Chapter One

Introduction

Today, inspite of various efforts both in bilateral and multilateral basis, almost over two-thirds of the world's population are suffering from acute poverty and the hunger, disease and illiteracy that almost originate from it; and such a situation exists at a time when men have already landed on the moon. Income per capital in the less developed countries is increasing slowly, and part of the visible increase is a statistical illusion connected with the gradual transfer of subsistence activities into monetized visible sector.

The more important problems faced by the smaller and least developed among the developing countries are not always common and they generally differ from country to country, given their stages of growth and other features. They all make for a common purpose in their determined offer to modernize the society to secure minimum levels of living for their people. No doubt, the need to achieve these goals is quite immediate, but the prospects, in the existing global condition, are neither obvious nor reading feasible. Experiences of several countries have shown so far that "development is a long drawn out process-a hundred years' wars against poverty."

Nepal is a small country with an area of 147,181 sq. km. surrounded by Tibet in the north and India in the south, east, and west. In view of its location between two giant countries of Asia, Late King Prithivi Narayan Shah has rightly described Nepal as a "Yam between two boulders". Nepal is one of the richest countries in the world in terms of bio-diversity due to its unique geographical position and latitudinal variation. It has the world’s deepest gorge “Kali Gandaki”. The elevation of the country ranges from 70 m above sea level to the highest point on earth, Mt. Everest at 8,848 m - all within a distance of 150 km – with climatic conditions ranging from subtropical to arctic. This wild variation fosters an incredible variety of ecosystems, the greatest mountain range on earth, thick tropical jungles teeming with a wealth of wildlife, thundering rivers, forested hills and frozen valleys.

Nepal is home to:

- 8 out of 14 highest summits in the world, exceeding an altitude of 8,000 M, including Mt. Everest, Annapurna, Dhaulagiri.
- 2% of all the flowering plants in the world;
- 8% of the world’s population of birds (more than 848 species);
- 4% of mammals on earth;
- 11 of the world’s 15 families of butterflies

Nepal, the birth place of Lord Buddha, the home for exotic biodiversity, tallest mountain in the World – Everest, a landlocked agro-based economy with low industrial base, the most preferred tourist destination in South East Asia is an underdeveloped country, presently plagued by Maoist insurgency causing stagnancy in the economy. The tiny landlocked country in south Asia, Nepal remains as one of the 48th least developed countries in the world. The country's per capita income is one of the lowest in the world with just US $230 as compared to US $530 of other Asia pacific least developed countries and $310 of other least developed countries. The country's per capita income has been growing at little over two percent per annum at a situation when more than two-fifth of the countries population is in penury. Nepal's current economic situation is beset with nearly half of the population living below the poverty line and unemployment and disguised unemployment together depriving one half of the labor force.

The reason behind Nepal's under developed economy is not due to lack of resources but it is due to under and inefficient utilization of the available resources. Proper and efficient utilization of resources needs proper plan and strategy development, which is fruitless without proper financial system and huge capital investment.

1.1. Financial System:

The financial system is the collection of market, institutions, law, regulations, and techniques, through which bonds, stocks, and other securities are traded, inherent rates are determined, and financial services are produced and delivered around the world. The financial system is one of the most important inventions of modern society. Its primary task is to move scarce loan able funds from those who save to those who borrow to buy goods and services and to make investment in new equipment and facilities so that the global economy can grow and increase the standard of living enjoyed by its citizens. Without the global financial system and the loan able funds it supplies, each of us would lead a much less enjoyable existence.

The financial system determines both the cost of credit and how much credit would be available to pay for the thousands of different goods and services we purchase daily. Equally important, what happens in this system has a powerful impact upon the health of the global economy. When credit becomes more costly and less available, total spending for goods and services falls. As a result, unemployment rises and the economy's growth slows down as business cut back their production and lay off workers. In contrast, when the cost of credit declines and loan able funds become more readily available, total spending in the economy often increases, more jobs are created and the economy's growth accelerates. In truth, the global financial system is an important part of the global economic system.

The financial system of any country consist of specialized and non specialized financial institution (FI) of organized and unorganized financial market, of financial instrument and services which facilitate transfer of funds, procedures and practices adopted in the market, and financial interrelationship are also parts of the system. These parts are not always mutually exclusive, for e.g. financial institution operate in financial market are, therefore, a part of such market.

The word 'system' in the term financial system implies a set of complex and closely connected or interlinked institution, agent, practices, market transaction, claims, and liabilities in the economy. The financial system is concerned about money, credit, and finance -- the three terms are intimately related yet are somewhat different from each other. Money refers to the current medium of exchange or means of payment. Credit or loan is a sum of money to be returned normally with interest; it refers to a date of economic unit. Finance is a monetary resource comprising debt and ownership funds of the state, company or person(s).

1.2. Financial sector:

For proper mobilization of investable resources from one sector to another, financial sector plays a pivotal role in bridging a gap between deficit units and surplus units. Efficient financial sector do a good job of mobilizing saving from a broad variety of sources and allocating them into more productive uses, thus bridging benefits to both investors and investee and to the economy overall. In the process of reinvesting these savings, they successfully deal with one fundamental factor: risk.

The smoothest running financial sector limit, price, pool, and trade all the related risks involved in a transaction, and provide incentive for savers to invest by allowing them to earn rewards that are commensurate with those risks. They are the ones best suited to finance broad-based, healthy economic development. Today, there is a widespread acknowledgement of the positive impact a good financial sector has in any economy- in enterprise productivity, accumulation of capital, increased saving and investment, and economic growth.

1.3. Financial institutions (FIs):

Financial institution plays an important role in the money and capital market. Financial institution facilitates the saving and borrowing process and in so doing, maximizes the wealth of the institutions owners. Financial institutions are business organization that acts as mobilizer and depositories of saving and as purveyors of credit or finance. They also provide various financial services to the community. Unlike non-financial business, which enters the money and capital markets to satisfy only their own needs, institution deal in the financial market to satisfy the needs of other business. Money is regarded as a commodity, which is borrowed and lent to facilitate timely employment of real economic resources. Money is brokered, refined and accounted for by financial institution just as wheat; oil and ores are processed and traded by non-financial business.

The intangible nature of money and financial assets separates financial business from their non-financial counterparts. Money is the creation of our mind and exists on the strength of our faith. Financial assets (bonds, stock, and other securities) are created not from a physical resource but by the will and desire of investors and business. Consequently, the financial institutions are supported by intangible assets and are subject to decline or collapse when trust and confidence wane. Financial institution, like money, stand only as long as we believe exists for a useful purpose. On the contrary, non-financial business organization deals in real assets such as machinery, equipment, and stocks of goods, real estate, and so on.

The distinction between the financial sector and the real sector should not be taken to mean that there is something ephemeral or unproductive about finance. At the same time, it means that the role of financial sector should not be over emphasized. The activities of different financial institution may be either specialized or they may overlaps; quite often they overlap. Yet we need to classify financial institution and this is done on the basis of their primary activities or the degree of their specialization with relation to savers or borrowers with whom they customarily deal or the manner of their creation. In other words, the functional, geographic, sectoral, scope of activities or the type of ownership is some of the criteria which are often used to classify a large number of and variety of financial institution which exists in the economy, however, it should be kept in mind that such classification is likely to be imperfect and tentative.

1.4. Classification of financial institution:

Financial institutions can be classified in any number of ways, including by their risk characteristics, by the maturity of their assets or liabilities, and by whether or not they transform the underlying promises. For our purpose, it is most helpful to classify institutions by the particular services they provide.

The primary function of all financial institutions is to match the preferences of groups having resources surpluses with those of groups having resources deficits. They perform this primary function, however, in a wide variety of ways. In particular, they perform their primary function by providing services to some or all of the three generic categories of promises and to some or all of the participants in the financial system. Financial institutions provide core financial services such as payment services, liquidity divisibility, maturity transformation, store of value information economies, and risk pooling.

- A limited range of financial institutions provide payment services – the capacity to be used in setting transactions. To serve as an effective means of payment, a claim (promise) must have a highly stable and reliable value, must be widely accepted in exchange, and must be linked to the arrangements for ultimate settlement of value.
- Liquidity is the case with which an assets' full market value can be realized once a decision to sell has been made. Liquidity is often confused with, but is quite distinct from, predictability of value. For e.g. an equity claim may be quite liquid, even though its value may be quite scale. Financial institutions are able to enhance the liquidity of the underlying promises.
- Promisors often find it costly and inconvenience to divide their claims into the full range of denominators desired by promises. Divisibility is the extent to which an asset can be purchased or sold in small denomination claims and to aggregate small denomination claims to meet the preferences of the community.
- Store of value is the extent to which an asset provides a reliable store of purchasing power over time. The store of value service is fundamental to satisfying the savings preferences of the community.
- Information is costly to access and process. Providing economies of scale in processing, assessing risks is an important role of financial institutions. The informational advantage of specialized financial institutions includes their ability to resolve the unwillingness of many promisors to reveal relevant information for competitive reasons.
- Risk pooling is the extent to which an asset spreads the default risk of the underlying promises by pooling. By pooling the resources of investors, financial institutions take advantage of diversification to lower risk to a much greater extent than is normally available to individual investors.

Since, these services are often provided in combination, no unique classification of institutions by services provided is appropriate to all situations. The following subsection, which draw heavily on Kumar (1997), classify institutions by their major services: deposit taking institution, risk pooling institution, contractual saving institution, market makers, specialized sectoral financiers, and financial service providers.

1.4.1. Deposit taking institutions:

Banks and other deposit taking institutions such as thrifts (also known as building societies) and credit unions, accept call and fixed term deposits and make loan across the breadth of economy. Many also provide a range of ancillary services including advice, stock brokering, and securities dealing, depending in the laws of the country involved. For convenience of notation, all of these institutions and the services they offer are referred to here as banks and banking.

1.4.2. Risk pooling institutions:
Insurance companies specialize in providing contingent promises by underwriting economic risk associated with death, illness, damage to or loss of property, and other exposure to loss. Insurance companies issue contingent liabilities against themselves in the form of insurance policies.

1.4.3. Contractual saving institutions:
In general, households have three main alternatives for their savings. First they can invest directly in debt and equity promises issued by firms and other individuals. Second, they can hold the liabilities of deposits – taking institution or the individual product of life insurance companies. Third, they can invest in collective investment vehicle (also known as institutional investors), such as mutual funds or private pension plan. The essential nature of these vehicles is to provide contractual savings services in a fiduciary rather than a principle role.

Collective investments vehicles invest the pooled resources of individuals and firms into a wide range of equity, debt, and derivative promises. The distinguishing characteristic of these vehicles is that they perform the underlying promises into an equity promise by the vehicle, i.e., the ultimate risk inherent in the underlying investment portfolio is borne by the shareholders in the vehicle.

1.4.4. Market Makers:
An important group of financial institutions encompasses institutions that make markets in the financial securities such as equities, government and corporate debt, and derivatives securities dealers (including investment banks, stock brokers, and other financial institutions that stand ready to buy or sell securities) make markets in new securities by underwriting their issue, and facilitating their distribution to individuals and institutional investors. They make secondary markets in these securities by taking principal positions as buyers and sellers of existing securities.

1.4.5. Specialized sectoral financiers:
A number of financial institutions provide a limited range of financial services to a specialized target group of promisors and promisees. General financial companies, for e.g., raise funds via debt promises from the wholesale finance market and on – lend them to borrowers. Real estate finance companies specialize in channeling funds to homeownership. Leasing companies specialize in providing finance for equipment. The distinguishing characteristics of leasing companies are that they retain ownership of the leased assets. In this way, they can overcome the effects

of weak collateral or enforcement laws. They also can benefit from the preferred tax treatment that is often conferred on investment equipment.
In each of these cases, financial institutions provide a highly specialized service that concentrates on informational efficiency (knowing the sectors or product better than more broadly based institution). To varying extent, these institutions may offer other combination of services such as liquidity and divisibility. Their promises are generally of a debt nature, although, equity components are not uncommon.

1.4.6. Financial service providers:
The final group of institution in the financial system consists of the financial service providers. Unlike the other groups of institutions, service providers tend not to intermediate between promisors and promisees. Rather, they provide their services (on a fee-for-service basis) in the form of advice, brokering and so on. This group includes specialized securities brokers, mortgage brokers, management consultant, and investment advisors. In many countries, the same institution carries out securities (and mortgage) dealing and brokering.

According to another **classification**, FIs are divided into banking and non-banking institutions. The banking institution have quite a few things in common with the non banking ones, but their distinguishing character lies in the fact that, unlike other institution, they participate in the economy's payment mechanism, i.e. they provide transaction services, the deposits liabilities constitute a major part of the national money supply, and they can, as a whole, create deposits or credits, which is money. Banks subject to legal reserve requirement can advance credit by creating claims against themselves, while other institution can lend only out of the resources put at their disposal by the savers. The distinction between the two has been highlighted by Sayers by characterizing the former as "creators" of credits, and the latter as mere "purveyors" of credit.

FIs are also **classified** as intermediaries and non-intermediaries. As the term indicates, intermediaries intermediate between savers and investors; they lend money as well as mobilize savings; their liabilities are towards the ultimate savers, while their assets are from the investors or borrowers. Non-intermediating institution does the loan business but their resources are not directly obtained from the savers.

Another most important **distinction** is between ***depository institutions*** (commercial banks, savings and loan associations, saving banks, and credit unions); ***contractual institutions*** (insurance companies, and pension funds); and ***investment institutions*** (investment companies, money market funds, and real estate investment trusts). Depository institutions derive the bulk of their loan able funds from deposit accounts sold to the public. Contractual institutions attract funds by offering legal contracts to protect the saver against risk (such as an insurance policy or retirement account). Investment institutions sell shares to the public and invest the proceeds in stocks, bonds, and other assets.

1.5. Banking and Non-Financial Institutions:

1.5.1. Banking Financial Institution:

The most familiar, most pervasive, and perhaps most important type of financial institution is the bank. It has been the subject of more theoretical speculations and empirical studies by economist than any other type of financial institution. In economics, it is identified as having unique, quasi-magical power to “create money”. Perhaps as a result, it has been the principal target of monetary reformers, crank, and otherwise, and certainly the banking industry is regulated and supervised to a more intense degree than almost any other class of business.

A bank is a great reservoir of finance into which flow many rivulets gathered from different sources and directions and out of which flow many streams destined to drive the wheels of industry and float the vessels of commerce. Commerce is so closely linked with banking that the cessations of banking activities for a day or two will not only retard the development of commerce but also will completely paralyze the economic life of nation.

Bank in the words of oxford dictionary is “An establishment for the custody, deposit, loan, exchange, or issue of money, which it pays out on the customer's order; a building occupied by such an establishment.” It is explained as the place of business of a money-dealer; the table on which such business is conducted. It also defines as an establishment for keeping money and valuable safely, the money being paid out on the customer’s order (by means of cheques).

Dr. Hart defines a banker or bank as, “A person or company carrying on the business of receiving money and collecting drafts: for customers subject to the obligation of honoring cheques drawn upon them from time to time by the customers to the extent of the amounts available on their current accounts”.

Likewise, Harlsbury defines a bank as, “An individual, partnership or corporation whose sole or pre-dominating business is banking, that is, the receipt of money on current or deposit account and the payment of cheques drawn by and the collection of cheques paid in by a customer”.

Generally, ‘Bank’ means an institution, which performs the economic activity connected with money and credit. Bank as an establishment for the custody of money is very much outmoded because modern banks are not confined only to the custody of money. Professor Sumray, the author of an outstanding book on ‘Banking policy’, observes that banks are institutions performing the work of borrowing. Thus, he emphasized the role of bank in terms of borrowing. Maclead, in the ‘Theory of credit’, defines bank not as an institution that borrows and lends out money, but an institution for the creation of credit. Thus, he stressed the role of creating credit.

The Encyclopedia Americana defines bank as, “A business organization that receives and holds deposits of funds from others, makes loans or extends credit, and transfers funds by written order of deposits.”

Further Sayers, in his eye, settles bank as, “banks are institutions whose debts usually referred to bank deposits and are commonly acceptable in final settlement of other people’s debt”. Similarly, Dr. Mali Ram Says, ‘In fact banking is the life blood of modern commerce. It may be said that the dependence of commerce upon banking has became so great the cessation, even for a day or two of banker’s activities would completely paralyze the economic life of a nation”. The, definitions whatever may be, banks are set up to collect scattered funds and to mobilize them into productive channels or sectors as per its functioning areas while, otherwise, the funds would have been in non-productive channels.

I.Commercial banks:

Commercial banks are distinguished from all other classes of financial institution because they create and hold the demand deposits of the general public. They have other notable features and accomplishments that tend to set them apart from other classes of financial institutions, but not entirely because there is atleast some sharing with other classes. They are the most important accumulators of savings in time deposits. In total assets, they collectively lead by very wide margins.

They engage in so many fields of financing that they are often called “department stores of financing”. They are the principal short-term lenders to business enterprises, but they are also responsible for a large volume of intermediate-term loans to business firms. In competition with other mortgage lending institutions they grant large numbers of loans for the purchase of residential property in competition with other consumer credit institution; they hold the leading position in granting consumer loans; and in competition with other form of credit institution, they account for a large volume of loans. They are the principal lenders to brokers and dealers in securities who borrow to finance their customers’ purchase “on margin” and they account for an additional large volume of loans to one another as well as to financial institutions of other classes.

The present structure of financial institutions is based on the foundation laid by commercial banks. The commercial banks command the highest share of national resources, which must be utilized for the rapid economic development of the country. Realizing the importance of commercial bank, Dr. Pant has remarked, "Indeed no institution has a greater or closer interest in well established, expanding and successful Industry and Agriculture than a Commercial bank."

Reviewing the legislations behind commercial bank, we have Commercial Bank Act-2031 of Nepal which states, "A Commercial Bank is one which exchanges money, deposits money, accepts deposits, grants loans and perform commercial banking function and which is not a bank meant for co-operating agriculture, industry or for specific purpose." It further points out, "Commercial banks provided short term debts necessary for trade and commerce. They take deposits from the public and grant loans in different forms. They purchase and discount bills of exchange, promissory note, and exchange foreign currency. They discharge various functions on behalf of their customers provided that they are paid for their services." (Commercial Bank Act-2031).

Essentially, commercial banks engage in two basically different business functions. First, and most important, commercial banks produce and sell demand deposit money for cash or on credit. In this, the commercial banks are unique among all financial institutions. Second, commercial banks serve as financial intermediaries; i.e., they borrow funds from lenders by selling them a form of bond called a time or savings deposits and they lend the proceeds of the borrowing to others. In this second function, the commercial banks compete with many other financial institutions, such as savings and loan associations and mutual saving bank.

II.Central Bank:

A central bank is the custodian of monetary and banking system of a country. Monetary policy constitutes an important part of economic policy of a government. The central bank is the agency through which the state enforces the monetary part of its economic policy. Central banks were introduced as a result of the necessity of managing the monetary system and controlling and regulating the banking system. Almost all countries today have a central bank as a specialized institution. They are known by different names in different countries. In Nepal, it is called Nepal Rastra Bank; in United Kingdom, Bank of England; in India, Reserve Bank of India; in US, Federal Reserve Bank.

Central banking developed much later than commercial banking. The utility of central bank was fully realized only after World War I. The Bank of England is the oldest central bank of the world. The bill embodying the provision for the establishment of the Bank of England was passed and received the Royal assent on the 25th of April 1964. The Federal Reserve System of US was organized in 1913. The Reserve Bank of India was established in 1934. Nepal Rastra Bank was established in 1955. So central bank is indispensable in every country.

According to M.H. Dekock, an eminent authority on central banking, the function of a central bank must be:

- The issue of paper currency in accordance with the requirement of business and general public for which purpose it is granted, either the sole right of note issue or at least a partial monopoly thereof,
- The performance of the general banking and agency service for the state,
- The custody of cash reserve of commercial banks,
- The custody of nation's metallic reserves,
- The re-discounting of first class bills offered by the commercial banks,
- The acceptance of the lender of the last resort,
- The settlement of clearance balance between the banks, and
- The control of credit in accordance with the need of business and with a view to the maintenance of the monetary standard adopted by the state.

1.5.2. Non-banking financial institutions:

There is a tendency in discussion of the financial system to minimize the role of non-bank financial institutions and to emphasize the part played by commercial banks in the flow of money and credit. For many years, financial experts did not consider the liabilities of non-bank financial institutions – including deposits in savings and loan associations, savings banks, money market funds, and credit unions – as really close substitutes for bank deposits. It was argued that inter-industry competition between commercial banks and other financial institutions was slight and for all practical purposes, could be ignored. Today, however, an entirely different view prevails concerning the relative importance of non-bank financial institutions. We now recognize that institutions play a vital role in the flow of money and credit within the financial system and that they are particularly important in selected markets, such as the home mortgage market and the market for personal savings.

In truth, many non-bank financial institutions are becoming increasingly like commercial banks and are competing for many of the same customers. Moreover, banks themselves are offering many of the services traditionally, offered by non-bank financial institutions, such as brokering securities and selling insurance (often through joint ventures with non-bank firms). Thus, both bank and non-bank financial institutions are rushing towards each other in the services they offer and the markets they serve – a phenomenon known as convergence.

I. Finance companies:

Finance companies are a significant factor in the consumer and commercial credit financial market. Finance companies serve as financial intermediaries by purchasing wholesale quantities of money and then

reselling it to individual consumers and businesses in retail prices. The growth of these financial institutions can be directly tied to changes in life-styles, preference for private home ownership, and the related demand for consumer durables.
There are four different types of finance companies, which are as follows:

i.Sales Finance Companies:
Sales finance companies cater to the loan needs of retailers and their customers by maintaining a close relationship with the dealer (durable goods retailers). The retailer writes the loan at the point of sale, but the finance company specifies the maturity, down payment, charges and other terms. Then the retailers sell the loan to the finance company. Loans are purchased on three bases: full recourse, non-recourse, and repurchase.
In the event of default, the dealers must repay a contract purchased on a full-recourse basis. On the other hand, the finance company assumes all risk and collection costs on non-recourse loan purchases. Under a repurchase arrangement, the dealer repossesses the merchandize and resells it for the unpaid balance.

Finance companies, which are subsidiaries of dealers or manufacturers, are called Captive finance companies. In addition to providing financing to customers of the dealer, sales finance companies sometimes provide financing of the dealers' inventory or floor stock.

ii.Consumer Finance Companies:
Consumer finance companies provide consumers with small, short-term, direct loans, which may be secured by collateral or unsecured. These loans are repaid from consumers' discretionary income. The purposes for which these loans are granted include purchase of automobiles, appliances, recreation vehicles, vacations, educations, and consolidation of debt.

iii.Business Finance Companies:
Business finance companies loan money to businesses to finance account receivable, inventory, and fixed assets. Accounts receivable are frequently financed with secured loans and factoring. Secured loans are backed by a pledge of accounts receivable awed to the borrower by its customers. The finance company is granted a lien on the accounts receivable when the loan is secured. In the event of bankruptcy, the lien gives the finance company a preferred position in the liquidation of assets. On the other hand, the finance company can purchase the account receivable from a business; this is termed factoring account receivable. The business receives a partial or full payment immediately, and the finance company receives its money when the customer pays its bills.

Also, business finance companies finance the purchase of machinery and equipment with loans and leases payable over a period of many years.

Where the equipment is marketable, finance companies often leave the asset without a down payment.

iv.Multiple-line Finance Companies:

Most of the large companies operate as sales, personal, and business finance companies. They grant loan to individuals and businesses to buy many types of goods and services. The movement from small specialized to large diversified lenders has developed in response to competing institutions (banks, credit unions, savings and loans, and other) who offer consumers a wide range of financing options.

II. Other types of non- banking financial institutions:

i.Insurance Companies:

Insurance companies, like banks, are in the financial intermediation business of transforming one type of assets into another for the public. Insurance companies use the premiums paid on policies to invest in assets such as bonds, stocks, mortgages and other loans; the earnings from these assets are then used to pay out claims on the policies. In effect, insurance companies transform assets such as bonds, stocks, and loans into insurance policies that provide a set of services (for example: claim adjustments, saving plans, friendly insurance agents). If the insurance company's production process of asset transformation efficiently provides its customers with adequate insurance services at low cost and if it can earn high returns on its investment, it will make profits; if not, it will suffer losses.

ii.Savings and loan associations:

Savings and loan associations are depository institutions created in local communities throughout the U.S., beginning in the 1930s, to encourage savings by individuals and families, and to provide credit for construction and ownership of new homes. The earliest savings and loans associations were mostly mutual - owned by other depositors – but the stock holder – owned savings and loan corporation has come to dominate the industry's recent growth, attracting both savings and checking accounts and extending not only home loans but a wide variety of other forms of credit to consumers.

iii.Saving banks:

Saving banks are depository institutions that first appeared in Scotland in the early nineteenth century and then spread around the world, including the U.S., shortly thereafter. Their basic purpose has been to stimulate saving by individuals and families and to invest those savings in interest bearing assets (such as government and corporate bonds, consumer installment loans, and mortgage loans) that can generate competitive returns for the saver. Like savings and loans associations, government deregulation of saving banks has greatly expanded the services they can offer, including interest-bearing checking account, credit cards, insurance policies, and investment in mutual funds.

iv.Credit Unions:

Credit unions are depository institution first developed in Germany in the middle of the nineteenth century, spreading in Canada and U.S. early in the twentieth century. These mutual (depositors owned), non-profit institution originally were aimed primarily at workers in the industry, offering low and middle-income wage earners as interest bearing outlets for their savings and reasonably priced loans to cover households' needs. Today's credit union has become a financial department store of household finance offering a wide variety of consumer – oriented financial services that are fully competitive with banks and other thrift institutions serving the same markets.

v.Money Market Funds:

Money Market Funds are a form of Investment Company (mutual fund) that first appeared during the 1970s to offer savers higher market sensitive rates of returns on their cash balances rather than the government regulated interest rates that banks and other thrifts were then offering on their deposits. A money market fund sells shares to the public that are claims against a pool of assets made up of short-term (money market) securities including T-bill, commercial paper, bank CDs, repurchase agreement, and other money market instrument. By law, a money fund cannot invest in assets having a maturity of more than thirteen months nor have an average weighted asset portfolio maturity of more than ninety days. A shareholder funds may be withdrawn at any time, usually, without penalty, and checks of minimum denomination may be written against the balance left in each shareholders' account.

1.6. Nepalese financial sector:

The Nepalese financial sector is composed of banking sector and non-banking sector. Banking sector comprises Nepal Rastra Bank (NRB) and commercial banks. The non-banking sector includes development banks, micro-credit development banks, finance companies, co-operative financial institutions; non-governmental organizations (NGOs) performing limited banking activities. Other financial institutions comprise of insurance companies, employee's provident fund, citizen investment trust, postal saving offices, and Nepal stock exchange.

There is a tremendous growth in the number of financial institutions in Nepal in the last two decades. At the beginning of the 1980s when financial sector was not liberalized, there were only two commercial banks, and two development banks performing banking activities in Nepal. There were no micro-credit development banks, finance companies, cooperatives and

NGOs with limited banking transactions. After the liberalization of financial sector, financial sector has made a hallmark progress both in terms of the number of financial institutions and beneficiaries of financial services.
By mid-Jan 2008, NRB licensed banks and non-bank financial institutions totaled 235. Out of them 23 are commercial banks including Agricultural Development Bank of class ‘A’, 58 development banks of class ‘B’, 79 finance companies of class ‘C’, 12 micro-credit development banks of class ‘D’ including 5 grameen bikas banks owned jointly owned by Government of Nepal, NRB and some financial institutions. Besides there are 16 cooperative societies and 47 NGOs undertaking limited banking functions after obtaining permission from the NRB. There are many cooperative societies operating banking functions without getting approval from NRB. They are registered under the Cooperative Act.

Due to the conflict situation and the losses at the branches, Nepal Bank Ltd, Rastriya Banijya Bank and Agricultural Development Bank closed and merged several of their branches in rural areas due to which banking services were squeezed in those places. Hence, in those places, cooperative societies, micro-credit development banks and NGOs are rapidly coming up to provide such banking facilities. Banks and financial institutions, operating under various other acts before the promulgation of Bank and Financial Institutions Ordinance 2005, have been categorized into A, B, C, and D class. Accordingly, development banks, finance companies, and micro-credit development banks are categorized into ‘B’, ‘C’, and ‘D’ class. Commercial banks are in class ‘A’.

Table 1.1
Growth of Financial Institutions

Type of Financial Institutions	Numbers of Institutions in mid-July							
	1980	**1985**	**1990**	**1995**	**2000**	**2005**	**2006**	**2007**
Central Bank (NRB)	1	1	1	1	1	1	1	1
Commercial Banks	2	3	5	10	13	17	18	20
Development Banks	2	2	2	3	7	26	32	38
Finance Companies	-	-	-	21	45	60	71	74
Micro-credit development Banks	-	-	-	4	7	11	11	12
Saving and credit cooperatives	-	-	-	6	19	20	19	17
NGOs	-	-	-	-	7	47	47	47
Total								208

1.6.1. Commercial Banks:

Commercial Banking in Nepal started with the establishment of Nepal Bank Limited (NBL) in 1937. Government and the private sector had 51% and 49% shares respectively. With the objective of expanding banking services to nooks and corners of the country, Rastriya Banijya Bank was set up in 1966 with 100% government investment. In early ’80s, the government opened-up Nepalese banking sector for foreign investment. As a result, Nepal Arab Bank Limited (renamed Nabil Bank Limited on 1st January 2002) was established in 1984 with joint venture between Dubai Bank

Limited, Dubai, Nepalese financial institutions (Rastriya Beema Sansthan, Nepal Industrial Development Corporation and Security Exchange Centre) and general Nepalese public. In 1986 and 1987, Nepal Indosuez Bank Limited and Nepal Grindlays Bank Limited came into operations with 50% holding by Banque Indosuez, Paris and ANZ Grindlays Bank Limited, Australia respectively. With the restoration of multi-party democracy in 1990, the government pursued liberal economic policy which paved the way for establishment of commercial banks by the private sector with or without foreign investment. Presently, there are 23 commercial in the banks country including Agricultural Development Bank. Commercial banks are major players of the financial market as they have lion's share in country's deposits (81%) and credit (72%).

The number of commercial bank branches operating in the country in mid-January 2008 totaled 574. The regional distribution of these bank branches seemed to be much skewed. Of the total bank branches, 266 branches are being operated in the central development region, followed by eastern development region (122), and western development region (117). Only 38 and 31 branches are being operated in the mid-western and far-western development region respectively.

1.6.2. Finance Companies:

Finance company is relatively a new concept in the Nepalese market. The opening of non-banking financial institutions showed an encouraging trend when the country adopted the liberal and open economic policy. This was done as per the objectives of HMG to make the national economy more liberal, dynamic and competitive through increased participation of the private sectors in the economic development. In order to promote the finance companies, the government enacted the Finance Company Act in 1984 as the Finance Company Act 2042. The aim of this Act was to guide the economy in the right direction as giving services where commercial banks and other financial institutions were not available. The Act allowed the finance companies to take deposits from the people and make investment on hire purchase, housing industry, commerce etc. in effect, they were allowed to operate as mini banks. Some eight years later, the Merchant Banking Act 2050 allowed certain finance companies that met the regulatory requirements to acquire Merchant Banking license as well. As of 2007 data, there are 8 Non-Banking Financial Institutions with Merchant Banking license. This has been, from beginning till date, the only major difference between a commercial bank and finance companies in terms of the activities allowed to them. The only areas reserved for the commercial banks are: over drafts, personal loans, foreign exchange transaction and opening letter of credits. Recently, finance companies are allowed to transact also in Indian currencies though they are still restricted from transacting in other foreign currencies.

As of mid Jan 2008, 79 finance companies are operating their business. At present, finance companies are operating business in the field of hire purchase, leasing, term loan and housing. Nepal Housing and Development Finance Company is the first ever finance company established in the country. The main promoters of Nepal Housing and Development Finance Company are His Majesty's Government and other commercial banks operating in the country. Nepal Finance and Saving Company Ltd. is the first finance company established by the private sector. Both companies were established in 1992 only after seven years of enacting the Finance Company Act in the country. Finance companies have 9.26 percent share in country's deposit and 12.88 percent share in advances.

1.7. Statement of problems:

Nepal's financial sector contributes more than 10 percent to the national gross domestic product (GDP). This crucial sector seems to be swimming in troubled waters for sometime now, notwithstanding the past initiatives by the government and Nepal Rastra Bank. Though, the environment has been quite tricky for expanding financial transactions due to conflict and political instability in the country, financial institutions have been 'surviving'. But, both private and state owned banks do not seem to be out of the woods yet. The major problem stalking the Nepalese banking sector is non – performing assets (NPAs) that stand close to a staggering Rs. 29 billion as a whole, which is above all attributed, to slow implementation of policies and directives issued by both the government and the Nepal Rastra Bank.
Of the total banking sector's loans worth Rs. 1597.96 million to different sectors so far, 18.19 percent goes under non-performing loans, according NRB sources. Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB) occupy the Lion's share in these NPLs.

As per international norms, NPA level should be maintained below five percent. But NBL and RBB have NPAs far in excess of this. RBB recently has reduced its NPAs to fifty percent from its earlier fifty-seven percent. Similarly, NPAs at NBL run into forty-three percent. If this Rs. 29 billion in NPL is not recovered, it would obstruct all economic activities in the country. NRB was made autonomous as per an NRB Act 2002, but failed to act as per its mandate, which has led to further problems in the financial market.

Majority of private are performing well primarily due to their focus on retail lending in recent years. However, they will find it difficult to sustain them if the investment sector does not get diversified. Thus, investment in bigger projects must start.

Finance companies are also an important component of the financial sector, which has also been cramped for space for the last couple of years.

Promoters of finance companies commend that despite these financial institutions having been established with a low capital base, they are being treated at par with banking institutions in terms of rules and regulations issued by NRB. This is blatantly unfair, according to them.

Another major problem for the financial institutions have been increasing competition amongst banks and financial institutions due to various factors like an increasing number of players in the industry, confined lending opportunities and high liquidity due to ever increasing inward remittance. High liquidity has definitely resulted in lower cost of funds, more particularly for commercial banks. The interest rate for saving deposit s of the top five banks has fallen below three percent. At the same time, finance companies and cooperatives banks are raising funds from the market at extremely exorbitant prices, which range between 6.25 to 9.5 percent. Therefore, with the pie not growing as a result of structural problems that existed for a long time in a conflict-driven economy, all the financial institution are fighting a very unhealthy price war.

However, apart from the aforesaid problems, this research is undertaken to answer the following questions:

- What are the areas where the FIs are channelising the collected fund?
- How efficiently are they managing their liquid assets and capital structure?
- How efficiently are they managing risk involve in the employment of fund?
- To what extent these institutions have been able to raise their profitability?

1.8. Objectives of the study:

This research is concerned with studying the asset and liability management in Nepalese Financial Institution, particularly, in Nepalese commercial banks and finance companies. The main objectives of the study are as follows:

- To analyze the composition of assets and liabilities of the FIs
- To examine the utilization of assets
- To evaluate the liquidity, profitability and capital adequacy position of FIs.
- To evaluate the liquidity and interest rate risk of FIs.
- To evaluate the trend of credit and deposits of FIs

1.9. Significance of the study:

The importance of this study may be viewed from its contribution to fill an important gap in literature. That is, findings of this study can add to the existing body of the literature, and can serve as a staring point on which future studies can be done. On the practical dimension, this study may help bank decision makers to focus on the major banking activities that may increase the bank ranking and financial performance positions comparing with other banks. Such information should help the management of commercial banks in creating appropriate financial strategies for attaining the required planned financial performance.

The significances of the study are:

- The study has a great significance as the study focuses on financial performance of selected FIs.
- The study will give a clear picture on how the FIs are performing their important function of loan disbursement and repayment.
- The study will be valuable source of information for existing and prospective shareholder, management and board of directors of the respective institution.
- The study will provide information to the general public regarding the success of these institution on the investment they have made
- After the completion of this research work, it will be kept in the library, which will play the role of reference to the students making similar study in the future.

1.10. Limitation of the study:

This thesis is to be prepared in a limited period of time for the partial fulfillment of MBS degree course, so it posses some limitation of its own kind.

- This study is based on only six financial institutions; three samples from banking sector and three from non-banking sector (finance company).
- Since, the study is based upon the comparative financial analysis; most of the data are extracted from the secondary data.
- The study covers the period of six years only; that is from 2058/59 to 2063/64.
- In some cases, some analysis has been omitted due to the unavailability of data, especially while analyzing capital adequacy, liquidity profile and interest rate risk of Financial Institutions. Liquidity profile and interest rate risk has been analyzed only for two years, that is, for F.Y. 2062/63 and 2063/64 due to unavailability of data.
- The research is done as per the objective. Therefore, it may not be practicable and justifiable to draw the conclusion beyond the objectives.

1.11. Organization of the Study:

Every research work is conducted under certain plan in order to have effective and efficient research work and presented in standard format so that the readers, analyst, critics and other people may have clear idea what has been tried to study in that work and what the researcher is trying to show or presenting regarding the subject matter.

Similarly, this research work has also been prepared in certain format for its efficient presentation. The total research work is divided into five parts or categories. This **first chapter** deals with the general background including all the subject matters like meanings and types of the financial institutions, Nepalese financial institutions, problems on which the research is concentrated on, objectives with which the research work is done, its significance and its limitations.

Likewise, the **second chapter** deals completely with the conceptual framework along with the relevant terminologies and reviews of the published and unpublished literatures that are done in national and global context by various analysts in the past. This part is taken as the milestone for the research work as it reveals all the information and the findings that are found out in the past days, which may be helpful either directly or indirectly to the researcher for performing the present research work.

The **third chapter** can be taken as the guideline or the road map, which specifies the methods, tools (financial, statistical and others) used in calculating and finding different financial information regarding the subject matter. In other words, this part opens the path or road for the fourth category.

The **fourth chapter** totally deals with the presentation and analysis of data regarding the subject matter and the respective institutions. It is the main center point on which the research is revolved around.

Then the last part or the **fifth chapter** presents the findings and recommendations on the basis of the study that are made in the previous part. It can also be taken as the summary of the total work.

Chapter Two

Review of Literature

Review of literature is basically a stock taking of available literature in the field of research. It supports the researcher to explore the relevant and true facts for the reporting purpose in the field of study. In the course of research, review of the existing literature would help to check the chances of duplication in the present study. Thus, one can find what studies have been conducted and what remains to go with.

2.1. Conceptual Review:

Until the 1970s, the business of banking primarily consisted of the extension of credit. In other words, a simple intermediation of deposits that had been raised at a relatively low cost and bank managers faced fairly simple decisions concerning loan volumes, pricing and investments. The key managerial challenges of the past were controlling asset quality and resulting loan losses, as well as managing of overhead expenditures. With the background of recession, volatile interest rates, and inflation during the late 1970s and early 1980s, the management of both assets and liabilities has become necessary in order to maintain satisfactory margin performance. The complexity of assets and liability management continued to increase due to the deregulation in the 1980s, with growing competition for funds becoming a primary management concern.

The traditional asset-liability management is any of several of techniques designed to coordinate the management of an entity's future development of assets with the management of its future development of liabilities. The overall risk to a financial institution, and therefore to its policyholders, depends on the combined performance of the asset and liability portfolio. Asset-liability management is an integral part of financial institution's management; it is essential to have both a structured and systematic process for optimizing the balance sheet. As a part of the integrated risk management, the goals of ALM are profit enhancement of the company, to prevent default in payments or finally to avoid insolvency.

Reasons for the asset-liability management vary between financial institutions: in insurance sector, it depends on investment behavior of clients, products of the insurance company and the influence from fluctuating capital market prices on balance sheet value. In the banking sector, it relies on the investment strategy, the structure of the portfolio, and balance sheet policy.

Asset-liability management (ALM) is a term whose meaning has evolved. It is used in slightly different ways in different contexts. ALM was pioneered by financial institutions, but corporations now also apply ALM techniques. The range of asset-liability management activities has expanded. Today, asset-liability management divisions are addressing (non-trading) foreign exchange risks and other risks. Also, ALM has extended to other industrial firms. Corporations have implemented practices of ALM to address interest-rate exposures, liquidity risk and foreign exchange risk. They are using related techniques to address commodities risks. One also uses simulation models to measure the risk to net income by projecting the future composition of the bank and applying different interest rate scenarios. Complex simulation modeling techniques in both banks and insurance companies will be incorporated to run "what if" analyses to estimate the effects of different ALM strategies on the bank's or insurer's risk profile and profitability.

In banking, asset liability management is the practice of managing risks that arise due to mismatches between the assets and liabilities (debts and assets) of the bank. Asset-liability management basically refers to the process by which an institution manages its balance sheet in order to allow for the alternative interest rate and liquidity scenarios. In other words, Asset Liability management (ALM) is a strategic management tool to manage interest rate risk and liquidity risk faced by banks, other financial services companies and corporations. Banks and other financial institutions provide services, which expose them to various kinds of risks like credit risk, interest risk, and liquidity risk. Asset and liability management is an approach that provides institutions with protection that makes such risk acceptable. Asset-liability management models enable institutions to measure and monitor risk, and provide suitable strategies for their management. The primary goal of asset-liability management is, therefore, to produce a high-quality, stable, large, and growing flow of net interest income. This goal is accomplished by achieving the optimum combination and level of assets, liabilities, and financial risk.

It is therefore appropriate for the financial institutions to focus on asset and liability management when they face financial risks of different types. Asset and liability management includes not only a formalization of this understanding, but also a way to quantify and manage these risks. Further, even in the absence of a formal asset-liability management program, the understanding of these concepts is of value to an institution as it provides a truer picture of the risk/reward trade-off in which the institution is engaged. Asset-liability management is the first step in the long-term strategic planning process, therefore, it can be considered as a planning function for an intermediate term. In a sense, the various aspects of balance sheet management deal with planning as well as direction and control of the levels, changes and mixes of assets, liabilities and capital.

2.2. Liabilities structure:

Liabilities reflect the obligation that the financial institution has towards its providers of resources. These include depositors, other lenders, and trafe creditors. While the types of liabilities present in a bank's or finance company's balance sheet are universal their exact composition varies greatly depending on a particular company's business and market orientation, as well as by the prices and supply characteristics of different types of liabilities at any given point in time. The funding structure of a bank or finance company directly impacts its cost of operation and therefore determines a bank's or finance company's profit potential and risk level. The structure of a bank's of finance company's liabilities also reflects the specific asset-liability and risk management policies of a bank or finance company.

I. Share Capital:

With the continual growth of trade, it was soon found that a much larger amount of capital was required to carry on a business on an extensive scale, and as a result the traders had to invite the public to contribute towards capital of such concerns. These gave rise to the concept of raising capital by issuing shares. Before an association of persons can trade as a limited company, it has to register the amount of capital and the number and value of shares into which it is divided. Then these shares are issued to the public. A MOA and AOA of the company fixes the minimum subscription i.e. the least amount of shares which should be subscribe for the public before the directors can proceed to allot the shares. If no such amount is fixed, then the public must subscribe whole of the capital offered for subscription. The object of this provision is to ensure that sufficient capital is available for the requirement of the company before it commences business.

The capital is divided into several forms: **Authorized capital** represents the total amount of share capital authorized by the MOA and with which the company is registered. It has no bearing on capital adequacy and merely means that the institution does not need to obtain authority to issue more shares up to the authorized level. **Issued capital** is the amount of the shares that have been offered to the public for subscription for cash and to the vendors as fully or partly paid up. **Paid up capital** is that portion of the capital that has actually been paid by the shareholders as also the extent to which the shareholders have not paid up. It represents the par value of the stock outstanding and may be further divided into common stock and preferred stock.

Common stock is true risk capital with the owner participating pari passu in the earnings of the bank through dividends, appreciation in the surpluses, and thus, the market value stock. Shareholders of common stock also participate in any losses of the bank through depreciation in the value of their stock, limited only by the extent of their investment. **Preferred shares** generally provide for a senior ranking for dividend purposes and are not common in banks. **Cumulative preferred shares** provide for a fixed dividend with a built-in catch-up mechanism in case a dividend is skipped, which makes the dividend more like an interest payment, while participating preferred stock provide for a floor dividend level but allow participation pari passu with common stock in any dividends in excess of the floor. Participating cumulative preferred stock represents the best of all possible worlds – but is discriminatory vis-à-vis common stock and thus not usually tolerated in a publicly owned company.

If the market conditions are stable, banks may raise long-term funds through the sale of long-term debt instruments to the public. **Bonds** or **debentures** may be attractive to the depositors who may wish long term investments with a steady income flow. These instruments are generally evidenced by a document (the bond), and the interest is payable periodically, based on a coupon that can be cut from the bond and cashed on or after the interest payment date.

II. Reserve:

These represent the profits earned over the years that have not been distributed to shareholders and that have been set aside to meet possible future requirement; reserve such as these are known as revenue reserve. Capital reserves come about when assets of the bank or company are revalued, as when branch bank premises that were purchased some years ago are revalued to bring them into line with current property valuations: the premises would be shown at the increased value on the assets side of the balance sheet, while in the liabilities side the amount of the increase would be placed in to a capital reserve account called revaluation reserve. Another type of capital reserve arises when shares are issued at public at higher prices than the normal value: the amount of the issue price in excess of the nominal value is placed to a share premium account. The important distinction between a revenue reserve and a capital reserve is that the former can be distributed to the shareholders as a dividend (subject to the business having sufficient cash to pay the dividend) whereas the latter can never be distributed.

III. Deposits:

The core of the resources available to commercial banks is in the form of deposits mobilized from the public. These form the largest liabilities on an institution balance sheet. They are the liabilities because the customer personal and business customers as well as other financial institutions have paid money into their accounts and these banks and finance companies are liable to repay that money.

There are different sources of deposits. For example:

- Government deposits can be significant in a bank that acts as the government's clearing bank. However, governments payrolls bunched at month end can cause major fluctuations in deposit levels (and the quality of teller services provided to clients) during the month. Such banks cannot lend these temporary funds, much of which may show as vault cash, and they may show higher than average liquidity.
- State – owned enterprises may represent a potentially large source of deposits. However, experience in some countries has shown that these can be directly and indirectly price-sensitive and that dependence on such deposits can represent a weakness rather strength.
- Private sector deposits may form the largest segment of deposits and generally represent the most diversified and stable source of funding in a developed banking system. In developed banking countries, however, these may represent a smaller share of funding and may be significant in countries where public confidence in the banking system is low.

IV. Interbank funding:

Interbank borrowings are normal part of a bank's treasury management in countries with active money market. Deposit from other banks usually mean local currency balances maintained by foreign correspondent banks' in their working accounts with the bank; or, in a finance company, may reflect the funding provided by a parent bank.

Central bank may in the normal course of business include funding through rediscount of commercial trade paper, funding for preferential loan programs, discount of government securities, or temporary overdraft facilities or other short term funding as temporary support.

V. Repurchase agreements:

Instead of resorting to direct borrowing, a bank may sell and simultaneously agree to repurchase securities at a specific time or after certain conditions have met. Repurchase structures are often used fund a bank's trading portfolio and to enhance returns on such portfolios.

The proprietary trading portfolio is, therefore, aimed at exploiting market opportunities with leveraged funding such as repurchase agreements, whereas the investment portfolio is held and traded as a buffer/stable liquidity portfolio – and funded with more stable deposits.

Repurchase agreements may expose banks to interest rate or market risks as they involve underlying securities and even a credit risk if the buyer is unable to follow through on its commitments. The level of securities sold under repurchase agreements has (in the past) also served as a barometer of the level of disintermediation in the system, as well as the demand for wholesale funds.

VI. Other liabilities:

The normal conduct of banking business results in a number of other liabilities that are not normally a concern unless they become material. Interest payable reflects interest accrued on a deposit that has not been paid by the bank. An item in suspense represents the corollary to the asset items in suspense and should be significant if the bank's operating controls are functioning properly. Bills payable includes drafts or other instruments issued or endorsed by the bank that are payable to the holders, who may be trade creditors of the bank's client or independent investors who have purchased the paper.

2.3. Asset Structure:

The banking sector's assets comprise items that are a reflection of individual bank's balance sheets, although the structure of balance sheets may vary significantly depending in business orientation, market environment, customer mix, or economic environment. Following are the major asset components of a bank and finance company.

I. Cash:

It represents the holdings of highly liquid assets, such as bank notes, gold coin, and bullion, as well as deposits with central bank. A percentage of deposits are normally required to be held in order to meet the central bank's reserve requirements and serve as a monetary policy tool. Flat-rate reserve requirements are used to control the amount of money that a bank is able to extend as credit. While cash represent the most liquid asset available, some countries feel that normal vault cash is a part of doing banking business and cannot be significantly reduced and that it does not actually provide incremental liquidity. Some nationalized commercial banks have assigned the task of acting as the government's paymaster. This may require extensive cash to be held throughout the branch system, causing vault cash as a percent of total assets to be higher than that of other banks.

Deposits with central bank consist of:

- Working deposits, which are needed to cover the settlement of interbank payments and check clearings.
- Mandatory reserves, which generally are based on a percentage of the bank's customer deposits and are used to ensure adequate liquidity and as a control over monetary aggregates by dampening the multiplier effect. The most complete formulae are based on maintaining an average reserve deposit over a given time period based on a percentage of average client deposits during a shortly preceding period. In practice, many countries simplify this to reflect minimum reserve deposits based on the client deposits on record at the end of the previous period.

- Uninvested surplus liquidity – Banks in countries with active money markets will usually try to minimize excess deposits with the central bank, since these would represent an opportunity cost to the bank.

II. Money at call and short notice:

It represents largely the amount lent to the money market, the bill brokers, and discount houses and to a smaller extent to the members of stock exchange from account to accounts. They are secured by the deposits of T-Bills, certain commercial bills and short dated government stocks. It is either lent at call, that is, it can be called in immediately or at short notice for periods of up to 14 days.

III. Treasury and rediscountable bills:

Assets that can be rapidly converted to cash, should the bank need to meet depositor withdrawals or increased loan demand, are the liquid assets that are the primary component of liquidity ratios used by some bank supervisory authorities, and acceptable categories include:

Domestic treasury bills, generally, have maturities less than one year and may be re-discountable at a penalty with the central bank. They may form part of the mandatory reserves or may represent investment of the bank's liquidity reserves. These securities either may form a legitimate tool to manage the money supply or may represent enforced financing of government deficits, in which case the actual level of liquidity provided will only be as good as their marketability or the treasury's ability to actually redeem the bills at maturity. For analytical purposes, these are assumed to be cash equivalents, since the central bank or treasury has the power to print the money to redeem them in an emergency, even if this proves inflationary.

Other re-discountable securities may be included in liquid assets if they can routinely be converted to cash through a discount window at the central bank (effectively used as collateral for a loan at or near normal market interest rates). Such securities include:

Government risk – Some countries' treasuries issue longer-term instruments---typically called treasury bonds--- that should be included in this category of liquid assets only if the central bank provides an unrestricted discount facility to advance funds against the collateral of the bonds or if a sufficient deep secondary market ensures that such bonds are freely convertible to cash at a reasonable approximation of face value. Otherwise, treasury bonds should be treated as higher risk, less liquid, investments.

Commercial risk securities include discounted trade bills that the central bank refinances on a routine basis, as is common in countries with a

French heritage. These instruments carry normal commercial risks, and this line item compliments the non-re-discountable bills under loans to customers.

IV. Loans and advances:

These represent a financial institution loan to its customers against good securities or even without security. The financial institutions employ major part of their collected funds in advancing loans to their customers and they earn or charge on these loans and advances become the major source of income to these institutions. Loans and advances to customers are normally the most significant component of financial institutions' assets. These include loans for general working capital (overdrafts), investment lending, asset-backed installment and mortgage loans, financing of debtors (account receivable and credit card account), and tradable debt such as acceptances and commercial paper. Loans and advances are extended in domestic and foreign currency and are provided by financial institutions as financing for public or private sector investments.

V. Fixed assets:

Fixed assets represent the financial institutions' infrastructure resources and typically include the institutions' premises, other fixed property, computer equipment, vehicles, furniture, and fixtures. In certain circumstances, banks may have a relatively high proportion of fixed assets, such as houses, land or commercial space. These holdings would be the result of collections on collateral, which, under most regulations, banks are required to dispose of within a set period of time. They may also reflect the deliberate decision of a bank to invest in real estate, if the market is fairly liquid and prices are increasing. In some developing countries, investment in fixed assets reach such high proportions that central banks may begin to feel obliged to limit or otherwise regulate property-related assets. An institution should not be in the business of investing in real estate assets, and therefore a preponderance of these assets would affect the assessment of the institution. In more developed countries, real estate assets not acquired I the normal course of banking business would be booked in a subsidiary at the holding company level in order to protect depositors from associated risks.

VI. Other Assets:

Other assets include intangible assets. These vary with regard to the predictability of income associated with a particular asset, the existence of the markets for such assets, the possibility of selling such assets, and the reliability of the assessments of the asset's useful life. The treatment of assets in evaluating capital adequacy can be controversial. For example, assets may include suspense accounts, which have to be analyzed and verified to ensure that the assets are indeed real and recoverable.

2.4. Measuring and evaluating the performance of Financial Institutions:

Financial institutions today are closely watched by their customers, regulators, and the financial markets. The performance of a financial institution is evaluated not only relative to the performance of other productive resources in the global market place. Most performance measures employed focus upon four different dimensions of a financial institution behavior.

- The stock price (market value) of a stockholder-owned financial institution
- The rate of return or profitability of a financial institution
- The risk exposure of a financial institution, which encompasses multiple aspects of its financial condition and behavior.
- The operating efficiency of a financial institution, measuring how well the institution uses the resources at its command to produce and deliver its service.

In a market driven economy, stock price is usually the single best indicator of how well a stockholder owned financial institution is performing. However, many financial institutions (such as mutual saving banks, credit unions, and mutual insurance companies) do not have stockholders; for these institutions; measures of profitability are needed to evaluate how well these financial institutions are performing. Return on assets and return on equity are the most comprehensive measures of a financial service institution's profitability.

Financial institutions are subject to multiple types of risk, including risk to the solvency (survival) of the institutions as reflected in how much capital the owners have placed in the institutions relative to its risk-exposed assets. If an institutions' risky assets decline in value more than the volume of its owners' capital (net worth), it will become insolvent. Similarly, financial institution that make loans may face serious troubles if a substantial proportion of their loan must be written off as uncollectible and overwhelm the owner's stake in the institution.

Intense competition in recent years has pressured financial institutions into watching their expenses very closely to ensure that operating cost do not completely eat away the revenues generated from service sales. Many institutions have recently reduced their staff sizes in the hope that the remaining employees will be highly productive. Finally, increased emphasis has been placed in recent years on generating non-interest (fee) income from services not directly tied to the borrowing and lending of money (including fees for managing a customer's asset or retirement portfolio). Managers of financial institution recently have attempted to minimize the amount by which their non-interest expenses (including salaries, wages, and overhead cost) exceed their non-interest (fee) income.

2.5. Profitability:

Bank earnings provide internal capital formation, and they are needed to attract new investor capital, which is essential if the institution is to grow. They serve both as a barometer of the effects of macro financial policies on banking institutions. Healthy profits are needed to absorb loan losses and to build adequate provisions. A consistent earnings performance builds public confidence in the bank. Many bankers believe that public confidence in their institutions is their most valuable banking asset, since it allows them to minimize funding costs and provides access to best borrowers. Thus, consistently healthy earnings are essential to the sustainability and viability of banking institutions. In effect, sound bank earnings are the lubricant that allows the bank to continue functioning.

2.6. Capital adequacy:

Almost every aspect of banking is either directly or indirectly influenced by the availability and/or the cost of capital. Capital is one of the key factors to be considered when the safety and soundness of a particular bank or finance company is assessed. An adequate capital base serves as a safety net for a variety of risks to which an institution is exposed in the course of its business. Capital absorbs possible losses, and thus provides a basis for maintaining depositors' confidence in a bank or a finance company. Capital also is the ultimate determinant of a bank's lending capacity. A bank's balance sheet cannot be expanded beyond the level determined by its capital adequacy ratio; the availability of capital consequently determines the maximum level of assets.

The main function of bank capital is to import confidence that a bank is a going concern – that it will be able to continue to operate even if faced with financial stress. An important additional function of capital is to protect depositors against loss and to protect the stockholders' investment. Capital provides a source of funds for the absorption of assets write-offs if and when they occur. And it keeps the bank operating so that overtime earnings can absorb losses, thus avoiding costly liquidation.

Although the capital of commercial bank and finance company has increased over the year, the more rapid increase in the total assets and deposits continues to focus attention on the adequacy (or inadequacy) of bank capital. Regulatory authorities are especially concerned with this matter since, traditionally they have been charged with the responsibility of bank safety. The amount of capital funds a bank and a finance company needs is related to the risk it assumes. If a bank assumes great risk in its loan portfolio, for example, it should have more capital funds than if it were more conservative in its lending policy. Basically, a bank has two choices in establishing the size of its capital account. It can increase its capital as the risk it assumes increase, or invest in assets that are relatively free of risk.

This is not to say that banks and finance companies, to be on the safe side, should follow an ultra conservative loan and investment policy. This, too, has its pitfalls. Such a policy might not result in an institution serving its trade area properly and thus would be openly inviting competition from a new institution, other established institutions, or other financial institutions. Determining the size of institution's capital is not easy, but it is nevertheless, very important.

Banks have the inherent characteristic of a relatively low capital-to-liabilities ratio. To encourage prudent management of the risks associated with this unique balance sheet structure, regulatory authorities have in most countries introduced certain capital adequacy requirements. In the late 1980s, the Basel Committee on bank supervision took the lead to develop a risk-based capital adequacy standard that would lead to international convergence of supervisory regulations governing the capital adequacy of internationally active banks. The dual objectives for the new framework were to strengthen the soundness and stability of the international banking system and, by ensuring a high degree of consistency in the framework's application, to diminish the sources of competitive inequality among international bank.

This initiative resulted in the Basel Capital Accord of 1988. The Basel Accord comprises a definition of regulatory capital, measures of risk exposure, and rules specifying the level of capital to be maintained in relation to this risk. It introduced a de facto capital adequacy standard, based on risk-weighted composition of a bank's assets and off-balance-sheet exposures that ensures that an adequate amount of capital and reserves is maintained to safeguard solvency. While the original targets of the Accord were international banks, the capital adequacy standard has been adopted and implemented in more than 100 countries and now forms an integral part of any risk-based bank supervisory approach. Constant review of the level of capital maintained in both the banking system and in individuals banks is an important part of the financial risk management process, which seeks to ensure that a bank's capital position is consistent with its overall risk profile and business strategy.

2.7. Liquidity:

Liquidity is necessary for the financial institutions to compensate for expected and unexpected balance sheet fluctuations and to provide funds for growth. It represents a financial institution's ability to efficiently accommodate the redemption of deposits and other liabilities and to cover funding increases in the loan and investment portfolio. A bank has adequate liquidity potential when it can obtain needed funds (by increasing liabilities, securitizing, or selling assets) promptly and at a reasonable cost.

The price of liquidity is a function of a market conditions and the market's perception of the inherent riskiness of the borrowing institutions.

In a day-to-day operation, the management of liquidity is typically achieved through the management of a bank's assets. In the medium term, liquidity is also addressed through management of the structure of a bank's liabilities. The level of liquidity deemed adequate for one bank may be insufficient for another. A particular bank's liquidity position may also vary from adequate to inadequate according to the anticipated need for funds at any given time. Judgment of the adequacy of a liquidity position requires analysis of a bank's historical funding requirements, its current liquidity position and its anticipated future funding needs, the options it has for reducing funding needs or attracting additional funds, and the source of funding.

2.8. Bank Exposure to Risk:

Banks are subjected to a wide array of risks in the course of their operations. In general, banking risks fall into four categories: financial, operational, business, and event risks. Financial risks in turn comprise two types of risks. Pure risks - including liquidity, credit, and insolvency risks --- can result in loss for a bank if they are not properly managed. Speculative risks, based on financial arbitrage is correct, or a loss if it is incorrect. The main categories of speculative risk are interest rate, currency, and market price (or position) risks.

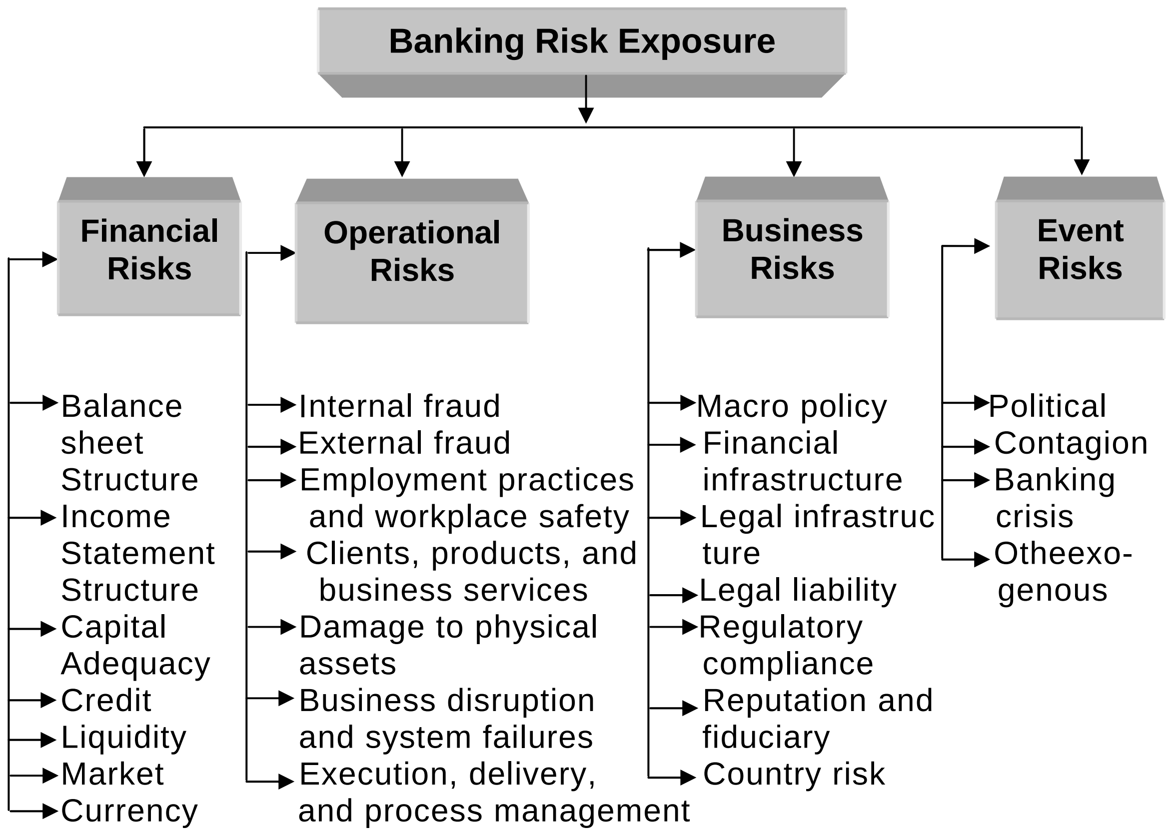
Financial risks are also subject to complex interdependencies that may significantly increase a bank's overall risk profile. For example, a bank engaged in the foreign currency business is normally exposed to currency risk, but will also be exposed to additional liquidity and interest rate risk if the bank carries open positions or mismatches in its forward book.

Operational risks are related to a bank's overall organization and functioning of internal systems, including computer-related and other technologies; compliance with bank policies and procedure; and measures against mismanagement and fraud.

Business risks are associated with a bank's business environment, including macroeconomic and policy concerns, legal and regulatory factors, and the overall financial sector infrastructure and payment system.

Event risks include all types of exogenous risks which, if they were to materialize, could jeopardize a bank's operation or undermine its financial condition and capital adequacy.

We will focus on the bank's financial risk exposure, and will address the question as to whether the financial institutions hold enough capital in order to absorb expected and unexpected losses in the course of their activity, that is, the question of their capital adequacy



The Banking Risk Spectrum

I. Credit Risks:

Among the range of financial risk to which a financial institution is exposed in the course of its activity, credit risk is the principal risk factor. This is because the majority of the institution's financial activity is based on extending credit. Credit or counterparty risk --- defined as the chance that a debtor or financial instrument issuer will not be able to pay interest or repay the principal according to the terms specified in a credit agreement --- is an inherent part of banking. Credit risk means that payment may be delayed or ultimately not paid at all, which can in turn cause cash flow problems and affect an institution's liquidity. Despite innovations in the financial services sector, credit risk is still the major single cause of financial institution's failures. The reason is that more than eighty percent of an institution's balance sheet generally relates to this aspect of risk management.

II. Market Risk:

Market risk are defined as the erosion of a banks net worth as a result of unexpected changes in the market price (interest rates, shares, the exchange rate and inflation) during a particular period (day, month, etc.) at a certain probability (99%, 95% etc). Market risk is the risk that a bank may experience loss due to unfavorable movements in the market prices. Exposure to such risk may arise as a result of the bank taking a deliberate speculative position (proprietary trading) or may ensure from the bank's market-making (dealer) activities.

Market risk results from changes in the prices of equity instruments, commodities, money, and currencies. Its major components are therefore equity position risk, commodities risk, interest rate risk, and currency risk. Each component of risk includes a general market risk aspect and a specific risk aspect that originates in the specific portfolio structure of a bank. In addition to standard instruments, market risk also applies to various derivatives instruments, such as options, equity derivatives, or currency and interest rate derivatives.

III. Interest rate risk:

Interest rate risk is the risk (variability in value) borne by an interest-bearing asset, such as a loan or a bond, due to variability of interest rates.All financial instituitons face interest rate risk. When interest rate fluctuates, a bank's earning and expense change, as do the economc value of its assets and liabilities, and off-balance sheet positions. The effect of these changes is reflected in the bank's overall income amd capital.

IV. Liquidity risk:

Liquidity risk is the potential inability to generate adequate cash to cope with a decline in deposits or increased in assets. To a large extent, it is an outcome of the mismatch in the maturity patterns if assets and liabilities. The importance of liquidity transcends the individual institution, because a liquidity shortfall at a single institution can have a systemwide repercussion. It is in the nature of a bank to transform the term of its liabilities to different maturities on the asset side of the balance sheet. Since, the yield curve is typically upward sloping the maturity of assets generally tends to be longer than that of liabilities. The actual inflow and outflow of funds do not necessarily reflect contractual maturities, and yet banks must be able to meet certain commitments (such as deposits) whenever they come due. A bank may therefore experience liquidity mismtch.

2.9. Financial analysis:

The focus of financial analysis is on key figures in the financial statement and the significant relationship that exist between them. The analysis of financial statement is a process of evaluating the relationship between component parts of financial statements to obtain a better understanding of the institution's position and performance. In other words, financial statement analysis is the process of identifying the financial strengths and weaknesses of the institution by properly establishing relationship between the items of the balance sheet and the profit and loss account. Financial analysis can be undertaken by management of the institution, or parties outside the institution, owners, viz. creditors, investors and others. The nature of analysis will differ depending on the purpose of the analyst.

- Trade creditors are interested in the institution's ability to meet their claims over short period of time. Their analysis will, therefore, confine to the evaluation of the institution's liquidity position.
- Suppliers of long-term debt, on the other hand, are concerned with the institution's long-term solvency and survival. They analyze the institution's profitability overtime, its ability to generate cash to be able to pay interest and repay principal and the relationship between various sources of funds. Long-term creditors do analyze the historical financial statement to make analysis about its future solvency and profitability.
- Investors who have invested their money in the institutions shares are most concerned about the institution's earnings. As such, they concentrate on the analysis of the institution's present and future profitability. They are also interested in the institution's financial structure to the extent it influence the institution's earning ability and risk.
- Management of the institutions would be interested in every aspect of the financial analysis. It is their overall responsibility to see that the resources of the firm are used most effectively and efficiently and that firm's financial condition is sound.

The first task of the financial analyst is to select the information relevant to the decision under consideration from the total information contained in the financial statement. The second step is to arrange the information in a way to highlight significant relationships. The final step is interpretation and drawing of inferences and conclusions. In brief, financial analysis is the process of selection, relation, and evaluation.

According to Surendra Pradhan, "Financial analysis is to analyze the achieved statement to see if the results meet the objectives of the firm, to identify problem, if any, in the past or present and/or likely to be in future, and to provide recommendations to solve the problems."

According to I.M. Pandey, "Financial analysis is the process of determining financial strength and weakness of a company by establishing strategic relationship between the components of balance sheet and profit and loss statement and other operative data."

In the words of Myers, “Financial statement analysis is largely a study of relationship among the various financial factors I a business as disclosed by a single set of statement and a study of the trends of these factors as shown in a series of statement.”

According to E.A. Helfert, “It is both an analytical and judgmental process that helps answer questions that have been posed. Therefore, it is means to end. Apart from the specific analytical answer, the solution to financial problems and issues depend significantly on the views of the parties involved in the related importance of the issue and on the nature and reliability of the information available.”

According to J.J. Hampton, “It is the process of determining the significant operating and financial statements. The goal of such analysis is to determine the efficiency and performance of the firm’s management, as reflected in the financial records and reports.”

Weston, Besley, and Brigham have stated, “Financial statement analysis involves a comparison of a firm’s performance with that of other firms in the same line of business which often is identified by the firm’s industry classification. Generally speaking, the analysis is used to determine the firm’s financial position in order to identify its current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strengths and correct its weakness.”

2.10. Review of Relevant Acts and Directives:

2.10.1. Bank and Financial Institution Ordinance – 2061

This Ordinance is made to amend and consolidate legislations relating to bank and financial institutions. The main objectives of this Ordinance are:

- To enhance the trust of the general public towards country’s overall banking and financial system,
- To protect and promote the rights and interest of the depositors,
- To provide reliable and quality banking and financial intermediary services to the public through healthy competition among bank and financial institutions,
- To minimize risk associated with bank and financial institutions,
- To liberalize the banking and financial sectors and further boost and consolidate the economy of the Kingdom of Nepal, and
- To make necessary legal provisions relating to the establishment, operation, management, and regulation of banks and financial institutions.

Definitions provided in this Ordinance

Unless otherwise meant with reference to the subject or context, in this Ordinance,

- **Rastra Bank** means Nepal Rastra Bank established under Nepal Rastra Bank Act-2058.
- **Bank**, according to sub-section 1 of section 47, means any organized institution established with an objective to carryout financial transaction.
- **Memorandum of Association** means the memorandum association of a bank or financial institution and the term also includes the constitution of a corporate body.
- **Article of Association** means article of association of a bank or financial institution.
- **Promoter** means a person who has agreed to take up atleast one share and affixed his or her signature in the capacity of a promoter in the memorandum and article of association in order to establish a bank or financial institution under this Ordinance.
- **Share** means division of share capital of a bank or financial institution.
- **License** means the license issued by Rastra Bank in the name of a bank or financial institution to undertake financial transaction as per this Ordinance.
- **License holding institution** means a bank or financial institution which has obtained license to carry out financial transaction as per this Ordinance.
- **Financial institution** means any organized institution established to carry out business according to the sub-section 2, 3, and 4 of section 47.
- **Financial transaction** means the transaction carried out by bank and financial institution as specified under section 47.
- **Capital** according to section 47 means authorized capital, issued capital, or paid-up capital of bank or financial institution.
- **Capital fund** means the total of core capital and supplementary capital of bank and financial institution, and the term also indicates any other fund specified or determined by Nepal Rastra Bank from time to time.
- **Core capital** means amount kept under different headings of paid-up capital, share premium, irredeemable preference share, general reserve, and retained earning of bank and financial institution, and the term also indicates amount kept under other headings designated as core capital by Nepal Rastra Bank from time to time.
- **Supplementary capital** means fund kept under different headings of bank and financial institution as specified by Nepal Rastra Bank from time to time.
- **Risk weighted assets** means the total assets calculated by multiplying the amount coming under each heading of on-balance sheet and off-balance sheet operations of bank or financial institution by the risk weight assigned by the Rastra Bank.
- **Liquidity assets** means bank and financial institution's cash balance, balance kept by bank or financial institution in current account, balance kept by bank or financial institution in Nepal Rastra Bank, and all those assets of bank and financial institution that are specified as liquid assets by Nepal Rastra Bank from time to time.

- **Deposit** means the amount deposited under current, saving, and fixed accounts of bank or financial institution; and the term also indicates all those amount accepted by the bank or financial institution through different mediums of financial instruments prescribed by Nepal Rastra Bank.
- **Current account** means the account of fund maintained with bank or financial institution, which is withdrawable on demand.
- **Saving account** means the account of fund maintained with bank or financial institution for the saving purpose.
- **Fixed account** means the account of fund maintained with bank or financial institution for a fixed maturity period.
- **Credit** means direct or indirect commitment to supply funds, and, in return therefore, the right to recover the invested fund and payment of interest and other fees on such credit, refinance issued against the security of credits or investments, restructuring and renewal of credits, security issued for the repayment of such credits, and other commitments made for such repayments, and the term also indicates any kind of credit.
- **Currency** means any type of currency note, postal order, postal note, money order, cheque, draft, travelers cheque, letter of credit, letter of exchange, promissory note, credit card; and the term also include any other monetary instruments designated by Nepal Rastra Bank as per requirement by issuing a public notice.
- **Foreign currency** means any currency other than Nepalese currency and the term also includes the special rights to draw funds (special drawings rights) from the International Monetary Fund, the Asian Currency Unit, the European Currency Unit; and any other instruments designated by Nepal Rastra Bank as per requirement by issuing a public notice.
- **Foreign currency** means foreign currency; the term includes deposit, credit, balances, and foreign securities of all types which are paid or received in foreign currency; as well cheques, drafts, travelers cheque, electronic fund transfer, credit card, letter of credit, bills of exchange, promissory notes, which are in international circulation and are or can be paid in foreign currency; and the term also includes any other monetary instruments designated by Nepal Rastra Bank as per requirement by issuing a public notice.
- **Convertible foreign currency** means foreign currency designated as convertible foreign currency by Nepal Rastra Bank by issuing a public notice as per requirement.
- **Electronic fund transfer** means the business of accepting deposits and making payments, transferring fund through telephone, telex, computer or magnetic tape or similar other electronic equipment; and the term also includes any other transaction undertaken through automated teller machine and dispensing machine as well as those conducted through charge card, debit card and credit card.
- **Letter of credit** means a letter issued by one bank or financial institution in favor of other bank or financial institution authorizing the latter to accept

cheques, draft, hundi, or bills of exchange on behalf of any specified person within the limit of the amount specified therein.

- **Bills of exchange** means a signed document issued by one person to another directing the latter to pay the specified sum of money without any condition on a specified date or on demand to any specified person, or to the person designated by him/her, or to the bearer.
- **Promissory note** means a document containing a signed pledge to pay a specified sum of money unconditionally to any specified person mentioned in the note or to the person designated by him/her, or to the bearer of the note on a specified date or on demand.
- **Off-balance transaction** means transaction relating to guarantees, letter of acceptances, promissory note, commitments, and swap, option and forward foreign exchange transaction for which a bank or financial institution may required to bear a liability, and similar other operations.

Subject to this Ordinance and its Memorandum and Article of Association, a **Class "A" Financial Institution** may conduct the following types of financial transaction:

- To accept interest bearing or non interest bearing deposit and to make payment of such deposit,
- To flow credit as per Nepal Rastra Bank directives,
- To undertake foreign exchange business complying with current law,
- To provide loan for hire-purchase, hypothecation, leasing, housing, and service oriented business as per Nepal Rastra Bank directives,
- To undertake merchant banking business subject to the directives of Nepal Rastra Bank,
- To make arrangements for jointly supplying credits on the basis of co-financing by joining hands with other licensed holding institutions according to the agreement concluded for the purpose so as to divide collateral pari passu,
- To issue guarantees on behalf of customers, have such customers execute necessary bonds in consideration thereof, obtain security, and acquire their movable and immovable assets as collateral or on mortgage or the assets of the third person as collateral,
- To supply credit against the guarantee provided by any local or foreign bank or financial institution,
- To issue, accept, redeem, endorse document, purchase and deal in letter of credit, bills of exchange, promissory note, check, travelers' check or any other financial instruments,
- To accept deposit, make payment, and transfer fund through telephone, telex, fax, computer, or magnetic tape or any other electronic instrument or device subject to the directives issued by Nepal Rastra Bank,
- To issue and accept credit card, debit card, charge card and other financial devices, or to appoint agent to undertake such task as per Nepal Rastra Bank directives,

- To accept deposit, make payment of such deposit, and to provide loan through automated teller machine and cash dispensing machine,
- To grant overdraft to the person trusted by it,
- To supply a fresh credit in a lump sum or on installment against the same movable or immovable assets which have already been pledged with it or with any other licensed institutions, to the extent covered by the total value of such security,
- To work as an agent of Nepal Rastra Bank and undertake government transaction including other transaction on behalf of His Majesty's Government as per Nepal Rastra Bank's terms and conditions,
- To remit or transfer money through bills of exchange, check, or other financial instruments; or to deal in gold, silver bullion, share, debenture; and to collect share dividend, and interest on promissory note, debenture, bond, etc.,
- To work as a commission agent and take responsibility of purchase and sale of share, debenture; collect share dividend, and interest on debenture; and to send or transfer such dividend, profits and interest within or outside the Nepalese territory on behalf of a customer,
- To accept, purchase, or sale loan bonds issued by His Majesty's Government or Nepal Rastra Bank,
- To make arrangement for safe deposit vault,
- To undertake off-balance sheet transaction as per Nepal Rastra Bank's terms and condition,
- To provide loan to destitute, low-income family group, victims of natural calamity, and to the inhabitant of any particular territory of the country to uplift their economic status, not exceeding the amount specified by Nepal Rastra Bank with the provision of individual or collective guarantee,
- To exchange information or notices regarding debtors or customers who have obtained credits from it or any other licensed holding institution with the Rastra Bank or other licensed holding institution,
- To provide guarantee to arrange for the supply of credit to its customers by any other licensed holding institution,
- To mobilize capital through shares, debentures, bonds, loan-bond, saving-bond, or other financial instrument subject to the limit prescribed by the Rastra Bank,
- To obtain refinance credit from Rastra Bank according to need, or obtain or supply credits to or from other licensed institution,
- To conduct or arrange for conducting studies, research or surveys relating to the establishment, operation, and evaluation of projects, and impart training and provide consultancy and other information,
- To supply funds received from His Majesty's Government or other local or foreign agencies as credit for the promotion of projects or manage such credit,

- To prescribe conditions according to the need in order to protect its interest while supplying credit to any individual or institutions or conducting any transaction with him/her,
- Obtain credits by pledging its movable and immovable assets as collateral,
- To write off credits subject to the bye-rules framed by the board,
- To properly manage or sell its assets,
- To perform other such functions as are prescribed by the Rastra Bank.

Subject to this Ordinance and its Memorandum and Article of Association, a **Class "C" Financial Institution** may conduct the following types of financial transaction:

- To accept either interest bearing or non interest bearing deposit and to make payment of the same subject to the limit prescribed by Nepal Rastra Bank,
- To provide loan as prescribed except for hypothecated loan,
- To provide loan for hire-purchase, leasing, housing and other service oriented business,
- To undertake merchant banking transaction,
- To write-off loan subject to by-laws made by the board,
- To provide credit on the basis of co-financing by joining hands with other licensed holding institutions according to the agreement concluded for the purpose so as to divide the collateral pari passu,
- To provide loan against the guarantee provided by bank or depository institution,
- To take loan against the collateral of movable and immovable property,
- To supply a fresh credit in a lump-sum or in installment against the security of the same movable or immovable assets which have already been pledged with it or any other licensed holding institution, to the extent covered by the total value of such security,
- To make proper arrangement of one's property, to sell or lease them,
- To issue, accept, redeem, discount, or purchase and sell bills of exchange, promissory note, check, traveler's check, draft or other financial instruments,
- To purchase and sell Indian Currency,
- To provide loan to destitute, low-income family group, victims of natural calamity, and to the inhabitant of any particular territory of the country to uplift their economic status, not exceeding the amount specified by Nepal Rastra Bank with the provision of individual or collective guarantee,
- To exchange information or notices regarding debtors or customers who have obtained credits from it or any other licensed holding institution with the Rastra Bank or other licensed holding institution,
- To supply credit on installment or hire-purchase to any individual, firm, company, or institution for vehicle, machinery, tools, equipment, durable household goods or similar other movable property,

- To provide loan to any individual, firm, company, or institution for the purchase or construction of residential house or storage house; or for the purchase of land to construct such residential house or storage house,
- To provide loan to any individual, firm, company, or institution for taking up vehicles, machinery tools, equipment, durable household goods or similar other movable property on lease, or provide such movable property on lease,
- To prescribe conditions according to the need in order to protect its interest while supplying credit to any individual or institution or carrying out any transaction with him/her,
- To operate projects such as those relating to the purchase of land and construction of buildings for land development and residential purposes, and sell or manage such lands and buildings, or make arrangements for doing so,
- Perform other such functions as are prescribed by Rastra Bank.

2.11. Review of article

In this section, effort has been made to examine and review of some related articles in different economic journals, NRB discussion papers, magazines, newspapers and other related books.

Shrestha, Ramesh Lal (2004) conducted a study entitled "A study on deposit and credits of commercial banks in Nepal" has concluded that the credit deposit ratio would be 51.30%, other thing remaining the same, in 2004, which was the lowest under the period of review. So he had strongly recommended that the commercial bank should try to give more emphasis in new field as far as possible. Otherwise, they might not be able to absorb even their total expenses.

Pradhan, Shekhar Bahadur (2005) conducted a study entitled "Deposit mobilization, its problem and prospect" has presented that deposit is the lifeblood of every financial institutions, be it commercial bank, finance company, cooperative or non-governmental organization. Most of the banks and finance companies, the latest figure, does produce a strong feeling that a serious review must be made of problems and prospects of deposit sectors. Leaving few joint venture banks, other organizations rely heavily on the business deposit and credit disbursement.

Mr. Pradhan has highlighted following problems of deposit mobilization in Nepal:

- Most of the Nepalese people do not go for saving in institutional manner, due the lack of good knowledge. They retain their saving in the form of cash or ornaments. Reluctance to deal with institutional system is due to the lower level of understanding about financial organization process and so on.
- Unavailability of the institutional services in the rural areas.

- Due to the lesser office hours of banking system people prefers holding the cash in the personal possession.

For the prosperity of deposit mobilization, Mr. Pradhan recommended that sufficient institutional services in the rural areas should be provided by cultivating the habit of using rural banking unit and adding service hour system to bank. Similarly, NRB could also organize training program to develop skilled manpower, spreading cooperative in the rural areas to develop mini banking services.

Poudel, Upendra Kumar (2005) in his article “Present condition of finance companies” has compared finance companies with commercial banks. He has found out that the interest rate charged and provided by the finance companies is relatively higher than that of commercial banks. The finance companies should not concentrate their services only in the valley but rather should extend their services in the rural sectors to reduce regional imbalance. To sustain themselves in the competitive environment, they should introduce novel schemes and technology to collect deposits and investment. They should learn from their past mistakes and review the success of commercial banks to establish themselves as an alternative of commercial banks.

karki, Uma (2006) conducted a study on “Finance companies in Nepal” has stated that the future of finance companies is stagnant. If the company is not able to mobilize deposit properly, then the savings of deposit holders will at risk. Thus, the deposit must be justified. Finance companies are following the same footsteps of commercial banks in the areas of loan flow which is not favorable. They should direct themselves in the new direction to motivate the loan flow in the new areas. They should be able to explore new opportunities and expand the adequate services in the existing economic activities of the country. So the concerned authorities should be more careful and conscious while providing license and authorities for the long run operation of finance companies.

Sapkota, Dharma Raj (2006) in his magazine paper “Development and present condition of finance companies in Nepal” has concluded that the finance companies have contributed much to the use of financial tools in the system of Nepalese finance. The habit of savings and depositing is on the rise among Nepalese customers as the finance companies are servicing door to door. They are interested in promoting capital. The debtors are also facilitated by the quick servicing of loan. As the finance companies are focusing on consumer commodities, they have not been able to contribute in the productive financial company’s sectors like agriculture, industry, and other sectors.

Thapa, Chandra (2007) in his article called “Managing Banking Risks” has explained different risks involved in the banking sector and its impact in the profitability of the bank. He has emphasized on the management of banking risk for achieving success. According to him risk management of the banks is not only crucial for optimum trade off between risk and profitability but is also one of the deciding factors for the overall business investment leading to growth of the economy. Managing such risks not only needs sheer professionalism at the organizational level but an appropriate environment also needs to be developed. Some of the major environmental problems of Nepalese banking sector is undue government intervention (in the state-owned banks), relatively weak regulatory frame, although significant improvement has been made in the last five year but still not competitive enough when we consider the international standard, meager corporate governance and the biggest of all is lack of professionalism (especially commitment). The only solution to mitigate the banking risk is to develop the badly needed commitment, eradication of corrupt environment, especially in the disbursement of lending, and to formulate prudent and conducive regulatory framework. Likewise the technology used by the banks are also one of the factors of increasing the profitability of the banking sector in which he gave the example of Nepal Bank Limited, Nepal Rastra Bank and other banks such has Himalayan and Standard chartered bank.

2.12. Review of previous thesis

In this section, previous research done about the performance of some financial institutions is being reviewed. Nominal thesis works have been conducted before to access various aspects of banking and financial services in Nepal. The conclusion drawn on such thesis work will be relevant to justify my study. Thus some previous thesis is reviewed in this section.

Pandey, Bikram (2003) conducted his research on “A Comparative assessment of financial performance among selected Nepalese Finance Companies”; an unpublished master degree’s thesis, T.U., mainly focusing on five finance companies which concludes the following: the financial performance of National Finance Co. Ltd. is concluded to be satisfactory. There were some lacking found only in terms of interest receivables turnover and credit deposit ratio. Investment in the form of loans and advances made by Universal Finance and Capital Market Ltd. in unproductive sectors through housing and hire purchase loan is comparatively very high than in productive sectors. The interest receivable turnover has been adversely affected due to inadequate collection effort and liberal grant of credit provided by the company, which may eventually lead to loss in terms of bad debt. The performance of the company on the ground of other employed parameters is satisfactory except for profitability.

Nepal Housing and Merchant Finance Ltd. are following sound financial practices. However, the fluctuation in terms of dividend payments as well as declaration clearly exhibits unstable and inaccurate dividend policy of the company. Besides these, large sums of credit investment are made in secured but unproductive sector is not a good sign, as it does not help to boost the national economy though it is beneficial to the company.

Himalayan Securities and Finance Ltd. could not utilize its current assets and deposits efficiently. Lower credit deposit ratio and growing interest expenses of the company over the study period indicate the financial inefficiency. In addition, increasing credit investment towards safe sector and suspense to interest income ratio is favorably offsetting factor. Remaining employed financial indicators clearly reveal the appreciating performance of the company.

He has done an in-depth analysis regarding how finance companies are utilizing fund as credit and many aspects related to credit. Though credit is an important aspect, there are other aspect such as deposit and capital, which is equally important for finance companies have been ignored.

Shrestha, Rashmi (2004) conducted a study entitled "Asset and liability management of Joint Venture Banks in Nepal", an unpublished master degree’s thesis, T.U., has tried to describe the structure of assets and liabilities of joint venture banks in Nepal. The specific objective of research is to study the assets and liabilities structure of joint venture banks, to evaluate the liquidity, profitability, capital structure activity, and capital adequacy position of joint venture banks in Nepal. She concluded that NABIL and Standard Chartered Bank have the highest deposit. Nepal Bangladesh Bank has the better liquidity and credit to total deposit ratio. Standard Chartered Bank has better earning, and investment to total deposit ratio compared to the other banks. Similarly, NABIL and Standard Chartered Banks have better capital adequacy position.

In her study, she has focused more on deposit aspect of the balance sheet. She has not done any analysis on the other composition of balance sheet. She has tried to analyze Activity, liquidity, and profitability status of the commercial banks but has not analyzed the risk aspect associated with these ratios.

Joshi, Keshav Raj (2004) conducted a study titled “A study on Financial Performance of Commercial Banks”; an unpublished master degree’s thesis, T.U., has concluded that the study has indicated the satisfactory liquidity position of commercial banks. Local commercial banks have been found relatively highly leveraged compared to other commercial banks. Loan and advances have been the main form of the investment. Two-third of the assets has been used for the earning purpose. Profitability position of Nabil bank is stronger than that of other commercial banks.

His research is mainly focused on the liquidity, profitability, and activity ratio. There are various ratios and tools that can be used to study the financial position. But he has used only limited tools which are not sufficient.

Oli, Jhalak Bahadur (2004) conducted his study on “A comparative study on financial performance of HBL, NSBL, and NB bank Ltd”; an unpublished master degree’s thesis, Shanker Dev Campus. The major findings of his study are: the liquidity position of NBL is better than others, NB bank has sufficient cash and bank balance to its total deposits without fixed deposit to compare with others, cash and bank balance to current deposits of NB bank is higher than other banks, fixed deposit to total deposit of NB Bank is relatively higher than others which indicate the strong position, total debt to shareholders’ equity is higher in comparison to other banks, total debt to total assets is high for HBL showing the percentage of debt to be more than equity and assets.

He has emphasized more on the liquidity position of the joint venture banks. Though liquidity is important for banks, other areas such as profitability, and capital adequacy is equally important while analyzing the financial position as a whole. So his finding does not cover the whole financial aspect of the joint venture banks.

Shakya, **D.R. (2005)** conducted a study entitled “Financial Analysis of joint venture banks in Nepal”; an unpublished master degree’s thesis, T.U., has concluded that liquidity an profitability position of NGBL are comparatively better than that of NABIL. However, NABIL is efficient in better utilization of its assets. Moreover he found that the capital structure position of NGBL is more risky than that of NABIL. Therefore on the basis of these finding, he has recommended the management of NGBL to increase cash and bank balance and utilize assets, shareholder’s funds and total assets more efficiently. NGBL has also been suggested to invest more and more percentage amount of total deposits and total debts as loans and advances. Furthermore, these banks have been advised to follow a constant financing strategy and consider cost of debt financing, risky ness of debt financing and the extent of control desired in order to maintain favorable capital structure position. The research is only revolving around performance appraisal between two banks and limited to extract the information within these banks only. He has completely ignored the empirical model to be applied for the better return and to maintain capital adequacy to the line of satisfying the need prescribed by Nepal Rastra Bank. He has suggested investing more on granting loans and advance without considering the risk factor and without analyzing the position of performing and non-performing loan in the total loan portfolio.

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Bhattarai, Ram Chandra (2005) conducted his research entitled "A Study of financial analysis of HBL and NSBL"; an unpublished master degree's thesis, T.U., concludes that cash and bank balance to current deposit of HBL and NSBL is fluctuating. NSBL's balance with NRB to total deposits is higher than that of HBL showing stronger position of NSBL. Liquidity assets to total deposit ratio of HBL is higher than that of NSBL. Debt to equity ratio of HBL and NSBL are fluctuating and increasing. Debt to assets ratio of HBL is riskier than that of NSBL. Long-term debt to net worth of HBL was fluctuating. Interest on deposit to interest on loan and advances ratio of HBL is higher than that of NSBL. HBL has earned more on investment than NSBL. Net profit margin of both the banks is satisfactory but is found better of HBL. Return on net worth of HBL was higher than NSBL. Correlation between total investment and net profit was found higher in case of NSBL than HBL.

His study is more focused on liquidity position of the banks. Though he has done some analysis regarding activity ratio, and profitability ratio of the banks but these ratios are not sufficient to conclude any results. Furthermore, he has not analyzed the capital adequacy position, which is increasingly becoming an important factor. Though, he has found out the correlation between investment and profit, the correlation of profit with other important factors such as loans and deposits, which affect profit, has not been studied.

Shrestha, Samir (2006) conducted a study entitled "A structure of assets and liabilities of joint venture banks in Nepal", an unpublished master degree's thesis, T.U., has tried to examine the utilization of assets, to evaluate the trend of deposits and loans of joint venture banks in Nepal, to evaluate the liquidity, profitability and capital adequacy position of joint venture banks. He has concluded that NABIL and Himalayan Bank has the better collection of deposits. NABIL has the higher performing assets to total deposit ratio, earning ratio and capital adequacy ratio. Nepal Bangladesh Bank has the better credit to deposit ratio.

He has also focused more on the deposit of the commercial banks and has completely ignored the other aspect of balance sheet. He has analyzed the activity, profitability, liquidity and capital adequacy ratios of the commercial banks but since asset and liability management in banking sector is more concerned with the liquidity and interest rate risks, these aspects have not been covered.

Amatya, Nagendra Bahadur (2006) has conducted a study entitled “An Appraisal of Financial Position of Nepal bank Ltd.”; an unpublished master degree’s thesis, T.U., has found the liquidity position fairly maintained and the bank has been found to have adopted conservative financial policy, i.e., low portion of equity capital has been resorted to finance the total assets. The bank has operated successfully beyond the breakeven point over the study period. Keeping in mind the finding study suggest the use of proportionately more equity capital.

He has taken only one bank as a study sample. So it is difficult to analyze the financial position of the bank without comparing it with other similar kind of a company. The study is more focused on the liquidity aspect and capital structure of the bank ignoring other factors that are used in the study of financial analysis.

Bohora, Bhoj Raj (2006) conducted a study entitled “A Comparative study of the Financial Performance of Nepal Arab bank and Nepal Indosuez bank”; an unpublished master degree’s thesis, T.U., concludes that both the banks have maintained adequate liquidity to meet their short-term obligation and utilization of deposits is satisfactory, Nepal Indosuez bank being more efficient in this regard. Both the banks have highly geared capital structure. Capital adequacy rate of both the banks have been maintained in excess than actually required. The research suggests increase in equity capital financing to reduce financial risk.

The study has only focused on the liquidity and capital adequacy position of the two banks. Furthermore, there are various aspects to be considered while analyzing financial risk such as asset quality, management quality, earning capacity, which has not been analyzed.

Wagle, J.C. (2006) conducted a research entitled “A study on finance company in Nepal”; an unpublished master degree’s thesis, T.U. The major findings of his study are: lending rates of finance companies are high, services provided by banks and finance companies are concentrated in urban areas neglecting the rural regions, major portions of the finance companies lending is in the areas of consumer durables through hire purchase and housing loans. The research recommends decreasing interest on loans, to provide banking and financial services to the people of all geographical regions. It further suggests diverting its credit in productive sectors in order to remain viable and to support the national economy.

His study is mainly concentrated on how finance companies are utilizing their funds as credits and loans. Though he has given a detailed picture about the quality of loan, other aspects such as the amount collected as deposit, the capital requirement, and the risk factors that are associated while lending as well as while depositing are not included.

Palikhe, Shova (2006) conducted her research on “Performance evaluation of finance company: A case study of Annapurna finance company ltd, Pokhara”, an unpublished master degree’s thesis, T.U. She concludes that the financial indicators show that the liquidity and profitability position of the company is satisfactory. There is high positive relationship between deposit and investment. As compared to the housing loan, term loan and fixed deposit loan have got quite negligible share percentage in the loan disbursement of the company. Moreover, she recommends that the company needs to manage its investment portfolio efficiently under the dynamic implication of financial markets. Every year evaluation of investment portfolio is needed.

Her study is more focused around finding the liquidity and profitability position of the finance companies. Though she has found out the liquidity ratios of the finance companies, she has failed to explain whether these ratios are adequate or not. She has also failed to explain how these finance companies are managing their loan because floating loan is not just enough to generate revenue; the single important factor for generating income being the quality of loan.

K.C., Pankaj (2006) conducted a study entitled “An appraisal of financial performance of Paschimanchal finance company ltd”; an unpublished master degree’s thesis, T.U., finds that the large volume of deposits mainly affects the leveraged ratio of the PAFICOL. The capital structure mainly affects the leveraged ratio of the PAFICOL. The capital structure of PAFICOL is extremely leveraged. The coverage ratio is fluctuating over analysis period. Return on capital employed ratio is more or less on decreasing trend over analysis period. EPS is in increasing trend except for the last two years. He recommends for strong supervision and control to increase public confidence to trade off appropriate risk return to avoid imperfect practice, maintain required flexibility. Moreover, he concludes that PAFICOL can come forward to expand the branch with its advanced computer technology and modern banking techniques so that large number of people can experience the modern technology, which can encourage the faster economic development of the company.

He has taken only one finance company for the study. It is therefore difficult to conclude any result without making a comparison with a similar company in the industry. While doing profitability analysis, he has only considered return on capital, which is not sufficient. Other parameters such as return on assets, return on deposits, return on loans and advances have not been analyzed. Similarly, has only analyzed the capital structure of the company. The more important analysis such as capital adequacy position has been ignored. He has also failed to analyze the quality of loan.

2.13. Review of experts' opinions

Singh, **Sukhwinder (2004)** IMF Resident Representative to Nepal, presented his view on the topic "The Importance of the Financial Sector for Development and the Immediate Challenges in Nepal" which was addressed to the Nepal Bankers Association. In the context of profitability of the financial sector, he expressed his view that the main reason why bank's profitability is lower because they are not able to lend what they want and where they want. There are different constraints set by the government through Central Bank and even by the board of directors for safety of the depositor's deposits and investor's investment as well. This will of course reduce the risk of the bank as well as the profitability of the banks. Besides it, he explained the importance of financial sector for overall development of the country, role of IMF for the development of financial sector, its reform in Nepal and its immediate challenges and role of bankers association that is to be played for overall development of the financial sector.

Bhattarai, **Bijay Nath, (2007)** Governor of Nepal Rastra Bank, opined that the banking industry was growing steadily since few decades and pace of growth accelerated specially since the adoption of the financial sector liberalization policy in mid-80. The number of banks and financial institutions had since increased quite significantly. On the qualitative fronts, financial deepening and institutional diversification had been improved. But, the distribution of financial institution was somewhat uneven. Specially, rural people were yet to get adequate access to financial services. The non-economic factors prevailing in the country were also responsible for that bottleneck. The imminent challenge of the present day banking industry in Nepal was to reduce the non-performing assets, which was still high by international standards. Similarly, far from satisfactory financial health of the publicly owned financial institutions compared to that of private ones was also a great deal of concern for the central bank. Reforms in the financial sector were geared up towards meeting these challenges.

Bhandari, **Pushparaj**, **(2007)** CEO, Birgunj Finance Ltd. was of the opinion that the banking sector has grown a lot in Nepal but is a long way to go.

Nepal Rastra Bank has to come up with a broad thinking in the banking, fiscal, and monetary policy. The government should encourage competition between banks and finance companies. NRB should bar new banks or finance companies. The government should focus on increasing business rather than increasing the number of financial institutes. It can attract foreign investment through creating investor friendly labor laws, security and foreign investment policies. The mushrooming of banks and financial institutes seem to create poor practices. He further opined that our economy cannot possibly provide business to all the finance and banking institutions. There should be clear directives for willful and non-willful defaulters. Blacklisting policy is very defective and doesn't have an exit policy.

Pyakurel, **Bishwamber**, **(2007)** President, NEA, was of the opinion that the role of NRB is significant to ensure macro economic stability of the country. However, it has been unable to contain inflation and ensuring stability of the Nepali currency. Reorientation of measures to contain inflation is a daunting task at a time when increased liquidity is expected for development expenditure. He further opines that the forthcoming challenges for Nepal's commercial banks are falling 'spreads', rising provisions for non-performing assets and falling interest rates. The new monetary policy should reduce transaction costs by searching for new technologies to enable banks to provide products and services in large volumes at a competitive cost with better risk management services. He further says that majority of banks have upgraded their credit assessment and retraining of staff, developing a cadre of specialists and introducing technology driven management systems. Possibly, the business of banks would be susceptible to country risk.

Shrestha, **Ram**, **(2007)** President, Nepal Finance Companies Association (NFCA), opined that finance companies share in the total financial sector stands at about 12 percent. But it has contributed immensely towards expanding business and economic activities across the country. The role of finance companies in increasing access to credit by poor people has been significant. Finance companies have been successful in providing quality financial service to general public through healthy competition and to contribute to banking and financial development in the country. In a changed political scenario, one can hope that attention will be paid to the development of banking and financial sector as the number of finance companies has already reached sixty-eight. He further says that financial companies are facing a number of problems due to differences in policies between the government and NRB mostly about tax system. Banks and financial companies have been treated differently in government policies while the ordinance related to bank and financial institutions treat them at par. The government's decision to limit the amount of money in Loan Risk Fund to five percent of the total amount is 'impractical and irrelevant', as cases of loan default rise. There should not be contradictions in the policies between NRB and the government. Financial companies are facing difficulties regarding auction of property put up as collateral for loan. Policy problems like double taxation and unfriendly financial acts and ordinances are the other problems. These problems should be resolved to develop the financial sector of the country so that banking and financial services can benefit general public.

Manandhar, **Krishna Bahadur**, **(2007)** deputy governor of NRB, opined that treasury management is one of the critical issues for banks and financial institutions. Risk management is a key element and financial market players must have the inherent capability of handling currency and interest rate fluctuations at the internal and external level. Management of cash flow, banking and money markets have to be done effectively. The management of money should ensure that a bank or financial institution has sufficient funds in appropriate currencies to meet its operation, financial, and strategic objectives. He opined that technological development has brought about changes in treasury management worldwide as the entire spectrum of transactions has almost become paperless. In Nepal, adoption of new technology is needed to enhance our service quality and to integrate our financial system with the global system. He further opined that with a view to promote market-oriented, competitive and healthy financial markets, NRB has given complete liberty to individual banks and financial institutions to formulate their respective treasury management policies and guidelines.

2.14. Research Gap:

Lots of voluminous researches are made every year about the performance of financial sector and lots of conclusions area drawn on their financial aspects. After going through interesting and qualitative works, I found that these are really marvelous as they have gone through broad and wide range of the financial aspects. Though previous research works are deserves appreciation, there are certain aspects which previous works have failed to include.

The previous research or study done on asset and liability management is limited to the commercial banks and the study is mainly focused on the profitability, liquidity, capital adequacy, and deposit and loan structure of these banks. Though banks are important financial institutions, there are other non-banking financial institutions, which also play an important role in our financial system. Therefore, I have included finance companies with commercial banks in my study. Of course, my study is based on the latest data available and I have tried to analyze the liquidity position, mainly focused on asset-liability mismatch, and interest rate risk of the commercial banks and finance companies, which were not taken into consideration in the previous studies.

Chapter Three

Research Methodology

3.1. Introduction:

Research methodology is the way to solve systematically about the research problem. This chapter highlights about the methodology adopted in the process of present study. It also focuses about sources and limitations of the data, which are used in the present study. 'Research Methodology' is a way for systematically solving the research problem. In other words, research methodology indicates the methods and processes employed in the entire aspects of the study. "Research methodology" refers to the various sequential steps (along with a rationale, of each such step) to be adopted by a researcher in studying a problem with certain object/objects in view". This chapter incorporates Research design, Nature and Sources of Data, Population and Sample, Data collection procedure and lastly, Methods of Analysis. This chapter offers the methods of investigation followed by the objective of the case study, also states the sources and limitations of the data used in the study. So, it is the methods, steps, and guidelines, which are to be followed in analysis, and it is a way presenting the collected data with meaningful analysis.

3.2. Research Design:

The word “Research” is derived from French word “Researcher” which means to seek again. Therefore to seek and compare the concerned bans for the case study, the research is designed as per objectives of the study.

According to Kerlinger “Research design is the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of data. The structure of the research is more specific. It is the outline, the scheme, the paradigm of the operation of the variables. When we draw diagrams that outline the variables and their relation and juxtaposition, we build structural schemes for accomplishing operational research purposes.

Strategy, as used here, is also more specific than plan. In other words, strategy implies how the research objectives will be reached and how the problems encountered in the research will be tackled." (Kerlinger; 1986: 275) But if we are to describe in one sentence it is purely and simply the framework or plan for a study that guides the collection and analysis of the data.

The research design is of both descriptive and prescriptive nature. Descriptive research is used to compare and to asses the opinions, behaviors of the firms and to describe the situation and events occurring during the study period where analytical research is used to find out the result employing financial as well as statistical tools. For the analytical purpose, the annual reports published by the relative banks and other publications of the related banks published by the banks respectively and Nepal Rastra Bank, Nepal Stock Exchange Ltd & other related agencies, were collected for the year fiscal year 1999/00 to 2003/04. In this study both descriptive and analytical research design is used.

3.3. Nature and Sources of data

The study is based on secondary data only. The necessary data and information have been collected from various sources such as annual reports, profit and loss accounts, balance sheets, brochures, journals and articles published in various magazines, newspapers and other internal banking reports and publications. Besides these sources, other necessary and relevant information are gathered from different websites, related banks and related agencies like Nepal Rastra Bank, Nepal Stock Exchange Limited.

3.4. Data Processing Procedures:

For the purpose of this study, the different data are obtained from different sources, which are scanned and tabulated and graphed under different heads. After tabulation, they are analyzed by applying both financial and statistical tools.

3.5. Population and sample size:

As of fiscal year 2063/64, there were 20 commercial banks, and 74 finance companies operating under the approval of Nepal Rastra Bank, which is regarded as size of the population for the study. Out of these, only three commercial banks and three finance companies have been selected for the study.

Table 3.1

Selection of companies, period of study, and number of observation

S.N	Name of the company	Period of study	Observation
1	Himalayan Bank Ltd.	2058/59-2063/64	6
2	Nepal Industrial and Commercial Bank Ltd.	2058/59-2063/64	6
3	Everest Bank Ltd.	2058/59-2063/64	6
4	Nepal Share Market and Finance Ltd.	2058/59-2063/64	6
5	United Finance Ltd.	2058/59-2063/64	6
6	Union Finance Ltd.	2058/59-2063/64	6

3.6. Period of the study:

As can be seen in the above table, the study is based on six years financial data of sample financial institutions starting from fiscal year 2058/59 to fiscal year 2063/64.

3.7. Method analysis:

Financial tools and empirical models will be used in the process of research and study. Main focus will be given to ratio analysis as it is taken as the powerful tool of financial analysis to point out the economic and financial position of business unit through which it can be x-rayed.

3.8. Ratio Analysis:

One of the ways in which financial statements can be put to work is through ratio analysis. Ratios are simply one number divided by another; as such they may or not be meaningful. In finance, a financial ratio or accounting ratio is a ratio of two selected numerical values taken from an enterprise's financial statements. In other words, ratios are usually two financial statement items that may be related to one another and may provide the prudent user a good deal of information. There are many standard ratios used to try to evaluate the overall financial condition of a corporation or other organization. Financial ratios may be used by managers within a firm, by current and potential shareholders (owners) of a firm, and by a firm's creditors.

Values used in calculating financial ratios are taken from the balance sheet, income statement, statement of cash flows or (sometimes) the statement of retained earnings. These comprise the firm's "accounting statements" or financial statements. The statements' data is based on the accounting method and accounting standards used by the organization.

Financial ratios quantify many aspects of a business and are an integral part of financial statement analysis. Financial ratios allow for comparisons

- between companies
- between industries
- between different time periods for one company
- between a single company and its industry average

Ratios generally hold no meaning unless they are benchmarked against something else, like past performance or another company. Thus, the ratios of firms in different industries, which face different risks, capital requirements, and competition, are usually hard to compare. In our study, we have made a comparison between the companies of the same nature, that is, comparison between bank-to-bank and finance company-to-finance Company. The ratios that are used for our study are as follows:

- Capital Fund to Total Fund Ratio
- Deposits to Total Fund Ratio
- Borrowings to Total Fund Ratio
- Other liabilities to total fund ratio
- Liquid Fund to Total Fund Ratio
- Investment to Total Fund Ratio
- Loans and advances to Total Fund Ratio
- Fixed Assets to Total Fund Ratio
- Other assets to total fund ratio of the three commercial banks:
- Cash and Bank Balance to Total Deposit Ratio
- Investment in Govt. Security to total deposit Ratio
- Performing Assets to Total Assets
- Loans to Deposits Ratio
- Performing Loans to Total Loans and Advances Ratio

- Non-Performing Loans to Total Loans and Advances Ratio
- Capital Adequacy Ratio
- Return on shareholders capital
- Return on Assets
- Return on Total Deposit
- Return on Risky Assets
- RSA to RSL Ratio

3.9. GAP Analysis:

Gap analysis was a common practice in the 1980s and early 1990s for financial institution to analyze their exposure to interest rate and liquidity risk. Therefore, Gap analysis is a technique of asset-liability management that can be used to assess interest rate risk or liquidity risk. Implementations for those two applications differ in minor ways, so people distinguish between interest rate gaps and liquidity gaps. Gap analysis comprises aggregating cash flows or asset-liability into maturity buckets and checking if cash flows in each bucket net to 0.

3.10. Measurement of Interest Rate Risk via GAP Analysis:

To evaluate the impact of the interest rate risk on the net interest margin, bank and finance companies must monitor the size of the gap between rate sensitive assets and rate sensitive liabilities in terms of the remaining period to re-pricing. Re-pricing refers to the point in time when adjustment of interest rates on assets and liabilities occur owing to new contracts, renewal of expiring contracts or that a contract specifies a floating rate that adjusts at fixed time intervals.

A maturity mismatch approach is a commonly used tool to measure a banking company's exposure to interest rate risk. Interest rate risk occurs when a banking company is exposed to operating gains and losses arising because the maturities of its fixed-rate assets and liabilities do not match. That is, the banking company has a mismatch in the amount of assets and liabilities that are subject to re-pricing within a given time span.

A positive mismatch would mean that more assets than liabilities are re-priced in a given period. With a positive mismatch, a rise in market interest rates will have appositive effect on the bank's earnings. On the contrary, a negative mismatch, where more liabilities are re-priced than assets in a given period, would mean a drop in earnings if interest rates had decreased.

Interest rate risk can arise from two distinct types of rate movement – a sustained shift in the yield curve or sharp swings in rates over a short period of time. Our study will focus on the former case, that is, on a sustained upward (+1%) shift in the interest rates inherent to the yield curve.

With an appropriate breakdown of time periods plus information on the maturities of assets and liabilities, the amount of mismatches can be calculated.

Selection of relevant time periods is necessarily a matter of judgment. Nevertheless, some guideposts seem to suggest themselves. It may be argued that quarterly periods of time would be useful in evaluating interest rate risk up to one year. Put simply, it is of interest to know whether a banking company's maturity structure of assets and liabilities will produce large quarter-to-quarter gains or losses as a result of shifts in interest rates, even if the net outcome for the year as a whole shows no change.

For our analysis, assets and liabilities are grouped into their appropriate maturity or re-pricing as shown below:

- Assets and liabilities: 0-90 days
- Assets and liabilities: 91-180days
- Assets and liabilities: 181-270 days
- Assets and liabilities: 271-360 days
- Assets and liabilities: Over one year

Dividing periods into quarters is not mandatory, but does provide a starting point geared to evaluating the interest rate risk of banking companies that actively manage their assets and liabilities. Arriving at the "over the one year" time interval, the mismatch provides an indication as to whether or not the banking company may be locked into maturities that would be difficult to adjust (having "lent long") if the structure of the interest rates shifted markedly. The significance of this analysis, looking across different time intervals (that may be changed according to the circumstances) is that it may point to a substantial systematic imbalance in the bank's maturity structure which merits further attention.

Once all assets and liabilities are distributed by maturity/re-pricing interval, the analysis proceeds as follows:

Estimate the gap between assets and liabilities (positive or negative) pertaining to each maturity/re-pricing period. That is, subtract the liabilities amount from assets amount.

Next, estimate the cumulative gap for each period by summing the individual gaps up to and including the gap under consideration. In the first repricing period, the cumulative gap will be equal to the gap in the first period, plus the gap in the second period, and so on.

Estimate an adjusted interest rate change (IRC), assuming a sustained 1% increase in interest rates.

The one percentage point change (whether positive or negative) must be adjusted to reflect the length of each of the repricing periods of assets and liabilities under review. That is, interest rates must be multiplied by the following ratio:

Number of days in the repricing interval/(360 days)

Therefore, the adjusted interest rate change (IRC) for a one percentage increase in interest rates will be:

0.01 x 30/360 = 0.0008 for 30-day intervals
0.01 x 60/360 = 0.0016 for 60-day intervals
0.01 x 90/360 = 0.0025 for 90-day intervals
0.01 x 360/360 = 0.01 for one year intervals

Quarter by quarter, the earnings impact (gain/loss) may be obtained by multiplying each cumulative gap by its adjusted interest rate change, assuming no change in the asset/liability structure.

3.11. Measurement of Liquidity Risk via GAP Analysis:

So far, we have discussed the use of gap analysis for assessing interest rate risk. It can also be used to assess liquidity risk. A major risk a bank or finance companies run is liquidity risk. Banks must honor their commitments by making sure that there is enough liquidity to meet funding requirements. To ensure adequate liquidity, banking companies must monitor the GAP between assets and liabilities in terms of maturity. If the maturity mismatch (GAP) in any period is too large relative to liquidity cushion e.g. core, the Asset/Liability Committee must make a decisions to rectify the situation. Otherwise, the banks and finance companies may be forced to seek relatively expensive “money at call” borrowings or even require NRB intervention.

For our analysis, assets and liabilities are grouped into their appropriate maturity or re-pricing, like we have done to analyze the interest rate risk, as shown below:

- Assets and liabilities: 0-90 days
- Assets and liabilities: 91-180days
- Assets and liabilities: 181-270 days
- Assets and liabilities: 271-360 days
- Assets and liabilities: Over one year

Having arranged all assets and liabilities according to maturity/repricing intervals, we estimate the difference (positive or negative) between total assets and total liabilities pertaining to each time interval, which gives us the net financial assets position maturing in each time interval.

Next, we estimate the cumulative difference or net financial asset position for each period by summing the individual difference or net financial asset position up to and including the difference under consideration. In the first repricing period, the cumulative net financial asset position will be equal to the net financial asset position in the first period, plus the gap in the second period, and so on.

3.12. Trend Analysis:

Trend is the behavior or the tendency of the movement of particular element. The term "trend analysis" refers to the concept of collecting information and attempting to spot a pattern, or trend, in the information.Trend analysis is the analysis of data in order to detect or study the behavior or tendency represented by them. The process may involve comparing past and current financial ratios as they related to various institutions in order to project how long the current trend will continue. This statistical tool is very important in the planning process as it helps to estimate a considerably reliable future with the help of past performances.

There are few reasons why it is necessary to study trends:

- The study of trends allows us to describe a historical pattern. There are many instances when we can use to evaluate the success of a previous policy.

- Studying trends permits us to project past patterns, or trends, into the future.

Trend analysis is very useful even in financial sector. Through analysis, the financial institutions can estimate the future investment opportunities, rate of return, deposit liabilities, etc., whether to stick to the present growth rate or to strive for more. For depositors, it provides the degree of safety in the form of financial credit worthiness of the financial institution in the future, while to the borrowers, it assures about the financial capability of the financial institution to furnish their loans and advances requirement in the future, provided that the present trend continues.

In our study, we use trend analysis to estimate the future trend of loans and deposit which are very important element of asset and liability structure. We have tried to estimate the trend of loans and deposits of the sample banks and finance companies for the next six years i.e. from F/Y 2064/65 to F/Y 2069/70 based on the past information or trend from F/Y 2058/59 to 2063/64. The analysis is based on the least square method and we have certain assumption while making this analysis which is as follows:

- The operating condition of the bank and finance company should remain the same.
- The economy of the country should remain the same.
- Nepal Rastra Bank shall not change its policies and guidelines for the commercial banks and finance companies.

Trend analysis to estimate the future trend of loans and deposit can be calculated by using the general linear equation describing the trend in deposit collection and loans as:

y = a + bx

where, y = estimated values of the dependent variable, that is, estimated amount of deposits or loans.

a = intercept of trend line for coded time values.

b = slope of trend line for coded time values.

a = $\overline{Y}$ and $\overline{Y}$ can be calculated as

$$Y = \frac{\Sigma Y}{n}$$

where, Y = values of dependent variable, that is amount of deposit or loans

n = number of data points or number of observation period in a time series.

$$b = \frac{\Sigma xY}{\Sigma x^2}$$

where, x is calculated as

x = $(X-\overline{X}) * 2$ (the value $X-\overline{X}$ is multiplied by 2 as there are even number of elements, that is six elements or number of years)

X = values of independent variables, that is, number of observation period.

Chapter Four

Data Presentation and Analysis

This chapter provides an insight of the financial condition and performance of financial institutions, that is, banks and finance companies. Banking fundamentals have not changed much since the Medici. These involve accepting funds from those with surplus funds (depositors) and lending them to those with the ability to use the additional funds for productive purposes (borrowers). Borrowers must be able to use the funds to create products and services that generate adequate income to repay the principal plus a usage fee (interest, mark-up) at a rate enough to provide the bank with interest differential income.

The principal objectives of the analysis are to determine the asset and liability composition, quality, and sustainability of institution earnings, the sufficiency of liquidity, and the adequacy of capital. This analysis also highlights on the liquidity position of financial institution on a quarter period bases and to what extent they are exposed to interest rate risk. The analysis of earnings allows us to assess management efficiency and thus the ability of the bank to successfully compete in its market. Various ratios are used as indicators of profitability, liquidity, and capital adequacy.

4.1. Liabilities structure in Nepalese Financial Institution:

There are different sources from which the financial institution can collect the fund. Out of them, a capital source, which is generally a sum of promoters' fund and shareholders' fund, and the deposits collected from depositors have traditionally been the major sources of fund or liabilities composition for the financial institution. Let us look at the pattern of liabilities structure for our sample financial institution.

4.1.1. Total capital fund of sample Financial Institution:

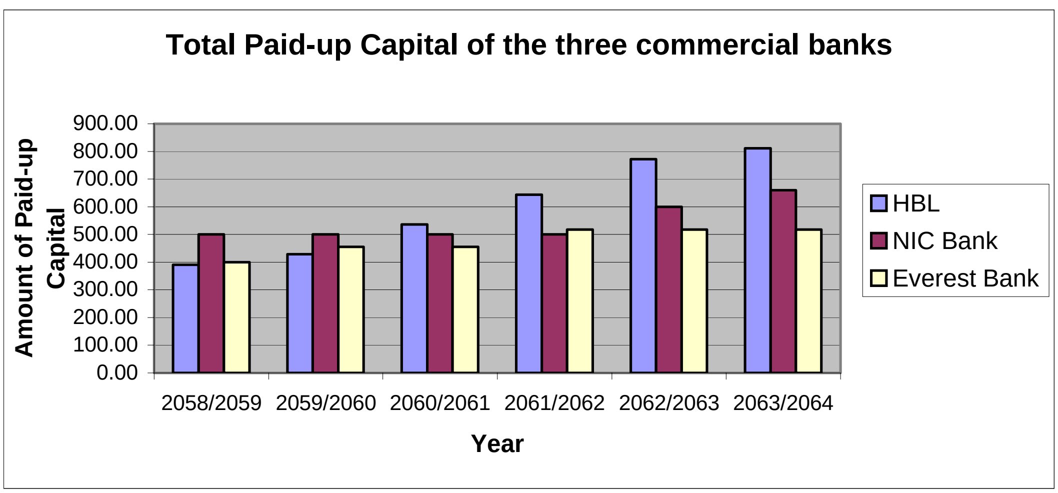
The capital of a financial institution represents the buffer available to protect creditors against losses that may be incurred by managing risks imprudently. The capital ensures that the financial institution has sufficient resources to surmount any unpredictable events and avoid insolvency during the adjustment process. Capital thus represents a cushion against the unforeseen. The capital may be raised by issuing ordinary shares, preference shares or debentures, and the capital fund also constitutes the amount retained from profit and the fund kept as reserves.

Table 4.1
Total paid-up capital of the three commercial banks (Rs. In Million)

Year/Banks	HBL	NIC Bank	Everest Bank
2058/2059	390.00	499.89	399.32
2059/2060	429.00	499.95	455.00
2060/2061	536.25	499.96	455.00
2061/2062	643.5	500.00	518.00
2062/2063	772.20	600.00	518.00
2063/2064	810.81	660.00	518.00
Average	596.96	543.30	477.22
Growth Rate	107.90	32.03	29.72

The above table illustrates the paid-up capital of the three commercial banks. The paid-up capital of Himalayan Bank ranges between Rs. 390m and Rs. 810.81 with an average amount of Rs. 596.96m and a growth rate of 107.90%. The paid-up capital of NIC Bank ranges between Rs. 499.89m and Rs. 660m with an average amount of Rs. 543.30m and a growth rate of 32.03%. Similarly, the paid-up capital of Everest Bank ranges between Rs. 399.32m and Rs. 518m with an average amount of Rs. 477.22m and a growth rate of 29.72% over a period of six years.

Fig. 4.1



From the above figure, we can see that the paid-up capital of all the three commercial banks is increasing. The paid-up capital of NIC Bank is the highest during the first two years after which Himalayan Bank stood highest in the later four years of observation.

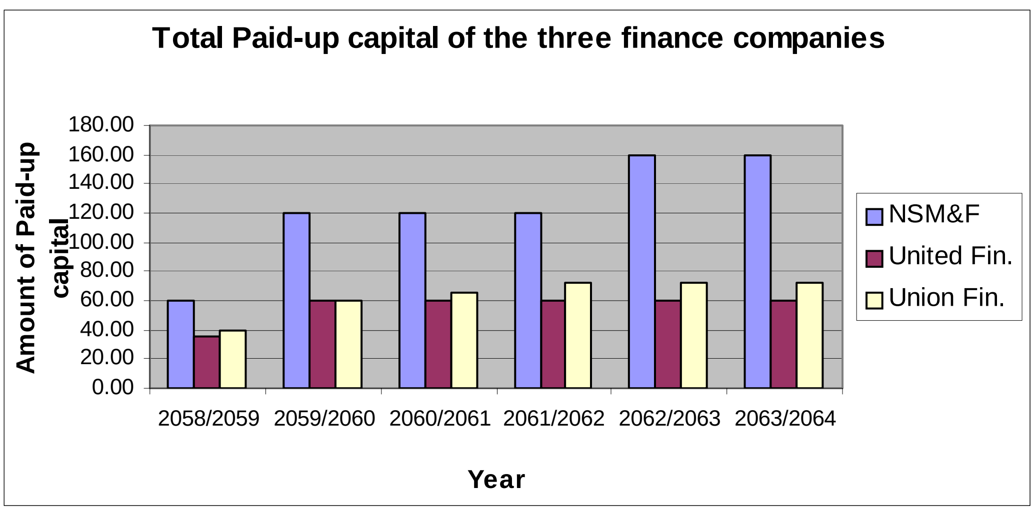
Table 4.2

Total paid-up capital of the three finance companies **(Rs. In Million)**

Year/Fin. Co.	NSM&F	United Fin.	Union Fin.
2058/2059	60.00	36.00	40.00
2059/2060	120.00	60.00	60.00
2060/2061	120.00	60.00	65.98
2061/2062	120.00	60.00	72.51
2062/2063	160.00	60.00	72.51
2063/2064	160.00	60.00	72.51
Average	123.33	56.00	63.92
Growth Rate	166.67	66.67	81.28

The above table illustrates the total paid-up capital of the three finance companies during 2058/59-2063/64. The paid-up capital of Nepal Share market and Finance Ltd. ranges between Rs. 60m and 160m with an average amount of Rs. 123.33m and a growth rate of 166.67 percent. The total paid-up capital of United Finance ranges between Rs. 36m and Rs. 60m with an average capital of Rs. 56m and a growth rate of 66.67 percent while that of Union Finance ranges between Rs. 40m and Rs. 72.51m with an average capital of Rs. 63.92m and a growth rate of 81.28 percent. Therefore, Nepal Share Market and finance Ltd. has the highest amount of Paid-up capital and a growth rate compared to the other two finance companies.

Fig. 4.2



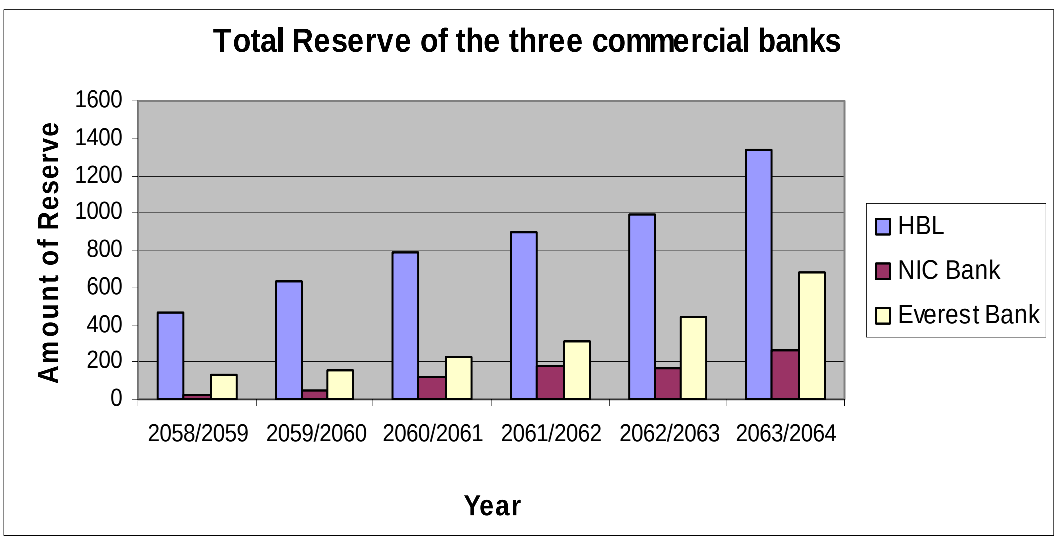
From the above figure, we can see that the paid-up capital of all the finance companies is increasing. Nepal Share Market and Finance Ltd. has the highest amount of paid-up capital in all the six years of observation followed by Union Finance and then by United Finance.

Table 4.3
Total Reserve Fund of the three commercial banks **(Rs. In Million)**

Year/Banks	HBL	NIC Bank	Everest Bank
2058/2059	468.11	26.21	131.16
2059/2060	634.13	52.15	157.82
2060/2061	787.92	120.44	225.32
2061/2062	898.25	184.19	314.62
2062/2063	993.98	166.46	444.81
2063/2064	1335.69	257.99	683.52
Average	853.01	134.57	326.21
Growth Rate	185.34	884.32	421.13

The above table illustrates the total reserve fund of the three commercial banks. The reserve fund of Himalayan Bank ranges between Rs. 468.11m and Rs. 1335.69m with an average reserve fund of Rs. 853.01m and a growth rate of 185.34 percent. The reserve fund of NIC Bank ranges between Rs. 26.21m and Rs. 257.99m with an average reserve fund of Rs. 134.57m and a growth rate of 884.32 percent while that of Everest Bank ranges between Rs. 131.16m and Rs. 683.52m with an average reserve fund of Rs. 326.21 and a growth rate of 421.13 percent. Therefore, Himalayan Bank has the highest amount of reserve fund while the growth rate is the highest for NIC Bank.

Fig. 4.3



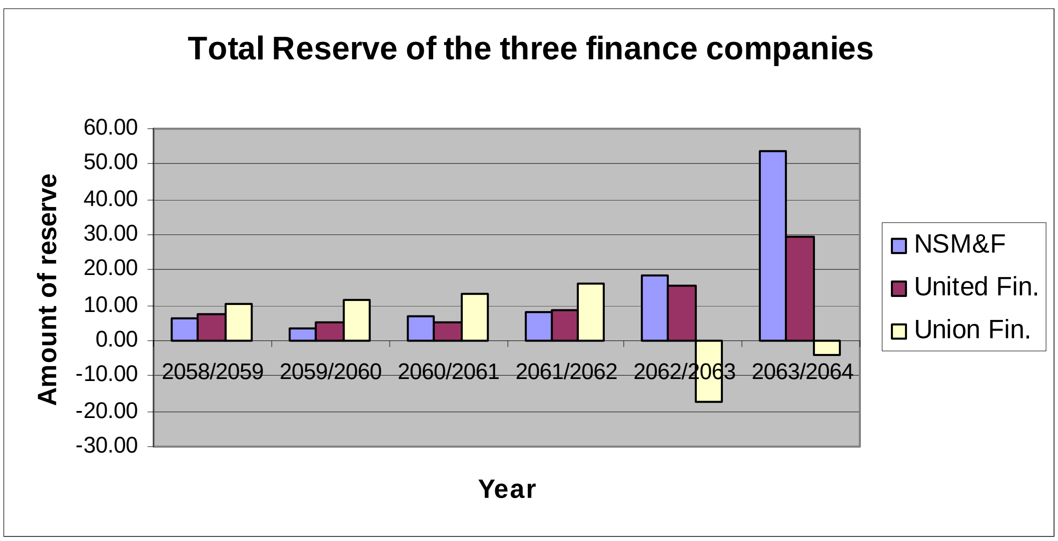
From the above figure, we can see that the reserve fund of all the commercial banks is increasing over the six years of observation. The amount of reserve fund is highest for Himalayan Bank followed by Everest Bank and then by NIC Bank.

Table 4.4
Total reserve fund of the three finance companies **(Rs. In Million)**

Year/Fin. Co.	NSM&F	United Fin.	Union Fin.
2058/2059	6.43	7.68	10.65
2059/2060	3.65	5.36	11.49
2060/2061	7.13	5.15	13.33
2061/2062	8.25	8.70	16.43
2062/2063	18.48	15.40	-17.18
2063/2064	53.86	29.28	-3.85
Average	16.30	11.93	5.15
Growth Rate	737.64	281.25	-136.15

The above table illustrates the total reserve fund of the three finance companies through 2058/59-2063/64. The reserve fund of Nepal Share Market and Finance Ltd. ranges between Rs. 3.65m and Rs. 53.86m with a growth rate of 7.37 percent. The reserve fund of United Finance ranges between Rs. 5.15m and Rs. 29.28m with a growth rate of 281.25 percent. The reserve fund of Union Finance ranges between Rs. -17.18m and 16.43m with a growth rate of -136.15 percent. On an average, Nepal Share Market and Finance Ltd. has the highest amount of reserve fund followed by United Finance and then by Union Finance.

Fig. 4.4



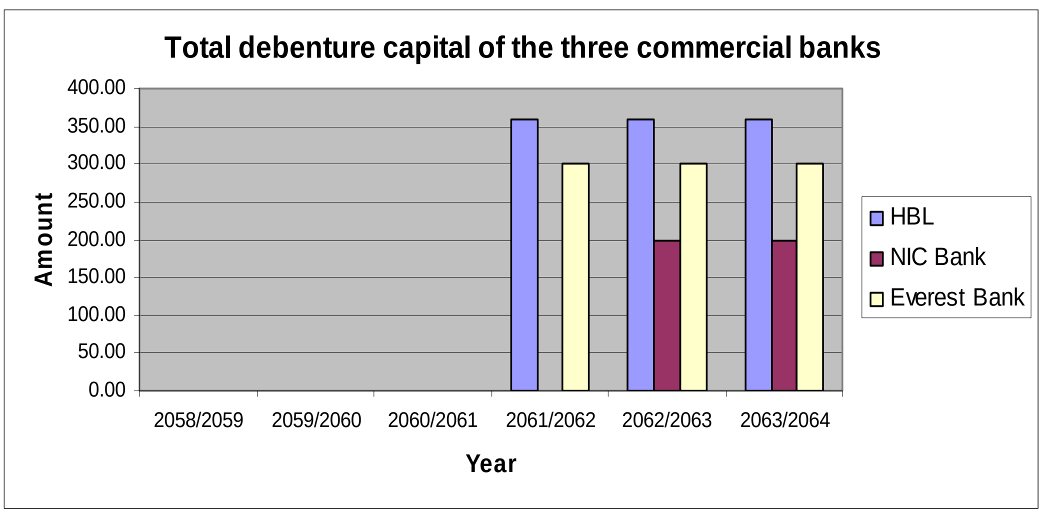
From the above figure, we can see that the amount of reserve fund is fluctuating. The amount of reserve fund for Union Finance is the highest for the first four consecutive years but in the later two years, it dropped drastically and was negative.

Table 4.5
Total debenture capital of the three commercial banks (Rs. In Million)

Year/Banks	HBL	NIC Bank	Everest Bank
2058/2059	0.00	0.00	0.00
2059/2060	0.00	0.00	0.00
2060/2061	0.00	0.00	0.00
2061/2062	360.00	0.00	300.00
2062/2063	360.00	200.00	300.00
2063/2064	360.00	200.00	300.00
Average	180.00	66.67	150.00
Growth Rate	0.00	0.00	0.00

From the above table we can see that Himalayan bank has started to raise its capital by issuing debenture only from 2061/62, which amounts to Rs. 360m and the amount continues through 2062/63, and 2063/64. So there is no growth in the fund raised through debenture. NIC Bank has started to raise its capital through debenture only from 2062/63, which amounts to Rs. 200m and there is no change in the debenture amount in 2063/64. Similarly, Everest Bank has also started to raise its capital through debenture issue only from 2061/62 with an amount of Rs. 300m with no growth in the latter two years.

Fig. 4.5



From the above table, we can see that the debenture issue is a new phenomenon for raising capital in the Nepalese commercial banks. Among the three commercial banks, Himalayan Bank has the highest amount of capital fund raised through debenture followed by Everest Bank and then by NIC Bank.

As for the finance companies, none of the three finance companies has issued any debenture to raise the capital fund.

4.1.2. Total borrowings of sample Financial Institutions:

Borrowings are normal part of a bank's treasury management in countries with active money market. Deposits from other banks usually mean local currency balances maintained by foreign correspondent banks' in their working accounts with the bank. Central bank may in the normal course of business include funding through rediscount of commercial trade paper, funding for preferential loan programs, discount of government securities, or temporary overdraft facilities or other short term funding as temporary support.

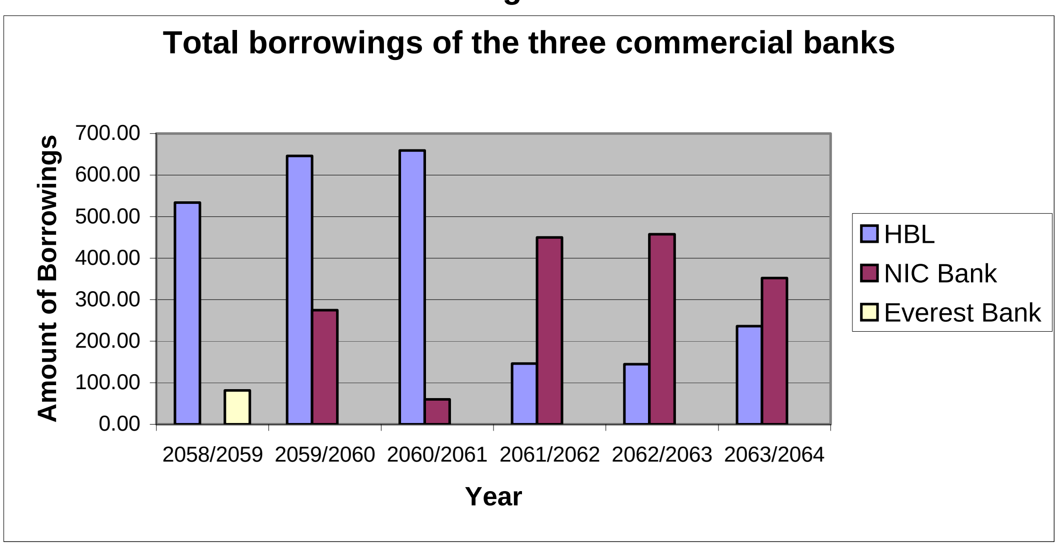
Table 4.6

Total borrowings of the three commercial banks **(Rs. In Million)**

Year/Banks	HBL	NIC Bank	Everest Bank
2058/2059	534.01	0.00	81.77
2059/2060	645.84	274.75	0.00
2060/2061	659.01	60.02	0.00
2061/2062	146.05	450.37	0.00
2062/2063	144.62	457.71	0.00
2063/2064	235.97	352.13	0.00
Average	394.25	265.83	13.63
Growth Rate	-55.81	28.16	-100.00

From the above table, we can see that the average amount of borrowings for Himalayan Bank is Rs. 394.25m with a negative growth rate of –55.81 percent; that of NIC bank is Rs. 265.83m with a growth rate of 28.16 percent; and that of Everest Bank is Rs. 13.63m.

Fig. 4.6



From the above figure, we can see that for Himalayan Bank the amount of borrowings increased in the second and third year, decreased in the fourth and fifth year and then again increased in the sixth year. For NIC bank, there are no borrowings in the first year of observation and the amount of borrowings is fluctuating for the rest of the year. There are no borrowings for Everest Bank except for the first year.

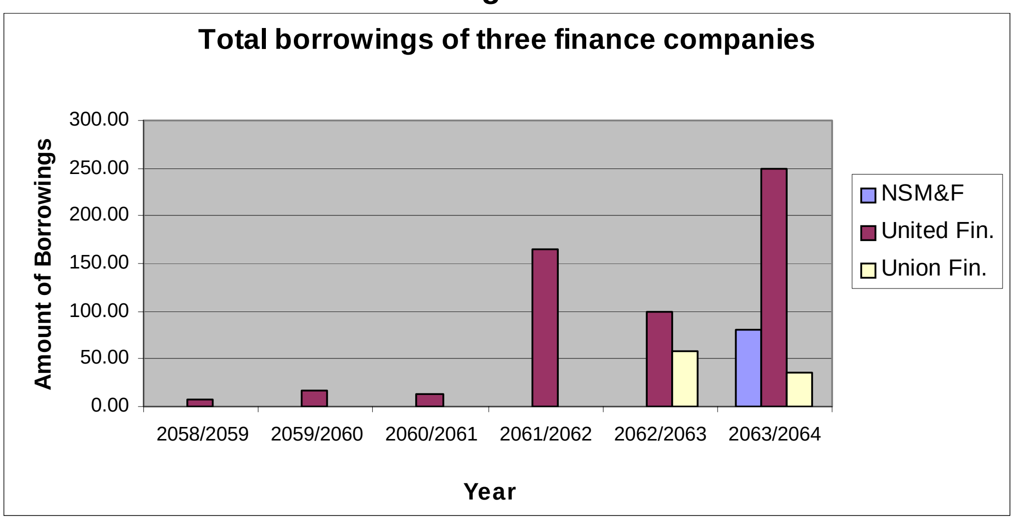
Table 4.7

Total borrowings of the three finance companies **(Rs. In Million)**

Year/Fin. Co.	NSM&F	United Fin.	Union Fin.
2058/2059	0.00	6.72	0.00
2059/2060	0.00	17.29	0.00
2060/2061	0.00	12.50	0.00
2061/2062	0.00	164.17	0.00
2062/2063	0.00	99.17	57.46
2063/2064	80.00	248.79	35.05
Average	13.33	91.44	15.42
Growth Rate	0.00	3602.23	0.00

From the above table, we can see that the average amount of borrowings for Nepal Share Market and finance Ltd. is Rs. 13.33m; that of United Finance is Rs. 91.44m with a growth rate of 3602.23 percent; while that of Union Finance is Rs. 15.42m. Nepal Share Market and Finance Ltd., and Union Finance have not borrowed much fund from outside.

Fig. 4.7



From the above figure, we can see that only United Finance has borrowed fund throughout the six years of observation, while Nepal Share Market and Finance Ltd. has borrowed in the year 2063/64, and Union Finance borrowed only in 2062/63 and in 2063/64.

4.1.3. Total deposits of the sample Financial Institutions:

Deposits usually constitute the largest proportion of a financial institution's total liabilities. Deposits from customers–the amount due to other customers and depositors–represents money accepted from the general public, such as demand and savings, fixed and notice, and foreign currency deposits. The structure and stability of the deposit base is of utmost importance. Broader trends also come into play. An analysis of private sector deposit highlight economic trends related to the level of spending, as well as its effect o inflation. Furthermore, growth in money supply is calculated using total deposits in the banking system. A change in the level of deposits in the banking system is therefore one of the variables that influences monetary policy.

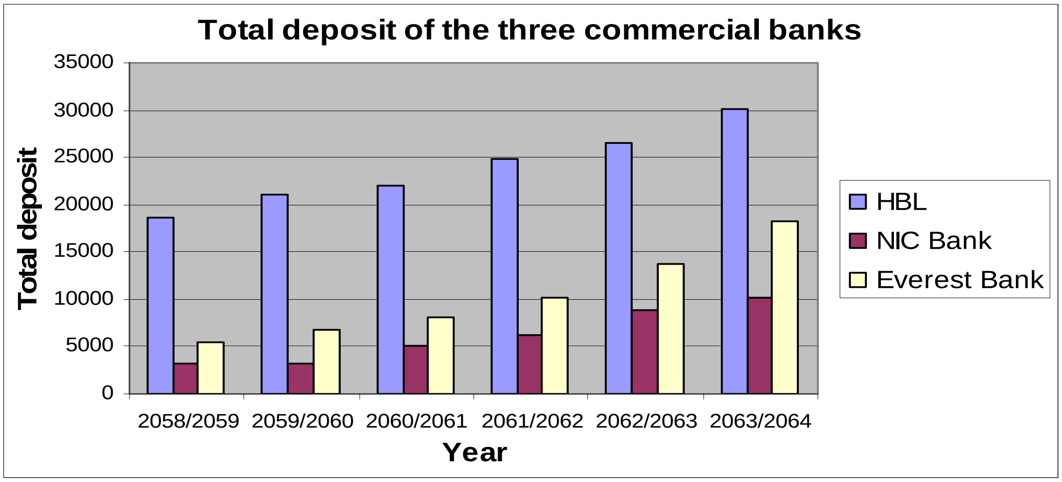
Table 4.8

Total deposits of three commercial banks **(Rs. In Million)**

Year/Banks	HBL	NIC Bank	Everest Bank
2058/2059	18619.38	3165.31	5466.61
2059/2060	21007.38	3144.32	6694.96
2060/2061	22010.33	5146.48	8063.90
2061/2062	24814.01	6241.38	10097.69
2062/2063	26490.85	8765.95	13802.44
2063/2064	30048.42	10068.23	18186.25
Average	23831.73	6088.61	10385.31
Growth Rate	61.38	218.08	232.68

The above table shows the total deposits of the three commercial banks through 2059/60-2063/64 and provides the growth rate of deposits based on 2059/60 as a base year. The average of total deposits for Himalayan Bank Ltd. is Rs.23831.73m with a growth rate of 61 percent. The growth rate is 218 percent with an average total deposit of Rs. 6088.61m for NIC Bank. The growth in deposit is the highest for Everest Bank at 232 percent with an average deposit of Rs. 10385.31m. This shows that all the three banks have been able to raise their deposit level each year with the Everest Bank being the most successful in raising their deposit collection.

Fig. 4.8



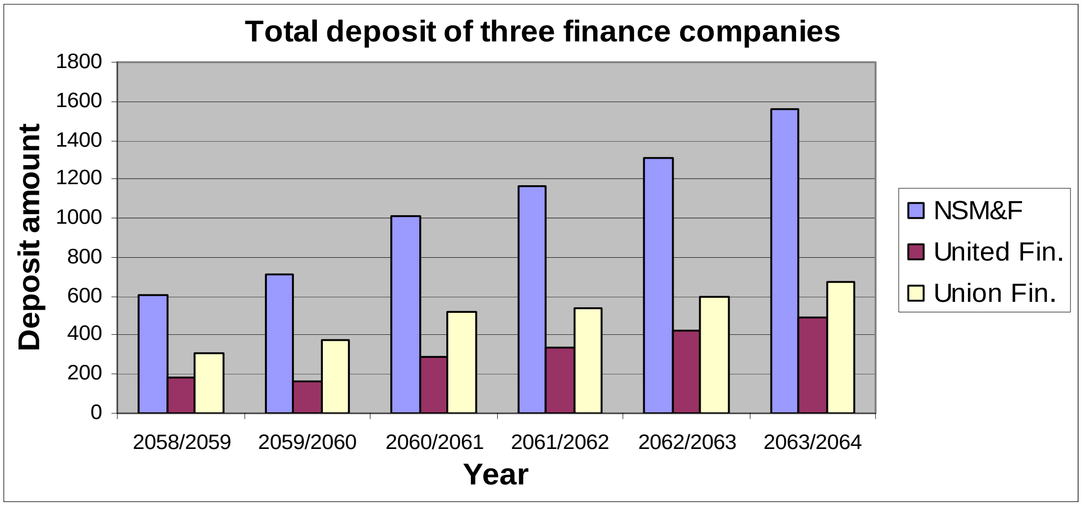
From the above diagram, we can see that the deposit of all the three commercial banks is increasing over the six period of observation. The deposit collection of Himalayan Bank is much higher and the highest among the three commercial banks followed by Everest Bank and then by NIC Bank.

Table 4.9
Total deposits of three finance companies **(Rs. In Million)**

Year/Fin. Co.	NSM&F	United Fin.	Union Fin.
2058/2059	609.14	182.28	303.45
2059/2060	716.36	164.59	378.85
2060/2061	1007.83	286.78	518.78
2061/2062	1166.98	332.65	538.73
2062/2063	1310.91	427.78	594.52
2063/2064	1563.87	494.26	670.40
Average	1062.52	314.72	500.79
Growth Rate	156.73	171.16	120.92

The above table illustrates the amount of fund raised through deposits for the three finance companies through 2058/59-2063/64 based on 2058/59 as a base year. The average amount of deposits for Nepal Share Market and Finance Ltd. is 1062.52m with a growth rate of 156.73 percent. The average deposit fund for United finance is Rs. 314.72m with a growth rate of 171.16 percent, which is the highest among three finance companies while the growth rate for Union finance in deposit fund is 120.92 percent with an average deposit collection of Rs. 500.79m over the six year of observation.

Fig. 4.9



From the above figure, we can see that the deposit collection of all three finance companies have been increasing throughout six years of observation except for the United Finance in 2059/60 where the amount deposited decreased compared to the previous year. The deposit collection of Nepal Share Market and Finance Ltd. has been the highest among the three finance companies followed by Union finance and then by United finance.

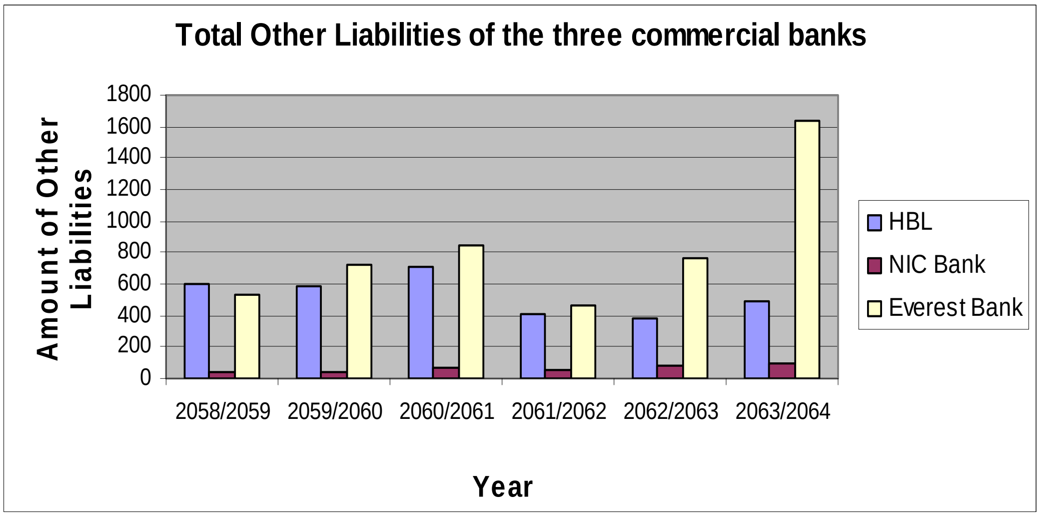
4.1.4. Total other liabilities of the sample Financial Institutions:
Apart from the above said items, the liabilities side also includes other items such as employees' provident fund, provision for staff bonus, unpaid dividend, provision for income tax, interest payable on borrowings, proposed dividend, sundry creditors, etc.

Table 4.10
Total other liabilities of the three commercial banks **(Rs. In Million)**

Year/Banks	HBL	NIC Bank	Everest Bank
2058/2059	605.35	39.89	535.48
2059/2060	592.14	41.99	722.32
2060/2061	704.14	70.25	842.32
2061/2062	404.58	50.07	457.59
2062/2063	386.75	86.39	763.56
2063/2064	494.10	97.01	1634.60
Average	531.18	64.27	825.98
Growth Rate	-18.38	143.19	205.26

The above table illustrates the total other liabilities of the three commercial banks through 2058/59-2063/64. On an average, other liability of Everest Bank is the highest with an amount of Rs. 825.98m and a growth rate of 205 percent which is also highest among the three commercial banks followed by Himalayan Bank with an average amount of other liabilities at Rs. 531.18m. But the growth of Himalayan Bank is negative at 18.38 percent. NIC Bank has the lowest amount of other liabilities compared to the other two banks with a growth rate of 143.19 percent.

Fig. 4.10



From the above figure, we can see that the other liability of all the three commercial banks is fluctuating. Everest Bank has the highest amount of other liability in all the years of observation except for the first year where Himalayan Bank had the highest amount of other liability.

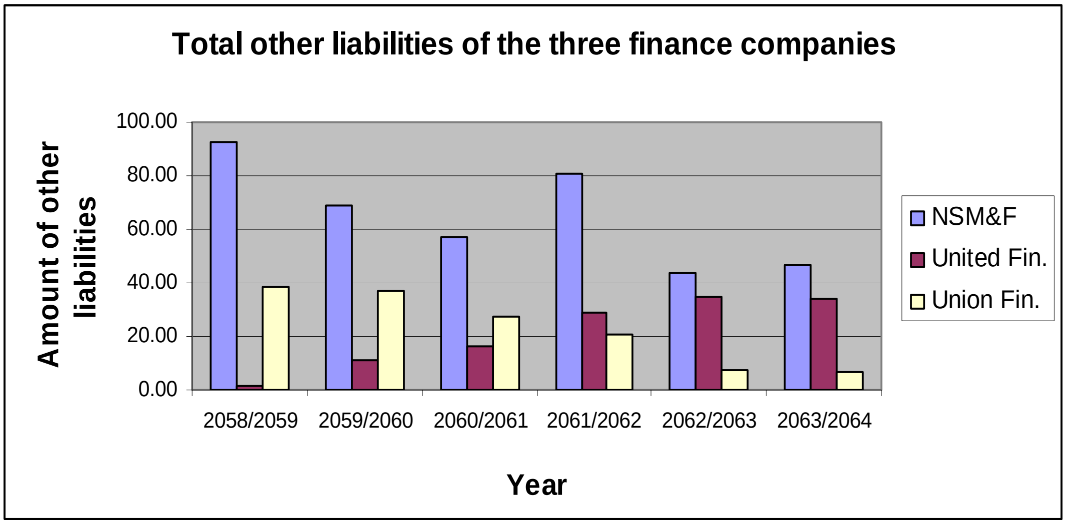
Table 4.11

Total other liabilities of the three finance companies **(Rs. In Million)**

Year/Fin. Co.	NSM&F	United Fin.	Union Fin.
2058/2059	92.78	1.82	38.65
2059/2060	68.92	11.46	37.01
2060/2061	57.07	16.44	27.24
2061/2062	80.71	28.64	21.02
2062/2063	43.40	34.50	7.19
2063/2064	46.66	34.09	6.45
Average	64.92	21.16	22.93
Growth Rate	-49.71	1773.08	-83.31

From the above table we can see that, on an average, Nepal Share Market and Finance Ltd. has the highest amount of other liability at Rs. 64.92m but the growth rate is negative at -49.71 percent. It is followed by Union Finance with an average other liability at Rs. 22.93m and again the growth rate is negative at -83.31 percent. The same for the United Finance is Rs. 21.16m whereas the growth rate is the maximum at 1773.08 percent.

Fig. 4.11



From the above figure, we can see that the amount of other liabilities for all three finance companies is fluctuating. Nepal Share Market and Finance Ltd. has the highest amount of other liabilities in all the six years of observation, compared to the other two finance companies.

4.2. Assets structure in Nepalese Financial Institutions:

The funds collected from various sources are employed in different areas by the financial institutions, the major areas being the loans and advances, investment and liquid funds.

4.2.1. Total liquid funds of the sample Financial Institutions:

Banks and Finance companies accept deposits from the public, which is payable on demand or otherwise. In addition to the funds required for meeting the demands of the deposits who wish to withdraw their deposits, banks and finance companies have to keep funds for meeting the requirements of such customers, as may want accommodation in one form or another. It is, therefore, necessary for banks and finance companies to keep in their own vaults as well as with the central bank of the country, such amounts as they may consider sufficient for their day-to-day requirements. They may also invest fund for a short-term period, which can be called back at short notice. These funds are known as liquid and are regarded as their first line of defense in times of crisis.

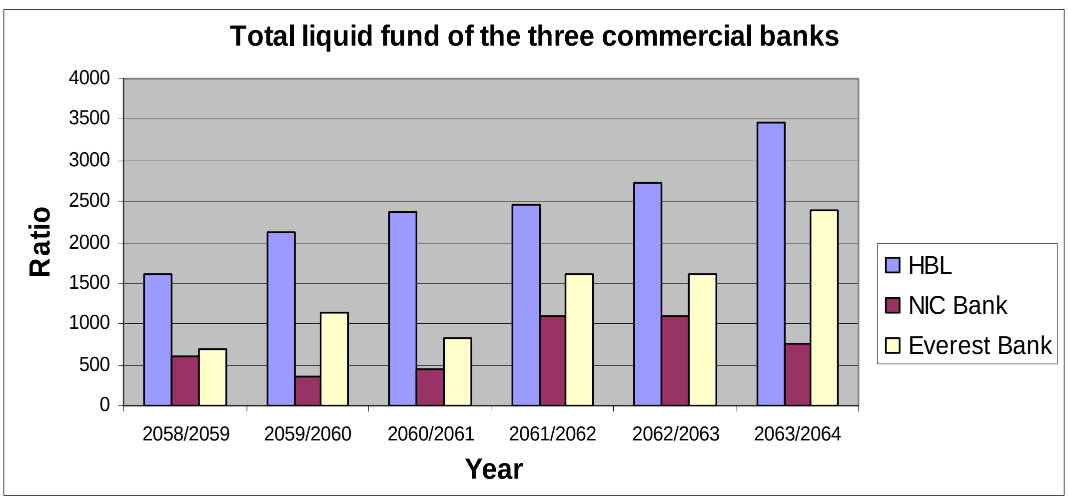
Table 4.12

Total liquid fund of three commercial banks **(Rs. In Million)**

Year/Banks	HBL	NIC Bank	Everest Bank
2058/2059	1617.02	606.34	688.62
2059/2060	2129.31	347.96	1139.57
2060/2061	2370.08	448.97	819.25
2061/2062	2455.55	1100.27	1619.99
2062/2063	2722.63	1102.65	1619.93
2063/2064	3467.37	762.77	2391.42
Average	2460.33	728.16	1379.80
Growth Rate	114.43	25.80	247.28

The above table shows the liquid fund the three commercial banks for the period of six years through 2058/59-2063/64 and provides the growth rate based on 2058/59 as a base year. The average of liquid fund for Himalayan Bank is Rs. 2460.33m with a growth rate of 114.43 percent. The average of liquid fund for NIC Bank is Rs. 728.16m with a growth rate of 25.80 percent. Everest Bank has the highest growth rate in liquid fund at 247.28 percent over the period of six years with an average liquid fund of Rs. 1379.80m.

Fig. 4.12



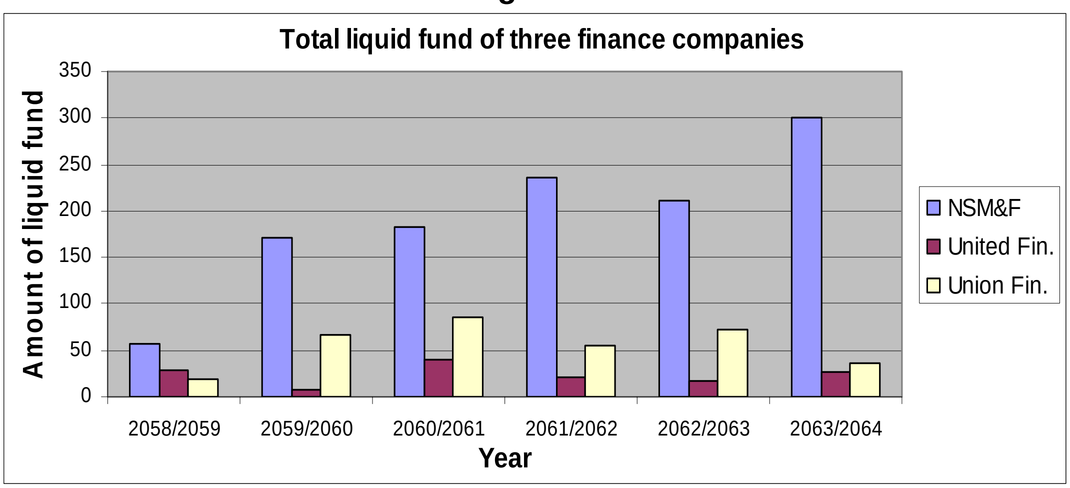
From the above figure, we can see that the liquid fund of Himalayan Bank has been increasing throughout six years of observation and it has the highest amount of liquid fund followed by Everest Bank and then by NIC Bank and these two banks' liquid fund is fluctuating.

Table 4.13
Total liquid fund of three finance companies **(Rs. In Million)**

Year/Fin. Co.	NSM&F	United Fin.	Union Fin.
2058/2059	56.36	29.10	19.64
2059/2060	170.94	6.83	67.44
2060/2061	182.76	40.72	86.22
2061/2062	235.17	20.12	54.23
2062/2063	210.69	17.91	72.03
2063/2064	299.80	26.65	35.30
Average	192.62	23.55	55.81
Growth Rate	431.98	-8.42	79.75

The above illustrates the amount of fund used as liquid fund by three finance companies through 2058/59-2063/64 based on 2058/59 as a base year. The average amount of fund used as liquid fund by Nepal Share Market and Finance Ltd. is Rs. 192.62m with a growth rate of 431.98 percent, the highest among the three finance companies. The average liquid fund for United finance is Rs. 23.55m with a negative growth rate of -8.42 percent while that of Union finance is 79.75 percent with an average liquid fund of Rs.55.81.

Fig. 4.13



From the above figure, it is clear that the liquid fund of Himalayan bank is increasing throughout the observation period except for the year 2062/63 where it declined compared to the preceding year. The Nepal Share Market and Finance Ltd. also has the highest amount of fund employed as a capital fund. The amount of fund employed by the other two finance companies is fluctuating over the observation period. Compared to United Finance, Union Finance has used more fund as liquid fund.

4.2.2. Total investment of the sample Financial Institution:

The banks and finance companies invest a fair percentage of their funds in the securities of government bonds, semi-governments bodies, public utility concerns, and industrial concerns falling under private sector. These securities act as a third line of defense since they can be realized in case the financial institution finds their cash reserve insufficient to meet the unexpected demand of their customers. Loans also can be borrowed against them at reasonable rate. They also yield a steady and reasonable return on the capital invested. Their presence in the balance sheet also inspires and strengthens public confidence in these institutions. It should be noted that the financial institutions invest their funds in those securities not because the latter are very profitable, but because they can be easily realized when the funds of the institutions are locked up in some other investments at the time of unforeseen and large demand.

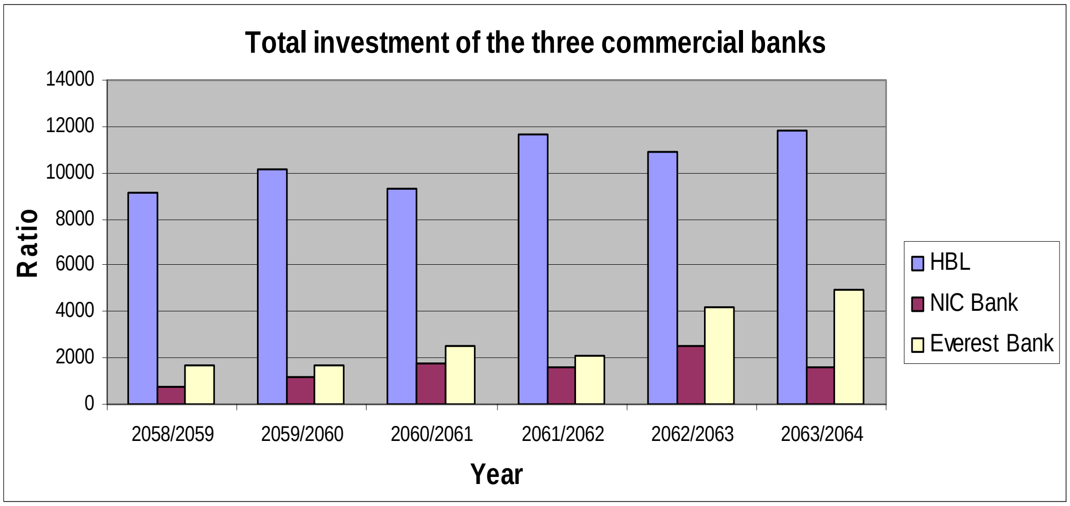
Table 4.14

Total investment of the three commercial banks **(Rs. In Million)**

Year/Banks	HBL	NIC Bank	Everest Bank
2058/2059	9157.11	753.81	1693.04
2059/2060	10175.44	1153.26	1653.98
2060/2061	9292.10	1760.72	2535.66
2061/2062	11692.34	1572.90	2128.93
2062/2063	10889.03	2479.91	4200.52
2063/2064	11822.98	1599.48	4984.31
Average	10504.83	1553.35	2866.07
Growth Rate	29.11	112.19	194.40

The above table shows the total investment of the three commercial banks through 2058/59-2063/64 and provides the growth rate of investment based on 2058/59 as a base year. The average of total investment for Himalayan Bank is Rs. 10504.83m with a growth rate of 29.11 percent. The average of investment for NIC Bank is Rs. 1553.35m with a growth rate of 112.19 percent. The growth rate for Everest Bank is 194.40 percent, highest among the three commercial banks with an average investment of Rs. 2866.07m

Fig. 4.14



The above figure illustrates the pattern of fund used as investment by the three commercial banks through 2058/59-2063/64. As can be seen in the figure, the amount of fund used as investment is fluctuating for all the three commercial banks over the six period of observation. The amount employed as investment by Himalayan Bank is the highest followed by Everest Bank and then by NIC Bank.

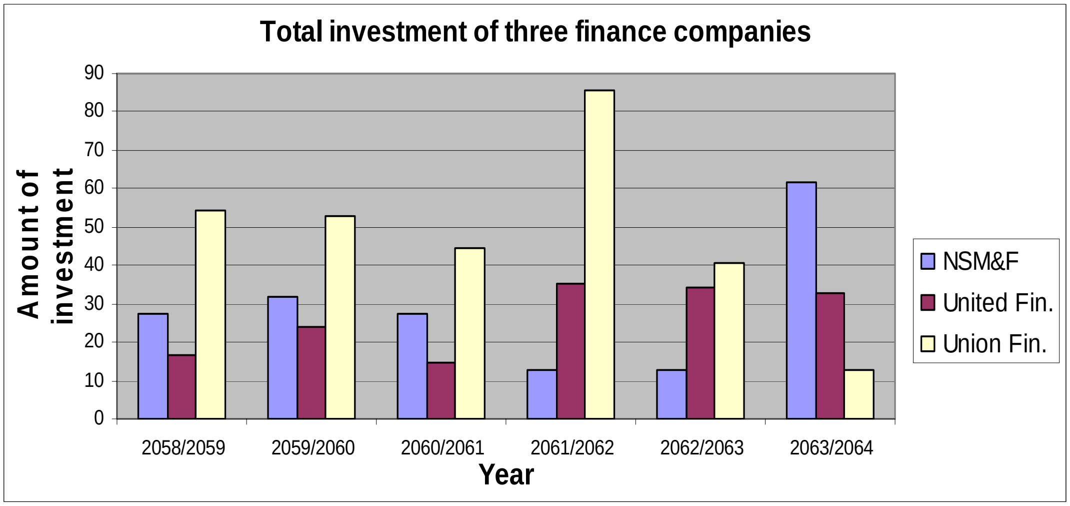
Table 4.15

Total investment of three finance companies **(Rs. In Million)**

Year/Fin. Co.	NSM&F	United Fin.	Union Fin.
2058/2059	27.53	16.58	54.19
2059/2060	31.65	24.08	53.01
2060/2061	27.31	14.82	44.62
2061/2062	12.80	35.38	85.47
2062/2063	12.57	34.40	40.57
2063/2064	61.60	32.67	12.57
Average	28.91	26.32	48.41
Growth Rate	123.77	97.03	-76.81

The above table illustrates the amount of fund used in investment by the three finance companies through 2058/59-2063/64 based on 2058/59 as a base year. The average amount of fund used as investment by Nepal Share Market and Finance Ltd. is Rs. 28.91m with a growth rate of 123.77 percent, which is the highest among the three finance companies. The average amount if investment for the United Finance is Rs. 26.32m with a growth rate of 97.03 percent while the average amount of investment for Union Finance is Rs. 48.41m which is the highest amount among the three finance companies but it has a negative growth rate at -76.81 percent.

Fig. 4.15



From the above figure it is clear that the amount of fund used as investment for all the three finance companies is fluctuating. Union Finance has used the highest amount of fund as investment compared to the other two finance companies except for the last year where the amount of investment for Nepal Share Market and Finance Ltd. is highest compared to the other two finance companies.

4.2.3. Total loans and advances of the sample Financial Institutions:

In normal times the percentage of funds invested by most of the banks and finance companies in the stock exchange securities is not very large. Therefore, it is necessary for banks and finance companies to look to other profitable source for the employment of funds. The most important one is the granting of loans and advances. Its earning are chiefly from interest charged on loans and discounts.

Table 4.16

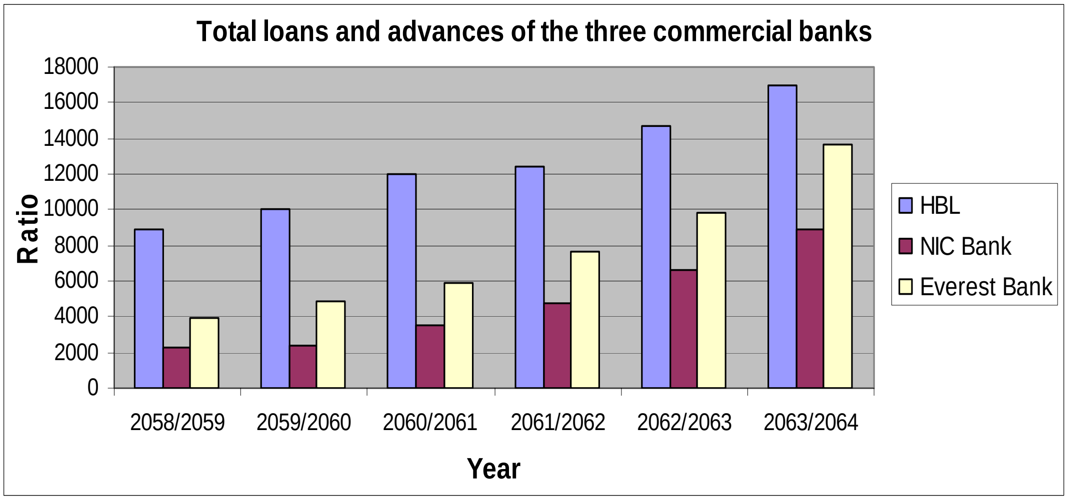
Total loans and advances of the three commercial banks **(Rs. In Million)**

Year/Banks	HBL	NIC Bank	Everest Bank
2058/2059	8913.72	2278.99	3948.48
2059/2060	10001.85	2419.52	4908.46
2060/2061	11951.87	3561.14	5884.12
2061/2062	12424.52	4711.71	7618.67
2062/2063	14642.56	6655.96	9801.31
2063/2064	16998.00	8941.40	13664.08
Average	10292.37	4761.45	7637.52
Growth Rate	90.69	292.34	246.06

The above table illustrates the total credit, average credit and the growth rate during 2059/60-2063/64 for the three banks. As shown in the above table, Himalayan Bank Ltd. has the highest average credits of Rs.

10292.37m but has the lowest growth rate of 91 percent among the three banks. NIC bank Ltd. has the highest growth rate at 292 percent over the period of six years with an average credit of Rs. 4761.45m and Everest Bank Ltd. has 246 percent of growth rate in credits with an average of Rs. 7637.52m.

Fig. 4.16



The above figure illustrates the pattern of fund employed in loans and advances by the three commercial banks through 2058/59-2063/64. as can be seen, the amount of fund used as loans and advances has been increasing for all the banks throughout the six period of observation which means that all the three banks have been successful in expanding their business by means of giving more amount of loans and increasing their interest income. Himalayan Bank has the highest volume of fund flowed as credit followed by Everest Bank and then by NIC Bank.

Table 4.17

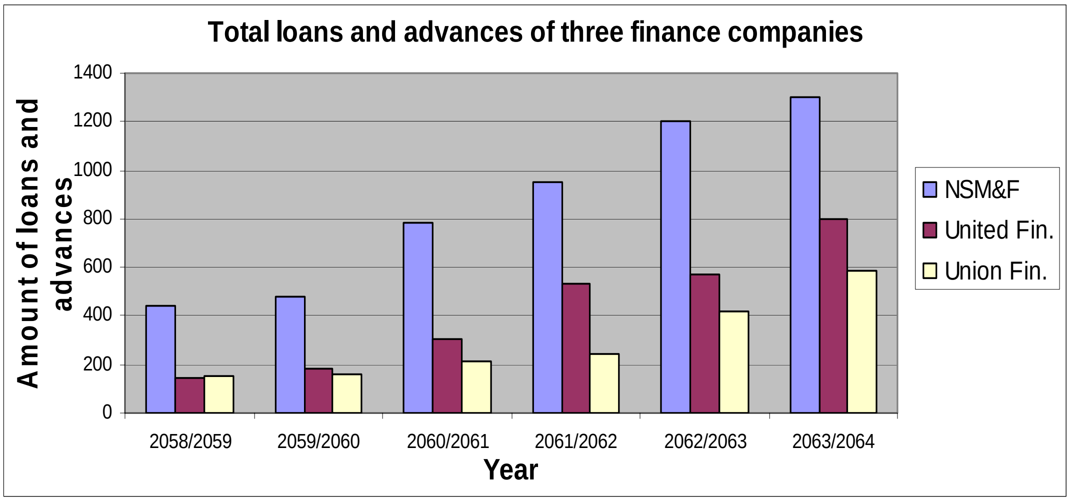
Total loans and advances of three finance companies **(Rs. In Million)**

Year/Fin. Co.	NSM&F	United Fin.	Union Fin.
2058/2059	440.80	143.72	154.94
2059/2060	476.49	184.75	159.91
2060/2061	784.41	307.82	213.48
2061/2062	952.00	529.43	243.60
2062/2063	1202.10	573.02	416.61
2063/2064	1303.32	799.10	586.26
Average	859.85	422.97	295.80
Growth Rate	195.67	456.00	278.39

The above illustrated the total amount of fund used in granting loans and advances by the three finance companies through 2058/59-2063/64. The average amount of fund used as loans and advances by Nepal Share

Market and Finance Ltd. is the highest among the three finance companies at Rs. 859.85 with a growth rate of 195.67 percent. The average amount of fund used as loans and advances by United Finance is Rs. 422.97 with a growth rate of 456.00 percent while that of Union Finance is 278.39 percent with an average amount of loans and advances at Rs. 295.80.

Fig. 4.17



From the above figure, we can see that the amount of fund used in granting loans and advances for all the finance companies is increasing over the observation period. The amount of fund used as loans and advances by Nepal Share Market and Finance Ltd. is the highest among the three finance companies over all the six period of observation followed by United Finance and then by Union Finance.

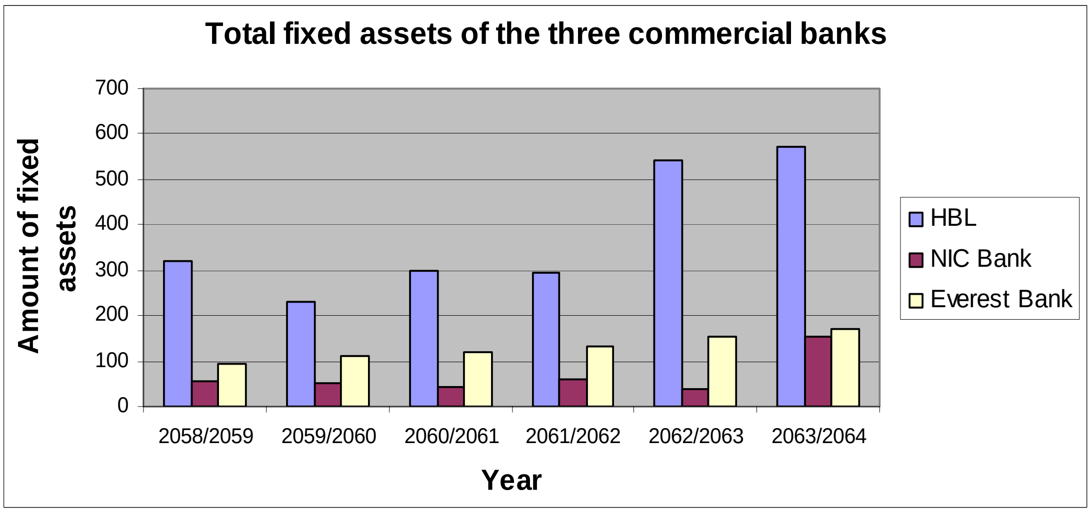
4.2.4. Total fixed assets of the sample Financial Institutions:
Buildings, premises, furniture, etc, which appear on the balance sheet of a financial institution do not represent the function of a financial institution. These are purchased by the financial institution from its capital to run the business.

Table 4.18
Total Fixed assets of the three commercial banks **(Rs. In Million)**

Year/Banks	HBL	NIC Bank	Everest Bank
2058/2059	318.84	54.76	93.38
2059/2060	229.87	50.21	109.59
2060/2061	299.64	43.29	118.37
2061/2062	295.82	59.5	134.07
2062/2063	540.82	39.86	152.09
2063/2064	574.06	153.68	170.10
Average	376.51	66.88	129.60
Growth Rate	80.05	180.64	82.16

From the above table, we can see that, on an average, the total fixed assets of Himalayan Bank is Rs. 376.51m with a growth rate of 80.05 percent. The total fixed asset of NIC Bank is Rs. 66.88m with a growth rate of 180.64, which is the highest among the three commercial banks. The total fixed asset of Everest is Rs. 129.60m with a growth rate of Rs. 82.16 percent.

Fig. 4.18



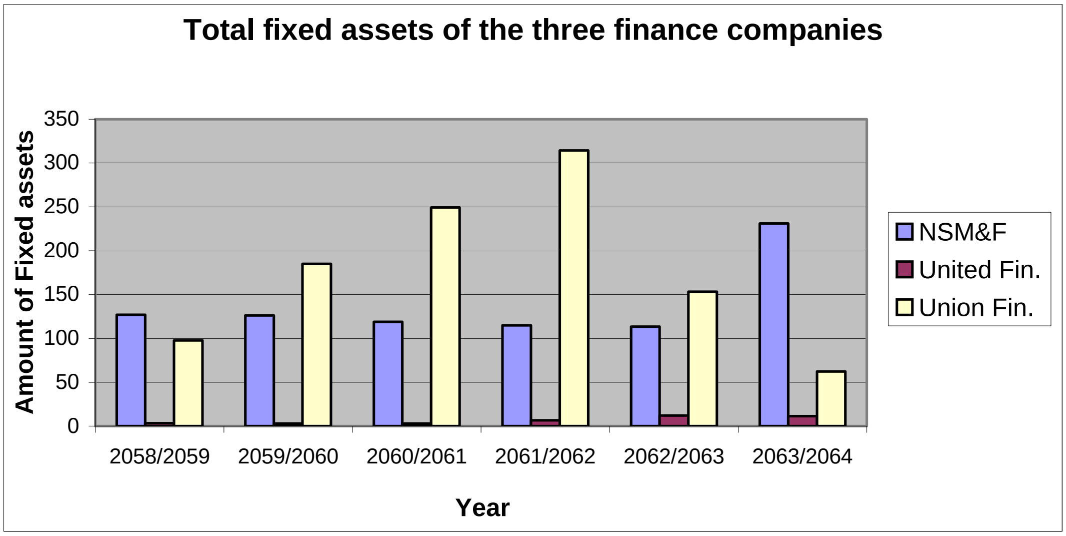
From the above figure we can see that the total fixed assets of Himalayan Bank and NIC Bank is fluctuating while it is increasing for the Everest Bank. The total fixed assets of Himalayan Bank is the highest in all the years of observation among the three commercial banks followed by Everest Bank and then by NIC Bank.

Table 4.19
Total fixed assets of the three finance companies **(Rs. In Million)**

Year/Fin. Co.	NSM&F	United Fin.	Union Fin.
2058/2059	127.16	3.15	97.83
2059/2060	126.19	2.93	185.19
2060/2061	119.1	2.87	249..18
2061/2062	114.96	6.68	314.20
2062/2063	113.57	12.19	153.40
2063/2064	231.06	11.32	62.38
Average	138.67	6.52	162.60
Growth Rate	81.71	259.37	-36.24

From the above table, we can see that, on an average, the total fixed assets of Nepal Share Market and Finance Ltd. is Rs. 128.67m with growth rate of 81.71 percent. The total fixed asset of United Finance is Rs. 6.52m with a highest growth rate of 259.37 percent among the three finance companies. The total fixed asset of Union Finance is Rs. 162.60m with a negative growth rate of -36.24 percent.

Fig. 4.19



From the above figure we can see that the amount of fixed assets for Himalayan bank is increasing for the first four years but it is decreasing in the later two years. The amount of fixed assets for United Finance is increasing throughout the six years of observation period. Whereas for Union Finance, the amount of fixed assets is fluctuating.

4.2.5. Total other assets of the sample Financial Institutions:

Other assets include intangible assets. These vary with regard to the predictability of income associated with a particular asset, the existence of markets for such assets, the possibility of selling the assets, and the reliability of the assessments of the asset's useful life.

Table 4.20

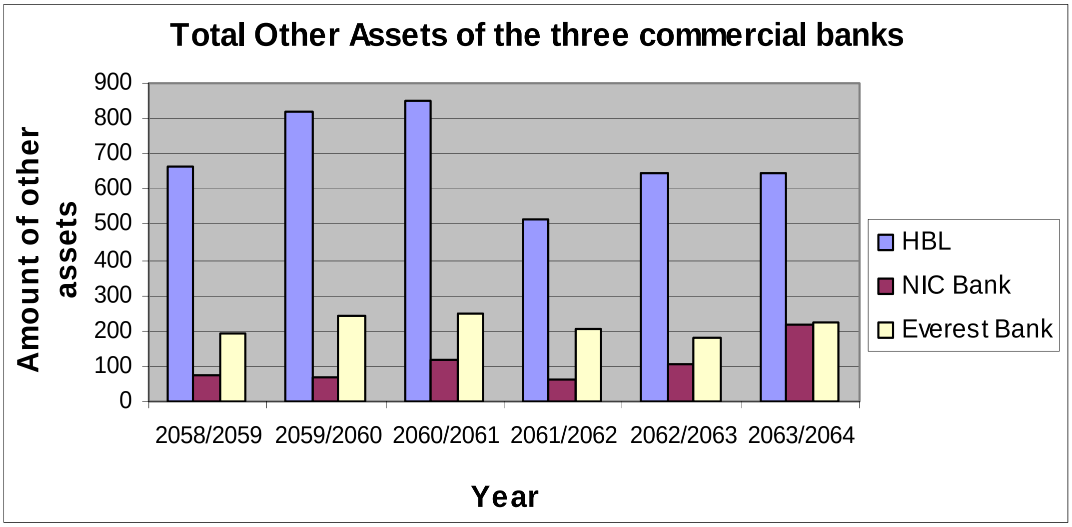
Total other assets of the three commercial banks **(Rs. In Million)**

Year/Banks	HBL	NIC Bank	Everest Bank
2058/2059	665.74	74.75	193.39
2059/2060	818.76	66.56	240.61
2060/2061	848.32	115.95	251.17
2061/2062	517.99	62.55	206.29
2062/2063	643.61	102.56	178.01
2063/2064	643.97	220.34	222.66
Average	689.73	107.12	215.36
Growth Rate	-3.27	194.77	15.14

From the above table, we can see that, on an average, the amount of other assets is the highest for Himalayan Bank but the growth rate is negative at

-3.27 percent. The amount of other assets for Everest Bank is Rs. 215.36m with a growth rate of 15.14 percent. The same for the NIC Bank is Rs. 107.12m with a growth rate of 194.77 which is the highest among the three commercial banks.

Fig. 4.20



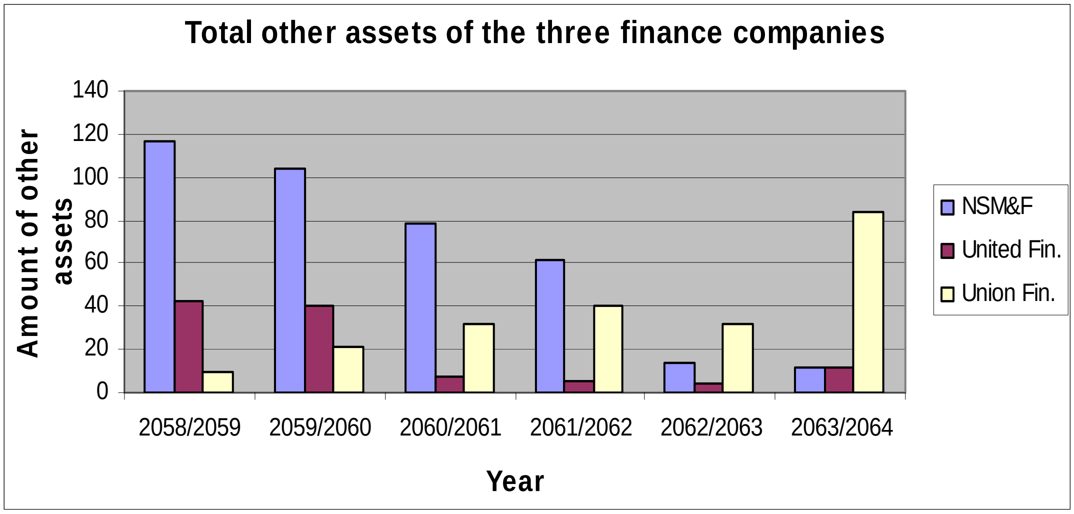
From the above figure, we can see that the amount of other assets of all the three commercial banks is fluctuating. The amount of other assets for Himalayan Bank is the highest among all the three commercial banks in all the six years of observation whereas that of NIC Bank is the lowest.

Table 4.21
Total other assets of the three finance companies **(Rs. In Million)**

Year/Fin. Co.	NSM&F	United Fin.	Union Fin.
2058/2059	116.52	41.94	63.59
2059/2060	104	40.12	72.59
2060/2061	78.45	7.24	31.89
2061/2062	61.03	5.77	40.53
2062/2063	14.10	4.35	32.24
2063/2064	11.28	11.32	84.25
Average	64.17	18.46	54.18
Growth Rate	-90.32	-73.01	32.49

From the above table, we can see that, on an average, Nepal Share Market and Finance Ltd. has the highest amount of other assets at Rs. 64.17m but with a negative growth rate at -90.32 percent. The amount of other assets for Union Finance stood at Rs. 54.18m with a growth rate of 32.49 percent which is also the highest among the three finance companies. The amount of other assets for United Finance is Rs. 18.46m with a negative growth rate of -73.01 percent.

Fig. 4.21



From the above figure, we can see that the amount of other assets for Nepal Share Market and Finance Ltd and United Finance is decreasing whereas the same for Union Finance is increasing.

4.3. Composition Analysis:

This analysis is done to calculate the proportion or weight of each asset and liability structure in a total balance sheet. The percentage composition in each line item as a percent of total fund provides an insight into the changes in the composition of assets and liabilities over time. This allows the comparison with peer institutions.

4.3.1. Capital Fund to Total Fund Ratio:

The capital to total fund ratio is calculated to find out the proportion of capital as a source of fund in the total fund available to the financial institutions.

This ratio is calculated by dividing the capital fund by the total fund available.

$$\text{Capital fund to Total fund ratio} = \frac{\text{Capital fund}}{\text{Total fund}}$$

Table 4.22
Capital fund to total fund ratio of the three commercial banks

(Rs. In Million)

Year/Banks	HBL	NIC Bank	Everest Bank
2058/2059			
Capital Fund	858.12	526.10	530.91
Total Fund	20672.43	3768.65	6616.90
Ratios	4.15	13.96	8.02
2059/2060			
Capital Fund	1063.13	552.10	612.83
Total Fund	23355.22	4037.52	8052.21
Ratios	4.55	13.67	7.61
2060/2061			
Capital Fund	1324.17	620.40	680.32
Total Fund	24762.03	5930.07	9608.57
Ratios	5.35	10.46	7.08
2061/2062			
Capital Fund	1901.75	684.19	1132.62
Total Fund	27418.18	7508.07	11732.52
Ratios	6.94	9.11	9.65
2062/2063			
Capital Fund	2126.18	966.46	1262.81
Total Fund	29460.39	10383.60	15959.29
Ratios	7.22	9.31	7.91
2063/2064			
Capital Fund	2506.50	1117.99	1501.52
Total Fund	33519.14	11678.83	21432.57
Ratios	7.48	9.57	7.01
Average Ratio	5.95	11.01	7.88

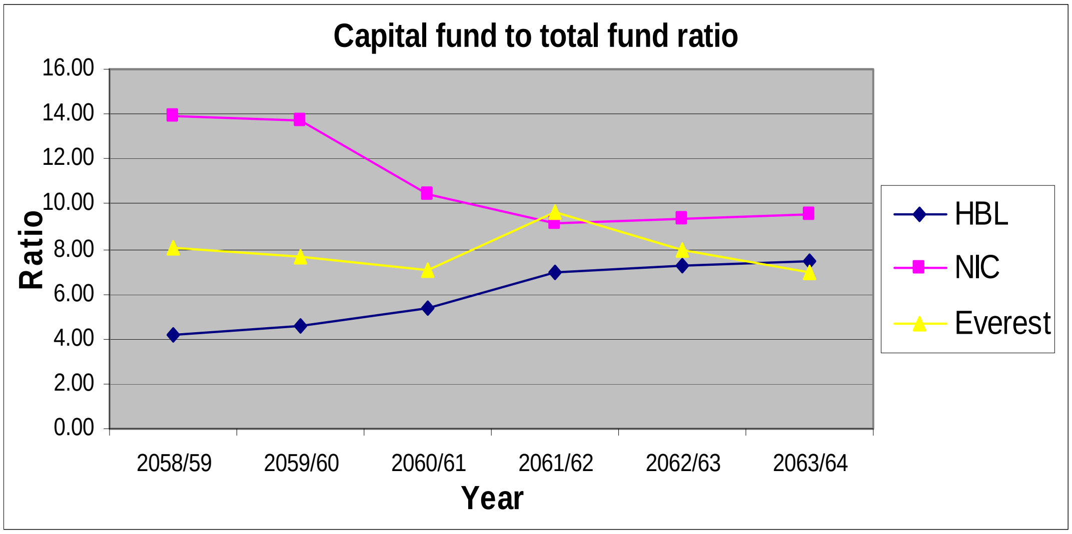
The above table illustrates the contribution or the share of capital fund in the total fund raised by the three commercial banks from the period of 2058/59-2063/64. The capital to total fund ratio for Himalayan Bank is 4.15 percent in 2058/59, increased consistently thereafter and reached 7.48 percent in 2063/64.

The capital to total fund ratio for NIC Bank is the highest in 2058/59 at 13.96 percent. The ratio is the lowest in 2061/62 at 9.11 percent. The ratio is 9.57 in 2063/64.

The capital to total fund ratio for Everest Bank is 8.02 percent in 2058/59. The ratio decreased to 7.61 percent and to 7.08 percent in the following two year respectively. The ratio increased to 9.65 percent in 2061/62 and again decreased to 7.91 percent in 2062/63 and to 7.01 percent in 2063/64.

In sum, the source of fund collected through capital fund is highest for NIC Bank with an average ratio of 11.01 percent over the period of six years of observation followed by Everest Bank and Himalayan Bank with an average ratio of 7.88 percent and 5.95 percent respectively.

Fig. 4.22



From the above figure, we can see that the capital to total fund ratio for Himalayan Bank is in increasing trend where the ratio increased through 2058/59 till 2063/64. The ratio for the NIC Bank is in declining trend. Whereas for the Everest Bank, the ratio is in fluctuating trend. The ratio declined in 2059/60 and in 2060/61 based on 2058/59 as a base year. The ratio increased in 2061/62 and then again decreased in the following two years.

Table 4.23

Capital to total fund ratio of the three finance companies **(Rs. In Million)**

Year/Fin. Co.	NSM&F	United Finance	Union Finance
2058/2059			
Capital Fund	66.43	43.68	50.65
Total Fund	768.36	234493	392.73
Ratios	8.65	18.63	12.90
2059/2060			
Capital Fund	123.65	65.36	71.49
Total Fund	908.93	258.71	487.35
Ratios	13.60	25.26	14.67
2060/2061			
Capital Fund	127.13	65.15	77.93
Total Fund	1192.03	385.10	630.78
Ratios	10.66	16.92	12.35
2061/2062			

Capital Fund	128.26	68.7	88.95
Total Fund	1375.95	601.95	648.70
Ratios	9.32	11.41	13.71
2062/2063			
Capital Fund	178.48	75.41	55.33
Total Fund	1553.04	644.78	714.86
Ratios	11.49	11.69	7.74
2063/2064			
Capital Fund	213.86	892.84	68.661
Total Fund	1907.07	873.93	780.76
Ratios	11.21	10.22	8.79
Average Ratio	10.28	16.16	11.63

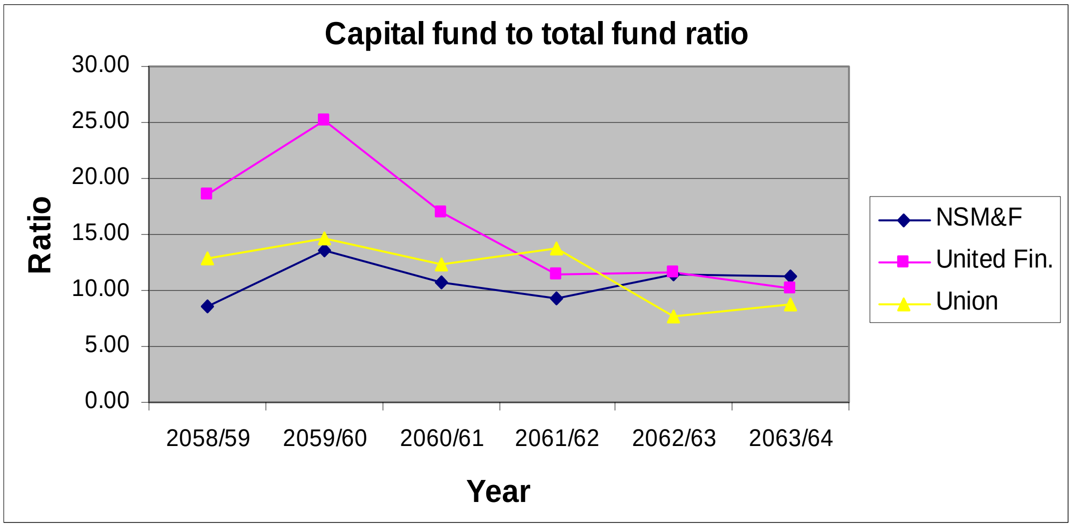
The above table illustrates the proportion of capital fund in the total fund raised by the three finance companies through 2058/59-2063/64 based on 2058/59 as a base year. From the above table, we can see that the share capital to total fund ratio of Nepal Share Market and Finance Ltd. is 8.65 percent in 2058/59, which increased to 13.60 percent in 2059/2060. It decreased to 10.66 percent in 2060/2061 and to 9.32 percent in 2061/2062. The ratio is 11.21 percent in 2063/64.

The share capital to total fund ratio of United Finance is 18.63 percent in 2058/59, which increased to 25.26 percent in 2059/60. The ratio is 16.92 percent in 2060/61, 11.41 and 11.69 percent in 2061/62 and 2062/63 respectively. The ratio is the lowest in 2063/64 at 10.22 percent for United Finance over six years of observation.

The share capital to total funs ratio for Union Finance is 12.90 percent in 2058/59, which increased to 14.67 percent in 2059/60. The ratio is 12.35 percent in 2060/61, 13.71 percent in 2061/62. The ratio is the lowest in 2062/63 at 7.74 percent, which slightly increased to 8.79 percent in 2063/64.

On an average, United Finance has the highest proportion of fund raised through capital in the total fund collected with an average ratio of 16.16 percent followed by Union Finance with an average ratio of 11.63 percent and then by Nepal Share Market and Finance Ltd. with an average ratio of 11.63 percent.

Fig. 4.23



From the above figure, we can see that the capital to total fund ratio of all the three finance companies is in fluctuating trend over the six period of observation. The ratio for Nepal Share Market and Finance Ltd. is in the peak point in the year 2059/60 and it is the lowest in 2058/59. The ratio for United Finance is the highest in the year 2059/60 and it is the lowest in the year 2063/64. Union Finance also has the highest ratio in 2059/60 and the lowest in 2062/63.

4.3.2. Deposits to Total Fund Ratio:
Deposits to total fund ratio is calculated to find out the percentage contribution of deposits in the total fund available to the institution.

This ratio is calculated by dividing deposit collected from the depositors by total fund available to the institution.

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

Table 4.24
Deposit to total fund ratio of the three commercial banks **(Rs. In Million)**

Year/Banks	HBL	NIC	Everest Bank
2058/2059			
Total Deposit	18619.38	3165.31	5466.61
Total Fund	20672.43	3768.65	6616.9
Ratios	90.07	83.99	82.62
2059/2060			
Total Deposit	21007.38	3144.32	6694.96
Total Fund	23355.22	4037.52	8052.21
Ratios	89.95	77.88	83.14

2060/2061			
Total Deposit	22010.33	5146.48	8063.90
Total Fund	24762.03	5930.07	9608.57
Ratios	88.89	86.79	83.92
2061/2062			
Total Deposit	24814.01	6241.38	10097.69
Total Fund	27418.16	7508.07	11732.52
Ratios	90.50	83.13	86.07
2062/2063			
Total Deposit	26490.85	8765.95	13802.45
Total Fund	29460.39	10383.60	15959.29
Ratios	89.92	84.42	86.49
2063/2064			
Total Deposit	30048.42	10068.23	18186.25
Total Fund	33519.14	11678.83	21432.57
Ratios	89.65	86.21	84.85
Average Ratio	89.83	83.74	84.51

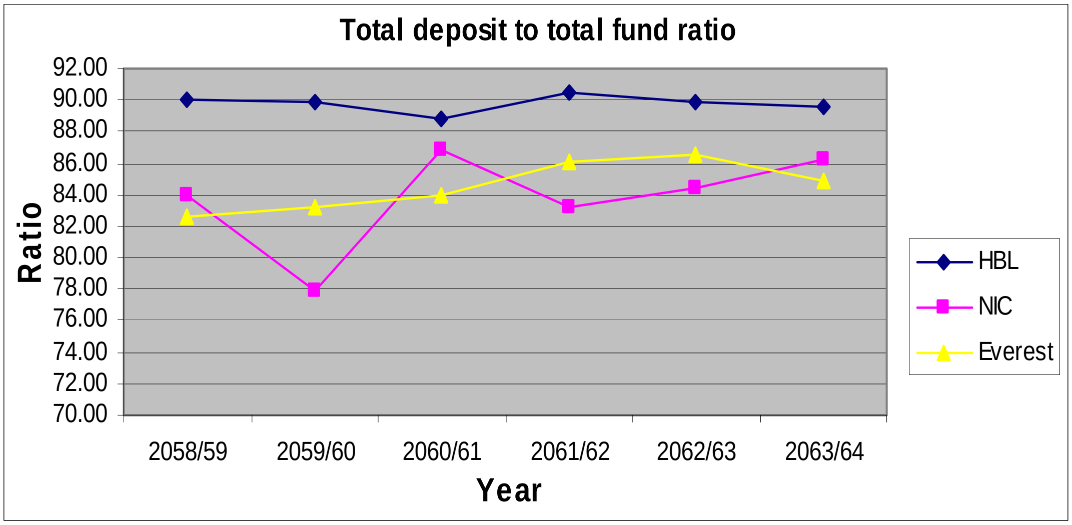
The above table shows the total deposit to total fund ratio of the three commercial banks through 2058/59-2063/64. As can be seen from the above table, deposit to total fund ratio of Himalayan Bank is 90.07 percent in 2058/59, which decreased to 89.95 percent in 2059/60, and 88.89 percent in 2060/61. In 2061/62, the ratio slightly increased to 90.50 percent and then again decreased slightly to 89.92 percent in 2062/63 and to 89.65 percent in 2063/64.

The total deposit to total fund ratio of NIC Bank is 83.99 percent in 2058/59, which decreased to 77.88 percent in 2059/60. It increased from 77.88 percent to 86.79 percent in 2060/61. It again decreased to 83.13 percent in 2061/62. The ratio again increased slightly in the following two year at 84.42 percent and 86.21 percent respectively.

The total deposit to total fund ratio of Everest bank is 82.62 percent in 2058/59. It increased to 83.14 percent in 2059/60, 83.92 percent in 2060/61, to 86.07 percent in 2061/62 and 86.49 percent in 2062/63. It slightly decreased to 84.85 percent in 2063/64.

On an average, the fund raised through deposits is the highest for Himalayan Bank with an average ratio of 89.93 percent followed by Everest Bank at 84.51 percent and then by NIC Bank at 83.74 percent. The above table also illustrates that deposit is the major source of fund for the commercial banks contributing more than eighty percent of the total sources of fund.

Fig. 4.24



From the above figure we can see that the deposit to total fund ratio of the Himalayan bank is almost similar in all five years of observation. There is not much fluctuation in the ratio. The ratio is the highest in 2061/62 and lowest in 2060/61.

The deposit to total fund ratio of NIC Bank is in fluctuating trend. Based on 2058/59 as a base year, the ratio decreased in the second year. The ratio increased in the third year reached the highest point. The ratio decreased in the fourth year and then again increased thereafter for the following two year.

The deposit to total fund ratio of Everest Bank is in increasing trend except for the last year of observation where it decreased slightly. The ratio was the highest in 2062/63 and lowest in 2058/59.

Table 4.25

Deposit to total fund ratio of the three finance companies (Rs. In Million)

Year/Fin. Com.	NSM&F	United Finance	Union Finance
	2058/2059		
Total Deposits	609.14	182.28	303.45
Total Fund	768.36	234.49	392.73
Ratios	79.28	77.73	77.27
	2059/2060		
Total Deposits	716.36	164.6	378.85
Total Fund	908.93	258.71	487.35
Ratios	78.81	63.62	77.74
	2060/2061		

Total Deposits	1007.83	286.78	518.78
Total Fund	1192.03	385.1	630.84
Ratios	84.55	74.47	82.24
2061/2062			
Total Deposits	1166.98	332.65	538.74
Total Fund	1375.95	601.95	648.70
Ratios	84.81	55.26	83.05
2062/2063			
Total Deposits	1310.91	427.78	594.52
Total Fund	1553.04	644.78	714.86
Ratios	84.41	66.34	83.17
2063/2064			
Total Deposits	1563.87	494.26	670.40
Total Fund	1907.07	873.93	780.76
Ratios	82.00	56.56	85.87
Average Ratio	82.31	65.66	81.55

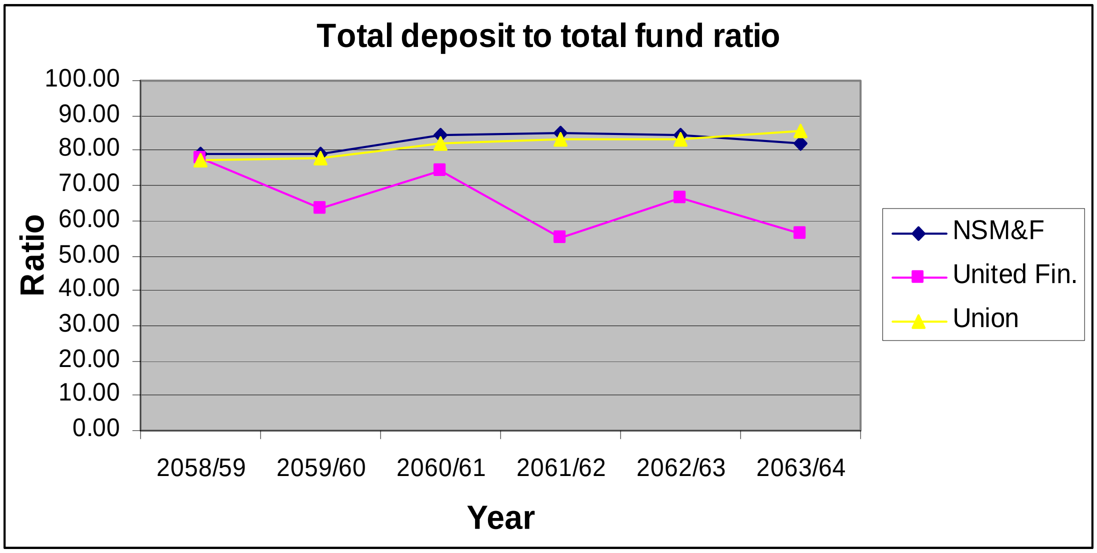
In the above table, we can see that the proportion of deposit in the total fund for Nepal Share Market and Finance Ltd. is 79.28 percent in 2058/59, which slightly decreased to 78.81 percent in 2059/60. The ratio increased to 84.55 percent in 2060/61, and 84.81 percent in 2061/62. The ratio decreased to 82 percent in 2063/64.

For United Finance, the proportion of deposit in the total fund ranges between 77.73 percent and 55.26 percent. The ratio is 77.73 percent in 2058/59, which decreased to 63.62 percent in 2059/60. The ratio again increased to 74.47 percent in 2060/61. The ratio is 55.26 percent in 2061/62, 66.34 percent in 2062/63, and 56.56 percent in 2063/64.

For Union Finance also, the proportion of deposit in the total fund is 77.27 percent in 2058/59. It increased gradually to 77.74 percent in 2059/60, 82.24 percent in 2060/61, and 83.05 percent in 2061/62. The ratio is 85.87 percent in 2063/64.

On an average, the deposit to total fund ratio of Nepal Share Market and Finance Ltd. is the highest among the three finance companies with an average ratio of 82.31 percent followed by Union Finance with an average ratio of 81.55 percent and then by United Finance at 65.66 percent.

Fig. 4.25



The above figure illustrates the trend of total deposit to total fund ratio of the three finance companies. From the above figure we can see that the deposit to total fund ratio for Nepal Share Market and Finance Ltd. is in increasing trend but it slightly decreased in the last two year. The ratio is the highest in 2061/62 and lowest in 2058/59.

The deposit to total fund ratio for United Finance is in fluctuating trend. Based on 2058/59 as a base year, the ratio shows a downward slope in 2059/60, 2061/62, and in 2063/64. The ratio is the highest in 2058/59 and lowest in 2061/62.

The deposit to total fund ratio of Union finance is in increasing trend. The ratio increased continuously through six period of observation. The ratio is the highest in 2063/64 and lowest in 2058/59.

4.3.3. Borrowings to Total Fund Ratio:

Borrowings comprise amounts due to other banks and credit institutions. It includes all deposits, loans, and advances that are extended between banks and finance companies and are normally regarded as volatile sources of funding. International borrowing may occur in the same form as domestic funding, except that it normally exposes a financial institution to additional currency risk. Direct forms of international borrowing include loans from foreign banks, export promotion agencies in various countries, or international lending agencies, as well as vostro accounts. Indirect forms include notes, acceptances, import drafts, and trade bills sold with the bank's endorsement; guarantees; and notes or trade bills rediscounted with central banks in various countries. The existence of foreign funding is generally a good indicator of international confidence in a country and its economy. Borrowing to Total Fund Ratio is calculated to find the percentage contribution of borrowings in the total fund available to the institutions.

This ratio is calculated by dividing the borrowings by the total fund.

$$\textbf{Borrowings to Total Fund} = \frac{\textbf{Borrowings}}{\textbf{Total Fund}}$$

Table 4.26

Borrowings to total fund ratio of the three commercial banks **(Rs. In Million)**

Year/Banks	HBL	NIC	NB Bank
2058/2059			
Borrowings	534.01	0.00	81.77
Total Fund	20672.43	3768.65	6616.9
Ratios	2.58	0.00	1.24
2059/2060			
Borrowings	645.84	274.75	0.00
Total Fund	23355.22	4037.52	8052.21
Ratios	2.77	6.80	0.00
2060/2061			
Borrowings	659.01	60.02	0.00
Total Fund	24762.03	5930.07	9608.57
Ratios	2.66	1.01	0.00
2061/2062			
Borrowings	146.05	450.37	0.00
Total Fund	27418.16	7508.07	11732.52
Ratios	0.53	6.00	0.00
2062/2063			
Borrowings	144.63	457.71	0.00
Total Fund	29460.39	10383.6	15959.85
Ratios	0.49	4.41	0.00
2063/2064			
Borrowings	235.97	352.13	0.00
Total Fund	33519.14	11678.83	21432.57
Ratios	0.70	3.02	0.00
Average Ratio	1.62	3.54	0.21

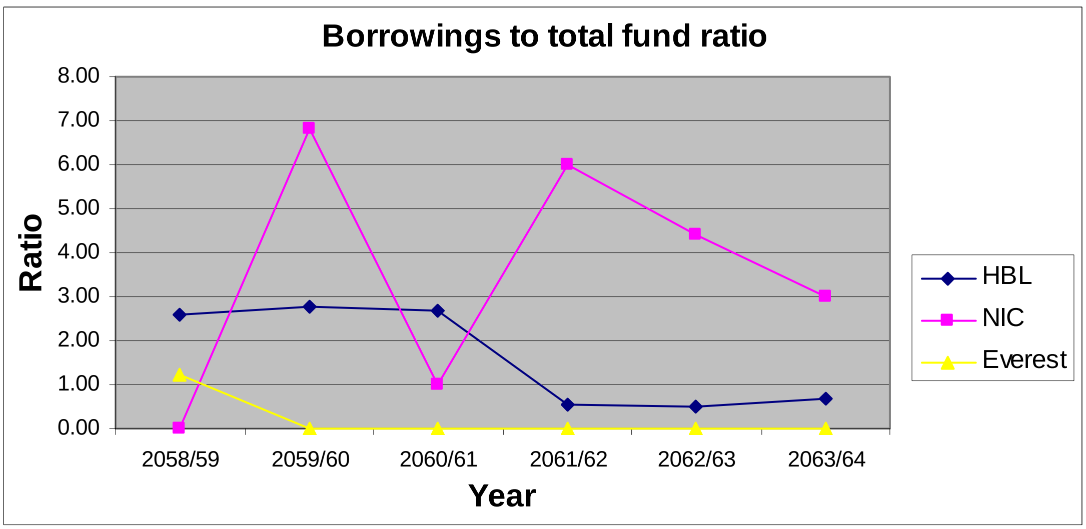
The above table shows the borrowing to total fund ratio of the three commercial banks through 2058/59-2063/64 and taking 2058/59 as a base year. The borrowing to total fund ratio of Himalayan Bank is 2.58 percent in 2058/59, which increased to 2.77 percent in 2059/60. It decreased from 2.77 percent to 2.66 percent, 0.53 percent, 0.49 percent, and 0.70 percent in 2060/61, 2061/62, 2062/63, and 2063/64 respectively.

The borrowing to total fund ratio of NIC Bank is nil for the year 2058/59 as the bank has not borrowed any amount in this year. The ratio is 6.80 percent in 2059/60 which decreased sharply to 1.01 percent in 2060/61.In 061/62, it again increased sharply, contrary to the previous sharp decline, to 6.00 percent. The ratio again decreased to 4.41 percent and 3.02 percent in 2062/63, and 2063/64 respectively.

The borrowing to total fund ratio of Everest Bank is 1.24 percent in the base year after which the bank has not borrowed any fund to contribute in the total source of fund.

On an average, the borrowing to total fund ratio of the NIC Bank is the highest at 3.54 percent followed by Himalayan Bank at 1.62 percent and then by Everest Bank at 0.21 percent which has not borrowed any amount for the past five years.

Fig. 4.26



From the above figure, we can see that the borrowings to total fund ratio of Himalayan Bank is almost consistent for the first three years and then decreased in the fourth year and remained almost similar for the following two years thereafter. The ratio is the highest in 2059/60 and the lowest in 2062/63.

The ratio for the NIC Bank is highly fluctuating. By taking 2058/59 as a base year, the ratio increased sharply in the second and fourth year and the ratio showed a declining trend in the third, fifth and sixth year of observation.

The ratio for the Everest Bank showed a declining trend. The ratio was the highest in the base year, i.e., in 2058/59 after which the ratio is nil as the bank has not borrowed any amount.

Table 4.27

Borrowing to total fund ratio of the three finance companies **(Rs. In Million)**

Year/Fin. Com.	NSM&F	United Finance	Union Finance
2058/2059			
Borrowings	0	6.72	0
Total Fund	768.36	234.49	392.73
Ratios	0.00	2.87	0.00
2059/2060			
Borrowings	0	17.29	0
Total Fund	908.93	258.71	487.35
Ratios	0.00	6.68	0.00
2060/2061			
Borrowings	0	12.50	0
Total Fund	1192.03	385.1	630.78
Ratios	0.00	3.25	0.00
2061/2062			
Borrowings	0	164.16	0
Total Fund	1375.95	601.95	648.70
Ratios	0.00	27.27	0.00
2062/2063			
Borrowings	0	99.17	57.47
Total Fund	1553.04	644.78	714.86
Ratios	0.00	15.38	8.04
2063/2064			
Borrowings	80.00	248.79	35.05
Total Fund	1907.07	873.93	780.76
Ratios	4.19	28.47	4.49
Average Ratio	0.70	13.99	2.09

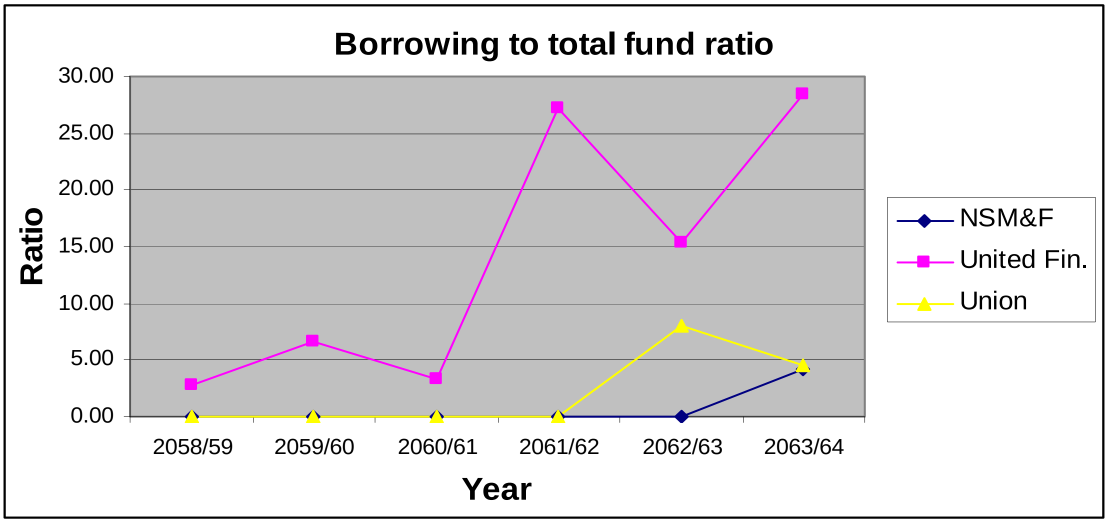
The above table illustrates the borrowing to total fund ratio of the three commercial banks through 2058/59-2063/64 based on 2058/59 as a base year. The borrowing to total fund ratio of Nepal Share Market and Finance Ltd. is nil through 2058/59-2062/63. The company-borrowed fund only in 2063/64 and the proportion of borrowed fund in the total fund raised is 4.19 percent.

The borrowing to total fund ratio of United Finance is 2.87 percent in 2058/59, which increased to 6.68 percent in 2059/60. The ratio decreased to 3.25 percent in 2060/61 and again increased drastically to 27.27 percent in 2061/62. The ratio is 15.38 percent in 2062/63 and 28.47 percent in 2063/64.

The borrowing to total fund ratio of Union Finance is nil through 2058/59-2061/62, as a company did not borrow any fund from outside. The company borrowed fund in 2062/63 and in 2063/64 and ratio is 8.04 percent and 4.49 percent respectively.

On an average, the borrowing to total fund ratio of United Finance is the highest with an average ratio of 13.99 percent followed by Union Finance with an average ratio of 2.09 percent and then by Nepal Share Market and Finance Ltd. with an average ratio of 0.70 percent.

Fig. 4.27



From the above figure, we can see that the borrowing to total fund ratio of United Finance is fluctuating through six period of observation. The ratio is the highest in 2063/64 and lowest in 2058/59. Compared to the other finance companies, United Finance has borrowed substantial amount of fund from external sources to raise its total fund. While that for Nepal Share Market and Finance Ltd. and Union Finance is different. The ratio for Nepal Share Market and Finance Ltd. is nil for the first five year of observation and only in the final year it borrowed the fund, and same is the case with Union Finance as the ratio is nil for the first four years and the ratio increased in the fifth year and then decreased in the final year.

4.3.4. Other liabilities to total fund ratio:

Other liabilities to total fund ratio is calculated to find out the proportion of other liabilities in the total liabilities structure of financial institution.

Other liabilities to total fund ratio is calculated by dividing the amount of other liabilities by total fund.

$$\textbf{Other liabilities to total fund ratio} = \frac{\textbf{Other liabilities}}{\textbf{Total fund}}$$

Table 4.28

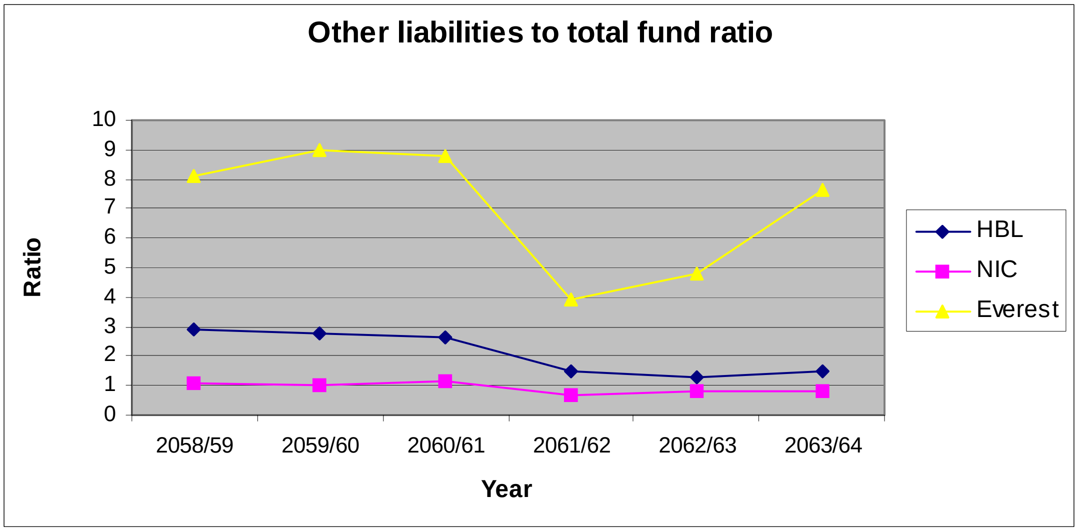
Other liabilities to total fund ratio of three commercial banks **(Rs. In Million)**

Year/Banks	HBL	NIC	Everest Bank
2058/2059			
Other Liabilities	605.35	39.89	535.48
Total Fund	20672.43	3768.65	6616.9
Ratios	2.93	1.06	8.09
2059/2060			
Other Liabilities	592.14	41.99	722.32
Total Fund	23355.22	4037.52	8052.21
Ratios	2.77	1.04	8.97
2060/2061			
Other Liabilities	704.14	70.25	842.32
Total Fund	24762.03	5930.07	9608.57
Ratios	2.66	1.18	8.77
2061/2062			
Other Liabilities	404.58	50.07	457.59
Total Fund	27418.16	7508.07	11732.52
Ratios	1.48	0.67	3.90
2062/2063			
Other Liabilities	386.75	86.39	763.56
Total Fund	29460	10384	15959
Ratios	1.31	0.83	4.78
2063/2064			
Other Liabilities	494.10	97.01	1634.60
Total Fund	33519	11679	21433
Ratios	1.47	0.83	7.63
Average Ratio	2.10	0.94	7.02

The above table illustrates the other liabilities to total fund ratio of three commercial banks through 2058/59-2063/64. From the above table we can see that the ratio for Himalayan bank ranges between 1.31 percent and 2.93 percent; that of NIC Bank ranges between 0.67 percent and 1.18 percent; while that of 3.90 percent and 8.97 percent.

On an average, the other liabilities to total fund ratio of Everest Bank is the highest at 7.02 percent followed by Himalayan Bank with 2.10 percent and then by NIC bank with 0.94 percent.

Fig. 4.28



From the above figure, we can see that the other liabilities to total fund ratio of all the commercial banks is fluctuating. Everest Bank has the highest ratio in all the six years of observation while that of NIC Bank being the lowest in all the years of observation.

Table 4.29
Other liabilities to total fund ratio of the three finance companies

(Rs. In Million)

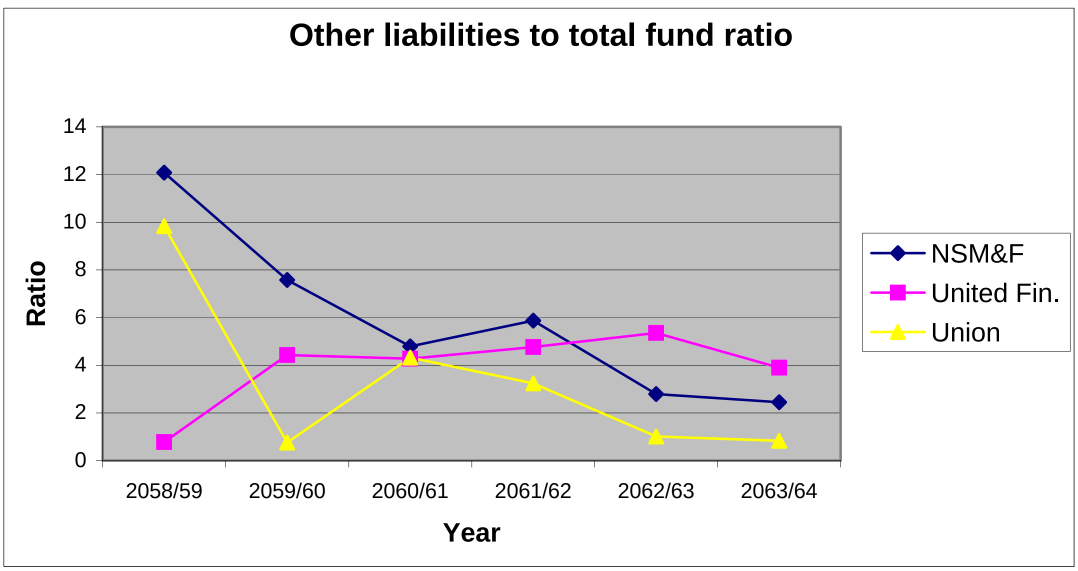
Year/Fin. Com.	NSM&F	United Finance	Union Finance
2058/2059			
Liquid Fund	92.78	1.82	38.65
Total Fund	768.36	234.49	392.73
Ratios	12.08	0.78	9.84
2059/2060			
Liquid Fund	68.92	11.46	37.01
Total Fund	908.93	258.71	4873.5
Ratios	7.58	4.43	0.76
2060/2061			
Liquid Fund	57.07	16.44	27.24
Total Fund	1192.03	385.1	630.78
Ratios	4.79	4.27	4.32
2061/2062			
Liquid Fund	80.71	28.64	21.02
Total Fund	1375.95	601.95	648.7
Ratios	5.87	4.76	3.24
2062/2063			
Liquid Fund	43.40	34.50	7.19

Total Fund	1553	645	715
Ratios	2.79	5.35	1.01
2063/2064			
Liquid Fund	46.66	34.09	6.45
Total Fund	1907	874	781
Ratios	2.45	3.90	0.83
Average Ratio	5.93	3.92	3.33

From the above table we can see that the other liabilities to total fund ratio of Nepal Share Market and Finance Ltd. ranges between 2.45 percent and 12.08 percent, that of United finance ranges between 0.78 percent and 5.35 percent and that of Union Finance ranges between 0.76 percent and 9.84 percent.

On an average, the other liabilities to total fund ratio for Nepal Share Market and Finance Ltd. is the highest with a ratio of 5.93 percent followed by United Finance with an average ratio of 3.92 percent and then by Union finance with an average ratio of 3.33 percent.

Fig. 4.29



From the above figure we can see that the other liabilities to total fund ratio of all the three finance companies is highly fluctuating. Compared to the first year, the ratio for Nepal Share Market and Finance Ltd. decreased drastically in the second and third year. The ratio increased in the fourth year and then decreased in the fifth and sixth year. Compared to the first year, the ratio increased continuously for the four consecutive years and decreased in the last year for United Finance. The ratio for Union Finance showed a declining trend except for the third year, where it increased compared to the previous year.

4.3.5. Liquid Fund to Total Fund Ratio:

Liquid Fund to Total Fund Ratio is calculated to find out the percentage of total fund kept or employed as cash reserve.

It is calculated by dividing cash and bank balance by the total fund.

$$\text{Liquid Fund to Total Fund Ratio} = \frac{\text{Liquid Fund}}{\text{Total Fund}}$$

Table 4.30

Liquid fund to total fund ratio of the three commercial banks (Rs. In Million)

Year/Banks	HBL	NIC	Everest Bank
2058/2059			
Liquid Fund	1617.02	606.34	688.62
Total Fund	20672.43	3768.65	6616.9
Ratios	7.82	16.09	10.41
2059/2060			
Liquid Fund	2129.31	347.96	1139.57
Total Fund	23355.22	4037.52	8052.21
Ratios	9.12	8.62	14.15
2060/2061			
Liquid Fund	2370.08	448.97	819.25
Total Fund	24762.03	5930.07	9608.57
Ratios	9.57	7.57	8.53
2061/2062			
Liquid Fund	2014.47	1100.27	1619.99
Total Fund	27418.16	7508.07	11732.52
Ratios	7.35	14.65	13.81
2062/2063			
Liquid Fund	1717.35	1102.65	1619.93
Total Fund	29460.39	10383.60	15959.29
Ratios	5.83	10.62	10.15
2063/2064			
Liquid Fund	1757.34	762.77	2391.42
Total Fund	33519.14	11678.83	21432.57
Ratios	5.24	6.53	11.16
Average Ratio	7.49	10.68	11.37

The above table illustrates the liquid fund to total fund ratio for the three commercial banks for the period of six years through 2058/59-2063/64 based on 2058/59 as a base year. The Liquid fund to total fund ratio of Himalayan Bank is 7.82 percent in 2058/59, which increased to 9.12 and

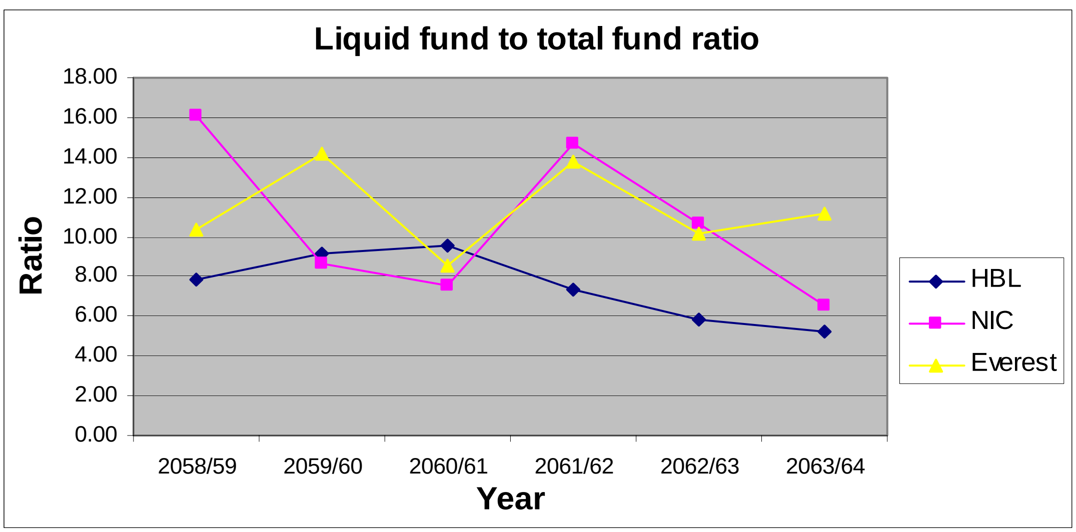
9.57 percent in 2059/60 and 2061/62 respectively. The ratio decreased in the following three year with the lowest reaching 5.24 percent in 2063/64.

The liquid fund to total fund ratio of NIC Bank is 16.09 in 2058/59, which decreased to 8.62 and 7.57 percent in 2059/60 and 2060/61 respectively. The ratio is 14.65 percent in 2061/62. The ratio again declined to 10.62 and 6.53 percent in 2062/63 and 2063/64 respectively.

The liquid to total fund ratio of Everest Bank is 10.14 percent in 2058/59, which increased to 14.15 percent in 2059/60. The ratio is 8.53 in 2060/61, 13.81 percent in 2061/62, 1015 percent in 2062/63, and 11.16 percent in 2063/64.

On an average, the liquid to total fund ratio of Everest Bank is the highest at 11.37 percent followed by NIC Bank at 10.68 percent and then by Himalayan Bank at 7.49 percent over the period of six-observation year. This shows that Everest Bank has employed higher portion of its total fund as a liquid fund among the three commercial banks.

Fig. 4.30



From the above figure we can see that the liquid fund to total fund ratio showed an increasing trend for the second and third year based on 2058/59 as a base year and then the ratio declined thereafter for the following three years. The ratio was the highest in 2060/61 and it was the lowest in 2063/64. This shows that Himalayan Bank is decreasing the portion of fund kept as liquid fund for the past few years.

The liquid to total fund ratio of NIC Bank is fluctuating trend. Based on 2058/59 as a base year, the ratio declined for the second and third year, increased in the fourth year and then again declined in the fifth and sixth year. The ratio was the highest in 2058/59 and the lowest in 2063/64. Like

Himalayan Bank, NIC Bank has also decreased its employment of fund as a liquid fund.

The liquid to total fund ratio of Everest Bank is also highly fluctuating. The ratio showed an increasing trend in the second, fourth, and sixth year. It declined in the third and fifth year. The ratio was the highest in the second year and the lowest in the third year.

Table 4.31

Liquid fund to total fund ratio of the three finance companies **(Rs. In Million)**

Year/Fin. Com.	NSM&F	United Finance	Union Finance
2058/2059			
Liquid Fund	56.36	29.1	19.64
Total Fund	768.36	234.49	392.73
Ratios	7.33	12.41	5.00
2059/2060			
Liquid Fund	170.94	6.84	67.44
Total Fund	908.93	258.71	487.35
Ratios	18.81	2.64	13.84
2060/2061			
Liquid Fund	182.77	40.72	86.22
Total Fund	1192.03	385.10	630.78
Ratios	15.33	10.57	13.67
2061/2062			
Liquid Fund	235.17	10.71	54.23
Total Fund	1375.95	601.95	648.70
Ratios	17.09	1.78	8.36
2062/2063			
Liquid Fund	210.69	17.91	72.03
Total Fund	1553.04	644.78	714.86
Ratios	13.57	2.78	10.08
2063/2064			
Liquid Fund	299.80	26.65	35.30
Total Fund	1907.07	873.93	780.76
Ratios	15.72	3.05	4.52
Average Ratio	14.64	5.54	9.24

The above table shows the liquid fund to total fund ratio of the three finance companies through 2058/59-2063/64 based on 2058/59 as a base year. As can be seen from the above table, the liquid fund to total fund ratio of Nepal Share Market and Finance Ltd. is 7.33 percent in 2058/59, which increased more than two fold to 18.81 percent in 2059/60. The ratio decreased to

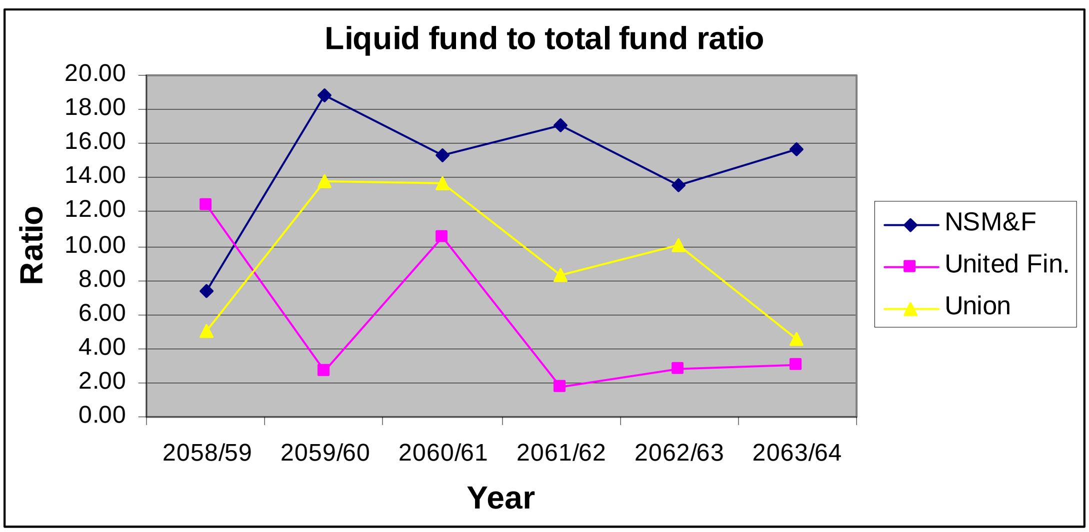
15.33 percent in 2060/61, 17.09 percent in 2061/62, 13.57 percent in 2062/63, and 15.72 percent in 2063/64.

The liquid fund to total fund ratio of the United Finance is 12.41 percent in 2058/59, which decreased drastically to 2.64 percent in 2059/60. The ratio again increased sharply to 10.57 percent in 2060/61. The ratio is 1.78 percent in 2061/62, 2.78 percent in 2062/63, and 3.05 percent in 2063/64.

The liquid fund to total fund ratio of Union Finance is 5.00 percent in 2058/59, which increased to 13.84 percent in 2059/60. The ratio is 13.67 percent in 2060/61, 8.36 percent in 2061/62, 10.08 percent in 2062/63, and 4.52 percent in 2063/64.

On an average, the liquid fund to total fund ratio of Nepal Share Market and Finance Ltd is the highest with an average ratio of 14.64 percent followed by Union Finance with an average ratio of 9.24 percent and then by United Finance with an average ratio of 5.54 percent. This means that NSM&F has utilized higher proportion of fund as liquid fund compared to United Finance and Union Finance. We can also see that United Finance has utilized fewer funds as liquid fund. Since, liquidity is very important for the financial institution or there will be runs by the depositors, United Finance, should try an increase in liquid fund.

Fig. 4.31



As can be seen from the above figure, the liquid fund to total fund ratio of all the three finance companies is in fluctuating trend. The ratio for the Nepal Share Market and Finance Ltd. is the highest than the other two finance companies except for the first year of observation. On the contrary, the ratio for United Finance is the lowest except for the first year of observation where it is higher than that of the other two finance companies. The ratio is in the peak point in the year 2059/60 for both Nepal Share

Market and Finance Ltd., and for Union Finance where as the ratio is the highest in 2058/59 for United Finance.

4.3.6. Investment to Total Fund Ratio:

Investment to Total Fund ratio is calculated to find out the percentage of total fund that is employed as an investment by the financial institution.

This ratio is calculated by dividing the investment made by the financial institution by the total fund.

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

Table 4.32

Investment to total fund ratio of the three commercial banks (Rs. In Million)

Year/Banks	HBL	NIC	Everest Bank
2058/2059			
Investment	9157.11	753.81	1693.04
Total Fund	20672.43	3768.65	6616.9
Ratios	44.30	20.00	25.59
2059/2060			
Investment	10175.44	1153.26	1653.98
Total Fund	23355.22	4037.52	8052.21
Ratios	43.57	28.56	20.54
2060/2061			
Investment	9292.10	1760.72	2535.66
Total Fund	24762.03	5930.07	9608.57
Ratios	37.53	29.69	26.39
2061/2062			
Investment	11692.34	1572.90	2128.93
Total Fund	27418.16	7508.07	11732.52
Ratios	42.64	20.95	18.15
2062/2063			
Investment	10889.03	2479.91	4200.52
Total Fund	29460.39	10383.60	15959.29
Ratios	36.96	23.88	26.32
2063/2064			
Investment	11822.99	1599.48	4984.32
Total Fund	33519.14	11678.83	21432.57
Ratios	35.27	13.70	23.26
Average Ratio	40.04	22.80	23.37

The above table shows the investment to total fund ratio of the three commercial banks for the six observing year through 2058/59-2063/64, based on 2058/59 as a base year. The investment to total fund ratio of

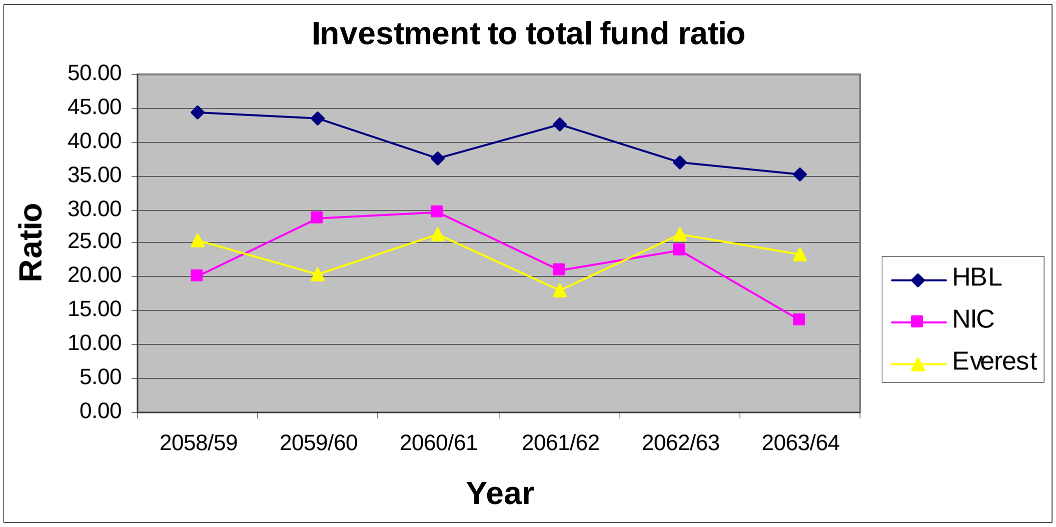
Himalayan Bank is 44.30 in 2058/59, which decreased to 43.57 percent in 2059/60. In the year 2060/61, it further decreased to 37.53 percent and took an upward leap in 2061/62 at 42.64 percent. It again decreased in the following two year at 36.96 percent and 35.27 percent in 2062/63 and 2063/64 respectively.

The investment to total fund ratio of NIC Bank is 20 percent in 2058/59, which increased to 28.56 percent in 2059/60, and 29.69 percent in 2060/61. It decreased to 20.95 percent in 2061/62. The ratio is 23.88 percent and 13.70 percent in 2062/63 and 2063/64 respectively.

The investment to total fund ratio of Everest Bank is 25.59 percent in 2058/59, which decreased to 20.54 percent in 2059/60. The ratio is 26.39 percent in 2060/61, a rise of about six percent compared to the previous year but in 2061/62, it again decreased to 18.15 percent. The following year the ratio increased to 26.32 percent. There is a fall in 2063/64 at 23.26 percent compared to the previous.

On an average, the total investment to total fund ratio of Himalayan Bank is the highest at 40.04 percent followed by Everest Bank at 23.37 percent and then by NIC Bank at 22.80. Investment is considered to be the second line of defense and this is well maintained by all the three banks.

Fig. 4.32



From the above diagram, we can see that investment to total fund ratio of the Himalayan Bank is in fluctuation trend but the fluctuation is not sharp. It decreased in the second, and third year of observation, increased in the fourth year and then again decreased in the fifth and sixth year. The ratio is the highest in 2058/59 at 44.30 percent and the lowest in 2063/64 at 35.27 percent.

In the case of the NIC Bank also, the ratio is in fluctuating trend. The ratio showed an increasing trend in the second, third and fifth year. The ratio is in declining trend in the fourth and sixth year. The ratio is the highest in 2060/61 and the lowest in 2063/64.

Similarly, for the Everest Bank also the ratio is in fluctuating trend. The ratio showed an increasing trend in third and fifth year. For the second, fourth, and sixth year, the ratio is in decreasing trend. The ratio is the highest in 2060/61 and the lowest in 2061/62.

Table 4.33

Investment to total fund ratio of the three finance companies **(Rs. In Million)**

Year/Fin. Com.	NSM&F	United Finance	Union Finance
2058/2059			
Investment	27.53	16.58	54.19
Total Fund	768.36	234.49	392.73
Ratios	3.58	7.07	13.80
2059/2060			
Investment	31.65	24.09	53.01
Total Fund	908.93	258.71	487.35
Ratios	3.48	9.31	10.88
2060/2061			
Investment	27.31	14.82	44.62
Total Fund	1192.03	385.10	630.78
Ratios	2.29	3.85	7.07
2061/2062			
Investment	12.8	35.38	85.47
Total Fund	1375.95	601.95	648.70
Ratios	0.93	5.88	13.18
2062/2063			
Investment	12.57	34.40	40.57
Total Fund	1553.04	644.78	714.86
Ratios	0.81	5.34	5.68
2063/2064			
Investment	61.60	32.67	12.57
Total Fund	1907.07	873.93	780.76
Ratios	3.23	3.74	1.61
Average Ratio	2.39	5.86	8.70

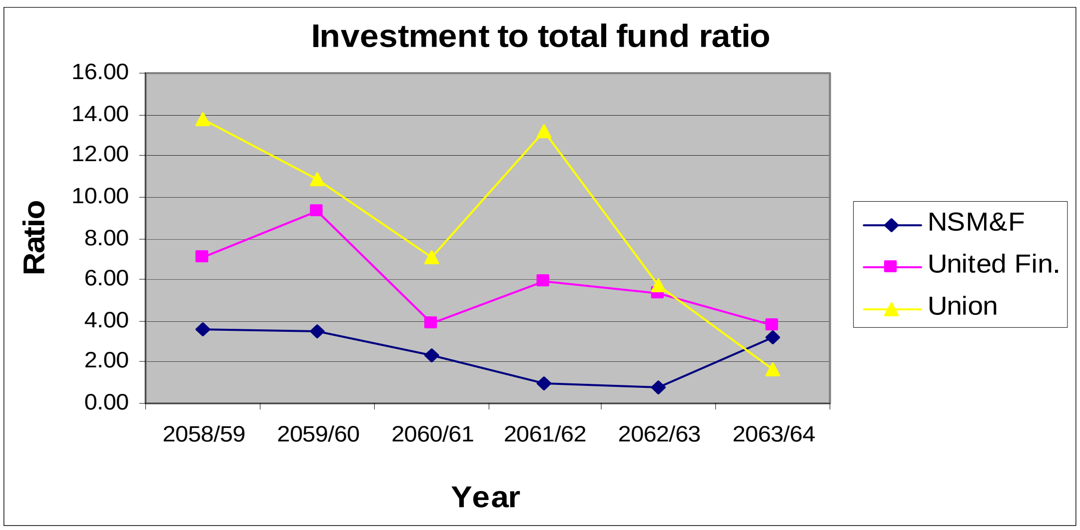
As can be seen from the above table, the investment to total fund ratio of Nepal Share Market and Finance Ltd. ranges between 3.58 percent and 0.81 percent. The ratio is 3.58 percent in 2058/59, which decreased to 3.48 percent in 2059/60. The ratio declined continually and reached 0.81 percent in 2062/63. The ratio increased to 3.23 percent in 2063/64.

The investment to total fund ratio of United Finance ranges between 9.31 percent and 3.74 percent. The ratio is 7.07 percent in 2058/59, which increased to 9.31 percent in 2059/60. The ratio decreased to 3.85 percent in 2060/61. The ratio is 5.88 percent in 2061/62 5.34 percent in 2062/63, and 3.74 percent in 2063/64.

The investment to total fund ratio of Union Finance ranges between 13.80 percent and 1.61 percent. The ratio is 13.80 percent in 2058/59, which decreased to 10.88 percent in 2059/60 and to 7.07 percent in 2060/61. The ratio is 13.18 percent in 2061/62, 5.68 percent in 2062/63. The ratio drastically declined to 1.61 percent in 2063/64.

On an average, the investment to total fund ratio of Union Finance is the highest with an average ratio of 8.70 percent followed by United Finance with an average ratio of 5.86 percent and then by Nepal Share Market and Finance Ltd. with an average ratio of 2.39 percent.

Fig. 4.33



From the above diagram, we can see that the investment to total fund ratio of Nepal Share Market and Finance Ltd. is in declining trend except for the last year where the ratio increased. The ratio is the highest in 2058/59 and it is lowest in 2062/63. The ratio for United Finance is in fluctuating trend. The ratio shows an increasing trend in 2059/60 and 2061/62, and in the other remaining years, the ratio declined. The ratio is the highest in 2059/60, and it is the lowest in 2063/64. The ratio for the Union finance is also in fluctuating trend and the fluctuation is also very sharp compared to the other two finance companies. The ratio is the highest in 2058/59 and lowest in 2063/64.

4.3.7. Loans and advances to Total Fund Ratio:

Loans and advances to total Fund Ratio are calculated to find out the proportion of total fund used as loans and advances.

This ratio is calculated by dividing loans and advances by total fund.

$$\textbf{Loans and Advances to Total Fund Ratio} = \frac{\textbf{Loans and advances}}{\textbf{Total Fund}}$$

Table 4.34
Loans and advances to total fund ratio of the three commercial banks

(Rs. In Million)

Year/Banks	HBL	NIC	Everest Bank
2058/2059			
Loans & Advances	8913.72	2278.99	3948.48
Total Fund	20672.43	3768.65	6616.9
Ratios	43.12	60.47	59.67
2059/2060			
Loans & Advances	10001.85	2419.52	4908.46
Total Fund	23355.22	4037.52	8052.21
Ratios	42.82	59.93	60.96
2060/2061			
Loans & Advances	11951.87	3561.14	5884.12
Total Fund	24762.03	5930.07	9608.57
Ratios	48.27	60.05	61.24
2061/2062			
Loans & Advances	12424.52	4711.71	7618.67
Total Fund	27418.16	7508.07	11732.52
Ratios	45.31	62.76	64.94
2062/2063			
Loans & Advances	14642.56	6655.96	9801.31
Total Fund	294603.9	10383.60	15959.29
Ratios	49.70	64.10	61.41
2063/2064			
Loans & Advances	16998	8941.4	13664.08
Total Fund	33519.14	11678.83	21432.57
Ratios	50.71	76.56	63.75
Average Ratio	46.66	63.98	62.00

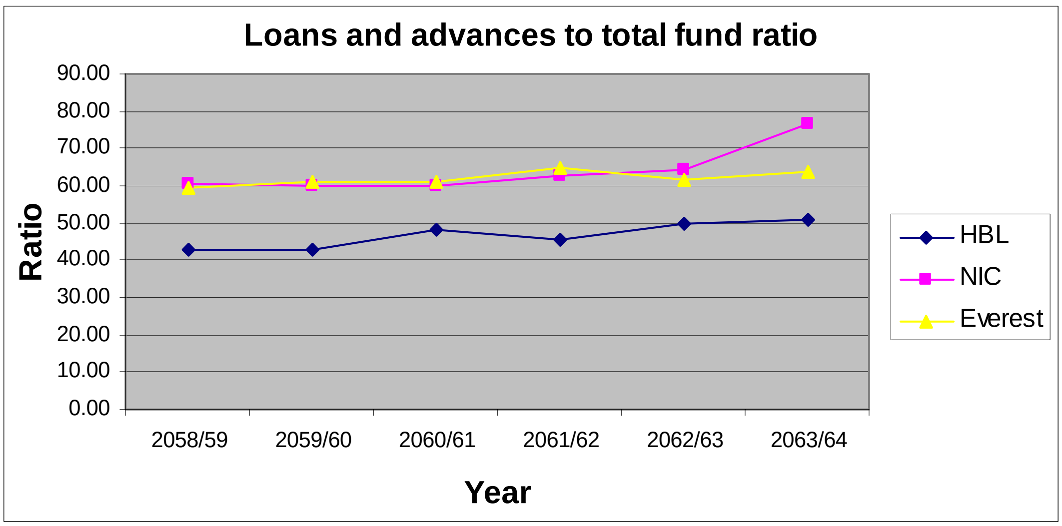
As can be seen from the above table, the loans and advances to total fund ratio of Himalayan Bank is 43.12 percent in 2058/59, 42.82 percent in 2059/60. It increased from 42.82 percent to 48.27 percent in 2060/61. In 2061/62 it again decreased to 45.31 percent, a decline of about 3 percent from the previous year. In the following two year, the ratio increased to 49.70, and 50.71 percent respectively.

The loans and advances to total fund ratio of NIC Bank is 60.47 percent in 2058/59, 59.93 percent in 2059/60. It increased slightly to 60.05 percent in 2060/61, 62.76 percent in 2061/62, 64.10 percent in 2062/63, and 76.56 percent in 2063/64.

The loans and advances to total fund ratio of Everest Bank is 59.67 percent in 2058/59, which increased to 60.96 percent in 2059/60, 61.24 percent in 2060/61, and 64.94 percent in 2061/62. It slightly decreased in the following two year at 61.41 and 63.75 percent respectively.

On an average, NIC Bank has used highest proportion of fund in loans and advances at 63.98 percent followed by Everest Bank and Himalayan Bank at 62 percent and 46.66 percent respectively. This shows that most of the total fund available to the banks is utilized in granting loans and advances which is also a major earning source of banks.

Fig. 4.34



As can be seen from the above diagram, the ratio graph of the Himalayan Bank showed a slightly fluctuating trend. Based on 2058/59 as a base year, the ratio slightly increased in the second and third year. It declined in the fourth year and again increased slightly in the fifth and sixth year. The ratio is the highest in 2063/64 and the lowest in 2059/60.

The loans and advances to total fund ratio of NIC Bank is almost similar over the first five-year of observation. In the sixth year, it has taken an upward slope. The ratio is highest at 79.56 percent in 2063/64 and lowest at 59.93 percent in 2059/60.

The loans and advances ratio of Everest Bank is also consistent over the period of six years of observation. The ratio is the highest in 2061/62 at 64.94 percent and the lowest in 2058/59 at 59.67.

From the above diagram it is also clear that there is no steep change in the ratio trend that forms over the six years of observation and most of the funds are utilized in advancing credits.

Table 4.35
Loans and advances to total fund ratio
of the three finance companies

(Rs. In Million)

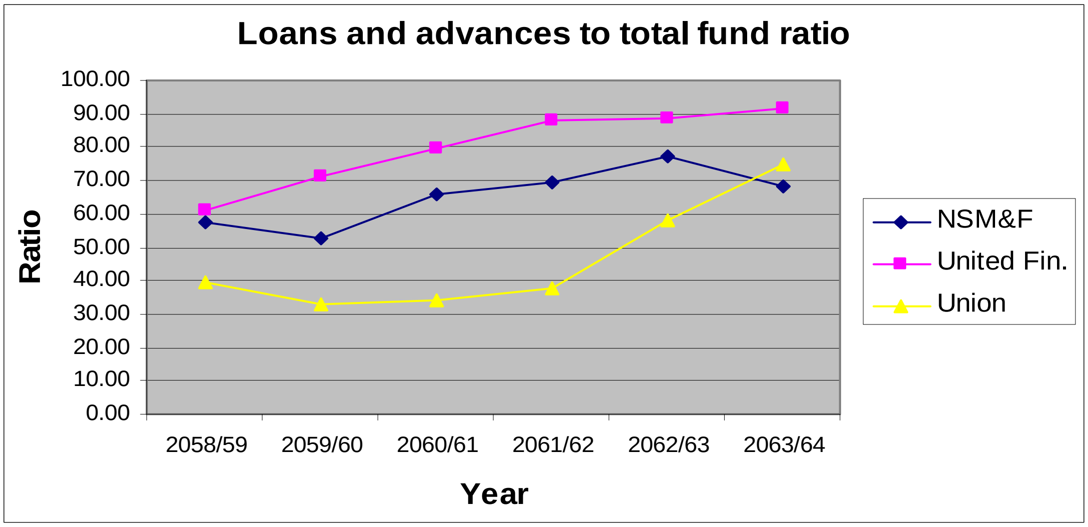
Year/Fin. Com.	NSM&F	United Finance	Union Finance
2058/2059			
Loans Advances	440.8	143.72	154.94
Total Fund	768.36	234.49	392.73
Ratios	57.37	61.29	39.45
2059/2060			
Loans Advances	476.49	184.75	159.91
Total Fund	908.93	258.71	487.35
Ratios	52.42	71.41	32.81
2060/2061			
Loans Advances	784.41	307.83	213.48
Total Fund	1192.03	385.1	630.78
Ratios	65.80	79.93	33.84
2061/2062			
Loans Advances	952	529.44	243.60
Total Fund	1375.95	601.95	648.70
Ratios	69.19	87.95	37.55
2062/2063			
Loans Advances	1202.10	573.02	416.61
Total Fund	1553.04	644.78	714.86
Ratios	77.40	88.87	58.28
2063/2064			
Loans Advances	1303.32	799.1	586.26
Total Fund	1907.07	873.93	780.76
Ratios	68.34	91.44	75.09
Average Ratio	65.09	80.15	46.17

The above table illustrates the loans and advances to total fund ratio of the three finance companies through 2058/59-2063/64 based on 2058/59 as base year. The loans and advances to total fund ratio of Nepal Share Market and Finance Ltd. ranges between 77.40 percent and 52.42 percent in 2062/63 and 2059/60 respectively. The ratio for United Finance ranges between 91.44 percent and 61.29 percent in 2063/64 and 2058/59 respectively. Similarly, the ratio for Union Finance ranged between 75.09 percent and 32.81 percent in 2063/64 and 2059/60 respectively.

On an average, the loans and advances to total fund ratio is the highest for United Finance with an average ratio of 80.15 percent followed by Nepal

Share Market and Finance Ltd. with an average ratio of 65.09 percent and then by Union Finance with an average ratio 46.17 percent.

Fig. 4.35



As can be seen from the above diagram, the loans and advances to total fund ratio of all the three finance companies is in increasing trend except for Nepal Share Market and Finance Ltd. where there is a slight variation. The ratio for United Finance is the highest compared to that of the other two finance companies in all the six years of observation. The ratio is the lowest in 2058/59 and it kept on increasing and reached the highest point in 2063/64.

Compared to the first year of observation, the ratio for Nepal Share Market and Finance Ltd. decreased in the second year. The ratio kept on increasing for the third, fourth, and fifth year. The ratio again decreased in the sixth year. The ratio for the company is highest in 2062/63 and lowest in 2059/60.

The ratio for the Union Finance also decreased in the second year, compared to the first year. The ratio then shows an increasing trend thereafter in the remaining years. The ratio is the highest in 2063/64 and lowest in 2059/60.

4.3.8. Fixed Assets to Total Fund Ratio:

Fixed or tangible assets represent the financial institution's investment in the physical facilities and equipment needed to conduct its business. These represent longer-term investments that are generally illiquid, may be special purpose and of limited value to potential non-bank users, and are not directly income producing. Fixed Assets to Total Ratio is calculated to find out the proportion of total fund that is invested in the fixed assets by the financial institutions.

This ratio is calculated by dividing fixed assets by total fund.

$$\textbf{Fixed Assets to Total Fund Ratio} = \frac{\textbf{Fixed Assets}}{\textbf{Total Fund}}$$

Table 4.36

Fixed assets to total fund ratio of the three commercial banks **(Rs. In Million)**

Year/Banks	HBL	NIC	Everest Bank
2058/2059			
Fixed Assets	318.84	54.76	93.38
Total Fund	20672.43	3768.65	6616.9
Ratios	1.54	1.45	1.41
2059/2060			
Fixed Assets	229.87	50.21	109.59
Total Fund	23355.22	4037.52	8052.21
Ratios	0.98	1.24	1.36
2060/2061			
Fixed Assets	299.64	43.29	118.38
Total Fund	24762.03	5930.07	9608.57
Ratios	1.21	0.73	1.23
2061/2062			
Fixed Assets	295.82	59.5	134.07
Total Fund	27418.16	7508.07	11732.52
Ratios	1.08	0.79	1.14
2062/2063			
Fixed Assets	540.82	39.86	152.09
Total Fund	29460.39	1038.36	15959.29
Ratios	1.84	0.38	0.95
2063/2064			
Fixed Assets	574.06	153.68	170.1
Total Fund	33519.14	11678.83	21432.57
Ratios	1.71	1.32	0.79
Average Ratio	1.39	0.99	1.15

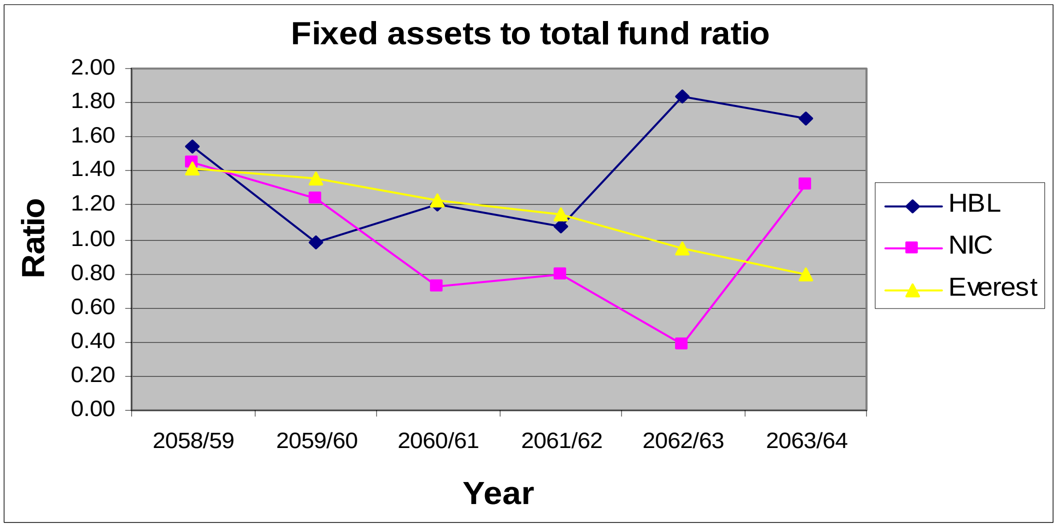
The above illustrates the fixed assets to total fund ratio of the three commercial banks through 2058/59-2063/64 based on 2058/59 as a base year. The fixed assets to total fund ratio of Himalayan Bank is 1.54 percent in 2058/59. It is 0.98 percent in 2059/60, which increased in the next year to 1.21 percent in 2060/61. It again decreased to 1.08 percent in 2061/62. The ratio is 1.84 and 1.71 percent in the following two year respectively.

The fixed assets to total fund ratio of NIC Bank is 1.45 percent in 2058/59. The ratio is 1.24 percent, 0.73 percent, and 0.79 percent in the year 2059/60, 2060/61, and 2061/62 respectively. The ratio slightly decreased to 0.38 percent. In the last year, the ratio increased to 1.32 percent.

The fixed assets to total fund ratio of Everest Bank is 1.41 percent in 2058/59 and 1.36 percent in 2059/60. The ratio is 1.23 percent in 2060/61, 1.14 percent in 2061/62. The ratio declined to 0.95 percent and 0.79 percent in 2062/63 and 2063/64 respectively.

On an average, Himalayan Bank used the highest proportion of its total fund in fixed assets with an average ratio of 1.39 percent followed by Everest Bank and then NIC Bank with an average ratio of 1.15 percent and 0.99 percent respectively.

Fig. 4.36



As can be seen from the above diagram, fixed assets to total fund ratio of Himalayan Bank is in fluctuating trend. The ratio trend is sloping upward during 2060/61 and 2062/63, and it is in declining trend during 2059/60, 2061/62, and in 2063/64. The ratio is the highest in 2062/63 at 1.84 percent and the lowest in 2059/60 at 0.98 percent.

The fixed assets to total fund ratio of NIC Bank was in decreasing trend except for the year 2061/62 and 2063/64 where it increased. The ratio was the highest at 1.45 percent in 2058/59 and lowest at 0.38 percent in 2062/63.

The fixed assets to total fund ratio of Everest Bank is in declining trend. Based on 2058-59 as a base year, the ratio declined continuously till the final year of observation. The ratio is the highest in 2058/59 at 1.41 percent and the lowest in 2063/64 at 0.79 percent.

Table 4.37

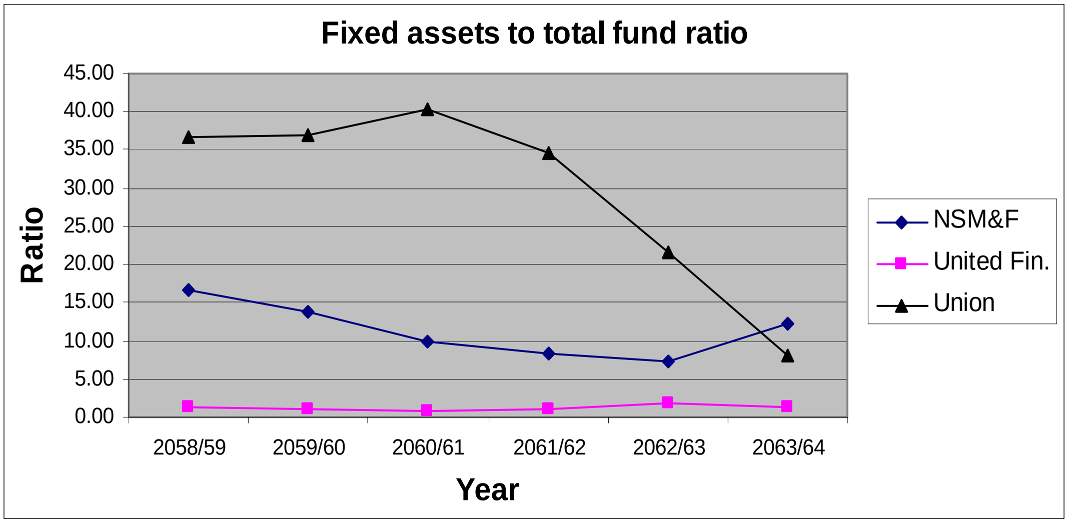
Fixed assets to total fund ratio of the three finance companies **(Rs. In Million)**

Year/Fin. Com.	NSM&F	United Finance	Union Finance
2058/2059			
Fixed Assets	127.16	3.15	143.72
Total Fund	768.36	234.49	392.73
Ratios	16.55	1.34	36.59
2059/2060			
Fixed Assets	126.2	2.93	179.49
Total Fund	908.93	258.71	487.35
Ratios	13.88	1.13	36.83
2060/2061			
Fixed Assets	119.10	2.87	254.58
Total Fund	1192.03	385.1	630.78
Ratios	9.99	0.74	40.36
2061/2062			
Fixed Assets	114.96	6.68	224.88
Total Fund	1375.95	601.95	648.70
Ratios	8.35	1.11	34.67
2062/2063			
Fixed Assets	113.57	12.2	153.40
Total Fund	1553.04	644.78	714.86
Ratios	7.31	1.89	21.46
2063/2064			
Fixed Assets	231.06	11.33	62.38
Total Fund	1907.07	873.93	780.76
Ratios	12.12	1.30	7.99
Average Ratio	11.37	1.25	27.61

The above table illustrates the fixed assets to total fund ratio of the three finance companies through a period of 2058/59-2063/64 based on 2058/59 as a base year. As can be seen from above table, the ratio for Nepal Share Market and Finance Ltd ranges between 7.31 percent and 16.55 percent; that of United Finance ranges between 0.74 percent and 1.89 percent while that of Union Finance ranges between 7.99 percent and 40.36 percent.

On an average, the fixed assets to total fund ratio is the highest for Union Finance with an average ratio of 27.61 percent followed by Nepal Share Market and Finance Ltd. with an average ratio of 11.37 percent and then by United Finance with an average ratio of 1.25 percent over six years of observation period. An important thing here to note is that the average ratio of Union Finance is 27.61 percent, which is the maximum for any company. But when looked at the balance sheet Union Finance has used its fund in leased assets as well along with the assets used for own use.

Fig. 4.37



As can be seen from the above diagram, the fixed assets to total fund ratio of Nepal Share Market and Finance Ltd. is in declining trend except for the last year where it increased. The ratio is the highest in 2058/59 and lowest in 2062/63 for the company.

The ratio for United Finance Company is in fluctuating trend. Compared to the first year, the ratio declined slightly in the second and third year, increased slightly in the fourth and fifth year and then again decreased in the sixth year. The ratio is the highest in 2062/63 and lowest in 2060/61.

The ratio for Union Finance showed in increasing trend in the beginning but then declined sharply in the later years. The ratio is the highest in 2060/61 and lowest in 2063/64.

4.3.9. Other assets to total fund ratio:
Other assets to total fund ratio is calculated to find out the proportion of other assets in the total asset structure of the financial institution.

Other assets to total fund ratio is calculated by dividing the amount of other assets by the total fund.

$$\textbf{Other assets to total fund ratio} = \frac{\textbf{Other assets}}{\textbf{Total fund}}$$

Table 4.38

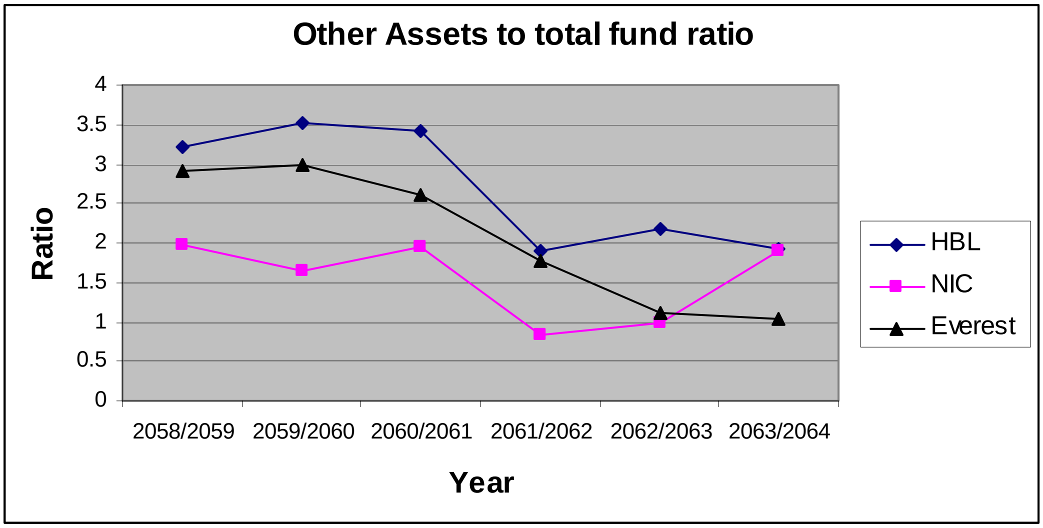
Other assets to total fund ratio of the three commercial banks (Rs. In Million)

Year/Banks	HBL	NIC	Everest Bank
2058/2059			
Other Assets	665.74	74.75	193.39
Total Fund	20672.43	3768.65	6616.9
Ratios	3.22	1.98	2.92
2059/2060			
Other Assets	818.76	66.56	240.61
Total Fund	23355.22	4037.52	8052.21
Ratios	3.51	1.65	2.99
2060/2061			
Other Assets	848.32	115.95	251.17
Total Fund	24762.03	5930.07	9608.57
Ratios	3.43	1.96	2.61
2061/2062			
Other Assets	517.99	62.55	206.29
Total Fund	27418.16	7508.07	11732.52
Ratios	1.89	0.83	1.76
2062/2063			
Other Assets	643.61	102.56	178.01
Total Fund	29460	10384	15959
Ratios	2.18	0.99	1.12
2063/2064			
Other Assets	643.97	220.34	222.66
Total Fund	33519	11679	21433
Ratios	1.92	1.89	1.04
Average Ratio	2.69	1.55	2.07

The above table illustrates the other assets to total fund ratio of the three commercial banks through 2058/59-2063/64. The ratio of Himalayan Bank ranges between 1.89 percent and 3.51 percent; that of NIC Bank ranges between 0.83 percent and 1.98 percent; while that of Everest Bank ranges between 1.04 percent and 2.99 percent.

On an average, the other assets to total fund ratio of Himalayan Bank is the highest with an average ratio of 2.69 percent followed by Everest Bank with an average ratio of 2.07 percent and then by NIC Bank with an average ratio of 1.55 percent.

Fig. 4.39



From the above figure, we can see that the other assets to total fund ratio of Himalayan Bank is fluctuating with a ratio showing an upward movement in second and fifth year compared to their preceding years. The ratio is the highest in 2059/60 and lowest in 2061/62. The ratio for NIC Bank is also fluctuating with a ratio showing an upward movement in third, fifth, and sixth years compared to their preceding years. The ratio is the highest in 2060/61 and lowest in 2061/62. The ratio for Everest Bank is in declining trend with a ratio reaching a pinnacle point in 2059/60.

Table 4.40

Other assets to total fund ratio of the three finance companies **(Rs. In Million)**

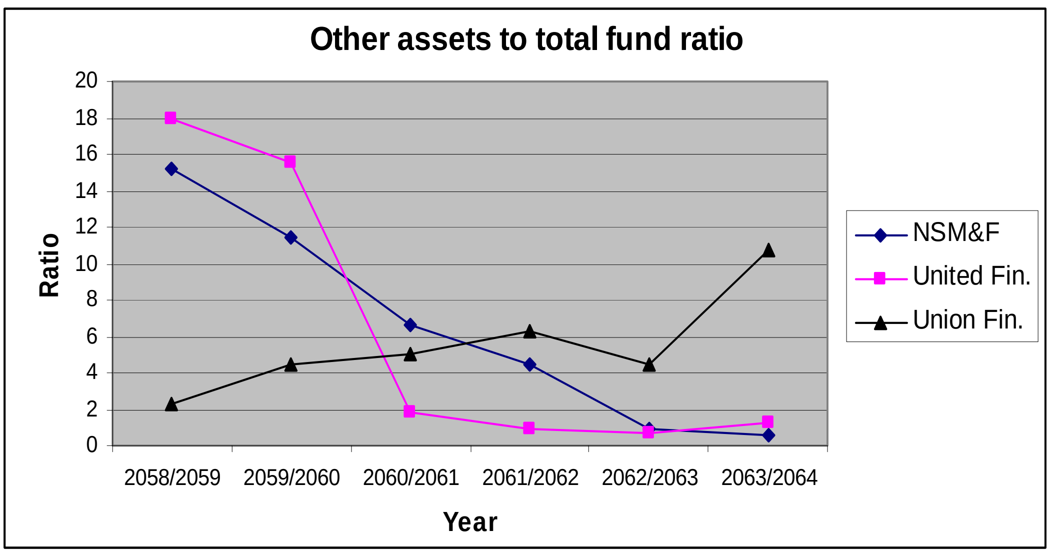
Year/Fin. Com.	NSM&F	United Finance	Union Finance
2058/2059			
Fixed Assets	116.52	41.94	9.04
Total Fund	768.36	234.49	392.73
Ratios	15.16	17.89	2.30
2059/2060			
Fixed Assets	104	40.12	21.63
Total Fund	908.93	258.71	487.35
Ratios	11.40	15.51	4.44
2060/2061			
Fixed Assets	78.45	7.24	31.89
Total Fund	1192.03	385.1	630.78
Ratios	6.58	1.88	5.06
2061/2062			
Fixed Assets	61.03	5.77	40.53
Total Fund	1375.95	601.95	648.7
Ratios	4.44	0.96	6.25
2062/2063			

Fixed Assets	14.10	4.35	32.24
Total Fund	1553	645	715
Ratios	0.91	0.67	4.51
2063/2064			
Fixed Assets	11.28	11.32	84.25
Total Fund	1907	874	781
Ratios	0.59	1.30	10.79
Average Ratio	6.51	6.37	5.56

From the above table, we can see that the other assets to total fund ratio of Nepal Share Market and Finance Ltd. ranges between 0.59 percent and 15.16 percent; that of United Finance ranges between 0.67 percent and 17.89 percent; while that of Union Finance ranges between 2.30 percent and 10.79 percent.

On an average, the other assets to total fund ratio of Nepal Share Market and Finance Ltd. is the highest with an average ratio of 6.51 percent followed by United finance and then by Union Finance with an average ratio of 6.37 percent and 5.56 percent respectively.

Fig. 4.40



From the above figure, we can see that the other assets to total fund ratio of Nepal Share Market and finance Ltd. and United Finance is in decreasing trend while that of Union Finance is in increasing trend.

4.4. Liquidity ratios:

Liquidity refers to the ability of the company to meet its obligation in the short run, usually one year. This ratio helps determine the solvency of the company.

4.4.1. Cash and Bank Balance to Total Deposit Ratio:

Cash and Bank Balance to Total Deposit ratio is designed to measure the financial institution's ability to meet immediate obligation, mainly cash withdrawal by depositors. Lower ratio indicates that banks might face a liquidity crunch while paying its obligations; whereas a very high ratio points out that the financial institution has been keeping idle funds and not deploying them properly.

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

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

Table 4.41
Cash and bank balance to total deposit ratio of the three commercial banks

(Rs. In Million)

Year/Banks	HBL	NIC	Everest Bank
2058/2059			
Cash & Bank Bal.	1264.67	559.53	602.49
Total Deposit	18619.38	3165.31	5466.61
Ratios	6.79	17.68	11.02
2059/2060			
Cash & Bank Bal.	1979.21	318.06	1139.57
Total Deposit	21007.38	3144.32	6694.96
Ratios	9.42	10.12	17.02
2060/2061			
Cash & Bank Bal.	2001.18	319.31	631.81
Total Deposit	22010.33	5146.48	8063.90
Ratios	9.09	6.20	7.83
2061/2062			
Cash & Bank Bal.	2014.47	1005.55	972.26
Total Deposit	24814.01	6241.38	10097.69
Ratios	8.12	16.11	9.63
2062/2063			
Cash & Bank Bal.	1717.35	749.14	1552.97
Total Deposit	26490.85	8765.95	13802.45
Ratios	6.48	8.55	11.25
2063/2064			
Cash & Bank Bal.	1757.34	599.76	2391.42
Total Deposit	30048.42	10068.23	18186.25
Ratios	5.85	5.96	13.15
Average Ratio	7.63	10.77	11.65

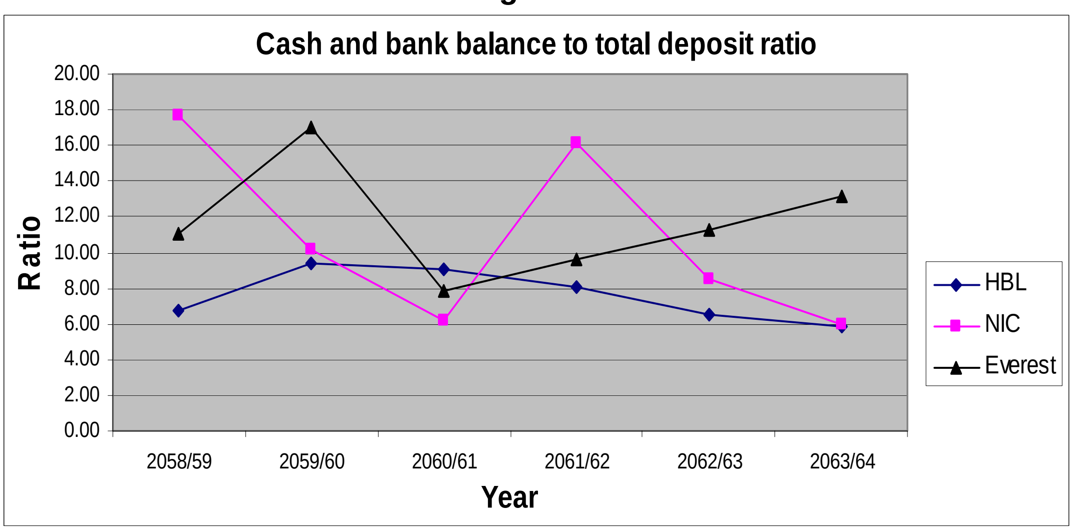
The cash and bank balance to total deposit ratio of Himalayan bank is 6.79 percent in 2058/59. It is 9.42 percent in 2059/60, and 9.09 percent in 2060/61. It decreased to 8.12 percent in 2061/62, 6.48 percent in 2062/63 and 5.85 percent in 2063/64.

The cash and bank balance to total deposit ratio of NIC Bank is 17.68 percent in 2058/59. The ratio is 10.12 percent in 2059/60, a fall of 7.52 percent compared to the previous year. The ratio for the year 2060/61 is 6.20 percent. The ratio is 16.11 percent in 2061/62 which is a sharp increment compared to the previous year. The ratio again declined sharply in 2062/63 at 8.55 percent and 5.96 percent in 2063/64.

The cash and bank balance to total deposit ratio of Everest Bank is 11.02 percent in 2058/59. It increased from 11.02 percent to 17.02 percent in 2059/60. The ratio is 7.83 percent in 2060/61, a decline of about 9 percent compared to the previous year. The ratio slightly increased to 9.63 percent in 2061/62. In the final year of observation, the ratio is 13.15 percent.

So the cash and bank balance to total deposit ratio of the Everest Bank is the highest at an average ratio of 11.65 percent followed by NIC Bank with an average ratio of 10.77 percent and then Himalayan Bank with an average ratio of 7.63 percent. The higher ratio shows better liquidity position of the financial institution but at the same time reflects the institutions' inability to properly utilize its fund. Here, all the three sample commercial banks have maintained adequate cash and bank balance to meet the cash withdrawal requirement of their depositors.

Fig. 4.41



As can be seen from the above diagram, the cash and bank balance to total deposit ratio of Himalayan bank increased in the second year based on 2058/59 as a base year, and then it declined in the remaining years. The ratio is the highest in 2059/60 at 9.42 percent and lowest in 2063/64 at 5.85 percent.

The cash and bank balance to total deposit ratio of NIC Bank is in fluctuating trend. Compared to the base year, the ratio decreased in the second and third year, increased sharply in the fourth year and then again decreased in the fifth and sixth year. The ratio is the highest in 2058/59 at 17.68 percent and the lowest in 2063/64 at 5.96 percent.

The cash and bank balance to total deposit ratio of Everest Bank is also in fluctuating trend and the fluctuation was also sharp. Compared to the base year, the ratio increased sharply in the second year. There is a steep downfall in the ratio in the third year and thereafter the ratio increased in the remaining three years. The ratio is the highest in 2059/60 at 17.02 percent and the lowest in 2060/61 at 7.83 percent.

Table 4.42
Cash and bank balance to total deposit ratio of the three finance companies

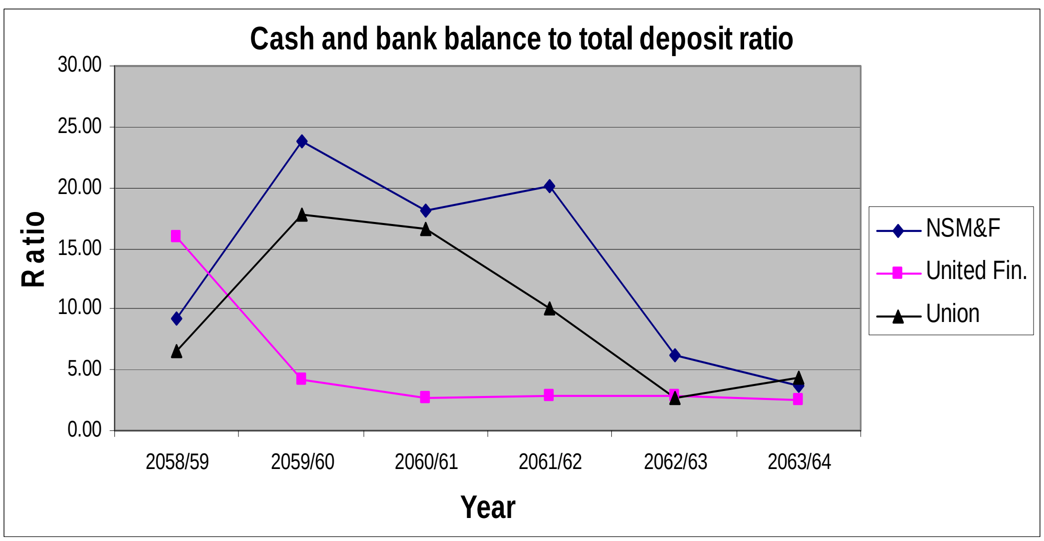
(Rs. In Million)

Year/Fin. Com.	NSM&F	United Finance	Union Finance
2058/2059			
Cash & Bank Bal.	56.36	29.1	19.64
Total Deposit	609.14	182.28	303.45
Ratios	9.25	15.96	6.47
2059/2060			
Cash & Bank Bal.	170.94	6.84	67.44
Total Deposit	716.36	164.6	378.85
Ratios	23.86	4.15	17.80
2060/2061			
Cash & Bank Bal.	182.77	7.64	86.22
Total Deposit	1007.83	286.78	518.78
Ratios	18.13	2.67	16.62
2061/2062			
Cash & Bank Bal.	235.17	9.67	54.23
Total Deposit	1166.98	332.65	538.74
Ratios	20.15	2.91	10.07
2062/2063			
Cash & Bank Bal.	80.74	12.36	16.05
Total Deposit	1310.91	427.78	594.52
Ratios	6.16	2.89	2.70
2063/2064			
Cash & Bank Bal.	56.81	12.34	29.70
Total Deposit	1563.87	494.26	670.40
Ratios	3.63	2.50	4.43
Average Ratio	13.53	5.18	9.68

The above table illustrates the cash and bank balance to total deposit ratio of the three finance companies through 2058/59-2063/64 based on 2058/59 as base year. From the above table, we can see that the cash and bank balance to total deposit ratio of Nepal Share Market and Finance Ltd. ranges between 6.16 percent and 23.86 percent. The cash and bank balance to total deposit ratio of United finance ranges between 2.50 percent and 15.96 percent. Similarly, the ratio for Union Finance ranges between 2.70 percent and 17.80 percent.

On an average, the cash and bank balance to total deposit ratio is the highest for Nepal Share Market and Finance Ltd. with an average ratio of 13.53 percent followed by Union Finance with an average ratio of 9.68 percent and then by United Finance with an average ratio of 5.18 percent. The higher ratio shows better liquidity position of the financial institution. So the liquidity position based on this ratio of Nepal Share Market and Finance Ltd. and Union Finance can be considered satisfactory. However, for United Finance, the ratio indicates that the company might be in the verge of facing the liquidity risk. So United Finance should concentrate in maintaining adequate cash and bank balance compared to the deposit.

Fig. 4.42



As can be seen from the above diagram, the cash and bank balance to total deposit ratio of Nepal Share Market and Finance Ltd is in fluctuating trend. Compared to the base year, the ratio took an upward movement in the second and fourth year. The ratio is in declining trend in third, fifth and sixth years. The ratio is the highest in 2059/60 and lowest in 2063/64.

The cash and bank balance to total deposit ratio of United Finance is in declining trend. The ratio declined throughout the observation period. The ratio is the highest in 2058/59 and lowest in 2063/64.

The ratio for Union Finance is also in declining trend. Compared to the first year, the ratio increased in the second year and then decreased for the consecutive three years till fifth year of observation and then increased in the final year. The ratio is the highest in 2059/60 and lowest in 2062/63.

4.4.2. Investment in Govt. Security to total deposit Ratio:

Financial institutions around the world invest a significant portion of their deposits in government securities because maintaining adequate CRR and Cash and Bank balance only cannot be considered sufficient for liquidity maintenance. There are occasions when a financial institution may need to face unexpected withdrawals. In such cases, as financial institutions are run from depositor's money, they need to maintain adequate investment in government securities as such investments can be liquidated at any point of time. In India, the Reserve Bank of India has directed all commercial banks to maintain at least 25 percent of their deposits as Statutory Reserve Requirement (SRR), which is nothing but the ratio between investments in Government Securities to Total Deposits. In Nepal, however, there is no mandatory requirement for banks to maintain this ratio. Although in general, we have excess liquidity in the market due to increasing flow of remittance in the country, there might be few financial institutions that might be maintaining a very low percentage of their deposits as investment in government securities. This can cause liquidity crisis or the financial institution's inability to honor deposit withdrawals, if it so happens it can send a very wrong signal about the entire economy.

Investment in Govt. Securities Ratio is calculated by dividing investment in government securities by the financial institutions by total deposits.

$$\text{Investment in Govt. Securities to total deposit ratio} = \frac{\text{Investment in Gov. Securities}}{\text{Total Deposits}}$$

Table 4.43
Investment in Govt. securities to total deposit ratio of the three commercial banks
(Rs. In Million)

Year/Banks	HBL	NIC	Everest Bank
2058/2059			
Inv. In Govt. Sec.	3047.76	680.42	1538.9
Total Deposit	18619.38	3165.32	5466.61
Ratios	16.37	21.50	28.15
2059/2060			
Inv. In Govt. Sec.	3998.87	1075.18	1599.35
Total Deposit	21007.34	3144.32	6694.96
Ratios	19.04	34.19	23.89
2060/2061			
Inv. In Govt. Sec.	3431.73	1235.28	2466.43
Total Deposit	22010.33	5146.48	8063.90

Ratios	15.59	24.00	30.59
2061/2062			
Inv. In Govt. Sec.	5469.73	1194.31	3548.62
Total Deposit	24814.01	6241.38	10097.69
Ratios	22.04	19.14	35.14
2062/2063			
Inv. In Govt. Sec.	5144.31	1756.59	3548.62
Total Deposit	26490.85	8765951	13802.45
Ratios	19.42	20.04	25.71
2063/2064			
Inv. In Govt. Sec.	6454.87	1104.06	4704.63
Total Deposit	30048.42	10068.23	18186.25
Ratios	21.48	10.97	25.87
Average Ratio	18.99	21.64	28.22

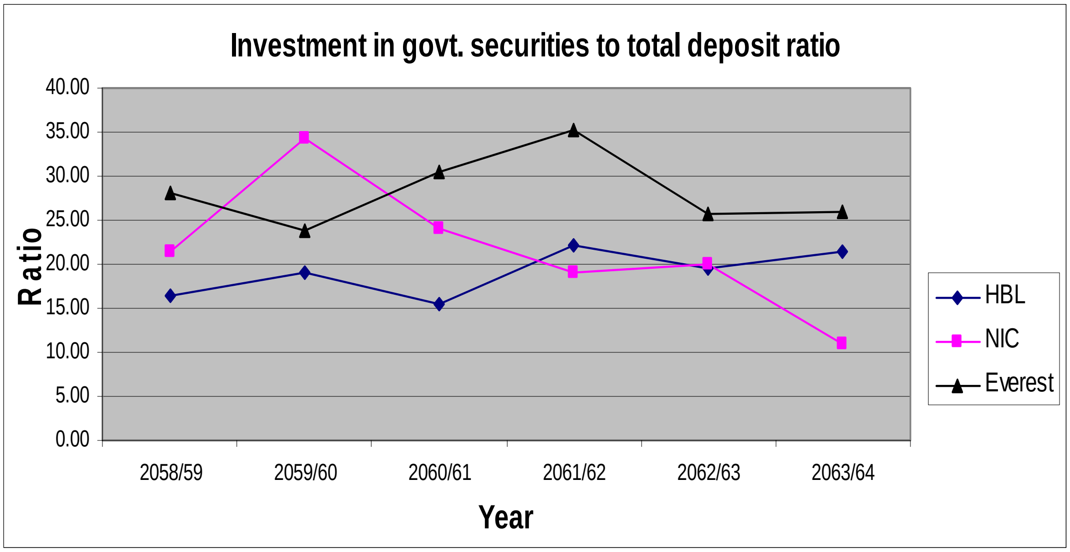
The above table illustrates the ratio between investment in government securities and the total deposit for the period of six years through 2058/59-2063/64. The investment in government securities to total deposit ratio of Himalayan bank is 16.37 percent in 2058/59, which increased to 19.04 percent in 2059/60. It is 15.59 percent in 2060/61, a fall of 3.45 percent from the previous year. In the fourth year of observation, the ratio increased to 22.04 percent. In 2062/63, the ratio is 19.42 percent and in the last year of observation, the ratio is 21.48 percent.

The investment in government security to total deposit ratio of NIC Bank is 21.50 percent in 2058/59. The ratio is 34.20 percent in 2059/60, a good increment of 12.7 percent from the previous year. But the ratio decreased to 24 percent and 19.14 percent in the following year of 2060/61 and 2061/62 respectively. The ratio increased slightly in 2062/63 at 20.04 percent. In the last year, the ratio again declined to 10.97 percent.

The investment in government security to total deposit ratio of Everest Bank is 28.15 percent in 2058/59. The ratio decreased to 23.89 percent in 2059/60. The ratio again increased to 30.59 percent and 35.14 percent in 2060/60 and 2061/62 respectively. There is again a downfall in the ratio in the following two year at 25.71 percent and 25.87 percent respectively.

On an average, the investment in government securities to total deposit ratio of Everest Bank is the highest with an average ratio of 28.22 percent followed by NIC Bank and then Himalayan Bank with an average ratio of 21.64 percent and 18.99 percent respectively. So all the three banks have invested adequate amount of their deposit in government securities which is considered to be the second line of defense for the financial institutions as it can be liquidated easily and it also generates some earning for the financial institutions.

Fig. 4.43



As can be witnessed from the above diagram, the investment in government securities to total deposit ratio of Himalayan Bank is in fluctuating trend with the ratio rising and falling in each consecutive year. The ratio is the highest in 2061/62 at 22.04 percent and it is the lowest in 2060/61 at 15.59 percent.

The investment in government securities to total deposit ratio of NIC Bank is also fluctuating with the ratio increasing in the second year compared to the base year, and then decreasing in the third and fourth year. The ratio increased slightly in the fifth year and again took a downturn in the sixth year. The ratio is the highest in 2059/60 at 34.20 percent and the lowest in 2063/64 at 10.97 percent.

The investment in government securities to total deposit ratio of Everest Bank is also in fluctuating trend. The ratio declined in the second and fifth year and increased in the third, fourth, and sixth year. The ratio is the highest in 2061/62 at 35.14 percent and the lowest in 2059/60 at 23.89 percent.

Table 4.44
Investment in Govt. securities to total deposit ratio of the three finance companies

(Rs. In Million)

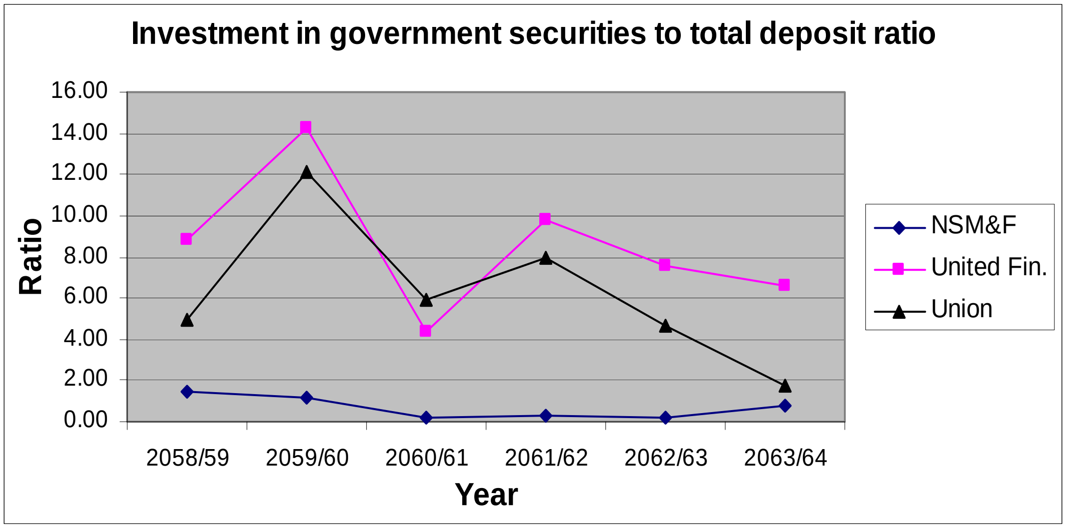
Year/Fin. Com.	NSM&F	United Finance	Union Finance
	2058/2059		
Inv. In Govt. Sec.	9.12	16	15
Total Deposit	609.14	182.28	303.45
Ratios	1.50	8.78	4.94
	2059/2060		
Inv. In Govt. Sec.	8.02	23.50	45.83

Total Deposit	716.36	164.6	378.85
Ratios	1.12	14.28	12.10
2060/2061			
Inv. In Govt. Sec.	2.41	12.50	30.83
Total Deposit	1007.83	286.78	518.78
Ratios	0.24	4.36	5.94
2061/2062			
Inv. In Govt. Sec.	3.90	32.50	42.65
Total Deposit	1166.98	332.65	538.74
Ratios	0.33	9.77	7.92
2062/2063			
Inv. In Govt. Sec.	2.08	32.5	27.65
Total Deposit	1310.91	427.78	594.52
Ratios	0.16	7.60	4.65
2063/2064			
Inv. In Govt. Sec.	11.68	32.5	11.47
Total Deposit	1563.87	494.26	670.40
Ratios	0.75	6.58	1.71
Average Ratio	0.68	8.56	6.21

As can be witnessed from the above table, the investment in government securities to total deposit ratio for Nepal Share Market and Finance Ltd. ranges between 0.16 percent and 1.50 percent; that of United Finance ranges between 4.36 percent and 14.28 percent; while that of Union Finance ranges between 1.71 percent and 12.10 percent.

On an average, investment in government securities to total deposit ratio or Statutory Reserve ratio is the highest for United Finance with an average ratio of 8.56 percent followed by Union Finance with an average ratio of 6.21 percent and then by Nepal Share Market and Finance Ltd. with an average ratio of 0.68 percent. From the above table, it can be seen that NSM&F has maintained very low ratio of investment in government securities to total deposit as compared to other finance companies. If this ratio is only to be taken into consideration, NSM&F is facing a liquidity risk but since it has good cash and bank balance to total deposit ratio there is a less probability of facing a liquidity crunch. But still, it is better for the NSM&F to maintain adequate investment in government securities as it can be liquidated easily and yields earning as well.

Fig. 4.45



As can be witnessed from the above figure, the investment in government securities to total deposit ratio is in declining trend though the ratio increased in 2061/62 and 2063/64 compared to their preceding years but the increment is negligible. The ratio is the highest in 2058/59 at mere 1.50 percent and the lowest in 2062/63 at 0.16 percent. As investment in government securities is considered a very safe and good utilization of fund, NSM&F should think of increasing its investment in government securities.

The investment in government securities to total deposit ratio of United Finance is in fluctuating trend. The ratio showed an upward movement in 2059/60 and 2061/62. The ratio is the highest in 2059/60 and lowest in 2060/61.

The investment in government securities to total deposit ratio of Union Finance is in fluctuating trend. Compared to the base year, the ratio increased in the second and fourth year, and decreased in third, fifth and sixth years. The ratio was the highest in 2059/60 at 12.10 percent and lowest in 2063/64 at 1.71 percent.

4.5. Activity ratio:

Activity ratio is also called asset management ratio. They measure how efficiently the assets are employed by the company. The following ratios are used to evaluate the asset management quality of financial institution.

4.5.1. Performing Assets to Total Assets:

Performing assets for the purpose include those assets, which have been invested in loans and advances, investment, and money at call. Higher ratio indicates the higher utilization of resources in relation to the total assets and yields a higher return for the financial institutions.

Performing Assets to Total Assets Ratio is calculated by dividing performing assets by total assets.

$$\text{Performing Assets to Total Assets Ratio} = \frac{\text{Performing Assets}}{\text{Total Assets}}$$

Table 4.46
Performing assets to total assets ratio of the three commercial banks

(Rs. In Million)

Year/Banks	HBL	NIC	Everest Bank
2058/2059			
Per. Assets	18423.18	3079.62	5727.65
Total Assets	20672.43	3768.65	6616.9
Ratios	89.12	81.72	86.56
2059/2060			
Per. Assets	20327.38	3602.69	6562.44
Total Assets	23355.22	4037.52	8052.21
Ratios	87.04	89.23	81.50
2060/2061			
Per. Assets	21612.87	5451.53	8607.23
Total Assets	24762.03	5930.07	9608.57
Ratios	87.28	91.93	89.58
2061/2062			
Per. Assets	24557.95	6374.49	10317.60
Total Assets	27418.16	7508.07	11632.51
Ratios	89.57	84.90	88.70
2062/2063			
Per. Assets	26536.87	9489.39	14068.78
Total Assets	29460.39	10383.60	15959.29
Ratios	90.08	91.39	88.15
2063/2064			
Per. Assets	30531.01	10670.89	18648.40
Total Assets	33519.14	11678.83	21432.57
Ratios	91.09	91.37	87.01
Average Ratio	89.03	88.42	86.92

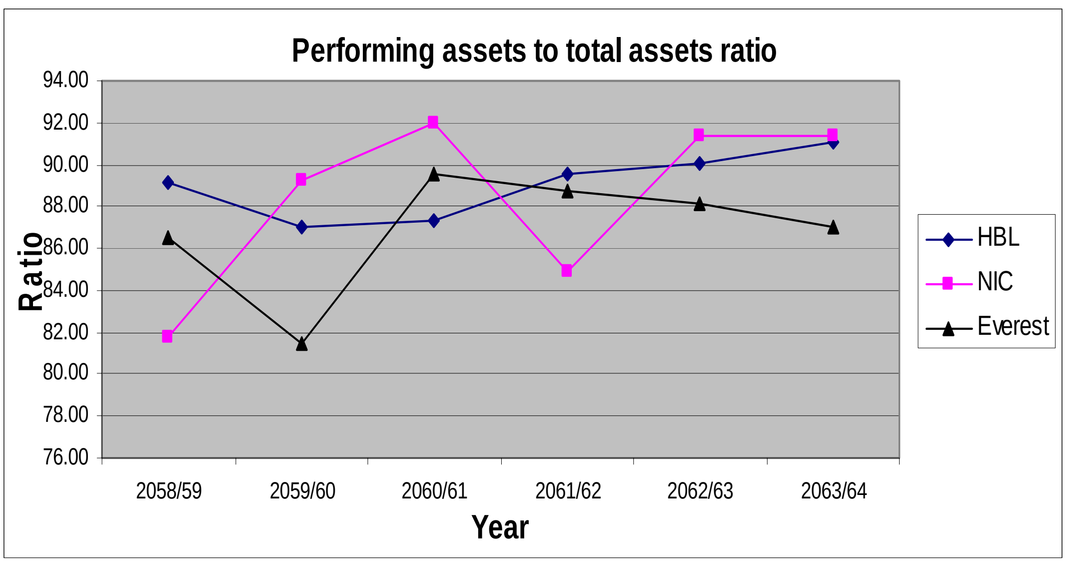
The above table illustrates the ratio between the performing assets and total assets for the period of six years through 2058/59-2063/64. The performing to total assets ratio of Himalayan Bank is 89.12 percent in 2058/59, 87.04 percent in 2059/60, and 87.28 percent in 2060/61. The ratio increased to 89.57 percent in 2061/62, 90.08 percent, and to 91.09 percent in 2062/63 and 2063/64 respectively.

The performing to total assets ratio of NIC Bank is 81.72 percent in 2058/59. The ratio is 89.23 percent, an increment by 7.51 percent compared to the previous year. The ratio is 91.93 percent in 2060/61, which decreased to 84.90 percent in 2061/62. The ratio again increased to 91.39 and 91.37 percent in 2062/63 and 2063/64 respectively.

The performing to total assets ratio of Everest Bank is 86.56 percent in 2058/59. The ratio decreased to 81.50 percent in 2059/60 and again increased to 89.58 percent in 2060/61. The ratio is 88.70 percent, 88.15 percent, and 87.01 percent in 2061/62, 2062/63, and 2063/64 respectively. On an average, the performing to total assets ratio of Everest Bank was 85.98 percent.

On an average, the performing to total assets ratio of Himalayan Bank is the highest with an average ratio of 89.03 percent followed by NIC Bank with an average ratio of 88.42 percent, and then Everest Bank with an average ratio of 86.92 percent. Since the ratio is the highest for the Himalayan Bank, we can say that Himalayan Bank has better utilized its assets, though the difference is very low compared to the other banks. Therefore, we can say that all the three banks have utilized their assets in a better way.

Fig. 4.46



As can be witnessed from the above table, the performing to total assets ratio of Himalayan Bank is in increasing trend except for the second year of observation where it decreased. The ratio is the highest in 2063/64 at 91.09 and the lowest in 2059/60 at 87.04 percent.

The performing to total assets ratio of NIC Bank was in fluctuating trend. Compared to the first year of observation, the ratio increased in the second and third year, and then decreased in the fourth year. The ratio again increased in the fifth year and then again decreased in the sixth year. The ratio is the highest in the year 2060/61 at 91.93 percent and lowest in 2058/59 at 81.72 percent.

The performing to total assets ratio of Everest Bank is in the declining trend when we look at the ratio for the last three years. The ratio decreased in the second year compared to the first year and then increased in the second year. The ratio is the highest in 2060/61 at 89.58 percent and lowest in 2059/60 at 81.50 percent.

Table 4.47
Performing assets to total assets ratio of the three finance companies

(Rs. In Million)

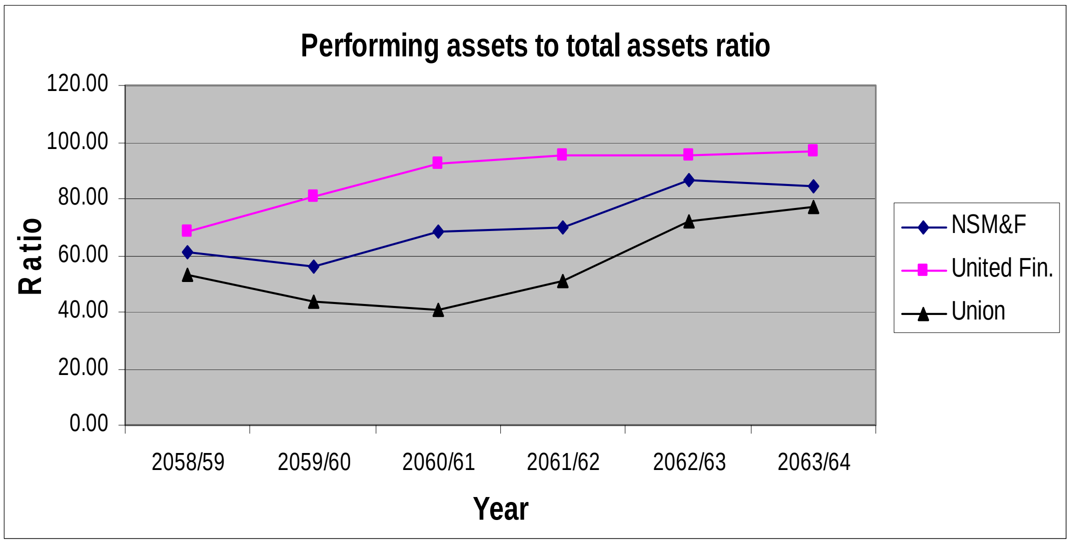
Year/Fin. Com.	NSM&F	United Finance	Union Finance
2058/2059			
Per. Assets	468.33	160.30	209.13
Total Assets	768.36	234.49	392.73
Ratios	60.95	68.36	53.25
2059/2060			
Per. Assets	508.14	208.83	212.92
Total Assets	908928	258.71	487.35
Ratios	55.91	80.72	43.69
2060/2061			
Per. Assets	811.72	355.72	258.10
Total Assets	1192.03	385.1	630.78
Ratios	68.10	92.37	40.92
2061/2062			
Per. Assets	964.8	575.26	329.07
Total Assets	1375.95	601.95	648.70
Ratios	70.12	95.57	50.73
2062/2063			
Per. Assets	1344.63	612.97	513.17
Total Assets	1553.04	644.78	714.86
Ratios	86.58	95.07	71.79
2063/2064			
Per. Assets	1607.91	846.07	604.43
Total Assets	1907.1	873.93	780.76
Ratios	84.31	96.81	77.42
Average Ratio	70.99	88.15	56.30

As can be witnessed from the above table, the performing assets to total assets of Nepal Share Market and Finance Ltd. ranges between 55.91 percent and 86.58 percent; that of United Finance ranges between 68.36

percent and 96.81 percent; while that of Union Finance ranges between 40.92 percent and 77.42 percent.

On an average, the performing assets to total assets ratio is the highest for United Finance with an average ratio of 88.15 percent, followed by Nepal Share Market and Finance Ltd. with an average ratio of 70.99 percent, and then by Union Finance with an average ratio of 56.30 percent. So Union Finance should look for new ways of productively utilizing their resources so that it could generate sufficient fund to give higher interest to the depositor and dividend to the shareholders to whom these finance companies are liable.

Fig. 4.47



As can be witnessed from the above diagram, the performing to total assets ratio of NSM&F is slightly fluctuating. The ratio decreased slightly in the second year, increased in the third, fourth and fifth year, and then decreased in the following year. The ratio is the highest in 2062/63 and lowest in 2059/60.

The performing to total assets ratio of United Finance is in the increasing trend. The ratio increased throughout the observation period except for the year 2062/63 where the ratio slightly decreased compared to the preceding year. The ratio is the highest in 2063/64 and lowest in 2058/59.

The performing to total assets ratio of Union Finance declined in the second and third year compared to the first year and then took an upward turn in the preceding year. The ratio is the highest in 2063/64 and lowest in 2060/61.

4.5.2. Loans to Deposits Ratio:

This ratio is defined as all normal risk assets (discounts, loans, and advances) to core deposits (including demand, time, and savings deposits but excluding short-term money market or long-term borrowings). This measured the extent to which a bank is able to mobilize deposits from the public to support its lending operations, and the extent to which it is able to lend these deposits. A higher ratio has traditionally been associated with a greater element of risk, since this can indicate lower liquidity (and vulnerability to institutional lenders), adverse economic conditions, or the consequences of a deposit run-off. A low level may indicate inadequate lending opportunities or unwillingness to accept the available lending risks. The “appropriate” level varies by country, although 70-80 percent could represent a reasonable balance between liquidity (which argues for a low ratio) and earnings (which are typically better with higher ratio). If the entire financial system shows level in excess of 100 percent, then there may be structural problems in the industry, for example through a central bank refinancing of trade or preferential lending. Loans that are unrecoverable should be covered by a corresponding contra-asset. This should take the form of a loan loss provision that has been deducted from past earnings and, thus, equity reserves. So it is important that the “loans” used in this ratio should be net of loan loss provisions.

Loan to deposit ratio is calculated by dividing loan by deposits.

$$\textbf{Loan to Deposit Ratio} = \frac{\textbf{Loan and advances to customers}}{\textbf{Customer deposits}}$$

Table 4.48
Loans and advances to total deposit ratio of three commercial banks

(Rs. In Million)

Year/Banks	HBL	NIC	Everest Bank
2058/2059			
Loan Advances	9557.14	2368.85	4044.23
Total Deposits	18619.38	3165.31	5466.61
Ratios	51.33	74.84	73.98
2059/2060			
Loan Advances	10844.6	2562.86	5049.58
Total Deposits	21007.38	3144.32	6694.96
Ratios	51.62	81.51	75.42
2060/2061			
Loan Advances	12919.63	3743.09	6095.84
Total Deposits	22010.33	5146.48	8063.90
Ratios	58.70	72.73	75.59
2061/2062			
Loan Advances	13451.17	4909.36	7900.09
Total Deposits	24814.01	6241.38	10097.69

Ratios	54.21	78.66	78.24
2062/2063			
Loan Advances	15761.98	6902.12	10136.25
Total Deposit	26490.85	8765.95	13802.45
Ratios	59.50	78.74	73.44
2063/2064			
Loan Advances	17793.72	9128.65	14082.69
Total Deposit	30048.42	10068.23	18186.25
Ratios	59.22	90.67	77.44
Average Ratio	55.76	79.52	75.68

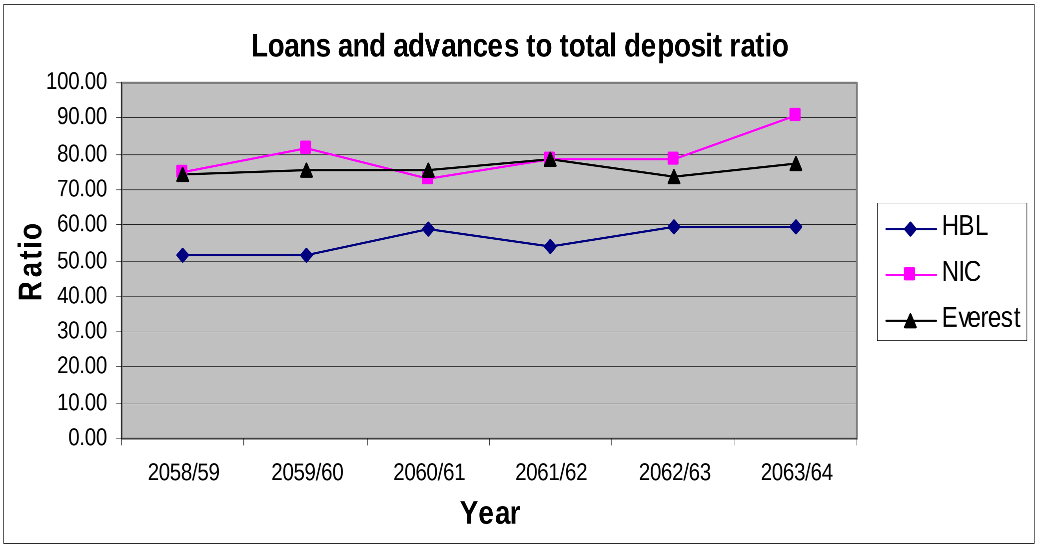
The above table illustrated the credit to deposit ratio of the three commercial banks over the period of six years through 2058/59-2063/64 based on 2058/59 as base year. The loans and advance to total deposit ratio of Himalayan Bank is 51.33 percent in 2058/59, which increased to 51.60 percent in 2059/60. It is 58.70 percent in 2060/6, 54.21 percent in 2061/62. The ratio further increased to 59.50 percent in 2062/63 and 59.22 percent in 2063/64.

The loans and advances to total deposit ratio of NIC Bank is 74.84 percent in 2058/59, and 81.51 percent in 2059/60. It is 72.73 percent in 2060/61, a fall of 8.78 percent compared to previous year while it again increased to 78.66 percent in 2061/62, an increment of 5.93 percent from the previous year. The ratio continued to increase in the following two year at 78.74 percent and 90.67 percent respectively.

The loans and advances to total deposit ratio of Everest Bank is 73.98 percent in 2058/59, 75.42 percent in 2059/60, 75.59 percent in 2060/61, and 78.27 percent in 2061/62. The ratio decreased to 73.44 percent in 2062/63 and again increased to 77.44 percent in 2063/64.

On an average, the credit to total deposit ratio of NIC Bank is the highest at 79.52 percent followed by Everest Bank at 75.68 percent and then by Himalayan Bank at 55.76 percent. Since, the ratio is below eighty percent for NIC Bank and Everest Bank; it can be considered that these two banks have a moderate lending policy. Himalayan bank, on the other hand, has a conservative lending policy by utilizing just over fifty-five percent of its deposit in advancing loans.

Fig. 4.48



As can be seen from the above diagram, the loans and advances to total deposit ratio of Himalayan Bank is slightly fluctuating. Based on 2058/59 as a base year, the ratio increased slightly in the second and third year, decreased in the fourth, and then again increased in the fifth year. The ratio is the highest in 2062/63 at 59.50 percent and the lowest in 2058/59 at 51.33 percent.

The loans and advances to total deposit ratio of NIC Bank is also in fluctuating trend but compared to Himalayan Bank, the trend is exactly opposite, i.e., in the year where the ratio has increased for the Himalayan Bank, the ratio has decreased for the NIC Bank and vice-versa. Compared to the first year, the ratio increased in the second, fourth, fifth, and sixth year. It decreased in the third year. The ratio is the highest at 90.67 percent in 2063/64 and the lowest in 2060/61 at 72.73 percent. This ratio was greater than that of other two banks in all year of observation except for the year 2060/61 where it was slightly lower than Everest bank. This means that NIC Bank is utilizing larger proportion of its deposit in loans and advances and following a slightly aggressive lending policy compared to other sample banks.

The loans and advance to total deposit ratio of Everest Bank is in increasing trend except for the year 2062/63 where it decreased slightly. The ratio is the highest in 2061/62 at 78.24 percent and the lowest in 2062/63 at 73.44 percent. This ratio of Everest Bank was greater than that of Himalayan Bank but lower than that of NIC Bank. Nevertheless, since the average ratio is around 75 percent, it can be considered as an appropriate level of lending.

Table 4.49
Loans and advances to total deposit ratio of the three finance companies

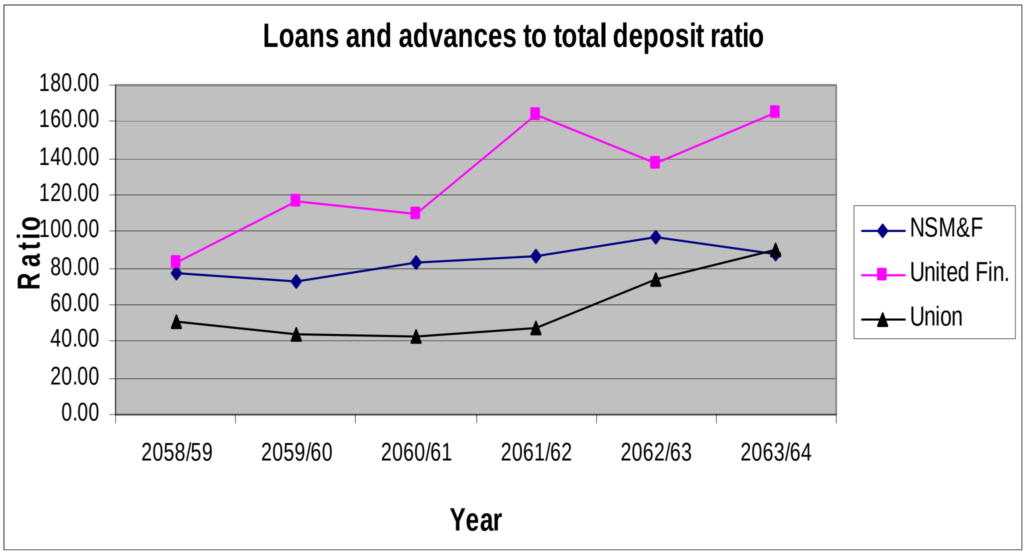
(Rs. In Million)

Year/Fin. Com.	NSM&F	United Finance	Union Finance
2058/2059			
Loan Advances	468.14	151.27	154.94
Total Deposits	609.14	182.28	303.45
Ratios	76.85	82.99	51.06
2059/2060			
Loan Advances	524.03	192.51	166.4
Total Deposits	716.36	164.6	378.85
Ratios	73.15	116.96	43.92
2060/2061			
Loan Advances	837.06	314.5	223.07
Total Deposits	1007.83	286.78	518.78
Ratios	83.06	109.67	43.00
2061/2062			
Loan Advances	1016.12	543.34	256.45
Total Deposits	1166.98	332.65	538.74
Ratios	87.07	163.34	47.60
2062/2063			
Loan Advances	1274.03	588.21	436.19
Total Deposits	1310.91	427.78	594.52
Ratios	97.19	137.50	73.37
2063/2064			
Loan Advances	1368.69	815.1	599.55
Total Deposits	1563.87	494.26	670.40
Ratios	87.52	165.09	89.43
Average Ratio	84.14	129.26	58.06

The above illustrates the loans and advances to total deposit ratio popularly known as CD ratio of the three finance companies through the period of 2058/59-2063/64 based on 2058/59 as a base year. The ratio for Nepal Share Market and Finance Ltd. ranges between 73.15 percent and 97.19 percent. The ratio for United Finance ranges between 82.99 percent and 165.09 percent while that Union Finance, the ratio ranges between 43 percent and 89.43 percent.

On an average, the loans and advances to total deposit ratio is the highest for United Finance with an average ratio of 129.26 percent followed by Nepal Share Market and Finance Ltd. with an average ratio of 84.14 percent and then by Union Finance with an average ratio of 58.06 percent. From the above data, we can conclude that United Finance has adopted a very aggressive lending by advancing loans more that the deposit it has collected. Though by advancing more loans, the company might earn more interest but at the same time, it could be risky if the defaulter rate is high. So the company should tighten up its lending policy. On the contrary, Union Finance has adopted a conservative lending policy by lending only 58 percent of its deposit. While Nepal Share Market and Finance Ltd. has adopted moderate lending policy, which can be considered appropriate. 71.30 percent to 83.54 percent in 2060/61. It again decreased slightly to 82.52 percent in the year 2061/62. On an average, CD ratio of Ace Finance is 81.43 percent over the period of five years. This ratio can be considered appropriate and it shows that Ace Finance has adopted moderate lending policy.

Fig. 4.49



As can be seen from the above diagram, the loans and advances to total deposit ratio of Nepal Share Market and Finance Ltd. is in fluctuating trend. Compared to the base year, the ratio decreased in the second year, increased in the three consecutive years and then again declined in the final year. The ratio is the highest in the 2062/63 and lowest 2059/60.

The loans and advances to total deposit ratio of United Finance is also in fluctuating trend. Compared to the base year, the ratio increased in the second fourth and sixth year. The ratio showed a declining trend in third and fifth year. The ratio is the highest in 2063/64 and lowest in 2058/59.

The loans and advances to total deposit ratio of Union Finance showed a declining trend for the second and third year after which it increased. The ratio is the highest in 2063/64 and lowest in 2060/61.

4.5.3. Performing Loans to Total Loans and Advances Ratio:
This ratio determines the proportion of performing loans in total loan portfolio. As per NRB directives, performing loans include all loans and

advances the principal of which are not past due or past due for a period up to three months. Higher ratio implies better utilization of fund.

This ratio is calculated by dividing performing loans by total loans and advances.

$$\textbf{Performing loan to Total Loans and Advances Ratio} = \frac{\textbf{Performing Loans}}{\textbf{Total Loans and Advances}}$$

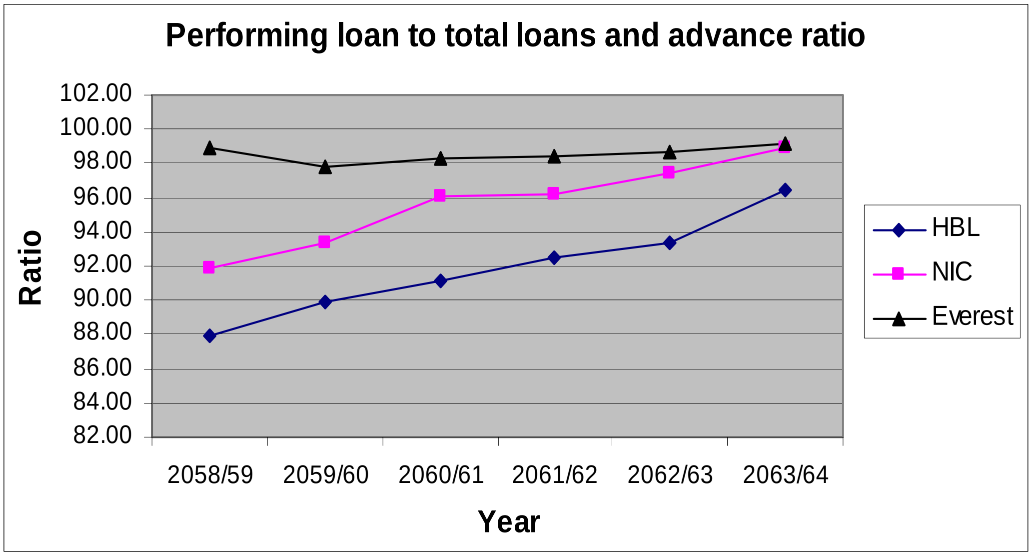
Table 4.50
Performing loan to total loans and advance ratio of the three commercial banks
(Rs. In Million)

Year/Banks	HBL	NIC	Everest Bank
2058/2059			
Performing Loans	8401.1	2175.6	4001.84
Loans & Adv.	9557.14	2368.85	4044.23
Ratios	87.90	91.84	98.95
2059/2060			
Performing Loans	9751.76	2392.17	4938.39
Loans & Adv.	10844.6	2562.86	5049.58
Ratios	89.92	93.34	97.80
2060/2061			
Performing Loans	11772.17	3596.5	5991.09
Loans & Adv.	12919.63	3743.09	6095.84
Ratios	91.12	96.08	98.28
2061/2062			
Performing Loans	12449.82	4723.92	7771.28
Loans & Adv.	13459.17	4909.36	7900.09
Ratios	92.50	96.22	98.37
2062/2063			
Performing Loans	14721.22	6722.57	10007.02
Loans & Adv.	15761.98	6902.12	10136.25
Ratios	93.40	97.40	98.73
2063/2064			
Performing Loans	17152.11	9027.51	13969.51
Loans & Adv.	17793.72	9128.65	14082.69
Ratios	96.39	98.89	99.20
Average Ratio	91.87	95.63	98.55

From the above table, we can see that the performing loan to total loans and advance of Himalayan Bank ranges between 87.90 percent and 96.39 percent; that of NIC Bank ranges between 91.84 percent and 98.89 percent; while that of Everest Bank ranges between 97.80 percent and 99.20 percent.

On an average, performing loan to total loans and advance ratio is the highest for Everest Bank with an average ratio of 98.55 percent followed by NIC Bank with an average ratio of 95.63 percent and then by Himalayan Bank with an average ratio of 91.87 percent.

Fig. 4.50



From the above diagram we can see that performing loan to total loans and advance ratio for Himalayan Bank is in increasing trend. The ratio increased throughout the observation period. The ratio is the highest in 2063/64 and lowest in 2058/59.

The ratio for NIC Bank is also in increasing trend. The ratio is the highest in 2063/64 and lowest in 2058/59.

Similarly, the ratio for Everest Bank is somewhat stable or uniform except for the second year where it declined compared to the preceding year. The ratio is the highest in 2063/64 and lowest in 2059/60.

Table 4.51
Performing loan to total loans and advance ratio of the three finance companies

(Rs. In Million)

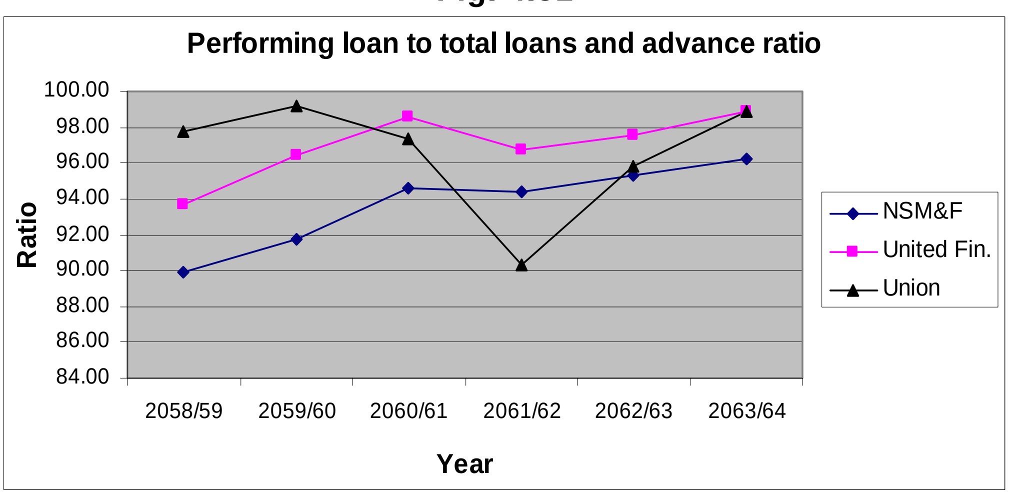
Year/Fin. Com.	NSM&F	United Finance	Union Finance
2058/2059			
Performing Loan	420.98	141.75	151.41
Loans & Adv.	468.14	151.27	154.94
Ratios	89.93	93.71	97.72
2059/2060			
Performing Loan	480.52	185.56	308.23
Loans & Adv.	524.03	192.51	310.75
Ratios	91.70	96.39	99.19

2060/2061			
Performing Loan	791.43	309.96	391.49
Loans & Adv.	837.06	314.5	402.23
Ratios	94.55	98.56	97.33
2061/2062			
Performing Loan	959.51	525.74	231.69
Loans & Adv.	1016.12	543.34	256.45
Ratios	94.43	96.76	90.35
2062/2063			
Performing Loan	1214.25	573.65	417.77
Loans & Adv.	1274.03	588.21	436.19
Ratios	95.31	97.53	95.78
2063/2064			
Performing Loan	1316.48	807.04	592.87
Loans & Adv.	1368.69	815.97	599.55
Ratios	96.19	98.91	98.89
Average Ratio	93.68	96.97	96.54

The above table illustrates the performing loan to total loans and advance ratio of the three finance companies for the six-observation period through 2058/59-2063/64. The performing loan to total loans and advance ratio of Nepal Share Market and Finance Ltd. ranges between 89.93 percent and 96.19 percent; that of United Finance ranges between 93.71 percent and 98.91 percent; while that of Union Finance ranges between 90.35 percent and 99.19 percent.

On an average, the performing loan to total loans and advance ratio is highest for United Finance with an average ratio of 96.97 percent followed by Union Finance with an average ratio of 96.54 percent and then by Nepal Share Market and Finance Ltd

Fig. 4.51



From the above figure we can see that the performing loan to total loans and advance ratio of Nepal Share Market and Finance Ltd. is in increasing trend except for the year 2061/62 where it declined slightly compared to preceding year. The ratio is the highest in 2063/64 and lowest in 2058/59.

The ratio for United finance shows a similar trend as that of Nepal Share Market and Finance Ltd. The ratio is in increasing trend except for the year 2061/62 where it declined compared to the preceding year. The ratio is the highest in 2063/64 and lowest in 2058/59.

The ratio for Union finance is in fluctuating trend. The ratio increased in the second year, compared to the first year, declined consecutively in the next two year and again increased in the last two years. The ratio is the highest in 2059/60 and lowest in 2061/62.

4.5.4. Non-Performing Loans to Total Loans and Advances Ratio:
This ratio determines the proportion of non-performing loans in the total loan portfolio. As per NRB directives, the loans falling under the category of substandard, doubtful and loss are regarded as non-performing loan. Lower ratio implies the better risk assessment and robust credit management system in place and vice versa. As per international standard, the NPL ratio is limited to 3%; while in the Nepalese context, the acceptable NPL ratio is 10% to the maximum.

This ratio is calculated by dividing non-performing loans by total loans and advances.

$$\text{NPL to Total Loans and Advances Ratio} = \frac{\text{Non Performing Loans}}{\text{Total Loans and Advances}}$$

Table 4.52
NPL to total loans and advances ratio of the three commercial banks

(Rs. In Million)

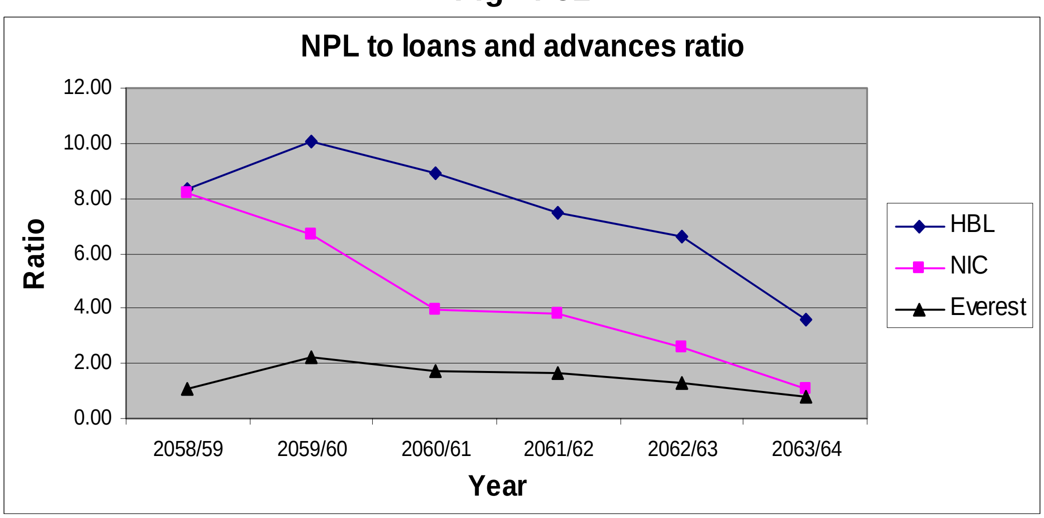
Year/Banks	HBL	NIC	Everest Bank
2058/2059			
NPL	797.61	193.25	42.39
Loans & Adv.	9557.14	2368.85	4044.23
Ratios	8.35	8.16	1.05
2059/2060			
NPL	1092.84	170.69	111.19
Loans & Adv.	10844.6	2562.86	5049.58
Ratios	10.08	6.66	2.20
2060/2061			
NPL	1147.46	146.59	104.75
Loans & Adv.	12919.63	3743.09	6095.84
Ratios	8.88	3.92	1.72

2061/2062			
NPL	1001.35	185.43	128.81
Loans & Adv.	13459.17	4909.36	7900.09
Ratios	7.44	3.78	1.63
2062/2063			
NPL	1040.76	179.55	129
Loans & Adv.	15761.98	6902.12	10136.25
Ratios	6.60	2.60	1.27
2063/2064			
NPL	641.62	101.14	113.18
Loans & Adv.	17793.72	9128.65	14082.69
Ratios	3.61	1.11	0.80
Average Ratio	7.49	4.37	1.45

The above table shows the non-performing loan to total loan and advances ratio of the three commercial banks through 2058/59-2063/64 based on 2058/59 as a base year. The ratio of Himalayan Bank ranges between 3.61 percent and 10.08 percent; that of NIC Bank ranges between 1.11 percent and 8.16 percent; and that of Everest Bank ranges between 0.80 percent and 2.20 percent.

On an average, non-performing loan to total loan and advances ratio is the highest for Himalayan Bank with an average ratio of 7.49 percent followed by NIC Bank with an average ratio of 4.37 percent, and then by Everest Bank with an average ratio of 1.45 percent. According to the international standard, non-performing loan should not be more than three percent. So Everest Bank has the highest proportion of good loan, while the non-performing loan of NIC Bank and Himalayan Bank is more than three percent. Therefore these two banks should control the flow of non-performing loan.

Fig. 4.52



As can be seen from the above figure, the non-performing loan to total loans and advances ratio of Himalayan Bank is in decreasing trend. Though the ratio increased in the second year, compared to the first year, the ratio then declined continuously in the remaining consecutive years, which is a very good sign for the bank. The bank still needs to do a hard work to bring down the ratio to the minimum possible. The ratio is the highest in 2059/60 and lowest in 2063/64.

The non-performing loan to total loans and advances of NIC Bank is also in declining trend. The ratio declined continuously throughout the observation period. The ratio is the highest in 2058/59 and lowest in 2063/64.

The non-performing loan to total loans and advances of Everest Bank is also in declining trend. The ratio did increase in the second year, compared to the base year, but after that the ratio declined in the remaining consecutive years. The ratio is the highest in 2059/60 and lowest in 2063/64.

Table 4.53
NPL to total loans and advances ratio of the three finance companies

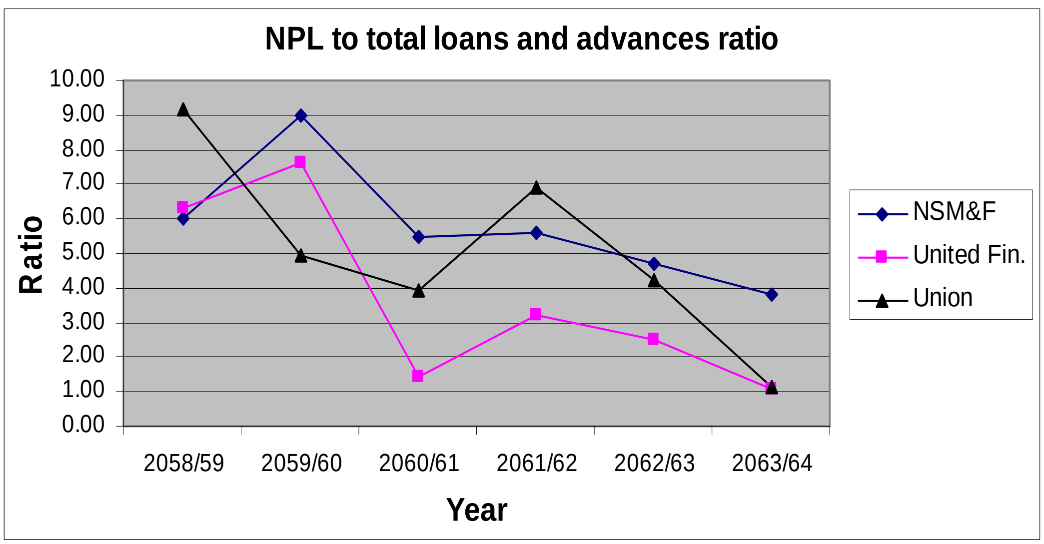
(Rs. In Million)

Year/Fin. Com.	NSM&F	United Finance	Union Finance
2058/2059			
NPL	28.04	9.52	14.18
Loans & Adv.	383.03	151.27	154.94
Ratios	7.32	6.29	9.15
2059/2060			
NPL	47.16	14.71	15.31
Loans & Adv.	468140	192.51	310.75
Ratios	10.07	7.64	4.93
2060/2061			
NPL	45.63	4.54	15.85
Loans & Adv.	837.06	314.5	402.23
Ratios	5.45	1.44	3.94
2061/2062			
NPL	56.61	17.61	17.76
Loans & Adv.	1016.12	543.34	256.45
Ratios	5.57	3.24	6.92
2062/2063			
NPL	59.79	14.55	18.42
Loans & Adv.	1274.03	588.21	436190
Ratios	4.69	2.47	4.22
2063/2064			
NPL	52.21	8.93	6.68
Loans & Adv.	1368.69	815.97	599.55
Ratios	3.81	1.09	1.11
Average Ratio	6.15	3.70	5.05

The above table illustrates the non-performing loan to total loan ratio of the three finance companies over the period of six years through 2058/59-2063/64. From the above table, we can see that the ratio for Nepal Share Market and Finance Ltd. ranges between 3.81 percent and 10.07 percent; that of United Finance ranges between 1.09 percent and 7.64 percent; while that of Union Finance ranges between 1.11 percent and 9.15 percent.

On an average, non-performing loan to total loans and advance ratio of Nepal Share Market and Finance Ltd. is the highest with a ratio of 6.15 percent followed by Union Finance with a ratio of 5.05 percent. The proportion of non-performing loan in the total loans and advance for United Finance is 3.70 percent. Since, lower proportion of non-performing loan is better, all the three finance companies should be careful while granting loans and advance.

Fig. 4.53



The non performing loan to total loans and advance ratio of Nepal Share Market and Finance Ltd. is in declining trend except for the second year of observation where it increased compared to the first year. The ratio is the highest in 2059/60 and lowest in 2063/64.

The ratio for United Finance is in fluctuating trend. The ratio inclined in two years, that is, in 2059/60 and 2061/62 compared to their preceding years. The ratio is the highest in 2059/60 and lowest in 2063/64.

The ratio for Union Finance is in declining trend except for the year 2061/62 where it increased. The ratio is the highest in 2058/59 and lowest in 2063/64. From the above table, we can also see that non-performing loan to total loans and advance of all the three finance companies is in declining trend in the latter years, which is a good sign.

4.6. Capital Adequacy Ratio:

The inception of every business starts with the requirement of fund commonly known as capital. Normally, the capital structure consists of equity and debt mix. Equity refers to the fund contributed by the promoters/shareholders whereas debt is temporary way of raising funds without further dilution of ownership. This is mainly done by issuing bonds and debentures of various maturities.

To ensure adequate capital in the banking system, NRB has prescribed the Capital Adequacy Ratio parameters on which the capital of the banks need to be maintained as a percentage of its risk weighted assets such as loans it has provided and the securities it holds. Both capital and assets should be fairly stated with the appropriate loan loss provisions and intangibles having been deducted. This parameter indicates whether a particular financial institution has enough capital to absorb unexpected losses. Thus, it indicates the institution's resilience to economic difficulties. This ratio is viewed by institution regulators and credit analysts as one of the key indicators of an institution's financial condition. The full application of capital adequacy involves weighting each category of assets for risks, eliminating intangibles and receivables from assets and capital, and adding contingent liabilities in risk weighted assets.

Unless a higher minimum ratio has been set by Nepal Rastra Bank for an individual bank through a review process, every bank shall maintain at all times the capital requirement set out below:

- A Tier 1 (core) capital of not less than 6 percent of total risk weighted exposure.
- A total capital fund of not less than 10 percent of its total risk weighted exposure.

4.6.1. Core capital fund to risk weighted assets ratio:

Core capital or Tier 1 capital includes the following elements:

- Paid up capital
- Irredeemable non-cumulative preference shares which are fully paid up and with the capacity to absorb unexpected losses. These instruments should not contain any clauses whatsoever, which permit redemption b the holder or issuer upon the fulfillment of certain condition. Banks should obtain prior approval of NRB for this kind of instruments to qualify as a component of core capital.
- Share premium
- Proposed bonus equity share
- Statutory general reserve
- Retained earnings available for distribution to shareholders

- Un-audited current year cumulative profit, after all provisions including staff bonus and taxes. Where such provisions are not made, this amount shall not qualify as Tier 1 capital.
- Capital redemption reserves created in lieu of redeemable instruments.
- Capital adjustment reserves created in respect of increasing the capital base if the bank.
- Dividend equalization reserves
- Any other type of reserves notified by NRB from time to time for inclusion in Tier 1 capital.

Core capital to total risk weighted assets ratio is calculated by dividing core capital fund by risk weighted assets.

$$\textbf{Capital Adequacy Ratio} = \frac{\textbf{Core capital}}{\textbf{Risk weighted assets}}$$

Table 4.54
Core capital to total risk weighted assets ratio of the three commercial banks

(Rs. In Million)

Year/Banks	HBL	NIC	Everest Bank
2058/2059			
Core Capital Fund	834.55	523.4	516.64
RWA	12746.18	2822.33	4272.93
Ratios	6.55	18.54	12.09
2059/2060			
Core Capital Fund	1038.62	549.43	598.24
RWA	14681.45	3149.74	5707.03
Ratios	7.07	17.44	10.48
2060/2061			
Core Capital Fund	1297.39	616.78	663.27
RWA	16860.64	4772.64	6924.81
Ratios	7.69	12.92	9.58
2061/2062			
Core Capital Fund	1525.77	680.14	816.79
RWA	18321.72	5501.94	9195.59
Ratios	8.33	12.36	8.88
2062/2063			
Core Capital Fund	1721.94	761.13	927.55
RWA	19918.33	7380.37	11273.29
Ratios	8.65	10.31	8.23
2063/2064			
Core Capital Fund	2104.6	911.81	1171.13
RWA	21889.71	9565.96	14976.74
Ratios	9.61	9.53	7.82
Average Ratio	7.98	13.52	9.51

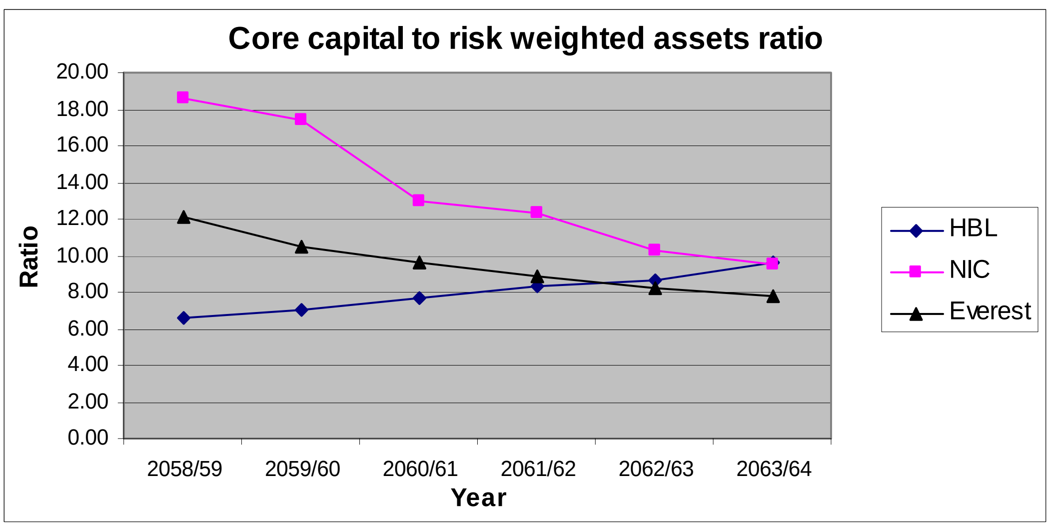
The above table illustrates the core capital to risk weighted assets ratio of the three commercial banks over the period of six years through 2058-59/2063/64 based on 2058/59 as a base year. The ratio for the Himalayan Bank is 6.55 percent in 2058/59, which gradually increased in the following and reached 9.61 percent in 2063/64.

The ratio for NIC Bank is 18.54 percent in 2058/59, which contrary to the Himalayan Bank decreased in the following year. The ratio is 12.36 in 2061/62 and it further decreased to 9.53 percent in 2063/64.

The ratio for Everest Bank is 12.09 percent, which decreased to 10.48 percent in 2029/60. The ratio subsequently decreased in the following years and reached 7.82 percent in the last year of observation.

On an average, the core capital to risk weighted assets ratio of NIC Bank is the highest among the three commercial banks with an average ratio of 13.52 percent followed by Everest Bank with an average ratio of 9.51 percent and then by Himalayan Bank with an average ratio of 7.98 percent. As mentioned earlier, it is better for the banks to maintain core capital not less than six percent of the total risk weighted assets. We hereby, can conclude that all the three banks have maintained adequate core capital, thereby indicating their capacity to absorb unexpected loss or risk.

Fig. 4.54



From the above figure, we can see that the core capital to total risk weighted assets ratio is in increasing trend. The ratio has increased continuously through 2058/59-2063/64. The ratio is the highest in 2063/64 at 9.61 percent and the lowest in 2058/59 at 6.55 percent.

The core capital to total risk weighted assets ratio of NIC Bank is in declining trend. The ratio declined continuously through 2058/59-2063/64.

The ratio is the highest in the first year of observation at 18.54 percent, which came all way down to 9.53 percent in 2063/64.

The core capital to total risk weighted assets ratio of Everest Bank is also in declining trend, declining continuously through 2058/59-2063/64. The ratio is the highest is 2058/59 at 12.09 percent and it is the lowest in 2063/64 at 7.82 percent.

We can also see that the ratio of NIC Bank has been above than that of the other two banks through out the observation period. The ratio of Everest Bank is above than that of Himalayan Bank for the first four years after which it declined below the ratio of Himalayan Bank.

Table 4.55
Core capital to total risk weighted assets ratio of the three finance companies

(Rs. In Million)

Year/Fin. Com.	NSM&F	United Finance	Union Finance
2058/2059			
Core Capital Fund			
RWA			
Ratios			
2059/2060			
Core Capital Fund			
RWA			
Ratios			
2060/2061			
Core Capital Fund		64076	
RWA		315252	
Ratios		20.33	
2061/2062			
Core Capital Fund	128255	67470	
RWA	1214533	562373	
Ratios	10.56	12.00	
2062/2063			
Core Capital Fund	178480	74701	55335
RWA	1445344	613305	635511
Ratios	12.35	12.18	8.71
2063/2064			
Core Capital Fund	213861	88902	68662
RWA	1705344	835093	736850
Ratios	12.54	10.65	9.32
Average Ratio	11.82	13.79	9.01

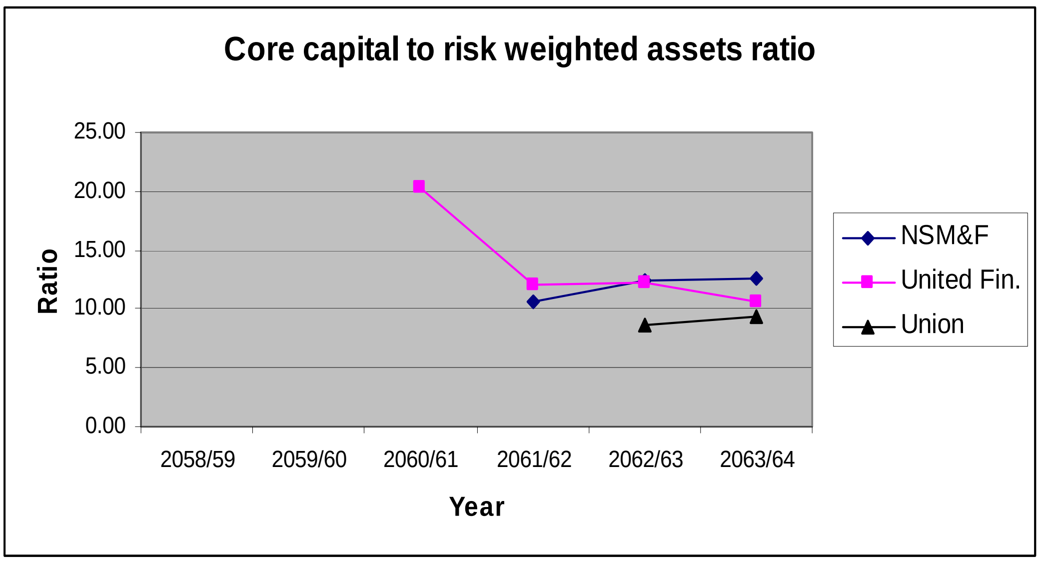
From the above table, we can see that the core capital to total risk weighted ratio of Nepal Share Market and Finance Ltd. is unavailable through 2058/59-2060-61. The ratio in 2061/62 is 10.56 percent, which increased to 12.35 percent in 2062/63 and 9.61 percent in 2063/64.

The core capital to total risk weighted assets ratio of United Finance is unavailable for the period of 2058/59-2059/60. The ratio for 2060/61 is 20.33 percent, which decreased to 12.00 percent in 2061/62. The ratio is 12.18 percent in 2062/63 and 10.65 percent in 2063/64.

The core capital to total risk weighted assets ratio of Union Finance is unavailable for the period of 2058/59-2061/62. The ratio is 8.71 percent in 2062/63, which increased to 9.32 percent.

On an average, the core capital to total risk weighted assets ratio is the highest for United Finance with an average ratio of 13.79 percent followed by Nepal Share Market and Finance Ltd. with an average ratio of 11.82 percent and then by Union Finance with an average ratio of 9.01 percent. Thus, from the shareholders' point of view, United Finance has the best capacity to absorb unexpected loss.

Fig. 4.55



From the above figure, we can see that the ratio for Nepal Share Market and Finance Ltd. is not available for the first three years of observation. In the later three years, the ratio is in increasing trend. The ratio for Union Finance is available only for the later four years and the ratio shows a declining trend. While the ratio for Union Finance is available only for later two years and the ratio is in increasing trend.

4.6.2. Total capital fund to risk weighted assets ratio or Capital adequacy ratio:

Total capital fund is the sum of Tier I capital, i.e., core capital and Tier II capital, i.e., supplementary capital. Tier II capital consists of general loan loss provisions, revaluation reserve, exchange equalization reserve, investments adjustment reserves, other reserves, redeemable preference share and subordinated term debt. Tier II capital is subject to certain limitation and restriction.

Capital adequacy ratio is calculated by dividing capital fund by risk-weighted assets.

$$\textbf{Capital Adequacy Ratio} = \frac{\textbf{Capital Fund}}{\textbf{Risk Weighted Assets}}$$

Table 4.56
Capital fund to total risk weighted assets ratio of the three commercial banks

(Rs. In Million)

Year/Banks	HBL	NIC	Everest Bank
2058/2059			
Capital Fund	1472.98	589.78	588
RWA	12746.18	2822.33	4272.93
Ratios	11.56	20.90	13.76
2059/2060			
Capital Fund	1604.21	594.51	684.16
RWA	14681.45	3149.74	5707.03
Ratios	10.93	18.87	11.99
2060/2061			
Capital Fund	1796.22	656.36	766.88
RWA	16860.64	4772.64	6924.81
Ratios	10.65	13.75	11.07
2061/2062			
Capital Fund	2017.06	730.99	1247.56
RWA	18321.72	5501.94	9195.59
Ratios	11.01	13.29	13.57
2062/2063			
Capital Fund	2242.84	1036.84	1391.34
RWA	19918.33	7380.37	11273.29
Ratios	11.26	14.05	12.34
2063/2064			
Capital Fund	2651.37	1208.61	1676.12
RWA	21889.71	9565.96	14976.74
Ratios	12.11	12.63	11.19
Average Ratio	11.25	15.58	12.32

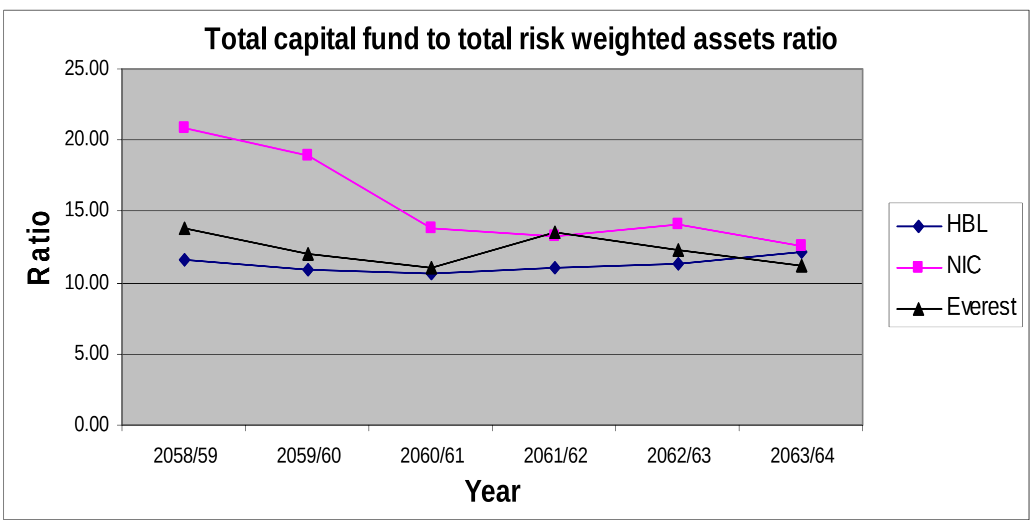
The above table shows the capital adequacy ratio of the three commercial banks for the period of six years through 2058/59-2063/64 based on 2058/59 as a base year. As can be witnessed from the above table, the capital adequacy ratio of Himalayan Bank is 11.56 percent in 2058/59, which decreased to 10.93 percent in 2059/60 and 10.56 percent in 2060/61. It increased to 11.01 percent in 2061/62, 11.26 percent in 2062/63 and 12.11 percent in 2063/64.

The capital adequacy ratio of NIC Bank is 20.90 percent in 2058/59. It is 18.87 percent in 2059/60, 13.75 percent in 2060/61, and 13.29 percent in 2061/62. The ratio increased to 14.05 percent in 2062/63 but again declined to 12.63 percent in 2063/64.

The capital adequacy ratio of Everest bank is 13.76 percent in 2058/59. The ratio decreased to 11.99 percent to 11.07 percent in 2059/60, and in 2060/61 respectively. The ratio again increased to 13.57 percent in 2061/62. It again decreased to 12.34 percent and 11.19 percent in 2062/63 and 2063/64 respectively.

The capital adequacy ratio of NIC Bank is the highest among three commercial banks, with an average ratio of 15.58 percent followed by Everest Bank with an average ratio of 12.32 percent and then Himalayan Bank with an average ratio of 11.25 percent. The minimum capital that is to be maintained by the financial institutions is prescribed by Nepal Rasta Bank and it should not be less than ten percent. All the three banks have maintained the minimum capital adequacy ratio.

Fig. 4.56



As can be seen from the above diagram, the capital adequacy ratio of the Himalayan Bank shows a slightly declining trend in the second and third year based on 2058/59 as a base year. The ratio slowly increased in the latter three years. The ratio is the highest in 2063/64 at 12.11 and it is the lowest in 2060/61 at 10.65 percent.

The capital adequacy ratio of NIC Bank is in declining trend except for the year 2062/63 where it increased slightly compared to the previous year, i.e., 2061/62. The ratio is the highest in 2058/59 at 21 percent and lowest in 2063/64 at 12.63 percent.

The capital adequacy ratio of Everest Bank is in fluctuating trend. Compared to the base year, the ratio decreased in the second and third year, increased in the fourth year and then again decreased in the fifth and sixth year. The ratio is the highest in 2058/59 at 13.76 and lowest in 2060/61 at 11.07.

Capital is one of the key factors to be considered when the safety and soundness of a particular bank is considered. From the depositors' point of view, the higher capital adequacy ratio is a positive signal, which provides a safety net against different types of risk. So other things remaining the same, NIC Bank can be ranked better compared to the other two banks.

Table 4.57
Capital fund to total risk weighted assets ratio of the three finance companies

(Rs. In Million)

Year/Fin. Com.	NSM&F	United Finance	Union Finance
2058/2059			
Total Capital Fund			
RWA			
Ratios			
2059/2060			
Total Capital Fund			
RWA			
Ratios			
2060/2061			
Total Capital Fund		67.17	
RWA		315.25	
Ratios		21.31	
2061/2062			
Total Capital Fund	140.50	72.90	
RWA	1214.53	562.37	
Ratios	11.57	12.96	
2062/2063			
Total Capital Fund	193.27	81.43	61.29
RWA	1445.34	613.31	635.51
Ratios	13.37	13.28	9.64
2063/2064			
Total Capital Fund	229.27	97.17	75.27

RWA	1705.34	835.09	736.85
Ratios	13.44	11.64	10.21
Average Ratio	12.79	14.80	9.93

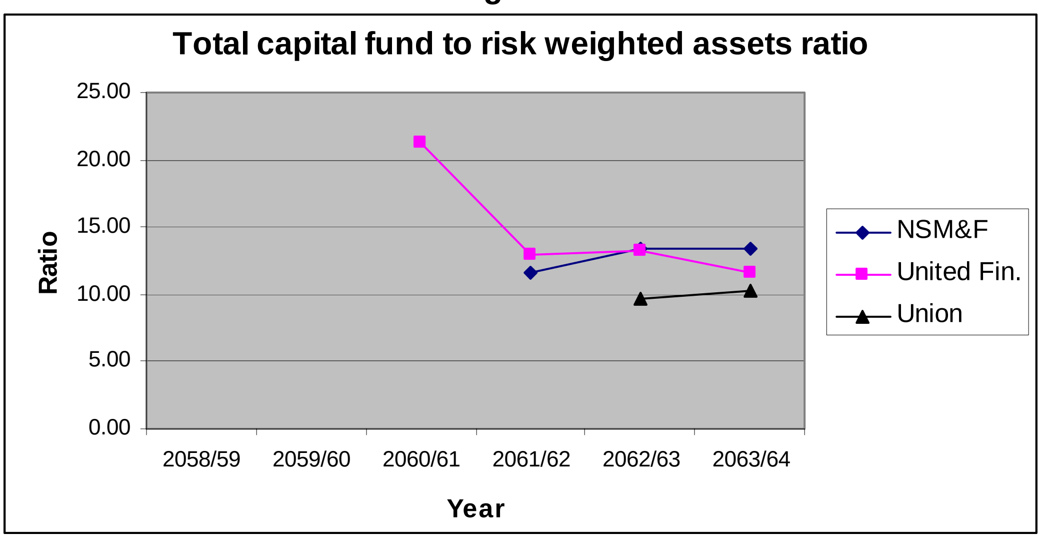
From the above table, we can see that the total capital to total risk weighted assets ratio or capital adequacy ratio of Nepal Share Market and Finance Ltd. is unavailable for the period between 2058/59-2060/61. The ratio is 11.57 percent in 2061/62, which increased to 13.37 in 2062/63, and 13.44 percent in 2063/64.

The capital adequacy ratio for United Finance is unavailable for the period between 2058/59-2059/60. The ratio is 21.31 percent in 2060/61, which decreased to 12.96 percent in 2060/62. The ratio is 13.28 percent in 2062/63, and 11.64 percent in 2063/64.

The capital adequacy ratio for Union Finance is unavailable for the period between 2058/59-2061/62. The ratio is 9.64 percent in 2062/63, which increased to 10.21 percent in 2063/64.

On an average, the capital adequacy ratio is the highest for United Finance with an average ratio of 14.80 percent followed by Nepal Share Market and Finance Ltd. with an average ratio of 12.79 percent and then by Union Finance with an average ratio of 9.93 percent.

Fig. 4.57



From the above figure, we can see that the ratio for Nepal Share Market and Finance Ltd. is available for the later two years and the ratio is in increasing trend. The ratio for United Finance is available for later four years and the trend is in declining trend. While the ratio for Union Finance is available for later two years and the ratio is in increasing trend.

4.7. Profitability ratio:

Profit is the bottom line or ultimate performance result showing the net effects of bank policies and activities in a financial year. Its stability and trends are the best summary indicators of a financial institutions' performance in both the past and the future. Profitability is usually measured by all or part of a set of financial ratios.

Key indicators include the return on average equity, which measures the rate of return on shareholder investment, and the return on assets, which measures the profitability of an institution's core business (example margin ratio), the contribution to profit of various types of activities, the efficiency with which the institution operates, and the stability of its profits. Ratios are observed over a period of time in order to detect profitability trends. An analysis of changes of various ratios over time reveals changes in an institution policies and strategies and/or in its business environment.

4.7.1. Return on shareholders capital:

The major interest of the owners of an institution, when the institution is owned by stockholders, is the rate of return earned on the beginning equity investment. Although, stockholders are interested in their share of earnings, they are equally interested in the rate of return on their investment. For the purpose of comparing the returns of one bank with that of another, we must take into account the relative amount of equity invested. We cannot, for example, compare directly net income per share of Rs. 2.56 and Rs. 3.59 for two different institutions. Which is better? We need to know how much is invested in each institution to conclude which one is generating a higher rate of return. The return on equity is considered to be one of the profitability performance ratios. It reflects the bank management's ability to generate net profits from using the owner's equity as one of the financial sources.

Rate of return on stockholders' capital is also termed return on equity (ROE) and is computed by dividing net income earned by the financial institution by shareholder's equity.

$$\textbf{Return on Equity} = \frac{\textbf{Net income}}{\textbf{Stockholders equity}}$$

Table 4.58
Return on shareholder's equity of the three commercial banks

(Rs. In Million)

Year/Banks	HBL	NIC	Everest Bank
2058/2059			
Net Income	235.02	6.82	85.35
Owner's equity	858.12	526.1	530.91
Ratios	27.39	1.30	16.08
2059/2060			

Net Income	212.13	25.94	94.18
Owner's equity	1063.13	552.10	612.83
Ratios	19.95	4.70	15.37
2060/2061			
Net Income	263.05	68.26	143.57
Owner's equity	1324.17	620.4	680.32
Ratios	19.87	11.00	21.10
2061/2062			
Net Income	308.28	113.76	168.21
Owner's equity	1541.75	684.19	832.62
Ratios	20.00	16.63	20.20
2062/2063			
Net Income	457.46	96.59	237.29
Owner's equity	1766.18	766.46	962.81
Ratios	25.90	12.60	24.65
2063/2064			
Net Income	491.82	158.48	296.41
Owner's equity	2146.5	917.99	1201.52
Ratios	22.91	17.26	24.67
Average Ratio	22.67	10.58	20.34

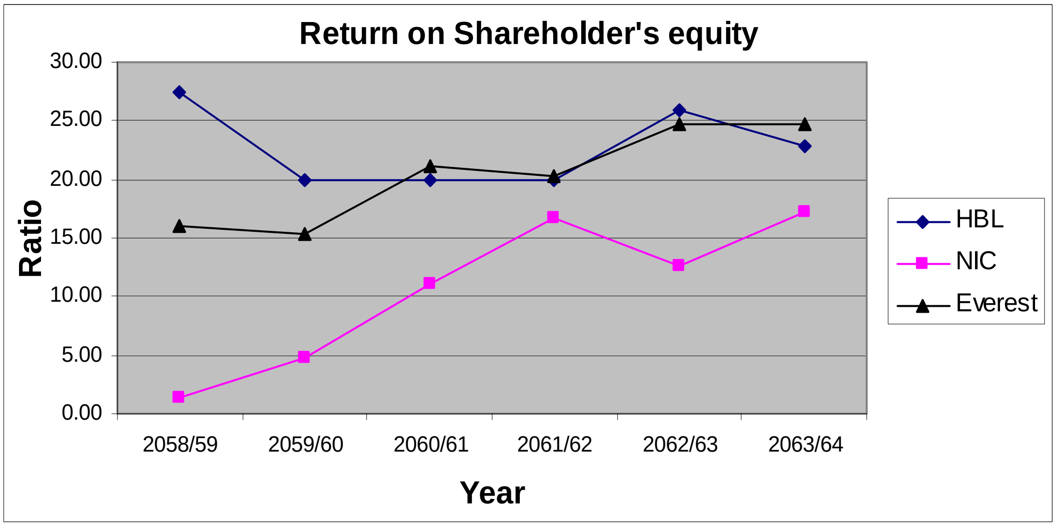
The above table illustrates the return on equity of the three commercial banks for the period of six years through 2058/59-2063/64. The return on equity of Himalayan Bank is 27.39 percent in 2058/59, which decreased to 18.24 percent in 2059/60. In 2060/61, the ratio increased slightly increased to 19.87 percent and in 2061/62 the ratio is 20.00 percent. In 2063/64, the ratio is 22.91 percent.

The return on equity of NIC Bank is 1.30 percent in 2058/59. The ratio increased to 4.70 percent in 2059/60 and the ratio continued to increase in the following two year. It is 11 percent in 2060/61, and 16.63 percent in 2061/62. In 2062/63, the ratio decreased to 12.60 percent and in the last year, it again increased to 17.26 percent.

The return on equity of Everest Bank is 16.08 percent in 2058/59, which decreased to 15.37 percent in 2059/60. The ratio is 21.10 percent in 2060/61, which slightly decreased to 20.20 percent in 2061/62. The ratio increased in the following two year at 24.65 percent and 24.67 percent respectively.

On an average, the return on equity of Himalayan Bank is the highest with an average ratio of 22.67 percent over the period of six years followed by Everest Bank with an average ratio of 20.34 percent and then by NIC Bank with an average ratio of 10.58 percent. From the current and prospect shareholders' point of view, Himalayan Bank is the best choice for the investment as it is providing a better return to the shareholders while NIC Bank should find ways to increase its return on equity so as to retain its current shareholders and attract the new ones.

Fig. 4.58



As can be seen from the above diagram, the return on equity for the Himalayan Bank decreased in the second year compared to the first year. The ratio remained almost similar for the next two years, increased in the fifth year and again decreased in the final year. So the ratio trend is somewhat fluctuating. The ratio is the highest in 2058/59 at 27.39 percent and lowest in 2060/61 at 19.87 percent.

The return on equity for NIC Bank is in increasing trend except for one year in 2062/63 where it declined. The ratio is the highest in 2063/64 at 17.26 percent and lowest in 2058/59 at 1.30 percent.

The return on equity for Everest Bank is slightly fluctuating. The ratio declined in the second and fourth year compared to the preceding year. The ratio shows an upward movement in third, fifth and sixth year. The ratio is the highest in 2063/64 at 24.67 percent and lowest in 2059/60 at 15.37 percent.

Table 4.59
Return on shareholder's equity of the three finance companies

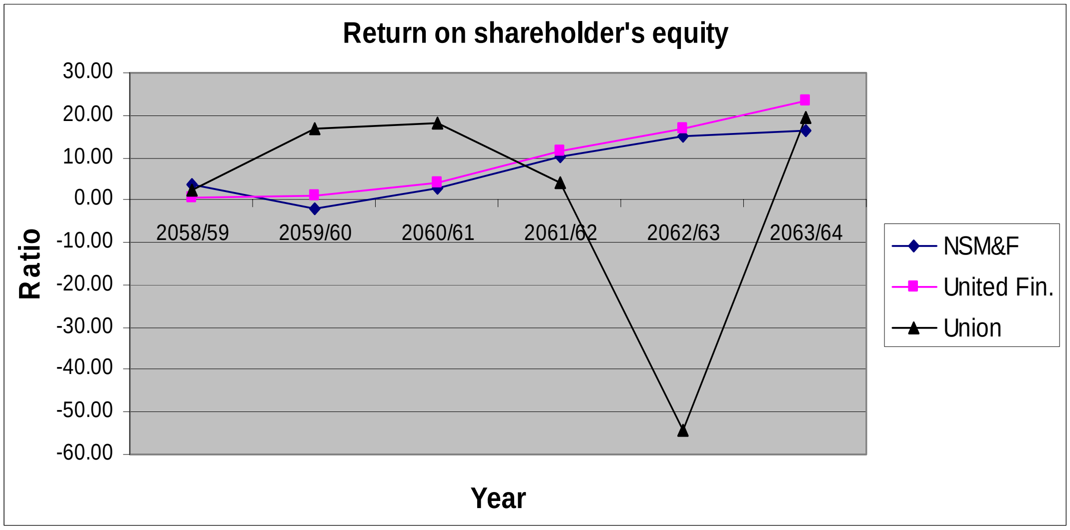
(Rs. In Million)

Year/Fin. Com.	NSM&F	United Finance	Union Finance
2058/2059			
Net Income	2.51	0.260	1.08
Owner's equity	66.43	43.68	50.65
Ratios	3.78	0.60	2.13
2059/2060			
Net Income	-2.78	0.722	12.03
Owner's equity	12365	65.36	71.49
Ratios	-2.25	1.10	16.83
2060/2061			
Net Income	3.48	2.79	14.39
Owner's equity	127.13	65.15	79.32
Ratios	2.73	4.28	18.14
2061/2062			
Net Income	13126	8.04	3.75
Owner's equity	128255	68.7	88.95
Ratios	10.23	11.71	4.22
2062/2063			
Net Income	27.07	12.71	-29.97
Owner's equity	178.48	75.41	55.33
Ratios	15.17	16.85	-54.15
2063/2064			
Net Income	35.38	20.98	13.33
Owner's equity	213.86	89.28	68.66
Ratios	16.54	23.50	19.41
Average Ratio	7.70	9.67	1.10

The above table illustrates the return on shareholder's equity of the three finance companies through 2058/59 based on 2058/59 as a base year. As can be seen from the above table, the ratio for Nepal Share Market and Finance Ltd. ranges between -2.25 percent and 16.54 percent, that of United Finance ranges between 0.60 percent and 23.50 percent, and that of Union Finance ranges between -54.15 percent and 19.41 percent.

On an average, the return on equity is the highest for United Finance with an average ratio of 9.67 percent followed by Nepal Share Market and Finance Ltd. with an average ratio of 7.70 percent and then by Union Finance with an average ratio of 1.10 percent. From the shareholders point of view, United Finance is the best choice as it is providing best return compared to the other two finance companies while Union Finance should earn an additional return as return on equity indicate the net results of a company's operation in a financial year or over a period of time and on the basis of which the investor plans to invest in that particular company.

Fig. 4.59



From the above table, we can see that the return on equity for Nepal Share Market and Finance Ltd. is in increasing trend. Except for the year 2059/60, the ratio increased throughout the observation period. The ratio is the highest in 2063/64 and lowest in 2059/60.

The return on equity for United Finance is in increasing trend. The ratio increased continuously throughout the observation period. The ratio is the highest in 2063/64 and lowest in 2058/59.

The return on equity for Union Finance is in fluctuating trend and the ratio is even negative which is an alarming sign for the company as this will cause the shareholders to loose their confidence over the company. The ratio is the highest in 2063/64 and lowest in 2062/63.

4.7.2. Return on Assets:

While return on equity indicates the profit earned on total shareholder's fund, Return on Assets (ROA) depicts how efficiently a financial institution is utilizing and mobilizing its assets to generate profit. In other words, ROA reflects the bank management ability to generate profits by using the available financial and real assets. Higher the ratio, better it is as higher ROA indicates better utilization of total assets.

Return on Assets is calculated by dividing net profit by total assets.

$$\text{Return on Assets} = \frac{\text{Net income}}{\text{Total Assets}}$$

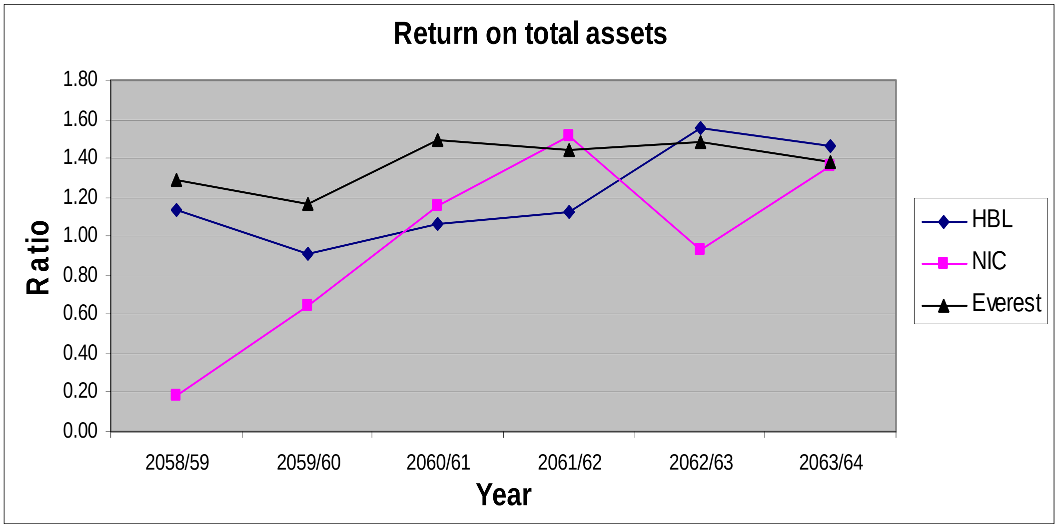
Table 4.60
Return on assets of the three commercial companies (Rs. In Million)

Year/Banks	HBL	NIC	Everest Bank
2058/2059			
Net Income	235024	6821	85347
Total Assets	20672434	3768653	6616898
Ratios	1.14	0.18	1.29
2059/2060			
Net Income	212128	25942	94180
Total Assets	23355223	4037519	8052209
Ratios	0.91	0.64	1.17
2060/2061			
Net Income	263053	68261	143567
Total Assets	24762025	5930067	9608571
Ratios	1.06	1.15	1.49
2061/2062			
Net Income	308275	113756	168214
Total Assets	27418158	7508068	11632513
Ratios	1.12	1.52	1.45
2062/2063			
Net Income	457458	96588	237291
Total Assets	29460390	10383602	15959285
Ratios	1.55	0.93	1.49
2063/2064			
Net Income	491823	158475	296409
Total Assets	33519141	11678834	21432574
Ratios	1.47	1.36	1.38
Average Ratio	1.21	0.96	1.38

The return on total assets of Himalayan Bank ranges between 0.91 percent and 1.55 percent, that of NIC Bank ranges between 0.18 percent and 1.52 percent, and that of Everest Bank ranges between 1.17 percent and 1.49 percent over the period of six years of observation.

On an average, the return on assets for Himalayan Bank is 1.21 percent; that of NIC Bank is 0.96 percent; while that of Everest Bank is 1.38 percent over the period of six years. Therefore, the return on assets of Everest is the best among the three sample commercial banks followed by Himalayan Bank and then NIC Bank. This means that Everest Bank has productively utilize its assets, earning maximum return on its assets among the three sample commercial banks.

Fig. 4.60



As can be seen from the above diagram, the return on total assets for Himalayan Bank showed a declining trend for the second and sixth year and for the other remaining year the ratio is in increasing trend. The ratio is the highest in 2062/63 and lowest in 2059/60.

The return on total assets for NIC Bank increased sharply consecutively till fourth year, then declined in the fifth year and again inclined in the sixth year. The ratio is the highest in 2061/62 and lowest in 2058/59.

The return on total assets for Everest Bank is also fluctuating. The ratio declined in the second, fourth and sixth year compared to their preceding years. The ratio is the highest in 2060/61and 2062/63, and lowest in 2059/60.

Table 4.61
Return on total assets of the three finance companies **(Rs. In Million)**

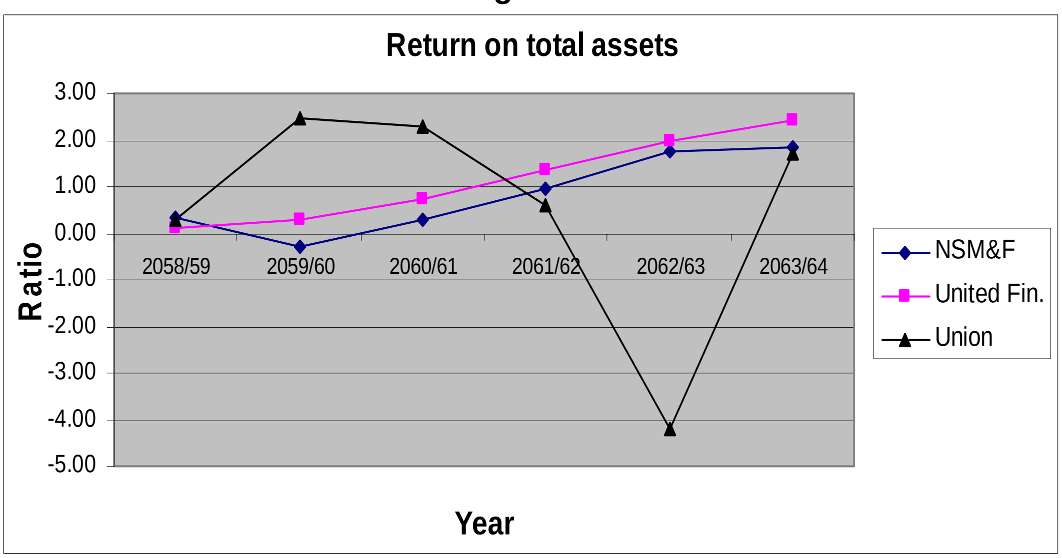
Year/Fin. Com.	NSM&F	United Finance	Union Finance
2058/2059			
Net Income	2509	260	1080
Total Assets	768359	234493	392728
Ratios	0.33	0.11	0.27
2059/2060			
Net Income	-2781	722	12034
Total Assets	908928	258711	487353
Ratios	-0.31	0.28	2.47
2060/2061			
Net Income	3476	2791	14386
Total Assets	1192030	385099	630784
Ratios	0.29	0.72	2.28

2061/2062			
Net Income	13126	8044	3755
Total Assets	1375948	601948	648703
Ratios	0.95	1.34	0.58
2062/2063			
Net Income	27067	12708	-29966
Total Assets	1553038	644783	714857
Ratios	1.74	1.97	-4.19
2063/2064			
Net Income	35382	20984	13327
Total Assets	1907066	873934	780759
Ratios	1.86	2.40	1.71
Average Ratio	0.81	1.14	0.52

As can be seen from the above table, return on total assets of Nepal Share Market and Finance Ltd. ranges between -0.31 percent and 1.86 percent, that of United Finance ranges between 0.11 percent and 2.40 percent, while that of Union Finance ranges between -4.19 percent and 2.47 percent.

On an average, the return on total assets is the highest for United Finance with an average ratio of 1.14 percent followed by Nepal Share Market and Finance Ltd. with an average ratio of 0.81 percent and then by Union Finance with an average ratio of 0.52 percent. The ratio for Nepal Share Market and Finance Ltd. and Union Finance is negative in the year 2059/60 and 2062/63 respectively due to negative net income.

Fig. 4.61



From the above figure, we can see that the return on total assets of Nepal Share Market and Finance Ltd. is in increasing trend except for the second where it declined compared to the preceding year. The ratio is the highest in 2063/64 and lowest in 2059/60.

The return on total assets of United Finance is also in increasing trend. The ratio increased continuously throughout the five consecutive years as compared to the base year. The ratio is the highest in 2063/64 and lowest in 2058/59.

The return on total assets of Union Finance is in fluctuating trend. Compared to the base year, the ratio increased in the second year, then decreased for the three consecutive years till fifth year, where the ratio is even negative, and then increased sharply in the sixth year. The ratio is the highest in 2059/60 and lowest in 2062/63.

4.7.3. Return on Total Deposit:

This ratio measures the degree of NPAT earned by using total deposit. This ratio shows how efficiently the management is utilizing its deposits in profit generating activities. This ratio is the mirror for the financial institution's overall financial performance as well as its success in profit generation; the reason being that the deposit made by its customers is the major source of earning, and the earning is made by the efficient and effective utilization of these deposits.

Return on Total Deposit is calculated by dividing net profit after tax by total deposit.

$$\textbf{Return on Total Deposit} = \frac{\textbf{Net Income}}{\textbf{Total Deposit}}$$

Table 4.62

Return on total deposits of the three commercial banks **(Rs. In Million)**

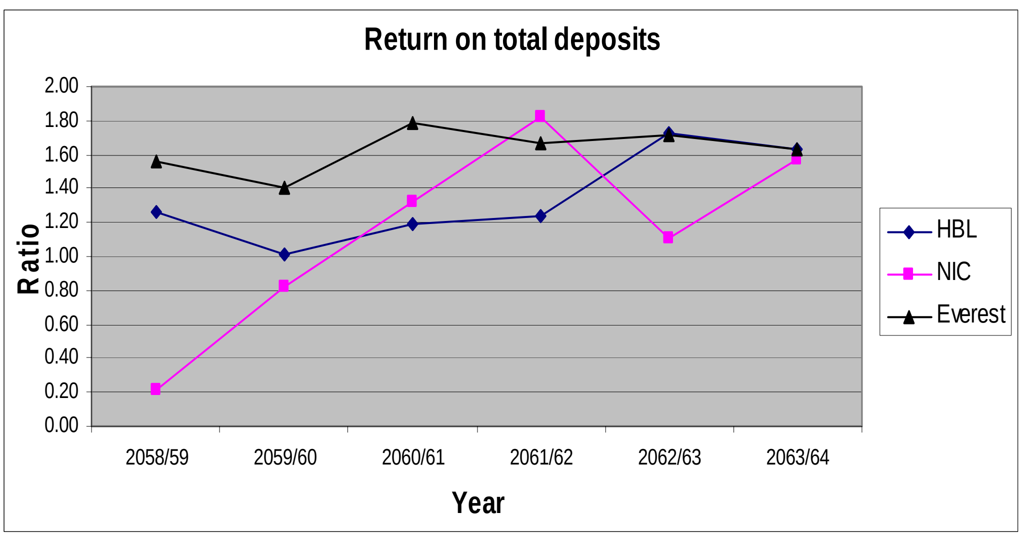
Year/Banks	HBL	NIC	Everest Bank
2058/2059			
Net Income	235024	6821	85347
Total Deposit	18619375	3165312	5466610
Ratios	1.26	0.22	1.56
2059/2060			
Net Income	212128	25942	94180
Total Deposit	21007379	3144321	6694963
Ratios	1.01	0.83	1.41
2060/2061			
Net Income	263053	68261	143567
Total Deposit	22010333	5146483	8063902
Ratios	1.20	1.33	1.78
2061/2062			
Net Income	308275	113756	168214
Total Deposit	24814012	6241378	10097691

Ratios	1.24	1.82	1.67
2062/2063			
Net Income	457458	96588	237291
Total Deposit	26490852	8765951	13802445
Ratios	1.73	1.10	1.72
2063/2064			
Net Income	491823	158475	296409
Total Deposit	30048418	10068231	18186254
Ratios	1.64	1.57	1.63
Average Ratio	1.35	1.14	1.63

The above table illustrates the return on total deposits of the three commercial banks through 2058/59-2063/64 based on 2058/59 as a base year. The return on total deposits of Himalayan Bank ranges between 1.01 percent and 1.73 percent; while that of NIC Bank ranges between 0.22 percent and 1.82 percent; while that of Everest Bank ranges between 1.41 percent and 1.78 percent.

On an average, the return on total deposits is the highest for Everest Bank with an average ratio of 1.63 percent followed by Himalayan Bank with an average ratio of 1.35 percent and then by NIC Bank with an average ratio of 1.14 percent.

Fig. 4.62



As can be seen from the above table, the return on total deposit for Himalayan Bank is in fluctuating trend. The ratio declined in the second and sixth year compared to their preceding years. The ratio showed an upward movement in the third, fourth and fifth years consecutively. The ratio is the highest in 2062/63 and lowest in 2059/60.

As for the NIC Bank, the ratio increased continuously for the three consecutive years till fourth year, declined in the fifth year and then it again increased in the sixth year. The ratio is the highest in 2061/62 and lowest in 2058/59.

The return on total deposit for Everest Bank is in fluctuating trend. The ratio declined in the second, fourth, and sixth year compared to their preceding years. The ratio is the highest in 2060/61 and lowest in 2059/60.

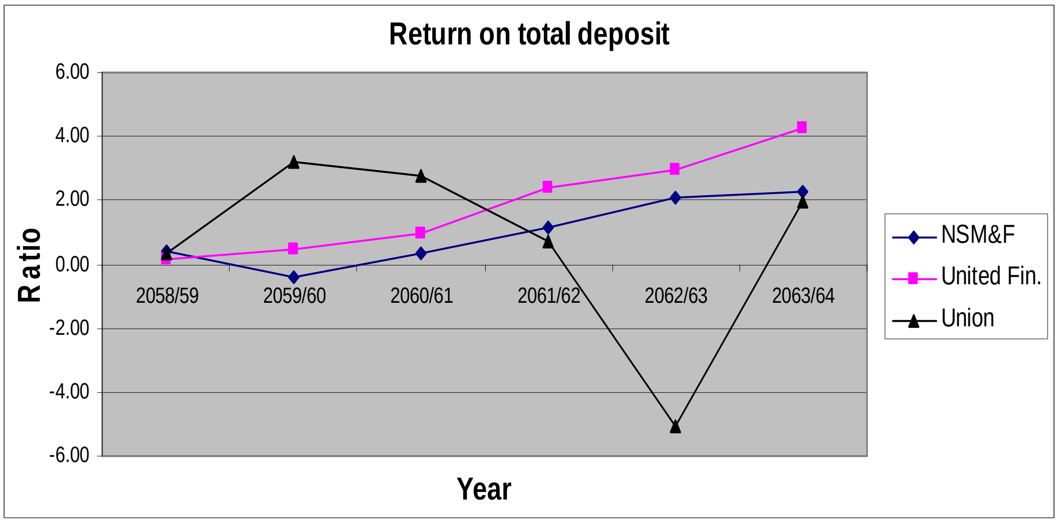
Table 4.63
Return on total deposits of the three finance companies (Rs. In Million)

Year/Fin. Com.	NSM&F	United Finance	Union Finance
2058/2059			
Net Income	2509	260	1080
Total Deposit	609143	182278	303454
Ratios	0.41	0.14	0.36
2059/2060			
Net Income	-2781	722	12034
Total Deposit	716359	164595	378852
Ratios	-0.39	0.44	3.18
2060/2061			
Net Income	3476	2791	14386
Total Deposit	1007833	286779	518782
Ratios	0.34	0.97	2.77
2061/2062			
Net Income	13126	8044	3755
Total Deposit	1166981	332648	538735
Ratios	1.12	2.42	0.70
2062/2063			
Net Income	27067	12708	-29966
Total Deposit	1310908	427781	594519
Ratios	2.06	2.97	-5.04
2063/2064			
Net Income	35382	20984	13327
Total Deposit	1563870	494262	670401
Ratios	2.26	4.25	1.99
Average Ratio	0.97	1.86	0.66

The above table illustrates the return on total deposit of the three finance companies through 2058/59-2063/64 based on 2058/59 as a base year. As can be seen from the above table, the ratio for Nepal Share Market and Finance Ltd. ranges between -0.39 percent and 2.26 percent; that of United Finance ranges between 0.14 percent and 4.25 percent; while that of Union Finance ranges between -5.04 percent and 3.18 percent.

On an average, the return on total deposits is the highest for United Finance with an average ratio of 1.86 percent followed by Nepal Share Market and Finance Ltd. with an average ratio of 0.97 percent and then by Union Finance with an average ratio of 0.66 percent. This indicates that United Finance has successfully utilized the deposit collected from its customer and earned a greater return compared to the other two finance companies.

Fig. 4.63



As can be seen from the above figure, the return on total deposit for Nepal Share Market and Finance Ltd. is in increasing trend except for the second where it declined compared to the first year. After that year the ratio increased continuously for the remaining years. The ratio is the highest in 2063/64 and lowest in 2059/60.

The return on total deposit for United Finance is in increasing trend. The ratio increased continuously for the five consecutive years, compared to the first year. The ratio is the highest in 2063/64 and lowest in 2058/59.

The return on total deposit for Union Finance is in increasing trend. The ratio increased in the second year, compared to the first year, decreased for the consecutive three years till fifth year and then again increased in the sixth year. The ratio is the highest in 2059/60 and lowest in 2062/63 where the ratio is negative.

4.7.4. Return on Risky Assets:

Return on Risky assets ratio measures the percentage of profit before tax earned to the volume of loans and advances. This ratio shows the capacity of the financial institutions to mobilize risky assets in the income generating purpose. Higher the ratio better is the situation because it shows that financial institution is able to disburse good loans in a higher proportion.

The return on risk assets ratio is calculated by dividing profit by risky assets, i.e., total loans and advances.

$$\textbf{Return on Risky Assets} = \frac{\textbf{Net Profit}}{\textbf{Total Risky Assets}}$$

Table 4.64

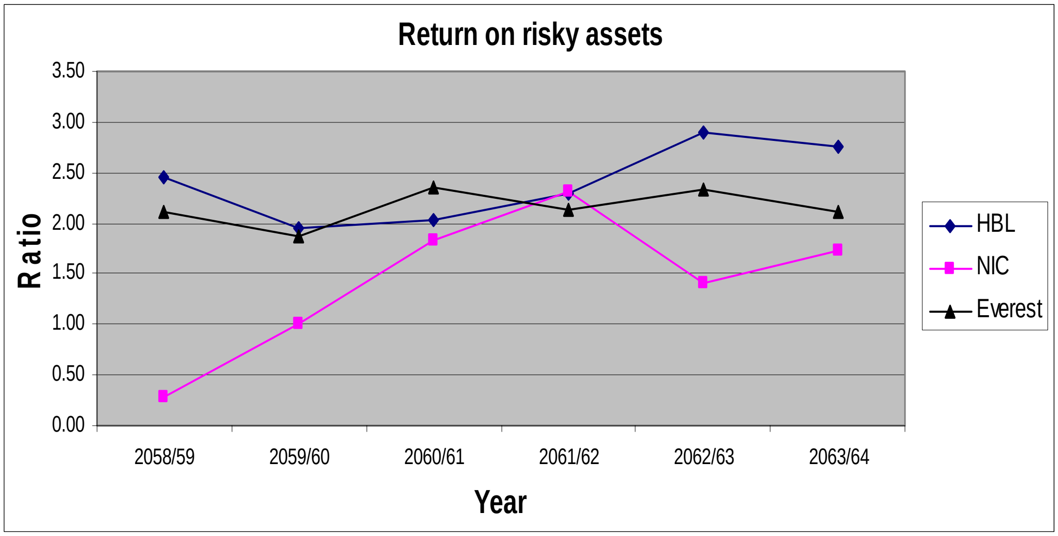
Return on risky assets of the three commercial banks **(Rs. In Million)**

Year/Banks	HBL	NIC	Everest Bank
2058/2059			
Net Income	235024	6821	85347
Risky Assets	9557138	2368851	4044228
Ratios	2.46	0.29	2.11
2059/2060			
Net Income	212128	25942	94180
Risky Assets	10844599	2562861	5049581
Ratios	1.96	1.01	1.87
2060/2061			
Net Income	263053	68261	143567
Risky Assets	12919631	3743091	6095841
Ratios	2.04	1.82	2.36
2061/2062			
Net Income	308275	113756	168214
Risky Assets	13459168	4909355	7900090
Ratios	2.29	2.32	2.13
2062/2063			
Net Income	457458	96588	237291
Risky Assets	15761976	6902124	10136254
Ratios	2.90	1.40	2.34
2063/2064			
Net Income	491823	158475	296409
Risky Assets	17793724	9128649	14082686
Ratios	2.76	1.74	2.10
Average Ratio	2.40	1.43	2.15

The above table illustrates the return on risky assets of the three commercial banks through 2058/59-2063/64 based on 2058/59 as a base year. The return on risky assets for Himalayan Bank ranges between 1.96 percent and 2.90 percent; that of NIC Bank ranges between 0.29 percent and 2.32 percent; while that of Everest bank ranges between 1.87 percent and 2.36 percent.

On an average, the return on risky assets is the highest for Himalayan Bank with an average ratio of 2.40 percent, followed by Everest Bank with an average ratio of 2.15 percent and then by NIC Bank with an average ratio of 1.43 percent. This shows that Himalayan has disburse good loan in higher proportion compared to the other two commercial banks.

Fig. 4.64



As can be seen from the above diagram, the return on risky assets for Himalayan Bank is in fluctuating trend. The ratio showed an upward trend in third, fourth and fifth year. The ratio is the highest in 2062/63 and lowest in 2059/60.

The return on risky assets ratio for NIC Bank increased for the consecutive three years till fourth year, compared to the preceding years, declined in the fifth year and then again increased in the sixth year. The ratio is the highest in 2061/62 and lowest in 2058/59.

The return on risky assets ratio for Everest Bank is in fluctuating trend. The ratio sloped downward in second, fourth, and sixth years, compared to their preceding years. The ratio is the highest in 2060/61 and lowest in 2059/60.

Table 4.65

Return on risky assets ratio of the three finance companies **(Rs. In Million)**

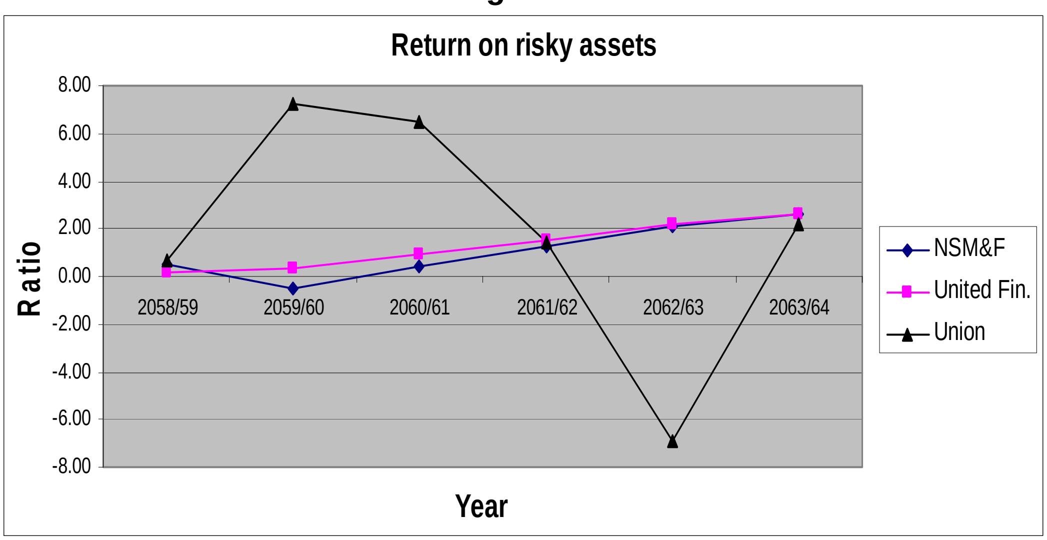
Year/Fin. Com.	NSM&F	United Finance	Union Finance
2058/2059			
Net Income	2509	260	1080
Risky Assets	468140	151266	154936
Ratios	0.54	0.17	0.70
2059/2060			
Net Income	-2781	722	12034
Risky Assets	524026	192505	166399
Ratios	-0.53	0.38	7.23
2060/2061			

Net Income	3476	2791	14386
Risky Assets	837056	314499	223072
Ratios	0.42	0.89	6.45
2061/2062			
Net Income	13126	8044	3755
Risky Assets	1016123	543342	256447
Ratios	1.29	1.48	1.46
2062/2063			
Net Income	27067	12708	-29966
Risky Assets	1274033	588206	436190
Ratios	2.12	2.16	-6.87
2063/2064			
Net Income	35382	20984	13327
Risky Assets	1368692	815969	599546
Ratios	2.59	2.57	2.22
Average Ratio	1.07	1.27	1.87

As can be seen from the above table, the return on risky assets of Nepal Share Market and finance Ltd. ranges between -0.53 percent and 2.59 percent; that of United Finance ranges between 0.17 percent and 2.57 percent; while that of Union Finance ranges between -6.87 percent and 7.23 percent.

On an average, the return on risky assets is the highest for Union Finance with an average ratio of 1.87 percent, followed by United finance with an average ratio of 1.27 percent, and then by Nepal Share Market and Finance Ltd with an average ratio of 1.07 percent.

Fig. 4.65



The return on risky assets ratio for Nepal Share Market and Finance Ltd. is in increasing trend except for the second where it declined compared to the first year. After that year the ratio increased continuously for the remaining years. The ratio is the highest in 2063/64 and lowest in 2059/60 where the ratio is negative.

The return on risky assets for United Finance is in increasing trend. The ratio increased continuously for the five consecutive years, compared to the first year. The ratio is the highest in 2063/64 and lowest in 2058/59.

The return on risky assets for Union Finance is in increasing trend. The ratio increased in the second year, compared to the first year, decreased for the consecutive three years till fifth year and then again increased in the sixth year. The ratio is the highest in 2059/60 and lowest in 2062/63 where the ratio is negative.

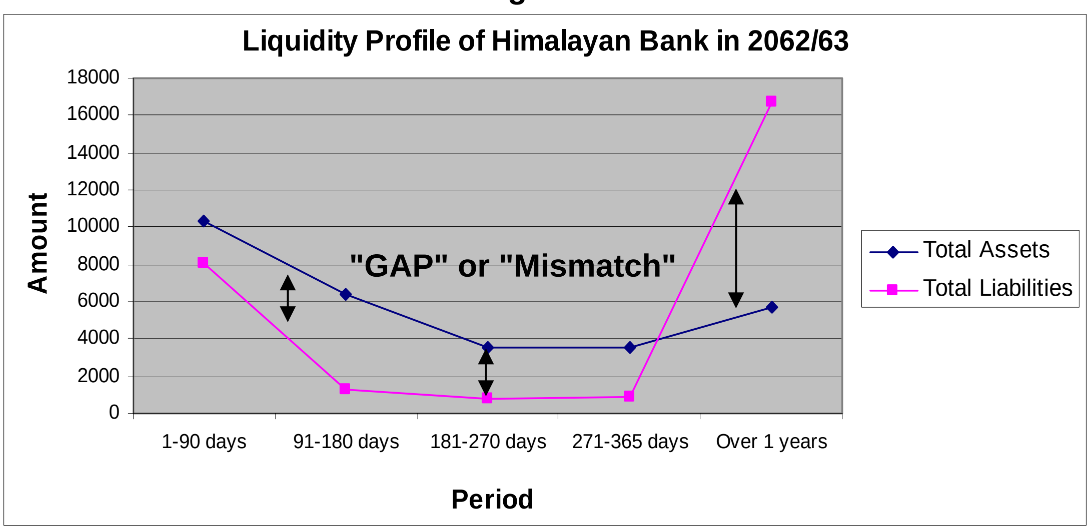
4.8. Measurement of Liquidity Risk using GAP Analysis:

Table 4.66

Liquidity Profile of Himalayan Bank in 2062/63 **(Rs. In Million)**

Particulars/Days	1-90	91-180	181-270	271-365	Over 1year
Total Assets	10342	6362	3587	3494	5673
Total Liabilities	8076	1294	811	852	16686
Net Financial Assets Maturing in each time interval	2266	5068	2776	2642	-11013
Cumulative Net Financial Assets	2266	7334	10110	12752	1739

Fig. 4.66



The above table and figure illustrates the asset-liability mismatch of Himalayan Bank for the period of 2062/63. We can see that the assets coming due are sufficient to cover the liabilities coming due in all the four quarters of the year.

However, "over one year" bucket shows a negative mismatch of Rs. 11013m.This shows that Himalayan Bank has a large net asset position in the year 2062/63 which means that the company does not have a liquidity risk in 2062/63.

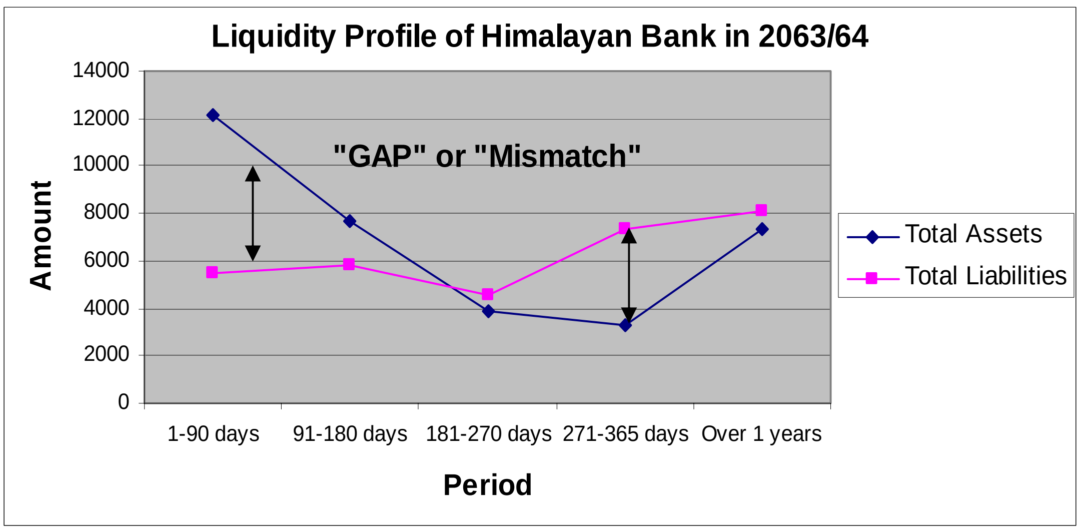
Table 4.67

Liquidity Profile of Himalayan Bank in 2063/64

(Rs. In Million)

Particulars/Days	1-90	91-180	181-270	271-365	Over 1year
Total Assets	12119.28	7690.58	3913.09	3276	7314.97
Total Liabilities	5486.82	5843.49	4516.29	7323.85	8087.34
Net Financial Assets Maturing in each time interval	6632.46	1847.09	-603.2	-4047.85	-772.37
Cumulative Net Financial Assets	6632.46	8479.55	7876.35	3828.5	3056.13

Fig. 4.67

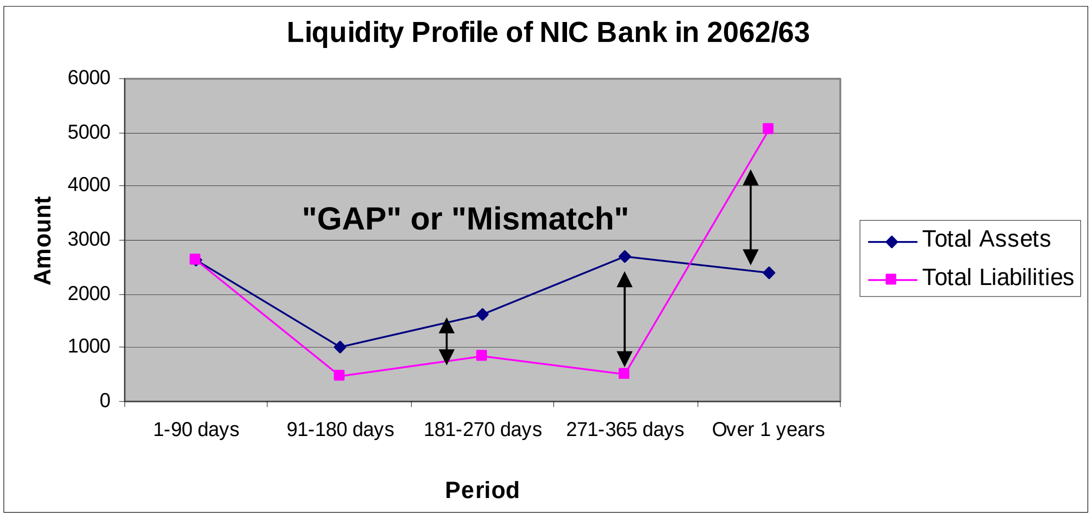


The above table and diagram illustrates the liquidity profile of Himalayan Bank on a quarterly basis for 2063/64. From the above table we can see the assets for the first and second time interval is sufficient to cover the liabilities coming due. But in the second, third quarter and over the one year period bucket shows the asset coming due is insufficient to cover the liabilities coming due. This mismatch shows that Himalayan Bank is moving in the direction of liquidity problem but since the cumulative net financial assets is still positive; the problem is not very serious for this year.

Table 4.68
Liquidity Profile of NIC Bank in 2062/63 **(Rs. In Million)**

Particulars/Days	1-90	91-180	181-270	271-365	Over 1year
Total Assets	2629	1027	1633	2693	2396
Total Liabilities	2616	460	859	514	5048
Net Financial Assets Maturing in each time interval	13	567	774	2179	-2652
Cumulative Net Financial Assets	13	580	1354	3533	881

Fig. 4.68

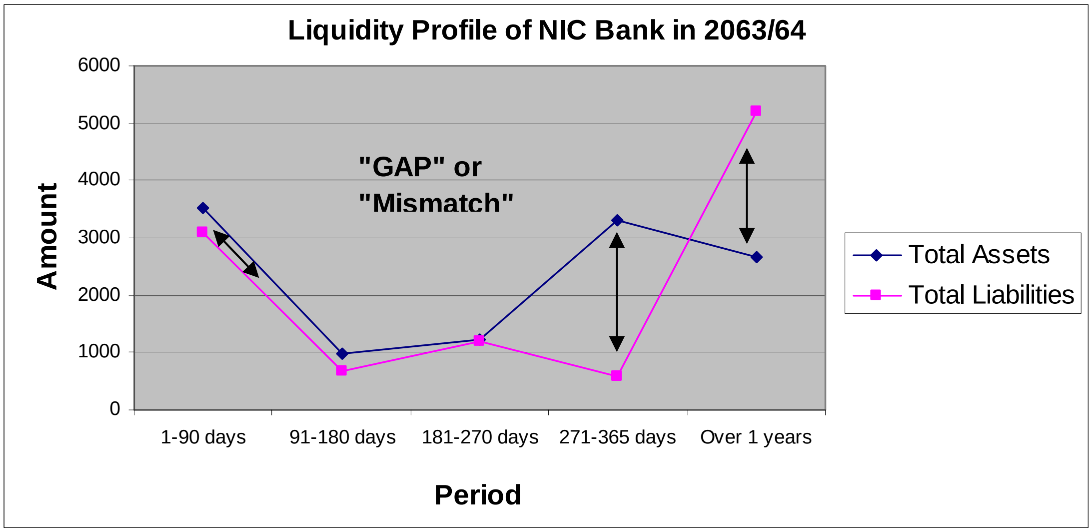


The above table and figure illustrates the asset-liability mismatch of NIC Bank for the period of 2062/63. We can see that the asset coming due in all the four intervals are sufficient to cover the liabilities coming due. Thus, the mismatches in all the four intervals are positive. However, the "over one year" bucket shows a negative mismatch which is 52 percent of the total cash outflow and which exceed 15 percent limit. Nevertheless, we can say that there is no liquidity problem in 2062/63 for NIC Bank.

Table 4.69
Liquidity Profile of NIC Bank in 2063/64 **(Rs. In Million)**

Particulars/Days	1-90	91-180	181-270	271-365	Over 1year
Total Assets	3516	974	1217	3295	2677
Total Liabilities	3084	687	1203	589	5198.01
Net Financial Assets Maturing in each time interval	432	287	14	2706	-2521.01
Cumulative Net Financial Assets	432	719	733	3439	917.99

Fig. 4.69



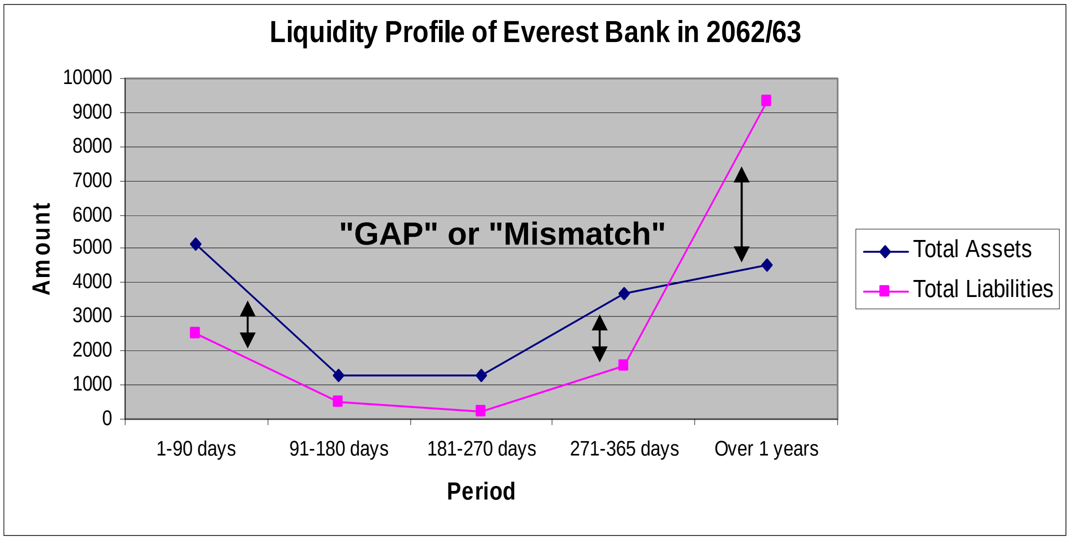
The above table and figure illustrates the liquidity profile or asset and liability mismatch of NIC Bank for the period of 2063/64. We can see that the assets due for the first four intervals or quarter are sufficient to cover the liabilities coming due. But the “over one year” bucket shows a negative mismatch of Rs 2521.01m. We can therefore, conclude that according to the gap analysis, there is no liquidity problem for the period of 2063/64 for NIC Bank.

Table 4.70
Liquidity Profile of Everest Bank in 2062/63

(Rs. In Million)

Particulars/Days	1-90	91-180	181-270	271-365	Over 1year
Total Assets	5132.5	1264.5	1296.1	3705.7	4538.8
Total Liabilities	2492.8	480.3	232.1	1578.7	9318.6
Net Financial Assets Maturing in each time interval	2639.7	784.2	1064	2127	-4779.8
Cumulative Net Financial Assets	2639.7	3423.9	4487.9	6614.9	1835.1

Fig. 4.70



The above table illustrates the liquidity profile of Everest Bank for the period of 2062/63. We can see that there is a positive mismatch between asset and liability, which means that the asset coming due is greater than the liabilities coming due for all the four intervals in a year. Therefore, there is no liquidity crunch for Everest Bank within the year 2062/63. But in "over one year" bucket shows negative gap which is 51 percent of the total cash outflow, which exceed 15 percent limit.

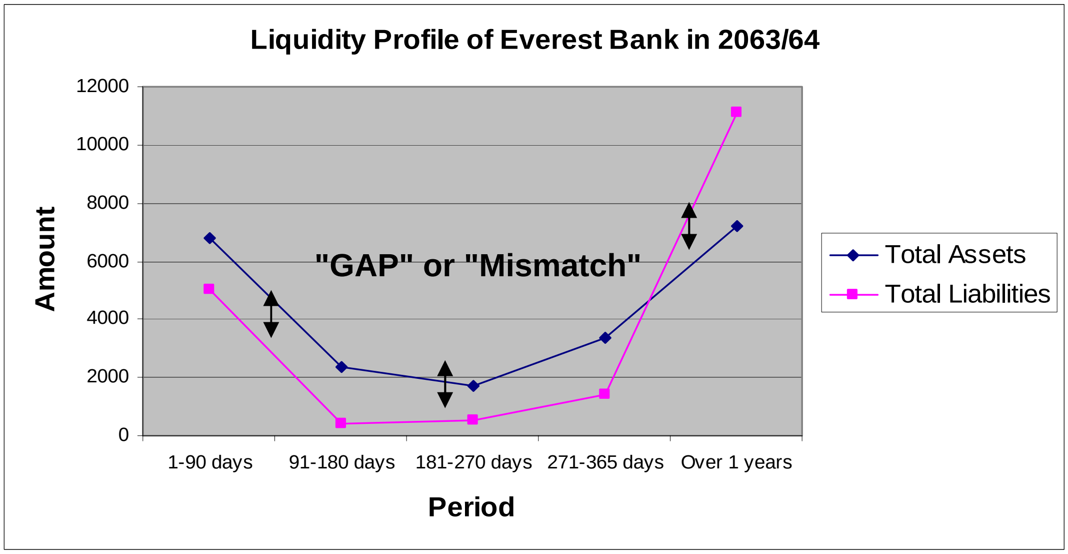
Table 4.71

Liquidity Profile of Everest Bank in 2063/64

(Rs. In Million)

Particulars/Days	1-90	91-180	181-270	271-365	Over 1year
Total Assets	6816.2	2344	1684.9	3381.7	7212.5
Total Liabilities	5038.9	410.6	505.8	1408.9	11122.1
Net Financial Assets Maturing in each time interval	1777.3	1933.4	1179.1	1972.8	-3909.6
Cumulative Net Financial Assets	1777.3	3710.7	4889.8	6862.6	2953

Fig. 4.71



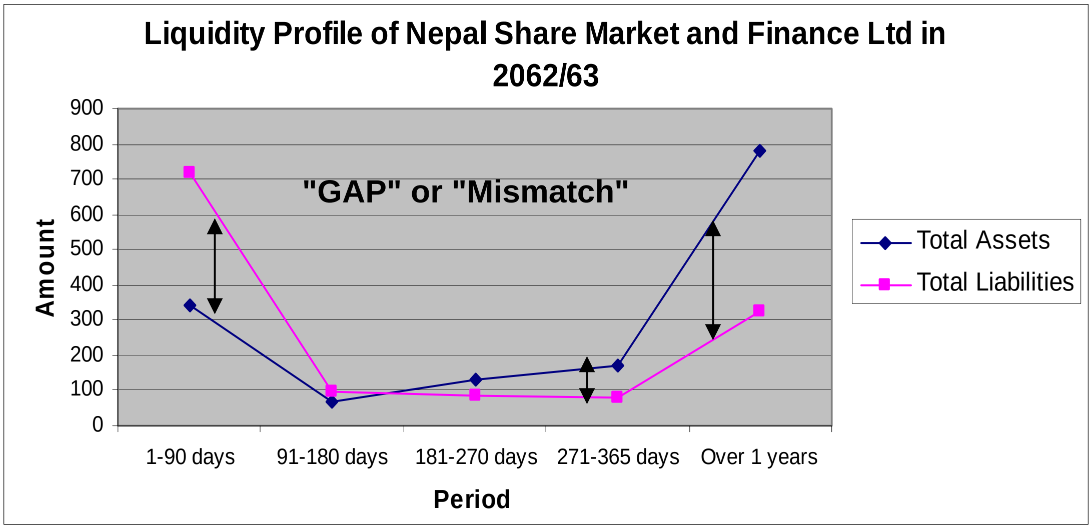
The above table and figure shows the liquidity profile of asset-liability mismatch of Everest Bank for the period of 2063/64. We ca see that the asset due for the first four intervals are sufficient enough to cover the liabilities coming due. We can therefore conclude that there is no liquidity crunch in 2063/64. But "over the one year" bucket shows a negative mismatch of Rs. 3909.6m. Since a cumulative net financial asset is greater than the negative mismatch amount, the company can still manage the liquidity risk.

Table 4.72
Liquidity Profile of Nepal Share Market and Finance Ltd in 2062/63

(Rs. In Million)

Particulars/Days	1-90	91-180	181-270	271-365	Over 1year
Total Assets	340.8	67.2	132	168.4	778.4
Total Liabilities	719.9	98.8	86.5	81.2	324.5
Net Financial Assets Maturing in each time interval	-379.1	-31.6	45.5	87.2	453.9
Cumulative Net Financial Assets	-379.1	-410.7	-365.2	-278	175.9

Fig. 4.72



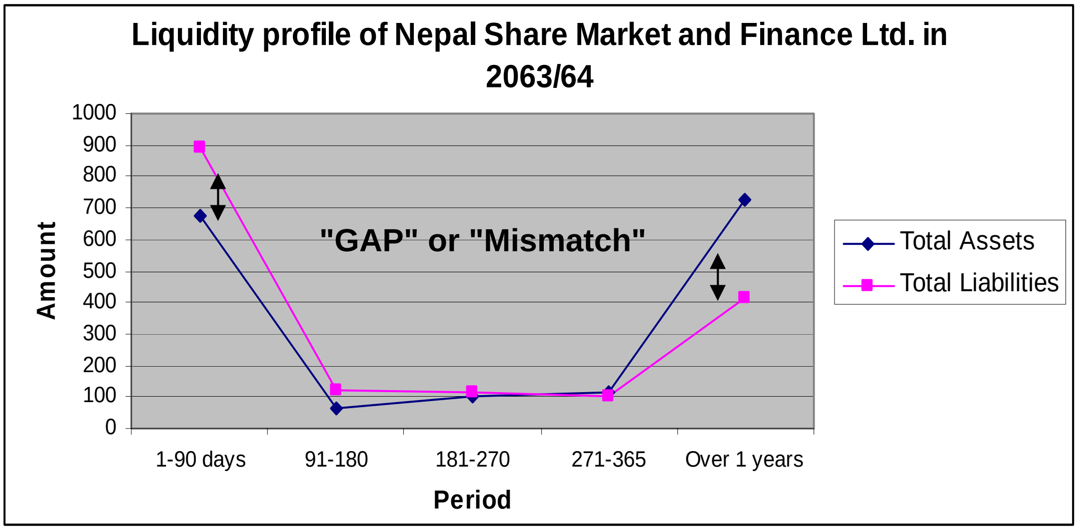
The above table and figure shows the liquidity profile or asset-liability mismatch of Nepal Share Market and Finance Ltd. in 2062/63. We can see that the assets coming due in the first period are insufficient to cover the liabilities coming due. Thus, the mismatch in the first interval is negative. This problem is compounded by the fact that the mismatch is negative in the second period as well. During the first six month, this company has a large net liability position amounting to Rs. 410.7m. In the second six month, the position is improved and "over one year" bucket shows a small net asset position of Rs. 175.9m. Therefore, the company might face a liquidity risk in that year.

Table 4.73
Liquidity Profile of Nepal Share Market and Finance Ltd in 2063/64

(Rs. In Million)

Particulars/Days	1-90	91-180	181-270	271-365	Over 1year
Total Assets	676	63	100.6	116.6	724
Total Liabilities	892.8	120.4	115.3	99	416.4
Net Financial Assets Maturing in each time interval	-216.8	-57.4	-14.7	17.6	307.6
Cumulative Net Financial Assets	-216.8	-274.2	-288.9	-271.3	36.3

Fig. 4.73



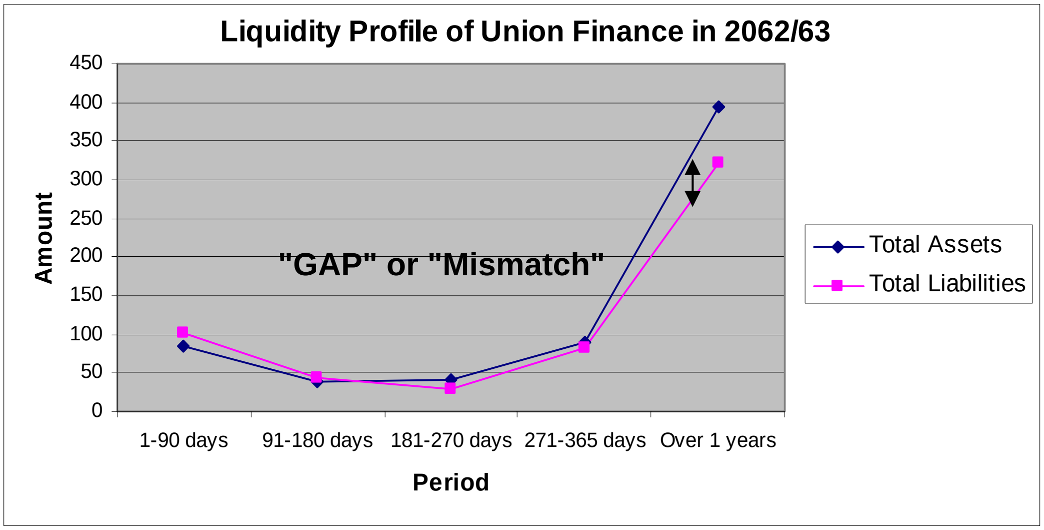
The above table and figure illustrates the liquidity profile of Nepal Share Market and Finance ltd. for the period of 2063/64. We can see that the assets coming due in the first period are insufficient to cover liabilities coming due. Thus, the mismatch in the first time interval is negative. This problem is compounded by the fact that the mismatch is negative in the second and third period as well. During the first nine months of the year, this company has a large net liability position amounting to Rs. 288.9m. In the last quarter of the year, the position is slightly improved, and the "over one year" bucket shows a small net asset position of Rs. 36.3m. Therefore, the mismatch indicates that Nepal Share Market and Finance Ltd. has a liquidity problem in the first nine month of the year.

Table 4.74

Liquidity Profile of Union Finance in 2062/63 **(Rs. In Million)**

Particulars/Days	1-90	91-180	181-270	271-365	Over 1year
Total Assets	85	39.8	41.7	90	395.5
Total Liabilities	101.3	44.2	29.9	83.3	322.8
Net Financial Assets Maturing in each time interval	-16.3	-4.4	11.8	6.7	72.7
Cumulative Net Financial Assets	-16.3	-20.7	-8.9	-2.2	70.5

Fig. 4.74



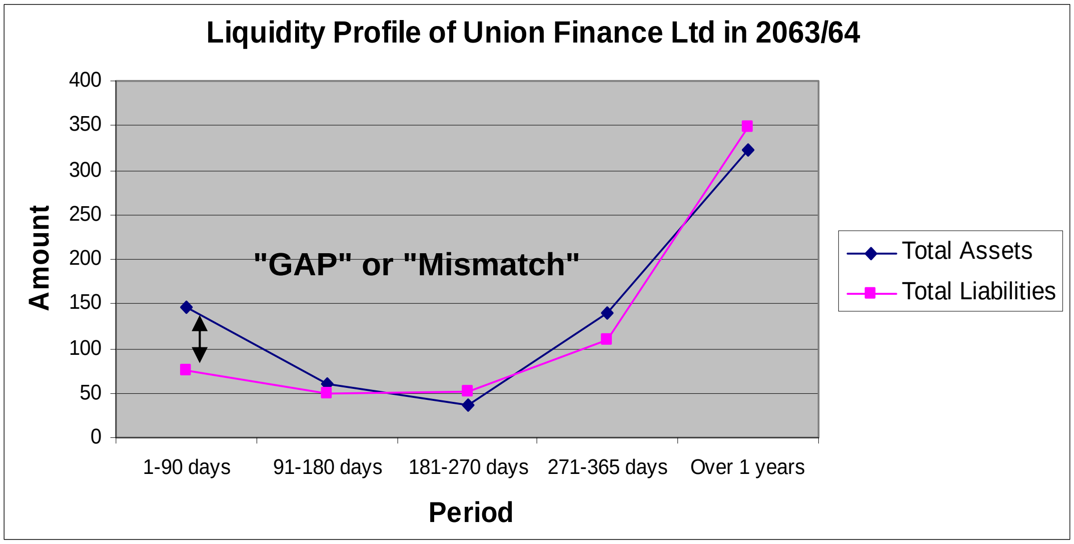
From the above table and figure we can see that the assets coming due are insufficient to cover the liabilities coming due. Thus the mismatch in the first time interval is negative. This problem is compounded by the fact that this mismatch is negative in the second period as well. During the first six month of the year, Union Finance has a slightly large net liability position amounting to Rs. 20.7m. In the second six month of the year, that position is much improved and the "over one year" bucket shows a net asset position of Rs. 70.5m. This is a much improved liquidity situation for Union Finance.

Table 4.75

Liquidity Profile of Union Finance 2063/64 **(Rs. In Million)**

Particulars/Days	1-90	91-180	181-270	271-365	Over 1year
Total Assets	145.9	60.7	36.4	140.1	322.4
Total Liabilities	74.4	49.6	51.1	109.5	348
Net Financial Assets Maturing in each time interval	71.5	11.1	-14.7	30.6	-25.6
Cumulative Net Financial Assets	71.5	82.6	67.9	98.5	72.9

Fig. 4.75



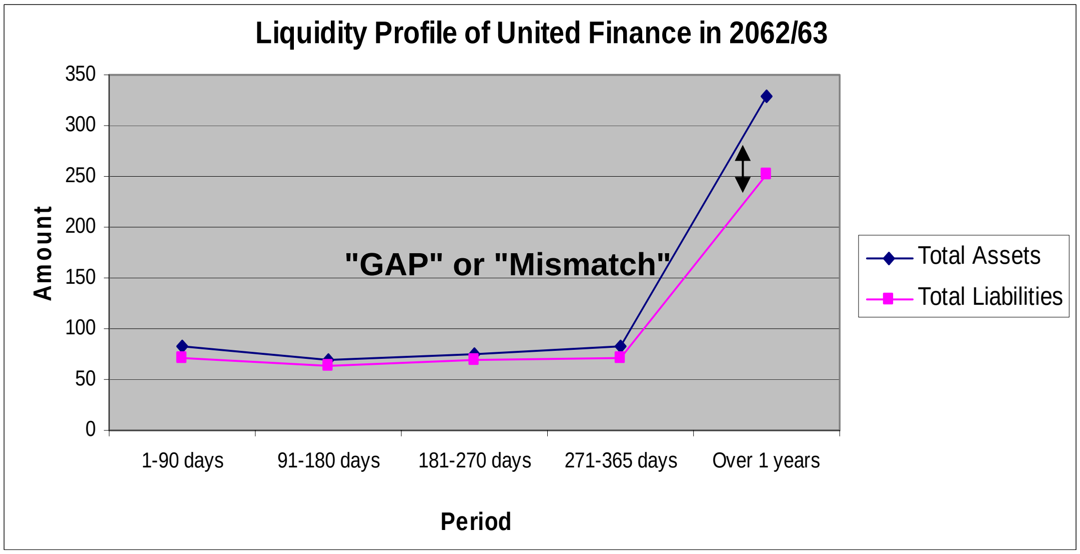
The above table and figure illustrates the liquidity profile of asset-liability mismatch of Union Finance for the period of 2063/64. We can see that the assets coming due are sufficient to cover the liabilities coming due for first, second and fourth quarter. But the mismatch is negative for the third quarter and "over one year" bucket, as the asset due is insufficient to cover the liabilities coming due. Overall, the company has a good net asset position. So there is no liquidity problem for the company in 2063/64.

Table 4.76

Liquidity Profile of United Finance Ltd. in 2062/63 **(Rs. In Million)**

Particulars/Days	1-90	91-180	181-270	271-365	Over 1year
Total Assets	82.78	68.67	75.32	82.7	328.86
Total Liabilities	70.23	64.21	69.6	71.91	251
Net Financial Assets Maturing in each time interval	12.55	4.46	5.72	10.79	77.86
Cumulative Net Financial Assets	12.55	17.01	22.73	33.52	111.38

Fig. 4.76

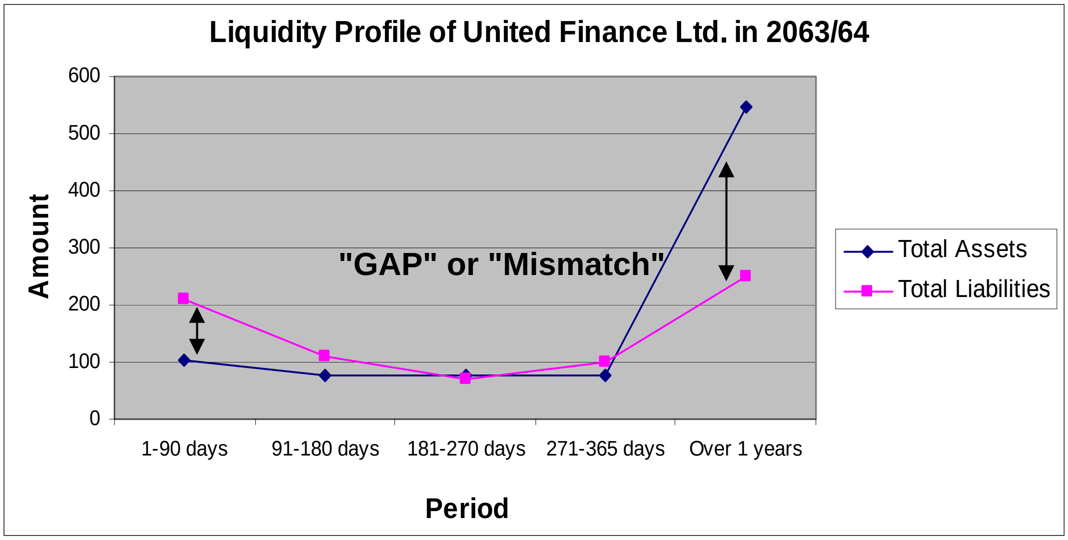


From the above table and figure, we can see that the assets coming due in all the four period in the year are sufficient to cover the liabilities coming due. Thus there is a positive mismatch between asset and liability in all the four period. Moreover, we can say that the mismatch is very low. Therefore there is no liquidity problem for United Finance in 2062/63.

Table 4.77
Liquidity Profile of United Finance Ltd. in 2063/64 **(Rs. In Million)**

Particulars/Days	1-90	91-180	181-270	271-365	Over 1year
Total Assets	102.85	75.37	75.87	76.37	545.12
Total Liabilities	211.61	109.87	71.65	100.6	249.33
Net Financial Assets Maturing in each time interval	-108.76	-34.5	4.22	-24.23	295.79
Cumulative Net Financial Assets	-108.76	-143.26	-139.04	-163.27	132.52

Fig. 4.77



The above table and figure illustrates the liquidity profile of United Finance for the period of 2063/64. We can see that the assets coming due for the first time interval are insufficient to cover the liabilities coming due. Thus, the mismatch in the first time interval is negative. This problem is compounded by the fact that the mismatch is negative in the second and fourth period as well. This position is slightly improved in the third quarter and "over one year" bucket shows a tremendous improvement in the asset position and therefore there is a positive mismatch of Rs. 295.79m thereby forcing the cumulative net financial asset position to be Rs. 132.52m from the negative net financial asset position of Rs. 163.27m in the preceding quarter. Therefore, the liquidity position of United Finance is not good for the year 2063/64.

4.9. Measurement of Interest Rate Risk using GAP Analysis:

Table 4.78

Exposure to interest rate risk for Himalayan Bank in 2062/63 **(Rs. In Million)**

Particulars/Days	1-90	91-180	181-270	271-365	Over 1 years
Total Assets	10037	6362	3587	3494	5673
Total Liabilities	3276	1294	811	852	15969
GAP	6761	5068	2776	2642	-10296
Cumulative GAP	6761	11829	14605	17247	6951
Adjusted Interest Rate Change	0.0025	0.0025	0.0025	0.0025	1
Quarterly earning impact	16.90	29.57	36.51	43.12	6951.00
Accumulated earnings Impact to date	16.90	46.48	82.99	126.11	7077.11
Earnings Impact/Average quarterly net profit	21.93	60.30	107.68	163.62	
RSA/RSL	3.06	4.92	4.42	4.10	

The above table indicates that Himalayan Bank will gain a positive earning impact of Rs. 16.90m in the first quarter, Rs. 29.57m in the second, for a total year-to-year positive impact of Rs. 46.48m. In the third and fourth quarter also, the total year-to-year accumulated earnings impact continues to be positive, so that the accumulated earnings impact for the year owing to a 1% increase in interest rate is a profit of Rs. 126.11m for the company. Therefore, there is a positive impact when there is an increase in interest rate.

The RSA to RSL ratio should be around 1.00. In the above case the ratio is 3.06 in the first quarter, 4.92 in the second quarter, 4.42 in the third quarter and 4.10 in the fourth quarter. Since, RSA is greater than RSL over the entire four quarters, there is a positive gap position.

Similarly, from first to fourth quarter of the one-year out period, quarterly earnings which cause an earnings impact of 10% of the bank's average quarterly net profit for each 1% change in interest rates should be carefully noted. In the above table, the earnings impact in the first quarter shows an unacceptable earnings impact of 21.93% in the first quarter, 60.30%, 107.68%, and 163.62% in the second, third and fourth quarters. Therefore, the bank should take action to modify the imbalance between assets and liabilities in an effort to reduce the quarterly earnings impact of the interest rate change to something less than 10% of average quarterly net profit and to maintain RSA to RSL ratio at around 1.00.

Table 4.79

Exposure to interest rate risk for Himalayan Bank in 2063/64 **(Rs. In Million)**

Particulars/Days	1-90	91-180	181-270	271-365	Over 1 years
Total Assets	11942.04	7690.58	3913.09	3276	7314.97
Total Liabilities	4669.75	4754.07	3154.51	5689.72	10599.72
GAP	7272.29	2936.51	758.58	-2413.72	-3284.75
Cumulative GAP	7272.29	10208.8	10967.38	8553.66	5268.91
Adjusted Interest Rate Change	0.0025	0.0025	0.0025	0.0025	1
Quarterly earning impact	18.18	25.52	27.42	21.38	5268.91
Accumulated earnings Impact to date	18.18	43.70	71.12	92.51	5361.42
Earnings Impact/Average quarterly net profit	15.84	38.08	61.97	80.60	
RSA/RSL	2.56	1.62	1.24	0.58	

The above table indicates that over all the four quarters in the year, Himalayan Bank will have a positive earning impact of Rs. 18.18m in the first quarter, Rs. 25.25m in the second quarter, Rs. 27.42m in the third quarter, and Rs. 21.38m in the fourth quarter, for a total year-to-year positive earning impact of Rs. 92.51m owing to a 1% increase in interest rate.

The RSA to RSL ratio should be around 1.00. In the above case the ratio is 2.56 in the first quarter, 1.62 in the second quarter, 1.24 in the third quarter, and 0.58 in the fourth quarter.

Similarly, from first to fourth quarter of the one-year out period, quarterly earnings which cause an earnings impact of 10% of the bank's average quarterly net profit for each 1% change in interest rates should be carefully noted. In the above table, the earnings impact over the entire quarter shows an unacceptable earning impact of 15.84% in the first quarter, 38.08% in the second quarter, 61.97% in the third quarter, and 80.60% in the fourth quarter, impacts above the 10% limit. Under these circumstances, the bank should take action to modify the imbalance between assets and liabilities in an effort to reduce the quarterly earnings impact of the interest rate change to something less than 10% of average quarterly net profit and to maintain RSA to RSL ratio at around 1.00.

Table 4.80
Exposure to interest rate risk for NIC Bank in 2062/63 **(Rs. In Million)**

Particulars/Days	1-90	91-180	181-270	271-365	Over 1 years
Total Assets	2490	1027	1633	2693	2396
Total Liabilities	2511	410	809	469	3971
GAP	-21	617	824	2224	-1575
Cumulative GAP	-21	596	1420	3644	2069
Adjusted Interest Rate Change	0.0025	0.0025	0.0025	0.0025	1
Quarterly earning impact	-0.05	1.49	3.55	9.11	2069.00
Accumulated earnings Impact to date	-0.05	1.44	4.99	14.10	2083.10
Earnings Impact/Average quarterly net profit	-0.18	5.05	17.54	49.57	
RSA/RSL	0.99	2.50	2.02	5.74	

The above table indicates that over the first quarter, NIC Bank will suffer a negative earning impact of Rs. 0.05m, for a total year-to-year negative earning impact of Rs. 0.05m. In the second year there is a positive gap of Rs. 1.49m, which is sufficient to offset the negative cumulative earnings impact for the previous quarter. Over the third and fourth quarters also there is a positive gap so that the accumulated earnings impact is Rs. 14.10m owing to a 1% increase in interest rates.

The RSA to RSL ratio should be around 1.00. In the above case the ratio is 0.99 in the first quarter which is an acceptable figure. But in the second to fourth quarter, the ratio is 2.50, 2.02, and 5.74 respectively, which needs a careful analysis.

Similarly, from first to fourth quarter of the one-year out period, quarterly earnings which cause an earnings impact of 10% of the bank's average quarterly net profit for each 1% change in interest rates should be carefully noted. In the above table, the earnings impact in the first and second quarter does not reach 10% of the average quarterly net profit. However, the third quarter shows an unacceptable earnings impact of 17.84% of average net profit, an impact that continues in the fourth quarter. Under these circumstances, the bank should take action to modify the imbalance between assets and liabilities in an effort to reduce the quarterly earnings impact of the interest rate change to something less than 10% of average quarterly net profit.

Table 4.81
Exposure to interest rate risk for NIC Bank in 2063/64 **(Rs. In Million)**

Particulars/Days	1-90	91-180	181-270	271-365	Over 1 years
Total Assets	3334	974	1217	3295	2677
Total Liabilities	2941	620	1136	529	5861
GAP	393	354	81	2766	-3184
Cumulative GAP	393	747	828	3594	410
Adjusted Interest Rate Change	0.0025	0.0025	0.0025	0.0025	1
Quarterly earning impact	0.98	1.87	2.07	8.99	410.00
Accumulated earnings Impact to date	0.98	2.85	4.92	13.91	423.91
Earnings Impact/Average quarterly net profit	4.06	11.77	20.31	57.41	
RSA/RSL	1.13	1.57	1.07	6.23	

The above table indicates that over all the four quarters of the year, NIC Bank will have a positive earning impact of Rs. 0.098m in the first quarter, Rs. 1.87m in the second quarter, Rs. 2.07m in the third quarter, and Rs. 8.99m in the fourth quarter, for a total year-to-year date positive earnings impact of Rs. 13.91m owing to a 1% increase in interest rate.

The RSA to RSL ratio should be around 1.00. In the above case the ratio is 1.13, and 1.07 in the first and third quarter, which is acceptable. However, in the second and fourth quarter, the ratio is 1.57 and 6.23, which is above limit and indicates that the bank should take action to maintain the ratio.

Similarly, from first to fourth quarter of the one-year out period, quarterly earnings which cause an earnings impact of 10% of the bank's average quarterly net profit for each 1% change in interest rates should be carefully noted. In the above table, the earnings impact in the first quarter does not reach 10% of the average quarterly net profit. However, the second quarter shows an earning impact of 11.77% of average net profit, which continues in the third and fourth quarters by reaching 20.31% and 57.41% respectively, impacts above the 10% limit. Under these circumstances, the bank should take action to modify the imbalance between assets and liabilities in an effort to reduce the quarterly earnings impact of the interest rate change to something less than 10% of average quarterly net profit.

Table 4.82
Exposure to interest rate risk for Everest Bank in 2062/63 **(Rs. In Million)**

Particulars/Days	1-90	91-180	181-270	271-365	Over 1 years
Total Assets	5132.5	1264.5	1296.1	3705.7	4538.8
Total Liabilities	2492.8	480.3	232.1	1578.7	9318.6
GAP	2639.7	784.2	1064	2127	-4779.8
Cumulative GAP	2639.7	3423.9	4487.9	6614.9	1835.1
Adjusted Interest Rate Change	0.0025	0.0025	0.0025	0.0025	1

Quarterly earning impact	6.60	8.56	11.22	16.54	1835.10
Accumulated earnings Impact to date	6.60	15.16	26.38	42.92	1878.02
Earnings Impact/Average quarterly net profit	15.69	36.05	62.73	102.05	
RSA/RSL	2.06	2.63	5.58	2.35	

The above table indicates that over all the four quarters of the year, Everest bank will have a positive earning impact of Rs. 6.60m in the first quarter, Rs. 8.56m in the second quarter, Rs. 11.22m in the third quarter, and Rs. 16.54m in the final quarter, so that the cumulative earnings impact for the year owing to a 1% increase in interest rate is a profit of Rs. 42.92m.

The RSA to RSL ratio should be around 1.00. In the above case the ratio is 2.06, 2.63, 5.58, and 2.35 in the first, second, third, and fourth quarters respectively, which is above the desired limit.

Similarly, from first to fourth quarter of the one-year out period, quarterly earnings which cause an earnings impact of 10% of the bank's average quarterly net profit for each 1% change in interest rates should be carefully noted. In the above table, the earnings impact over the entire four quarters is above the 10% limit at 15.69% in the first quarter, which continues to 102.05% in the fourth quarter. Under these circumstances, the bank should take action to modify the imbalance between assets and liabilities in an effort to reduce the quarterly earnings impact of the interest rate change to something less than 10% of average quarterly net profit.

Table 4.83

Exposure to interest rate risk for Everest Bank in 2063/64 **(Rs. In Million)**

Particulars/Days	1-90	91-180	181-270	271-365	Over 1 years
Total Assets	6281.2	2344.0	1684.9	3381.7	7212.5
Total Liabilities	3375.6	410.6	505.8	1408.9	10828.6
GAP	2905.6	1933.4	1179.1	1972.8	-3616.1
Cumulative GAP	2905.6	4839.0	6018.1	7990.9	4374.8
Adjusted Interest Rate Change	0.0025	0.0025	0.0025	0.0025	1
Quarterly earning impact	7.26	12.10	15.05	19.98	4374.80
Accumulated earnings Impact to date	7.26	19.36	34.41	54.38	4429.18
Earnings Impact/Average quarterly net profit	12.24	32.64	58.00	91.68	
RSA/RSL	1.86	5.71	3.33	2.40	

The above table shows that over all the four quarters of the year, Everest Bank will have a positive earning impact of Rs. 7.26m in the first quarter, Rs. 12.1m in the second quarter, Rs. 15.05m in the third quarter and Rs. 19.98m in the fourth quarter, so that the cumulative earning impact for the year owing to a 1% increase in interest rate is a profit of Rs. 54.384m.

The RSA to RSL ratio should be around 1.00. In the above case the ratio is 1.86 in the first quarter, 5.71 in the second quarter, 3.33 in the third quarter, and 2.40 in the fourth quarter, which is above the desired limit.

Similarly, the earnings impact over the entire four quarters is above the 10% limit at 12.24% in the first quarter, 32.64% in the second quarter, which continues to 58% and 91.68% in the third and fourth quarter. Under these circumstances, the bank should take action to modify the imbalance between assets and liabilities in an effort to reduce the quarterly earnings impact of the interest rate change to something less than 10% of average quarterly net profit.

Table 4.84
Exposure to interest rate risk for Nepal Share Market and Finance Ltd. in 2062/63

(Rs. In Million)

Particulars/Days	1-90	91-180	181-270	271-365	Over 1 years
Total Assets	331.1	67.2	132	168.4	778.4
Total Liabilities	719.9	98.8	86.5	81.2	324.5
GAP	-388.8	-31.6	45.5	87.2	453.9
Cumulative GAP	-388.8	-420.4	-374.9	-287.7	166.2
Adjusted Interest Rate Change	0.0025	0.0025	0.0025	0.0025	1
Quarterly earning impact	-0.97	-1.05	-0.94	-0.72	166.20
Accumulated earnings Impact to date	-0.97	-2.02	-2.96	-3.68	162.52
Earnings Impact/Average quarterly net profit	-29.61	-61.63	-90.18	-112.09	
RSA/RSL	0.46	0.68	1.53	2.07	

The table indicates that over all the four interval, the company will have a negative earning impact of Rs. 0.97m in the first quarter, Rs. 1.05m in the second quarter, Rs. 0.94m in the third quarter, and Rs. 0.72m in the fourth quarter, so that the accumulated earnings impact for the year owing to a 1% increase in interest rates is a loss of Rs. 3.68m.

The RSA to RSL ratio should be around 1.00. In the above case the ratio is 0.46 in the first quarter, 0.68 in the second quarter, which is way below 1.00. Similarly, the ratio is 1.53, and 2.07 in the third and fourth quarter, which is also unacceptable.

Similarly, there is an unacceptable earnings impact of throughout first to fourth quarter by reaching 29.61%, 61.63%, 90.18%, and 112.09% respectively, an impact above 10% limit. Therefore, the company should take action to modify the imbalance between assets and liabilities in an effort to reduce the quarterly earnings impact of the interest rate change to something less than 10% of average quarterly net profit.

Table 4.85
Exposure to interest rate risk for Nepal Share Market and Finance Ltd. in 2063/64

(Rs. In Million)

Particulars/Days	1-90	91-180	181-270	271-365	Over 1 years
Total Assets	664.5	63	100.6	116.6	724
Total Liabilities	892.8	120.4	115.3	99	416.4
GAP	-228.3	-57.4	-14.7	17.6	307.6
Cumulative GAP	-228.3	-285.7	-300.4	-282.8	24.8
Adjusted Interest Rate Change	0.0025	0.0025	0.0025	0.0025	1
Quarterly earning impact	-0.57	-0.71	-0.75	-0.71	24.80
Accumulated earnings Impact to date	-0.57	-1.29	-2.04	-2.74	22.06
Earnings Impact/Average quarterly net profit	-8.43	-18.99	-30.08	-40.53	
RSA/RSL	0.74	0.52	0.87	1.18	

The above table indicates that over the entire four interval, the company will have a negative earning impact, like the previous year, of Rs. 0.57m in the first interval, Rs. 0.71m in the second quarter, Rs. 0.75m in the third quarter, and Rs. 0.71m in the final quarter, for a total year-to-year negative earnings impact of Rs. 2.74m owing to a 1% increase in interest rate.

The RSA to RSL ratio should be around 1.00. In the above case the ratio is 0.74 in the first quarter, 0.52 in the second quarter, 0.87 in the third quarter, and 1.18 in the fourth quarter.

Similarly, the earnings impact in the first quarter does not reach 10% of an average quarterly net profit. However, second quarter shows an unacceptable earnings impact of 19% of average net profit, an impact that continues in the third and fourth quarters by reaching 30% and 41% respectively., impact above 10% limit. Therefore, the company should take action to modify the imbalance between assets and liabilities in an effort to reduce the quarterly earnings impact of the interest rate change to something less than 10% of average quarterly net profit.

Table 4.86
Exposure to interest rate risk for United Finance Ltd. in 2062/63

(Rs. In Million)

Particulars/Days	1-90	91-180	181-270	271-365	Over 1 years
Total Assets	82.78	68.67	75.32	82.7	328.86
Total Liabilities	70.23	64.21	69.6	71.91	251
GAP	12.55	4.46	5.72	10.79	77.86
Cumulative GAP	12.55	17.01	22.73	33.52	111.38
Adjusted Interest Rate Change	0.0025	0.0025	0.0025	0.0025	1
Quarterly earning impact	0.03	0.04	0.06	0.08	111.38
Accumulated earnings Impact to date	0.03	0.07	0.13	0.21	
Earnings Impact/Average quarterly net profit	1.56	3.68	6.50	10.67	
RSA/RSL	1.18	1.07	1.08	1.15	

The above table indicates that over the entire four interval, the company will have a positive earning impact of Rs. 0.03m in the first quarter, Rs. 0.04m in the second quarter, Rs. 0.06m in the third quarter, and Rs. 0.08m in the fourth quarter, so that the accumulated earning impact for the year owing to 1% increase in interest rate is a profit of Rs. 0.21m.

The RSA to RSL ratio should be around 1.00. In the above case the ratio is 1.18 in the forst quarter, 1.07 in the second quarter, 1.08 in the third quarter and 1.15 in the fourth quarter. Therefore, in this year United Finance has maintained the requirement.

Similarly, the earnings impact over the entire first quarter to fourth quarter does not reach 10% of an average quarterly net profit. Therefore, the company has made a good balance between assets and liabilities.

Table 4.87

Exposure to interest rate risk for United Finance Ltd. in 2063/64 **(Rs. In Million)**

Particulars/Days	1-90	91-180	181-270	271-365	Over 1 years
Total Assets	101.25	75.37	75.87	76.37	545.12
Total Liabilities	211.61	109.87	71.65	100.6	249.33
GAP	-110.36	-34.5	4.22	-24.23	295.79
Cumulative GAP	-110.36	-144.86	-140.64	-164.87	130.92
Adjusted Interest Rate Change	0.0025	0.0025	0.0025	0.0025	1.00
Quarterly earning impact	-0.28	-0.36	-0.35	-0.41	130.92
Accumulated earnings Impact to date	-0.28	-0.64	-0.99	-1.40	
Earnings Impact/Average quarterly net profit	-8.68	-20.08	-31.15	-44.12	
RSA/RSL	0.48	0.69	1.06	0.76	

The above table indicates that, contrary to the previous year, over the entire four interval, the company will suffer a negative earnings impact or loss if Rs. 0.28m in the first quarter, Rs. 0.36m in the second quarter, Rs. 0.35m in the third quarter, and Rs. 0.41m in the fourth quarter, so that the accumulated earnings impact for the year owing to a 1% increase in interest rate is a loss of Rs. 1.40m.

The RSA to RSL ratio should be around 1.00. In the above case the ratio is 0.48 in the forst quarter, 0.69 in the second quarter, 1.06 in the third quarter and 0.76 in the fourth quarter.

Similarly, the earnings impact in the first quarter does not reach 10% of an average quarterly net profit. However, second quarter shows an unacceptable earnings impact of 20% of average net profit, an impact that continues in the third and fourth quarters by reaching 31% and 44% respectively., impact above 10% limit. Therefore, the company should take action to modify the imbalance between assets and liabilities in an effort to reduce the quarterly earnings impact of the interest rate change to something less than 10% of average quarterly net profit.

Table 4.88
Exposure to interest rate risk for Union Finance Ltd. in 2062/63 (Rs. In Million)

Particulars/Days	1-90	91-180	181-270	271-365	Over 1 years
Total Assets	85	39.8	41.7	90	395.5
Total Liabilities	101.3	44.2	29.9	83.3	322.8
GAP	-16.3	-4.4	11.8	6.7	72.7
Cumulative GAP	-16.3	-20.7	-8.9	-2.2	70.5
Adjusted Interest Rate Change	0.0025	0.0025	0.0025	0.0025	1
Quarterly earning impact	-0.04	-0.05	-0.02	-0.01	70.5
Accumulated earnings Impact to date	-0.04	-0.09	-0.11	-0.12	
Earnings Impact/Average quarterly net profit	-4.35	-9.87	-12.24	-12.83	
RSA/RSL	0.84	0.90	1.39	1.08	

The above table indicates that over the entire four quarters, the company will suffer a negative earning impact of Rs. 0.04m in the first quarter, Rs. 0.05m in the second quarter, Rs. 0.02m in the third quarter, and Rs. 0.01m in the fourth year making a total year-to-year date negative earning impact or a loss of Rs. 0.12m owing to a 1% increase in interest rate.

The RSA to RSL ratio should be around 1.00. In the above case the ratio is 0.84 in the forst quarter, 0.90 in the second quarter, 1.39 in the third quarter and 1.08 in the fourth quarter. Therefore, the company has tried to maintain the requirement except for the third quarter.

Similarly, the earnings impact in the first and second quarter does not reach 10% of an average quarterly net profit. However, third quarter shows an unacceptable earnings impact of 12.24% of average net profit, an impact that continues in the fourth quarter by reaching 12.83%, impact above 10% limit. Therefore, the company should take action to modify the imbalance between assets and liabilities in an effort to reduce the quarterly earnings impact of the interest rate change to something less than 10% of average quarterly net profit.

Table 4.89
Exposure to interest rate risk for Union Finance Ltd. in 2063/64 (Rs. In Million)

Particulars/Days	1-90	91-180	181-270	271-365	Over 1 years
Total Assets	144.6	60.7	36.4	140.1	322.4
Total Liabilities	74.4	49.6	51.1	109.5	348
GAP	70.2	11.1	-14.7	30.6	-25.6
Cumulative GAP	70.2	81.3	66.6	97.2	71.6
Adjusted Interest Rate Change	0.0025	0.0025	0.0025	0.0025	1
Quarterly earning impact	0.18	0.20	0.17	0.24	71.6
Accumulated earnings Impact to date	0.18	0.38	0.55	0.79	
Earnings Impact/Average quarterly net profit	-2.34	-5.06	-7.28	-10.52	
RSA/RSL	1.94	1.22	0.71	1.28	

The above table shows that, contrary to the previous year, the company will gain a profit over the entire four quarters of Rs. 0.18m in the first quarter, Rs. 0.20m in the second quarter, Rs. 0.17m in the third quarter, Rs. 0.24m in the fourth quarter, so that the accumulated earnings impact is a gain of Rs. 0.79m owing to a 1% increase in interest rate.

The RSA to RSL ratio should be around 1.00. In the above case the ratio is 1.94 in the first quarter, 1.22 in the second quarter, 0.71 in the third quarter and 1.28 in the fourth quarter.

Similarly, the earnings impact over the first quarter to third quarter does not reach 10% of an average quarterly net profit. However, the fourth quarter shows a slightly unacceptable earnings impact of 10.52%. Therefore, the company has made a good balance between assets and liabilities except for the fourth quarter.

4.10. Trend Analysis of deposits and loans for Financial Institutions:

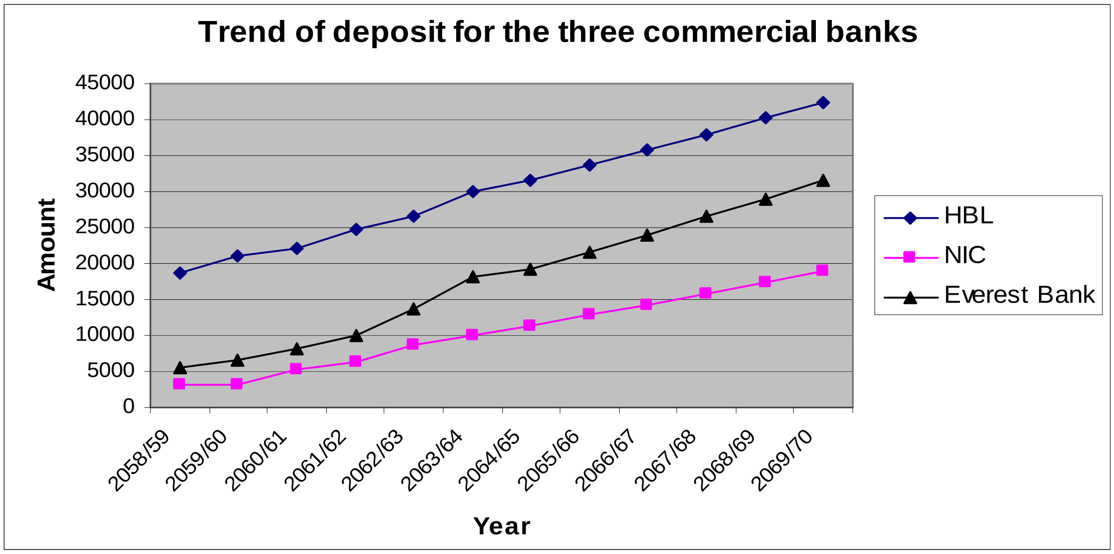
Table 4.90
Trend Analysis for Deposit collection for the three commercial banks

(Rs. In Million)

Year/Banks	HBL	NIC	Everest Bank
2058/59	18619.38	3165.31	5466.61
2059/60	21007.38	3144.32	6694.96
2060/61	22010.33	5146.48	8063.90
2061/62	24814.01	6241.38	10097.69
2062/63	26490.85	8765.95	13802.44
2063/64	30048.42	10068.23	18186.25
2064/65	31471.66	11336.05	19080.76
2065/66	33654.50	12835.32	21565.17
2066/67	35837.33	14334.59	24049.58
2067/68	38020.17	15833.85	26533.99
2068/69	40203.01	17333.12	29018.41
2069/70	42385.85	18832.39	31502.82

The above illustrates the expected deposit collection of the three commercial banks over the period of six years. The deposit collection of Himalayan Bank is expected to reach Rs. 42385.85; that of NIC Bank is expected to reach Rs. 18832.39; while that of Everest Bank is expected to reach Rs. 31502.82 over the period of 2069/70.

Fig. 4.78



From the above figure, we can see that the deposit of all the three commercial banks is estimated to be in increasing trend. The deposit collection for Himalayan Bank is estimated to be the highest among the three commercial banks followed by Everest Bank and then by NIC Bank.

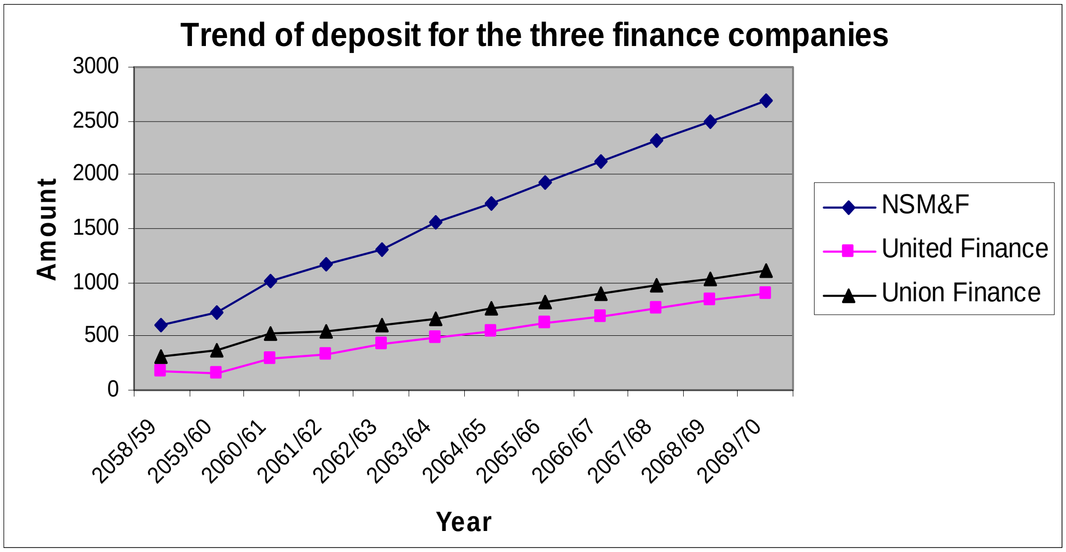
Table 4.91
Trend Analysis for Deposit collection for the three finance companies

(Rs. In Million)

Year/Fin. Com.	NSM&F	United Finance	Union Finance
2058/59	609.14	182.28	303.45
2059/60	716.36	164.59	378.85
2060/61	1007.83	286.78	518.78
2061/62	1166.98	332.65	538.73
2062/63	1310.91	427.78	594.52
2063/64	1563.87	494.26	670.40
2064/65	1734.16	554.26	750.96
2065/66	1926.06	622.70	822.44
2066/67	2117.95	691.135	893.91
2067/68	2309.85	759.57	965.39
2068/69	2501.75	828.01	1036.87
2069/70	2693.65	896.45	1108.34

The above table illustrates the trend of deposit collection for the three finance companies over the period of six years. The deposit collection for Nepal Share Market and Finance Ltd. is expected to be Rs. 2693.65; that of United Finance is expected to be Rs. 896.45; while that of Union Finance is expected to reach Rs. 1108.34 over the period of 2069/70.

Fig. 4.79



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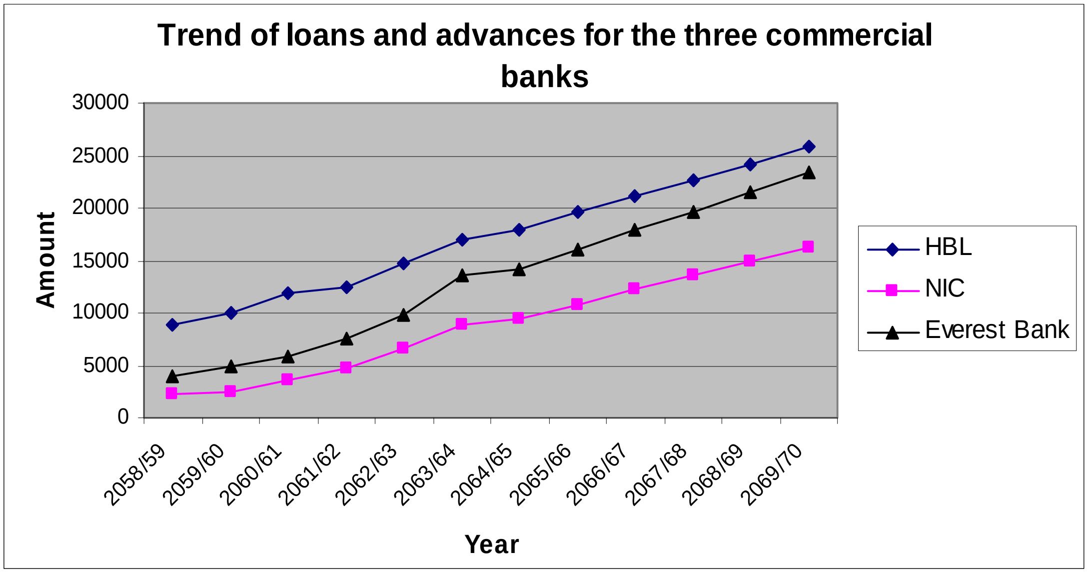
From the above figure, we can see that the deposit collection of all the three finance companies is estimated to be in increasing trend. The deposit collection is estimated to be the highest for Nepal Share Market and Finance Ltd. among the three finance companies followed by Union Finance and then by United Finance.

Table 4.92
Trend analysis for Loans and Advances of the three commercial banks
(Rs. In Million)

Year/Banks	HBL	NIC	Everest Bank
2058/59	8913.72	2278.99	3948.48
2059/60	10001.85	2419.52	4908.46
2060/61	11951.87	3561.14	5884.12
2061/62	12424.52	4711.71	7618.67
2062/63	14642.56	6655.96	9801.31
2063/64	16998.00	8941.40	13664.08
2064/65	17970.37	9478.65	14136.63
2065/66	19536.54	10826.42	15993.52
2066/67	21102.72	12174.18	17850.41
2067/68	22668.90	13521.95	19707.30
2068/69	24235.07	14869.72	21564.19
2069/70	25801.25	16217.49	23421.08

The above table illustrates the total amount of fund that is expected to be used in granting loans and advances by the three commercial banks over the period of six years. The amount of fund that is expected to be used in loans and advances for Himalayan Bank is Rs. 25801.25; that of NIC Bank is expected to be Rs. 16217.49; while that of Everest Bank is expected to be Rs. 23421.08 over the period of 2069/70.

Fig. 4.80



From the above figure, we can see that the loans and advances of all the three commercial banks are estimated to be in increasing trend. Himalayan Bank is estimated to flow more fund in granting loans and advances than the other two commercial banks followed by Everest Bank and then by NIC Bank.

Table 4.93
Trend analysis for Loans and Advances of the three finance companies

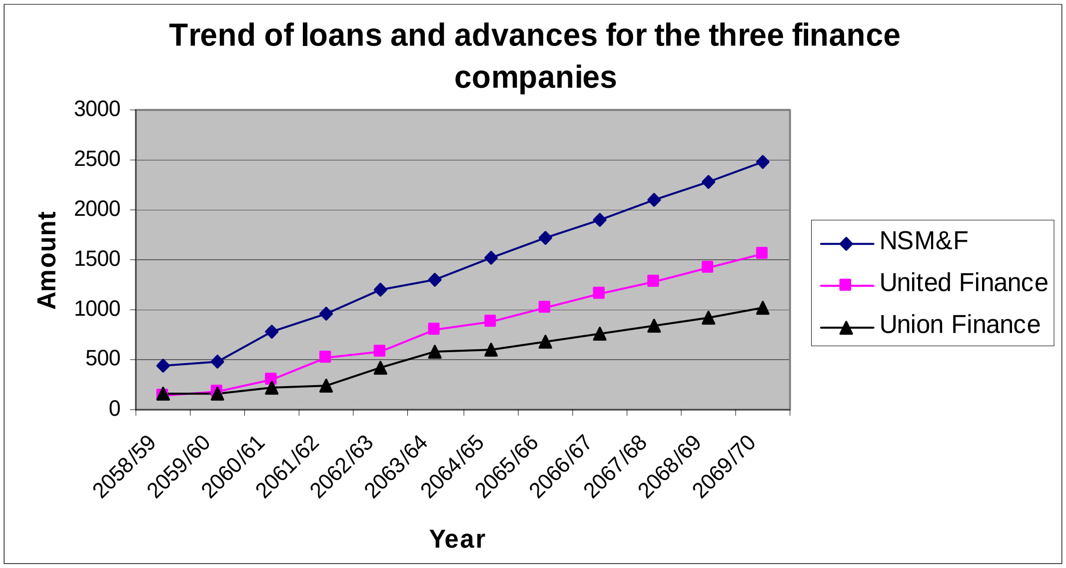
(Rs. In Million)

Year/Fin. Com.	NSM&F	United Finance	Union Finance
2058/59	440.80	143.72	154.94
2059/60	476.49	184.75	159.91
2060/61	784.41	307.82	213.48
2061/62	952.00	529.43	243.60
2062/63	1202.10	573.02	416.61
2063/64	1303.32	799.10	586.26
2064/65	1525.56	889.31	591.49
2065/66	1715.76	1022.54	675.97
2066/67	1905.96	1155.78	760.45
2067/68	2096.16	1289.02	844.93
2068/69	2286.36	1422.26	929.41
2069/70	2476.56	1555.49	1013.90

The above table illustrates the amount of fund that is expected to be used as loans and advances by the three finance companies over the coming six years. The amount of fund that is expected to be used as loans and advances by Nepal Share Market and Finance Ltd. is Rs. 2476.56; that of

United Finance is expected to reach Rs. 1555.49; while that of Union Finance is expected to reach Rs. 1013.90 over the period of 2069/70.

Fig. 4.81



From the above figure, we can see that the loans and advances of all the three finance companies are expected to grow over times. Nepal Share Market and Finance company is expected to flow more funds as loans and advances compared to the other two finance companies and the slope is also steeper compared to the other two finance companies.

Chapter Five

Summary, Conclusion and Recommendation

5.1. Summary:

The financial institutions are agents and owners which market securities to lenders, borrowers, and one another. The flow of fund from lenders to borrowers is facilitated by financial institutions, which trade existing securities and create new securities. Institutions provide an important payment mechanism, operate market for trading securities transmute funds by creating securities wit new terms, manage portfolios, and reduce risk through diversification.

Financial Institutions can be classified as banking and non-banking institutions. The banking institution have quite a few things in common with the non banking ones, but their distinguishing character lies in the fact that, unlike other institution, they participate in the economy's payment mechanism, i.e. they provide transaction services, the deposits liabilities constitute a major part of the national money supply, and they can, as a whole, create deposits or credits, which is money. Banks subject to legal reserve requirement can advance credit by creating claims against themselves, while other institution can lend only out of the resources put at their disposal by the savers.

Nepal’s tryst with the financial sector development has been around for a little over twenty years. The development of this sector actually started in the mid-1980s with the entry of foreign banks in joint venture with Nepali promoters breaking the monopoly of state owned banks. Non-Banking Financial Institutions started being licensed in 1984 with lower capital requirements for such institutions than for banks and it marked the need for more players in the market to expand the access of services to the general public.

Nowadays, the growing internationalization, the globalization of financial markets, the increasing competition in the national and international banking markets and the introduction of complex products have increased volatility and risks. The great and fast availability of all kinds of different information due to the development towards an information society has eliminated any delays between the occurrence of an event and the impact on the markets.

Considerations of uncertainties are critical in financial planning. Investors often seek to develop long-term strategies that hedge against uncertainties. But evaluating long-term investment strategies requires several components that are now commonly available. There must be a way to generate scenarios that is logically consistent and based on sound economic principles.

All the above drove the financial institutions to seek out greater efficiency in the management of their assets and liabilities. Thus bank asset and liability management is concerned with the simultaneous planning of all asset and liability positions in the bank's balance sheet under consideration of the different banks management objectives and legal, managerial and market constraints, for the purpose of mitigating interest rate risks, providing liquidity and enhancing the value of the bank. Thus the central problem of ALM revolves around the bank's balance sheet and the main question that arises is: what should be the composition of a bank's assets and liabilities on average given the corresponding returns and costs, in order to achieve certain goals, such as maximization of the bank's gross revenue? This need has led banks to determine their optimal balance among profitability, risk, liquidity and other uncertainties. The optimal balance between these factors cannot be found without considering important interactions that exist between the structure of a bank's liability and capital and the composition of its assets.

There are different methods to analyze a financial institution asset and liability structure; one of them being a ratio analysis. Ratios are a basic tool for financial analyst and are essential to examine the effectiveness of a financial institution's financial performance and risk management process. They are normally the initial points that provides clue for further analysis. Changes in the ratios over time provide a dynamic view of a financial institution performance. The outputs of the framework include ratios on balance sheet structure, profitability, liquidity, capital adequacy, and market risk. Some of the major findings of our financial ratio analysis which are performed for selected Nepalese Financial Institutions namely Himalayan Bank Ltd., Everest Bank Ltd., NIC Bank Ltd., Nepal Share Market and Finance Ltd., United Finance Ltd., and Union Finance Ltd. are as follows:

The source of fund collected through capital fund is highest for NIC Bank with an average ratio of 11.01 percent over the period of six years of observation followed by Everest Bank and Himalayan Bank with an average ratio of 7.88 percent and 5.95 percent respectively

United Finance has the highest proportion of fund raised through capital in the total fund collected with an average ratio of 16.16 percent followed by Union Finance with an average ratio of 11.63 percent and then by Nepal Share Market and Finance Ltd. with an average ratio of 11.63 percent.

The fund raised through deposits is the highest for Himalayan Bank with an average ratio of 89.93 percent followed by Everest Bank at 84.51 percent and then by NIC Bank at 83.74 percent. The above table also illustrates that deposit is the major source of fund for the commercial banks contributing more than eighty percent of the total sources of fund.

The deposit to total fund ratio of Nepal Share Market and Finance Ltd. is the highest among the three finance companies with an average ratio of 82.31 percent followed by Union Finance with an average ratio of 81.55 percent and then by United Finance at 65.66 percent.

The borrowing to total fund ratio of the NIC Bank is the highest at 3.54 percent followed by Himalayan Bank at 1.62 percent and then by Everest Bank at 0.21 percent which has not borrowed any amount for the past five years.

The borrowing to total fund ratio of United Finance is the highest with an average ratio of 13.99 percent followed by Union Finance with an average ratio of 2.09 percent and then by Nepal Share Market and Finance Ltd. with an average ratio of 0.70 percent.

The other liabilities to total fund ratio of Everest Bank is the highest at 7.02 percent followed by Himalayan Bank with 2.10 percent and then by NIC bank with 0.94 percent.
The other liabilities to total fund ratio for Nepal Share Market and Finance Ltd. is the highest with a ratio of 5.93 percent followed by United Finance with an average ratio of 3.92 percent and then by Union finance with an average ratio of 3.33 percent.

The liquid to total fund ratio of Everest Bank is the highest at 11.37 percent followed by NIC Bank at 10.68 percent and then by Himalayan Bank at 7.49 percent over the period of six-observation year. This shows that Everest Bank has employed higher portion of its total fund as a liquid fund among the three commercial banks.

The liquid fund to total fund ratio of Nepal Share Market and Finance Ltd is the highest with an average ratio of 14.64 percent followed by Union Finance with an average ratio of 9.24 percent and then by United Finance with an average ratio of 5.54 percent.

The total investment to total fund ratio of Himalayan Bank is the highest at 40.04 percent followed by Everest Bank at 23.37 percent and then by NIC Bank at 22.80. Investment is considered to be the second line of defense and this is well maintained by all the three banks.

The investment to total fund ratio of Union Finance is the highest with an average ratio of 8.70 percent followed by United Finance with an average ratio of 5.86 percent and then by Nepal Share Market and Finance Ltd. with an average ratio of 2.39 percent.

NIC Bank has used highest proportion of fund in loans and advances at 63.98 percent followed by Everest Bank and Himalayan Bank at 62 percent and 46.66 percent respectively. This shows that most of the total fund available to the banks is utilized in granting loans and advances which is also a major earning source of banks.

The loans and advances to total fund ratio is the highest for United Finance with an average ratio of 80.15 percent followed by Nepal Share Market and Finance Ltd. with an average ratio of 65.09 percent and then by Union Finance with an average ratio 46.17 percent.

Himalayan Bank used the highest proportion of its total fund in fixed assets with an average ratio of 1.39 percent followed by Everest Bank and then NIC Bank with an average ratio of 1.15 percent and 0.99 percent respectively.

The fixed assets to total fund ratio is the highest for Union Finance with an average ratio of 27.61 percent followed by Nepal Share Market and Finance Ltd. with an average ratio of 11.37 percent and then by United Finance with an average ratio of 1.25 percent over six years of observation period. An important thing here to note is that the average ratio of Union Finance is 27.61 percent, which is the maximum for any company. But when looked at the balance sheet Union Finance has used its fund in leased assets as well along with the assets used for own use.

The other assets to total fund ratio of Himalayan Bank is the highest with an average ratio of 2.69 percent followed by Everest Bank with an average ratio of 2.07 percent and then by NIC Bank with an average ratio of 1.55 percent.

The other assets to total fund ratio of Nepal Share Market and Finance Ltd. is the highest with an average ratio of 6.51 percent followed by United finance and then by Union Finance with an average ratio of 6.37 percent and 5.56 percent respectively.

The performing to total assets ratio of Himalayan Bank is the highest with an average ratio of 89.03 percent followed by NIC Bank with an average ratio of 88.42 percent, and then Everest Bank with an average ratio of 86.92 percent. Since the ratio is the highest for the Himalayan Bank, we can say that Himalayan Bank has better utilized its assets, though the difference is very low compared to the other banks. Therefore, we can say that all the three banks have utilized their assets in a better way.

The cash and bank balance to total deposit ratio of the Everest Bank is the highest at an average ratio of 11.65 percent followed by NIC Bank with an average ratio of 10.77 percent and then Himalayan Bank with an average ratio of 7.63 percent. The higher ratio shows better liquidity position of the financial institution but at the same time reflects the institutions' inability to properly utilize its fund. Here, all the three sample commercial banks have maintained adequate cash and bank balance to meet the cash withdrawal requirement of their depositors.

The cash and bank balance to total deposit ratio is the highest for Nepal Share Market and Finance Ltd. with an average ratio of 13.53 percent followed by Union Finance with an average ratio of 9.68 percent and then by United Finance with an average ratio of 5.18 percent. The higher ratio shows better liquidity position of the financial institution. So the liquidity position based on this ratio of Nepal Share Market and Finance Ltd. and Union Finance can be considered satisfactory. However, for United Finance, the ratio indicates that the company might be in the verge of facing the liquidity risk. So United Finance should concentrate in maintaining adequate cash and bank balance compared to the deposit.

The investment in government securities to total deposit ratio of Everest Bank is the highest with an average ratio of 28.22 percent followed by NIC Bank and then Himalayan Bank with an average ratio of 21.64 percent and 18.99 percent respectively. So all the three banks have invested adequate amount of their deposit in government securities which is considered to be the second line of defense for the financial institutions as it can be liquidated easily and it also generates some earning for the financial institutions.

Investment in government securities to total deposit ratio or Statutory Reserve ratio is the highest for United Finance with an average ratio of 8.56 percent followed by Union Finance with an average ratio of 6.21 percent and then by Nepal Share Market and Finance Ltd. with an average ratio of 0.68 percent.

The credit to total deposit ratio of NIC Bank is the highest at 79.52 percent followed by Everest Bank at 75.68 percent and then by Himalayan Bank at 55.76 percent. Since, the ratio is below eighty percent for NIC Bank and Everest Bank; it can be considered that these two banks have a moderate lending policy. Himalayan bank, on the other hand, has a conservative lending policy by utilizing just over fifty-five percent of its deposit in advancing loans.
The performing assets to total assets ratio is the highest for United Finance with an average ratio of 88.15 percent, followed by Nepal Share Market and Finance Ltd. with an average ratio of 70.99 percent, and then by Union Finance with an average ratio of 56.30 percent. So Union Finance should look for new ways of productively utilizing their resources so that it could generate sufficient fund to give higher interest to the depositor and dividend to the shareholders to whom these finance companies are liable.

The loans and advances to total deposit ratio is the highest for United Finance with an average ratio of 129.26 percent followed by Nepal Share Market and Finance Ltd. with an average ratio of 84.14 percent and then by Union Finance with an average ratio of 58.06 percent. From the above data, we can conclude that United Finance has adopted a very aggressive lending by advancing loans more that the deposit it has collected. Though by advancing more loans, the company might earn more interest but at the same time, it could be risky if the defaulter rate is high. So the company should tighten up its lending policy. On the contrary, Union Finance has adopted a conservative lending policy by lending only 58 percent of its deposit. While Nepal Share Market and Finance Ltd. has adopted moderate lending policy, which can be considered appropriate.

Performing loan to total loans and advance ratio is the highest for Everest Bank with an average ratio of 98.55 percent followed by NIC Bank with an average ratio of 95.63 percent and then by Himalayan Bank with an average ratio of 91.87 percent.

The performing loan to total loans and advance ratio is highest for United Finance with an average ratio of 96.97 percent followed by Union Finance with an average ratio of 96.54 percent and then by Nepal Share Market and Finance Ltd.

Non-performing loan to total loan and advances ratio is the highest for Himalayan Bank with an average ratio of 7.49 percent followed by NIC Bank with an average ratio of 4.37 percent, and then by Everest Bank with an average ratio of 1.45 percent.

Non-performing loan to total loans and advance ratio of Nepal Share Market and Finance Ltd. is the highest with a ratio of 6.15 percent followed by Union Finance with a ratio of 5.05 percent. The proportion of non-performing loan in the total loans and advance for United Finance is 3.70 percent.

The core capital to risk weighted assets ratio of NIC Bank is the highest among the three commercial banks with an average ratio of 13.52 percent followed by Everest Bank with an average ratio of 9.51 percent and then by Himalayan Bank with an average ratio of 7.98 percent. As mentioned earlier, it is better for the banks to maintain core capital not less than six percent of the total risk weighted assets. We hereby, can conclude that all the three banks have maintained adequate core capital, thereby indicating their capacity to absorb unexpected loss or risk.

The capital adequacy ratio of NIC Bank is the highest among three commercial banks, with an average ratio of 15.58 percent followed by Everest Bank with an average ratio of 12.32 percent and then Himalayan Bank with an average ratio of 11.25 percent. The minimum capital that is to be maintained by the financial institutions is prescribed by Nepal Rasta Bank and it should not be less than ten percent. All the three banks have maintained the minimum capital adequacy ratio.

The capital adequacy ratio is the highest for United Finance with an average ratio of 14.80 percent followed by Nepal Share Market and Finance Ltd. with an average ratio of 12.79 percent and then by Union Finance with an average ratio of 9.93 percent.

The return on equity of Himalayan Bank is the highest with an average ratio of 22.67 percent over the period of six years followed by Everest Bank with an average ratio of 20.34 percent and then by NIC Bank with an average ratio of 10.58 percent. From the current and prospect shareholders' point of view, Himalayan Bank is the best choice for the investment as it is providing a better return to the shareholders while NIC Bank should find ways to increase its return on equity so as to retain its current shareholders and attract the new ones.

The return on equity is the highest for United Finance with an average ratio of 9.67 percent followed by Nepal Share Market and Finance Ltd. with an average ratio of 7.70 percent and then by Union Finance with an average ratio of 1.10 percent.

The return on assets for Himalayan Bank is 1.21 percent; that of NIC Bank is 0.96 percent; while that of Everest Bank is 1.38 percent over the period of six years. Therefore, the return on assets of Everest is the best among the three sample commercial banks followed by Himalayan Bank and then NIC Bank.

This means that Everest Bank has productively utilize its assets, earning maximum return on its assets among the three sample commercial banks.

The return on total assets is the highest for United Finance with an average ratio of 1.14 percent followed by Nepal Share Market and Finance Ltd. with an average ratio of 0.81 percent and then by Union Finance with an average ratio of 0.52 percent. The ratio for Nepal Share Market and Finance Ltd. and Union Finance is negative in the year 2059/60 and 2062/63 respectively due to negative net income.

The return on total deposits is the highest for Everest Bank with an average ratio of 1.63 percent followed by Himalayan Bank with an average ratio of 1.35 percent and then by NIC Bank with an average ratio of 1.14 percent.
The return on total deposits is the highest for United Finance with an average ratio of 1.86 percent followed by Nepal Share Market and Finance Ltd. with an average ratio of 0.97 percent and then by Union Finance with an average ratio of 0.66 percent. This indicates that United Finance has successfully utilized the deposit collected from its customer and earned a greater return compared to the other two finance companies.

The return on risky assets is the highest for Himalayan Bank with an average ratio of 2.40 percent, followed by Everest Bank with an average ratio of 2.15 percent and then by NIC Bank with an average ratio of 1.43 percent. This shows that Himalayan has disburse good loan in higher proportion compared to the other two commercial banks.

The return on risky assets is the highest for Union Finance with an average ratio of 1.87 percent, followed by United finance with an average ratio of 1.27 percent, and then by Nepal Share Market and Finance Ltd with an average ratio of 1.07 percent.

The asset-liability mismatch or GAP is positive for all the three banks over the entire four quarters of FY 2062/63 and FY 2063/64.

The asset-liability mismatch is negative over the entire four quarters of FY 2062/63 for Nepal Share Market and Finance Ltd. and Union Finance whereas the gap is positive for United Finance for the same period. In the year

2063/64, the gap is positive in the first quarter and negative in the last three quarters for Nepal Share Market and Finance Ltd. whereas there is a positive gap over the entire four quarters for Union Finance while the gap is negative over the entire four quarters for United Finance.

In the year 2062/63, the accumulated earnings impact owing to a 1% increase in interest rate is a profit of Rs. 126.11m for Himalayan Bank. There is a positive earning impact of Rs. 14.10m owing to a 1% increase in interest rate for NIC Bank while that for Everest Bank is Rs. 42.92m owing to a 1% increase in interest rate. In the year 2063/64, there is a positive earning impact of Rs. 92.51m owing to a 1% increase in interest rate for Himalayan Bank. There is a positive earnings impact of Rs. 13.91m owing to a 1% increase in interest rate for NIC Bank while the cumulative earning impact for the year owing to a 1% increase in interest rate is a profit of Rs. 54.384m for Everest Bank.

In the year 2062/63, the accumulated earnings impact owing to a 1% increase in interest rates is a loss of Rs. 3.68m for Nepal Share Market and Finance Ltd. The accumulated earning impact for the year owing to 1% increase in interest rate is a profit of Rs. 0.21m for United Finance. There is a negative earning impact or a loss of Rs. 0.12m owing to a 1% increase in interest rate for Union Finance. In the year 2063/64, there is a negative earnings impact of Rs. 2.74m owing to a 1% increase in interest rate for Nepal Share Market and Finance Ltd. The accumulated earnings impact for the year owing to a 1% increase in interest rate is a loss of Rs. 1.40m for United Finance and the accumulated earnings impact is a gain of Rs. 0.79m owing to a 1% increase in interest rate for Union Finance.

5.2. Conclusion:

The importance of this study may be viewed from its contribution to fill gap in literature. That is, findings of this study can add to the existing body of the literature, and can serve as a starting point on which future studies can be done. On the practical dimension, this study may help financial institution decision makers to focus on major banking activities that may increase the financial performance positions comparing with other banks. Such information should help the management of the commercial banks and finance companies in creating appropriate financial strategies for attaining the required planned financial performance.

Asset and liability management is the most important aspect for the financial Institutions to manage Balance Sheet Risk, especially for managing of liquidity risk and interest rate risk. Failure to identify the risks associated with business and failure to take timely measures in giving a sense of direction threatens the very existence of the institution.

From our study we can conclude that the asset and liability structure of all the three commercial banks and finance companies is the same. The composition analysis shows that deposits holds the major proportion or weight in the liability composition while granting loans holds the major proportion in asset composition of balance sheet. All the six financial institutions have maintained adequate capital as per NRB directives to absorb unexpected risk. The profitability ratio of all the financial institution is also satisfactory and is in increasing trend except for Union Finance. Still these financial institutions should explore new area of investment so as to maximize the returns. The proportion of performing assets in total assets is also increasing for all the financial institution and the amount of performing loan in a total loan portfolio is also in increasing trend, which is a good sign for all the institutions. The liquidity profiles of the three commercial banks are satisfactory. In other words, all these banks have well managed the risk arising from liquidity crunch, while the finance companies need to work on maintaining their liquidity position. We can also conclude that all the financial institutions are exposed to interest rate risk, should there be any changes in the interest rate. So they must work on bridging the gap between the risk sensitive assets and liabilities.

5.3. Recommendation:

On the basis of the study and findings, we have come to the state whereby we can comment on the strategies and policies followed by the banks and finance companies and also recommend for their improvement. These recommendations will not only help to increase their managerial efficiency but will also boost the position the company compared to their own peer group.

According to NRB, the minimum paid-up capital of Class “A” financial institution should reach two billion by the end of 2067. So all the three banks namely, HBL, NIC and especially Everest Bank which has lowest paid up capital amongst the three should focus on increasing their paid up capital.

The reserve fund for Union Finance is negative for the last two years of observation which means that it has not been able to segregate any amount to keep in a reserve fund which is affecting the entire capital structure. So the company must be aware of this fact and should allocate sufficient fund as reserve.

The amount of capital raised through debenture issue for all the three banks is constant, that is the growth rate is zero. So banks must take initiative to attract the investors to invest in debentures.

The fund raised by borrowing from outside sources for United Finance is maximum. Since an outside borrowing is always expensive, United Finance must think of some other alternative sources to raise the fund.

The growth rate of deposit collection for Himalayan Bank is very low compared to the other two banks which means that the competitors are winning more depositors. Himalayan Bank, therefore, should offer innovative and attractive schemes to attract new depositors and retain the existing one.

The liquid fund of NIC Bank is very low with a lower growth rate compared to the other two banks. NIC Bank therefore should keep adequate liquid fund.
United Finance has adopted a very aggressive lending policy whereby its credit far exceeds its deposit which is very risky from the point of view of depositors. So United Finance should review its lending policy.

The non-performing loan ratio should be less than three percent of the total loans. This ratio is above the standard for Himalayan Bank and NIC bank. These banks should therefore concentrate on minimizing the non-performing loans.

Similarly, the non-performing loan ratio of Nepal Share Market and Finance Ltd. and Union Finance is also high. So these companies should take strict measures while granting loans.

The ROA and ROE of NIC Bank is low compared to the other two banks. The company should therefore take appropriate measures to give ample return to its shareholders and to efficiently utilize its assets to generate adequate profit.

The net profit for Union Finance is negative in the year 2062/63 and it has a very low return on equity. Similarly, the company has a declining trend of return on total deposit. So the company should improve its earning efficiency or else, would loose the shareholder's and depositor's confidence.

The liquidity profile of the finance companies shows that they are moving in the direction of liquidity problem which means that the finance companies are going to have problems funding, at a reasonable cost, all contractual obligations. So these companies should take action to rebalance the maturities of assets and liabilities. Current assets and liabilities should be tracked and also projections should be made of anticipated changes in deposit levels or placement opportunities.

From the first to the fourth quarter of the one-year out period, all the three banks and finance companies have a significant imbalance in a companies' asset and liability structure leading to a potentially large impact on earnings (positive or negative and more than 10 percent of average quarterly net profit) owing to a 1 percent change in interest rate. Under these circumstances, all the companies should take an action to modify the imbalance between assets and liabilities in an effort to reduce the quarterly earnings impact of the interest rate change to something less than 10 percent of average quarterly net profit.

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Appendix

Appendix 1

Commercial Banks of Nepal

S. No	Name of the Banks	Head Office	Commenced date	Paid-up capital
1.	Nepal Bank Ltd.	Kathmandu	1937/11/15	380.4 m
2.	Rastriya Banijya Bank Ltd.	Kathmandu	1966/01/23	1172.3 m
3.	Agricultural Dev. Bank	Kathmandu	1968/01/02	10777.5 m
4.	Nabil Bank Ltd.	Kathmandu	1984/07/16	689.2 m
5.	Nepal Investment Bank Ltd.	Kathmandu	1986/02/27	1203.0 m
6.	Standard Chartered Bank Ltd.	Kathmandu	1987/01/30	620.8 m
7.	Himalayan Bank Ltd.	Kathmandu	1993/01/18	1013.5 m
8.	Nepal SBI Bank Ltd.	Kathmandu	1993/07/07	874.5 m
9.	Nepal Bangladesh Bank Ltd.	Kathmandu	1993/06/05	744.1 m
10.	Everest bank Ltd.	Kathmandu	1994/10/18	831.4 m
11.	Bank of Kathmandu Ltd.	Kathmandu	1995/03/12	603.1 m
12.	NCC Bank Ltd.	Siddharthnagar	1996/10/14	1275.8 m
13.	NIC Bank Ltd.	Biratnagar	1998/07/21	792.0 m
14.	Lumbini Bank Ltd.	Narayangadh	1998/07/17	750.0 m
15.	Machapuchchre Bank Ltd.	Pokhara	2000/10/03	821.7 m
16.	Kumari Bank Ltd.	Kathmandu	2001/04/03	900.0 m
17.	Laxmi Bank Ltd.	Birgunj	2002/04/03	732.0 m
18.	Siddhartha Bank Ltd.	Kathmandu	2002/12/24	790.0 m
19.	Global Bank Ltd.	Birgunj	2007/01/02	700.0 m
20.	Citizens Bank International Ltd.	Kathmandu	2007/06/21	560.0 m
21.	Prime Bank Ltd.	Kathmandu	2007/09/24	700.0 m
22.	Sunrise Bank Ltd.	Kathmandu	2007/10/12	700.0 m
23.	Bank of Asia Nepal Ltd.	Kathmandu	2007/10/12	700.0 m
24.	Development Credit Bank Ltd.	Kathmandu	2001/01/23	301.0 m
25.	NMB Bank Ltd.	Kathmandu	1996/11/26	1000.0m

Appendix 2
Finance Companies of Nepal

S. No.	Name of Finance Companies	Corporate Office	Commenced date	Paid-up capital
1.	Nepal Awash Bikash Bitta Co. Ltd.	Kathmandu	2049/04/11	58.35 m
2.	Nepal Finance and Savings Co. Ltd.	Kathmandu	2049/09/22	20.0 m
3.	NIDC Capital Markets Ltd.	Kathmandu	2049/10/13	60.0 m
4.	National Finance Ltd.	Kathmandu	2050/01/25	95.04 m
5.	Annapurna Finance Co. Ltd.	Pokhara	2050/06/14	80.0 m
6.	Nepal Share Market & Finance Ltd.	Kathmandu	2050/07/03	160.0 m
7.	Peoples Finance Ltd.	Kathmandu	2051/01/02	50.0 m
8.	Mercantile Finance Co. Ltd.	Birgunj	2051/07/24	18.0 m
9.	Kathmandu Finance Ltd.	Kathmandu	2051/07/24	32.9 m
10.	Himalaya Finance & Saving Co. Ltd.	Kathmandu	2051/07/25	48.0 m
11.	Union Finance Co. Ltd.	Kathmandu	2051/08/26	72.6 m
12.	Narayani Finance Ltd.	Bharatpur	2051/11/24	42.17 m
13.	Gorkha Finance Co. Ltd.	Kathmandu	2051/11/28	25.0 m
14.	Paschimanchal Finance Co. Ltd.	Butwal	2051/12/26	50.6 m
15.	Nepal Housing & Merchant Fin. Ltd.	Kathmandu	2051/12/28	54.4 m
16.	Universal Finance Ltd.	Kathmandu	2052/01/14	37.5 m
17.	Samjhana Finance Co. Ltd.	Banepa	2052/01/20	22.2 m
18.	Goodwill Finance Ltd.	Kathmandu	2052/02/01	50.0 m
19.	Siddhartha Finance Ltd.	Siddhartha	2052/02/01	52.0 m
20.	Shree Investment & Finance Ltd.	Kathmandu	2052/02/18	48.0 m
21.	Lumbini Finance & Leasing Co. Ltd.	Kathmandu	2052/03/12	60.0 m
22.	Investa Finance Ltd.	Birgunj	2052/04/01	24.0 m
23.	Yeti Finance Co. Ltd.	Hetauda	2052/04/01	25.0 m
24.	Standard Finance Ltd.	Kathmandu	2052/04/01	60.0 m
25.	Ace Finance Co. Ltd.	Kathmandu	2052/04/30	90.0 m
26.	International Leasing & Finance Co.	Kathmandu	2052/07/14	120.0 m
27.	Mahalaxmi Finance Ltd.	Birgunj	2052/08/15	60.0 m
28.	Lalitpur Finance Co. Ltd.	Lalitpur	2052/08/28	50.6 m

29.	Bhajuratna Finance & Saving Co.	Kathmandu	2052/09/25	35.0 m
30.	United Finance Co. Ltd.	Kathmandu	2052/10/12	60.0 m
31.	General Finance Ltd.	Kathmandu	2052/10/18	22.0 m
32.	Nepal Sri lanka Merchant Bank Ltd.	Kathmandu	2052/10/21	130.0 m
33.	Merchant Finance Co. Ltd.	Kathmandu	2052/11/14	18.0 m
34.	Alpic Everest Finance Ltd.	Kathmandu	2053/04/02	50.0 m
35.	Nepal Merchant banking & Finance	Kathmandu	2053/09/11	130.0 m
36.	Navadurga Finance Co. Ltd.	Bhaktapur	2053/09/22	22.0 m
37.	Janaki Finance Co. Ltd.	Janakpur	2053/11/24	30.0 m
38.	Pokhara Finance Ltd.	Pokhara	2053/12/03	59.7 m
39.	Central Finance Co. Ltd.	Kupondol	2054/01/02	36.0 m
40.	Premiere Finance Co. Ltd.	Lalitpur	2054/02/26	24.0 m
41.	Arun Finance & Saving Co. Ltd.	Dharan	2054/05/01	10.0 m
42.	Multi-purpose Saving & Inv. Co. Ltd.	Rajbiraj	2055/01/02	3.0 m
43.	Butwal Finance Ltd.	Butwal	2055/03/25	57.0 m
44.	Srijana Finance Ltd.	Lahan	2056/08/09	10.50 m
45.	Nepal Bangladesh Finance & Leasing	Biratnagar	2056/12/05	50.0 m
46.	Om Finance Ltd.	Pokhara	2057/06/01	50.0 m
47.	Cosmic Merchant Banking and Finance	Kathmandu	2057/08/05	75.0 m
48.	World Merchant Banking and Finance	Hetauda	2058/05/01	60.0 m
49.	Capital Merchant Banking and Finance	Kathmandu	2058/10/29	70.0 m
50.	Crystal Finance Ltd.	Kathmandu	2058/11/01	35.0 m
51.	Royal Merchant Banking and Finance	Kathmandu	2058/11/02	50.0 m
52.	Guheshwory Merchant Banking	Lalitpur	2059/02/29	50.0 m
53.	Patan Finance Co. Ltd.	Lalitpur	2059/03/04	50.0 m
54.	Krist Merchant Banking and Finance	Kathmandu	2059/10/23	100.0 m
55.	Fewa Finance Co. Ltd.	Pokhara	2060/01/09	50.0 m
56.	Everest Finance Ltd.	Siddharthnagar	2060/03/11	20.0 m
57.	Birgunj Finance Ltd.	Birgunj	2060/06/07	60.0 m

58.	Prudential Finance Co. Ltd.	Kathmandu	2061/02/25	50.0 m
59.	ICFC Finance Co. Ltd.	Kathmandu	2061/03/30	50.58 m
60.	IME Finance Co.	Kathmandu	2062/03/14	50.0 m
61.	Sagarmatha Merchant Banking	Lalitpur	2062/05/13	30.0 m
62.	Shikhar Finance Co. Ltd.	Kathmandu	2062/05/30	30.0 m
63.	Civil Merchant Finance Co. Ltd.	Kathmandu	2062/06/02	30.0 m
64.	Prabhu Finance Company Ltd.	Kathmandu	2062/11/04	56.0 m
65.	Imperial Financial Institution	Kathmandu	2062/11/24	30.4 m
66.	Kuber Finance Company Ltd.	Kathmandu	2062/12/11	27.5 m
67.	Nepal Express Financial Institution	Butwal	2063/01/21	30.0 m
68.	Valley Finance Company	Kathmandu	2063/01/28	27.5 m
69.	Seti Finance Company	Tikapur	2063/02/24	5.1 m
70.	Hama Financial Institution	Kathmandu	2063/03/02	31.5 m
71.	Reliable Investment Company	Kathmandu	2063/06/08	35.0 m

Appendix 3

Profile of Financial Institutions under Study:

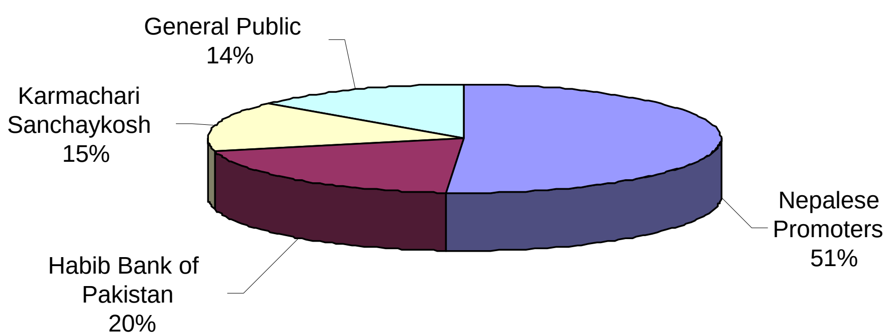
Himalayan Bank Limited:

Himalayan Bank Limited was incorporated in 1992 by a few distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial bank of Pakistan. Banking operation commenced from January 1993. It is the first commercial bank of Nepal whose maximum shares are held by the Nepalese private sector. Besides commercial banking services, the Bank also offers industrial and merchant banking services.

The Bank has five branches in Kathmandu Valley at the following locations: Thamel, New Road, Maharajgunj, Pulchowk (Patan) and Suryavinayak (moved from Nagarkot). In addition, the bank also has nine other branches outside Kathmandu Valley in Banepa, Tandi, Bharatpur, Birgunj, Hetauda, Bhairawa, Biratnagar, Pokhara, Dharan and Butwal. The bank also operates a counter in the premises of the Royal Palace. The Bank has a plan to aggressively open new branches at different parts of the Kingdom to serve its customers better. A new Branch at Butwal will be operational soon.

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

Share holding pattern of Himalayan Bank Ltd.



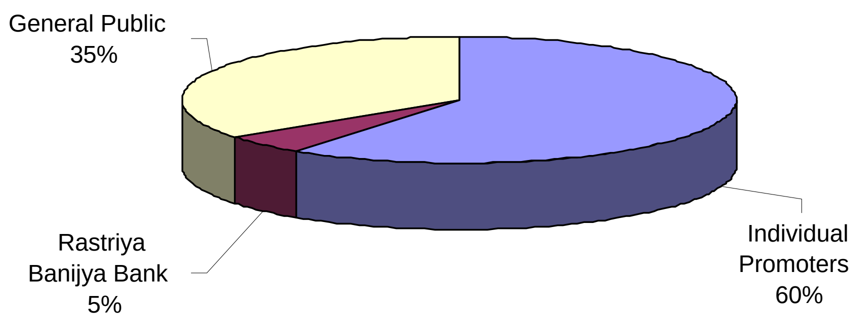
Nepal Industrial & Commercial bank Limited (NIC Bank):
Nepal Industrial & Commercial bank Limited (NIC Bank) Nepal Industrial & Commercial bank Limited, which commenced operation on 21st July 1998, is the first commercial bank in the country to be capitalized at Rs. 500 million. The bank, which has been in profitable operation from its inception, has managed robust growth in its overall business and profitability during the recent years. The bank offers a complete suite of commercial banking products and services including transaction banking, international trade finance, business banking, project finance, corporate banking and consumer banking. NIC Bank is one of the most widely held banking companies in Nepal with close to 35000 shareholders.

The board, supported by the management team comprising of young, enthusiastic professionals, has successfully embarked on a multi-pronged strategy of consolidation, administrative stream lining, human resource up-skilling, strategic cost management, focused non-performing assets management, balance sheet and treasury management and controlled asset growth in tandem with strengthening the credit culture and strategic marketing and sales. The Bank's achievements following these strategic measures are considered well-reflected in recognition by Nepal Rastra Bank, the Central Bank of Nepal, as the highest rated Bank amongst all private sector commercial banks in the country, based on the internationally recognized "CAELS" rating, during an assessment done in April 2005.

NIC is committed to provide superior banking products and financial services to its patrons through efficient and cost-effectives services delivery; offering of new innovative products and friendly customer service; and at the same time maintaining confidentiality, professionalism & good governance. It consistently upgrades its processing systems and technology support besides broadening its scope, range and quality of services. All its branches are interconnected through VSAT with micro wave/leased line/optical fiber back-ups and are capable of providing on-line real-time banking services.

The bank is seriously considering adopting capital adequacy norm under the Basel II accord to the extent applicable to the Nepalese banking industry well before it becomes a regulatory requirement. The bank believes in continuously offering new and value added services to its clients with commitment to quality and value to its clients. Accordingly the bank has been in the forefront in launching innovative and superior products with unique customer friendly features with immense success.

Share holding pattern of NIC Bank Ltd.



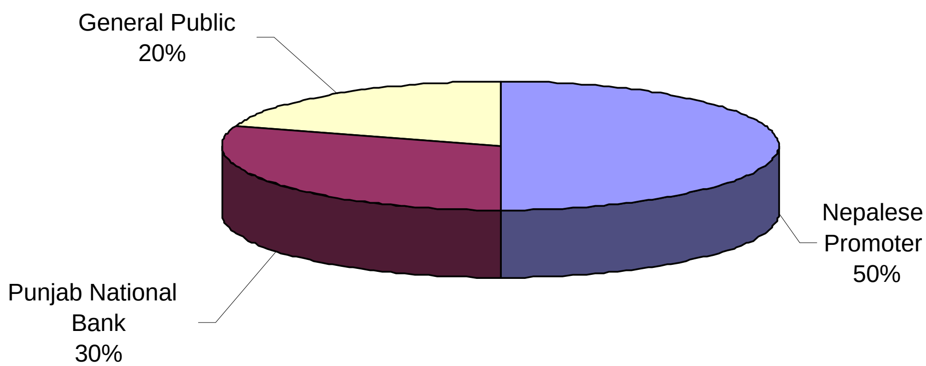
Everest bank Limited:

Everest Bank Limited (EBL) started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer friendly services through a network of 27 branches across the nation. Punjab National Bank is the joint venture partner holding 20 percent equity in the bank.

The bank has been conferred with “Bank of the Year 2006, Nepal” by the banker, a publication of financial times, London. The bank was bestowed with the “NICCI Excellence award” by Nepal India chamber of commerce for its spectacular performance under finance sector.

The bank has the largest Network (27 branches as on Bhadra 2065) among private sector banks spread across Nepal and all connected with ABBS and more than 170 remittance payout location in Nepal.

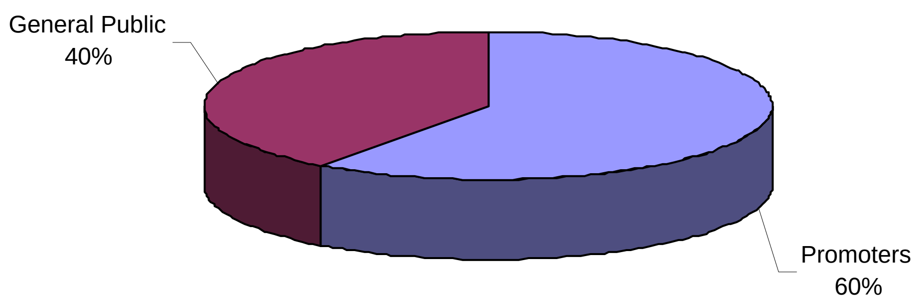
Share holding pattern of Everest Bank Ltd.



Union Finance:
Union Finance Company Limited is the first non-banking financial institution to introduce the leasing business in Nepal. It was established in 1993 on technical collaboration with BAIL EQUIPMENT of UECIC BANKS OF FRANCE whose leasing expertise is widely recognized throughout France.

Union Finance was registered with Company Registrar’s Office on March 25th 1993. Its operation came into effect on December 12th 1994 after obtaining the license on September 17th 1994 from Nepal Rastra Bank. Since its operation, United Finance has been providing financial services successfully to individuals, business enterprises within the Kathmandu Valley and other parts of the country in the form of taking deposits, lease financing, loans and financial guarantees. The company has maintained professional standards and transparency in all its dealing with customer and authorities. The company has followed an open and fair recruitment policy to recruit staff members.

Share holding pattern of Union Finance Ltd.



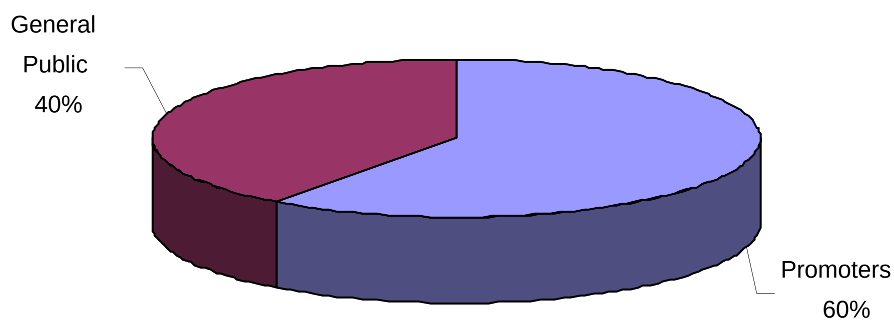
United Finance Limited:

United Finance Limited (UFL) is a leading Consumer Finance Company in Nepal with excellent asset quality and strong growth potential. The company, promoted by the Chaudhary Group - the largest conglomerate in Nepal was established in 1992 as per the Companies Act of Nepal.

The main objective of the company is to mobilize scattered savings into the consumer-financing sector. The major promoters and shareholders of the company are the Chaudhary Group and Morang Auto Works. These groups among themselves hold 60% of the shares in the company with the remaining balance of 40% shares held by the general public.

The shares of the company are actively traded at the Nepal Stock Exchange (NEPSE) and have been categorized in Category “A” by NEPSE for the last three years. The company operates from its Head Office in Durbar Marg, Kathmandu.

Share holding pattern of United Finance Ltd.

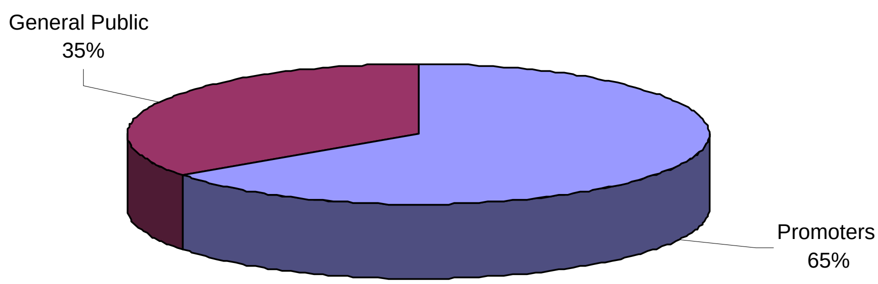


Nepal Share Market and Finance Limited:

Nepal Share Market and Finance Limited was established in 1993 under the Company Act 1964. The main objective of the company is to collect deposit and to provide loans and advances and other financial services under the finance company act 1985 and also to carry out capital market activities under the Securities Exchange Act 1985. The company is one of the active capital market intermediaries operating in the primary and secondary market since the inception of the Nepal Stock Exchange in 1994.

Nepal Share Market and Finance Limited has its head office at Share Market Commercial Complex, Putalisadak whereas it has its branch offices at New Road, Kathmandu; and at Mahendranagar, Kaski.

Share holding pattern of Nepal Share Market and Finance Ltd.



Appendix 4

Calculation of forecasted deposits collection using trend analysis method for Himalayan Bank Ltd.

Fiscal Year(X)	Deposits(Y)	$X-\overline{X}$	x	xY	x^2
2059	18619375076	-2.5	-5	-93096875380	25
2060	21007379489	-1.5	-3	-63022138467	9
2061	22010332984	-0.5	-1	-22010332984	1
2062	24814011984	0.5	1	24814011984	1
2063	26490851640	1.5	3	79472554920	9
2064	30048417756	2.5	5	150242088780	25
ΣX=12369	ΣY= 142990368929			ΣxY= 76399308853	Σx^2 = 70
$\overline{X}$ = 2061.5	$\overline{Y}$ = 23831728155				

$$\overline{X} = \frac{\Sigma X}{n}$$

$$= \frac{12369}{6} = 2061.5$$

$$\overline{Y} = \frac{\Sigma Y}{n} = \frac{142990368929}{6} = 23831728155$$

$x = (X-\overline{X}) * 2$

We have, the general linear equation describing the trend in deposit collection as

y = a + bx

Where,
a = $\overline{Y}$ = 23831728155

$$b = \frac{\Sigma xY}{\Sigma x^2} = \frac{76399308853}{70} = 1091418698$$

Therefore, y = 1091418698 + 1091418698x………………… **(1)**

Now, estimating the amount of deposit collection for fiscal year 2065 – 2070 by substituting the value of x in equation **(1)**,

Fiscal Year (X)	$X-\bar{X}$	x	Estimated Deposit
2065	3.5	7	31471659040
2066	4.5	9	33654496436
2067	5.5	11	35837333832
2068	6.5	13	38020171228
2069	7.5	15	40203008623
2070	8.5	17	42385846019

Appendix 5

Calculation of forecasted deposits collection using trend analysis method for NIC Bank Ltd.

Fiscal Year(X)	Deposits(Y)	$X-\bar{X}$	x	xY	x^2
2059	3165311528	-2.5	-5	-15826557640	25
2060	3144320883	-1.5	-3	-9432962649	9
2061	5146483050	-0.5	-1	-5146483050	1
2062	6241378160	0.5	1	6241378160	1
2063	8765950638	1.5	3	26297851914	9
2064	10068230869	2.5	5	50341154345	25
ΣX= 12369	ΣY= 36531675128			ΣxY= 52474381080	Σx^2 = 70
$\bar{X}$ = 2061.5	$\bar{Y}$ = 6088612521				

$$\bar{X} = \frac{\Sigma X}{n}$$

$$= \frac{12369}{6} = 2061.5$$

$$\bar{Y} = \frac{\Sigma Y}{n} = \frac{36531675128}{6} = 6088612521$$

$x = (X-\bar{X}) * 2$

We have, the general linear equation describing the trend in deposit collection as

y = a + bx

Where,
a = $\bar{Y}$ = 6088612521

$$b = \frac{\Sigma xY}{\Sigma x^2} = \frac{52474381080}{70} = 749634015$$

Therefore, Y = 6088612521 + 749634015x………………… **(1)**
Now, estimating the amount of deposit collection for fiscal year 2065 – 2070 by substituting the value of x in equation **(1)**,

Fiscal Year (X)	$X-\overline{X}$	x	Estimated Deposit
2065	3.5	7	11336050629
2066	4.5	9	12835318660
2067	5.5	11	14334586691
2068	6.5	13	15833854722
2069	7.5	15	17333122753
2070	8.5	17	18832390784

Appendix 6

Calculation of forecasted deposits collection using trend analysis method for Everest Bank Ltd.

Fiscal Year(X)	Deposits(Y)	$X-\overline{X}$	x	xY	x^2
2059	5466609805	-2.5	-5	-27333049025	25
2060	6694963060	-1.5	-3	-20084889180	9
2061	8063902086	-0.5	-1	-8063902086	1
2062	10097690989	0.5	1	10097690989	1
2063	13802444988	1.5	3	41407334964	9
2064	18186253541	2.5	5	90931267705	25
ΣX= 12369	ΣY= 62311864469			ΣxY= 86954453367	$\Sigma x^2 = 70$
$\overline{X}$ = 2061.5	$\overline{Y}$ = 10385310745				

$$\overline{X} = \frac{\Sigma X}{n}$$

$$= \frac{12369}{6} = 2061.5$$

$$\overline{Y} = \frac{\Sigma Y}{n} = \frac{62311864469}{6} = 10385310745$$

$x = (X-\overline{X}) * 2$

We have, the general linear equation describing the trend in deposit collection as

y = a + bx

Where,
a = $\overline{Y}$ = 10385310745

$$b = \frac{\Sigma xY}{\Sigma x^2} = \frac{86954453367}{70} = 1242206477$$

Therefore, y = 10385310745 + 1242206477*x*………………… **(1)**

Now, estimating the amount of deposit collection for fiscal year 2065 – 2070 by substituting the value of *x* in equation **(1)**,

Fiscal Year (X)	$X-\overline{X}$	x	Estimated Deposit
2065	3.5	7	19080756082
2066	4.5	9	21565169035
2067	5.5	11	24049581988
2068	6.5	13	26533994942
2069	7.5	15	29018407895
2070	8.5	17	31502820848

Appendix 7

Calculation of forecasted deposits collection using trend analysis method for Nepal Share Market and Finance Ltd.

Fiscal Year(X)	Deposits(Y)	$X-\overline{X}$	x	xY	x^2
2059	609143373	-2.5	-5	-3045716865	25
2060	716359475	-1.5	-3	-2149078425	9
2061	1007833405	-0.5	-1	-1007833405	1
2062	1166981145	0.5	1	1166981145	1
2063	1310907515	1.5	3	3932722545	9
2064	1563869975	2.5	5	7819349875	25
ΣX= 12369	ΣY= 6375094888			ΣxY= 6716424870	Σx^2 = 70
$\overline{X}$ = 2061.5	$\overline{Y}$ = 1062515815				

$$\overline{X} = \frac{\Sigma X}{n}$$

$$= \frac{12369}{6} = 2061.5$$

$$\overline{Y} = \frac{\Sigma Y}{n} = \frac{6375094888}{6} = 1062515815$$

$x = (X-\overline{X}) * 2$

We have, the general linear equation describing the trend in deposit collection as y = a + bx

Where,
a = $\bar{Y}$ = 1062515815

$$b = \frac{\Sigma xY}{\Sigma x^2} = \frac{6716424870}{70} = 95948927$$

Therefore, y = 1062515815 + 95948927*x*………………….. **(1)**
Now, estimating the amount of deposit collection for fiscal year 2065 – 2070 by substituting the value of *x* in equation **(1)**,

Fiscal Year (X)	X-$\bar{X}$	*x*	Estimated Deposit
2065	3.5	7	1734158302
2066	4.5	9	1926056155
2067	5.5	11	2117954009
2068	6.5	13	2309851862
2069	7.5	15	2501749715
2070	8.5	17	2693647569

Appendix 8

Calculation of forecasted deposits collection using trend analysis method for United Finance Ltd.

Fiscal Year(X)	Deposits(Y)	X-$\bar{X}$	*x*	*x*Y	x^2
2059	182277589	-2.5	-5	-3045716865	25
2060	164594638	-1.5	-3	-2149078425	9
2061	286779450	-0.5	-1	-1007833405	1
2062	332647675	0.5	1	1166981145	1
2063	427780626	1.5	3	3932722545	9
2064	494261765	2.5	5	7819349875	25
ΣX= 12369	ΣY= 1888341743			Σ*x*Y= 2395347069	Σx^2 = 70
$\bar{X}$ = 2061.5	$\bar{Y}$ = 314723624				

$$\bar{X} = \frac{\Sigma X}{n}$$

$$= \frac{12369}{6} = 2061.5$$

$$\bar{Y} = \frac{\Sigma Y}{n} = \frac{1888341743}{6} = 314723624$$

$x = (X-\overline{X}) * 2$

We have, the general linear equation describing the trend in deposit collection as

y = a + bx

Where,
a = $\overline{Y}$ = 314723624

$$b = \frac{\Sigma xY}{\Sigma x^2} = \frac{2395347069}{70} = 34219244$$

Therefore, y = 314723624 + 34219244*x*………………… **(1)**
Now, estimating the amount of deposit collection for fiscal year 2065 – 2070 by substituting the value of *x* in equation **(1)**,

Fiscal Year (X)	$X-\overline{X}$	x	Estimated Deposit
2065	3.5	7	554258331
2066	4.5	9	622696818
2067	5.5	11	691135306
2068	6.5	13	759573794
2069	7.5	15	828012281
2070	8.5	17	896450769

Appendix 9

Calculation of forecasted deposits collection using trend analysis method for Union Finance Ltd.

Fiscal Year(X)	Deposits(Y)	$X-\overline{X}$	x	xY	x^2
2059	303454273	-2.5	-5	-1517271365	25
2060	378851511	-1.5	-3	-1136554533	9
2061	518781648	-0.5	-1	-518781648	1
2062	538734681	0.5	1	538734681	1
2063	594518642	1.5	3	1783555926	9
2064	670401438	2.5	5	3352007190	25
ΣX= 12369	ΣY= 3004742193			ΣxY= 2501690251	$\Sigma x^2 = 70$
$\overline{X}$ = 2061.5	$\overline{Y}$ = 500790366				

$$\overline{X} = \frac{\Sigma X}{n}$$

$$= \frac{12369}{6} = 2061.5$$

$$\overline{Y} = \frac{\Sigma Y}{n} = \frac{3004742193}{6} = 500790366$$

$x = (X-\overline{X}) * 2$

We have, the general linear equation describing the trend in deposit collection as

y = a + bx

Where,
$a = \overline{Y} = 500790366$

$$b = \frac{\Sigma xY}{\Sigma x^2} = \frac{2501690251}{70} = 35738432$$

Therefore, y = 500790366 + 35738432*x*………………… **(1)**
Now, estimating the amount of deposit collection for fiscal year 2065 – 2070 by substituting the value of *x* in equation **(1)**,

Fiscal Year (X)	$X-\overline{X}$	x	Estimated Deposit
2065	3.5	7	750959391
2066	4.5	9	822436255
2067	5.5	11	893913119
2068	6.5	13	965389984
2069	7.5	15	1036866848
2070	8.5	17	1108343712

Appendix 10

Calculation of forecasted loans and advances using trend analysis method for Himalayan Bank Ltd.

Fiscal Year(X)	Loans & Adv. (Y)	$X-\overline{X}$	x	xY	x^2
2059	8913723565	-2.5	-5	-44568617825	25
2060	10001848185	-1.5	-3	-30005544555	9
2061	11951869350	-0.5	-1	-11951869350	1
2062	12424520646	0.5	1	12424520646	1
2063	14642559555	1.5	3	43927678665	9
2064	16997997046	2.5	5	84989985230	25
ΣX= 12369	ΣY= 74932518347			ΣxY= 54816152811	$\Sigma x^2 = 70$
$\overline{X}$ = 2061.5	$\overline{Y}$ = 12488753058				

$$\overline{X} = \frac{\Sigma X}{n}$$

$$= \frac{12369}{6} = 2061.5$$

$$\overline{Y} = \frac{\Sigma Y}{n} = \frac{74932518347}{6} = 12488753058$$

$x = (X-\overline{X}) * 2$

We have, the general linear equation describing the trend in loans and advances as

y = a + bx

Where,
a = $\overline{Y}$ = 12488753058

$$b = \frac{\Sigma xY}{\Sigma x^2} = \frac{54816152811}{70} = 783087897$$

Therefore, y = 12488753058 + 783087897*x*………………… **(1)**
Now, estimating the amount of deposit collection for fiscal year 2065 – 2070 by substituting the value of *x* in equation **(1)**,

Fiscal Year (X)	$X-\overline{X}$	x	Estimated Loans & Adv.
2065	3.5	7	17970368339
2066	4.5	9	19536544134
2067	5.5	11	21102719928
2068	6.5	13	22668895723
2069	7.5	15	24235071517
2070	8.5	17	25801247312

Appendix 11
Calculation of forecasted loans and advances using trend analysis method for NIC Bank Ltd.

Fiscal Year(X)	Loans & Adv. (Y)	$X-\overline{X}$	x	xY	x^2
2059	2278993887	-2.5	-5	-11394969435	25
2060	2419522808	-1.5	-3	-7258568424	9
2061	3561138780	-0.5	-1	-3561138780	1
2062	4711712301	0.5	1	4711712301	1
2063	6655964020	1.5	3	19967892060	9
2064	8941397651	2.5	5	44706988255	25
ΣX= 12369	ΣY= 28568729447			ΣxY= 47171915977	Σx^2 = 70
$\overline{X}$ = 2061.5	$\overline{Y}$ = 4761454908				

$$\overline{X} = \frac{\Sigma X}{n}$$

$$= \frac{12369}{6} = 2061.5$$

$$\overline{Y} = \frac{\Sigma Y}{n} = \frac{28568729447}{6} = 4761454908$$

$x = (X-\overline{X}) * 2$

We have, the general linear equation describing the trend in loans and advances as

y = a + bx

Where,
$a = \overline{Y} = 4761454908$

$$b = \frac{\Sigma xY}{\Sigma x^2} = \frac{47171915977}{70} = 673884514$$

Therefore, y = 4761454908 + 673884514*x*………………… **(1)**
Now, estimating the amount of deposit collection for fiscal year 2065 – 2070 by substituting the value of *x* in equation **(1)**,

Fiscal Year (X)	$X-\overline{X}$	x	Estimated Loans & Adv.
2065	3.5	7	9478646506
2066	4.5	9	10826415533
2067	5.5	11	12174184561
2068	6.5	13	13521953589
2069	7.5	15	14869722617
2070	8.5	17	16217491645

Appendix 12

Calculation of forecasted loans and advances using trend analysis method for Everest Bank Ltd.

Fiscal Year(X)	Loans & Adv. (Y)	$X-\overline{X}$	x	xY	x^2
2059	3948478042	-2.5	-5	-19742390210	25
2060	4908460647	-1.5	-3	-14725381941	9
2061	5884122609	-0.5	-1	-5884122609	1
2062	7618671476	0.5	1	7618671476	1
2063	9801307676	1.5	3	29403923028	9
2064	13664081664	2.5	5	68320408320	25
ΣX= 12369	ΣY= 45825122114			ΣxY= 64991108064	Σx^2 = 70
$\overline{X}$ = 2061.5	$\overline{Y}$ = 7637520352				

$$\overline{X} = \frac{\Sigma X}{n}$$

$$= \frac{12369}{6} = 2061.5$$

$$\overline{Y} = \frac{\Sigma Y}{n} = \frac{45825122114}{6} = 7637520352$$

$x = (X-\overline{X}) * 2$

We have, the general linear equation describing the trend in loans and advances as

y= a + bx

Where,
a = $\overline{Y}$ = 7637520352

$$b = \frac{\Sigma xY}{\Sigma x^2} = \frac{64991108064}{70} = 928444401$$

Therefore, y = 7637520352 + 928444401x…………………. **(1)**
Now, estimating the amount of deposit collection for fiscal year 2065 – 2070 by substituting the value of x in equation **(1)**,

Fiscal Year (X)	$X-\overline{X}$	x	Estimated Loans & Adv.
2065	3.5	7	14136631159
2066	4.5	9	15993519961
2067	5.5	11	17850408762
2068	6.5	13	19707297564
2069	7.5	15	21564186366
2070	8.5	17	23421075168

Appendix 13

Calculation of forecasted loans and advances using trend analysis method for Nepal Share Market and Finance Ltd.

Fiscal Year(X)	Loans & Adv. (Y)	$X-\overline{X}$	x	xY	x^2
2059	440798137	-2.5	-5	-2203990685	25
2060	476486647	-1.5	-3	-1429459941	9
2061	784406828	-0.5	-1	-784406828	1
2062	951997803	0.5	1	951997803	1
2063	1202104498	1.5	3	3606313494	9
2064	1303319436	2.5	5	6516597180	25
ΣX= 12369	ΣY= 5159113349			ΣxY= 6657051023	$\Sigma x^2 = 70$
$\overline{X} = 2061.5$	$\overline{Y} = 859852225$				

$$\overline{X} = \frac{\Sigma X}{n}$$

$$= \frac{12369}{6} = 2061.5$$

$$\overline{Y} = \frac{\Sigma Y}{n} = \frac{5159113349}{6} = 859852225$$

$x = (X-\overline{X}) * 2$

We have, the general linear equation describing the trend in loans and advances as

y = a + bx

Where,
a = $\overline{Y}$ = 859852225

$$b = \frac{\Sigma xY}{\Sigma x^2} = \frac{6657051023}{70} = 95100729$$

Therefore, y= 859852225 + 95100729x………………… **(1)**
Now, estimating the amount of deposit collection for fiscal year 2065 – 2070 by substituting the value of x in equation **(1)**,

Fiscal Year (X)	$X-\overline{X}$	x	Estimated Loans & Adv.
2065	3.5	7	1525557327
2066	4.5	9	1715758785
2067	5.5	11	1905960243
2068	6.5	13	2096161701
2069	7.5	15	2286363158
2070	8.5	17	2476564616

Appendix 14
Calculation of forecasted loans and advances using trend analysis method for United Finance Ltd.

Fiscal Year(X)	Loans & Adv. (Y)	$X-\overline{X}$	x	xY	x^2
2059	143722845	-2.5	-5	-718614225	25
2060	184745032	-1.5	-3	-554235096	9
2061	307824817	-0.5	-1	-307824817	1
2062	529434986	0.5	1	529434986	1
2063	573021060	1.5	3	1719063180	9
2064	799097774	2.5	5	3995488870	25
ΣX= 12369	ΣY= 2537846514			ΣxY= 4663312898	$\Sigma x^2 = 70$
$\overline{X}$ = 2061.5	$\overline{Y}$ = 422974419				

$$\overline{X} = \frac{\Sigma X}{n}$$

$$= \frac{12369}{6} = 2061.5$$

$$\overline{Y} = \frac{\Sigma Y}{n} = \frac{2537846514}{6} = 422974419$$

$x = (X-\overline{X}) * 2$

We have, the general linear equation describing the trend in loans and advances as

y = a + bx

Where,

$a = \overline{Y} = 422974419$

$$b = \frac{\Sigma xY}{\Sigma x^2} = \frac{4663312898}{70} = 66618756$$

Therefore, $y = 422974419 + 66618756x$………………… **(1)**

Now, estimating the amount of deposit collection for fiscal year 2065 – 2070 by substituting the value of x in equation **(1)**,

Fiscal Year (X)	$X-\overline{X}$	x	Estimated Loans & Adv.
2065	3.5	7	889305709
2066	4.5	9	1022543220
2067	5.5	11	1155780732
2068	6.5	13	1289018243
2069	7.5	15	1422255754
2070	8.5	17	1555493266

Appendix 15

Calculation of forecasted loans and advances using trend analysis method for Union Finance Ltd.

Fiscal Year(X)	Loans & Adv. (Y)	$X-\overline{X}$	x	xY	x^2
2059	154936069	-2.5	-5	-774680345	25
2060	159909819	-1.5	-3	-479729457	9
2061	213482274	-0.5	-1	-213482274	1
2062	243599760	0.5	1	243599760	1
2063	416612304	1.5	3	1249836912	9
2064	586263431	2.5	5	2931317155	25
ΣX= 12369	ΣY= 1774803657			ΣxY= 2956861751	Σx^2 = 70
$\overline{X}$ = 2061.5	$\overline{Y}$ = 295800610				

$$\overline{X} = \frac{\Sigma X}{n}$$

$$= \frac{12369}{6} = 2061.5$$

$$\overline{Y} = \frac{\Sigma Y}{n} = \frac{1774803657}{6} = 295800610$$

$x = (X-\overline{X}) * 2$

We have, the general linear equation describing the trend in loans and advances as
y = a + bx
Where,
$a = \overline{Y} = 295800610$

$$b = \frac{\Sigma xY}{\Sigma x^2} = \frac{2956861751}{70} = 42240882$$

Therefore, y= 295800610 + 42240882*x*…………………. **(1)**
Now, estimating the amount of deposit collection for fiscal year 2065 – 2070 by substituting the value of *x* in equation **(1)**,

Fiscal Year (X)	$X-\overline{X}$	x	Estimated Loans & Adv.
2065	3.5	7	591486785
2066	4.5	9	675968549
2067	5.5	11	760450313
2068	6.5	13	844932078
2069	7.5	15	929413842
2070	8.5	17	1013895606