characteristics of a commercial bank is the rate of creating revenue generating assets from funds obtained. In connection with achieving bank profitability expressed as balance- sheet profit, another particularly important fact is the structure of revenue generating assets. Revenue generating assets mean those asset operations that bring an interest income. These assets are main source of income for commercial banks. Loans, inter-bank assets and securities operations all have important position in the structure of a bank's assets. It is therefore obvious that the average revenue generating ability of these assets has a decisive influence on a commercial bank's profitability. In making decisions on the allocation of resources to asset deals a bank must take into account the level of risk to the assets, expressed as the general rate of its return and the price of the assets expressed as an interest income. With a certain simplification it may be said that bank assets are placed in relatively independent financial markets. The price of these assets is influenced by the demand and supply. In a standard banking environment, where the mechanism of capital interchange in the long term

essentially balances out the level of profitability of individual assets, and the relationship between the structure of assets and the consequent profitability of a bank is less fixed. Profitability is dependent more on bank's ability to eliminate in asset operations and to ensure a correspondence between assets and liabilities. The investment portfolio of Treasury Bills in the commercial banks of Nepal has the major weight in their total assets. As per Nepal Rastra Bank's statistics, approximately 9% of the total assets of commercial banks are invested in treasury bills. There is significant contribution of income from treasury bills in the total profit of commercial banks. The income from the treasury bills are the provision less. There is no risk involve in the treasury bills as it is issued by the central bank and it is backed up by the government of the country. Hence the management of the treasury bills portfolio becomes the crucial issue to the management of commercial banks.

2.1.5 Trade off Between Profitability and Liquidity

Above two terms are not only complementary but opposite. Without liquidity no profitability and profitability raises the liquidity portion. The liquidity position of bank differs according to the policies. The strategy taken in respect to the deposits collection, investment, reserve fund, distribution of dividend and expansion of branches of bank lead the extent of liquidity to be maintained. A sound liquidity position of bank satisfies the demand of the deposit holder, which maintains the goodwill of the organization. Similarly, more liquidity leads to grab the investment opportunities, the various reserves including compulsory reserve makes compulsion to make the amount of assets cash and bank balance, cash dividend require more liquid assets while bonus share minimizes cash problem like and assists in receiving equity capital as issuance of share.

Moreover, the regulation of central bank enforces to maintain the instructed liquidity. According to Bank and Financial Institution Ordinance 2061, liquid asset includes cash in vault, balance held in current accounts with other banks, balance held with NRB and other as specified by NRB. Bank operating in Nepal maintained liquidity in the term of:

- Cash and bank balance
- Placement/money at call/share notice
- Investment in govt. securities and other securities, which can be readily converted into cash.

As per the latest monetary policy issued by the Central bank, the mandatory liquidity should be maintained by the commercial banks is the 5% of the total deposits excluding margin deposit and foreign currency deposit.

As the mandatory liquidity to be maintained by the commercial banks is reduced heavily. It is not that the banks are free to squeeze their liquidity position. As stated above the liquidity position of the commercial banks are unique that they may require any amount of their total deposit liability anytime. So, they should maintain their self adequately liquid to meet their liability readily. Also, the liquidity should be maintained in such a way that their liquid assets earn maximum return in minimum risk. The investment in treasury bills is the classic example of mentioned tool.

2.1.6 Review of NRB Capital Adequacy Norms, and Liquidity Norms for Commercial Banks

According to the directive issued by NRB, the bank capital has been categorized into two parts: core capital and supplementary capital. This categorization is also known as Tier-1 capital for core capital and Tier-2 capital for supplementary capital. The Tier-1 capital consists of the following components of capital:

1. Share Capital,
2. Share Premium,
3. Non-Redeemable Preference Shares,
4. General Reserve Fund,
5. Cumulative Profit/Loss (up to previous FY), and
6. Current Year Profit/Loss (as per Balance Sheet).

The Tier-2 capital consists of the following components:

1. Loan Loss Provision,
2. Exchange Equalization Reserve,
3. Assets Revaluation Reserve,

4. Hybrid Capital Instruments,
5. Unsecured Subordinated Term Debt,
6. Interest Rate Fluctuation Fund, and
7. Other Free Reserves.

The total of Tier-1 and Tier-2 capital is considered for calculating capital adequacy ratio. The capital adequacy ratio is based on total risk-weighted assets.

With an objective to develop a healthy, competent and secured banking system for economic prosperity of the country and to safeguard the interest of depositors, NRB issued the directive no. 1 regarding minimum capital fund to be maintained by commercial banks. NRB issued these capital adequacy norms by using the power given by Commercial Bank Act, 2031 (with amendments) Clause 14(Ka). These norms were issued under the Nepal Rastra Bank Act, 2012 (with amendments) Clause 23 Sub-clause 1 – Provision for developing and regulating banking system. The norms have prescribed the minimum capital fund requirement, on the basis of the risk-weighted assets. The banks are required to maintain the prescribed proportion of minimum capital fund on the basis of weighted risk assets as per the following timetable:

Time Table	Core Capital	Total Capital Fund
For FY 2058/59 (2002/03)	4.5%	9.0%
For FY 2059/60 (2003/04)	5.0%	10.0%
From FY 2060/61 (2004/05) onwards	6.0%	12.0%

According to NRB's recommendation for BASEL II, the core capital requirement is 6% and the total capital fund requirement is 10%.
As stated earlier, for the purpose of calculation of Capital Fund, the capital of the banks is divided into two components Core Capital and Supplementary Capital.

Core capital, which is widely known as Ti er-1 capital, consists of share capital, share premium, non-redeemable preference shares, general reserve fund and accumulated profit/loss. Supplementary capital, which is also known as Tier-2 capital consists of loan loss provision, exchange equalization reserve, assets revaluation reserve, hybrid capital instruments, unsecured subordinated term debt, interest rate fluctuation fund, and other free reserves. The sum of these two components is considered to be total capital fund.

For the purpose of calculation of capital fund, the risk-weighted assets have been classified into two parts – On-Balance Sheet Risk-Weighted Assets and Off-Balance Sheet Risk-Weighted Items. As per the norms, the capital fund ratio would measure the total capital fund on the basis of total risk-weighted assets. The sum of risk-weighted assets is the sum of total on-balance sheet risk-weighted assets and total off-balance sheet risk-weighted items.

The banks shall, at the end of Ashoj (mid October), Poush (mid January), Chaitra (mid April) and Ashad (mid July) of each fiscal year, prepare the Statements of Capital Fund and other relevant statements on the basis of the financial statements as per the prescribed Form No. 1 and Form No. 2 and submit to the Banking Operations Department and Inspection and Supervision Department of this bank within 1 (one) month from the end of each quarter.

In the event of non-fulfillment of Capital Fund Ratio in any quarter, the banks shall fulfill the shortfall amount within next 6 (six) months. Until the fulfillment of such Capital Fund, the banks shall not declare or distribute dividend to its shareholders, issuing new shares and/or reallocating assets may rectify the shortfall in the Capital Fund. If any bank does not fulfill the minimum Capital Fund within the specified period, NRB may initiate any of the following actions:

a) Suspension of declaration / distribution of dividend (including bonus shares).
b) Suspension of opening new branch.
c) Suspension of access to refinancing facilities of Nepal Rastra Bank.
d) Restriction on lending activities of the bank.
e) Restriction on accepting new deposits.
f) Initiation of any other actions by exercising the authority under Section 32 of Nepal Rastra Bank Act, 2012

As per the above matters, investment in Treasury Bills should be the best way out to comply the capital adequacy need of the central bank. As the risk weightage in the treasury bills investment of 0%, no additional capital is required for the investment in treasury bills. The liquid asset, besides the treasury bills carries the risk weightage of 20%-100%.

2.2 Review of Related Studies

Sinkey, in 1998 concluded that larger banks have greater access to money and capital markets both international and national, they have greater flexibility than smaller banking organizations to practice assets and liability management. That is, in the sense of engaging to pursue profitable opportunities by investing in treasury bills. The smaller the bank is, the greater is it dependency on stored liquidity like cash and bank balance etc. The other upper edge of bigger banks over smaller banks are like central banks prompt back up, stand by lines of credit to support them, and acting in a different capacity as a lender of last resort.

Dangol, (2002) in his study concluded that there is anomaly in the relation between profitability and liquidity in most of the commercial banks on Nepal. In that study, the coefficient of correlation between liquidity and profitability of most of the Nepali Banks is found to be negative. It shows that the commercial banks of Nepal also comply with the theory that liquidity trade offs with the profitability.

Shrestha, (1992) had carried out a study of working capital management in Bhaktapur and Harisiddhi Brick factory. Among the various findings, one of the striking finding of the study was that there is no proper relation between liquidity and profitability of two brick factories.

Aryal, (1995) in his study concluded that the liquidity position of Hetauda Textile Ltd. And hence, the profitability of Hetauda Textile was better than that of Balaju Textile.

Yogi, (2000) in his study concluded that the coefficient of correlation between various liquidity ratio and net profit margin in general is not significant for Nepal Lever Ltd. This insignificant relationship between Liquidity and net profit margin implies that there is no trade off between liquidity and profitability.

Adhikari, (2002), in his article " A tough task ahead to the banking industry" stated that the implementation of Basel II has become one of the challenging jobs for banking industry across the globe. It covers all complex financial products such as derivatives, securitization frameworks and other purpose special vehicles. It is challenging to the banking industry of developed economy even though the framework is designed based on the parameter and the experience gained by

them. The supervisor of such developed countries have on them own already introduce some stringent criteria for capital , as they thought the new accord therefore seem to be and unwanted burden to them as it entails additional costs for implementation . the emerging market too face challenges to implement this accord need s to be customize base on their circumstances and the level of market sophistication . while the underlying intension of the frame work to promote sound risk management and best practices is not in question, countries particularly in emerging market are at different level of readiness to cope with the extensive chances and potential implication of Basel-II. Given the different stage of development and level of market sophistication, applying Basel-II, that is designed, fundamentally based on parameters and experience drawn from developed economies may not be appropriate without some customization to better reflect the situation in the emerging markets. Though it's an important achievement of the Basel Committee for Banking Supervision, it faces number of criticism from around the globe. The developed economy, to which the new accord is most needed are also not in agreement with the framework to implement in the form it is prescribed. The emerging one to whom the new risks are addressed in time by the accord also do not agree with the framework to adopt as it is and are asking for customization to suit their circumstances. The underdeveloped ones to whom the degree of complexities are less and the framework are impracticable, definitely more flexibility in implementation is called for.

Pandey, (2005) on his article "Basel II and Nepali Banks" states that in 1988, initiatives from the G-10 countries created Basel I, when the Japanese Banks with their Kamekaze rates and rapid branching out threatened the performance of banks in the United States of America and across Western Europe. Among the three underlying principles of Basel I and II is the creation of level playing field for all the players, that is, banks. On the creation of level playing field, it is likely that Basel II, though with risk sensitive approaches to capital allocation, would create a level playing field. This is evident from the fact that there are a number of approaches that can be followed by banks when it comes to measuring their respective capital requirements. The pillar I under Basel II requires banks to allocate capital for credit risk, market risk and operational risk. For calculating the minimum capital requirement for each risk category, Basel II spells out various methods which banks

can use. The use of each method depends on the availability of information, database, risk measuring tools, ratings, legal and regulatory framework of the country, supervisory capability etc. This allows banks of different types to use different methods depending on their respective capacity, supervisory and/or legal/regulatory framework of the country etc. The minimum capital required by banks might well be different in the same country .apparently, these alternatives approaches allowed to banks give larger banks undue advantage over smaller banks . therefore , the answer is a level playing field as described in Basel ii . on test impact of Basel ii compared to Basel I . the simple reason for this is that banks face problems related to the unavailability of information ,lack of proper database ,lack of adequate resources ,lack of effective risk management tools ,rating agencies and internal ratings.

Newa, (2006), in his Master Degree Dissertation has concluded that there is direct positive relation between the Capital Adequacy Ratio of the commercial Banks and the investment in Treasury Bills. While analyzing the said relation, he uses the scenario building technique to see the effect of Treasury Bills investment in the Capital Adequacy Ratio. As the investment in Treasury Bills bears 0% risk or no risk, the investment on it showed the great impact on the banks. To see the effect of Treasury Bills, the investment on it was distributed among all other assets as per their weight. The scenario showed the distinguished decrease of Capital Adequacy Ratio in doing so. So, he concluded that the Capital Adequacy Ratio is highly dependent on the investment in Treasury Bills. He summarized the fact that more investment in Treasury Bills reflects the more liquid position of the banks in the market and there is no denying that liquidity is the life of any financial institution. Hence Treasury Bill contributes to the existence of the banks in the market being the life saver at all times.

R.S. Sayers states that Treasury bill is the Bill of Exchange which had it's origin- and substantially remain-as a device for raising money on goods during their transit from one place to another. The ease with which money could be obtained by discounting of bills of exchange, once a good market in bills had develop, encouraged extension of the device to allow people to borrow money without any goods being in transit at all. By arrangement between one firm, which is anxious to

borrow money, and another firm, which is for some reason willing to participate in the transactions, a bill can be drawn by the first firm on the second firm. Once the second firm has 'accepted' the bill, the bill can be discounted and effectively a loan is thus obtained for the period of the bill, the lender having as security the two names on the bill he holds. Such a bill, when not arising from any genuine transaction in goods, is called a 'finance bill'. finance bills vary greatly in quality, according to the standing of the borrowers. One particular kind of finance bill put out by a first-class borrower is nowadays the most common bill in the market: this is the Treasury Bill, on which the British Government borrows, and which has its parallels in many other countries. The Treasury Bill, being issued by the British Government, does not need to be 'accepted' because no one can add security to that already given by the word of the British government. It is thus a mere promissory note of the British Government. In exchange for deposits at the Bank of England the Government gives a written promise to pay ninety-one days later a sum of GBP 5,000, GBP 10,000, GBP25,000, GBP 50,000, or GBP 100,000. The form of the Treasury Bill leaves a space for the creditor's name; but the sum is payable to 'Bearer' if no name has been entered, and most of the bills the market handles remain Bearer Bills. This would be unthinkable with ordinary commercial bills where the addition of each signature adds to the security. But the Treasury Bill is a promise of the British Government, and no discount house or bank signature can add to that security. The unquestionable security makes it possible for them to pass round the market as Bearer Bills without anyone hesitating to take them up if he has money to lend.

CHAPTER-THREE

RESEARCH METHODOLOGY

Research Methodology can be understood as a science of studying how research has been done. This chapter looks into the research design, nature and sources of data, data collection procedure and tools & technique of analysis. For the purpose of achieving the objectives of the study, the applied methodologies are used. The research methodology used in the present study is briefly mentioned below.

3.1 Research Design

The research will be carried out by using both quantitative and qualitative analysis methods. Mostly, the secondary data will be used for analysis. Hence, research design for undertaking this study will be based on the descriptive and analytical method.

To study the trend of liquid assets, yearly data of liquid assets of the entire commercial banks is used. The liquid assets considered in this research are Cash in hand, Balances with NRB, Balances with foreign banks, Foreign currency in hand, Cash in transit and Government Securities such as National Saving Bond and Treasury Bill.

3.2 Population and Samples

There are 25 commercial Banks in Nepal.(www.nepse.com) The population of the study consist all the commercial banks of Nepal. All of them are divided into 2 divisions, one group of the large banks having the total assets more than NPR 20.00 Billion and other group of the small banks having the total assets less than NPR 10.00 Billion. For our proposed study purpose, the 2 commercial banks among the large banks and 2 commercial banks among the small banks are taken as the samples. The samples selected at random for the study are as follows

Large group of Banks

1. Nabil Bank Ltd.
2. Himalayan Bank Ltd.

Small group of Banks

3. Lumbini Bank Ltd.
4. Siddartha Bank Ltd.

3.3 Nature & Sources of Data and Data Collection Techniques

The date used for the proposed study will be secondary in nature. The data has been collected by various published journal of the central bank and the commercial banks. The various annual report published by the commercial banks will be the basic source of the study. The data of 5 fiscal years from F/Y 2059/60 to F/Y 2063/64 has be taken for the proposed study. The various published reports, related books, bulletins and the internet web-sites will also be used for the necessary data and information for the proposed study.

3.4 Data Analysis Tools

Before analyzing the data, the data and information will be presented

Systematically in the formats of Tables, Graphs and Charts which explains a lot about the data and information collected.

For the analysis of the research study, the following financial tools and statistical tools will used.

3.4.1 Financial Tools

Ratio Analysis

Ratio Analysis is one of the strongest tools to measure to financial health of an organization. This tool is used to judge various aspects of the financial condition of the organization by comparing it with standard ratio. The following ratios will be used in this research:

Liquidity Ratio

Liquidity Ratio measures the capacity of the financial institutions to meet the funding needs. Funds may be needed tomorrow, next week, or next year to meet promises to depositors, borrowers and other customers. When the promise come due, the financial institution must make payment in cash or equivalent funds; a default on its commitment nearly always causes a punishing response..

The following ratios will be studied to analyze the liquidity position of different banks:

Cash and Bank balance /Current deposits

Cash and bank balance/Total deposits

Investment on Treasury bills/Total deposits

Investment on Treasury bills/Total Investment

Liquid Assets/Total Assets

Profitability Ratio

Profitability ratio measures how effectively the banks have invested in treasury bills to earn profit. The following profitability ratios will be computed:

Interest income from treasury bill/total income.

The following ratios related to the banks are used to analyze the data:

a. Return on Total Assets Ratio

Return on total assets ratio is the foremost tool to analyze the profitability of a bank. Actually, the fundamental objective of this research study is to examine impact of loan loss provisioning and its impact on profitability of HBL, this ratio is based on total assets and net profit of a bank. This ratio is a measure of the amount of a bank's profit in relation to total asset expressed in a percentage. This ratio, which is yielded by the following formulas:

To measure the return on total assets:

Net profit \ Total Assets

b. Return on Equity Ratio

The ratio measures the proportion of income to shareholder to their capital

The return on equity ratio is derived by the following formula:

Earning per share \net worth per share

c. Interest Income in Treasury Bill to Total Interest Income Ratio

The interest income in treasury bill to total interest income is a major tool to examine the proportion of interest income from treasury bills investment to total interest income

This ratio is derived by the following formula:

Interest income from treasury bills \ total interest income

3.4.2 Statistical Tools

Mean

Joshi (2001) describes Mean as the ratio of the sum of all observations to the number of observations. Mean will be extensively used in the study ahead to understand the five years' data. The simple arithmetic mean can be obtained by following formula:

$$\bar{x} \text{ X} \frac{x_1 \Gamma x_2 \Gamma x_3 \Gamma ..... \Gamma x_n}{n} \text{ X} \frac{x}{n}$$

where,

$\bar{x}$ X Arithmetic Mean

∑x = the sum of observation

n = number of observations

Weighted Arithmetic Mean

Simple average method assumes that all the items under consideration are of equal importance in the distribution. But in many cases, the relative importance of the items in the distribution is not same. In such situation the relative importance are considered as weights of the variable and the weighted average is to be computed. The weighted arithmetic mean is computed by:

$$\bar{x}_w \text{ X} \frac{w_1 x_1 \Gamma w_2 x_2 \Gamma ... \Gamma w_n x_n}{w_1 \Gamma w_2 \Gamma ... \Gamma w_n} \text{ X} \frac{wx}{w}$$

where,

$\bar{x}_w$ = weighted arithmetic mean

$w_n x_n$ = variables with their corresponding weights

Percentages

A percent is the number of hundredth parts one number is of another. This is the simplest statistical device used in the interpretation of phenomenon. Mathematically, let a represents the base used for comparison, b represents the given data to be compared with the base, then the percentage of the given number in the base may be defined as:

$$P\% \text{ X} \frac{b}{a} X100$$

Diagrams

Diagrams are the effective way of presenting and analyzing data. Diagrams can be of various type such as bar diagram, trend lines etc. The bar diagrams will be used extensively to analyze the data. The bar diagrams represent the data by bars of equal width. The length of the bars represents the given figures and width may be of any size. Similarly trend analysis has been used to compare the concerned data of the selective commercial banks. The upper trend means the higher value and vice versa.

CHAPTER-FOUR

DATA PRESENTATION AND ANALYSIS

The presentation and analysis of the data has been grouped into four sections: the first section examines the relationship between treasury bills and liquid assets of the both larger and smaller commercial banks as a whole. the second section examines the relationship between total assets including treasury bill maturing in 90's days and liabilities maturing in the same time frame and the third section examines the relationship between profitability and liquid assets I.e. treasury bills and finally then the major finding from the date is presented.

4.1. Treasury Bills and Liquid Assets of the Larger Banks and Smaller Banks

Banks need liquidity to meet deposit withdrawals and to satisfy customer's loan demand; unexpected changes in the flows of loans and volatile liabilities create liquidity problems for the banks. Banks can either store liquidity in their assets or purchase it in money .the variability of loan demand and the variability of deposits flows determine a banks liquidity needs. The more volatile a banks loan and deposits \liabilities flows are the more liquidity it needs.

The ability of a banks to provide liquidity requires the existence of a highly liquid and readily transferable stock of financial assets such as treasury bills .liquidity and transferability are the key ingredient for such transaction .the liquidity requirement means that financial assets must be available to owners on short notices a day or less at par. the transferability requirement means that ownership rights in financial assets must be portable ,at par, to other economic agents ,and in a form acceptable o other party .treasury bills are the primary instruments of liquidity and transferability .

Since liquid assets have minimal amounts of interest rate risk and credit rate risk, which limit the return they generate for risk bearing . Specifically, all other things being equal, treasury bills being short term assets have less credit risk than long term assets. Additionally, because market values of short term assets are less sensitive to changes in interest rates, liquid assets do not embody much interest rate risk.

Generally four types of; liquid assets that banks hold in their liquid assets portfolio in Nepal include:-

Cash balance

Bank balance

Money at call and short notice

GOVERNMENT securities and treasury bills

The proportion of these assets varies with bank size . Cash, bank balance, money at call and short notice are low interest bearing and highly liquid assets than the government securities and treasury bills . The higher proportion of investment in assets other than government securities and treasury bills fetches low return and vice versa. In general, smaller banks hold more highly liquid assets than large banks, i.e. bigger banks proportion of holding of treasury bills in overall liquid portfolio is higher than that of smaller banks.

Since larger banks have greater access to money and capital markets both international and national, they have greater flexibility than smaller banking organizations to practice assets and liability management. That is, in the sense of engaging to pursue profitable opportunities by investing in treasury bills. The smaller the bank is, the greater is it dependency on stored liquidity like cash and bank balance etc. The other upper edge of bigger banks over smaller banks are like central banks prompt back up, stand by lines of credit to support them, and acting in a different capacity as a lender of last resort.

Table 4. 1

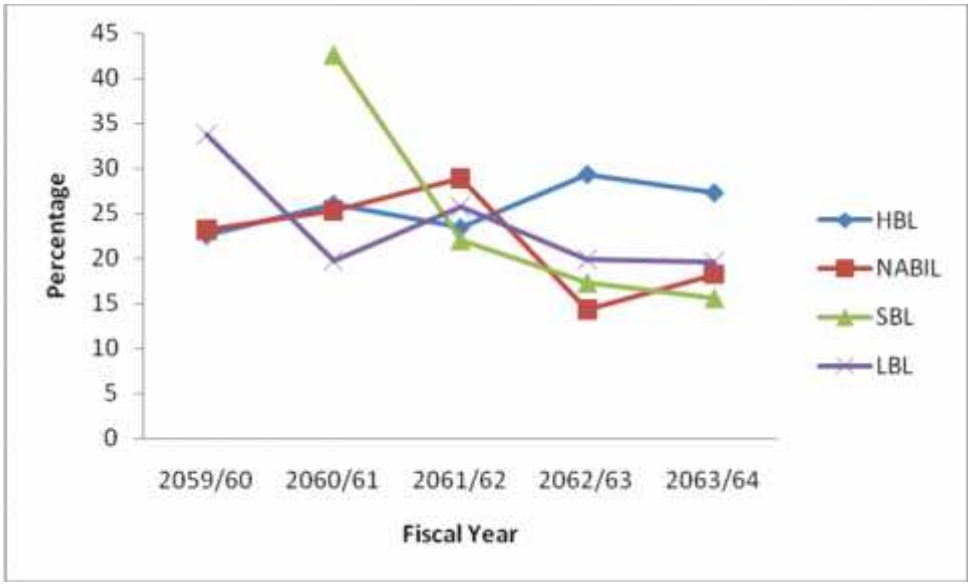
Mean Ratio of Investment on Treasury Bills, Income from Treasury Bills and Liquidity Ratio of Banks

Bank	**Liquidity Ratio**	**Inv.On Tbill/Total Investment**	**Income-T Bill/Total Income**
HBL	25.72	34.82%	8.67
NABIL	22.02	26.01%	7.39
SBL	24.40	82.24%	3.29
LBL	106.23	63.47%	3.25

(From Annex A, B, C and D)

Figure 4. 1

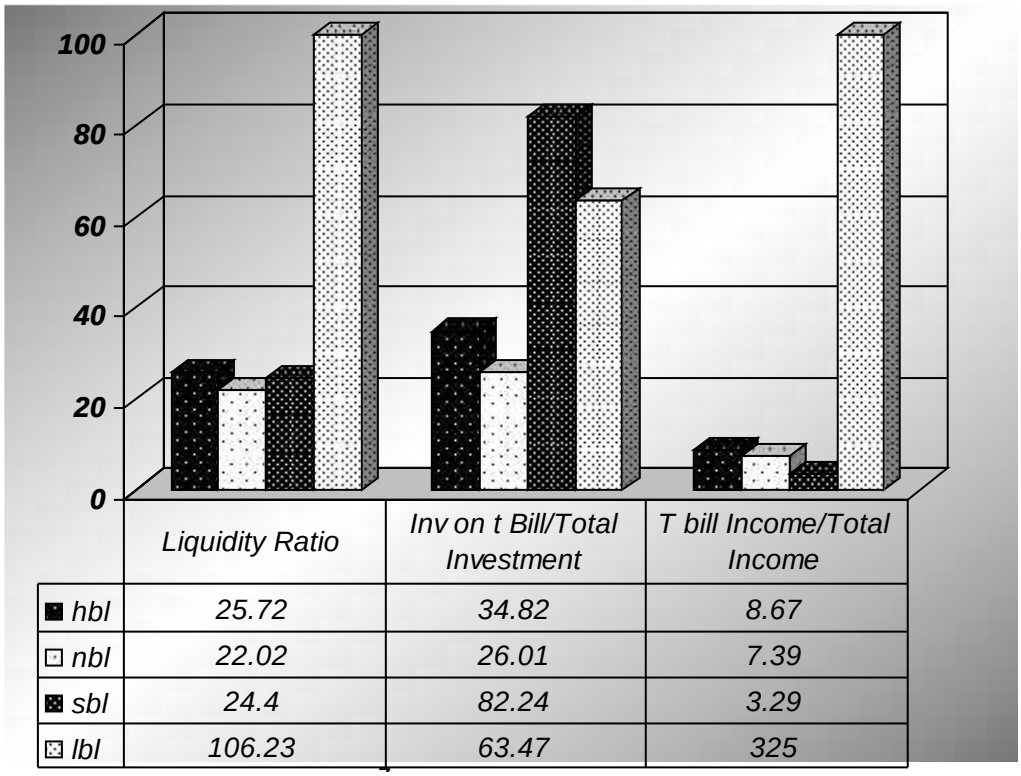
Liquidity Ratio



From above figure 4.1 it seems that LBL in the year 061/62, the line is falling straight downwards and again passing as constant parallel. Similarly SBL has about same trend but HBL and NABIL lines are passing as constant.

Figure 4. 2

Weighted Mean of Liquidity, Investment on T-bill/Total Investment and T bill income/Total Income

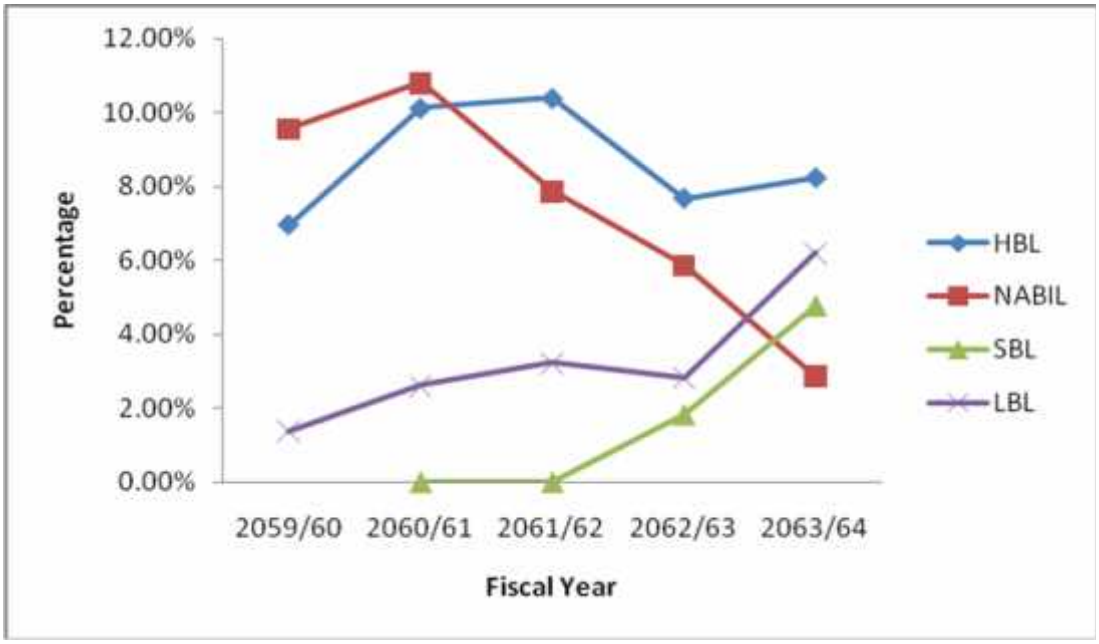


	Liquidity Ratio	*Inv on t Bill/Total Investment*	*T bill Income/Total Income*
hbl	*25.72*	*34.82*	*8.67*
nbl	*22.02*	*26.01*	*7.39*
sbl	*24.4*	*82.24*	*3.29*
lbl	*106.23*	*63.47*	*325*

The above figure 4.2 showed that LBL has highest liquidity ratio than other commercial banks. And the other banks have about same liquidity ratio. SBL has highest Investment on T. Bill to the total investment than other banks. But the income from treasury bill to the total income is the highest of HBL than others banks. The Largest banks have about same all ratios comparing to smaller banks.

Figure 4. 3

T. Bill Income /Total Interest Income

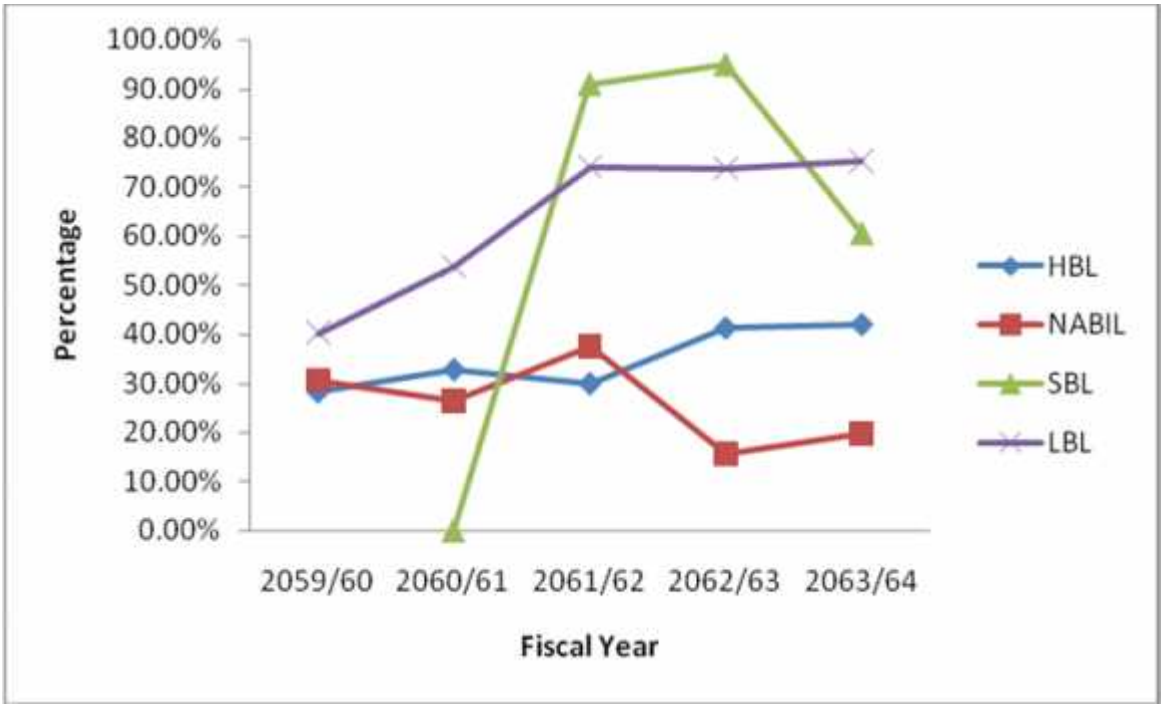


The figure 4.3 depicted the income of SBL and LBL in increasing trend but the income of HBL and NBL in fluctuating trend.

The figure 4.4 revealed that the investment pattern of SBL and LBL in Treasury bill is moderately increasing but the investment of HBL and NBL is in fluctuating trend.

Fig.4. 4

Investment on T. Bill / Total Investment



The table 4.1 revealed that all the larger banks have less investment on treasury bills to the total investment with comparing to the smaller banks. Though larger banks get more income from their treasury bill income to the total income. And the liquidity ratio is also higher of smaller banks than larger banks. Larger banks have more access in investing foreign bank. But they are utilizing the liquid asset very well that they get higher rate of return of treasury bill income to total investment with the comparing to smaller banks. The trend also indicates that the smaller banks have no access to meet the trend of larger banks.

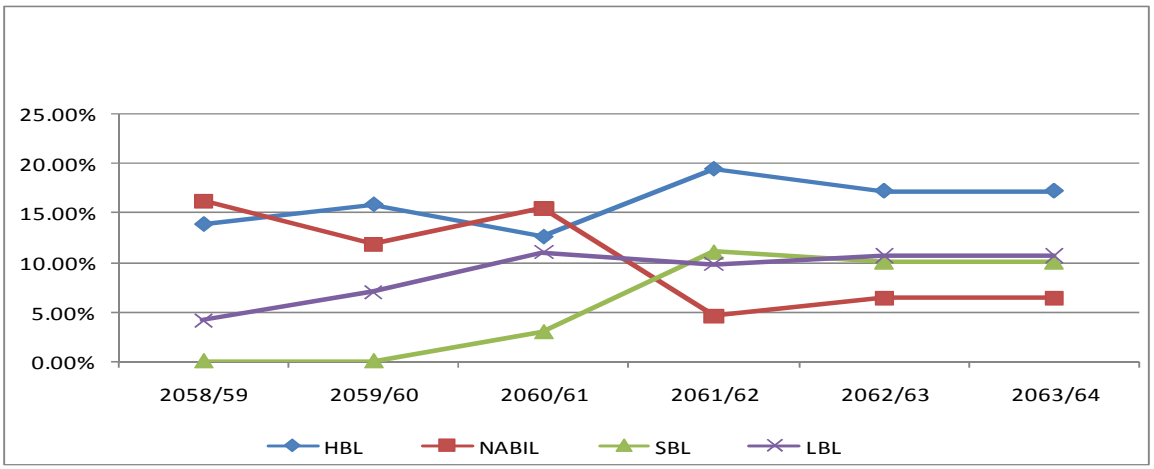
4.2. Treasury Bills and Total Liabilities of the Larger and Smaller Commercial Banks

Liquidity management is one of the most important aspect of the bank management because a large portion of the financial liabilities of the commercial banks are payable on demand. Here the concern of the study is the type of relation that exists between commercial bank investment in treasury bills and the total liabilities maturing in the same time frame. By this analysis we find out how the

commercial bank of Nepal has been using treasury bills as an asset – liabilities management tools to honor its obligation of liabilities.

Many bankers viewed the concept of liquidity management in a static framework. Liquidity management however is a dynamic problem that depends on the relationship between inflows and outflows of the funds. Since the cash flows associated with liquidity management are not completely random, liquidity requirement can be predicted with some degree of accuracy. Commercial banks have been classifying its assets and liabilities based on the maturity. Moreover, from a liquidity perspective inflows ands out flows of funds is the crucial one.

Figure 4. 5
Investment in T. Bills /Total Deposit



The above table 4.5 revealed that the larger banks have very high fluctuating trend lines ratio as compared to smaller banks. Even those larger banks have long and successful history which leads their investment on treasury bills to the total deposit with smaller banks. These larger banks are matured and stable in nature. So being highest deposited amongst the private sector banks, Hbl has its trend line above all lines. But Nabil investment on treasury bill is very low amongst all the lines from the year 063/64.The trend showed that Sbl and Lbl have increased their investment in treasury bill in later years..

Table 4. 2

Total Cash and Bank to Total Deposit and Investment on Treasury Bill to Total Deposit

Bank	Cash Bank/C. Deposit	Cash Bank/T.Deposit	Investment On T.Bill/T.Deposit
HBL	0.44	0.08	0.16
NABIL	0.31	0.06	0.11
SBL	1.39	0.05	0.09
LBL	2.75	0.12	0.09

(From Annex A, B, C and D)

Figure 4. 6

Cash and Bank Balance/ Total Deposit

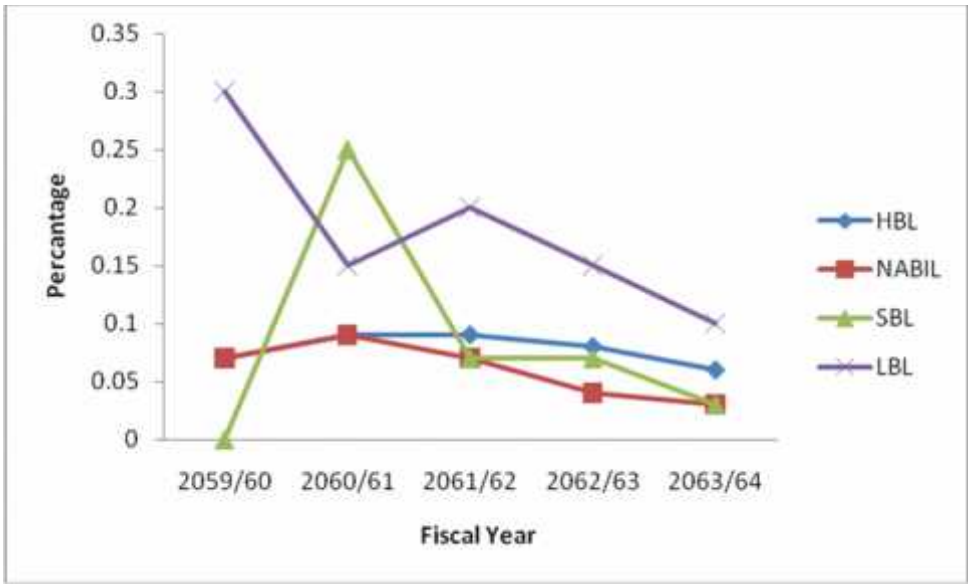


Table 4. 3

Weighted Liquidity Arithmetic Mean of Larger and Smaller Banks

Bank	Liquidity Ratio	Inv.On T- Bill S/Total Investement	Income-T Bill/Total Income
Large	0.27	0.29	0.71
Small	0.73	0.71	0.29
TOTAL	**1.00**	**1.00**	**1.00**

(From Annex I)

From above table 4.3, it is seen the larger banks have less investment on treasury bills to the total investment with comparing to the smaller banks. Though, larger banks get more income from their Treasury bill income to the total income and the liquidity ratio is also higher of smaller banks than larger banks. Larger banks have more access in investing foreign bank. this can prove the general theory of liquidity management which is inverse to profitability or this can indicate more liquidity mean low profit. Because liquidity assets investment in low or non bearing interest. These larger banks are maintaining the liquidity management very well that they get higher rate of return of treasury bill income to total investment

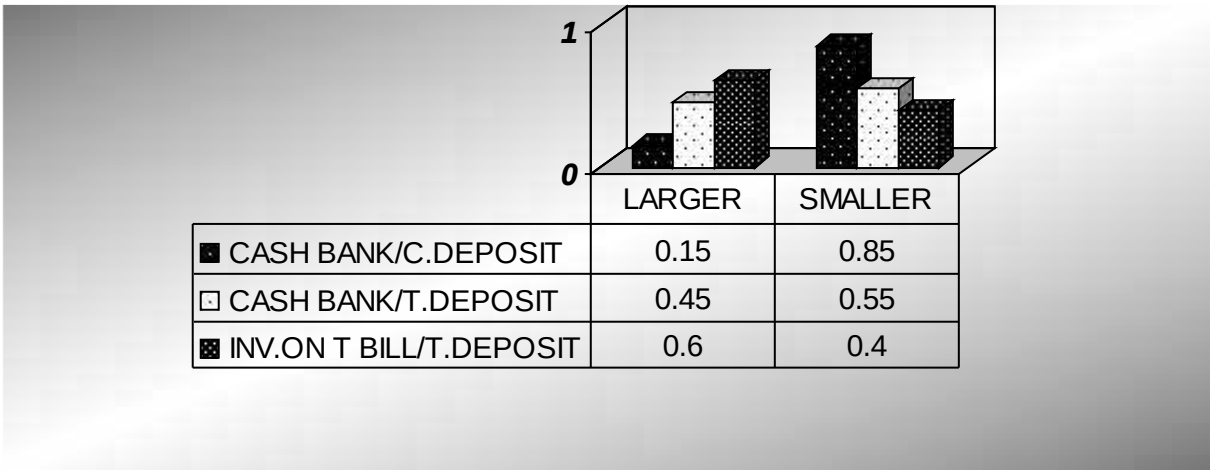
Table 4. 4

Weighted Mean of Current Assets of Larger and Smaller Banks

Bank	Cash Bank/C. Deposit	Cash Bank/T.Deposit	Investment On T.Bill/T.Deposit
LARGER	0.15	0.45	0.60
SMALLER	0.85	0.55	0.40
TOTAL	**1.00**	**1.00**	**1.00**

(From Annex I)

Fig.4. 7
Weighted Mean of Total Cash and Bank Balance to Total Deposit of Larger Bank and Smaller Bank



	LARGER	SMALLER
CASH BANK/C.DEPOSIT	0.15	0.85
CASH BANK/T.DEPOSIT	0.45	0.55
INV.ON T BILL/T.DEPOSIT	0.6	0.4

The Figure 4.7 showed that the larger banks have less bank and cash balance ratio to the current deposit comparing to the smaller banks. The cash and bank balance to current deposit is very different or very higher balance of smaller banks than larger banks. Though larger banks have excess total deposit that's why we can see larger banks have little higher investment on Treasury bill to the total deposit. This is due to the capacity of larger banks to invest in treasury bills. We can say that Nepalese banks are using their funds in treasury bills as an integral part in the liquid asset portfolio. This gives us more strong evidence that commercial banks are using treasury bills as an integral liquid asset in their liquid asset portfolio.

Liquidity management is one of the most important aspect of the bank management because a large portion of the financial liabilities of the commercial banks are payable on demand. Here the concern of the study is the type of relation that exists between commercial bank investment in treasury bills and the total liabilities maturing in the same time frame. By this analysis we find out how the commercial bank of Nepal has been using treasury bills as an asset – liabilities management tools to honor its obligation of liabilities.

Many bankers viewed the concept of liquidity management in a static framework. Liquidity management however is a dynamic problem that depends on the relationship between inflows and outflows of the funds. Since the cash flows

associated with liquidity management are not completely random, liquidity requirement can be predicted with some degree of accuracy. Commercial banks have been classifying its assets and liabilities based on the maturity. Moreover, from a liquidity perspective inflows ands out flows of funds is the crucial one. From this above observation it can be conclude that the large banks in Nepal are using treasury bills as important and integral liquid assets in liquidity planning and liability management

Tab.4. 5
Total Assets and Liabilities Maturing in 90 days and Money at Call and Short Notice Receivable and Payable for Larger and Smaller Banks

Bank	Assets Maturing In 90 Days	Total Liabilities Maturing In 90 Days	Money At Call Short Notice-Receivable	Money At Call Short Notice-Payable	T.Bills Maturing In 90 Days
HBL	10342.00	8076.00	1005.28	4.61	1,550.00
NABIL	7241.00	3311.80	1734.90	87.87	456.00
SBL	1066.23	1033.48	100.00	33.52	-
LBL	1634.15	2862.56	50.00	950.12	-

(*From Annex K)*

The above table 4.5 revealed that the larger bank have excess short term assets than liabilities. This shows that they have excess capital adequacy for smooth operation of liquidity needs. Similarly smaller banks have their figure higher liabilities than the assets. This shows that they are in Short term capital not adequate for fulfilling liquidity needs. Similarly about money at call and short notice, the larger banks have adequate balance which can be at safe side. The smaller banks have inadequate balance and can't pay if the demands are at a same time. Which lacks of liquidity needs larger banks is investing in Treasury bill maturing in 90 days but smaller banks is not investing in treasury bills maturing in 90 days.

4.3. Liquid Assets and Profitability of Commercial Banks

To meet their day to day liquidity requirement, banks must hold some non-earning assets and low-earning assets in the form of the cash or cash equivalent. By their very nature, these assets reduce banks profitability. Therefore, banks want to hold

a minimum amount of such assets and still are able to meet their liquidity requirements. Increased competition and the removal of deposit interest rate ceilings have reinforced the need for banks to minimize their stocks of none earning and low yielding assets.

The general financial theory suggests that the relation between the liquid assets and the profitability of the commercial banks is inverse because liquid assets represents the non interest or low interest bearing assets of the banks .In our study the relation between the various conventions of profitability and liquid assets I.e. treasury bills of the sample large banks and small banks has been analyzed in this section.

Figure 4. 8
Return on Total Assets

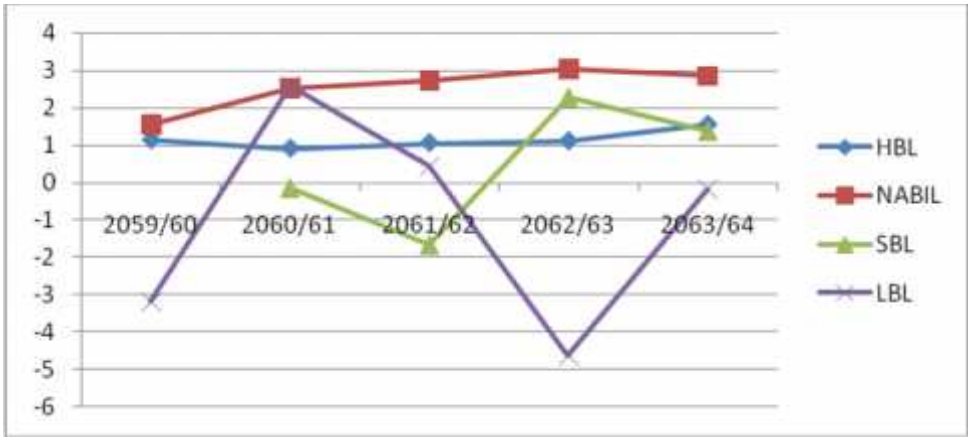
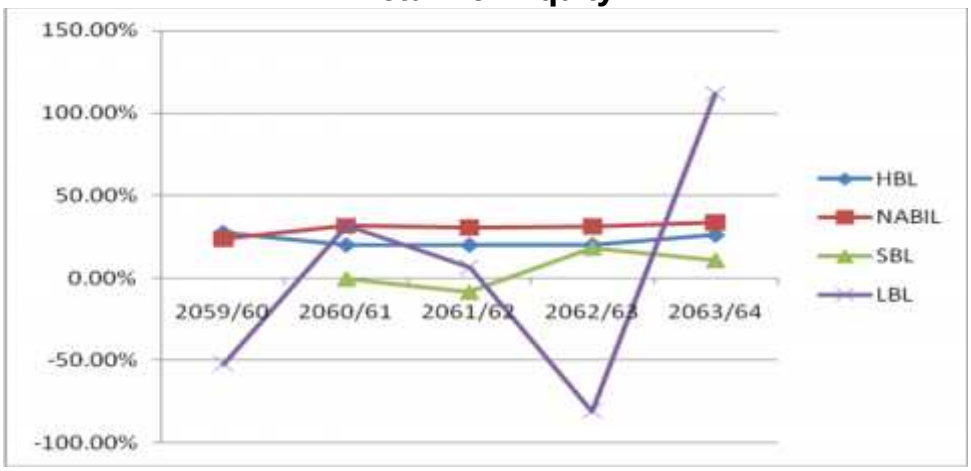


Figure 4. 9
Return on Equity



From the above figures it is clearly seen than all banks have cash and bank balance holding to the total deposit is almost in equal proportion. But there is

highly different proportion of total quick assets (cash and bank balance) to the current deposit. This means that smaller banks are not utilizing their liquid assets properly or they have excess liquidity becoming idle. But their investment on Treasury bill to total assets holds almost equal proportion. In investing in T-bill, forty percent of their total liquid assets is in the form of treasury bills. This shows that there is no substantial difference between large commercial banks and small banks in Nepal in regards to the holding and management of liquid asset portfolio. In the financially developed countries of west, the large-sized banks hold larger proportion of treasury bills in their liquid asset portfolio in compare to smaller and overall banking industry. Since this notion is hold on the ground that larger banks have greater access to both national and international money and capital markets, privileges such as central bank's prompt back up, stand by lines of credit to support them, and acting by the central bank in various capacity as a lender of last resort. From this observation it can be conclude that large sized banks in Nepal are reluctant in capitalizing on their position and size privileges. They are very conservative and traditional when it comes to the management of their liquid asset portfolio.

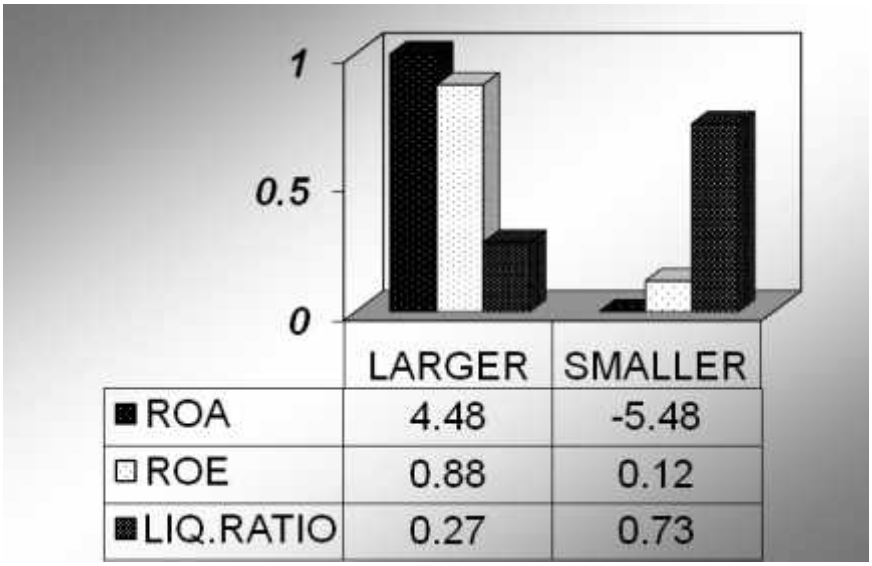
Table 4. 6

Weighted Liquidity Ratio And Profitability Ratio [Rota] for Larger Banks And Smaller Banks

Bank	**Roa**	**Roe**	**Liquidity Ratio**
Larger	4.48	0.88	0.27
Smaller	-5.48	0.12	0.73
Total	**-1.00**	**1.00**	**1.00**

(From Annex J)

Figure 4. 10
Weighted Mean of ROA and ROE for Larger and Smaller Banks



From the above figure, it is revealed that smaller banks have very higher bar (0.71) containing liquidity ratio. But the ROA and ROE bar is very smaller than larger banks. The tools help to prove that liquid assets contain very low or non interest rather than other investment. If the liquid assets portfolio can be arranged in appropriate way, then it will definitely improve return. But the observation focused that the investment of liquid assets made on cash and bank balance by the smaller banks resulted low income. Since Treasury bill is 0 percent risk assets and short term investing fund, contributes as a significant part of total income of the company. Similarly the liquid assets contain bank balance and cash balance but all these liquid assets provide no interest or very low interest.

4.4. Major Findings

The thesis has been concentrated first to examine the relationship between treasury bills and liquid assets of the larger and smaller commercial banks. Then in second it examines the relationship between treasury bills to total and current deposit and liabilities maturing in the same time frame. At the last section it examines the relationship between profitability and liquid assets I.e. treasury bills with various factors.

The findings of the study are as follows:

- From the analysis it is observed than both the larger banks and smaller banks have their investment almost equal proportion of treasury bills assets in their total liquid portfolio.

- In both sectors, more than forty percent of their total liquid assets are in the form of treasury bills or that mean the ratio of Treasury bill to total assets of both sectors are about in equal proportion. This shows that there is no substantial difference between large commercial banks and smaller banks in Nepal in regards to the holding and management of liquid asset portfolio. In the financially developed countries of west, the large-sized banks hold larger proportion of treasury bills in their liquid asset portfolio in compare to smaller and overall banking industry. But in the context of Nepal there is no substantial difference between large commercial banks and other banks in Nepal in regards to the holding and management of liquid asset portfolio. From this observation we can conclude that large sized banks in Nepal are reluctant in capitalizing on their position and size privileges. They are very conservative and traditional when it comes to the management of their liquid asset portfolio. The investment in Treasury bill to their total liquid assets for larger banks is 0.55 and for smaller banks is 0.45. This shows that Nepalese commercial bank has been using treasury bills as an integral part in the liquid asset portfolio

- The weighted mean of liquidity ratio of larger banks is 0 .27 and smaller banks is 0.73. similarly the weight age mean of the investment on treasury bills to total investment of larger banks is 0.29 and smaller banks is 0.71 but the weight age mean of treasury bill income to their total income of larger banks figure is opposite of investment ratio .i.e. .for larger banks 0.71 and for smaller banks is 0.29.From the above figure it is concluded that smaller banks investing in treasury bill is almost higher than larger banks. Smaller banks' liquidity ratio is very high than larger commercial banks but the return from the treasury bill to total income is very lower than larger banks. This means that they are not utilizing their fund as much as larger banks do. The

Treasury bill income to total Treasury bill investment of larger banks is 0.67 and smaller banks are 0.37. This showed that the smaller banks tender in Treasury bill is in very lower rate.

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- The investment in treasury bills to the current deposit is also high in small banks. For larger banks it is 0.23 and for smaller banks 0.77. It means that larger banks are not able to maintain total current liability to their total investment in treasury bills. And their liquidity ratio is very lower than smaller banks. This means they are utilizing the liquid assets up to maximum level.
- The weight age liquidity ratio of larger and smaller banks is 0.27 and 0.63. The ROA and ROE for larger and smaller banks is 4.88, 0.88 and -5.48, 0.12. this shows that the profitability ratio measure by the return of total assets and return in equity and the liquidity ratio is negative for large banks
- From this observation and analysis we can conclude that the conventional financial theory of banking which suggest that the negative relation ship between profitability and liquidity holds true in the case of larger and smaller banking scenario in Nepal
- The larger bank's Total asset is adequate to total liabilities maturing in 90 days. Money at call and short notice receivable is higher than payable .these are the strength indicator for liquidity management. But for the smaller banks liabilities and payable is higher than receivable and assets maturing in 90 days. This is a very weak liquidity management.
- The investment in treasury bills maturing in 90 days can be utilized as liquidity needs at a short spam of time. In this title larger banks are investing a huge proportion of total assets but it is not found that smaller banks - Sbl and Lbl are investing in treasury bills maturing in 90 days.
- From the above observation and analysis the study observed that the commercial banks in Nepal are using investment in treasury bills as a low risk bearing investment opportunities to comply with the regulatory requirement of capital adequacy norms.

CHAPTER-FIVE

SUMMARY, CONCLUSION & RECOMMENDATIONS

Risk has always been associated with the financial institutions in the form of liquidity risk, credit risk, market risk, operation risk, interest rate risk etc. But, since bearing risk is an integral part of the banking business, it is not surprising that banks have been practicing risk management ever since there have been banks.

The concept , methodology and analysis of the relationship between treasury bills and liquidity management theories, liabilities management theories, profitability theories and trade off between Profitability and liquidity with some empirical data base from a selected number and years of listed large size and other commercial banks of Nepal have been streamline in the earlier chapter .This part of the study focus on the summary of the main findings of the analysis .As based on the findings of the analysis and in considering the limitation of the study , proposed recommendation and certain suggestions are pointed out in this chapter .

5.1 Summary

The primary and specific purpose of the present study has been to obtain deep insight into the relationship between treasury bills and liquidity management, profitability management and trade off between liquidity and profitability management theories by empirically testing using the data of selected listed Nepalese banking companies. With this regard an attempt has been made to test the application of various liquidity and profitability practices, theories and proposition made in the areas of finance. This research aimed at studying relationship between treasury bills and its role in liquidity and profitability management for commercial banks.

To evaluate the above, the study has been divided into five chapters. The first chapter is an introductory one containing a theoretical background about the significance of treasury bills to the commercial banks in liquidity and

profitability management. .in chapter two , a review of the previous studies relating to decision and practices of investment in treasury bills and its impact on liquidity and profitability has been brought out .the research methodology used in the present study has been discussed in the third chapter . For the purpose of this study, purposive sampling has been done taking two large sized commercial banks of Nepal exceeding total assets of more than 20 billion rupees and two small commercial banks not exceeding total assets of 20 billion rupees, were selected. The necessary data were collected for the period of last five years for these banks. The sample companies were drawn purposefully from banking sector .the Company was ranked as the blue chip on the basis of their past financial performance, trading volume in the stock exchange market. Various kind of current and profitability ratio are used as tabulated and various charts are presented to research the objectives for the proposal. Current and liquidity ratio postulates the relationship between their strength of liquidity management for various purposes. The second profitability ratio postulates the relationship between profit to their concerned factors likewise total assets, total deposits. Current deposits, shareholders equity, no of share etc. these ratios, tabulated values and the diagrams helps to compare the necessary indicators between the larger banks and smaller banks. The empirical analysis of the data and their results has been discussed in the fourth chapter.

Raise and utilization of funds are the Primary functions of commercial banks. As such, commercial banks collect a large Amount of deposits from general public. Because the business of banking is measuring , managing ,and accepting risk and because the major risk banks face is liquidity risk, interest rate risk, credit risk , foreign exchange rate risk ,it follows that the major risk banks must measure ,manage and accept is liquidity risk . It is one of the most important aspect of the bank risk management because a large portion of the financial liabilities of the commercial banks are payable on demand. Many bankers viewed the concept of liquidity management in a static framework. Liquidity management however is a dynamic problem that depends on the relationship between inflows and outflows of the funds. Since the cash flows associated with liquidity management are not completely random, liquidity

requirement can be predicted with some degree of accuracy. Commercial banks have been classifying its assets and liabilities based on the maturity. Moreover, from a liquidity perspective inflows ands out flows of funds is the crucial one. The concern of the study was the type of relation that exists between commercial bank investment in treasury bills and the total liabilities maturing in the same time frame. By this analysis we have found out how the commercial bank of Nepal has been using treasury bills as an asset – liabilities management tools to honor its obligation of liabilities.

Since liquid assets have minimal amounts of interest rate risk and credit rate risk, which limit the return they generate for risk bearing. Specifically, all other things being equal, treasury bills being short term assets have less credit risk than long term assets. Additionally, because market values of short term assets are less sensitive to changes in interest rates, liquid assets do not embody much interest rate risk. Cash, bank balance, money at call and short notice are low interest bearing and highly liquid assets than the government securities and treasury bills. The higher proportion of investment in assets other than government securities and treasury bills fetches low return and vice versa. In general, smaller banks hold more highly liquid assets than large banks, i.e. bigger banks proportion of holding of treasury bills in overall liquid portfolio is higher than that of smaller banks.

In the financially developed countries of west, the large-sized banks hold larger proportion of treasury bills in their liquid asset portfolio in compare to smaller and overall banking industry. Since this notion is hold on the ground that larger banks have greater access to both national and international money and capital markets, privileges such as central bank's prompt back up, stand by lines of credit to support them, and acting by the central bank in various capacity as a lender of last resort. For this observation we have analyzed the relation ship between the treasury bills and the total liquid asset portfolio to conclude whether the large sized banks in Nepal are capitalizing on their position and size privileges. Whether they are very conservative or aggressive

and sophisticated when it comes to the management of their liquid asset portfolio.

The general financial theory suggests that the relation between the liquid assets and the profitability of the commercial banks is inverse because liquid assets represents the non interest or low interest bearing assets of the banks .In our study the relation between the various conventions of profitability and liquid assets I.e. treasury bills of the sample large banks and banking industry has been analyzed. To test the empirical validity of this theory in the context of Nepal we have analyzed the relation ship between liquidity ratio and profitability ratio using the data of large commercial banks and small commercial banks.

A bank's capital serves among other things, as a buffer or cushion to absorb potential losses arising from these key risks and any other risks that the bank faces .The Basel accord on international convergence of capital requirement for all banks regardless of their sizes. This accord focuses on the premises that the riskier assets whether on or off bank's balance sheet, require more capital to support them, hence it is termed risk based capital requirement. The inclusion of on and off balance sheet activities in the risk based capital requirement reflects the concern of regulatory body about the association of the same with contingent claims. Since the investment in treasury bills contribute no risk weighted in assessing risk weighted assets, banks falling short to meet the capital adequacy requirement are investing low proportion of their assets in this category. In this analytical study we have tried out to find out how Nepalese commercial banks are using investment in treasury bills as a low risk bearing investment opportunities to comply with the regulatory requirement of capital adequacy norms.

5.2 Conclusion

This study has been undertaken basically to test the application of liquidity management theories, profitability theories and capital adequacy management theories in the selected number of listed banking companies of Nepal through proper analysis and interpretation of data. The pertinent fact is that the study of this

kind regarding the relationship of investment in treasury bills and its role in the liquidity, profitability, and capital adequacy management for the commercial banking firm has been gradually recognized while going through the studies conducted in the areas of banking management and financial management. Commercial banking enterprise whether they are government owned or privately owned, have to make pertinent liquidity management and profitability management decision in identifying and comply exactly with basic national and international banking management norms and practices and regulatory norms of the central banks to run their operation smoothly and to stand competitive. The first tool of this study is concerned with the examination of the relationship between treasury bills and liquid assets of the larger and smaller commercial banks. In the financially developed countries of west, the large-sized banks hold larger proportion of treasury bills in their liquid asset portfolio in compare to smaller and overall banking industry. Since this notion is hold on the ground that larger banks have greater access to both national and international money and capital markets, privileges such as central bank's prompt back up, stand by lines of credit to support them, and acting by the central bank in various capacity as a lender of last resort . But large sized banks in Nepal are reluctant in capitalizing on their position and size privileges. They are very conservative and traditional when it comes to the management of their liquid asset portfolio. Commercial banks are using treasury bills as an integral liquid asset in their liquid asset portfolio.

Then second tools examine the relationship between total assets maturing in 90's days and liabilities maturing in the same time frame. Liquidity management is one of the most important aspect of the bank management because a large portion of the financial liabilities of the commercial banks are payable on demand. Here the concern of the study was the type of relation that exists between commercial bank investment in treasury bills and the total liabilities maturing in the same time frame. By analysis of the data we have found out how the commercial bank of Nepal has been using treasury bills as an asset – liabilities management tools to honor its obligation of liabilities. the large banks are using treasury bills maturing in 90 days as an integral asset – liabilities management tools to honor its obligation of

liabilities than the banking industry as a whole .From our observation we can conclude that the large banks in Nepal are using treasury bills maturing in 90's days as important and integral liquid assets in liquidity planning and liability management.

The third tools examine the relationship between profitability and liquid assets I.e. treasury bills. The general financial theory suggests that the relation between the liquid assets and the profitability of the commercial banks is inverse because liquid assets represents the non interest or low interest bearing assets of the banks .In our study the relation between the various conventions of profitability and liquid assets I.e. treasury bills of the sample large banks and smaller banks has been analyzed.

From our observation and analysis we can conclude that the conventional financial theory of banking which suggest that the negative relation ship between profitability and liquidity holds true in the case of large commercial banks and overall banking scenario in Nepal. This study offers additional evidence in support of the proposition that liquidity and profitability trade off each other.

And the last tools deal with the relationship between capital adequacy ratio and treasury bills. The Basel accord on international convergence of capital requirement for all banks regardless of their sizes. This accord focuses on the premises that the riskier assets whether on or off bank's balance sheet, require more capital to support them, hence it is termed risk based capital requirement. The inclusion of on and off balance sheet activities in the risk based capital requirement reflects the concern of regulatory body about the association of the same with contingent claims. Since the risk is an integral part of the banking business, it is not surprising that banks have been practicing risk management ever since there have been banks.

There are lots of risks associated in various sectors. So investment in treasury bills in 0 percent risk. The prior objectives of investing in treasury bills are not for profit generating but for maintaining liquidity management. It not considerable thing that

being risk free interest and commission generating assets, investment in Treasury bill should be increased. As commercial banks should be profit oriented business organization, excess idle balance will reduce the competency ability. The suggestion regarding what can be done have been pinpointed below

1. There is the prime need for the most of the commercial banks to understand the implication of using treasury bills in their liquid asset portfolio. For this, there is need to have adequate homework to design appropriate liquid asset portfolio and liquidity management plans, policies, and strategies .smaller banks may increase their investment in Treasury bill maturing in 90 days, if they contain inadequate capital for short term.

2. Liquidity and Profitability Ratio is very important financial tool to measure for liquidity and profitability management of the bank. The fate of the investors and depositors are highly dependent on the profitability ratios of the bank. Therefore all the commercial banks must strictly comply with the directive issued by the supervising bank to maintain the sound financial position of the bank.

3. More over the vital exposure and need to understand the liquidity management theories would be added input to broaden the managerial insight since in many commercial banks time has come for management to build a minimum financial expertise to maintain and determine liquidity need and maximize profitability so that they can justify the maintenance of adequate liquidity to ensure more profit.

4. There is also the need for the most of the commercial banks to understand the implication of using investment in treasury bills as capital adequacy management tools. For this, there is need to have adequate homework to design appropriate capital adequacy management plans, policies, and strategies to comply with regulatory concerns of the central bank.

5. Since the smaller banks are not investing in Treasury bill maturing in 90 days. They are not maintaining the balance between liquid assets and current liability. So this may impact the perceptional image towards customer. Customer is the source

of business. so it is strongly recommended that smaller banks which have less liquid assets than current liability, they need to invest more in very short time investment like treasury bills.

6. Total cash and bank balance to the current deposit ratio of smaller banks is very higher than of larger banks. This balance also makes the liquidity ratio higher. This balance may contain very lower or non bearing interest rather than investment in treasury bills. So both smaller banks should supervise the availed balance and check out whether that can be invested in treasury bills.

Investment in treasury bills contributes no risk. In this analytical study it is found out how Nepalese commercial banks are using investment in treasury bills as a low risk bearing investment opportunities. From the observation and analysis it is concluded that the commercial banks in Nepal are using investment in treasury bills as a low risk bearing investment opportunities to comply with the regulatory requirement of capital adequacy norms.

5.3 Recommendations

Risk has always been associated with the financial institutions in the form of liquidity risk, credit risk, market risk, operation risk, interest rate risk etc. since bearing risk is an integral part of the banking business, it is not surprising that banks have been practicing risk management ever since there have been banks.
There are lots of risks associated in various sectors. So investment in treasury bills in 0 percent risk. The prior objectives of investing in treasury bills are not for profit generating but for maintaining liquidity management. It not considerable thing that being risk free interest and commission generating assets, investment in Treasury bill should be increased. As commercial banks should be profit oriented business organization, excess idle balance will reduce the competency ability. The suggestion regarding what can be done have been pointed below

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- Liquidity and Profitability ratio is very important financial tool to measure for liquidity and profitability management of the bank. The fate of the investors and depositors are highly dependent on the profitability ratios of the bank. Therefore all the commercial banks must strictly comply with the directive issued by the supervising bank to maintain the sound financial position of the bank.

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- There is also the need for the most of the commercial banks to understand the implication of using investment in treasury bills as capital adequacy management tools. For this, there is need to have adequate homework to design appropriate capital adequacy management plans, policies, and strategies to comply with regulatory concerns of the central bank.

- Since the smaller banks are not investing in Treasury bill maturing in 90 days. smaller banks are not maintaining the balance between liquid assets and current liability. So this may impact the perceptional image towards customer. Customer is the source of business. Thus, it is strongly recommended that smaller banks which have less liquid assets than current liability, they need to invest more in very short time investment like treasury bills.

- Total cash and bank balance to the current deposit ratio of smaller banks is very higher than of larger banks. This balance also makes the liquidity ratio higher. This balance may contain very lower or non bearing interest rather

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ANNEX A

Financial Highlights of Himalayan Bank Limited from F/Y 2002/03 to 2006/07

Fiscal Year	15-Jul-03	15-Jul-04	15-Jul-05	15-Jul-06	15-Jul-07
	2059/60	**2060/61**	**2061/62**	**2062/63**	**2063/64**
Total Investments	**9,157,106,656**	**10,175,435,017**	**9,292,102,510**	**11,692,341,559**	**10,890,372,809.00**
Investment in Treasury Bills	2,588,562,224	3,334,766,550	2,781,700,000	4,819,700,000	4,565,320,060.00
Cash Balance	462,776,725	397,189,317	274,235,328	286,529,934	305,428,144.00
Balance with Banks	**801,895,073**	**1,582,019,679**	**1,726,948,893**	**1,727,941,023**	**1,411,924,192.00**
Local Banks	732,924,232	1,194,661,894	1,662,742,645	1,642,795,713	1,180,901,858.00
Foreign Banks	68,970,841	387,357,785	64,206,248	85,145,310	231,022,334.00
Money at Call and Short Notice	352,350,000	150,100,000	368,900,000	441,080,900	1,005,280,000.00
Total Liquid Assets	**4,205,584,022**	**5,464,075,546**	**5,151,784,221**	**7,275,251,857**	**7,287,952,396.00**
Liquidity Ratio	**22.59**	**26.01**	**23.41**	**29.32**	27.29
Liquidity Ratio (w/o T. Bills)	**8.68**	**10.14**	**10.77**	**9.9**	**10.25**
Cash and Bank balance	**1,264,671,798**	**1,979,208,996**	**2,001,184,221**	**2,014,470,957**	**1,717,352,336**
Cash and Bank balance/T.deposit	**0.07**	**0.09**	**0.09**	**0.08**	**0.06**
Total Deposits	**18,619,375,077**	**21,007,379,489**	**22,010,332,984**	**24,814,011,984**	**26,490,851,640.00**
Local Currency	**12,453,527,763**	**14,468,539,294**	**16,478,475,928**	**18,517,751,821**	**19,818,342,181.00**
Foreign Currency	**6,165,847,314**	**6,538,840,195**	**5,531,857,056**	**6,296,260,163**	**6,981,109,459.00**
Current Deposits	**2,634,369,951**	**3,503,143,919**	**4,145,447,916**	**5,045,160,928**	**5,028,150,556.00**
Local Currency	1,724,182,004	2,111,447,359	3,098,880,912	3,479,030,380	3,681,942,340.00
Foreign Currency	910,187,947	1,391,696,560	1,046,567,004	1,566,130,548	1,346,208,216.00
Margin Deposits	**434,752,898**	**386,830,523**	**425,019,903**	**586,043,416**	**488,031,556.00**
Savings Deposits	**9,163,946,406**	**10,870,542,377**	**11,759,602,072**	**12,852,414,902**	**14,582,855,172.00**
Local Currency	8,188,172,194	9,708,766,376	10,669,502,581	11,925,347,986	13,287,743,287.00
Foreign Currency	975,774,212	1,161,776,001	1,090,099,491	927,066,916	1,295,111,885.00
Fixed Deposits	**5,480,843,513**	**3,205,372,779**	**4,710,176,693**	**6,107,430,801**	**6,350,202,266.00**
Local Currency	1,749,973,974	1,916,234,237	1,857,785,828	2,486,412,029	2,353,299,998.00
Foreign Currency	3,730,869,539	1,289,138,542	2,852,390,865	3,621,018,772	3,996,902,268.00
Call Deposits	**883,599,905**	**3,041,489,891**	**970,086,400**	**222,961,937**	**41,612,090.00**
Local Currency	356,446,693	345,260,799	427,286,704	40,918,010	7,325,000.00
Foreign Currency	527,153,212	2,696,229,092	542,799,696	182,043,927	342,887,090.00
Others	**21,862,404**	**-**	**-**	**-**	**-**
Local Currency	-	-			
Foreign Currency	21,862,404				
Net Profit	**235,023,510**	**212,128,485**	**263,053,495**	**308,275,171**	**457,457,000.00**
Income from Treasury Bills	79,894,549	121,543,735	129,507,034	110,927,163	133,804,708.00
Interest Income	1,148,998,491	1,201,233,722	1,245,895,020	1,446,468,083	1,626,473,819.00
Total Income	1,389,792,000	1,454,308,000	1,519,618,639	1,760,680,211	1,897,766,254.00
Total Assets	**20,672,433,854**	**23,355,223,128**	**24,817,369,870**	**27,844,694,655**	**29,460,389,672.00**
Loan Advances and Bills Purchased	8,913,723,565	10,001,848,185	11,951,869,350	12,424,520,646	14,642,559,555.00

Net Profit/ Total Assets	1.14	0.91	1.06	1.11	1.55
T. Bill Income/ Total Interest Income	6.95%	10.12%	10.39%	7.67%	8.23%
T. Bill Income/ T.Bill investment	3.09%	3.64%	4.66%	2.30%	2.93%
Invt. In T.Bill/ Total investments	28.27%	32.77%	29.94%	41.22%	41.92%
T.Bills/Total deposit Ratio	13.90%	15.87%	12.64%	19.42%	17.23%
Shareholders Equity	858,114,868.00	1,063,132,203.00	1,324,166,357.00	1,541,746,461.00	1766175616
Total No. of Shares	3,900,000	4,290,000	5,362,500	6,435,000	7722000
ROA	1.14	0.91	1.06	1.11	1.55
EPS	60.26	49.45	49.05	47.91	59.24
ROE	27.39%	19.95%	19.87%	19.95%	25.90%
CRR	11.69%	8.30%	8.28%	7.86%	5.92%

ANNEX B

Financial Highlights of Nabil Bank Limited from F/Y 2002/03 to 2006/07

Fiscal Year	15-Jul-03	15-Jul-04	15-Jul-05	15-Jul-06	15-Jul-07
	2059/60	**2060/61**	**2061/62**	**2062/63**	**2063/64**
Total Investments	**8,199,514,813**	**6,031,175,547**	**5,835,948,498**	**4,267,233,178**	**6,180,658,108.00**
Investment in Treasury Bills	2,517,317,913	1,593,339,152	2,193,314,736	664,627,668	1,222,468,660.00
Cash Balance	318,158,820	187,777,015	286,886,222	146,352,555	237,818,512.00
Balance with Banks	**733,661,029**	**956,990,468**	**683,600,321**	**413,028,059**	**392,420,076.00**
Local Banks	530,584,850	908,897,874	644,544,086	415,909,567	345,263,053.00
Foreign Banks	203,076,179	48,092,594	39,056,235	-2,881,508	47,157,023.00
Money at Call and Short Notice	31,368,000	670,204,297	918,733,400	868,428,307	1,734,901,943.00
Total Liquid Assets	**3,600,505,762**	**3,408,310,932**	**4,082,534,679**	**2,092,436,589**	**3,587,609,191.00**
Liquidity Ratio	**23.22**	**25.35**	**28.92**	**14.34**	**18.27**
Liquidity Ratio (w/o T. Bills)	**6.99**	**13.5**	**13.38**	**9.79**	**16.12**
Cash and Bank balance	**1,051,819,849**	**1,144,767,483**	**970,486,543**	**559,380,614**	**630,238,588**
Cash and Bank balance/T.deposit	**0.07**	**0.09**	**0.07**	**0.04**	**0.03**
Total Deposits	**15,506,428,215**	**13,447,661,064**	**14,119,032,115**	**14,586,608,707**	**19,347,399,440.00**
Local Currency	**11,854,067,407**	**10,023,385,531**	**10,720,196,731**	**11,260,668,660**	**14,614,895,226.00**
Foreign Currency	**3,652,360,808**	**3,424,275,533**	**3,398,835,384**	**3,325,940,047**	**4,732,504,214.00**
Current Deposits	**2,703,818,737**	**3,034,002,537**	**2,688,966,557**	**2,799,184,977**	**2,910,589,772.00**
Local Currency	1,816,214,119	2,074,070,300	1,932,769,955	2,009,778,684	2,289,241,671.00
Foreign Currency	887,604,618	959,932,237	756,196,602	789,406,293	621,348,101.00
Margin Deposits	**364,287,450**	**381,315,421**	**304,682,531**	**296,976,231**	**322,899,810.00**
Savings Deposits	**4,972,056,618**	**5,229,723,260**	**5,994,121,405**	**7,026,334,402**	**8,770,759,429.00**
Local Currency	4,189,042,145	4,549,079,396	5,162,861,012	6,114,555,431	7,756,989,406.00
Foreign Currency	783,014,473	680,643,864	831,260,393	911,778,971	1,013,770,023.00
Fixed Deposits	**2,446,845,914**	**2,252,544,590**	**2,310,571,784**	**2,078,535,135**	**3,449,094,149.00**
Local Currency	1,559,408,715	1,215,873,684	1,043,509,473	1,012,878,788	1,103,946,864.00
Foreign Currency	887,437,199	1,036,670,906	1,267,062,311	1,065,656,347	2,345,147,285.00
Call Deposits	**4,944,960,238**	**2,540,701,246**	**2,801,405,838**	**2,341,328,577**	**3,851,159,944.00**
Local Currency	3,894,594,623	1,795,915,220	2,258,572,760	1,790,202,026	3,104,351,975.00
Foreign Currency	1,050,365,615	744,786,026	542,833,078	551,126,551	746,807,969.00
Others	**74,459,258**	**9,374,010**	**19,284,000**	**44,249,385**	**42,896,336.00**
Local Currency	30,520,355	7,131,510	17,801,000	36,277,500	37,465,500.00
Foreign Currency	43,938,903	2,242,500	1,483,000	7,971,885	5,430,836.00
Net Profit	**271,638,612**	**416,235,811**	**455,311,222**	**520,114,085**	**635,262,349.00**
Income from Treasury Bills	107,137,853	110,039,428	78,792,956	62,620,921	37,289,515.00
Interest Income	1,120,184,120	1,017,872,280	1,001,616,901	1,068,746,769	1,309,998,500.00
Total Income	1,639,115,286	1,427,450,324	1,429,051,172	1,510,684,230	
Total Assets	**17,629,252,392**	**16,562,624,992**	**16,745,486,638**	**17,186,330,816**	**22,329,971,078.00**
Loan Advances and Bills Purchased	7,437,894,676	7,755,951,985	8,189,992,851	10,586,170,002	12,922,543,153.00
Net Profit/ Total Assets	1.54	2.51	2.72	3.02	2.84

T. Bill Income/ Total Interest Income	9.56%	10.81%	7.87%	5.86%	2.85%
T. Bill Income/ T.Bill investment	4.26%	6.91%	3.59%	9.42%	3.05%
Invt. In T.Bill/ Total investments	30.70%	26.42%	37.58%	15.58%	19.78%
T.Bills/Total deposit Ratio	16.23%	11.85%	15.53%	4.56%	6.32%
Shareholders Equity	1,146,428,294.00	1,314,187,456.00	1,481,682,303.00	1,657,638,308.00	1874994417
Total No. of Shares	4,916,544	4,916,544	4,916,544	4,916,544	4916544
ROA	1.54	2.51	2.72	3.03	2.84
EPS	55.25	84.66	92.61	105.49	129.21
ROE	23.69%	31.67%	30.73%	31.29%	33.88%
CRR	6.78%	8.51%	6.87%	3.83%	3.26%

ANNEX C

Financial Highlights of Siddartha Bank Limited from F/Y 2002/03 to 2006/07

Fiscal Year	15-Jul-03	15-Jul-04	15-Jul-05	15-Jul-06	15-Jul-07
	2059/60	**2060/61**	**2061/62**	**2062/63**	**2063/64**
Total Investments		**3,775,000**	**42,050,560**	**286,623,433**	**650979170**
Investment in Treasury Bills		-	38,275,560	272,495,433	394589670
Cash Balance		9,438,897	18,214,419	33,459,441	64977328
Balance with Banks		**55,647,854**	**53,631,797**	**97,269,724**	**50968978**
Local Banks		43,092,190	37,253,678	66,819,015	54059055
Foreign Banks		12,555,665	16,378,119	30,450,709	-3090077
Money at Call and Short Notice		102,072,938	174,830,000	22,471,002	100000000
Total Liquid Assets		**167,159,689**	**284,951,776**	**425,695,600**	**610,535,976**
Total current Liability		**391,677,605**	**1,292,275,874**	**2,462,351,733**	**3918076217**
Liquidity Ratio		**42.68**	**22.05**	**17.29**	**15.58**
Liquidity Ratio (w/o T. Bills)	**-**	**3,916,776**	**11,186,936**	**8,861,560**	**13,858,218**
Cash and Bank balance	**-**	**98,740,044**	**90,885,475**	**164,088,739**	**105,028,033**
Cash and Bank balance/T.deposit	**-**	**0.25**	**0.07**	**0.07**	**0.03**
Inv.On T Bill/Current Deposit	**-**	**0**	**0.651040042**	**3.176987297**	**4.795044167**
Total Deposits		**391,674,603**	**1,291,313,880**	**2,461,922,522**	**3918076217**
Local Currency		**372,237,167**	**1,286,234,181**	**2,429,054,813**	**5227750**
Foreign Currency		**19,437,436**	**5,079,699**	**32,867,709**	**3090077**
Current Deposits		**49,844,061**	**58,791,407**	**85,771,647**	**82291144**
Local Currency		31,213,304	55,081,708	81,626,636	79103758
Foreign Currency		18,630,757	3,709,699	4,145,011	3187386
Margin Deposits		**20,992,350**	**33,568,374**	**33,077,460**	**45565465**
Savings Deposits		**64,169,246**	**267,638,044**	**525,654,595**	**1128464088**
Local Currency		63,362,567	266,268,044	523,664,897	1120455314
Foreign Currency		806,679	1,370,000	1,989,698	8008774
Fixed Deposits		**66,947,000**	**537,195,000**	**1,196,505,353**	**1632091068**
Local Currency		66,947,000	537,195,000	1,169,772,353	1617271068
Foreign Currency		-	-	26,733,000	14820000
Call Deposits		**189,721,946**	**393,365,000**	**620,913,467**	**1029551808**
Local Currency		189,721,946	393,365,000	620,913,467	1029425353
Foreign Currency		-	-	-	126455
Others		**-**	**756,055**	**-**	**112644**
Local Currency		-	756,055	-	112644
Foreign Currency		-	-	-	-
Net Profit		**-1,284,255**	**-31,110,000**	**70,279,794**	**65252813**
Income from Treasury Bills				3,602,926	14,565,728
Interest Income		23,889,157	113,629,913	198,184,538	305,560,896
Total Income		30,111,781		128,908,707	187,378,821
Total Assets		**863,735,348**	**1,857,574,589**	**3,098,996,314**	**4756935449**

Loan Advances and Bills Purchased		622,734,719	1,543,767,098	2,570,776,015	3789122692
Net Profit/ Total Assets	0	0.00	-0.02	0.02	0.01
T. Bill Income/ Total Interest Income	-	0.00%	0.00%	1.82%	4.77%
T. Bill Income/ T.Bill investment	-	0.00%	0.00%	1.32%	3.69%
Invt. In T.Bill/ Total investments	-	0.00%	91.02%	95.07%	60.61%
T.Bills/Total deposit Ratio	-	0.00%	2.96%	11.07%	10.07%
Shareholders Equity		351,284,254.81	366,198,329.81	387,888,643.00	603,141,455
Total No. of Shares		3,500,000	3,500,000	5,000,000	5000000
ROA	-	-0.15	-1.67	2.27	1.37
EPS		-0.37	-8.89	20.08	13.05
ROE	-	-0.37%	-8.50%	18.12%	10.82%
CRR		6.00%	6.00%	5.21%	5.03%

ANNEX D

Financial Highlights of Lumbini Bank Limited from F/Y 2002/03 to 2006/07

Fiscal Year	15-Jul-03	15-Jul-04	15-Jul-05	15-Jul-06	15-Jul-07
	2059/60	**2060/61**	**2061/62**	**2062/63**	**2063/64**
Total Investments	**270,671,000**	**382,750,243**	**558,187,601**	**535,184,566**	**673719945**
Investment in Treasury Bills	108,764,810.00	205,750,600	413,878,458	395,456,760	507821390
Cash Balance	98,615,534	83,852,591	114,708,814	103,230,924	133384231
Balance with Banks	**433,770,847**	**249,712,315**	**416,422,326**	**315,782,535.00**	**268749696**
Local Banks	347,040,825	208,532,163	351,256,732	297,026,737	198842622
Foreign Banks	86,730,022	41,180,152	65,165,594	18,755,798	69907074
Money at Call and Short Notice	-	50,000,000	30,000,000	-	50000000
Total Liquid Assets	**641,151,191**	**589,315,506**	**975,009,598**	**814,470,219**	**959,955,317**
Total current liability	**188,709,489**	**2,970,428,325**	**3,782,179,616**	**4,091,738,354**	**4,891,025,060**
Liquidity Ratio	**33.76**	**19.84**	**25.78**	**19.91**	**19.63**
Liquidity Ratio (w/o T. Bills)	**2.82**	**0.13**	**0.15**	**0.10**	**0.09**
Cash and Bank balance	**780,811,672**	**458,244,478**	**767,679,058**	**612,809,272**	**467,592,318**
Cash and Bank balance /T.deposit	**0.30**	**0.15**	**0.20**	**0.15**	**0.10**
Inv.On T Bill/Current Deposit	**0.885822129**	**1.29674415**	**2.069262444**	**2.373318681**	**3.17702511**
Total Deposits	**2,646,106,973**	**2,959,744,444**	**3,777,605,223**	**4,031,220,989**	**4786440191**
Local Currency	**2,615,868,454**	**2,936,106,059**	**3,773,815,533**	**3,992,605,061**	**4698070200**
Foreign Currency	**30,238,521**	**23,638,387**	**3,789,690**	**38,615,928**	**88369991**
Current Deposits	**122,784,029**	**158,667,074**	**200,012,550**	**166,626,068**	**159841793**
Local Currency	119,493,676	157,632,807	197,041,884	164,238,840	154070916
Foreign Currency	3,290,353	1,034,267	2,970,666	2,387,228	5770877
Margin Deposits	**28,909,444**	**42,024,263**	**44,240,478**	**40,967,577**	**81200662**
Savings Deposits	**548,450,136**	**571,217,773**	**833,249,301**	**1,003,729,532**	**1769453231**
Local Currency	547,631,968	571,128,654	832,430,277	1,002,825,832	1768932605
Foreign Currency	818,168	89,120	819,024	903,700	520626
Fixed Deposits	**1,673,949,657**	**1,808,145,925**	**1,829,526,705**	**2,139,728,705**	**1816372905**
Local Currency	1,647,819,657	1,785,630,925	1,829,526,705	2,104,403,705	1741972905
Foreign Currency	26,130,000	22,515,000	-	35,325,000	74400000
Call Deposits	**268,091,336**	**375,854,909**	**863,750,500**	**676,000,006**	**950115749**
Local Currency	**268,091,336**	375,854,909	863,750,500	676,000,006	942437261
Foreign Currency	-	-	-	-	7678488
Others	**3,922,373**	**3,834,501**	**6,825,689**	**4,169,101**	**9455851**
Local Currency	**3,922,373**	3,834,501	6,825,689	4,169,101	9455851
Foreign Currency	-	-	-	-	0
Net Profit	**-97,972,000**	**89,139,129**	**18,639,673**	**-197,580,188**	**-806,062,623**

Income from Treasury Bills	3,645,272	8,052,693	11,641,965	10,879,930	21309267
Interest Income	266,378,160	308,680,133	361,239,927	383,790,759	343821148
Total Income				230,893,606	180293569.00
Total Assets	**3,061,650,032**	**3,440,167,990**	**4,364,204,711**	**4,259,343,044**	**4382947863**
Loan Advances and Bills Purchased	2,085,332,320	2,441,639,355	2,980,397,657	3,167,723,667	2983895391
Net Profit/ Total Assets	-0.03	0.03	0.00	-0.05	-0.18
T. Bill Income/ Total Interest Income	1.37%	2.61%	3.22%	2.83%	6.20%
T. Bill Income/ T.Bill investment	3.35%	3.91%	2.81%	2.75%	4.20%
Invt. In T.Bill/ Total investments	40.18%	53.76%	74.15%	73.89%	75.38%
T.Bills/Total deposit Ratio	4.11%	6.95%	10.96%	9.81%	10.61%
Shareholders Equity	188,709,488.00	277,848,617.00	296,488,291.00	245,008,996.00	-722069661
Total No. of Shares	3,500,000	3,500,000	3,500,000	5,000,000	5000000
ROA	-3.20	2.59	0.43	-4.64	-0.18
EPS	-27.99	25.47	5.33	-39.35	-161.21
ROE	-51.92%	32.08%	6.29%	-80.64%	111.63%
CRR	20.12%	11.27%	14.06%	6.67%	8.40%

Annex E

Statement Of ROA, ROE, Total Liquid Assets and Deposit

Bank	F/Y	ROA	ROE	Total Liquid Assets	Total Deposits	Inv. In T. Bills \ T. Deposits	L. Ratio
HBL	2002/03	1.14	27.27	4,666,000,000.00	18,619,370,000.00	11.11	25.06
HBL	2003/04	0.91	19.83	6,130,000,000.00	21,007,370,000.00	14.28	29.18
HBL	2004/05	1.06	19.91	5,151,784,000.00	22,010,332,984.00	8.34	21.45
HBL	2005/06	1.11	19.66	7,275,252,000.00	24,814,011,984.00	14.81	26.12
HBL	2006/07	1.55	25.90	7,287,952,396.00	26,490,851,640.00	17.23	27.29
NABIL	2002/03	1.53	23.60	3,600,504,000.00	15,506,428,215.00	13.34	23.21
NABIL	2003/04	2.43	31.46	3,408,310,000.00	13,447,661,064.00	7.69	25.34
NABIL	2004/05	2.73	30.56	4,082,433,000.00	14,119,032,115.00	14.28	28.91
NABIL	2005/06	3.06	31.15	2,092,435,000.00	14,586,605,707.00	4.55	15.34
NABIL	2006/07	2.84	0.65	3,587,609,191.00	19,347,399,440.00	6.32	18.27
SBL	2002/03	-	-	-	-	-	-
SBL	2003/04	(0.01)	(0.00)	167,159,689.24	391,674,603.00	-	0.43
SBL	2004/05	(0.02)	(0.08)	284,951,775.73	1,291,313,880.00	2.96	0.22
SBL	2005/06	0.02	0.18	425,695,600.00	2,461,922,522.00	11.07	0.17
SBL	2006/07	0.01	0.11	610,535,976.00	3,918,076,217.00	10.07	0.16
LBL	2002/03	(0.03)	(0.52)	641,151,191.00	2,646,106,973.00	4.11	3.40
LBL	2003/04	0.03	0.32	589,315,506.00	2,959,744,444.00	6.95	0.20
LBL	2004/05	0.00	0.06	975,009,598.00	3,777,605,223.00	10.96	0.26
LBL	2005/06	(0.05)	(0.81)	814,470,219.00	4,031,220,989.00	9.81	0.20
LBL	2006/07	(0.18)	(1.12)	959,955,317.00	4,786,440,191.00	0.11	0.20

Annex F

Ratio of Investment in Treasury Bills and Total Liquid Assets of HBL and Nabil

Bank	F/Y	Investment In T .Bills	Total Liquid Assets	Inv.In T.B/ T.Liquid Assets Ratio
HBL	2002/03	2,588,562,224.00	4,666,000,000.00	55.48
HBL	2003/04	3,334,766,550.00	6,130,000,000.00	54.4
HBL	2004/05	2,781,700,000.00	5,151,784,000.00	53.99
HBL	2005/06	4,819,700,000.00	7,275,252,000.00	66.25
HBL	2006/07	4,565,320,060.00	7,287,952,396.00	62.64
NABIL	2002/03	2,517,317,913.00	3,600,505,762.00	69.92
NABIL	2003/04	1,593,339,152.00	3,408,310,000.00	46.75
NABIL	2004/05	2,193,314,736.00	4,082,433,000.00	53.73
NABIL	2005/06	664,627,668.00	2,092,435,000.00	31.76
NABIL	2006/07	1,222,468,660.00	3,587,609,191.00	34.07
SBL	2002/03	-	-	
SBL	2003/04	-	167,159,689.24	-
SBL	2004/05	38,275,560.00	284,951,775.73	13.43
SBL	2005/06	272,495,433.00	425,695,600.00	64.01
SBL	2006/07	394,589,670.00	610,535,976.00	64.63
LBL	2002/03	108,764,810.00	641,151,191.00	16.96
LBL	2003/04	205,750,600.00	589,315,506.00	34.91
LBL	2004/05	413,878,458.00	975,009,598.00	42.45
LBL	2005/06	395,456,760.00	814,470,219.00	48.55
LBL	2006/07	507,821,390.00	959,955,317.00	52.9

ANNEX G

Mean Ratio of Investment in Treasury Bills and Total Liquid Assets of HBL and Nabil Bank

Bank	Investment In T-Bills	Total Liquid Assets	Inv. In T.B\ T. Liquid Assets Ratio
HBL	18090048834	30510988396	0.59
NABIL	8191068129	16771292953	0.49
SBL	705360663	1488343041	0.47
LBL	1631672018	3979901831	0.41

ANNEX H

Liquidity Ratio, Income T- bill Ratio, ROA and RO

Bank	Mean Liquidity Rato	Income-T Bill/Total Income	ROA	ROE
HBL	25.72	8.67	1.15	22.61
NABIL	22.02	7.39	2.53	30.25
SBL	24.40	1.65	0.14	4.02
LBL	106.23	3.25	-4.64	3.49

ANNEX I

Weighted Arithmetic Mean

Bank	Cash Bank/C. Deposit	Cash Bank/ T. Deposit	Investment On T-bill/ T. Deposit	ROA	ROE	Inv. In T.B\ T. Liquid Assets Ratio
HBL	0.09	0.26	0.36	1.4	0.37	0.3
NABIL	0.06	0.19	0.24	3.07	0.5	0.25
SBL	0.28	0.16	0.2	0.17	0.07	0.24
LBL	0.56	0.4	0.2	-5.65	0.06	0.21
TOTAL	**1**	**1**	**1**	**-1**	**1**	**1**

ANNEX J

Weighted Arithmetic Mean Of Larger Banks And Smaller Banks

Bank	Cash Bank/C. Deposit	Cash Bank/T. Deposit	Investment On T-bill/T. Deposit	ROA	ROE	Inv. In T.B\ T. Liquid Assets Ratio
Larger	0.15	0.45	0.6	4.48	0.88	0.55
Smaller	0.85	0.55	0.4	-5.48	0.12	0.45
TOTAL	**1**	**1**	**1**	**-1**	**1**	**1**

ANNEX K

Statement of Treasury Bills maturing in 90 days and Total Liabilities maturing in 90 days.

[IN Millions]

Bank	Assets	T. liability	Money at call-Receivable	Money at call-Payable	T-bill
HBL	10342	8076	1005.28	4.61	1,550.00
NABIL	7241	3311.8	1734.9	87.87	456
SBL	1066.23	1033.48	100	33.52	-
LBL	1634.15	2862.56	50	950.12	-

ANNEX L

Statement of Treasury Bills maturing in 90 days and Total Liabilities maturing in 90 days.

[In Millions]

Bank	Assets	T. Liability	Money At Call-Receivable	Money At Call-Payable
Larger	8791.5	5693.9	1370.09	46.24
Small	1350.19	1948.02	75	491.82