CHAPTER – ONE

Introduction

1.1 Background of the Study

The return of any banks basically depends upon its sound lending policy, lending procedure and investing its fund in different securities and different sectors of market. A sound fund mobilizing policy is not only prerequisite for bank profitability but also crucially significant for the promotion of commercial saving of backward country like Nepal (Joshi, 2004:2).

Liquidity refers to that state of position of a bank that pronounces its capacity to meet its entire obligation. It refers to the capacity of bank to pay cash against deposits. People deposit money at the bank in different accounts with the confidence that the bank will repay their money when they need. To maintain such confidence of the depositors, the bank must keep this point in mind while investing its excess fund in different securities at the time of lending. So that it can meet current or short - term obligation when they become due for payment (Baxley, 1987:38)

Bank should always know the purpose of loan demanded by a customer because if the borrower misuse the loan granted by the bank he will never able to repay interest and principal. In order to avoid such circumstances, loans should be allowed to the selected borrowers and it should demand all the essential detailed information about the scheme of project in which the bank is lending for. Bank must keep in mind the overall development plans of the nation and the credit policy of the concerned authority i.e. Central Bank (Joshi, 2004:35-37).

Banking plays a significant role in the development of nations. Bank is a financial institution which primary classes in borrowing and lending. Modern bank prefers varieties of functions. Therefore, it is difficult to decide the function of a modern bank because of their complexity and versatility in operation. Various authors have defined the word ‘Bank’ in different ways. “A commercial bank is dealer in money and it substitutes

for money such a cheque or bills of exchange, it also provides a variety of financial service" (Britannica, 1985:600).

Commercial banks are major financial institutional, which occupy quite important place in the framework in every economy because they provide capital for the development of industry. Commercial banks formulate sound investment policies to make it more effective, which eventually contribute to the economic growth of country. The bound policies help commercial banks maximizing quality and quantity of investment and hereby achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and co-ordinate and planned efforts pushed forward the forces of economic growth.

The fund mobilization policy cannot be sound unless it is based on a clear knowledge of the cost of credit. The cost is determined by the quantity of credit sales, the average collection period and the opportunity cost of capital. Whilst a marginal costing approach should be used which takes only incremental cost into account, the full opportunity cost has to be considered. The overall cost of credit will also be affected by the expected rate of inflation. Foreign accurate assessment of the cost of capital, a discounting approach should be used. A credit package can be differentiated in various ways; by duration, by interest charge, and by the interaction with the rest of the pricing mix.

Credit is regarded as the most income generating assets especially in commercial banks. Credit is regarded as the heart of the commercial banks in the sense that; it occupies large volume of transactions; it covers the main part of investment; the most of the investment activities based on credit; it is the main factor for crating profitability; it is the main source of creating profitability; it determines the profitability. It affects the overall economy of the country. In today's context, it also affects on national economy to some extent. If the bank provides credit to retailer, it will make the customer status. Similarly, it provides to trader & industry, the government will get tax from them and help to increase national economy. It is the security against depositors. It is proved from very beginning that credit is the shareholder's wealth maximization derivative. However, other factors can also affect profitability and wealth maximization but the most effective factor

is regarded as credit. It is the most challenging job because it is backbone in commercial banks. Thus, effective management of credit should seriously be considered.

Generally fund mobilizing means cash flow in the different sectors at profit motive. In the broadest sense it means, the sacrifice of certain current value for future value or possibly uncertain value. This research focuses on the comparative study of fund mobilization of two JVBs; HBL and NABIL Bank Limited. The study focuses whether it is backward or forward in investing its fund efficiently in the business, industry and commerce. In this study HBL is compared with the Nabil Bank Limited on their future fund mobilizing activities by collecting seven years data from the year 1999/00 to 2005/06. Both banks have strong position in the market with new banking system and their activities.

Fund mobilizing is always related with risks and returns. It is appropriate to state that the objective is to make a lot of money by recognizing the possible losses. Fund mobilizing policy also involves the identification of the potential categories of financial assets for consideration in the ultimate portfolio (Joshi, 2004:4-7).

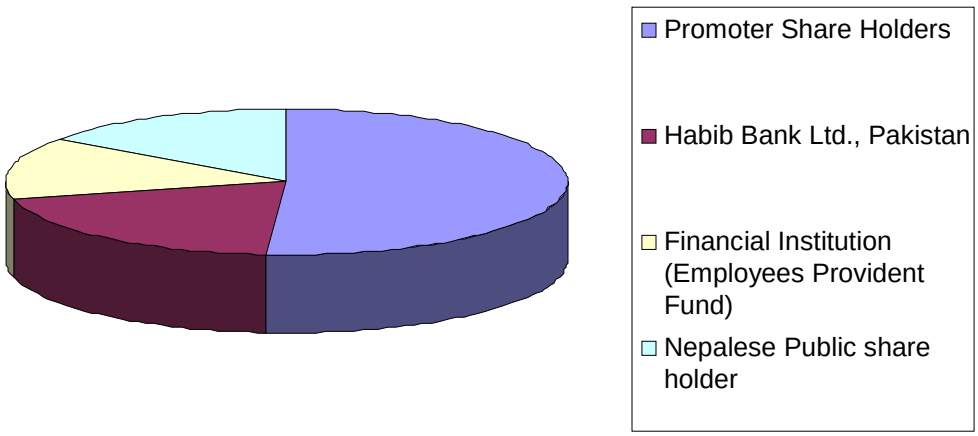
1.1.1 Himalayan Bank Limited

Himalayan Bank Limited was incorporated in 1992 A.D. by 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 was commenced from January 1993 A.D. and is the first joint venture bank managed by Nepali Chief Executive. Besides commercial activities, bank also offers industrial and merchant banking facilities. The ownership of HBL is composed as:

Table 1
Ownership of Share of HBL

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

Figure 1.
Ownership of Share of HBL



1.1.2 Nabil Bank Limited

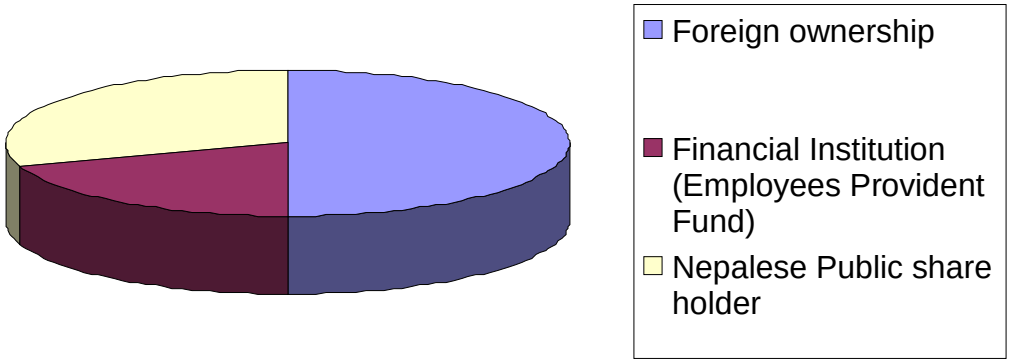
Nabil Bank Limited commenced its operation on 12 July 1984 as the first joint venture bank in Nepal. Dubai Bank Limited, Dubai (later acquired by Emirates Bank International, Dubai) was the first joint venture partner of Nabil. Currently, NB (International) Limited, Ireland is the foreign partner. Nabil Bank Limited had the official name Nepal Arab Bank Limited till 31st December 2001. Nabil is pioneer in introducing many innovative products and marketing concept in banking sector of Nepal. Now days Nabil bank has different cards like visa electronic debit card, local currency visa and

master card, USA dollar Master Card and foreign currency travel Master Card. The ownership of Nabil is composed as:

Table 2
Ownership of Share of NABIL

Subscription	% Holding
Foreign ownership	50%
Financial Institution (Employees Provident Fund)	20%
Nepalese Public share holder	30%
Total	**100%**

Figure 2
Ownership of Share of NABIL



1.2 Statement of the Problem

Fund mobilizing is most important factor for promoters, shareholders and managements. After 1984, several joint venture banks have been established in the country in a short period. Mushrooming of joint venture banks is the present situation of Nepalese financial system. There is high flow of money in the market but less viable and investible project.

Most of the commercial banks are continuously benefiting to shareholders and returning them adequate profit. There are few sectors to make a profitable investment and the investors are always reluctant to risk. Several JVBs have been established in our country with in short period of time. Fund mobilizing policy of JVBs may differ from each other but there is no optimum utilization of shareholder's fund to have greater return in any bank. Nepal Rastra Bank played important role to make commercial bank mobilize their fund in good sector. For this purpose, NRB has imposed many rules and regulations so the bank can have sufficient liquidity and security.

The insufficient information on financial risk, interest rate risk, management risk, business risk, liquidity risk, default risk and purchasing risk, granting loan against insufficient deposit, overvalued of goods pledged, land and building mortgaged, risk averting decision regarding loan recovery and negligence in recovery of overdue loan are some of the basic lapses and the result of unsound investment policy sighted in the banks. Currently there are nine JVBs banks operating in Nepal. NABIL and HBL have been collecting comparatively enough deposit from the beginning. They make profit by making proper investment in the form of loan and advance and mobilize the funds on government securities and bond or others.

Fund mobilizing is always related with risks and returns. It is appropriate to state that the objective is to make a lot of money by recognizing the possible losses. Fund mobilizing policy also involves the identification of the potential categories of financial assets for consideration in the ultimate portfolio. In this ground the study deals with the following issues:

a) Is there any relationship between investment and loan and advances with total deposits and total net profit?
b) What is the effect of the investment decision to the total earning of the bank?
c) Is there appropriate utilization of available funds?
d) Is there any stability in fund mobilization between HBL and NABIL?
e) Are they maintaining sufficient liquidity position?

1.3 Objectives of the Study

The main objective of the study is to analyze the fund mobilizing policy adopted by NABIL and HBL Bank Limited. The specific objectives of the study are as follows:

a) To measure the relationship of total deposits with total investment, loan and advances and net profit.
b) To evaluate the comparative growth ratio on total investment, loans and advances, total deposits and net profit of HBL and NABIL Bank Limited.
c) To evaluate financial and investment efficiency, profitability and liquidity position of HBL and NABIL Bank Limited.
d) To analyze the sources and uses of funds of HBL and NABIL Bank Limited.

1.4 Significance of the Study

Good and optimum fund mobilizing policy of a bank depicts the sound health of the bank and successfully formulation of fund mobilizing policy and its effective implementation is a most in banking business. This study will be helpful to all banking sectors in mobilization of collected funds from public in following manner:

i. The study of fund mobilizing policy would provide information to the management of the bank that would help there to take corrective action in the field of banking activities.
ii. The study would provide information to the shareholders about investment on shares of various banks.
iii. The study would help the depositors to make proper decision about making deposit on their money in the concerned bank.
iv. General public can also get information about mobilizing activities of a bank with the help of the study.
v. Government gets help while formulating policy from this study.
vi. The study would help the student to get knowledge about the banking activities.

1.5 Limitation of the Study

This study has been limited by following factors:

a) The whole study is based on secondary data from the bank and accuracy depends upon the information provided by the organization.
b) The study concerns only a period of seven years from 1999/00 to 2005/06 and conclusion drawn confines only the above period.
c) The study lacks in time and other resources as well.
d) Only two joint ventures banks are considered as pioneer in the banking business of Nepal to compare each other.
e) There are many factors that affect fund mobilizing decision and valuation of the firm. However, only those factors that are related with fund mobilization will be considered in this study.

1.6 Organization of the Study

The study has been divided into following five chapters:

Chapter- One: Introduction
Chapter- Two: Review of Literature
Chapter- Three: Research Methodology
Chapter- Four: Data Presentation and Analysis
Chapter- Five: Summary, Conclusion and Recommendations.

The first chapter deals with the introduction consisting, background of the study, statement of the problem, objective of the study, significance of study, limitations of the study and organization of the study.

The second chapter is mainly focused with literature review that includes a discussion on the conceptual framework on fund mobilization and review of previous studies i.e. books, journals, articles, dissertation etc.

The third chapter describes the research methodology used to conduct the present research. It deals with research design, sources of data, data processing procedures, population and sample, period of the study, method of analysis and financial and statistical tools.

The fourth chapter deals with presentation, analysis and interpretation of relevant data through definite courses of research methodology using various financial and statistical tools and at the end of chapter major findings of the study have been presented.

The fifth chapter is the last part of study, which is related to summary, conclusion and recommendations of the study and at the end of the study bibliography and appendices have been included.

CHAPTER - TWO

Review of Literature

Review of literature refers to the reviewing of the past studies in the concerned field. The chapter has been divided into main two parts. The first part of chapter related to the conceptual framework of the study and the second part is related to the review of previous studies.

2.1 Conceptual Framework

The banking industry offers a wide range of services encompassing the needs of public of different walks of life. It has acquired a key position in mobilizing resources for finance and social economic development of a country. “Bank assists both the flow of goods and services form the products to the consumers and the financial activities of the government. Banking provides the country with a monetary system of making payments and is an important part of the financial system, which makes loan to maintain and increase the level of consumption and production in the economy” (American Bankers Association, 1972:162).

The development of the country is always measured by its economic development through economic indices. Therefore, every country has given emphasis on upliftment of its economy. Now a day the financial institution is viewed as catalyst in the process of the economic development through mobilization of domestic resources. The financial institutions act as intermediaries by transferring the resources from the point of surplus to the deficit. A new organized financial institution including financial companies, commercial banks and other financial intermediaries play an important role for the development of a country. They collect scattered financial resources from the mass and invest them among those who are associated with the social, commercial and economic activities of a country. The most dominant financial institution in the economy of Nepal is non-other than the commercial bank itself. This institution offers the public both deposit and credit services. Commercial Bank plays an important part for economic development of a country as they provide capital for the development of industry, trade

and business by investing the saving collected as deposits from the public. They render various services to their customer facilitating their economic and social life. Therefore, a competitive and reliable banking system is essential in every country for their growth and development.

A joint venture is forming of two forces between two or more enterprises for the purpose of carrying out a specific operation (Gupta, 1984:15-25). Joint venture banks are the commercial banks formed by joining the two or more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industry as well as in the form of negotiation between various group of industries and traders to advice mutual exchange of goods and services. “Joint venture banks are the mode of trading to advice mutual exchange of goods and services for sharing competitive advantage by performing joint investment scheme between Nepalese investors, financial and non-financial institutions as well as private investors and their parent banks each supplying fifty percent of the investment. The parent banks, which have experiences in highly merchandised and efficient modern banking services in many parts of the world have come to Nepal with higher technology, advance management skills. Joint venture banks are established by joining difference forces and with ability to achieve a common goal with each of the partners. They are more efficient and effective monetary institution in modern banking fields than other old types of bank in Nepalese context (Udas, 2001:55). The primary objective of the joint venture banks is always to earn profit by investing or granting the loan and advances to the people associate with trade, business and industry etc. that means they are required to mobilize their resources properly to acquire profit. How well a bank manages in investment, has a great deal to do with the economic health of the country because the bank loans support the growth of economic activities of the country (Udas, 2001:56)..

Nowadays there is very much competition in banking market but less opportunity to make investment. In this condition, joint venture bank can take initiation in search of new opportunities, so that they can survive in the competitive market and earn profit. But investment is a very risky job. For a purposeful, safe, profitable investment bank most follows sound investment and fund mobilizing policy. Nepal entered in the world of

banking with the establishment of Nepal Bank Limited in 1937 A.D. In 1955 A.D. the first central bank named as the "Nepal Rastra Bank" was established with the objective of supervising, protecting and directing the functions of Commercial Banks. Just ten years later in 1966 A.D., another commercial bank fully owned by government named Rastriya Banijya Bank was established under the 'Banijya Bank Act' 1964 A.D.

With the purpose of enhancing agriculture development, Agriculture Development Bank (ADB/N) was established under ADB/N Act 1967 A.D. ADB/N provides banking services in some urban area of Nepal as that of other commercial banks. Long after the establishment of above-mentioned commercial banks, in 1980s government of Nepal introduced financial sector reforms, which facilitated the establishment of joint venture banks and pointed a new horizon to the financial sector of Nepal. The number of commercial banks increased dramatically after the democratically elected government adopted the liberal and market oriented economic policy. At present there are twenty five commercial banks operating in the Nepal which are as follows:

1. Nepal Bank Limited.
2. Rastriya Banijya Bank.
3. Nabil Bank Limited.
4. Nepal Investment Bank Limited.
5. Standard Chartered Bank Nepal Limited.
6. Himalayan Bank Limited.
7. Nepal SBI Bank Limited.
8. Everest Bank Limited.
9. Bank of Kathmandu Limited.
10. Nepal Credit and Commerce Bank Limited.
11. Lumbini bank Limited.
12. Nepal Industrial and Commercial Bank Limited.
13. Machhapuchhre Bank Limited.
14. Kumari Bank Limited.
15. Laxmi Bank Limited.
16. Siddhartha Bank Limited.
17. Nepal Bangladesh Bank Limited.
18. Agricultural Development Bank Limited

19. Global Bank Limited
20. Citizen Bank International Limited
21. Sunrise Bank Limited
22. Bank of Asia Nepal Limited
23. Prime Commercial Bank Limited
24. NMB Bank Limited
25. Development Credit Bank Limited

The above mentioned commercial banks are operating and providing their services to different sector of Nepal. Among them nine banks are joint venture banks. Joint venture banks have been contributed a lot towards the promotion and expansion of both export and import trade. They provide both pre-shipment and post-shipment finance to exporters. Since, these banks are new, urban based and managed by foreign management they started their operation with automated system which could easily attract the elite group of business community due to their prompt service modern management. In this way joint venture banks, increase in foreign investment promoted and expand export and import trade, introduce new techniques and technologies. All these reveals vital role and needs of joint venture in Nepalese Banking sector on financial service industry. This study focuses on fund mobilizing policy of a Himalayan Bank Limited in comparison to Nabil Bank Limited.

2.1.1 Commercial Banking Scenario in Nepal

The history of modern financial and monetary development in Nepal is not very old. It was in 1937 that the first commercial bank (Nepal Bank Ltd.) was established in Nepal with 51% Government equity. With increased banking needs of the economy, the second commercial bank, Rastriya Banijya Bank came into existence in 1966 with 100% Government ownership in early 1980s to meet the need for healthy competition in the financial system.

Nepal allowed the entry of joint venture banks with a maximum of 50% equity participation; Nepal Arab Bank Ltd. was the first bank to be set up under such arrangement in 1984. Commercial banks are considered second types of banks. These banks have been playing a great role for the economic development of the country

directly or indirectly. During mid 1980s they adopted the policy of liberalization, which attract the foreign banks to come to Nepal. In 1984, Nabil Bank Ltd. was established as the first joint venture bank. After the restoration of democracy in 1990, Nepal adopted democratic constitution that was lauded as the best social – legal document in the world (Business law Journal, 2003:10).

There should be the establishment and extension of banks for the economic growth because it provides loan to the different sector of the country. In actual sense, the banks are centralized in urban area in developing country because they are inspired with the purpose of earning profit and also the security problem. Commercial banks invest against the guarantee of Nepal government or any foreign government or against the security of movable or immovable property. They provide loans on the basis of co- financing according to the agreement concluded among the banks and financial institution so on as to divide the collateral. The number of extensions of the above mentioned banks are Nepal Bank Ltd.- 117, Rastriya Banijya Bank - 116, Nabil Bank Ltd.- 18, Nepal Investment Bank Ltd.- 16, Standard Chartered Bank Nepal Ltd.- 14, Himalayan Bank Ltd.- 14, Nepal SBI Bank Ltd.- 11, Nepal Bangladesh Bank Ltd.- 07, Everest Bank Ltd.- 20, Bank of Kathmandu Ltd.- 08, Nepal Credit and Commerce Bank Ltd.- 12, Lumbini Bank Ltd.- 06, Nepal Industrial and Commercial Bank Ltd.- 04, Machhapuchhre Bank Ltd.- 05, Kumari Bank Ltd.- 04, Laxmi Bank Ltd.- 07, Siddhartha Bank Ltd.- 04, total 381 branches are held in all over the country (Banking and Financial Statistics, 2006:35).

Conceptual framework describes the following terms that are closely related with the topic of this study.

2.1.2 Fund Mobilization Policy

The return of any banks basically depends upon its sound lending policy, lending procedure and investing its fund in different securities and different sectors of market. A sound fund mobilizing policy is not only prerequisite for bank profitability but also crucially significant for the promotion of commercial saving of backward country like Nepal (Joshi, 2004:35).

Features of Sound Lending Policy

There are basically five principles for the sound lending policy:

1) Liquidity: - Liquidity refers to that state of position of a bank that pronounces its capacity to meet its entire obligation. In other words, it refers to the capacity of bank to pay cash against deposits. People deposit money at the bank in different accounts with the confidence that the bank will repay their money when they need. To maintain such confidence of the depositors, the bank must keep this point in mind while investing its excess fund in different securities at the time of lending. So that it can meet current or short - term obligation when they become due for payment.

2) Safety and Security: - Bank must take care while investing its fund. It should never invest its fund in those securities, which are too volatile since a small change causes a great loss. The bank should accept that type of securities, which are commercial, durable, marketable and of high market value. For this purpose, MAST should be followed:

M= Marketability
A= Ascertain ability
S= Stability
T= Transferability

3) Profitability: - Commercial banks invest on those sectors that derive the maximum income. Hence the investment or granting of loan and advances by them are highly influenced by profit margin. Generally the profit of commercial banks depends upon the interest rate of the bank, volume of loan provided, time period of loan and nature of investment on different securities.

4) Suitability: - Bank should always know the purpose of loan demanded by a customer because if the borrower misuse the loan granted by the bank he will never able to repay interest and principal. In order to avoid such circumstances, loans should be allowed to the selected borrowers and it should demand all the essential detailed information about the scheme of project in which the bank is lending for. Bank must keep in mind the overall development plans of the nation and the credit policy of the concerned authority i.e. Central Bank.

5) Diversification: - Diversification reduces the risk of recovery. The bank must not invest the funds in specific sector but to the various sectors so that when something goes wrong in one particular sector other will recover (Joshi, 2004:37-42).

2.1.3 Some Important Terms

In this section of the study, efforts have been made to clarify the meaning of some important terms frequently used in this study. They are presented below:

1) Deposits: - Basically deposits mean the amount deposited in a current saving or fixed account of a bank or a financial institutions. Deposit is the main sources of a fund that bank usually uses for the generation of profit. Therefore, the efficiency of the banks depends on its ability to attract deposits. Deposit being the borrowed amount from the depositors or from general public, it constitutes the liability of bank. The deposits of a bank are affected by the various factors. They are as follows:

a) Types of customers.
b) Physical facilities of Bank.
c) Management accessibility of customers.
d) Interest rate paid on deposits.
e) Types and ranges of services offered by the Bank.
f) The prevailing economic condition of the country.

2) Loan and Advances: - This is the primary sources of income and most profitable assets of a bank. A bank is always willing to lend as more as possible since they constitute the larger part of revenue. But bank has to be more careful while providing loans and advances since they may not be realized at short period of time. Sometimes they may turn into bad debts. Fund borrowed from banks are much cheaper than borrowed from unorganized moneylenders. Loans and advances are provided against the personal security of the borrower or against the security of the immovable and moveable properties. Banks provide loans in various forms: overdraft, cash credit, direct loans and discounting bills of exchange. In addition to this, some portion of loan and advances and

overdraft includes that amount which is given to the staff of the bank as house loan, vehicle loan, personal loan and other (Joshi, 2004:65).

3) Investment on Government Securities, Shares and Debentures: - Though a commercial bank can earn interest and dividend from the investment on government securities, shares and debentures, it is not the major portion of income. But it is treated as a secondary source of banking business.

4) Investment on Other Company's Shares and Debentures: - Commercial banks invest their excess funds to the shares and debentures of the other company. They generally do so when there is excess of funds than required and there is no alternative opportunity to make investment in the profitable sector. Now days the commercial banks of Nepal have purchased shares and debenture of Regional Development Bank, NIDC and other Development Banks etc.

5) Other Uses of Funds: - Commercial banks must maintain the minimum balance with a NRB i.e. 6 % for fixed deposits and 8 % for each of current and saving deposit account in local currency. Similarly 3 % cash balance of local cash balance of all local currency accounts must be maintained in the vault of the bank. Again a part of the funds should be used for bank balance in foreign bank and to purchase fixed assets like land, buildings, furniture, computers, stationery etc.

6) Off - Balance Sheet Activities: - Off-balance sheet activities cover the contingent liabilities. These activities are not recognized as assets and liabilities in balance sheet. They are LC, Guarantee, Commission, and Bills for collection etc. These activities are very important, as they are the good source of profit to the bank though they have risk (Joshi, 2004:67).

2.1.4 New Policy Conducted by Nepal Rastra Bank for the Establishment of Commercial Banks

1. **About Paid up Capital**
   a) It requires Rs.2000 million paid up capital for national level new commercial banks to be operated.

b) To establish the commercial banks in the entire kingdom except the Kathmandu Valley, the paid up capital should be Rs.250 million.

c) Usually founders can take 70% of the share capital of commercial banks and should sell 30% share capital to the public. Foreign bank can invest 67% amount in the share capital for national level opening bank. If foreign bank takes fifty percent share of a bank, should sell only 20% of share to the general public to provide investment opportunity to Nepalese Founder.

d) In case of commercial banks to be established out of valley, share investment of promoters and general public should stand 70% and 30% respectively.

e) The operating bank or the agreement letter receiver bank should manage the capital up to 2066 B.S. Ashad as the rule and paid up capital should increase by minimum 10% per year.

f) Banks, which are established in the participation of foreign founder have also to be registered fulfilling all the legal process of Act under current Nepalese Act.

g) Those banks which are established out of valley, they can operate their banking activities in Kathmandu by increasing to Rs.1000 million paid up capital when they complete the minimum three years banking activities with satisfactory. Bank cannot open any kind of office inside the valley, which have not taken permission to operate banking activities in all over Kingdom.

h) Of the total committed share capital, the promoters has to deposit in NRB an amount equal to 20% along with the application and another 30% at the same time of receiving the letter of intent on a interest free basis. The bank should be operation with in one year of receiving letter of intent. Founder should paid remaining amount of share capital before operation of the bank. Usually NRB should give decision in 'YES' or 'NO' form to establish the bank and if No, NRB should give the written information to the concern party with reason (Rastra Bank Samachar, 2006).

2. About the Qualification of Founder

i) NRB does not take any action over the application of those founders, who fails to pay the loan of financial organization, who has not cleared such loans or

those in the black list of the Credit Information Bureau and 05 years have not elapsed from the date of removal of their name from such list.

ii) Out of total founders, one-third founders should be minimum graduate from Tribhuwan University or other teaching organization which are affiliated from Tribhuwan University on major subject like economics, law, account, finance, banking and statistics or who have the certificate of Chartered Account and minimum twenty-five percent founders should have an experience on bank or finance companies or business experience.

iii) The person cannot be a director of the license holder banks or finance company from NRB and who is a director in any bank or finance company.

iv) The person cannot be a director of a bank or finance company who is working being an auditor of security broker, market maker and bank or the organization who operates financial activities (Rastra Bank Samachar, 2006).

3. About the Sell of Founder-Share

a) The share of founder group can be transferred and sold after three years of bank operation by listing at stock exchange and by selling the public share. It should require taking permission from Nepal Rastra Bank to sell the founder share.

b) The share allotted to the general public has to be issued and sold within 3 years from the date. The bank cannot issue bonus shares or declare and distribute dividends to the shareholders of the promoters group and their family members cannot have access to loans or facilities from the same institution. A family members means husband, wife, son, daughter, adopted-son, adopted-daughter, father, mother, stepmother, stepfather.

4. Policy of Branch Expansion

The bank which has central office in Kathmandu valley can open a main branch in the valley and it can open another branch in the valley after establishing two branches out of the valley (Economic Survey, 2003).

2.1.5 Fund Mobilizing Procedure of Joint Venture Banks

Every bank has its own fund mobilizing procedure. Generally, the bank adopts such procedures which are easy, quick and effective in practice. The different types of fund mobilizing procedure adopted by banks have been presented as following:

1. Sources of Fund

In the economic activities there are so many sources of fund. The sources of funds can be categorized in two ways.

A) Owned fund / Equity capital: - Following are the sources of owned funds:

I) Ordinary Shares: - Ordinary shares are the bank's a strong and reliable source of funds. Bank promoters issue ordinary shares to the public in fixed number. Banks collect the fund by selling fixed ordinary shares to the public, by adopting fixed rules and regulations. These public make shareholder after purchasing the issued share

II) Preference Shares: - A Preference share means a type of shares, which receive dividend after liquidation before ordinary shares. But in some situation it can issue preference share by taking permission from Nepal Rastra Bank. If Nepal Rastra Bank gives the permission bank can collect the fund by issuing preference shares.

III) Bonus Shares: - Bonus share means the extra share to the share holder from the saving from profit and reserve fund of the company. Banks issue shares to the shareholders instead of dividend. From bonus share, bank collects some share of funds.

IV) Retained Earning: - Bank earns profit by investing the funds in different sector through the principle of profit earning. Banks invest its fund in productive or profitable industries and business. Bank earns some amount from these investments. These earnings called bank's funds.

V) Reserve Funds: - Bank separates some share of capital in reserve funds in the time of banking activities. The reserve funds size based on banks earning and rules and regulation. Banks must separate some share of amount from profit in reserve fund. Banks

have been earning by investing the reserve funds in liquid sector. So the reserve funds are also kinds of sources of funds.

VI) Undistributed Dividends: - Banks do not distribute all profit to the shareholders. Banks invest some amount from profit by not distributing to the shareholders. By this, the invested profit makes sources of funds to the banks (Baxley, 1987:42).

B) Borrowed Fund of Bank: - Except owned funds, banks collect the funds from another source. These types of funds collect borrow and debt capital. Following are the sources of borrowed fund of bank.

I) Deposits: - The receipt of the deposits and granting loans, these are the two – fold functions which is performed by the bank. The bank borrows money by accepting different types of deposits. It not only undertakes to take care of the deposits but also agrees to honour the demand of the depositor for withdraw of money from the deposits. Deposits accepted by the bank are of different types current, saving and fixed deposits.

- **Current Deposits**

Current deposits are also known as demand deposits. The deposit in which an amount is paid immediately at the time of any account holder's demand is called demand deposit. Though the bank can't gain profit by investing it in new sector after taking from the customer, this facility is given to the customer. Therefore, the bank does not give interest on this account. A customer can open a current a/c with a bank by making an initial of Rs.1000. Any amount may be deposited in this account. The bank makes small charges on the customer having current deposit account.

- **Saving Deposits**

In saving deposits, there is restriction on the maximum amount that can be deposited and also withdrawals from the account. The bank may not permit more than one or two withdrawals during a week. This deposit is suitable and appropriate for the people of middle class who have low income and small saving. The bank usually pays small interest to the depositor against their deposit.

- **Fixed Deposits**

Fixed deposit is the one, which a customer is required to keep a fixed amount with the bank of specific periods, generally by those who do not need money for the stipulated period. She/he is not allowed to withdraw the amount before expiry of the period. The rate of interest is higher than other deposit. The bank pays a higher interest on such deposit.

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

III) Loan From the Central Bank: - Nepal Rastra Bank is the central bank of Nepal. It is known as bank of banks. All banks should operate their banking activities by maintaining the rules and regulations directed by NRB. Central bank provides loan to the banks if needed. The loan provided by the central bank is a bank capital.

IV) Loan From the Financial Institution: - Banks can receive loans from financial institutions in the form of borrowing. Financial institutions also provide loan for the banks. The loan granted by the financial institutions is also a bank capital.

V) Loan From Commercial Bank: - Bank receives loans from other bank in the form of borrowing when needed. Bank solves the money problem of other banks by providing loan. That is also a type of bank capital (Baxley, 1987:43-45).

2. Mobilization of Funds

Banks mobilize their funds into suitable and profitable sector. Bank cannot get its aim of profit earning without mobilizing its fund in right sectors and different activities. Banker being financial intermediary, we will not able to make any profit unless he has to pay interest on deposits, meet establishment expenses, meet liquidity of cash balance, and yet allow him some balance from out of which he can build reserve and pay dividend to the shareholder.

Commercial banks expect to make a profit. If there is no profit, there will be unfavorable criticism against public sector banking, both in and outside the parliament when these banks are asked to open new branches in areas which do not allow profits for years, or asked to grant loan to the priority sectors such as small industries and agriculture with a high incidence of bad debts, there is need for counter balancing profit from elsewhere. Therefore, these banks will have to show an ascending order of profit in order to ensure growth with stability. For this purpose the bank will have to allocate land able resources to different segments in such a manner these banks can ensure adequate profitability while at the same time responding to the policy laid down in accordance with national purpose. Bank should separate the useful and profitable sector for mobilizing their funds (Adhikari, 2002:54).

Therefore bank should mobilize its funds in suitable and profitable banking activities. Mainly a bank has mobilized its funds in following activities:

1) Liquid Funds: - A bank has kept a volume of amount in liquid funds. These funds have so many responsibilities in banking activities. Liquid funds has covered the following transactions(Adhikari, 2002:55):
    - Cash in hand
    - Balance with Nepal Rastra Bank
    - Balance with domestic bank
    - Call Money
2) Investment: - Bank invests its fund in different banking activities and different fields. Bank invest its funds in following titles:
    - Government Securities
    - Share Debenture
    - NRB Bond
    - Joint Venture
3) Loan and advances: - Bank mobilizes its funds by providing different types of loan and advances to customers, by charging fixed interest. Different types of loan and advances are
    - To government enterprises

- To private enterprises

Bank provides different types of loan as business loan and traditional loan to the priority area.

4) Fixed Assets: - Land and Buildings are essential for the establishment of bank. Bank's funds are used in buying of furniture, vehicles, computer and other concerned instrument, which are related to banking activities. A bank has need of fund to purchase fixed assets for the expansion of the bank.
5) Administrative and Miscellaneous Expenses: - Bank should manage a fund for administrative and other miscellaneous expenses. Different types of administrative expenses are as follows (Adhikari, 2002:56):

   - Salary of Employees
   - Allowances
   - Pension
   - Provident Fund
   - Advertisement
   - Stationary
   - Rent
   - Income Tax
   - Donation or Charity
   - Insurance
   - Commission
   - Tour Expenses

Different types of miscellaneous expenses

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

In this way, bank mobilizes its funds in different activities to achieve its goal of earning profit.

2. 2 Review of Empirical Studies

Finance company utilizes its funds in suitable area. Finance company cannot get its aim of profit earning without mobilizing its funds in right sectors and different activities. It is from out of the interest it earns on loan and advances, it has to pay interest on deposits, meet establishment expenses, meet liquidity of cash balance and yet allow some balance, out of which it can build reserve and pay dividend to the shareholder.

An investment may be defined as the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time the funds are committed for the expected rate of inflation and also for the uncertainly involved in the future flow of the funds (Reilly, 1998:3).

Investment in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all and the magnitude is uncertain. In some cases, the element of time predominates (e.g., government bond). In other cases risk is the dominant attribute (e.g., call option on common stock). In yet both time and risk are important (Sharpe, 1996:1).

The investment objective is to increase systematically the individual's wealth, defined as assets minus liabilities. The higher the level of the desired wealth the higher must be received. An investor seeking higher return must be willing to face higher level of risk (Cheny and Moses, 1983:13).

The commercial banks fulfill the credit needs of various sector of the economy including agriculture, industry, commercial and social service sectors. The lending policy of commercial banks is based on the profit maximizing of the institution as well as the economic enhancement of the country (Shrestha, 1995:15).

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

V. K. Bhalla has given the basic concept of investment in three points.

a. Economic investment – that is an economic definition of investment.
b. Investment in a more general or extended sense which is used by the man of the street.
c. The sense in which we are going to be very much interested namely financial investment.

Banks are those institutions, which accept deposit from the public and in return provide credit to trade, business and industry that directly makes a remarkable impact on the economic development of a country. To collect fund and utilize it in good investment is very risky job. Ad-hoc investment decision leads the bank out of the business there by downing the economic growth of the country. Hence sound investment policy of the bank is another secret of a successful bank. (Bhalla, 1997:2).

A sound investment policy of a bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to the depositors and bank on the other hand. Moreover, risk in banking sector tends to be concentrated in the loan portfolio, when a bank gets into serious financial trouble its problem usually spring from significant amount of loan that have become un-collectible due to mismanagement, illegal manipulation of loan, misguided lending policy or unexpected economic downturn. Therefore the banks investment policy must be such that it ensures sound and prudent in order to protect public funds (Bhatta, 1999:46).

Further in details he deals with what type of loan do banks make? The banks make a variety of loans to a wide variety of customers for many different purposes from purchasing automobile to construction of homes and making trade with foreign countries. There is no uniform rules can be laid down to determine the portfolio of bank. The environment in which the bank operates is influenced by its investment policy. The nature and availability of funds and assets also differ widely from country to country and also from region to region within a country. For example, the scope of bank operating in Jumla will be different from the scope of bank operating in Kathmandu. The investment policy to be applied in Kathmandu may not be applicable to the customer of Jumla because the demand of loans is less in rural areas whereas it is higher in urban areas (Bhatta, 1999:46-47).

2.3 Review of Nepalese Studies

Articles, journals and bulletins are the great significance for conducting research study, so various published articles by different management experts and journals / bulletins relating investment policy of commercial banks has been analyzed for analyzing the fund mobilizing policy.

Shrestha (1997) in her study entitled “Lending operation of commercial banks of Nepal and its impact on GDP.” She has concluded that bank portfolio (loan and investment) of commercial banks has been influenced by the variable securities rates. Investment planning and operation of commercial banks in Nepal has not been found satisfactory in terms of profitability, safety, liquidity productivity and social responsibility. To overcome this problem she has suggested “Commercial banks should take their investment function with proper business attitude and should perform lending and investment operation efficiently with proper analysis of the project.

Pradhan (1998) in his study entitled “Financial Management Practices in Nepal.” He had carried out by the survey of 78 enterprises. He got some of the main features of the Nepalese financial management. He says that, “the most important finance function appeared to be working capital management. The last important one appeared to be maintaining good relation with stakeholder. The finding reveals that banks and retained earning are two most widely used financing sources. Most enterprises do not borrow from one bank only and they do switch between banks to banks whichever offers best interest rates. Most enterprises find that banks are faxable in interest rate. Among the banks loan, bank loan of less than one year are more popular in public sector where as banks loan of 1 to 5 years are more popular in private sector. In period of light money, the majority of private sector enterprises fell that bank will treat all firm equally while public sector does not feel so. Similarly he concluded that the majority of enterprises in traded sector find that bank's interest rate is just right while the majority of non-traded sector find that the some is one higher side.

Pradhan (2053) in his study entitled “Deposit mobilization, its problem and prospects”. He has presented a short glimpse on investment in different sector, its problem and

prospects through his article. On his article, he said that, “Deposit is the life blood of any financial institution, be it commercial bank, finance company, co-operative or non government organization”. He has added, In consideration of ten commercial banks, nearly three dozen of finance companies, the latest figure does produce a strong feeling that a serious review must be of problem and prospects of deposit sector. Besides few joint venture banks, other organizations rely heavily on the business deposits receiving and credit disbursement.

In the light of this Mr. Pradhan has pointed out following problems of deposits mobilization in Nepalese perspective:

a) Due to lack of education, most of Nepalese people do not go for saving in institutional manner. However, they are very much used of saving, be it in the form of cash, ornament or kind. Their reluctance to deal with institutions system are governed by their lower level of understanding about financial organization, process requirement, office hour withdrawals system availability of depositing facilities and so on.
b) Due to the lesser office hour of banking system people prefers for holding the cash in the personal possession.
c) Unavailability of the institutional services in the rural areas.
d) No more mobilization and improvement of the employment of deposits in the loan sectors.

Mr. Pradhan has not only pointed out the problems but also suggested for the prosperity of deposit mobilization. They are given as:

a) By cultivating the habit of using the formal sector for transactions must be a priority and continuous educational programme.
b) By adding service hour system will definitely be an appropriate step.
c) By providing sufficient institutional service in due rural areas. If deposit mobilization, materialize, that should be taken as major achievement as this generated fund can be used somewhere by the bank. NRB could endorse this

deposit collection by continuing to subsidize overhead cost far little longer period. A full scale of field office system could be taken back and modes manpower strength deputed to cut down overhead cost.

d) NRB could also organize training program to develop skilled manpower.
e) By spreading co-operative to the rural areas mini banking services are to be launched.
f) The scheme of mobilizing the deposit in the form of free personal accident insurance, deposit insurance may be fruitful. Not only waiting far potential customer it is better to reach to the potential depositors.

At last, Mr. Pradhan mentioned deposit mobilization carried out effectively is in the interest of depositors, society, financial sectors and the nation. Lower level of deposit rising allows squeezed level of loan delivery leaving more room to informal sectors. That is why higher priority to deposit mobilization has all the relevance.

Competition between joint venture banks made them to collect large amount as deposit. In the same way, Nepal's two joint venture banks NABIL and HBL are positioned among 500 biggest bank of Asia region. This evaluation is based on the total assets, loan investment, net income and profit and investment on shares (Kantipur, 2001).

Adhikari (2002) in his study entitled “Inter Bank Business in Nepal”. According to him inter bank market is the mainstay of the banking business. The inter-bank market serves as a wholesale market for banks. The inter-bank market has come up to enable banks to fund liquidity for their growing fund requirements. Except during times of tight liquidity situation, funds are always available at price. Inter-bank transaction are conducted not only with in the domestic money market, but it can be done in all financial cities Tokyo, London, New York, Hong Kong, Dubai Paris, Frankfurt and others. Due to time difference in this financial center, the marketers are open for about 24 hours. The marketers start its business right from Tokyo, followed to Singapore, Hong Kong and Nepal then to Europe, Canada and America and again start from Tokyo from next day.

Types of Inter-bank transaction,

He has presented two types of transaction in the article.

1. Deposits (Placement)/Loans (Borrowings)
2. Foreign Exchange

He has presented about inter bank dealing operation-"the dealers deal with each other as per the guideline of the NRB and prescribed by their own management. For the smooth operation of inter bank transaction, Foreign Exchange and Money Dealer's Association of Nepal (FEDAN) has also sets rules and regulation for the members banks. A few aspects of inter bank dealing operation are presented here under.

- Position
- Nostro Accounts
- Inter-Banks deposits (Placement)
- Inter-banks sales and purchases

He has explain about function of inter banks market and looking ahead, “the inter banks market works as intermediaries function in the flow of funds. It enables banks to take speculation and or hedging position against interest rate and exchange rate movements. A major function of inter-banks market is to enable banks to cope up with the lumpiness of wholesale, sized deposits and loans and also plug up holes in the balance sheet. Unwanted deposits can be laid down of to other needy banks. Funds, needed to support lending can be bid in the inter-bank market. Inter banks market gives confidence that funds to meet balance-sheet contingency. In addition, the inter-banks enable the risk lending to be spread among other banks.

The size and the volume of Nepalese inter bank transaction is very small. Out of different commercial banks, only three banks are foreign exchange sellers while other banks are purchasers in the inter banks business. Likewise, only one bank is accepting foreign exchange deposit from other banks. Forward sale contract of foreign exchange for customers are yet to be started by country's larger two old banks. These two banks, which have mobilized their more than 50% of deposits and extended about 60% of loans have also yet started, inter bank placement transaction. A limited number of hedging tools like; spot purchases and sale of foreign exchange and forward sale of foreign exchange swaps

contracts were done between few banks. Recently, in view to take benefit from prevailing higher rate of interest in loan term placements. NRB has permitted commercial banks entering into interest swap contracts. It is hoped that after the hand over of the management of two larger old banks to the international experts, the inter bank market will be more efficient and comparative. Without active participation of these two banks in the inter bank, the inter bank business in the country could not work properly.

Bhatta (1999) in his article entitled "Financial Policies to prevent financial crisis" has given more emphasis on Nepalese financial market sector. He has mentioned the financial crisis occurred in China, Mexico, South Asia, Russian Federation, Equador Brazil and Argentina. This crisis affected all these economic by posing negative effects in their real output. He had also focused on Nepalese financial market, which is directly affected by the national and international events. The most affected event was 11, September incident in USA, have added more to the fragility in the global financial market. In present context in many parts of the world, the move towards liberalization is getting its momentum on one hand and the process of economic development is being threatened due to various unanticipated incidents on the other. He has defined a financial crisis is a description to financial market in which adverse selection and moral hazard problems become much worse, so that financial markets are unable to efficiently channel funds to those who have the most productive investment opportunities.

He has given light on the dynamics of financial crisis dividing it into three stages. Also he has suggested the policies to prevent financial crisis. Following policies are supposed to be applicable for preventing financial crisis:

a. Prudential supervision
b. Accounting standards and disclosure requirements
c. Legal and Judicial system
d. Monetary policy and price stability
e. Exchange rate regimes and foreign exchange reserves
f. Capital controls
g. Restriction on foreign denominated debt

h. Reduction of the role of the state owned financial institution
i. Encouraging market based discipline
j. Entry of foreign banks
k. Limitation of too-big-to fail in the corporate sector
l. Sequencing financial liberalization etc.

Lastly, he has concluded that there is no doubt that the key to preventing future financial crisis is to implement sound domestic economic policies and build robust financial institutions. The experience of the crisis hit countries, especially during the decade of nineties, has proved that a country opening to liberalized economic policy should adopt sequencing policies constraining the pace of participation in the global market place until a sound domestic infrastructure can be put into place.

Sapkota (2000) in his study entitled "A study on Fund mobilizing policy of Standard Chartered Bank Nepal limited in comparison to other two joint venture banks i.e. HBL and NBBL" in the year 2000 has made conclusion that the liquidity position of SCBNL was not satisfactory. Loan and advances and cash and bank balance ratio seems too weak than NBBL and HBL. Investment on share and debenture and interest earning power on total working fund seems also weaker than NBBL and HBL. Growth ratio of deposits, loan and advances, investments, net profit seems too weak in comparison to NBBL and HBL. The relation of investment and loan and advances with deposits seems positive and the relation of net profit with outside assets seems to be positive.

On the basis of conclusion, he has recommended to increase cash and bank balance of SCBNL to meet the need of investment and demand of loan and advances. Since SCBNL used to provide less loan and advances in comparison to its total deposits, SCBNL is strongly recommended to follow a liberal lending policy so that more percentage of deposits can be invested to different profitable sector as well as towards loan and advances. Besides giving priority of investing in government securities, SCBNL is recommended to invest its fund in the purchase of share and debenture of other financial, non-financial companies, hotels and government companies. This also helps in the maintenance of a sound portfolio of the bank.

Mandala (1998) in his study entitled "Comparative Financial Performance Appraisal of Joint Venture Banks" has studied mainly three banks i.e. Nepal Arab Bank Ltd, Nepal

Grindlays Bank Ltd. and Nepal Indosuez Bank Ltd. His main finding is that both NABIL and NIBL have mobilized the debt funds in proper way for generating more return but NIBL could not do as good as NABIL and NGBL. He has recommended enhancing banking facilities in rural sector by encouraging small promoter's development programmes to play merchant banking role, to mobilize the deposit funds in productive sectors and to grant more priority to the local manpower.

Khadka (1998) in his study entitled "A Study on the Investment Policy of Nepal Arab Bank Ltd. in comparison other Joint Venture Banks in Nepal" has compared investment policy of NABIL with NGBL and NIBL. His study is based on five years period from 1992 to 1996. He has taken two banks to compare the investment policy of NABIL. Mr. Khadka has suggested the joint venture banks to be careful in increasing profit in real sense to maintain the confidence of shareholders, depositors, and customers. He has strongly recommended NABIL to utilizing risk assets and shareholders funds to gain higher profit margin, reduce its expenses, and collect cheaper fund more profitability. Investing funds in different sector and administering various deposit schemes, gift cheque scheme, house building deposits schemes etc

Laudari (1980) in his study entitled, "Lending policy of commercial banks in Nepal." The researcher's main objective of study was to examine the liquidity, assets management and profitability position and investment policy of NIBL in comparison to Nepal SBI Bank Ltd. to study the growth ratios of loan and advances and investment to total deposits and net profit of NIBL in comparison to Nepal SBI Bank Ltd.

Through his research Mr. Laudari has found that the both banks current assets have exceeded the current liabilities therefore the ratio is considered satisfactory. But there cash reserve ratios have fluctuated in high degree. However NIBL has maintained both current ratio and cash reserve ratio better than that of NSBI. As per Mr. Laudari the assets management ratios show that deposit utilization of NIBL is less effective than NSBI. He has stated that NIBL has invested lesser amount on government securities and share and debenture than that of NSBI, not only did NIBL a better performance in (i) return on total assets and loan and advances, (ii) interest earning but it paid lower interest amount to working fund. The growth ratio of total deposit, loan and advances, total investment and net profit of NIBL are less than that of Nepal SBI.

Regmi (2001) in his study entitled “A comparative study of the Financial Performance of Himalayan Bank Ltd. and Nepal Bangladesh Bank Ltd”. The researcher's objective of the study was to examine the current financial position of these banks and to analyze the comparative financial position of these joint venture banks.

Through his research Mr. Regmi has found that the current assets of HBL are adequate to meet the current liabilities where as it is in sufficient for NBBL. Further as per his study long term debt to net worth ratio is higher in NBBL than in HBL but both banks are following an aggressive strategy of higher risk higher return. And capital adequacy of NBBL is greater than that of HBL during the study period. This shows that NBBL is always more capable to meet any windfall. According to his research both banks are utilizing their deposits fund through loan and advances to generate revenue efficiently, but comparatively NBBL is doing more efficiently than HBL. Mr. Regmi has also stated that HBL has better utilization of resources in short-term investment and NBBL has more non-earning idle assets as cash and bank balance and profitability position of HBL is better than that of NBBL. HBL has higher net profit to working fund ratio, net profit to total deposit ratio and return to net worth ratio is also higher than NBBL. But the interest earned to working fund ratio, Earning per share, Dividend per share, Dividend pay out ratio is higher in HBL than NBBL. Price earning ratio of NBBL is higher than HBL. Above studies show that there are still various obstacles in the efficient operation of the commercial banks in Nepal.

2.4 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make study meaningful and purposive. There has been lots of article published related to financial performance and fund mobilization of commercial banks. There are various researches conducted on financial performance and fund mobilization of commercial banks, but there is few research available on “fund mobilization” with Himalayan Bank Limited and Nabil Bank Limited. Therefore the researcher attempts to study in this area. So, this study will be fruitful to those interested person, parties, scholars, professor, students, businessman and government for academically as well as policy perspective.

CHAPTER - THREE

Research Methodology

This chapter deals with the research methodology employed in the entire aspect of the study. Research methodology is the process of arriving at solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of facts and figures (Kothari, 1989:8). In other words, research methodology refers to the various methods of practices applied by the researcher in the entire aspect of the study. This chapter includes the research design, population and sample, nature and sources of data and analysis of data.

3.1 Research Design

A Research Design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. (Kothari, 1992:25). Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to the research question and to control variances. To achieve the objectives of the study, descriptive, analytical and comparative research design has been used. Some statistical and financial tools have also been applied to examine facts and descriptive techniques have been adopted to evaluate funds mobilizing performance of HBL and compare it with NABIL Bank Limited. The study is based on secondary data. So the descriptive and analytical research designs have been used.

3.2 Population and Sample

The method of selecting for study a small portion of the population to draw conclusion about characteristics of the population is known as sampling. Sampling may be defined as the selection of part of the population on the basis of which a judgment or inference about the universe is made. There are nine joint venture banks and eleven other commercial banks listed in Nepal Stock Exchange which are regarded as a population of the study. But it is not possible to cover all the JVs banks under the study. So, only two joint venture banks have been taken as sample i.e. Himalayan Bank Ltd and Nabil Bank Ltd.

3.3 Nature and Sources of Data

The research is based on primary as well as secondary source of data. The study is conducted on the basis of secondary data. The data relating to the investment, deposit, loan and advances, assets and profit are directly obtained from the balance sheet and Profit and Loss A/C of the concerned bank's annual reports. Supplementary data and information are collected from number of institution and authoritative sources like Nepal Rastra Bank, Security Exchange Board, Nepal Stock Exchange Ltd., Ministry of Finance, Budget speech of different fiscal years, economic survey and National Planning Commission etc.

Carefully designed research questionnaire were used for primary data analysis. The researcher has carefully designed questionnaire by considering various influencing factor of customer’s views regarding the adopted fund mobilizing policy of concerned banks. Basic sources of primary information were employees and customers of concerned banks. The data provided by the banks and other sources are complied with the annual reports of auditors in order to judge the reliability of the data. For the additional information, informal-formal talks to the concerned head of the department of the bank were also done. Similarly, various data and information are collected from the periodicals economic journals, managerial magazines and other published and unpublished reports and documents from the various sources.

3.4 Analysis of Data

To achieve the objectives of the study various financial and statistical tools have been used. The analysis of the study has been done according to the pattern of data available. Because of limited time and resources, simple analytical and statistical tools such as graph, percentage, Karl Pearson's coefficient of correlation and the method of least square are adopted in this study. The different calculated result obtained through financial, accounting and statistical tools are tabulated under different headings. Then they are compared with each other to interpret the results.

3.4.1 Financial Tools

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

I) Ratio Analysis

II) Sources and Uses of Funds

I) Ratio Analysis

Ratio analysis is a technique of analysis and interpretation of financial statement. To evaluate the performances of an organization by creating the ratios from the figure of different accounts consisting in balance sheet and income statement is known as ratio analysis. Five types of ratios have been analyzed in this study, which are related to fund mobilization of the banks. They are presented below:

a) Liquidity Ratio: - Liquidity ratio measures the short-run solvency .In other words, it measures the short run debt paying ability of the firm under the following ratios. The objective of computing this ratio is to measure the ability of the banks. Commercial banks maintain its satisfactory liquidity position to meet the credit need of the community. Demand for the deposit withdrawals, pay maturity in time and convert non-cash assets into cash to satisfy immediate need without loss to bank and consequent impact or long-run profit. Following ratios are calculated under this topic:

i) Cash and Bank Balance to Total Deposits Ratio: - Cash and bank balance is said to be first line defense of every bank. The ratio between the cash and bank balance and total deposit measures the ability of a bank to meet the unanticipated call on all types of deposit. Higher the ratio greater will be the ability to meet the sudden demand of deposit. But every ratio is not desirable since bank has to pay interest on deposit. This also maximizes the cost of fund to the bank.

$$Cash\ and\ Bank\ Balance\ to\ Total\ Deposits\ Ratio = \frac{CashandBankBalance}{TotalDeposits}$$

Where**,**

Cash and bank balance is composed up of cash on hand including foreign cheques and other cash item; balance with domestic banks and aboard. Deposits include current, saving, fixed money at short call notice and other types of deposits.

ii) Cash and Bank Balance to Current Assets Ratio: - This ratio shows the bank's liquidity capacity on the basis of cash and bank balance that is the most liquid assets. High the ratio indicates the bank's ability to meet the daily cash requirements of their customer deposits and vice versa. But the high ratio is not preferred as the bank has to pay more interest on deposit and will increase the cost of fund. Low ratio is also very dangerous, as the bank may not be able to make the payment against the cheques presented by the customers. We have,

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

iii) Investment on Government Securities to Current Assets Ratio: - This ratio is used to find out the percentage of current assets invested on government securities, treasury bills and development bonds. We can find out as:

$$Invt.\ on\ Govt.\ Sects.\ to\ Current\ Assets\ ratio = \frac{InvestmentonGovt.Securities}{CurrentAssets}$$

Where**,**

Investment on Government Securities involves treasury bills and development bonds etc.

Assets Management Ratio: - “A set of ratio which measure how efficiently a firm is managing its assets and whether or not the level of those assets is properly related to the level of operation. In this study this ratio is used to indicate how effectively the selected banks have arranged and invest their limited resources. The assets management ratios measure how effectively the firm is managing its assets. These ratios are designed to answer this question; does the total amount of each type of assets as reported on the

balance sheet seem reasonable or not? If a firm has excessive investments in assets, then its capital cost will be unduly high and its stock price will be suffer" (Brigham , 1989).

i) Loan and Advances to Total Deposits Ratio: - This ratio is calculated to find out how successfully the selected banks are utilizing their collections or deposits on loan and advances for the purpose of earning profit. We have,

$$Loan\ and\ Advances\ to\ Total\ Deposits\ Ratio = \frac{LoanandAdvances}{TotalDeposits}$$

ii) Total Investment to Total Deposits Ratio: - Investment is one of the major sources of earning profit. It shows how properly firm's deposit has been invested on government securities and shares and debentures of other companies.

$$Total\ Investment\ to\ Total\ Deposits\ Ratio = \frac{TotalInvestment}{TotalDeposits}$$

iii) Loan and Advances to Total Working Fund Ratio: - This ratio shows the ability of selected banks in terms of earning high profit from loan and advances. Loan and advances to working fund ratio can be calculated by dividing loan and advances amount by total working fund.

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

iv) Investment on Government Securities to Total Working Fund Ratio: - Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage, it is calculated for this purpose by following formula:

$$Investment\ on\ Govt.\ Securities\ to\ TWF\ Ratio = \frac{InvestmentonGovt.Securities}{TotalWorkingFund}$$

v) Investment on Shares and Debentures to Total working Fund Ratio: Investment on shares and debentures to total working fund ratio shows the investment of banks on the shares and debentures of other companies in terms of total working fund. This ratio

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

$$Investment\ on\ Shares\ and\ debn.\ to\ TWF\ Ratio = \frac{InvestmentonShareandDebenture}{TotalWorkingFund}$$

c) Profitability Ratio: - This ratio is related to profit of the banks is essential for the survival of the bank, so it is regarded as the engine that drives the banks and indicates economics progress. It calculated to measure the overall efficiency of the banks.

i) Return on Loan and Advances Ratio: - Return on loan and advances ratio shows how efficiently the banks have utilized their resources to earn good return from provided loan and advances. This ratio is computed as,

$$Return\ on\ Loan\ and\ Advances\ Ratio = \frac{Net\ \Pr ofit / Loss}{LoanandAdvances}$$

ii) Return on Total Working Fund Ratio: - Return on total working fund ratio measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the bank's working fund is well managed and efficiently utilized. Maximizing taxes, this in the legal options available will also improve the return. We have,

$$Return\ on\ Total\ Working\ Fund\ Ratio = \frac{Net\ \Pr ofit}{TotalWorkingFund}$$

iii) Total Interest Earned to Total Working Fund Ratio: - This ratio reflects the extent to which the banks are successful in mobilizing these total assets to acquire income as interest. This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the income as interest. We have,

$$Total\ Interest\ Earned\ to\ TWF\ Ratio = \frac{TotalInterestEarned}{TotalWorkingFund}$$

iv) Total Interest paid to Total working Fund Ratio: - This ratio measures the percentage of total interest expenses on total working fund and vice-versa. This ratio is calculated as,

$$Total\ Interest\ paid\ to\ Total\ Working\ Fund\ Ratio = \frac{TotalInterestPaid}{TotalWorkingFund}$$

d) Risk Ratios: - Commonly, risk means chance or possibility of loss, uncertainty which lies in the business transaction of investment management. When a firm wants to bear risk and uncertainty, profitability and effectiveness of the firm is increased. This ratio checks the degree of risk involved in the various financial operations. For this study following risk ratios are used to analyze and interprets the financial data and investment policy.

i) Liquidity Risk Ratio: - The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

$$Liquidity\ Risk\ Ratio = \frac{CashandBankBalance}{TotalDeposit}$$

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

$$Credit\ Risk\ Ratio = \frac{TotalInvestment + LoanandAdvances}{TotalAssets}$$

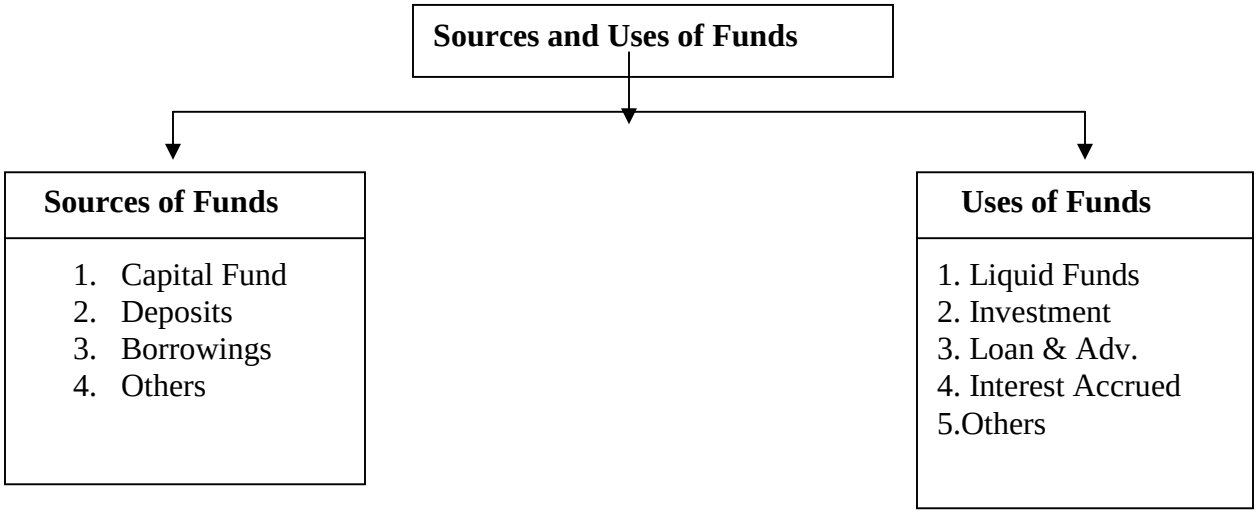
e) Growth Ratio: - The growth ratio represents how well the commercial banks are maintaining their economics and financial position. Higher the ratio batter performance of the bank and vice-versa. Under this topic four types of growth ratio are studied, that are directly related to the fund mobilization of commercial banks. The following ratios are calculated by using the formula of growth rate:

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

II) Sources and Uses of Funds

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

Figure: 3
Sources and Uses of Funds



3.4.2 Statistical Tools

Some important statistical tools have been used to present and analyze the data for achieving the objectives such as coefficient of correlation between different variables, trend analysis as well as test of hypothesis which are presented below:

i) Coefficient of Correlation Analysis

Correlation is the statistical tools that we can use to describe the degree to which one variable is linearly related to another (Richard, 1991). The coefficient of correlation measure the degree of relationship between two sets of sigma. There is various method of finding out coefficient of correlation but Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1. It is indicated by r. When r = +1, it means there is perfect relationship between two variables and vice-versa. When r = 0, it means there is no relationship between two variables. The complete formula is mentioned below:

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

Where,

N= Number of observation

$\sum X$= Sum of observation in series X

$\sum Y$= Sum of observation in series Y

$\sum X^2$= Sum of squared observation in series X

$\sum Y^2$= Sum of squared observation in series Y

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

Correlation analysis describes the relationship between variables with positive or negative. It helps to determine whether

- A positive or negative relationship exists.
- The relationship is significant or insignificant and
- Establish cause and effect relation if any.

The statistical tool, correlation analysis is preferred in this study to identify relationship between variables, whether the relationship is significant or not.

For the purpose of decision making interpretation are based on following terms.

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

ii) Probable Error (P.E)

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

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

Where,

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

r = Correlation coefficient

n = Number of observations

iii) Standard Deviation (S.D)

The measurement of the scatter ness of the mass of figure in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion. The greater the amount of dispersion, greater will be the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposites. In this study, standard deviation of different ratio is calculated. It is denoted by '±'.

$$\textbf{S.D (±)} = \sqrt{\frac{1}{N}\sum (X - \overline{X})^2}$$

Where,

N = Number of observations

X = Expected return of the historical data

iv) Co-efficient of Variance (C.V)

"The co-efficient of variance is the relative measure of dispersion comparable across distribution which is defined as the ratio of the standard deviation to the means expressed in percent."(Richard, 1991). It is calculated as:

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

v) Trend Analysis

The easiest way to evaluate the performance of a firm is to compare its current ratios with past ratios. When financial ratios over a period of time are compared it is known as the trend analysis. It gives an indication of the direction of change and reflects whether the firm's financial performance has improved, deteriorated or remain constant over time. This type of statistical analysis interprets the trend of deposits, loan and advances, investments and net profit of HBL and NABIL from 1999/00 to 2005/2006. It is necessary to calculate the forecasting for next five years till 2010/11.

The projections are based on the following assumptions:

i) Other things will remain unchanged.
ii) The bank will run in present position.
iii) The economy will remain in the present stage.
iv) NRB will not change its guidelines to commercial banks.

The trend values used in this study are presented below:

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

vi) Test of Hypothesis

Test of hypothesis is a process of testing of significance regarding the parameter of the population on the basis of sample drawn from the population. In testing hypothesis, we examine on the basis of sample drawn from the population. In testing hypothesis, we examine on the basis of statistics computed from the sample drawn, whether the sample drawn belongs to the parent population with certain specified characteristics or not. In this topic, an effort has been made to test the significance regarding the parameter of the population on the basis of sample drawn from the population.

CHAPTER –FOUR

Data Presentation and Analysis

This chapter is concerned with the presentation, analysis and interpretation of data from various secondary sources. The chapter has been divided into main three sections. The first section includes the analysis of data collected from secondary sources, second section includes primary data and the third part includes the major findings of the study.

(A) Analysis of Secondary Data

4.1 Financial Analysis

Liquidity Ratios

(a) Cash and Bank Balance to Total Deposits Ratio

This ratio measures the bank's ability of withdrawal of fund immediately by their depositors. A higher ratio represents a greater ability to cover their deposits and vice-versa. The large ratio shows the idle cash and bank balance in banks while small ratio shows the utilisation of deposit from banking perspective.

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

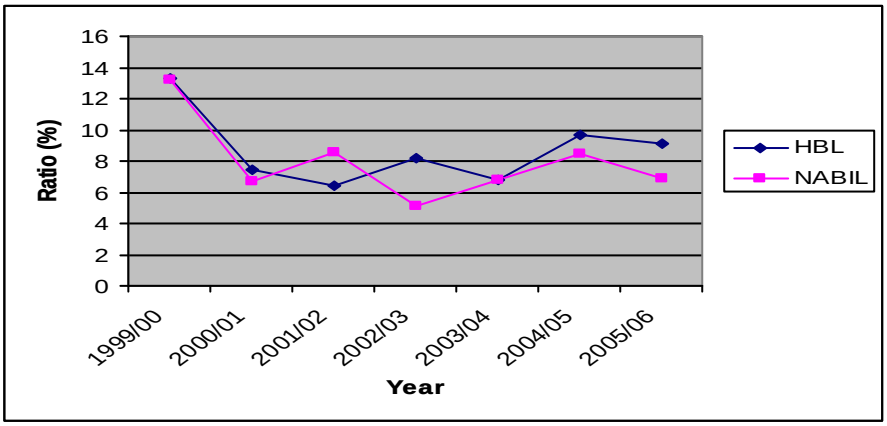
Table: 3

Cash and Bank Balance to Total Deposits Ratio

Year	Ratio (%)	
	HBL	**NABIL**
1999/00	13.34	13.20
2000/01	7.43	6.67
2001/02	6.42	8.52
2002/03	8.19	5.13
2003/04	6.79	6.78
2004/05	9.72	8.51
2005/06	9.09	6.87
Mean ($\overline{X}$)	**8.67**	**7.95**
S.D.(±)	**2.17**	**2.40**
C.V.	**25.02**	**30.15**

Source: Appendix-5

Figure: 4
Cash and Bank Balance to Total Deposits Ratio



From the above analysis, cash and bank balance to total deposits ratio of the two banks followed a fluctuating trend. The higher ratio of HBL and NABIL are 13.34% and 13.20% respectively in the same year i.e. 1999/00.The average ratio of HBL is greater than that of NABIL (i.e. 8.67%>7.95%). The variability of the ratio of HBL is lower than that of NABIL Bank Limited.

(b) Cash and Bank Balance to Current Assets Ratio

This ratio reflects the proportion of cash and bank balance out of total current assets. It can be calculated as follows:

$$Cash\ and\ Bank\ Balance\ to\ Current\ Assets\ ratio = \frac{CashandBankBalance}{CurrentAssets}$$

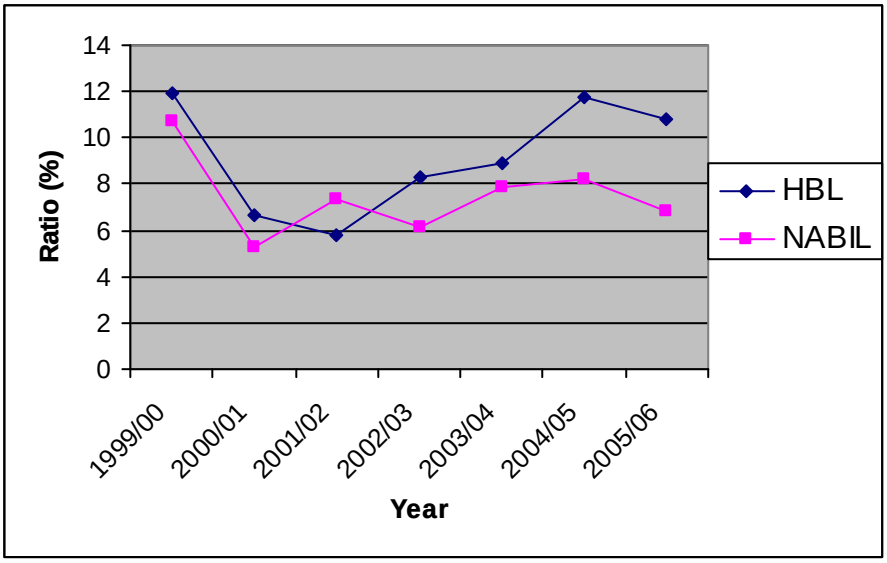
Table: 4

Cash and Bank Balance to Current Assets Ratio

Year	Ratio (%)	
	HBL	**NABIL**
1999/00	11.94	10.70
2000/01	6.62	5.27
2001/02	5.78	7.36
2002/03	8.27	6.17
2003/04	8.93	7.90
2004/05	11.72	8.25
2005/06	10.76	6.81
Mean ($\overline{X}$)	**9.15**	**7.49**
S.D.(±)	**2.25**	**3.28**
C.V.	**24.59**	**43.86**

Source: Appendix-5

Figure: 5
Cash and Bank Balance to Current Assets Ratio



Both banks have maintained the cash and bank balance to current assets in fluctuating trend. NABIL has maintained fewer ratios than that of HBL. The highest ratio of the HBL is 11.94% in the year 1999/00 and the lowest ratio is 5.78% in the year 2001/02. The NABIL bank has lowest ratio of cash and bank balance in the year 2000/01 i.e. 5.27%. Among two banks, HBL has the lowest standard deviation and coefficient of variation.

(c) Investment on Government Securities to Current Assets Ratio

Government Securities can be easily sold in the market or they can be converted into cash. The main purpose of this ratio is to examine that portion of commercial banks current assets that has been invested into different government securities. This ratio is calculated by dividing investment on government securities by current assets.

$$Investment\ on\ Govt.\ Securities\ to\ Current\ Assets = \frac{InvestmentonGov.Securities}{CurrentAssets}$$

Table: 5

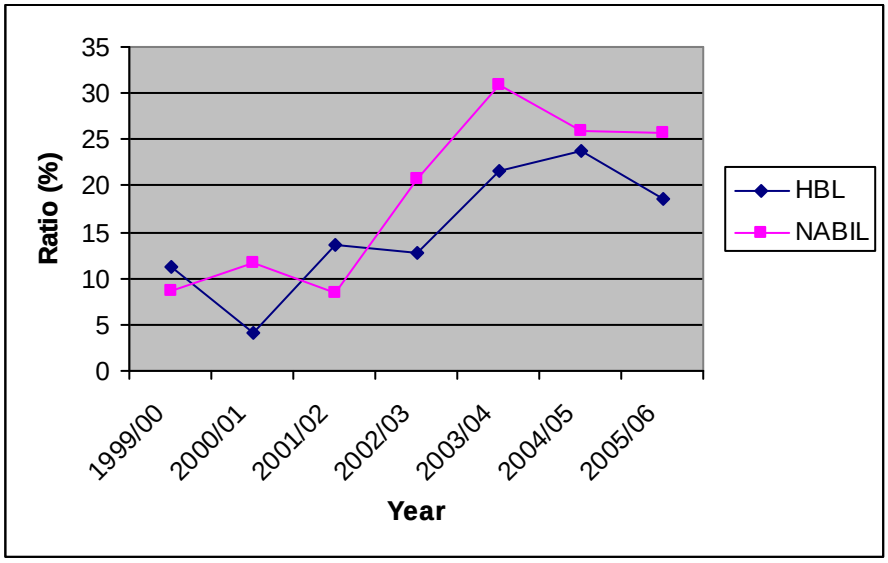
Investment on Government Securities to Current Assets Ratio

Year	Ratio (%)	
	HBL	NABIL
1999/00	11.26	8.74
2000/01	4.18	11.72
2001/02	13.54	8.34
2002/03	12.81	20.76
2003/04	21.52	30.94
2004/05	23.69	25.87
2005/06	18.66	25.78
Mean ($\overline{X}$)	**14.56**	**18.88**
S.D.(±)	**6.03**	**8.54**
C.V.	**41.41**	**45.24**

Source: Appendix-5

Figure: 6

Investment on Government Securities to Current Assets Ratio



Both banks has invested their fund in government securities in variable trend.. HBL has invested low portion of current assets in government securities i.e. 4.18% in the year 2000/01 and high portion in the year 2004/05 i.e. 23.60% where as NABIL has invested low portion of current assets i.e.8.74% in the year 1999/00 and high portion i.e. 30.94% in the year 2003/04. The mean ratio of NABIL is higher than that of HBL (i.e. 18.88%>14.56%). NABIL seems more variable in investing its current assets than that of HBL.

4.1.1 Assets Management Ratio

Assets management ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. A commercial bank must manage its assets properly to earn high profit. Under this chapter following ratio are studied:

(a) Loan and Advances to Total Deposits Ratio

The ratio measures the extent to which the banks are successful to mobilize their total deposits on loan and advances. We have,

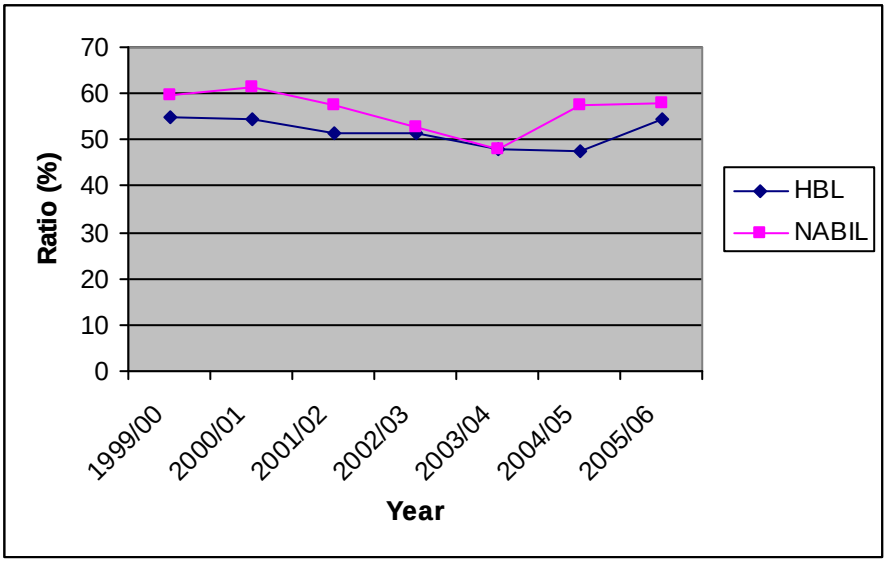
$$Loan\ and\ Advances\ to\ Total\ Deposits\ Ratio = \frac{LoananddAdvances}{TotalDeposit}$$

Table: 6
Loan and Advances to Total Deposits Ratio

Year	Ratio (%)	
	HBL	**NABIL**
1999/00	54.75	59.78
2000/01	54.31	61.16
2001/02	51.45	57.39
2002/03	51.42	52.55
2003/04	47.87	47.96
2004/05	47.61	57.67
2005/06	54.30	58.01
Mean ($\overline{X}$)	**51.67**	**56.36**
S.D.(±)	**2.79**	**4.23**
C.V.	**5.40**	**7.51**

Source: Appendix-6

Figure: 7
Loan and Advances to Total Deposits Ratio



A high ratio of loan and advances indicates better mobilization of collected deposits and vice versa. But it should be noted that too high ratio might not be better from liquidity point of view. The above comparative table shows that these two banks have mobilized their collected deposits in variable trend. The highest ratio of HBL and NABIL are 54.7% and 61.16% respectively. In average HBL has mobilized 51.67% of its collected deposit in loan and advances that is less than that of NABIL.HBL seems to be more consistent in mobilizing its total deposits as loan and advances than that of NABIL due to low coefficient of variation.

In this analysis ratios of loan and advances to total deposit of HBL and NABIL are taken and are carried out under t-test of significance difference. Since, the calculated value of |t| i.e. 2.27 is greater than the tabulated value 2.179. It is significant and Null Hypothesis is rejected hence alternative hypothesis is accepted, which means that there is significant difference between mean ratios of loan and advances to total deposits of HBL and NABIL (Appendix-16).

(b) Total Investment to Total Deposits Ratio

This ratio measures the extent to which the banks are able to mobilize their deposit on investment in various securities. A high ratio indicates the success in mobilizing deposit in securities and vice versa. We have,

Total Investments to Total Deposits Ratio= $\frac{TotalInvestment}{TotalDeposit}$

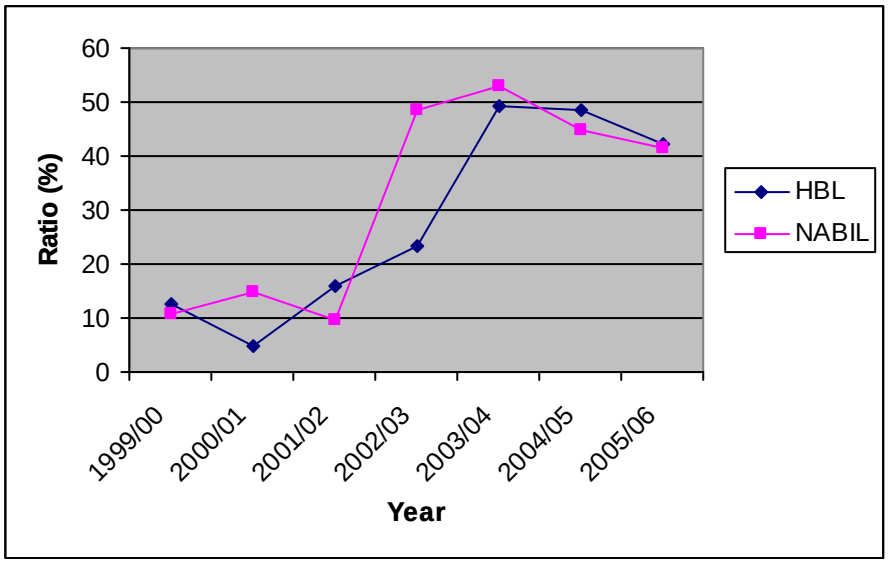
Table: 7

Total Investment to Total Deposits Ratio

Year	Ratio (%)	
	HBL	**NABIL**
1999/00	12.63	10.92
2000/01	4.80	15.00
2001/02	15.78	9.78
2002/03	23.29	48.64
2003/04	49.18	52.87
2004/05	48.44	44.85
2005/06	42.22	41.33
Mean ($\overline{X}$)	**28.05**	**31.91**
S.D.(±)	**16.96**	**17.69**
C.V.	**60.46**	**55.45**

Source: Appendix –6

Figure: 8
Total Investment to Total Deposits Ratio



From the study of mean ratio we can conclude that, NABIL has mobilized its collected deposits on investment better than that of HBL (i.e. 31.91% >28.05%). HBL has lowest ratio of 4.80% in the year 2000/01 and highest ratio of 49.18% in the year 2003/04 where as NABIL has lowest ratio of 9.78% in the year 2000 and highest is 52.87% in the year

2003/04. The coefficient of variation of NABIL is 55.45% which is less than that of HBL i.e. more consistency.

In this analysis ratio of total investment to total deposit of HBL and NABIL are taken and are carried under t-test of significance difference. Since, the calculated value of |t| i.e. 0.386 is lesser than the tabulated value 2.179. It is not significant and Null Hypothesis is accepted hence Alternative Hypothesis is rejected, which means that there is no significant difference between mean ratios of total investment to total deposit of HBL and NABIL (Appendix-17).

(c) Loan and Advances to Total Working Fund Ratio

This ratio reflects the extent to which the commercial banks are success in mobilizing their assets on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of fund on loan and advances and vice versa. We have,

$$Loan\ and\ Advances\ to\ TWF\ Ratio = \frac{TotalLoanandAdvances}{TotalWorkingFund}$$

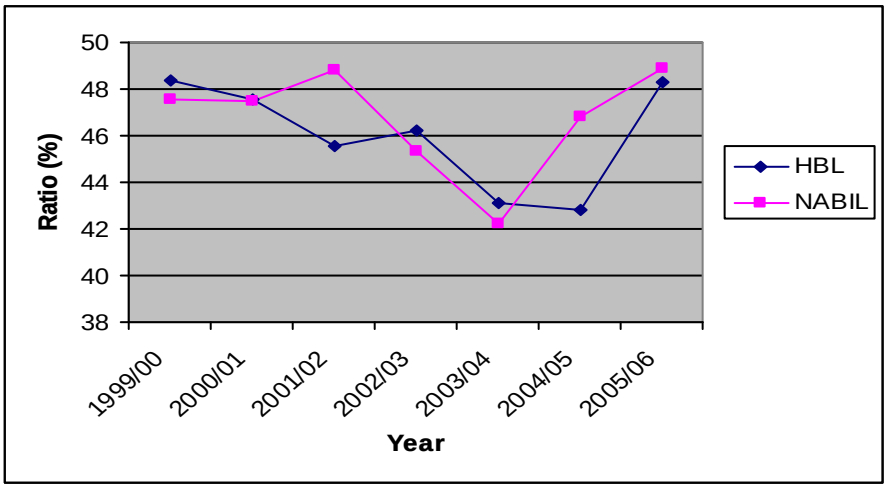
Table: 8

Loan and Advances to Total Working Fund Ratio

Year	Ratio (%)	
	HBL	**NABIL**
1999/00	48.35	47.55
2000/01	47.56	47.51
2001/02	45.54	48.82
2002/03	46.23	45.32
2003/04	43.12	42.19
2004/05	42.82	46.83
2005/06	48.26	48.91
Mean ($\overline{X}$)	**45.98**	**46.73**
S.D.(±)	**2.13**	**2.17**
C.V.	**4.63**	**4.65**

Source: Appendix -6

Figure: 9
Loan and Advances to Total Working Fund Ratio



During the study period NABIL has highest ratio of 48.91% and lowest ratio of 42.19% in the year 2005/06 and 2003/04 respectively where as HBL has highest ratio of 48.35% and lowest ratio of 42.82% in the year 1999/00 and 2004/05 respectively. The mean ratio of HBL is 45.98%, which is slightly lower than that of NABIL. Coefficient of variation of NABIL is slightly higher than that of HBL.

(d) Investment on Government Securities to Total Working Fund Ratio

The main purpose of this ratio is to examine that portion of commercial banks total working fund that has been invested into different government securities. This ratio is calculated by dividing investment on government securities by total working fund.

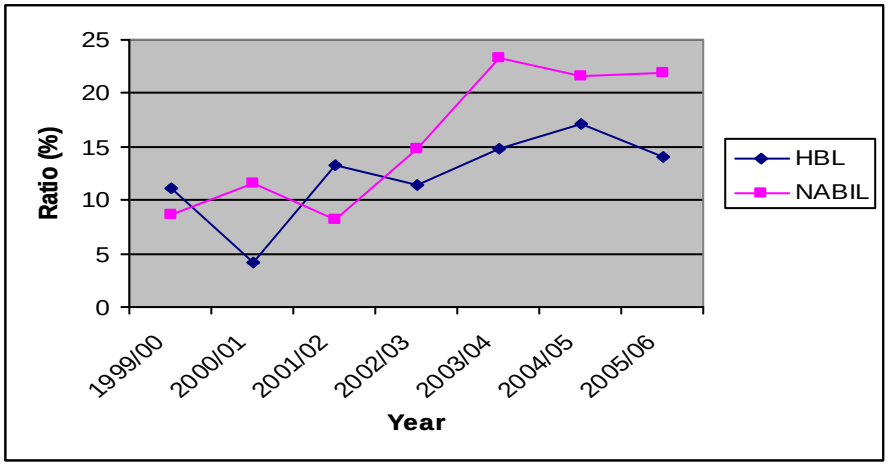
$$Invt.\ on\ Govt.\ Securities\ to\ Total\ Working\ Fund = \frac{TotalInvestmentonGovt.Securities}{TotalWorkingFund}$$

Table: 9
Investment on Govt. Securities to Total Working Fund Ratio

Year	Ratio (%)	
	HBL	NABIL
1999/00	11.12	8.59
2000/01	4.11	11.51
2001/02	13.32	8.21
2002/03	11.41	14.88
2003/04	14.74	23.37
2004/05	17.12	21.67
2005/06	14.02	21.93
Mean ($\overline{X}$)	**12.26**	**15.74**
S.D.(±)	**3.83**	**6.07**
C.V.	**31.20**	**38.58**

Source: Appendix-6

Figure: 10
Investment on Government Securities to Total Working Fund Ratio



Above analysis shows the investment on government securities to total working fund ratio in fluctuating trend. NABIL has 23.37%, the highest ratio in the year 2003/04 and 8.21% the lowest ratio in the year 2001/01. NABIL has higher mean ratio than that of HBL (i.e.15.74%>12.26%). HBL has lower standard deviation and coefficient of variation than that of NABIL.

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

The main purpose of this ratio is to examine that portion of commercial banks total working fund that has been invested into investment on share and debentures. This ratio is calculated by dividing investment on share and debenture by total working fund.

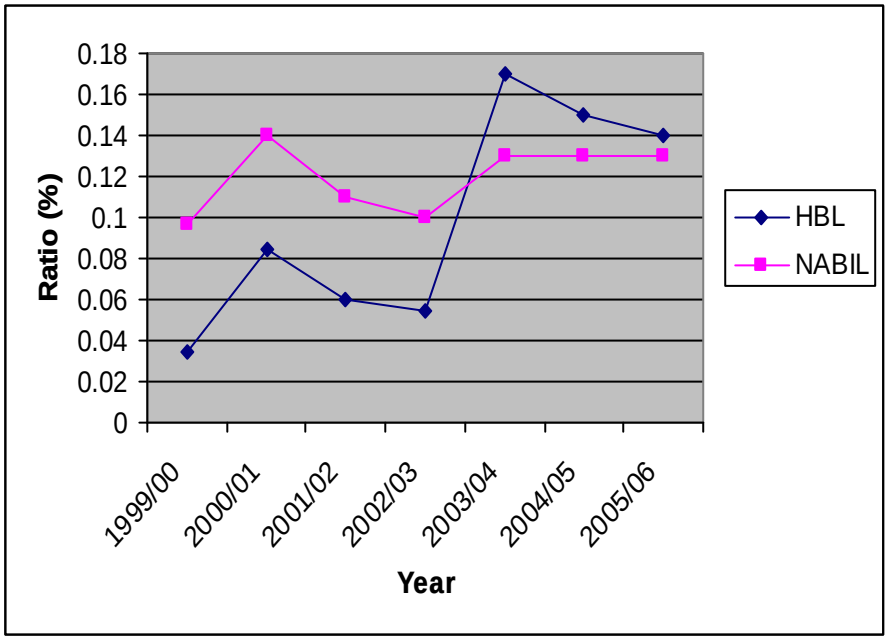
$$\textit{Investment on Shares and Debenture to TWF Ratio} = \frac{\textit{Inv.onSharesandDebentures}}{\textit{TotalWorkingFund}}$$

Table: 10
Investment on Shares and Debentures to Total Working Fund Ratio

Year	Ratio (%)	
	HBL	**NABIL**
1999/00	0.035	0.097
2000/01	0.085	0.14
2001/02	0.060	0.11
2002/03	0.055	0.10
2003/04	0.17	0.13
2004/05	0.15	0.13
2005/06	0.14	0.13
Mean ($\overline{X}$)	**0.10**	**0.12**
S.D.(±)	**0.049**	**0.015**
C.V.	**49.49**	**12.50**

Source: Appendix-6

Figure: 11
Investment on Shares and Debentures to Total Working Fund Ratio



Comparatively, NABIL has the greater volume of investment than that of HBL in average (i.e. 0.12%>010%). Both banks followed a fluctuating trend in investing shares and debentures from total working funds. NABIL has lower standard deviation and coefficient of variation than that of HBL.

4.1.2 Profitability Ratio

(a) Return on Loan and Advances Ratio

Return on loan and advances ratio measures the earning capacity of a commercial bank on its deposit mobilized on loan and advances higher the ratio greater will be the return and vice versa. It is calculated as follow:

$$Return\ on\ Loan\ and\ Advances\ Ratio = \frac{Net\ \Pr ofit / Loss}{LoanandAdvances}$$

Table: 11

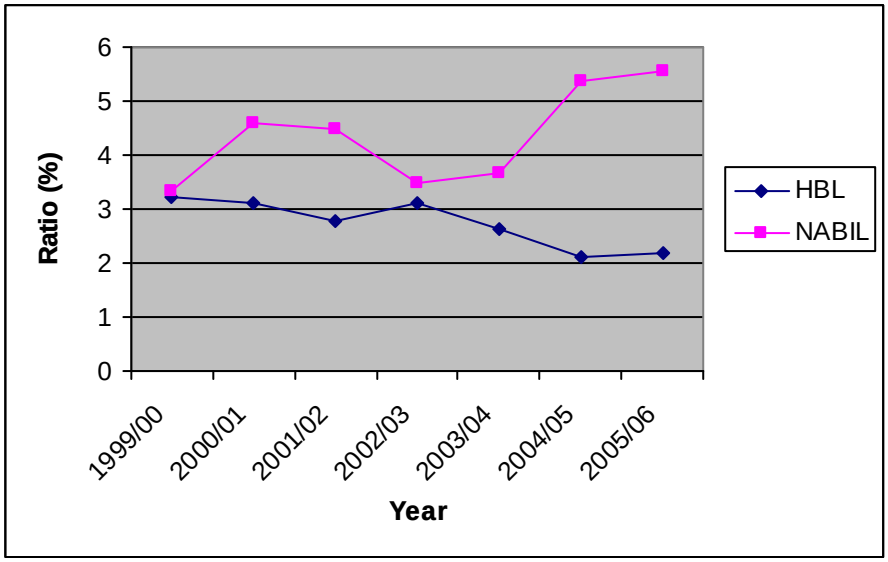
Return on Loan and Advances Ratio

Year	Ratio (%)	
	HBL	**NABIL**
1999/00	3.22	3.35
2000/01	3.11	4.60
2001/02	2.76	4.49
2002/03	3.11	3.50
2003/04	2.64	3.65
2004/05	2.12	5.37
2005/06	2.20	5.56
Mean ($\overline{X}$)	**2.74**	**4.36**
S.D.(±)	**0.41**	**0.83**
C.V.	**14.96**	**18.99**

Source: Appendix-7

Figure: 12

Return on Loan and Advances Ratio



From the analysis, NABIL has the highest ratio of 5.56% in the year 2005/06 and lowest ratio of 3.35% in the year 1998 where as HBL has the highest ratio of 3.22% in the year 1999/00 and lowest ratio of 2.12% in the year 2004/05. NABIL has highest mean ratio than that of HBL (i.e. 4.36%>2.74%). Coefficient of variation of NABIL is more variable than that of HBL (i.e.18.99%>14.96%).

(b) Return on Total Working Fund Ratio

Return on total working fund ratio measures the earning capacity of a commercial bank on its deposit mobilized on total working fund, higher the ratio greater will be the return and vice versa. It is calculated as follow:

$$Return\ on\ Total\ Working\ Funds\ Ratio = \frac{Net\ \Pr ofit / Loss}{TotalWorkingFund}$$

From the above figure, it can be concluded that the highest ratio of HBL is 1.56% in the year 1999/00 and of NABIL 2.72% in the year 2005/06.NABIL has higher mean ratio than that of HBL (i.e. 2.05%>1.26%). HBL has lower standard deviation and coefficient of variation than that of NABIL.

Table: 12
Return on Total Working Fund Ratio

Year	Ratio (%)	
	HBL	**NABIL**
1999/00	1.56	1.59
2000/01	1.48	2.19
2001/02	1.26	2.19
2002/03	1.44	1.59
2003/04	1.14	1.54
2004/05	0.91	2.51
2005/06	1.06	2.72
Mean ($\overline{X}$)	**1.26**	**2.05**
S.D.(±)	**0.22**	**0.44**
C.V.	**17.49**	**21.65**

Source: Appendix-7

Figure: 13
Return on Total Working Fund Ratio

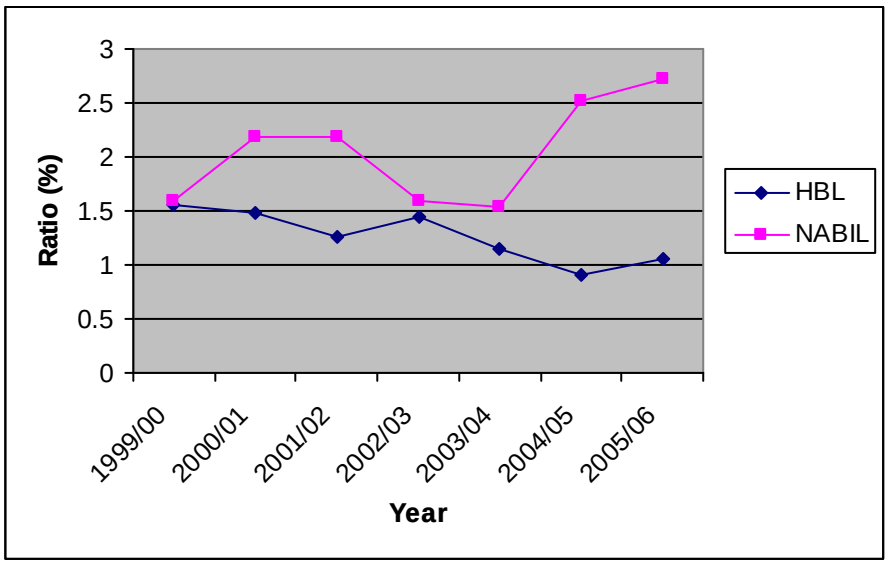


Figure: 14

Loan and Advances and average Total Investment of HBL

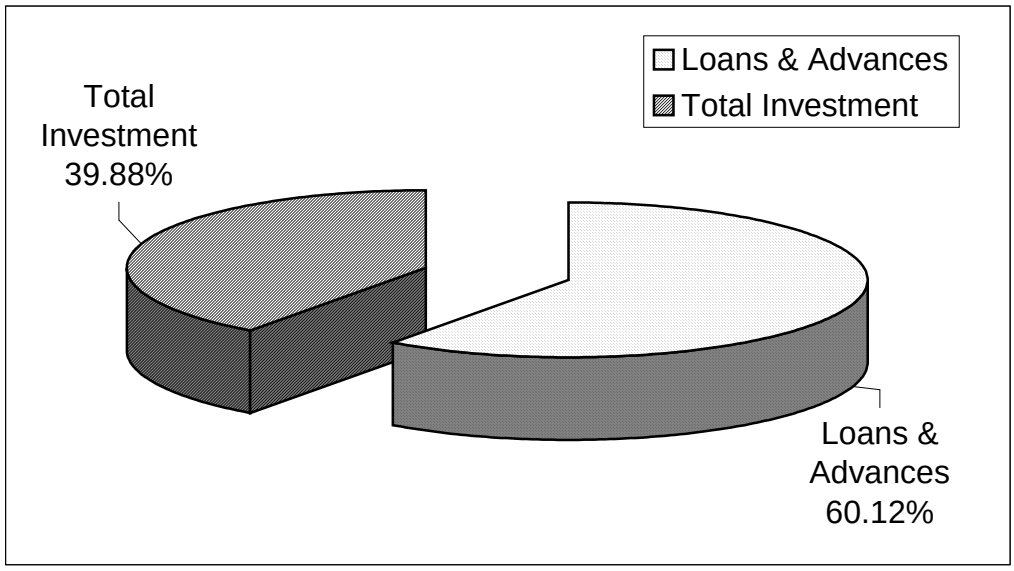
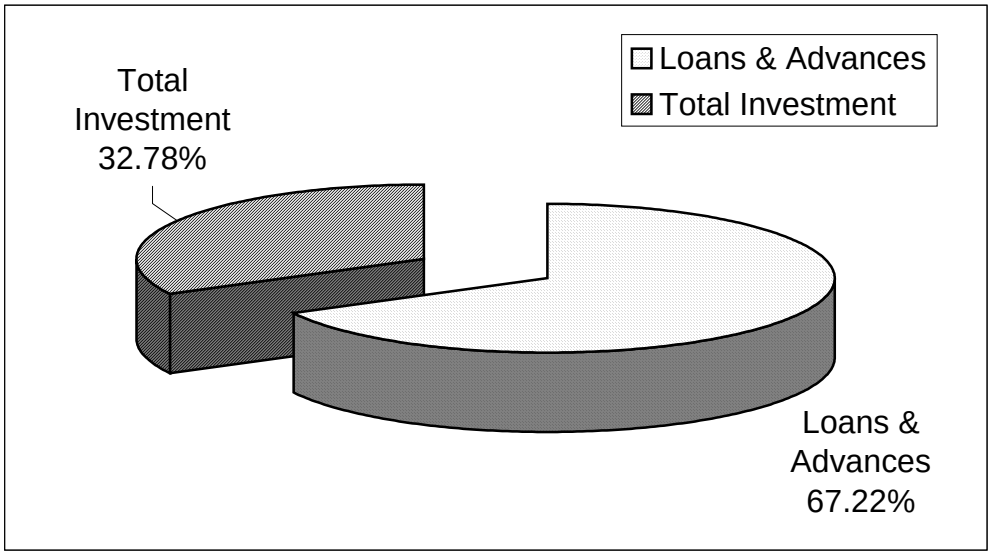


Figure: 15

Loan and Advances and average Total Investment of NABIL



(c) Total Interest Earned to Total Working Fund Ratio

This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the income as interest. It is calculated as follow:

$$Total\ Interest\ Earned\ to\ Total\ Working\ Funds\ Ratio = \frac{TotalInterestEarned}{TotalWorkingFund}$$

Table: 13

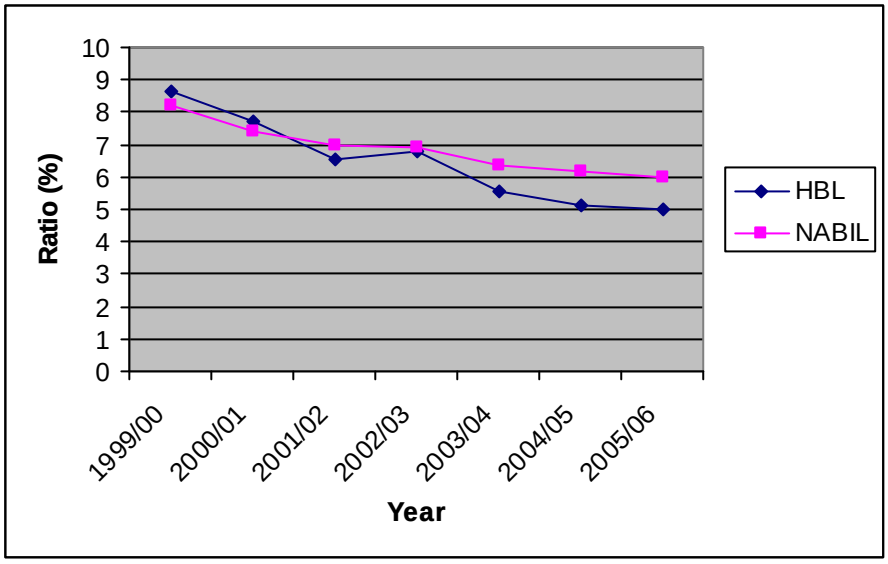
Total Interest Earned to Total Working Fund Ratio

Year	Ratio (%)	
	HBL	NABIL
1999/00	8.63	8.19
2000/01	7.72	7.41
2001/02	6.52	6.97
2002/03	6.80	6.90
2003/04	5.56	6.35
2004/05	5.14	6.15
2005/06	5.03	5.98
Mean($\overline{X}$)	**6.49**	**6.85**
S.D.(±)	**1.25**	**0.72**
C.V.	**19.26**	**10.52**

Source: Appendix-7

Figure: 16

Total Interest Earned to Total Working Fund Ratio



The above table shows that HBL has highest ratio of 8.63% in the year 1999/00 and NABIL has slightly lower ratio i.e. 8.19% in the same year. Both banks have decreasing trend of interest earned to total working fund ratio. The mean ratio of HBL is slightly lower than that of NABIL. The coefficient of variation of NABIL is more consistent and stable than that of HBL.

(d) Total Interest paid to Total Working Fund Ratio

This ratio actually reveals the paying capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the paying capacity of interest. It is calculated as follow:

$$\textit{Total Interest Paid to Total Working Funds Ratio} = \frac{\textit{TotalInterestPaid}}{\textit{TotalWorkingFund}}$$

Table: 14

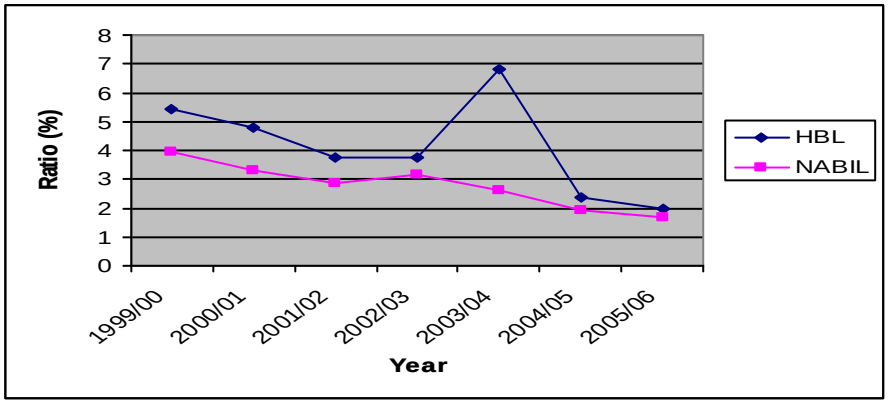
Total Interest Paid to Total Working Fund Ratio

Year	Ratio (%)	
	HBL	**NABIL**
1999/00	5.42	3.95
2000/01	4.77	3.32
2001/02	3.74	2.88
2002/03	3.76	3.15
2003/04	6.80	2.62
2004/05	2.37	1.92
2005/06	1.98	1.69
Mean($\overline{X}$)	**4.12**	**2.79**
S.D.(±)	**1.57**	**0.73**
C.V.	**38.05**	**0.26**

Source: Appendix-8

Figure: 17

Total Interest Paid to Total Working Fund Ratio



The above table shows that HBL has more fluctuating trend than that of NABIL. It has the highest ratio in the year 2003/04 i.e. 6.80%. Similarly, NABIL has the highest ratio in the year of 1999/00 i.e. 3.95%. HBL has higher mean ratio than that of NABIL (i.e.

4.12%>2.79%). NABIL seems to be more stable and consistent than that of NABIL (i.e. 0.26%<38.05%).

4.1.3 Measurement of Risk

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

(a) Liquidity Risk Ratio

Liquidity risk means its liquidity need for deposits. The ratio is calculated by dividing cash and bank balance by total deposits.

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

Table:15

Liquidity Risk Ratio

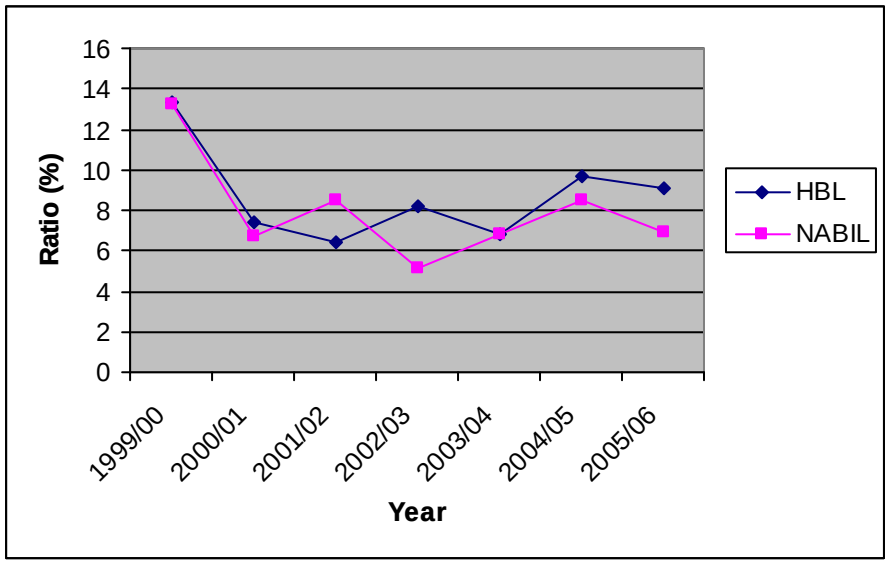
Year	Ratio (%)	
	HBL	**NABIL**
1999/00	13.34	13.20
2000/01	7.43	6.67
2001/02	6.42	8.52
2002/03	8.19	5.13
2003/04	6.79	6.78
2004/05	9.72	8.51
2005/06	9.09	6.87
Mean ($\overline{X}$)	**8.67**	**7.95**
S.D.(±)	**2.17**	**2.40**
C.V.	**25.01**	**30.19**

Source: Appendix -8

The above analysis shows that HBL has the highest cash and bank balance to total deposits ratio of 13.34% in the year 1999/00 and lowest ratio of 6.42% in the year 2001/02, whereas NABIL has highest ratio of 13.20% in the year 1999/00 and lowest ratio of 5.13% in the year 2002/03. The mean ratio of HBL is higher than that of NABIL (i.e. 8.67%>7.95%). The coefficient of variation of NABIL is higher than that of HBL. It shows that NABIL is more variable than that of HBL.

Figure: 18

Liquidity Risk Ratio



(b) Credit Risk Ratio

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

$$\text{Credit Risk Ratio} = \frac{TotalInvestment + TotalloanandAdvances}{TotalAssets}$$

Table: 16

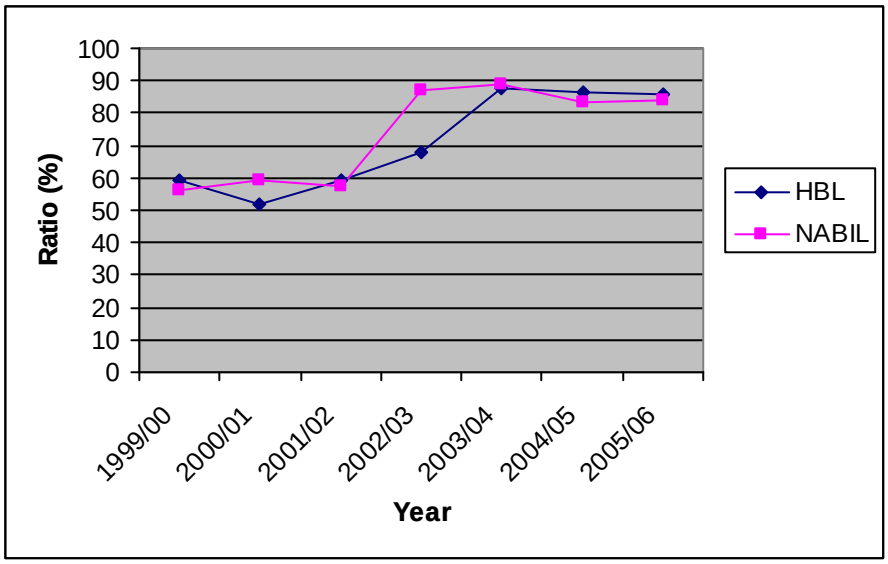
Credit Risk Ratio

Year	Ratio (%)	
	HBL	**NABIL**
1999/00	59.50	56.24
2000/01	51.76	59.16
2001/02	59.51	57.14
2002/03	67.69	87.26
2003/04	87.41	88.70
2004/05	86.39	83.24
2005/06	85.94	83.76
Mean($\overline{X}$)	**71.15**	**73.64**
S.D.(±)	**13.99**	**14.10**
C.V.	**19.66**	**19.15**

Source: Appendix -8

Figure: 19

Credit Risk Ratio



The above analysis shows that HBL and NABIL have the credit risk ratio in fluctuating trend. HBL has highest and lowest ratio of 87.41% and 51.76% in the year 2003/04 and 2000/01 and NABIL has the highest and lowest ratio of 88.70% and 56.24% in the year 2003/04 and 1999/00 respectively. The mean ratio of HBL is lower than that of NABIL (i.e.71.15%<73.64%). NABIL has the higher coefficient of variation than that of HBL (i.e. 19.66%>19.15%).

4.1.4 Growth Ratios

Growth ratio denotes that how well the banks are preserving their economic or financial position. To calculate, check and analyze the expansion and growth of the selected bank the following ratios are calculated:

(a) Growth Ratio of Total Deposits

To measure such growth percentage and analysis the following formula are used:

$$\text{Growth Percentage} = \frac{\text{Ending Value - Beginning Values}}{\text{Beginning Value}} \times 100$$

Table: 17

Growth Ratio of Total Deposits

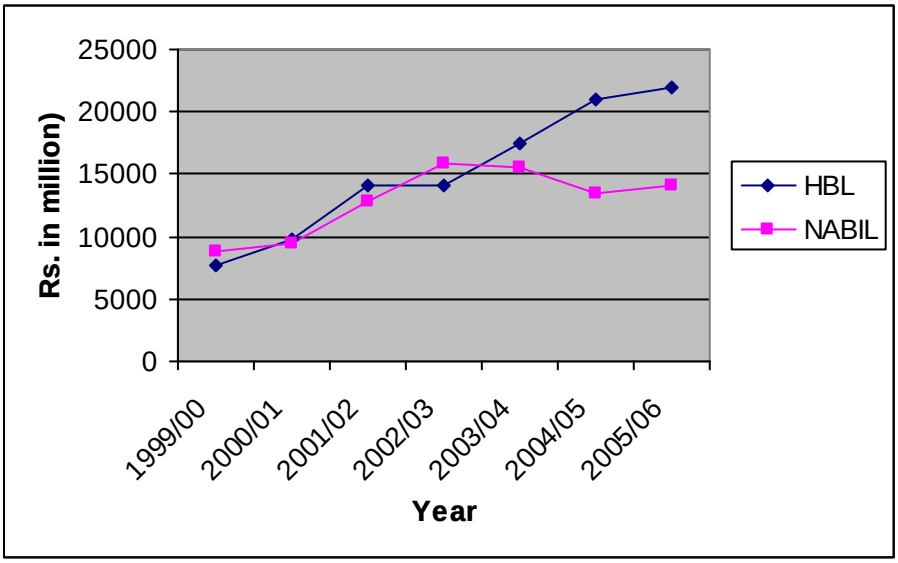
(Rs. in million)

Bank	Year (Total Deposits)							Growth Rate %
	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	
HBL	7713.60	9779.72	14043.10	17532.40	18619.3	21007.3	22010.3	**19.09**
NABIL	8737.77	9464.28	12779.51	15839.01	15506.44	13447.65	14119.03	**8.50**

Source: Appendix -9

Figure: 20

Growth Ratio of Total Deposits



The above analysis shows that HBL has increasing trend and NABIL has fluctuating trend of total deposits. The growth ratio of HBL and NABIL are 19.09% and 8.50% respectively. The growth ratio of NABIL seems to be lower than that of HBL.

(b) Growth Ratio of Loan and Advances

To measure such growth percentage and analysis the following formula are used:

$$\text{Growth Percentage} = \frac{\text{Ending Value} - \text{Beginning Values}}{\text{Beginning Value}} \times 100$$

Table: 18

Growth Ratio of Loan and Advances

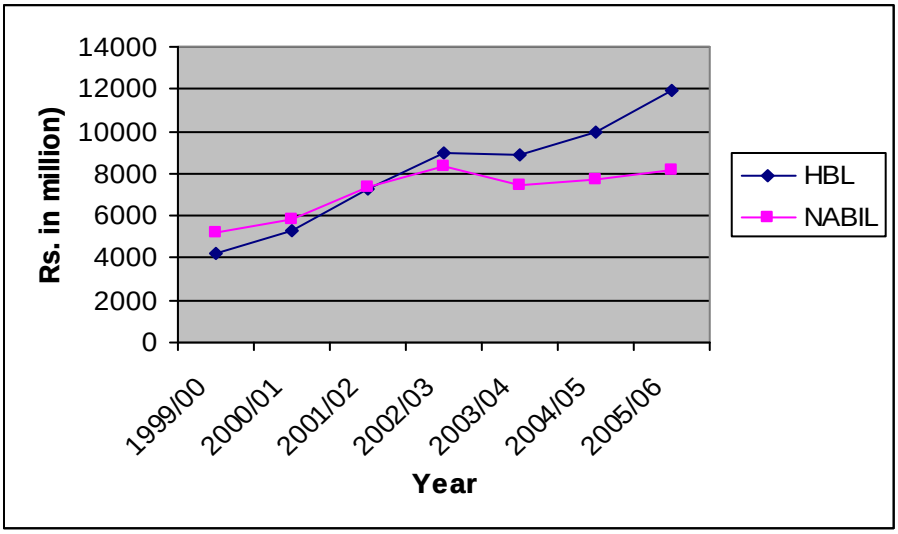
(Rs. in million)

Bank	Year (Loan and Advances)							Growth
	1999/00	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**Rate %**
HBL	4223.06	5311.66	7224.73	9015.35	8913.73	10001.85	11951.87	**18.93**
NABIL	5224.07	5788.93	7334.76	8324.44	7437.90	7755.95	8189.99	**7.94**

Source: Appendix -9

Figure: 21

Growth Ratio of Loan and Advances



The above analysis shows that HBL has higher growth rate than that of NABIL (i.e. 18.93%>7.94%). HBL has increasing trend and NABIL has fluctuating trend of growth rate of loans and advances.

(c) Growth Ratio of Total Investment

To measure such growth percentage and analysis the following formula are used:

$$\text{Growth Percentage} = \frac{\text{Ending Value} - \text{Beginning Values}}{\text{Beginning Value}} \times 100$$

Table: 19

Growth Ratio of Total Investment

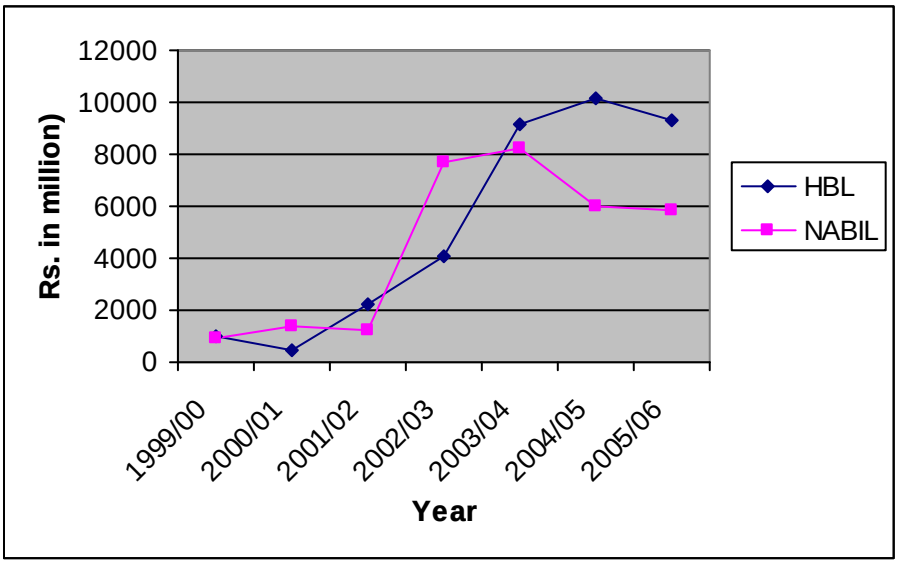
(Rs. in million)

Bank	Year (Total Investment)							Growth
	1999/00	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**Rate %**
HBL	973.98	468.95	2216.41	4083.00	9157.00	10175.44	9332.12	**46.83**
NABIL	954.15	1419.36	1249.94	7703.31	8198.51	6031.17	5836.07	**36.05**

Source: Appendix -9

Figure: 22

Growth Ratio of Total Investment



The growth rate of total investment of NABIL seems to be lower than that of HBL i.e. 46.83%>36.05%. NABIL has fluctuating trend but HBL has increasing trend of growth ratio of investment.

(d) Growth Ratio of Net Profit

To measure such growth percentage and analysis the following formula are used:

$$\text{Growth Percentage} = \frac{\text{Ending Value - Beginning Values}}{\text{Beginning Value}} \times 100$$

Table: 20

Growth Ratio of Net Profit

(Rs. in million)

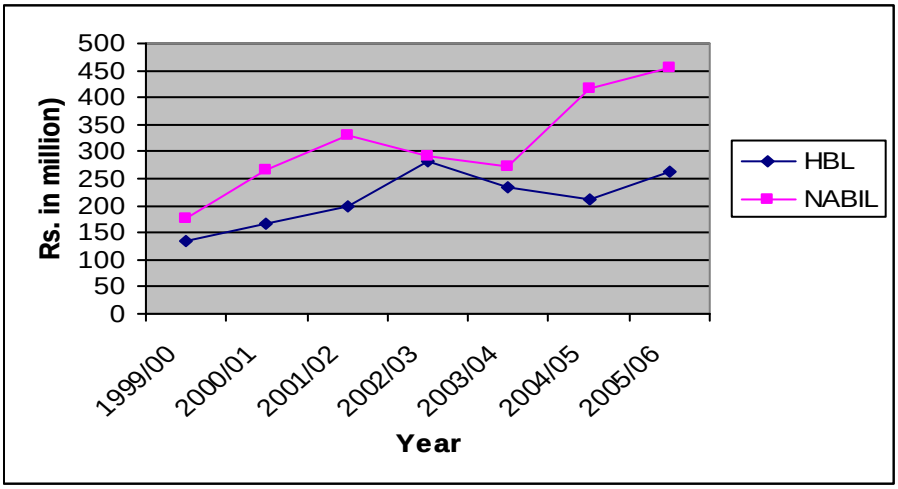
Bank	Year (Net Profit)							Growth
	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	Rate %
HBL	135.98	165.25	199.38	280.69	235.02	212.12	263.05	**11.87**
NABIL	174.80	266.48	329.12	291.37	271.63	416.25	455.31	**17.67**

Source: Appendix -9

From above table we can conclude that NABIL has growth rate of 17.67% and HBL has the growth rate of 11.87%. It seems that NABIL has higher growth rate than that of HBL. Both banks followed a fluctuating trend on the growth ratio of net profit.

Figure: 23

Growth Ratio of Net Profit



4.2 Analysis of Sources and Uses of Funds

The following table presents the list of sources and uses of funds of HBL and NABIL. And it represents the proportionate contribution to the total funds.

4.2.1 Analysis of Sources and Uses of Funds of HBL

The sources and uses analysis took out proportion of each source and each use to the total funds of the bank and it were expressed in percentage. The percentage was compared with the standard percentage of a typical bank. This analysis also concerned behaviors of the sources of funds. The uses were analyzed in terms of their supporting ability to the sources of funds to which they represent.

Table: 21

Percentage of Various Sources of Funds from Total Sources of HBL

Particulars	Year								Total	Average (%)
	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06		
Capital funds	2.24	2.50	2.37	2.40	3.05	3.00	5.37	4.56	25.49	**3.18**
Deposits	84.21	77.62	83.92	84.15	86.97	84.96	85.08	85.32	672.23	**84.03**
Borrowings	0.00	1.85	0.77	0.03	0.23	2.18	0.25	1.67	6.98	**0.87**
Others	13.55	18.03	12.94	13.42	9.76	9.87	9.30	8.45	95.32	**11.92**

Source: Appendix-14

Table: 22
Percentage of Various Uses of Funds from Total Uses of HBL

Particulars	Year								Total	Average (%)
	1998 /99	1999 /00	2000 /01	2001 /02	2002 /03	2003 /04	2004 /05	2005 /06		
Liquid Funds	66.83	38.00	32.46	34.37	35.82	33.50	32.20	28.08	273.18	**37.67**
Investments	10.63	3.72	13.21	10.68	12.27	16.24	10.76	18.93	77.51	**12.05**
Loans & Adv.	46.66	42.63	44.24	43.85	45.24	44.80	48.90	45.51	316.32	**45.33**
Interest Accu.	0.93	0.93	0.86	0.55	1.47	1.27	2.47	2.42	8.48	**1.36**
Others	7.69	14.72	9.24	10.55	5.20	4.20	5.67	5.67	57.27	**7.09**

Source: Appendix-14

From the above table 21, average contribution of capital fund in total sources is 3.18%. Major sources of capital funds are: Share capital, general reserves, other reserves and retained earnings. Likewise, deposits contribute more funds out of total sources of funds i.e. 84.03%. Major sources of deposits are, saving, fixed and current a/c. considering the contribution of borrowings to total sources, it is approximately 1%, which is the lowest among other sources of funds. Major sources of borrowing are NRB, Inter Bank and Financial institution. Other sources of funds are 11.92%. Deposit is only one reliable source of funds of HBL.

These sources of funds are used for different purposes. HBL has maintained liquid funds of 37.67%. Major uses of liquid funds are in call money, cash in hand and balance in hand. It has maintained sufficient liquid funds. It makes average investment of 12.05% on government securities and share and debentures. It provides loan and advances of 45.23% for its customers. Major uses of fund as loan and advances in private sectors and financial and non-financial sector of government enterprises Interest accrued and other uses cover 1.21% and 8.18% respectively.

Figure: 24

Sources of Funds of HBL

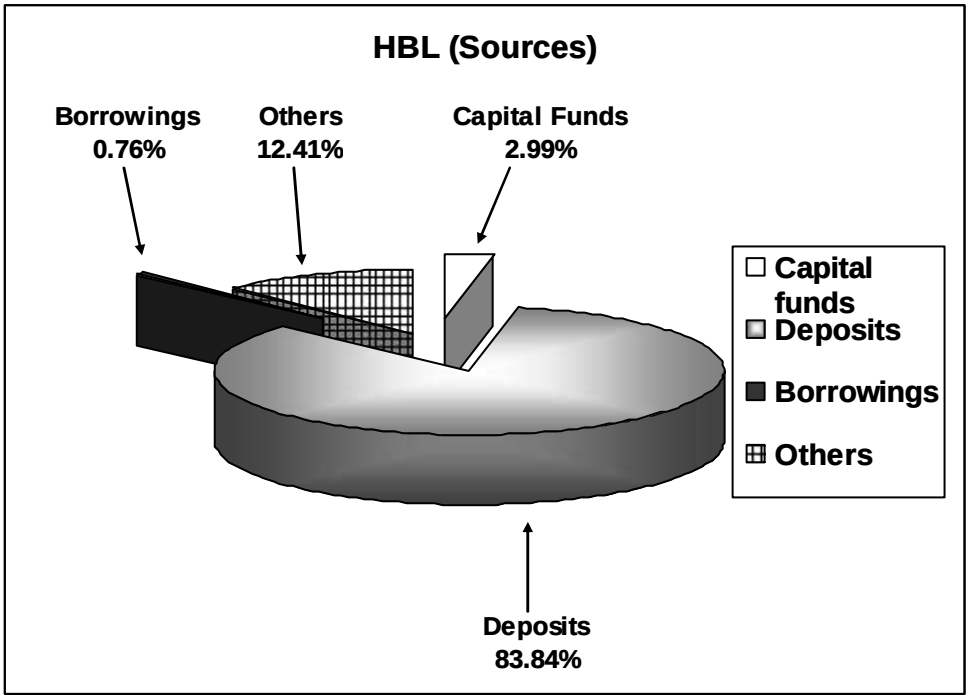
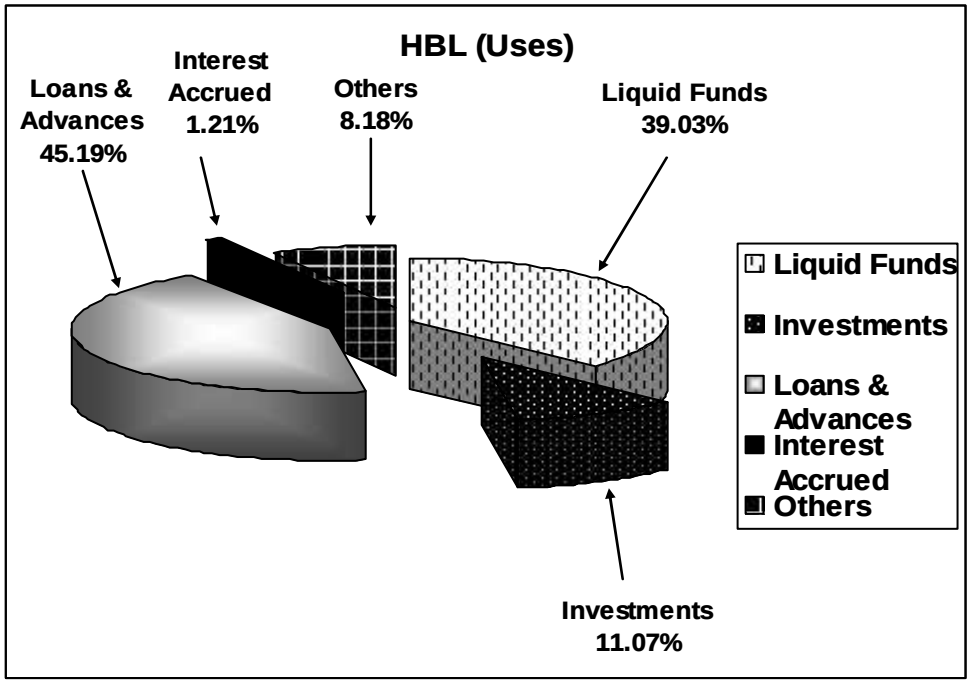


Figure: 25

Uses of Funds of HBL



4.2.2 Analysis of Sources and Uses of Funds of NABIL

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

Table: 23

Percentage of Various Sources of Funds from Total Sources of NABIL

Particulars	Year								Total	Average (%)
	1998 /99	1999 /00	2000 /01	2001 /02	2002 /03	2003 /04	2004/ 05	2005 /06		
Capital funds	7.14	7.00	5.87	5.38	5.41	6.27	9.89	7.90	54.86	**6.86**
Deposits	77.56	76.77	80.37	81.42	78.24	73.53	77.32	77.79	623	**77.88**
Borrowings	0.00	1.54	1.80	0.00	1.43	5.26	1.26	0.09	11.38	**1.42**
Others	15.29	14.68	11.96	13.20	14.93	14.94	11.53	14.22	110.57	**13.84**

Source: Appendix-15

Table: 24

Percentage of Various Uses of Funds from Total Uses of NABIL

Particulars	Year								Total	Average (%)
	1998 /99	1999/ 00	2000 /01	2001 /02	2002 /03	2003 /04	2004 /05	2005 /06		
Liquid Funds	20.55	19.11	20.96	19.77	9.94	13.24	19.82	7.17	130.56	**16.32**
Investments	4.72	5.18	6.67	7.68	5.15	3.89	5.48	23.22	61.99	**7.75**
Loans & Adv.	44.63	48.97	44.80	38.60	34.42	33.14	37.46	59.07	341.09	**42.64**
Interest Accu.	13.04	14.20	14.25	15.31	18.76	23.68	17.48	0.99	117.71	**14.71**
Others	17.05	12.54	13.33	18.64	31.73	26.06	19.76	9.55	148.66	**18.58**

Source: Appendix-15

From table 23, average contribution of capital fund in total sources is 6.86%. Major sources of capital funds are, share capital, statutory reserve and others reserve. Likewise, deposits contribute more funds out of total sources of funds i.e. 77.88%. Major sources of deposits are saving, fixed, current a/c and call deposits. Considering the contribution of borrowings to total sources, it is 1.42%. This is the lowest among other sources of funds. Major sources of borrowings are inter bank and NRB. Other source of funds is 13.84%.

These sources of funds are used for different purposes. NABIL has maintained liquid funds of 16.32%. Major uses of funds as liquid fund in call money, in the other financial institution and cash in hand. NABIL makes average investment of 7.75% on Government securities and share and debenture. Similarly, it provides loan and advances of 42.64% to its customers. Major uses of funds are as loan and advances in private sectors and government enterprises. Interest accrued and other uses covers 17.71% and 18.58% respectively.

Figure: 26

Sources of Funds of NABIL

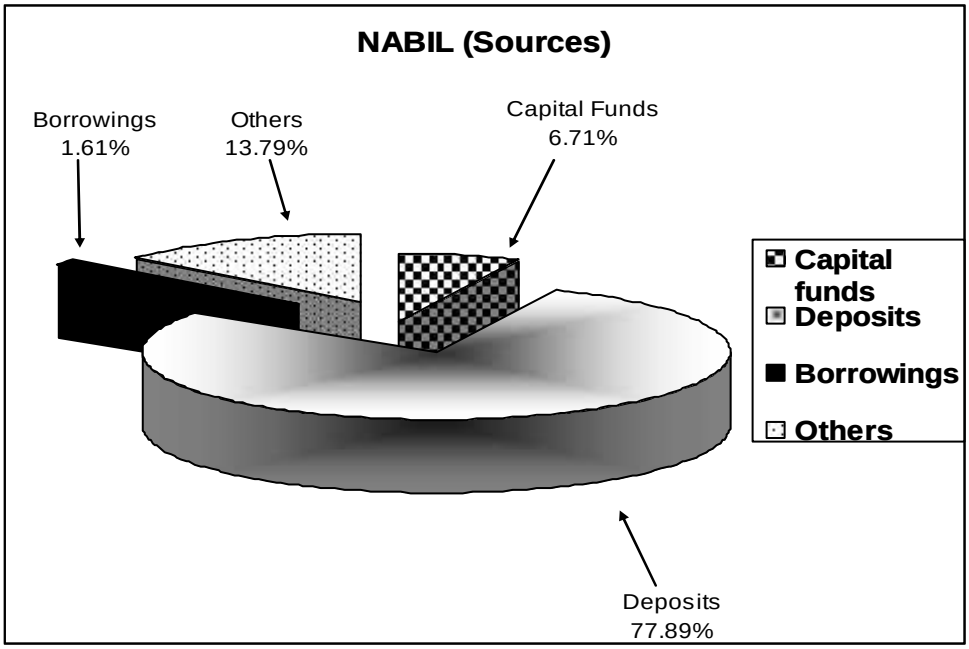
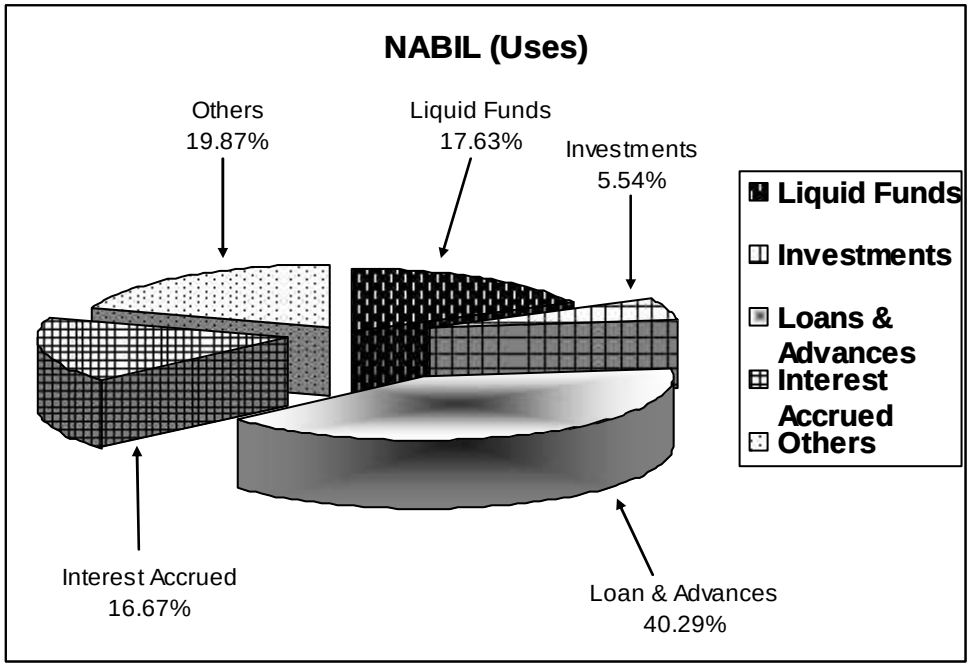


Figure: 27

Uses of Funds of NABIL



4.2.3 Comparative Analysis of Sources of Funds

The following table shows the average sources of funds of HBL and NABIL.

Table: 25

Comparative Average Sources of Funds of HBL and NABIL

Particulars	Average (%)	
	HBL	NABIL
1.Capital Fund	2.99	6.71
2.Deposits	83.84	77.89
3.Borrowings	0.76	1.61
4.Others	12.41	13.79

From the above table, capital fund of NABIL is higher in comparison to HBL i.e. 6.71%>2.99%. The contribution of deposits to total sources of funds of HBL is higher than that of NABIL (i.e.83.84%>77.89%). NABIL has borrowed proportionately more

fund than that of HBL. Similarly, proportion of other sources of funds of NABIL is 13.79%, which is greater than that of HBL.

4.2.4 Comparative Analysis of Uses of Funds

The uses analysis took out proportion of each use to the total funds of the bank and it were expressed in percentage. The percentage was compared with the standard percentage of a typical bank. The uses were analyzed in terms of their supporting ability to the sources of funds to which they represent. The following table shows the average uses of funds of HBL and NABIL.

Table: 26
Comparative Average Uses of Funds of HBL and NABIL

Particulars	Average (%)	
	HBL	NABIL
Liquid Funds	39.03	17.63
Investments	11.07	5.54
Loans & Advances	45.19	40.29
Interest Accrued	1.21	16.67
Others	8.18	19.87

From the above table it can be concluded that HBL has maintained high amount of liquid funds than that of NABIL (i.e.39.03%>17.63%). HBL seems to be more successful to make investment in different sectors in comparison to NABIL. Contribution of loan and advances of HBL is proportionately greater than that of NABIL i.e. 45.19%>40.29%. Similarly contribution of interest accrued and other use of HBL is comparatively lower than that of NABIL.

4.3. Relationship between Total Deposits and Total Investment

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

Table: 27

Relationship Between Total Deposits and Total Investment

Name of Bank	Base of Evaluation			
	r	**R^2**	**P.E.**	**6 x P.E.**
HBL	0.920	0.846	0.039	0.234
NABIL	0.89	0.79	0.052	0.315

Source: Appendix -11

The above table shows that coefficient of correlation between deposits and investment of HBL is 0.920 i.e. high degree of positive correlation between these two variables. And the value of coefficient of determination (R^2) is also 0.846 which means 84.60% of investment decision depend upon deposit and only 15.40% investment is depend upon other variables. Similarly probable error is 0.039 and 6 x P. E. is 0.234 which shows that 'r' is highly greater than 6 x P. E. Therefore it reveals that relationship between deposits and investment is significant i.e. correlation is certain.

Likewise, in case of NABIL, coefficient of correlation between investment and deposit is 0.890 that means there is a high degree of positive correlation between two variables. The value of coefficient of determination (R^2) is also 0.790 which means 79.00% of investment decision depend upon deposit and only 21.0% investment is depend upon other variables. Similarly probable error is 0.052 and 6 x P. E. is 0.315 which shows that 'r' is highly greater than 6 x P. E. Therefore it reveals that relationship between deposit and investment is significant i.e. correlation is certain.

4.4 Relationship between Total Deposits and Loans and Advances

The following table describes the relationship between total deposits and loan and advances of HBL and NABIL with comparatively under five-year period. In this case, total deposits are independent variable say (X) and loan and advances is dependent variable say (Y).

Table: 28

Relationship Between Total Deposits and Loans and Advances

Name of Bank	Base of Evaluation			
	r	**R^2**	**P.E.**	**6 x P.E.**
HBL	0.984	0.968	0.008	0.049
NABIL	0.930	0.866	0.034	0.20

Source: Appendix -11

From the above table we can find that the coefficient of correlation between deposits and loan and advances of HBL and NABIL are 0.984 and 0.930 respectively. This shows the positive relationship between these two variables i.e. loan and advances and deposits of both banks. By considering coefficient of determination (R^2), the value of R^2 is 0.968 incase of HBL and 0.866 incase of NABIL.

The value of R^2 of HBL is 0.968, which means 96.80% of loan and advances decision is determined by deposit and only 3.20% loan and advances depend upon other variables. The value of R^2 of NABIL is 0.866, which means that 86.60% of loan and advances is determined by deposit and only 13.40% loan and advances depend upon other variables.

In view of the probable error of HBL and NABIL, the value of R^2 is less than the 6 times of P.E. (i.e. 0.968>0.049, 0.866>0.20) which indicates there is significant relationship between deposits and loan and advances.

4.5 Trend Analysis

4.5.1 Trend Analysis of Total Investment to Total Deposits Ratio

The heading analyze the trend of total investment to total deposits ratio of HBL and NABIL with comparatively under seven years study period and projects the trend of coming five years. The following table describes the trend values of total investment to total deposits ratio of HBL in comparison to NABIL for twelve years.

Table: 29

Trend Values of Total Investment to Total Deposits Ratio of HBL and NABIL

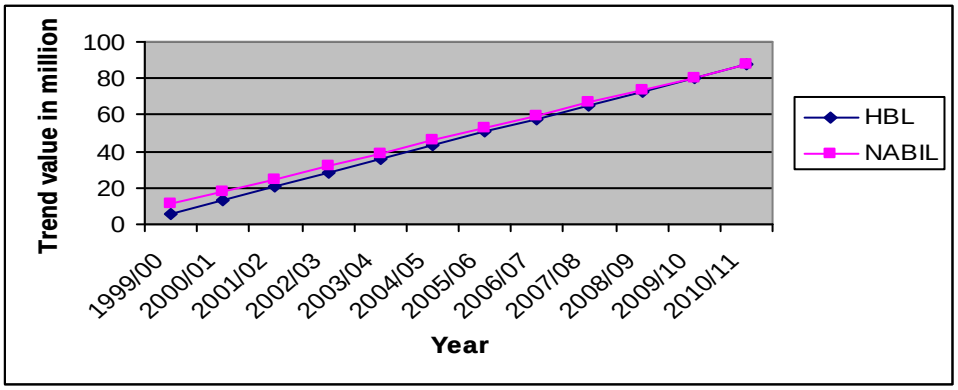
Year	Bank (Trend Values)	
	HBL	NABIL
1999/00	5.61	11.12
2000/01	13.09	18.05
2001/02	20.57	24.98
2002/03	28.05	31.91
2003/04	35.53	38.84
2004/05	43.01	45.77
2005/06	50.49	52.70
2006/07	57.97	59.63
2007/08	65.45	66.56
2008/09	72.93	73.49
2009/10	80.41	80.42
2010/11	87.89	87.35

Source: Appendix-13

From the above comparative table of trend value, it seems that the total investment of total deposits ratio of both banks is in increasing trend. Other thing remaining the same, the ratio of total investment to total deposits of HBL and NABIL will be 87.89 and 87.35 respectively in the year ended 2010.

Figure: 28

Trend Values of Total Investment to Total Deposits Ratio of HBL and NABIL



4.5.2 Trend Analysis of Loan and Advances to Total Deposits Ratio

In this topic an effort has been made to analyze the trend of loan and advances to total deposits ratio of HBL and NABIL with comparatively of seven years study period and projection of next five years. The following table describes the trend values of loan and advances to total deposits ratio of HBL and NABIL.

Table: 30

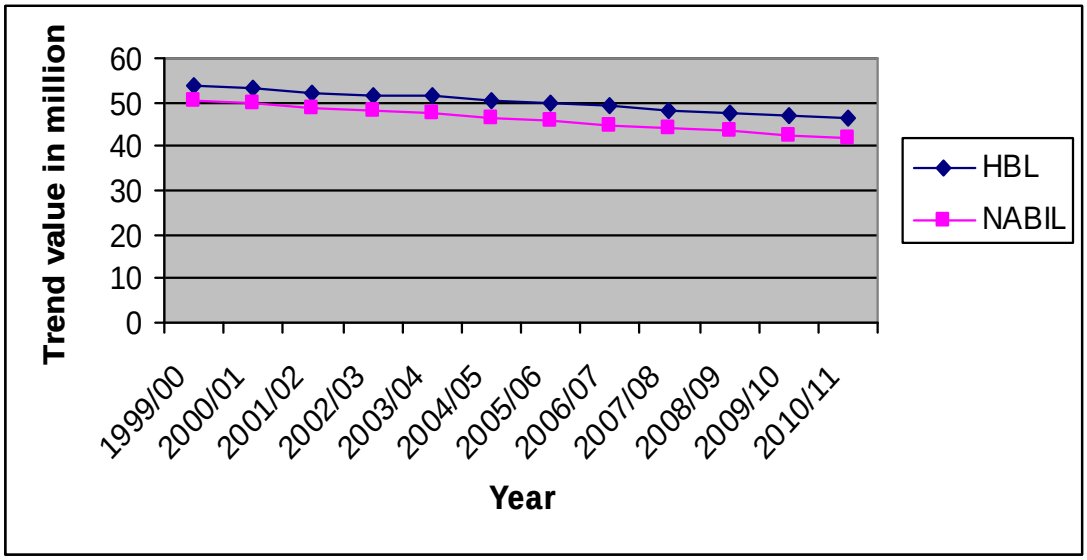
Trend Values of Loan and Advances to Total Deposits Ratio of HBL and NABIL

Year	Bank (Trend Values)	
	HBL	NABIL
1999/00	53.64	50.41
2000/01	52.98	49.64
2001/02	52.32	48.86
2002/03	51.67	48.08
2003/04	51.61	47.30
2004/05	50.36	46.52
2005/06	49.71	45.74
2006/07	49.05	44.96
2007/08	48.39	44.18
2008/09	47.74	43.40
2009/10	47.09	42.62
2010/11	46.43	41.84

Source: Appendix-13

From above table it has been found that the loan and advances to total deposits ratio of HBL and NABIL are in decreasing trend. Other things remaining constant, the loan and advances to total deposits of NABIL will be 41.84, where as HBL will be 46.43 respectively in the year ended 2010.

Figure:29
Trend Values of Loan and Advances to Total Deposits Ratio of HBL and NABIL



(B) Analysis of Primary Data

To evaluate the management view relating to the fund mobilization, a set of questionnaire was used which contains seven questions relating to fund mobilization aspect of the banks. The responds are regarded as the representative of the management among majority who hold higher position in their firm. The qualitative aspects are examined by distributing questionnaires to 25 financial executives, employees and investors. The number of representative for the queries has differed due to the differentiation regarding the formation of the executive. The result of the questionnaire survey is presented in bellow:

Knowledge with investors about fund mobilization policy

In context to the knowledge of investment about the fund mobilization policy adopted by commercial banks, most of the respondents opined that they have not adequate knowledge about fund mobilization policy adopted by commercial banks.

Table: 31

Knowledge with investors about fund mobilization policy adopted by commercial banks

Responses	No. of respondents	Percentage
Yes	-	-
No	25	100
Total	25	100

Source: Field Survey, 2008

Reason for not interest of investors in fund mobilization policy

In relation to the reasons for not so interested in fund mobilization policy by the investors. Most of the respondent felt that investors are not interested to fund mobilization policy because of passive investment strategy and mismanagement. Majority of the respondents (84%) told 'passive investment strategy' and the minority of the respondents (16%) told 'mismanagement'. Through the classification of the views of respondents, the result generated as shown in above table.

Table: 32

Reason for not interest of investors in fund mobilization policy

Responses	No. of respondents	Percentage
Passive investment strategy	21	84
Mismanagement	4	16
Total	25	100

Source: Field Survey, 2008

Indication the level of risk in investing in current situation

With respect to the indication to find out the level of risk in investing in current situation. The options were: high, moderate, less, and no risk. Most of the executives indicated that the level of risk is moderate but investors indicate the level of risk is high. There are few respondents who said that there is less risk. Regarding this query, the results drown from

the respondents' views were as shown in above table. The majority of the respondents (64%) gave the first important to moderate; the second (20%) is to indicate high and remaining (16%) told less risk.

Table: 33

Indication the level of risk in investing in current situation

Responses	No. of respondents	Percentage
High	5	20
Moderate	16	64
Less	4	16
Total	25	100

Source: Field Survey, 2008

Sectors of investment that commercial banks invest their fund

In context to the about the sectors of investment that commercial banks should invest the fund collected through deposits. Regarding this query, the results from the respondents' views were as shown in above table. The majority of the respondents (64%) gave large scale industry; the second (20%) is to indicate manufacturing companies and remaining (16%) told trade and commerce.

Table: 34

Sectors of investment that commercial banks invest the fund collected through deposits

Responses	No. of respondents	Percentage
Large scale industry	16	64
Manufacturing companies	5	20
Trade and commerce	4	16
Total	25	100

Source: Field Survey, 2008

Priority to give investment to the rural area of the country

With respect to necessary to give investment priority to the rural area of the country, 60% of the respondents felt that it is necessary and 40% of the respondents stated that it is not to give investment priority to the rural area of the country. Most of financial executive and investors said that it is necessary to give investment priority in rural area of country.

Table: 35

Priority to give investment to the rural area of the country

Responses	No. of respondents	Percentage
Yes	15	60
No	10	40
Total	25	100

Source: Field Survey, 2008

Reason for increasing minimum threshold balance and reduction of interest rate on the client's deposits

In respect to the reason for increasing the minimum threshold balance and in the other hand reduction of interest rate on the client's deposits. 56% of the respondents have told that they don't have enough investment opportunities and 44% of the respondents told that they already have enough deposits or collections. In response to question 'Reason for increasing minimum threshold balance and reducing the interest rate on the client's deposits' most of respondent said that they do not have enough investment opportunity.

Table: 36

Reason for increasing the minimum threshold balance and reduction of interest rate on the client's deposits

Responses	No. of respondents	Percentage
Don't have enough investment opportunities	14	56
Already have enough deposits or collections	11	44
Total	25	100

Source: Field Survey, 2008

Reasons behind for not providing banking facilities to the rural areas

With respect to reasons behind for not providing banking facilities to the rural areas, 60% of the respondents felt that they don't want to take risks and 40% of the respondents stated that they are profit oriented. Most of the respondents thought that the reason behind for not providing banking facilities to the rural areas was they don't want to take risk. Some investors thought that banks are profit oriented only and in rural areas profit generating is less in comparison to urban areas.

Table: 37

Reasons behind for not providing banking facilities to the rural areas

Responses	No. of respondents	Percentage
Don't want to take risks	11	44
They are profit oriented only	14	56
Total	25	100

Source: Field Survey, 2008

4.6 Major Findings of the Study

From the analysis of the data collected from various sources following findings have been made.

1) The mean ratio of cash and bank balance to total deposits of NABIL is lower than HBL. It means the liquidity position of NABIL is lower than HBL. It shows the lower position regarding the meeting of demand of its customer on their deposit at any time than HBL. The ratio of HBL is more consistent and that of NABIL is less consistent.
2) The average study of cash and bank balance to current assets ratio of HBL is higher than NABIL. It shows that NABIL has taken more risk to meet the daily requirement of its customer's deposit than HBL. The ratio of HBL is more consistent and NABIL has less consistent ratio.
3) NABIL has invested more portions of current assets on government securities than HBL according to average study. It means NABIL is more sensitive in investment in productive sector than HBL. Analysis shows that investment on government securities of HBL is more consistent and NABIL has less consistent ratio.
4) The mean ratio of loan and advances to total deposits of HBL is lower than that of NABIL. The ratio of HBL is more consistent and NABIL has less consistent ratio.
5) NABIL has mobilized its collected deposits on investment better than that of HBL The ratio of HBL is less consistent NABIL has more consistent ratio.
6) The loan and advances to total working fund ratio describes that NABIL position is better than HBL. The variability in ratio of HBL is slightly higher than that of NABIL.
7) The mean ratio of investment on government securities to total working fund of NABIL is higher than that of HBL. NABIL seems more successful to invest its

working fund in government securities than HBL. The variability in the ratio of HBL is more consistent than that of NABIL.

8) The mean ratio of investment on shares and debentures to total working fund of HBL seems slightly weaker than that of NABIL NABIL has more consistent ratio than that of HBL.
9) From the average study of return on loan and advances, NABIL seems more successful to earn profit on loan and advances than HBL. The mean ratio of NABIL is higher than HBL. The variability in the ratio of NABIL is less consistent and HBL is more consistent.
10) Due to higher mean ratio of return on working funds of NABIL, it seems more successful in earning profit on total assets than HBL. The variability in the ratio of NABIL is less consistent and HBL is more consistent.
11) NABIL has slightly higher mean ratio than HBL to earn interest on total working fund. The variability in the ratio of NABIL is more consistent and HBL is less consistent.
12) The mean ratio of total interest paid to total working fund of HBL is higher than NABIL. So, we can say that NABIL is in better condition from interest expenses payment point of view. The variability in the ratio of NABIL is more consistent and HBL is less consistent.
13) The mean ratio of liquidity risk of HBL is higher than NABIL. Degree of risk and variability of risk is lower in HBL in comparison to NABIL. It seems liquidity risk ratio of HBL is more consistent than that of NABIL.
14) In case of credit risk ratio, HBL has the lower risk than NABIL. The variability in the ratio of NABIL is slightly lower than HBL.
15) The growth ratio of deposit of NABIL seems too lower than that of HBL. The growth rate of NABIL is only 8.50% but HBL has 19.09% growth rate.
16) From the analysis of growth ratio of loan and advances, NABIL seems too weak in increasing loan and advances than that of HBL. The growth rate of loan and advances of NABIL is only 7.94%, which is lower than that of HBL.
17) NABIL seems weak in increasing total investment in comparison to HBL. The growth rate of NABIL is 36.05% but HBL is 46.83%.
18) The yearly growth rate of net profit of NABIL is better in comparison to HBL. HBL has the growth rate of 11.87% and NABIL has 17.67%.
19) Capital fund of NABIL has been found significantly higher than HBL. HBL has higher amount of deposit than that of NABIL. HBL has been borrowing low

proportion in comparison to NABIL. NABIL seems to be more successful in generating funds from other sources.

20) HBL has maintained high liquid funds than that of NABIL. HBL seems to be more successful to make investment in different sectors in comparison to NABIL. HBL provides more funds as loan and advances than that of NABIL NABIL is comparatively able to realize higher amount of interest accrued than that of HBL. NABIL seems to have allocating more funds in other assets. Findings from the Coefficient of Correlation Analysis.
21) Correlation coefficient between deposit and total investment of HBL is higher than NABIL. It indicates that HBL is successfully mobilizing its deposits as investment. There is significant relationship between correlation coefficient of deposits and total investment of NABIL.
22) HBL has the higher degree of correlation coefficient between deposit and loan and advances than NABIL. It states that HBL is in better position in the mobilization of deposits as loan and advances in comparison to NABIL. There is significant relationship between correlation of coefficient of deposit and loan and advances of HBL and NABIL.
23) The total deposits to total investment ratio of HBL and NABIL are in increasing trend. The trend value of NABIL is higher than HBL in the year 2009. After the year 2009, NABIL has slightly lower trend value. It indicates that NABIL is more successful to utilize its deposit in investment.
24) The trend values of the both banks are in decreasing trend but HBL has higher trend value than NABIL. Loan and advances to total deposits ratio of HBL is comparatively better than NABIL although both has decreasing trend.
25) There is significant difference between mean ratios of loan and advances to total deposits of HBL and NABIL.
26) There is no significant difference between mean ratios of total investment to total deposit of HBL and NABIL.
27) Empirical study of the customer's views regarding the adopted fund mobilization policy of concerned banks has been carried out. Most of joint venture banks have focused their banking service especially to huge clients such as multinational companies, large scale industries, manufactured companies and exporter of garments and carpets.
28) Most of the financial executives and investors felt that Nepalese investors do not have knowledge about fund mobilization policy. Most of the respondent felt that investors are not interested to fund mobilization policy because of passive

investment strategy and not proper management. Most of the executives indicated that the level of risk is moderate but investors indicate the level of risk is high. There are few respondents who said that there is less risk. In response to questionnaire, most of respondent highlighted on shares, debentures and bond and government securities. Few of them suggested on loan and advances and other companies securities.

29) Most of financial executive and investors said that it is necessary to give investment priority in rural area of country. In response to question 'Reason for increasing minimum threshold balance and reducing the interest rate on the client's deposits' most of respondent said that they do not have enough investment opportunity. Most of the respondents thought that the reason behind for not providing banking facilities to the rural areas was they don't want to take risk.

CHAPTER - FIVE

Summary, Conclusion and Recommendation

5.1 Summary

Nowadays there is very much competition in banking market but less opportunity to make investment. In this condition, joint venture bank can take initiation in search of new opportunities, so that they can survive in the competitive market and earn profit. But investment is a very risky job. For a purposeful, safe, profitable investment bank most follows sound investment and fund mobilizing policy.

Generally fund mobilizing means cash flow in the different sectors at profit motive. In the broadest sense it means, the sacrifice of certain current value for future value or possibly uncertain value. This research focuses on the comparative study of fund mobilization of two joint venture banks; HBL and NABIL Bank Limited. The study focuses whether it is backward or forward in investing its fund efficiently in the business, industry and commerce. In this study HBL is compared with the Nabil Bank Limited on their future fund mobilizing activities by collecting seven years data from the year 1999/00 to 2005/06. Both banks have strong position in the market with new banking system and their activities.

Fund mobilizing is always related with risks and returns. It is appropriate to state that the objective is to make a lot of money by recognizing the possible losses. Fund mobilizing policy also involves the identification of the potential categories of financial assets for consideration in the ultimate portfolio.

The main objective of the study is to analyze the fund mobilizing policy adopted by NABIL and HBL Bank Limited. The specific objectives of the study are: a) To measure the relationship of total deposits with total investment, loan and advances and net profit, b) To evaluate the comparative growth ratio on total investment, loans and advances, total deposits and net profit of HBL and NABIL Bank Limited, c) To evaluate financial

and investment efficiency, profitability and liquidity position of HBL and NABIL Bank Limited and d) To analyze the sources and uses of funds of these two banks.

To achieve the objectives of the study, descriptive an analytical research design has been used. Some statistical and financial tools have also been applied to examine facts and descriptive techniques have been adopted to evaluate funds mobilizing performance of HBL and compare it with NABIL Bank Limited. The study is based on secondary data. So the descriptive and analytical research designs have been used. In this study only two joint venture banks have been taken as sample. All the commercial banks in Nepal are the population of the study. The sample taken from the commercial banks are Himalayan Bank Limited and Nabil Bank Ltd.

The research is based on secondary source of data. The data relating to the investment, deposit, loan and advances, assets and profit are directly obtained from the balance sheet and Profit and Loss A/C of the concerned bank's annual reports. Supplementary data and information are collected from number of institution and authoritative sources like Nepal Rastra Bank, Security Exchange Board, Nepal Stock Exchange Ltd., Ministry of Finance, Budget speech of different fiscal years, economic survey and National Planning Commission etc. To achieve the objectives of the study various financial and statistical tools have been used. After collecting the data from the different sources, it is analyzed by using financial tools and statistical tools. Findings are drawn by applying various financial tools namely liquidity ratio, assets management ratio, profitability ratio, growth ratio, risk ratio and sources and uses of funds. In the same way, statistical tools have been used namely mean, standard deviation, coefficient of variation, coefficient of correlation and least square method trend.

5.2 Conclusion

From the analysis of the liquidity position of HBL and NABIL, it can be concluded that the liquidity position of NABIL was not satisfactory whereas HBL is comparatively better than that of NABIL. NABIL has made enough investment in government securities than HBL. Liquidity ratio of HBL is more consistent than that of NABIL. In view of assets management side of two banks, it can be concluded that HBL is in weak position in mobilizing the collected deposits as loan and advances. NABIL is successful in mobilizing its collected deposits on investment better than that of HBL. NABIL has invested its funds efficiently on government securities and shares and debentures better

than that of HBL. Assets management ratio of HBL is more consistent than that of NABIL.

NABIL profit earning capacity on loan and advances and working fund is better than that of HBL. The return ratio of HBL is more consistent than that of NABIL. NABIL seems stronger in earning interest from working fund than HBL and it has also been successful to collect its working fund from less expensive sources. Liquidity risk of HBL is higher than NABIL whereas it has maintained lower credit risk than that of NABIL.

From the growth ratio of total deposits, it can be concluded that HBL has more collection capacity than NABIL. Growth rate of NABIL on loan and advances is too weak in comparison to HBL. Growth rate of total investment of NABIL seems too weak than HBL whereas it has better position than that of HBL with respect to growth rate of net profit. HBL has been more successful to collect deposits than that of NABIL. HBL borrowing is an indication that the internal fund management of HBL is in satisfactory position towards meeting liquidity needs. HBL has more fund as liquid and is also been successful in making investment in different sectors better than that of NABIL. It also provides more fund as loan and advances.

Correlation coefficient between deposits and total investment and deposits and loan and advances of HBL and NABIL indicates the positive relationship or there is high degree of positive correlation. In most of the cases it has been found that loan and advances and investment decision depends upon other variables. From the calculation of probable error it can be concluded that the relationship between deposits and investment and loan and advances and deposits of both banks is significant.

By considering the trend values, HBL seem to be more successful to utilize its total collected deposits in investment than HBL. Deposit utilization trend in relation to loan and advances of HBL is proportionately better than NABIL. In case of testing of hypothesis it can be concluded that there is significant difference between mean ratio of loan and advances to total deposits of HBL and NABIL and there is no significant difference between mean ratio of total investment to total deposits of HBL and NABIL.

5.3 Recommendations

Based on above findings and conclusion the following recommendations have been made.

1) The ratio of cash and bank balance to total deposits and current assets of HBL is higher than NABIL. It means HBL has idle cash and bank balance. It may decrease over all profit of bank. So HBL is recommended to activate its idle cash and bank balance in productive sector. The affecting factors of liquidity position may be interest rates, supply and demand position of loan and advances as well as savings, investment situations, Central Bank directives, capability of management, lending policies, strategic planning and funds flow situations.
2) Banks are suggested not to be surrounded and limited within the interest and status of big clients like multinational companies, manufacturer and exporter. The banks have to preserve the banking and saving habits of the low-income people of the kingdom. Because the main source of the collecting deposits of commercial banks are from public sector. It is also recommended to collect more funds as deposits through different schemes from different level of public, through assortment of deposit schemes and facilities like housing schemes, education loan, vehicle loan, and deposit for house wife etc.
3) From the analysis, HBL has not invested more funds in government securities in comparison to NABIL. The bank has higher cash and bank balance than NABIL. Therefore, it is recommended to invest in government securities instead of keeping idle and is not considered good from profitability point of view. Investment on those securities issued by government is free of risk, highly liquid and highly saleable in the marketplace.
4) The recovery of the loan is most challenging job for banks. Increasing in non-performing assets leads to failure of commercial bank in recovery of loan. Therefore it has been recommended that HBL and NABIL should follow liberal lending policy when sanction of loan and advances have been done with adequate guarantee and should implement sound collection policy with proper identification of creditworthiness of customers, continual follow up and legal procedure if required. Therefore, the bank must be very careful while formulating credit policy. The credit policy is also associated with some legal procedure.
5) HBL is recommended to increase their investment on shares and debentures on different sectors to earn more interest and to increase their net profit.

6) Growth of commercial banks helps to develop the economic growth of the country. So the service of the commercial banks should be expanded all over the country through collection of idle saving from every territory of the country and should be utilized for income generation purpose. Government should encourage the commercial banks to expand banking service in rural areas and communities without making unfavorable impact in their profit.
7) Both banks should be careful in increasing profit of the bank to maintain the confidence of shareholders, depositors and all its customers. HBL profitability position is not better than that of NABIL. So, HBL is strongly recommended to utilize risky assets and shareholders fund to gain high amount of profit.
8) NRB has given directives to commercial banks to invest their certain percentage of investment in deprive and priority sector. Both banks have earned profit from profitable and private sector. So, they are recommended to strictly follow up the directives issued by NRB and should make investment on public utilities sector like health, sanitation, education, drinking water, agriculture etc.
9) Portfolio management is important for every investor. In each investment, risk is involved. The greater the variability of returns of those projects, the more will be riskier. So, it should be kept in mind while making investment, that project should be selected which will be low riskier and highly profitable. So, portfolio management helps the investors in making investment in different areas by considering their risk factor. Portfolio management of bank assets means allocation of funds into different components of banking assets in such a way that the conflicting goal of maximum yield and minimum risk can be achieved. So, portfolio condition of HBL and NABIL should be examined carefully from time to time. Banks should make continuous efforts to explore innovative, competitive and high yielding investment opportunities to optimize their investment portfolio.
10) The minimum bank balance and the amount needed to open an account in the banks are very high. So, lower level people and small depositors are very far from banking facilities providing by joint ventures banks. So, all the banks should open its doors to small depositors for promoting and mobilizing small depositors' funds

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APPENDIX -1

Comparative Balance Sheet of NABIL Bank Limited for FY (1999/00-2005/06)

Comparative Balance Sheet of NABIL Bank Ltd. (Rs. in million)							
Particulars	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
ASSETS							
Current Assets	**10785.87**	**11961.95**	**14788.91**	**13161.68**	**13313.40**	**13868.30**	**14244.04**
1. Cash and Bank Balance	1153.80	630.94	1088.75	812.90	1051.82	1144.77	970.49
2. Money at call and short notice	2619.98	3214.05	4631.83	522.55	31.37	670.20	918.73
3. Loan & advances	5224.07	5788.93	7334.76	8324.44	7437.90	7755.95	8189.99
4. Invt. on Govt.securities	943.43	1402.85	1233.82	2732.96	4120.29	3588.77	3672.63
5. Interest Receivable	161.28	231.65	373.01	372.35	171.09	177.60	174.49
6. Miscellaneous Current Assets	683.31	692.53	125.74	395.48	499.93	531.01	317.71
Fixed Assets	189.44	205.59	219.17	235.12	237.63	251.91	338.13
Investment on Shares	10.72	16.51	16.12	18.82	22.22	22.22	22.22
Other investment	0.00	0.00	0.00	4951.53	4056.00	2420.18	2141.22
Total Assets (Working Fund)	**10986.03**	**12184.05**	**15024.20**	**18367.15**	**17629.25**	**16562.61**	**16745.61**
LIABILITIES							
Current Liabilities	**10131.40**	**11249.94**	**13977.29**	**17226.21**	**16384.73**	**15135.42**	**15153.01**
7. Deposits and other a/c's	8737.77	9464.28	12779.51	15839.01	15506.44	13447.65	14119.03
8. Short term loan	0.00	190.22	285.20	0.00	417.30	961.46	229.66
9. Bills Payable	50.42	53.99	38.07	69.70	67.75	108.94	173.50
10. Tax Provision	592.22	591.95	0.00	0.00	0.00	0.00	0.00
11. Staff Bonus	46.33	44.17	54.97	52.60	44.12	66.36	71.94
12. Dividend Payables	3.16	120.61	12.32	143.52	11.80	94.14	36.88
13. Misc. current liabilities	701.50	784.72	807.22	1121.38	337.32	456.87	522.00
Net Worth	**828.49**	**877.73**	**984.07**	**1062.83**	**1146.42**	**1314.18**	**1481.68**
Share Capital	392.79	392.79	392.79	491.65	491.65	491.65	491.65
Shareholder's Reserves	435.70	484.93	591.27	571.18	654.77	822.53	990.03
Total Liabilities	**10171.91**	**11306.31**	**14040.13**	**17304.31**	**16482.83**	**15248.43**	**16634.69**

Source :Annual report of NABIL Bank Ltd.

APPENDIX - 2

Comparative Balance Sheet of Himalayan Bank Limited for FY (1999/00-2005/06)

Comparative Balance Sheet of HBL Bank Ltd. (Rs. in million)							
Particulars	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
ASSETS							
Current Assets	**8620.84**	**10988.05**	**15605.42**	**17359.42**	**14165.33**	**16881.45**	**18605.75**
1. Cash and Bank Balance	1029.11	726.99	901.91	1435.18	1264.67	1979.21	2001.18
2. Money at call and short notice	2146.93	4125.85	4682.76	4057.65	352.35	150.10	368.90
3. Loan & advances	4223.06	5311.66	7224.73	9015.35	8913.73	10001.85	11951.87
4. Invt. On govt. securities	970.88	459.45	2112.88	2224.30	3047.75	3998.87	3471.74
5. Interest Receivable	124.71	173.26	386.56	335.75	330.38	418.46	526.65
6. Miscellaneous Current Assets	126.15	190.84	202.54	291.19	256.45	332.96	285.41
Fixed Assets	110.60	171.32	193.05	201.68	318.85	229.87	299.64
Investment on Shares	3.10	9.50	9.49	10.69	34.27	34.27	34.27
Other investment	0.00	0.00	0.00	1848.17	6075.09	6142.30	5826.11
Total Assets (Working Fund)	**8734.54**	**11168.87**	**15863.74**	**19500.58**	**20672.45**	**23355.23**	**24765.77**
LIABILITIES							
Current Liabilities	**8335.57**	**10698.75**	**15311.04**	**18747.46**	**19978.61**	**22370.12**	**23673.67**
7. Deposits and other a/c's	7713.60	9779.72	14043.10	17532.40	18619.37	21007.37	22010.33
8. Short term loan	0.00	232.65	128.65	79.53	605.35	608.13	659.01
9. Bills Payable	9.32	11.44	65.80	22.90	55.58	46.73	64.38
10. Tax Provision	81.13	86.35	115.25	154.46	114.02	147.90	157.52
11. Staff Bonus	24.11	27.94	34.86	48.34	38.78	40.00	46.73
12. Dividend Payables	19.37	24.51	9.06	14.72	6.44	7.86	6.32
13. Misc. current liabilities	488.04	536.14	914.32	895.11	539.07	512.13	729.38
Net Worth	**384.06**	**451.18**	**526.05**	**720.59**	**858.11**	**1063.13**	**1324.17**
Share Capital	120.00	192.00	240.00	300.00	390.00	429.00	536.25
Shareholder's Reserves	264.06	259.18	286.05	420.59	468.11	634.13	787.92
Total Liabilities	**8734.54**	**11168.87**	**15863.74**	**19500.58**	**20672.45**	**23355.23**	**24765.77**

Source: Annual Report of HBL Bank Ltd.

APPENDIX -3

Comparative Profit and Loss Account of NABIL Bank Limited

(Rs. in million)

Particulars	Fiscal Year						
	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
A. Operating Income	1114.03	1128.93	1309.11	1573.31	1639.11	1340.51	1294.90
1.Interest Earned	899.66	903.24	1047.03	1266.70	1120.18	1017.87	1001.62
2. Commission & Discount	89.29	117.29	139.59	146.84	114.34	144.41	135.96
3. Exchange Income	124.88	108.15	122.19	159.51	154.22	144.08	157.32
4. Dividend	.20	0.25	0.30	0.26	0.00	0.00	0.00
5. Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00
B. Cost of Services	507.86	491.77	530.93	724.22	606.96	527.93	463.79
6. Interest Paid	433.92	404.39	432.96	578.36	462.08	317.35	282.95
7. Salaries, Allowances & P.F.	73.94	87.38	97.97	145.86	144.88	210.58	180.84
C. Provision for Bonus	46.33	44.17	54.97	52.60	44.12	66.36	71.94
D. Other General Expenses	243.04	170.30	203.77	298.50	538.70	182.78	148.61
E. GROSS PROFIT	316.80	422.69	519.44	497.99	449.33	563.49	610.56
F. Depreciation	15.40	25.33	25.01	26.27	39.75	35.04	46.27
G. Operating Profit (E-F)	301.40	397.36	494.43	471.72	409.58	528.45	564.29
H. Income from other sources	0.00	0.19	0.31	1.64	0.00	86.95	92.78
I. Profit Before Tax (G+H)	301.40	397.55	494.74	473.36	409.58	615.40	657.07
J. Provision for Taxes	126.60	131.07	165.62	181.99	137.95	199.15	201.76
K. Net Profit (I-J)	**174.80**	**266.48**	**329.12**	**291.37**	**271.63**	**416.25**	**455.31**

Source: Annual Report NABIL Bank Ltd.

APPENDIX -4

Comparative Profit and Loss Account of Himalayan Bank Limited

(Rs. in million)

Particulars	Fiscal Year						
	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
A. Operating Income	905.82	1033.61	1241.01	1572.01	1387.34	1443.54	1516.33
1.Interest (Earned)	753.97	862.05	1033.66	1326.38	1149.00	1201.23	1245.90
2. Commission & Discount	71.68	101.98	110.33	125.97	101.70	102.56	123.93
3. Exchange Income	75.78	63.96	87.33	114.22	104.60	109.60	112.42
4. Dividend	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5. Other	4.39	5.62	9.69	6.35	32.04	30.15	34.08
B. Cost of Services	519.04	579.91	653.32	809.59	679.67	674.28	644.05
6. Interest Paid	473.79	532.55	593.44	732.69	578.13	554.13	491.54
7. Salaries, Allowances & P.F.	45.25	47.36	59.88	76.90	101.54	120.15	152.51
C. Provision for Bonus	24.11	27.94	34.86	48.34	38.78	40.00	46.73
D. Other General Expenses	134.29	161.97	221.24	259.60	298.56	356.72	257.78
E. GROSS PROFIT	228.38	263.79	331.59	455.39	370.33	372.54	452
F. Depreciation	12.01	13.38	19.58	22.70	23.74	23.28	34.73
G. Operating Profit (E-F)	216.73	250.41	312.01	432.69	346.59	349.26	417.27
H. Income from other sources	0.62	1.06	1.69	2.32	2.45	10.76	3.30
I. Pre- tax Profit (G+H)	216.99	251.47	313.70	435.01	349.04	360.02	420.57
J. Provision for Taxes	81.01	86.22	114.32	154.32	114.02	147.90	157.52
K. Net Profit (I-J)	**135.98**	**165.25**	**199.38**	**280.69**	**235.02**	**212.12**	**263.05**

Source: Annual Report HBL Bank ltd.

APPENDIX - 5

Sample Calculation of Financial Tools is presented below:

For HBL Bank Ltd.
Year 1999/00,
Cash and Bank Balance to Total Deposits ratio

$$= \frac{CashandBankBalance}{TotalDeposits} = \frac{1029.11}{7713.60} = 13.34\%$$ So on,

For NABIL Bank Ltd.
Year 1999/00,
Cash and Bank Balance to Total Deposit ratio

$$= \frac{CashandBankBalance}{TotalDeposits} = \frac{1153.80}{8737.77} = 13.20\%$$ So on,

For HBL Bank Ltd.
Year 1999/00,

Cash and Bank Balance to Current Assets $= \frac{CashandBankBalance}{CurrentAssets} = \frac{1029.11}{8620.84} =$ 11.94%

For NABIL Bank Ltd.
Year 1999/00,

Cash and Bank Balance to Current Assets $= \frac{CashandBankBalance}{CurrentAssets} = \frac{1153.80}{10785.87} =$ 10.70% So on,

For HBL Bank Ltd.
Year 1999/00,
Investment on Government Securities to Current Assets

$$= \frac{InvestmentonGov.Securities}{CurrentAssets} = \frac{970.88}{8620.84} = 11.26\%$$ So on,

For NABIL Bank Ltd.
Year 1999/00,
Investment on Government Securities to Current Assets

$$= \frac{InvestmentonGov.Securities}{CurrentAssets} = \frac{943.43}{10785.87} = 8.74\%$$ So on,

APPENDIX – 6

For HBL Bank Ltd.

Year 1999/00,

Loan and Advances to Total Deposits Ratio = $\frac{Totalloananddadvances}{TotalDeposit} = \frac{4223.06}{7713.60} =$

=54.75%

For NABIL Bank Ltd.

Year 1999/00,

Loan and Advances to Total Deposits Ratio = $\frac{TotalloananddAdvances}{TotalDeposit} = \frac{5224.07}{8737.77}$

=59.78%

For HBL Bank Ltd.

Year 1999/00,

Total Investment to Total Deposits Ratio= $\frac{TotalInvestment}{TotalDeposit} = \frac{970.88 + 3.10}{7713.60} = 12.63\%$

For NABIL Bank Ltd.

Year 1999/00,

Total Investment to Total Deposits Ratio= $\frac{TotalInvestment}{TotalDeposit} = \frac{943.43 + 10.72}{8737.77} = 10.92\%$

For HBL Bank Ltd.

Year 1999/00,

Loan and Advances to Total Working Fund= $\frac{TotalLoanandAdvances}{TotalWorkingFund} = \frac{4223.06}{8734.54} =$

48.35%

For NABIL Bank Ltd.

Year 1999/00,

Loan and Advances to Total Working Fund= $\frac{TotalLoanandAdvances}{TotalWorkingFund} =$

$\frac{5224.07}{10986.03}$ = 47.55%

For HBL Bank Ltd.

Year 1999/00,

Investment on Govt. Securities to Total Working Fund

$$= \frac{TotalInvestmentonGovt.Securities}{TotalWorkingFund} = \frac{970.88}{8734.54} = 11.12\ \%$$ So on,

For NABIL Bank Ltd.

Investment on Govt. Securities to Total Working Fund

$$= \frac{TotalInvestmentonGovt.Securities}{TotalWorkingFund} = \frac{943.43}{10986.03} = 8.59\ \%$$ So on,

APPENDIX - 7

For HBL Bank Ltd.

Year 1999/00,

Investment on Shares and Debenture to Total Working Fund Ratio

$$= \frac{Inv.onSharesandDebentures}{TotalWorkingFund} = \frac{3.10}{8734.54} = .035\%$$

For more years it is calculated so on.

For NABIL Bank Ltd.

Year 1999/00,

Investment on Shares and Debenture to Total Working Fund Ratio

$$= \frac{Inv.onSharesandDebentures}{TotalWorkingFund} = \frac{10.72}{10986.03} = .098\%$$ So on,

For HBL Bank Ltd.

Year 1999/00,

Return on Loan and Advances Ratio $= \frac{Net\ Profit/Loss}{LoanandAdvances} = \frac{135.98}{4223.06} = 3.22\%$

For more years it is calculated so on.

For NABIL Bank Ltd.

Year 1999/00,

Return on Loan and Advances Ratio $= \frac{Net\ Profit/Loss}{LoanandAdvances} = \frac{174.80}{5224.07} = 3.35\%$

For HBL Bank Ltd.

Year 1999/00,

Return on Total Working Funds Ratio $= \frac{NEt\ Profit/Loss}{TotalWorkingFund} = \frac{135.98}{8734.54} = 1.56\%$

For more years it is calculated so on.

For NABIL Bank Ltd.

Year 1999/00,

Return on Total Working Funds Ratio $= \frac{NEt\ Profit/Loss}{TotalWorkingFund} = \frac{174.80}{10986.03} = 1.59\%$ So on,

For HBL Bank Ltd.

Year 1999/00,

Total Interest Earned to Total Working Funds Ratio

$$= \frac{TotalInterestEarned}{TotalWorkingFund} = \frac{753.97}{8734.54}$$

= 8.63%

For NABIL Bank Ltd.

Year 1999/00,

Total Interest Earned to Total Working Funds Ratio

$$= \frac{TotalInterestEarned}{TotalWorkingFund} = \frac{899.66}{10986.03}$$

= 8.19% So on,

APPENDIX - 8

For HBL Bank Ltd.

Year 1999/00,

Total Interest Paid to Total Working Fund Ratio $= \frac{TotalInterestPaid}{TotalWorkingFund} = \frac{473.79}{8734.54} =$ 5.42%

For more years it is calculated so on.

For NABIL Bank Ltd.

Year 1999/00,

Total Interest Paid to Total Working Funds

$$\text{Ratio} = \frac{TotalInterestPaid}{TotalWorkingFund} = \frac{433.92}{10986.03} = 3.95\%$$

So on,

For HBL Bank Ltd.

Year 1999/00,

Liquidity Risk Ratio $= \frac{CashandBankBalance}{TotalDeposit} = \frac{1029.11}{7713.60} = 13.34\%$

For more years it is calculated so on.

For NABIL Bank Ltd.

Year 1999/00,

Liquidity Risk Ratio $= \frac{CashandBankBalance}{TotalDeposit} = \frac{1153.80}{8737.77} = 13.20\%$ So on,

For HBL Bank Ltd

Year 1999/00,

Credit Risk Ratio

$$= \frac{TotalInvestment + TotalloanandAdvances}{TotalAssets} = \frac{4223.06 + 970.88 + 3.10}{8734.54}$$

= 59.50% So on,

For NABIL Bank Ltd.

Year 1999/00,

Credit Risk Ratio

$$= \frac{TotalInvestment + TotalloanandAdvances}{TotalAssets} = \frac{5224.07 + 943.43 + 10.72}{10986.03}$$

= 56.24% So on,

APPENDIX -9

For HBL Bank Ltd

Sample Calculation of Growth Ratio of Total Deposits

We have,

$D_n = Do\ (1+g)^{n-1}$

Where, D_n = Total Deposits in the nth Year

D_o = Total Deposit in the initial Year

g = Growth Rate

n = Total number of Year

Here,

$D_{2005/06}$ = 22760.9

$D_{1999/00}$ = 7715.6

n = 7 years

Now,

$D_n = Do\ (1+g)^{n-1}$

$22010.33 = 7713.60(1+g)^{7-1}$

Or, $(1+g)^6 = 22010.33/7713.60$

Or, $(1+g) = (2.8534)^{1/6}$

Or, g = 1.1909-1

g = 0.1909 i.e. 19.09%

For NABIL Bank Ltd.

We have,

$D_n = Do\ (1+g)^{n-1}$

Where, D_n = Total Deposits in the nth Year

D_o = Total Deposit in the initial Year

g = Growth Rate

n = Total number of Year

Here,

$D_{2005/05}$ = 14119.03
$D_{1999/00}$ = 8737.77
n = 7 years

Now,
$D_n = Do\ (1+g)^{n-1}$
$14119.03 = 8737.77(1+g)^{7-1}$
Or, $(1+g)^6 = 14119.03/8737.77$
Or, $(1+g) = (1.6159)^{1/6}$
Or, g = 1.0833-1
g = 0.0833 i.e. 8.50%

Similarly other calculation of growth ratio can be calculated in likely manner.

APPENDIX-10

Sample Calculation of Expected Return ($\overline{X}$), Standard Deviation (±) and Coefficient of Variation (C.V.) is presented below:
For HBL,

Expected Return **(** $\overline{X}$ **)** = $\frac{\sum X}{N}$ = $\frac{60.68}{7}$ = 8.67

Where,
N = Number of observations
$\overline{X}$ = Expected return of the historical data
X = Return of the historical data

Return (*X*)	**Expected Return (** $\overline{X}$ **)**	$X-\overline{X}$	$(X-\overline{X})^2$
13.34	8.67	4.67	21.80
7.43	8.67	-1.24	1.54
6.42	8.67	-2.25	5.06
8.19	8.67	-0.48	0.23
6.79	8.67	-1.88	3.53
9.42	8.67	0.75	0.56
9.09	8.67	0.42	0.18
$\sum(X-\overline{X})^2$			**32.90**

S.D **(±)** = $\sqrt{\frac{1}{N}\sum(X-\overline{X})^2}$

$= \sqrt{\frac{1}{7}\times 32.90}$
$= \sqrt{4.7}$
= 2.17

Where,

N = Number of observations

$\overline{X}$ = Expected return of the historical data

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

$$= \frac{2.17}{8.67}$$

= 0.2502 0r 25.02%

Like wise, other items can been calculated in likely manner.

For NABIL,

$$\text{Expected Return } (\overline{X}) = \frac{\sum X}{N} = \frac{60.68}{7} = 8.67$$

Where,

N = Number of observations

$\overline{X}$ = Expected return of the historical data

X = Return of the historical data

Return(X)	**Expected Return ($\overline{X}$)**	$X-\overline{X}$	$(X-\overline{X})^2$
13.34	8.67	4.67	21.80
7.43	8.67	-1.24	1.54
6.42	8.67	-2.25	5.06
8.19	8.67	-0.48	0.23
6.79	8.67	-1.88	3.53
9.42	8.67	0.75	0.56
9.09	8.67	0.42	0.18
$\sum(X-\overline{X})^2$			**32.90**

$$S.D\ (\pm) = \sqrt{\frac{1}{N}\sum(X-\overline{X})^2}$$

$$= \sqrt{\frac{1}{7} \times 32.90}$$

$$= \sqrt{4.7}$$

$$= 2.17$$

Where,

N = Number of observations

$\overline{X}$ = Expected return of the historical data

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

$$= \frac{2.17}{8.67}$$

= 0.2502 0r 25.02%

Like wise, other item has been calculated in likely manner.

APPENDIX-11

Sample Calculation of correlation coefficient (r) and coefficient of determination (R^2) of total investment to total deposit is presented below:

For NABIL

Year	Total Deposits (X)	Total Investment (Y)	XY	X^2	Y^2
1999/00	8737.77	954.15	8337143.246	76348624.57	910402.2225
2000/01	9464.28	1419.36	13433220.46	89572595.92	2014582.81
2001/02	12779.51	1249.94	15973620.73	163315875.8	1562350.004
2002/03	15839.01	7703.31	122012804.1	250874237.8	59340984.96
2003/04	15506.44	8198.51	127129703.4	240449681.5	67215566.22
2004/05	13447.65	6031.17	81105063.25	180839290.5	36375011.57
2005/06	14119.03	5836.07	82399647.41	199347008.1	34059713.04
	∑X =89893.69	**∑Y =31392.51**	**∑XY= 450391202.6**	**$\sum X^2$=1200747314**	**$\sum Y^2$=201478610.8**

Here,

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

Where,

N= Number of observation

∑X= Sum of observation in series X

∑Y= Sum of observation in series Y

$\sum X^2$= Sum of squared observation in series X
$\sum Y^2$= Sum of squared observation in series Y
$\sum XY$= Sum of the product of observation in series X and Y

$$r = \frac{7\times 450391202.6 - 89893.69\times 31392.51}{\sqrt{7\times 1200747314-(89893.69)^2}.\sqrt{7\times 201478610.8-(31392.51)^2}}$$

$$= \frac{330749856}{\sqrt{324355697.9\times 424860591.7}}$$

$= 0.89$

$r^2 = 0.794$

$$\text{P. E. (r)} = 0.6745 \times \frac{1-0.79}{\sqrt{7}} = 0.052$$

Where, P.E. (r) = Probable error of correlation coefficient
r= Correlation coefficient
n= Number of Observations

APPENDIX-12

Sample Calculation of correlation coefficient(r) and Coefficient of determination (R^2) of loan and advances to total deposit is presented below:

For NABIL

Year	Total Deposits (X)	Loan and Advances(Y)	XY	X^2	Y^2
1999/00	8737.77	5224.07	45646722.12	76348624.57	27290907.36
2000/01	9464.28	5788.93	54788054.42	89572595.92	33511710.54
2001/02	12779.51	7334.76	93734638.77	163315875.8	53798704.26
2002/03	15839.01	8324.44	131850888.4	250874237.8	69296301.31
2003/04	15506.44	7437.9	115335350.1	240449681.5	55322356.41
2004/05	13447.65	7755.95	104299301	180839290.5	60154760.4
2005/06	14119.03	8189.99	115634714.5	199347008.1	67075936.2
	$\sum X$ =89893.69	$\sum Y$ =50056.04	$\sum XY$ =661289669.3	$\sum X^2$=1200747314	$\sum Y^2$=366450676.5

Here,

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

Where,
N= Number of observation
$\sum X$= Sum of observation in series X
$\sum Y$= Sum of observation in series Y

$\sum X^2$= Sum of squared observation in series X
$\sum Y^2$= Sum of squared observation in series Y
$\sum XY$= Sum of the product of observation in series X and Y

$$r = \frac{7\times661289669.3-89893.69\times50056.04}{\sqrt{7\times1200747314-(89893.69)^2}.\sqrt{7\times3666450676.5-(50056.04)^2}}$$

$$= \frac{129305543}{\sqrt{324355697.9\times59547594.97}} = 0.93$$

$r^2 = 0.87$

$$\text{P. E. (r)} = 0.6745\times\frac{1-0.87}{\sqrt{7}} = 0.034$$

Where,
P.E. (r) = Probable error of correlation coefficient
r= Correlation coefficient
n= Number of Observations

APPENDIX-13

Sample Calculation of trend analysis value of total investment to total deposits is presented below:

For NABIL

The trend line equation is

$$y = a + bx$$

Where,

y = Dependent Variable
x = Independent Variable
a = y Intercept
b = Slope of the trend line

Here, x = year, y = total investment tot total deposits ratio and N= No. of years

Calculation of trend value

Year (x)	Total Inv. To Total dep. Ratio (Y)	X=(x-2001)	X^2	XY
1999/00	10.92	-3	9	-32.76
2000/01	15.00	-2	4	-30.00
2001/02	9.78	-1	1	-9.78
2002/03	48.64	0	0	0
2003/04	52.87	1	1	52.87
2004/05	44.85	2	4	89.70
2005/06	41.33	3	9	123.99
	∑Y=223.39		**∑X^2=28**	**∑ XY=194.02**

Here, ∑X=0, so

$$a = \frac{\sum Y}{N} = \frac{223.39}{7} = 31.91$$

$$b = \frac{\sum XY}{\sum X^2}$$

$$= \frac{194.02}{28} = 6.93$$

Hence, the trend line equation is $y = 31.91 + 6.93 \times x$

For the year 1998,

$= 31.91 + 6.93 \times (-3)$

$= 11.12$

For the year 1999,

$= 31.91 + 6.93 \times (-2)$

$= 18.05$

So on……

APPENDIX-14

Sources and uses of Funds of Himalayan Bank Limited

(Rs. in million)

Particulars	Mid-July						
	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
1. CAPITAL FUND	**205.3**	**314.9**	**397.1**	**501.6**	**651.6**	**740.6**	**1435.9**
a. Paid-up capital	120.0	192.0	240.0	300.0	390.0	429.0	536.3
b. Statutory Reserves	82.5	109.7	142.8	183.6	239.7	288.8	329.2
c. Other Reserves	2.8	13.2	14.4	18.0	21.9	22.8	501.5
d. Retained Earning	0.0	0.0	0.0	0.0	0.0	0.0	68.9
2. DEPOSITS	**7715.6**	**9780.4**	**14082.5**	**17613.6**	**18595.2**	**21002.8**	**22760.9**
a. Current	1175.2	1292.2	1772.3	2313.7	2652.8	3702.2	4353.1
b. Savings	3175.6	5084.4	6844.3	9164.1	9102.8	10840.8	11719.7
c. Fixed	3144.4	3106.8	5109.4	5668.1	6044.9	5880.7	6043.7
d. Call Deposits	0.0	0.0	0.0	0.0	343.8	201.3	219.6
e. Others	220.4	297.0	356.5	467.7	450.9	377.8	424.8
3.BORROWINGS	**0.0**	**232.7**	**128.6**	**5.4**	**48.2**	**538.8**	**66.4**
a. NRB	0.0	0.0	42.5	0.0	47.6	403.7	66.4
b. Inter Bank	0.0	232.7	86.2	5.4	0.6	135.1	0.0
c. Foreign Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0
d. Financial Institutions					0.0	0.0	0.0
4.OTHERS	**1241.7**	**2272.1**	**2172.2**	**2808.4**	**2085.7**	**2439.0**	**2488.0**
SOURCES OF FUNDS	**9162.6**	**12600.1**	**16780.5**	**20929.0**	**21380.7**	**24721.2**	**26751.2**
1.LIQUID FUNDS	**3123.3**	**4787.5**	**5446.5**	**7192.6**	**7658.8**	**8281.7**	**8613.5**
a. Cash in hand	141.1	121.7	116.3	131.7	450.1	350.0	274.2
b. FC in hand	24.5	21.1	17.7	18.2	12.7	32.7	0.0
c. Balance in hand	742.6	515.6	655.3	1073.2	695.4	1130.0	1623.9
d. Bal. with Dom. Bank	30.6	22.9	12.9	11.0	36.3	40.0	33.0
e. Bal. with other financial Ins.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
f. Bal. held abroad	37.6	-19.6	-38.6	52.7	36.9	600.0	-162.4
g. Call money	2146.9	4125.8	4682.8	5905.8	6427.4	6129.0	6844.8
2. INVESTMENTS	**974.0**	**468.9**	**2216.4**	**2235.0**	**2622.8**	**4014.3**	**2878.3**
a. Govt. Securities	970.9	459.4	2206.9	2224.3	2588.6	3980.0	2781.7
b. Share and Debenture	3.1	9.5	9.5	10.7	34.3	34.3	96.6
c. NRB Bond	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. LOANS & ADVANCES	**4275.5**	**5372.0**	**7432.2**	**9176.9**	**9673.5**	**11074.2**	**13081.7**
a. Govt. Enterprises	60.0	267.7	200.0	536.4	352.5	742.7	766.2
i. Financial	60.0	60.0	200.0	480.0	350.0	290.0	290.0
ii. Non-Financial	0.0	207.7	0.0	56.4	2.5	452.7	476.2
b. Private Sector	4025.0	5005.5	7096.6	8300.2	9321.0	10151.5	12315.5
c. Foreign Bills P. & D.	190.5	98.8	126.6	340.3	0.0	180.0	0.0
d. Foreign A.B.C.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. INTEREST ACCRUED	**85.2**	**117.4**	**144.2**	**115.5**	**313.4**	**313.5**	**661.9**
a. Government Enterprises	0.0	5.6	0.0	0.0	5.5	0.9	2.2
b. Private Sector	85.2	111.8	144.2	115.5	307.9	312.6	659.7
5. OTHERS	**704.6**	**1854.3**	**1550.2**	**2209.0**	**1112.3**	**1037.5**	**1515.8**
USES OF FUNDS	**9162.6**	**12600.1**	**16780.5**	**20929.0**	**21380.7**	**24721.2**	**26751.2**

Source: Banking and Financial Statistics, Mid – July 2006

APPENDIX-15

Sources and uses of Funds of Nabil Bank Limited

(Rs. in million)

Particulars	Mid-July						
	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
1. CAPITAL FUND	**805.2**	**863.0**	**934.1**	**1046.9**	**1062.8**	**1146.4**	**1804.2**
a. Paid-up capital	261.7	392.9	849.1	491.7	491.7	491.7	491.7
b. Statutory Reserves	302.2	337.1	390.4	0.0	514.5	568.8	652.0
c. Other Reserves	241.3	133.0	150.8	197.8	30.4	83.8	634.4
d. Retained Earning					26.2	2.1	26.1
2. DEPOSITS	**8737.5**	**9464.4**	**12780.1**	**15838.9**	**15370.6**	**13437.7**	**14098.0**
a. Current	2334.3	2333.3	2935.3	2957.1	2957.1	2723.0	2687.0
b. Savings	2546.7	3352.6	4150.2	4917.1	4917.1	4889.0	5994.1
c. Fixed	2315.4	2098.1	3194.3	3719.2	3719.2	2446.8	2310.6
d. Call Deposits	1343.9	1329.8	2083.9	3948.3	3948.3	4944.7	2801.6
e. Others	197.2	350.6	416.3	297.2	297.2	367.1	304.7
3.BORROWINGS	**0.0**	**190.2**	**285.2**	**0.0**	**280.0**	**961.5**	**229.7**
a. NRB	0.0		0.0	0.0	0.0	611.5	0.0
b. Inter Bank	0.0	190.2	285.2	0.0	280.0	350.0	229.7
c. Foreign Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0
d. Financial Institutions							
4.OTHERS	**1722.1**	**1810.0**	**1902.3**	**2568.6**	**2932.4**	**2730.3**	**2102.4**
SOURCES OF FUNDS	**11264.8**	**123.27.6**	**15901.7**	**19454.4**	**19645.7**	**18275.9**	**18234.3**
1.LIQUID FUNDS	**3725.2**	**3782.7**	**5541.9**	**6284.9**	**4999.3**	**4162.1**	**3916.9**
a. Cash in hand	112.5	123.6	178.9	182.3	285.4	157.6	263.2
b. FC in hand	23.5	14.6	15.9	25.9	32.7	33.0	23.7
c. Balance in hand	559.1	290.4	533.3	510.2	366.3	892.8	606.4
d. Bal. with Dom. Bank	225.3	12.9	163.1	4.8	24.0	16.2	37.8
e. Bal. with other financial Ins.					0.0	0.0	0.0
f. Bal. held abroad	393.9	127.1	18.9	87.6	203.5	48.1	38.3
g. Call money	2401.9	3214.1	4631.8	5474.1	4087.4	3014.4	2947.5
2. INVESTMENTS	**954.1**	**1420.3**	**1250.9**	**2752.7**	**5202.1**	**3687.8**	**3697.1**
a. Govt. Securities	943.4	1402.3	1233.8	2732.9	4120.3	3663.5	3672.6
b. Share and Debenture	10.7	17.5	17.1	19.8	1081.8	24.3	24.5
c. NRB Bond	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. LOANS & ADVANCES	**5294.5**	**5811.7**	**7323.6**	**8437.6**	**7328.2**	**8267.8**	**8769.7**
a. Govt. Enterprises	79.6	62.6	110.2	101.3	64.7	20.8	20.3
i. Financial	50.0	50.0	50.0	50.0	19.9	0.0	0.0
ii. Non-Financial	29.6	12.6	60.2	51.3	44.8	20.8	20.3
b. Private Sector	5003.4	5432.6	6857.9	8071.8	7007.3	7976.1	8614.8
c. Foreign Bills P. & D.	211.5	316.5	355.5	264.5	256.2	256.9	117.5
d. Foreign A.B.C.	0.0	0.0	0.0	0.0	0.0	14.0	17.1
4. INTEREST ACCRUED	**159.6**	**231.6**	**372.8**	**369.5**	**377.3**	**241.2**	**212.7**
a. Government Enterprises	0.0	0.0	0.0	0.0	3.6	3.6	0.0
b. Private Sector	159.6	231.6	372.8	369.5	373.7	237.6	212.7
5. OTHERS	**1131.4**	**1081.3**	**1412.5**	**1609.7**	**1738.9**	**1917.0**	**1638.0**
USES OF FUNDS	**11264.8**	**12327.6**	**15901.7**	**19454.4**	**19645.7**	**18275.9**	**18234.4**

Source: Banking and Financial Statistics, Mid – July 2006

APPENDIX-16

Test of Hypothesis on Loan and Advances to Total Deposits Ratio

S.N.	Fiscal Year	HBL			NABIL		
		X_1	x_1	x_1^2	X_2	x_2	x_2^2
1	1999/00	54.75	3.08	9.47	59.78	3.42	11.70
2	2000/01	54.31	2.64	6.95	61.16	4.8	23.04
3	2001/02	51.45	-0.22	0.05	57.39	1.03	1.06
4	2002/03	51.42	-0.25	0.06	52.55	-3.81	14.52
5	2003/04	47.87	-3.80	14.46	47.96	-8.4	70.56
6	2004/05	47.61	-4.06	16.51	57.67	1.31	1.72
7	2005/06	54.3	2.63	6.90	58.01	1.65	2.72
		361.71		**54.407**	**394.52**		**125.31**

Here,

$\overline{X_1} = \frac{\sum X_1}{n_1} = \frac{361.69}{7} = 51.67$ $\overline{X_2} = \frac{\sum X_2}{n_2} = \frac{394.52}{7} = 56.36$

Again, $x_1 = X_1 - \overline{X_1}$ $x_2 = X_2 - \overline{X_2}$

Test of significance of difference between HBL and NABIL.

Here, **Null Hypothesis (H_0):** $\overline{X_1} = \overline{X_2}$ i.e. there is no significant difference between mean ratio of loan and advances to total deposits of HBL and NABIL.

Alternative Hypothesis (H_1): $\overline{X_1} \neq \overline{X_2}$ i.e. there is significant difference between mean ratio of loan and advances to total deposits of HBL and NABIL.

Under H_0, the test statistics is given by,

$$t = \frac{\overline{X_1} - \overline{X_2}}{\sqrt{S^2\left(\frac{1}{n_1} - \frac{1}{n_2}\right)}}$$

Where, $S^2 = \frac{1}{n_1 + n_2 - 2}\left(\sum x_1^2 + \sum x_2^2\right) =$

$\frac{1}{7+7-2}(54.41 + 125.31) = 14.98$

Now,

$$t = \frac{\overline{X_1} - \overline{X_2}}{\sqrt{S^2\left(\frac{1}{n_1} - \frac{1}{n_2}\right)}} = \frac{51.67 - 56.36}{\sqrt{14.98\left(\frac{1}{7} + \frac{1}{7}\right)}} = -2.27$$ Hence, $|t| = 2.27$

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

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

APPENDIX-17

Test of Hypothesis on Total Investment to Total Deposits Ratio

S.N.	Fiscal Year	HBL			NABIL		
		X_1	x_1	x_1^2	X_2	x_2	x_2^2
1	1999/00	12.63	-15.42	237.73	10.92	-20.99	440.70
2	2000/01	4.8	-23.25	540.50	15	-16.91	286.04
3	2001/02	15.78	-12.27	150.52	9.78	-22.13	489.86
4	2002/03	23.29	-4.76	22.64	48.64	16.73	279.80
5	2003/04	49.18	21.13	446.54	52.87	20.96	439.20
6	2004/05	48.44	20.39	415.81	44.85	12.94	167.37
7	2005/06	42.22	14.17	200.83	41.33	9.42	88.68
		196.34		**2014.57**	**223.39**	**0**	**2191.70**

Here,

$\overline{X_1} = \frac{\sum X_1}{n_1} = \frac{196.34}{7} = 28.05$ $\overline{X_2} = \sum \frac{X_2}{n_2} = \frac{223.39}{7} = 31.91$

Again, $x_1 = X_1 - \overline{X_1}$ $x_2 = X_2 - \overline{X_2}$

Test of significance of difference between HBL and NABIL.

Here, **Null Hypothesis (H_0):** $\overline{X_1} = \overline{X_2}$ i.e. there is no significant difference between mean ratio of total investment to total deposit of HBL and NABIL.

Alternative Hypothesis (H_1): $\overline{X_1} \neq \overline{X_2}$ i.e. there is significant difference between mean ratio of total investment to total deposit of HBL and NABIL.

Under H_0, the test statistic is given by,

$$t = \frac{\overline{X_1} - \overline{X_2}}{\sqrt{S^2\left(\frac{1}{n_1} - \frac{1}{n_2}\right)}}$$ Where, $S^2 = \frac{1}{n_1 + n_2 - 2}\left(\sum x_1^2 + \sum x_2^2\right)$

$= \frac{1}{7+7-2}(2014.57 + 2191.70) =$ 350.52

Now,

$$t = \frac{\overline{X_1} - \overline{X_2}}{\sqrt{S^2\left(\frac{1}{n_1} - \frac{1}{n_2}\right)}} = \frac{28.05 - 31.91}{\sqrt{350.52\left[\frac{1}{7} + \frac{1}{7}\right]}} = -0.386$$ Hence, $|t| = 0.386$

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

The tabulated value of 't' for 12 d.f. at 5% level of significance for two tailed test is 2.179.

APPENDIX-18

QUESTIONNAIRE

A Survey on Fund Mobilization of Commercial Banks

Dear valued respondents

Thanks you for accepting to complete questionnaire. Your opinion and suggestions are precious to my research. I would like to ensure that all your answer and suggestions would be kept confidential.

Bivek Thapaliya
MBS
Everest College

1. Do you think that Nepalese investor have adequate knowledge about fund mobilization policy adopted by commercial banks?

   a. Yes

   b. No

   c. Don't know

   If 'Yes' indicate the level

Minimum				Maximum
1	2	3	4	5

2. If you think that the investors are not so interested in fund mobilization policy, please specify the reasons.
   a. Passive investment strategy
   b. Higher interest rate.
   c. Mismanagement.
   d. Other (Please specify)
3. Indicate the level of risk in investing in current situation.
   a. High

b. Moderate
c. Less
d. No Risk

4. What are the sectors of investment that commercial banks should invest the fund collected through deposits?
   a.
   b.
   c.
   d.
5. Do you think it is necessary to give investment priority to the rural area of the country?
   a. Yes (Please explain)
   b. No (Please explain)
6. Nowadays it can be seen the commercial bank have increased the minimum threshold balance and in the other hand they have reduced the interest rate on the client's deposits, whey is it so?
   a. Already have enough deposits or collections
   b. To discourage lower level deposits indirectly.
   c. Don't have enough investment opportunities
   d. Other (Please specify)
7. In your opinion, what may be the reasons behind for not providing banking facilities to the rural areas?
   a. Don't want to take risks
   b. They are profit oriented only
   c. Lack of communication facilities
   d. They don't have my network among these areas
   e. Others (Please Specify)

Thanks you