CHAPTER ONE
INTRODUCTION

1.1 General Background of the study

The origin of the word “Bank” is linked to the Latin word “bancus”, Italian word “banca”, and French word “banquet” all of which mean a bench. Money lenders in the streets of major cities of Europe used benches for acceptance and payment of valuables and coins. And when they were unable to meet their liabilities, the depositors used to break their benches, the term “bankruptcy” is derived thereof. Since there is no unanimity, and it is difficult to say exactly whether the term “bank” has been derived from “bancus”, “banca”, or German word “bank” meaning Joint Stock Company. Despite strong criticism from the church regarding charging interest, modern banking showed its seed in the medieval Italy. Bank of Venice, set up in 1157 in Venice, Italy is regarded as the first modern bank. Subsequently, Bank of Barcelona (1401) and Bank of Genoa (1407) were established. The Lombards migrated to England and other parts of Europe from Italy are regarded for their role in the development and expansion of the modern banking. Bank of Amsterdam (1609) was very popular. The Bank of Hindustan established in 1790 is regarded as the first bank of India. Similarly, Bank of England (1694) and Nepal Bank Limited (1994) is regarded as the first bank of England and Nepal respectively.

A bank is an institution that provides financial service, particularly taking deposits and extending credit. Currently the term bank is generally understood as an institution that holds a banking license. Banking licenses are granted by bank regulatory authorities and provide rights to conduct the most fundamental banking services such as accepting deposits and making loans. There are also financial institutions that provide certain banking services without meeting the legal definition of a bank, so-called non-banking financial company. Banks nowadays do a large numbers of financial transactions while financial institutions are authorized to do limited transactions only. Hence, a bank can be defined as the financial department store which renders a host of financial services besides taking deposits and giving loans. Some definitions of a bank are as follows:

According to Kent, “A bank is an organization whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to other for expenditure.”

As per Banking Regulation Act of India- “Banking means the accepting for the purpose of lending or investment of deposit of money from the public repayable on demand or otherwise, and withdrawal by cheque, draft, or otherwise.”

As per U.S. Law- “Any institution offering deposits subject to withdrawal on demand and making loans of a commercial or business nature is a bank.”

Capital formation is one of the important factors in economic development. The capital formation leads to increase in the size of national output, income and employment, solving the problem of inflation, balance of payment and making the economy free from foreign debts burden. Domestic capital formation helps in making a country self-sustainable. According to classical economists, one of the main factors which helped capital formation is the accumulation of capital, profit made by the business community, constituted the major part of savings of the community, and that savings were assumed to be invested. They thought capital formation indeed plays a decisive role in determining the level and growth of national income, and hence economic development. It seems unquestionable that the insufficient capital accumulation is the most serious limiting factor in underdeveloped countries. In the views of many economists, capital occupies the central and strategic position in the process of economic development of an underdeveloped economy, which lies in a rapid expansion of the rate of its capital investment so that it attains a rate of growth of output which exceeds the rate of growth of population by the significant margin. Only with such a rate of capital investment will the living standard begin to improve in a developing country. In developing countries, the rate of saving is quite low and existing institutions are half successful in mobilizing such saving as most people have incomes so low that vertically all current income must be spent in maintaining a subsistence level of consumptions. (Higgins, 1968:804)

Deposit mobilization is one of the essential tools for the economic development of an underdeveloped and developing countries. The developed countries’ deposit

collection for capital formation is easy due to developed capital market in every sector. In contrast, in the developing countries like Nepal, low national income, low per capital income, lack of technical knowledge, vicious cycle of poverty, lack of irrigation and fertilizer, pressure of population increase, geographical conditions etc. are the main problems, and therefore the effective and efficient deposits mobilization could be a very significant tool for sound economic development. Banking thus increases the supply of funds by collecting lodgments from public and then combining them with its capital and reserve fund. Their lodgments are accepted as current, saving and fixed accounts. Overall, however they fall into demand and time deposits. The former payable as and when demand is made and later after the expiry of stated period. (Nigam, B.M.L. 1987:25)

For the development of any country, first it is required to have enough capital. Nepal lacks the adequate capital for its development planning. Due to this reason so many development planning are in pending. If there is enough capital available, it can invest into the profitable project and contribute significantly in the National GDP. Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in a saving account in a bank for example, the bank must invest by lending the funds for various business companies. These firms in return, may invest the money in new factories and equipments to increase their production. In addition borrowing from the banks, most issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issues bonds to obtain funds to invest in capital incentive project as the construction of dams, roads and schools. All such investments by individuals, business and government involve an important sacrifice of income to get an expected future benefits. As a result, investment raises a nation's standard of living. (The World Bank, 1966: 232)

Commercial banks are the hearts of our economic system since they hold the deposit of millions of persons, government and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and government. Thus, their task is to provide the collecting point for saving of relatively small average amount from a large number of individual sources and invest them into a productive and needed sector of the country so as to develop the nation.

The importance of commercial banks may be measured in number of ways. Banks are still the principal means of making payments through the checking accounts, credit cards and electronic transfer services they offer. In the same way commercial banks are important because of their ability to create money from excess reserves made available from the public's deposits. Commercial banks have today gained paramount trust in the public. Their functions are not confined to just accepting deposits and giving loans but they also render a wide range of services covering different strata of the society. These include providing legal and exploitation free services, financial intermediation and capital creation, fund transfer, trade promotion, safety of valuables, employment, and collection of cheques, issue of credit cards, debit cards, travelers' cheques, smart cards, and payments of utilities.

The financial sector of Nepal is composed of banking sector and non-banking sector. Banking sector comprises Nepal Rastra Bank (NRB) and commercial banks. Nepal's formal financial system began in 1937 with the establishment of the Nepal Bank Limited which was the first commercial bank in the country. Later another commercial bank, The Rashtriya Banijya Bank, was set up in 1966. Over time, other banking institutions were set up; however, foreign banks were allowed to operate only in 1984, as part of a more open policy to attract modern technology and management into the banking sector. Thus financial liberalization started with the establishment of the first joint venture bank, Nepal Arab Bank Ltd., after which a number of venture banks were launched. (Upadhyaya, 1999)

NRB (2008) stated that the functioning of the banks can be classified into Class A, Class B, Class C and so on. Class "A" includes 27 licensed commercial banks that can be government-owned, privately-owned or jointly owned by government and the private sector. They collect deposits from public, invest in loans and overdrafts, sell and purchase bills, open letter of credit for export and import, provide bank guarantee, deal in foreign exchange and invest in stock and bonds. Class "B" includes 58 development banks. They take high risk by providing loans for venture capital. They provide loans to industry, agriculture, import-export, cottage and small industries, cooperatives. Further, finance companies fall under "C" class with 79 companies operating to provide service. They accept fixed and saving deposits with higher rate of interest. They provide loans to industries and individuals and charge higher rate of

interest. Micro Credit Development Banks comes under "D" class with 12 banks. Moreover, 16 savings and credit co-operatives (limited banking) and 46 non-government organization (NGOs) are also actively participating in its own way.

The number of banks as per its class is given below:

Number of Banks and Non-bank Financial Institutions

Regulator for Banking Activities	Nepal Rastra Bank
Class A: Commercial Banks	27
Class B: Development Banks	58
Class C: Finance Companies	79
Class D: Micro Credit Development Banks	12
Savings and Credit Co-operatives	16
Non-Government Organizations (NGOs)	46

Source: Nepal Rastra Bank Report as of Mid-June 2009

Thus commercial banks are important parts of the financial sector of Nepal. Among these commericial banks Nabil Bank Limited and Himalayan Bank Limited are prominent and popular private commercial joint venture banks of Nepal.

1.2 Brief Profiles of the Selected Banks

1.2.1 Nabil Bank Limited

Nabil Bank was established in 1984 in joint venture with Dubai Bank with a view and objectives of extending international standard modern, professionalized and efficient banking services to various segments of the society.

Nabil has 48 networks and branches that spread out around the nation with the objective of providing services to both the business community and the common people. The head office is located at Durbarmarg, Kathmandu and other branches are at different parts of Nepal. Annual report 2008 of the bank states, "in order to make our presence felt in every walk of life and serve people across all social strata and

segments, we have expanded our network by adding more branches that totals to 47 points of representation in the nation." (NABIL Annual Report, 2009/2010)

The various ranges of Nabil Bank product and services include deposit, loan and advances, trade finance activities, remittance facilities, and foreign exchange activities. Nabil Bank provides round clock service to its customers through a large network of Automated Teller Machine (ATMs) installed all over Nepal.

1.2.2 Himalayan Bank Limited (HBL)

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Himalayan Bank's head office is located at Thamel and it has two other branches in Kathmandu valley at New Road and Maharajgunj. Besides these it has 35 other branches outside the Kathmandu valley (HBL Annual Report, 2009/2010). HBL holds of a vision to become a leading bank of the country by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the bank. Its mission is to become preferred provider of quality financial services in the country.

Himalayan Bank offers a wide range of deposit products: fixed deposit, saving deposit, current account, premium saving account, call deposit, *bishesh* saving account, recurring saving account and jumbo term deposit. Similarly, international banking, remittance services, safe deposit locker, card services, SMS banking and internet banking are also the products and services of Himalayan Bank.

1.3 Focus of the Study

The development of a nation depends upon its domestic resources. Banking sector plays vital role in allocation and utilization of such resources. Integrated and speedily development of a country is possible when competitive banking services reaches all the corners of the country. The commercial banks can play a vital role in mobilizing the resources in developing as well as developed countries. Those institutions can induce the public to save their valuable funds, and they can help to mobilize the society. In this way the saving can enter into banking channel from the informal sector. Banks are the financial intermediaries; they collect the surplus money as

deposit from the surplus units and provide the deficit money as loans and advances to the deficit units, thus helping in Credit Creation process.

This study deals with the liquidity, efficiency, profitability, and risk position of commercial banks as an aid to economic development of the country by making survey of deposits and credits of commercial banks and their utilizations to fulfil the financial needs of different sectors of the economy.

1.4 Statement of the Problem

Deposit Mobilization is the most important factor for promoters, shareholders and managements. After 1984 several joint venture banks have been established in the country in short period. There is high flow of money in the market but less viable and investible project. Most of the commercial banks are continuously benefiting to shareholders and returning them adequate profit. Several JVBs have been established in our country within short period of time. Deposit mobilizing policy of JVBs may differ from each other but there is no optimum utilization of shareholders fund to have greater return in any bank. NRB played important role to make commercial bank to mobilize their deposit in good sector. For this purpose NRB has imposed many rules and regulations so the bank can have sufficient liquidity and security (NRB, 2008).

NABIL and HBL have been collecting comparatively enough deposit from the beginning. They make profit by making investment in the form of loan and advance and mobilize the deposit on government securities and bond or others. Deposit mobilization is always related with risk and returns. It is always appropriate to state that the objective is to make a lot of money by recognizing the possible losses. Deposit mobilizing policy also involves the identification of the potential categories of financial assets for consideration in the ultimate portfolio.

Owing to the importance of proper deposit mobilization not only to the bank themselves but also to the overall economy of the country, it is necessary to understand its various aspects in-depth in the prominent banks of Nepal. Furthermore, it is imperative to understand the positions of the banks comparatively so as to have meaningful understanding of the situation, and to make decisions or formulate policies for the solution of the problems. Many questions regarding the

positions of banks in various aspects of deposit mobilization especially deposit growth, loans and advances, investment, and net profit have remained still unanswered. Thus, there is a need of a systematic comparative study to answer the questions regarding various aspects of deposit mobilization of banks in Nepal. Therefore, this study will specifically deal with the following research questions:

- What are the differences regarding deposit growth of NABIL and that of HBL?
- What are the differences regarding the loans and advances of NABIL and those of HBL?
- What are the differences regarding the investment of NABIL and that of HBL?
- Are there significant relationships between the total deposits, loans and advances, total investment, total assets, and net profit? How do NABIL and HBL compare regarding such relationships?

1.5 Objectives of the Study

The main objective of this study is to find out the differences in deposit mobilization of Himalayan Bank and Nabil Bank Limited. Thus the specific objectives of this research are as follows:

- To analyze and compare the deposit growth of NABIL and that of HBL.
- To analyze and compare the proportion of the loans and advances of NABIL and those of HBL.
- To analyze and compare the investment of NABIL and that of HBL.
- To find out the relationships between total deposits, loans and advances, total investment, total assets, and net profit, and to compare such relationships of NABIL and HBL.
- To give the better suggestions and recommendations based on analysis.

1.6 Significance of the Study

In Nepal, banking industry has been playing significant role for the overall financial and economic development of the country through deposit mobilization. According to the Nepal Rastra Bank research report, banking and financial institution are contributing around 10% to its national GDP. Our country consists of many rural

areas but expansion of the banking services to rural areas are very limited due to the lack of proper infrastructure and sound policies and directives from the regulatory authority also. This study covers the deposit and credit portion of Nabil Bank and Himalayan Bank, so it reveals the financial portion of the bank and occupies an important role in the series of the studies on NABIL and HBL. The significances of the study are as follows:

- ❖ This study is very much important for Nabil Bank Limited and Himalayan Bank Limited to develop plans and policies as per the findings and recommendations presented on this study.
- ❖ This research work may be extended in future by adding the sampling framework and research tools application.
- ❖ This study is also very important for the investors, customers, and personnel of the bank to make various decisions regarding deposit and loan and advances.
- ❖ This study could be very much helpful for all the people interested to know about the deposit mobilization in NABIL and HBL.

1.7 Limitations of the Study

The main focus of the study is to point out the financial position of HBL and NABIL. This study is based on secondary data only, and there is an acute problem of accuracy of data in Nepal. Even the financial statements of Nepalese enterprises published by them are not readily available, since they are treated as confidential. Data published differ to some extent which mars the accuracy and reliability of the data. In Nepal preparation of multiple financial statements are very much common practices in private sectors, hence the findings and conclusions based on the available financial statements may not be perfectly accurate in reality. Furthermore, the main objective of this study is to fulfil the partial requirement of MBS course of Tribhuvan University, Nepal. Therefore, the study cannot cover all the dimensions of the subject and cannot penetrate to the extreme depth. Following are the major limitations of the study.

a) Time and resource constraints have limited the area covered by the study; hence out of 27 commercial banks only HBL and NABIL are included on the study.

b) The study covers only the periods of six fiscal years, from 2004 to 2009.

c) The study is based on the secondary data whose sources are limited to the financial statements of the concerned banks which are extracted from the progress report of related banks, Nepal Stock Exchange (NEPSE), Central Bureau of Statistics and other published and unpublished articles

d) The accuracy of the research work is dependent on the data provided by the concerned banks and financial institutions. No attempt is made to examine the reliability of the available secondary data.

e) Only selected statistical and financial tools are used for the data presentation and analysis.

1.8 Organization of the study

The study is organized into following chapters in order to make the study easy to understand.

Chapter I: Introduction

It is an introductory chapter which contains background of the study, profiles of the companies, statement of the problem, objectives of the study, limitations of problem, and organization of the study.

Chapter II: Literature Review

It is concerned with review of literature. It includes conceptual framework, review of books, review of research papers, and published and unpublished master's thesis.

Chapter III: Research Methodology

It is one of the most important chapters of the study which deals with the research methodology. It includes methodology used to achieve the objectives of the study, sources of data, population and sample, financial and statistical tools used.

Chapter IV: Data Analysis and Presentation

This chapter deals with analysis and interpretation of data using financial and statistical tools. Major findings of the study will be presented at the end of this chapter.

Chapter V: Summary, Conclusions and Recommendations

It is the last part of the study which provides the summary, conclusion, and recommendations for improving the future performance of the sample banks. Finally bibliography and appendices will also be presented at the end of the thesis work.

CHAPTER TWO
REVIEW OF LITERATURE

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

2.1 Conceptual Framework

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

The development of the country is always measured by its economic development through economic indices. Therefore, every country has given emphasis on upliftment of its economy. These days the financial institution is viewed as a catalyst in the process of the economic development through mobilization of domestic resources. A financial institution acts as an intermediary of transferring the resources from the point of surplus to the deficit. A new organized financial institution including financial companies, commercial banks and other financial intermediaries play an important role for the development of a country. They collect scattered financial resources from the mass and invest them among those who are associated with the social, commercial and economic activities of a country. The most dominant financial institution in the economy in Nepal are non-other than commercial banks. This institution offers the public both deposit and credit services. Commercial Banks play an important role in economic development of a country as they provide capital for the development industry, trade and business by investing and the saving collected as deposits from the public. They render various services to their customers facilitating

their economic and social life. Therefore competitive and reliable banking system is essential in every country for their growth and development.

A joint venture is forming of two forces between two or more enterprises for the purpose of carrying out a specific operation (Gupta, 2984: 15-25). Joint Ventures Banks are the commercial banks formed by joining two or more enterprises for the purpose of carrying out specific operations such as investment in trade, business and industry as well as in the form of negotiation between various groups of industries and traders to advice mutual exchange of goods and services. Joint Venture Banks are the mode of trading to advice mutual exchange of goods and services for sharing competitive advantage by performing joint investment scheme between Nepalese investors, financial and non financial institution as well as private investors and their parent banks each supplying fifty percent of the investment. The parent banks which have experiences in highly merchandised and efficient modern banking services in many parts of the world have come to Nepal with higher technology, and advance management skills. Joint Venture Banks are established by joining different forces with an ability to achieve a common goal of the partners. They are more efficient and effective monetary institutions in modern banking field than other old types of bank in Nepalese context (Udas, 2001:55). The primary objective of Joint Venture Banks is always to earn profit by investing or granting the loan and advances to the people associated with trade, business and industry etc. That means they are required to mobilize their resources properly to acquire profit. How well a bank manages in investment, has a great deal to do with the economic health of the country because the bank loans support the growth of economic activities of the country (Udas, 2001:56).

These days there is very much competition in banking market but less opportunity to make investment. In this condition Joint Venture Bank can take initiation in search of new opportunities so that they can survive in the competitive market and earn profit. But investment is very risky job. For a purposeful safe, profitable investment bank must follow sound investment and fund mobilization policy. Nepal entered in the world of banking with the establishment of Nepal Bank Limited in 1937 A.D. In 1955 A.D. the first central bank named “Nepal Rastra Bank” was established with the objectives of supervising, protecting and directing the functions of commercial banks. Just ten years later in 1966 A.D. another commercial bank fully owned by

government named Rastriya Banijya Bank was established under Banijya Bank Act 1964 A.D with the purpose of enhancing agriculture development, Agricultural Development Bank (ADB/N) was established under ADB/N Act 1967 A.D. ADB/N provides banking services in some urban area of Nepal as that of other commercial banks. Long after the establishment of above mentioned commercial banks, in 1980s government of Nepal introduced financial sector reforms which facilitated to the establishment of Joint Venture Banks and pointed a new horizon to the financial sector of Nepal. The number of Commercial Banks increased after the dramatically elected government adopted the liberal and market oriented economic policy.

2.1.1 Concept of Commercial Bank

A bank is a business organization that receives and holds deposits of funds from others make loan or extends credits and transfer funds by written order of deposits (the encyclopedia America, 1984, vol.3:302).

A commercial banker is a dealer in money and substitutes for money and substitutions for money, such as cheque or bill of exchange. He also provides a variety of financial services (the New Encyclopedia Britannica, 1985, vol. 14:60).

In the Nepalese context, commercial banks Act, 1974 A.D. defines “a commercial bank as one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions (Commercial Bank Act, 1974 A.D.).

Commercial banks are those banks that pull together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand of short notice. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant loans in the form of cash credits and over drafts. Apart from financing, they also rendered services like collection of bills and cheques, safe keeping of valuables, financial advising etc to their customers (Vaidya, S.2001:38).

A commercial bank can be defined as an institution which deals in money. In the words of Crowther, “Banks collect money from those who have it to spare or who are saving it out of their income and lend this money out against goods security to those who require it” (Crowther, S.R 1985:58)

Hence, we can conclude from the above discussions that the commercial banks are established under the rules and legislations of the central bank of the country. It has to move as per the directives given by the central bank. Though banks are established for the mobilization of the saved fund, central bank makes certain rules so that the public or the customer of the bank may not undergone on less of their hard earned money by the disinvestment procedure of the bank.

2.1.2 Types of Banks

There are several different types of banks which are as follows:

2.1.2.1. Central Bank

It is guardian of the entire banking system. All other banks are required to comply with instructions of the central bank. It is regulating and controlling authority. Usually, central bank controls monetary policy and may be the lender of the last resort in the event of the crisis. They are often charged with controlling the money supply, including printing paper money. Bank of England (1964 A.D.) is the first central bank. Now, almost all the countries have their own central banks. The central bank of Nepal is Nepal Rastra Bank (2013-1-14 B.S.)

2.1.2.2 Commercial Bank

Commercial bank collects deposits, issue short term credit, provide necessary facilities for trade, payments and render various kinds of common commercial services. Nepal Bank Ltd. established on 30th Kartik 1994 B.S. is the first commercial bank of Nepal.

List of Commercial Banks in Nepal

S.N.	Commercial Banks	Operation Date	Head Office
1	Nepal Bank Limited	1937/11/15	Dharmapath, KTM
2	Rastriya Banijya Bank	1966/01/23	SingadarbarPlaza, KTM
3	NABIL Bank Ltd	1984/07/16	Durbarmarg, KTM
4	Nepal Investment Bank Limited	1986/02/27	Durbarmarg, KTM
5	Standard Chartered Bank Nepal Limited	1987/01/30	NayaBaneshwor, KTM
6	Himalayan Bank LTD	1993/01/18	Thamel, KTM
7	Nepal SBI Bank LTD	1993/07/07	Hattisar, KTM
8	Nepal Bangladesh Bank LTD	1993/06/05	NayaBaneshwor, KTM
9	Everest Bank LTD	1994/10/18	Lazimpat, KTM
10	Bank of Kathmandu LTD	1995/03/12	Kamladi, KTM
11	Nepal Credit and Commerce Bank LTD	1996/10/14	Siddarthanagar, Rupendehi
12	Lumbini Bank LTD	1998/07/17	Narayangadh, Chitwan
13	Nepal Industrial and Commercial Bank Limited	1998/07/21	Biratnagar, Morang
14	Machhapuchhre Bank Limited	2000/10/3	Pritwichowk, Pokhara
15	Kumari Bank LTD	2001/04/03	Putalisadak, KTM
16	Laxmi Bank LTD	2002/04/03	Adarshanagar, Birjung
17	Siddhartha Bank LTD	2002/12/24	Kamladi, KTM
18	Agriculture Development Bank LTD	2006/03/16	Ramshapath, KTM
19	Global Bank LTD	2007/01/02	Kantipath, KTM
20	Citizens Bank International LTD	2007/06/21	Kamaladi, KTM

21	Prime Commercial Bank LTD	2007/09/24	New Road, KTM
22	Sun Rise Bank LTD	2007/10/12	Gairidhara, KTM
23	Bank of Asia LTD	2007/10/12	Tripureshwor, KTM
24	NMB Bank LTD	May 2008	Babbarmahal, KTM
25	Development Credit Bank LTD	2008	Kamaladi, KTM
26	Kist Bank Ltd.	05/07/2009	Anamnagar, KTM
27	Janata Bank Nepal Ltd.	2063	New Baneswor, KTM

Source: (NRB, Banking and Financial Statistics, No.50)

3. Agriculture Bank

Agriculture bank is a specialized bank which is specialized in providing financial facilities for agriculture sector. Farmers need short term loans for input procurement, medium term loans for major agricultural equipment and long term loans for land improvement and major facilities. It is also called cooperative bank.

4. Industrial Bank/ Development Bank

Development bank is established for the development of certain sector. It normally gives long-term loan and provides technical and other advice as well. Origin of development bank dates back to industrial revolution in U.K.

5. Savings Bank

Small savings of numerous households are collected by savings banks are made available for useful investment. Households deposit their small savings in boxes given to them. Their objective is to encourage thrift and make small savings available for useful investment.

6. Merchant Bank

Merchant bank is traditional bank which is engaged in trade financing. The modern definitions however refer to banks which provide capital to firms in the form of shares rather than loans. Unlike venture capital firms, they tend not to invest in new companies. In Nepal finance companies involve in merchant banking activities.

7. Postal Savings Bank

Postal savings bank is saving associated with national portal systems. Japan and Germany are examples are countries with prominent postal savings banks.

8. Retail Bank

In the retail banks, primary customers are individuals. An example of a retail bank is Washington Mutual Fund of the U.S.A.

9. Land Development Bank

Land development banks were known as land mortgage banks in the earlier time. They provide long term loans against security and mortgage of land and property.

10. Universal Bank

Universal bank is a joint bank which serves purpose of commercial banking and investment banking. It collects deposits and provides loans as commercial banks. All most all large financial institutions are diversified and engaged in multiple activities. For example, Citigroup, a large American Bank, is involved in commercial and retail lending; it owns a merchant bank (Citicorp Merchant Bank Ltd) and an investment bank (Saloman Smith Barney); it operates a private bank (Citigroup private bank); finally, its subsidiaries in tax havens offer offshore banking services to customers in other countries.

2.1.3 Functions of Commercial Banks

Banks collect unused money from public by providing attractive sound interest and can earn profit by lending it on mainly in business organization, industrial and agriculture sectors and investing in government bonds. So, the main function of commercial banks is to mobilize idle resources in productive areas by collecting it from scattered sources and generating profit. There are many functions performed by commercial banks which may be summarized follows:

a. Accepting Deposits

The main objective of the commercial banks is to collect the deposit. Commercial banks accept the deposit from the public who has surplus funds under three main headings namely current, saving and fixed deposits.

1. Current Deposits

Current deposits are also known as demand deposits. The demand deposit in which an amount is paid immediately at the time of any account holder's demand is called demand deposit. Though the bank can't gain profit by investing it in new sector after taking from the customer, this facility is given to the customer. Therefore, the bank does not give interest on this account.

2. Saving Deposits

In saving deposits, there is restriction on the maximum amount that can be deposited and also withdrawals from the account. This deposit is suitable and appropriate for the people of middle class who have low income and small saving. The bank usually pays small interest to the depositors against their deposits.

3. Fixed Deposits

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

b. Advancing Loan

Commercial bank collects funds by taking all kinds of deposits and then it mobilizes by providing loans and advances. Direct loans and advances are given to all types of persons against the personal security of the borrowers or against the security of movable and immovable properties. There is various method of advancing loans e.g.

- Overdraft
- Cash credit
- Direct loans
- Discounting bill of exchange etc.

c. Agency Services

A commercial bank provides a range of investment services. It undertakes to buy and sell securities on behalf of its clients. The banks undertake the payment of subscriptions premiums rents etc. It collects checks, bills, promissory notes, dividends, interest etc on behalf of the customers. The bank charges a small amount of commission for those services. It also acts as correspondent or representative of its customers, others, banks and financial institutions.

d. Credit Creations

Commercial banks create credit on the basis of deposits. They hold a certain amount of cash reserve to meet obligations. The rest of the deposit amount is invested in loan finance that yields higher rates of interest rates of interest as compared to those payable on deposits. When the bank advances loans, it opens an account to draw the money by cheque according to borrower's needs.

e. Other Functions

Other functions of the commercial banks include the following:

- Assist foreign trade
- Offers security brokerage services
- Security brokerage service

2.1.4 Concept of Deposit

The excess of income over consumption required is saved. Such savings are deposited in commercial banks. Even amounts to be spent for consumption purposes are deposited in commercial banks. Payments for goods and services are made in cheques drawn on banks. Banking habit is growing fast. People deposit their earnings in commercial banks because bank vaults are safer than home coffers and interest paid by them on deposits add to earnings. It is the function of commercial banks to accept such deposits and pay interest according to the kind of deposits.

It is important that the commercial bank's deposit policy is the most essential policy for its existence. The growth of bank depends primarily upon the growth of its deposits. The volume of funds that management will use for creating income, through loans and investment is determined largely by the bank's policy governing deposits.

In other words, when the policy is restrictive, the growth of bank is restated or accelerated with the liberalization in the deposit policy. In banking business, the volume of credit extension much depends upon the deposit base of a bank. The deposit creating powers of commercial banks forces to raise the assets along with the liabilities side of the balance sheet. In other words, assets give rise to liabilities. Traditionally, the deposit structure of a commercial bank was thought to be determined by the depositors and not by bank management. There are regular changes in this view in the modern banking industry. Thus banks have evolved from relatively passive acceptors of depositors to active bidders for funds. Depositors are one of the aspects of the bank liabilities that management has been influencing through deliberate action (Vaidya, S. 1999:68)

Thus, bank deposit is subject to various form of classification. The deposits are generally classified based on ownership, security and the availability of funds. There are two types of deposit which are as follows:

a. Interest Bearing Deposit

Deposit in which banks are required to pay interest is known as interests bearing deposit saving, term (fixed), call and recurring deposit are interest bearing deposit.

i. Saving Deposit

A saving deposit is one in which middle class people and general server open a limited amount of money that can be withdrawn and low level of interest will be provided by bank. This is very common and general deposit account, which is suitable for those classes of people who want to save some portion of their earnings or the money left after the consumption. There are some restrictions in withdrawing money at the same time the limitation depends as per nature of the economy and from one country to the other ever bank to the other.

ii. Fixed Deposit or Time Deposit

This is a kind of deposit in which amount will be deposited for a fixed period of time that money cannot be withdrawn before the expiry of time. So the money deposited in this account can be utilized by banks for medium or long term credit freely being confident that the depositor will not come to claim until the time lapses. The time

deposit is the main source of commercial banks for their credit operation. Investment in medium term and long purposes is possible only through this type of deposit. However, the depositor can take loan under security. In the context of Nepal, fixed deposit has been classified according to the following durations:

- ❖ Quarterly
- ❖ Semi-annually
- ❖ Annually
- ❖ Annually and above

The rate of interest rate on fixed deposit depends upon the duration of time deposit (Maxwell, 1974:89)

iii. Call Deposit

Call deposit incorporates the characteristics of current and saving deposit. Current deposit in the sense deposit is withdrawn able at "call" and savings in as dense the deposit earns "interest". The companies not entitled to open savings account can open the call accounts. Interest rate on call deposit is negotiable between the bank and the depositor and hence, is normally not published or announced in public.

Interest rate is applied on daily average balance. Withdrawal restriction is not imposed on call deposit but the balance should not go below an agreed level (Dahal Sarita and Dahal Bhusan 1999:30)

iv. Recurring Deposit

Concept of recurring deposit was developed to encourage the thrift among people of fixed regular earning. In recurring deposit scheme, the depositor is required deposit the fixed amount in each installment and is repaid fixed amount at maturity.

b. Non-Interest Bearing Deposit

It is the deposit in which the banks need not to pay interest for the customer of their savings. It is because in this type of deposit customer can withdraw the money at any time or can withdraw daily and the bank could not employ the amount in profitable projects that is why it does not pay any interest in this type of account. Current and margin deposit are non-interest bearing deposit.

i. Current Deposit

The current deposit account generally is opened by the business persons. They are allowed to withdraw and deposit their money according to their needs. There is no limitation of withdrawing the money. Therefore, these types of deposits are those people who may need money at uncertain times.

ii. Margin Deposit

Banks issue letter of credit, guarantee and indemnity etc. on behalf of the customer for a specified sum of money. These amounts have to be paid to the beneficiaries of aforesaid instruments provided they claim as per the terms and conditions agreed upon. Thus banks are exposed to contingent liability. To reduce the liability, banks ask customer to deposit a certain amount as the margin deposit.

Banks open the fictitious margin account in the name of the borrower to put such amount and interest is not paid in such deposit. Margin deposit is required to the customer if the claim is not lodged by the beneficiary. In the case of claim, the amount is utilized to honor the claim. The customer is asked to cover the shortfall if any (Dahal Sarita and Dahal Bhusan 1999:32)

Mobilization of resourced also could be understand as the task of transferring the saving from those who save to those who are prepared to invest (Demond 1957: 14)

Therefore, the main objective of deposit mobilization is to convert idle saving into active saving. When discussing about resource mobilization we are mainly concerned with increasing the income of low-income and to make them able to save more and to invest against the collected amount in the development activities.

It is quite understandable that comprehensive and highly objective credit policies are to be prepared and implemented effectively by the commercial banks. However, when the banks are to lend more and more credit as necessity the sources of such loans and advances become a matter of serious consideration. After satisfying the statutory obligations in terms of cash ratio and the like increased loans and advances can be made only if the deposits in the bank augment. Primarily, the deposit of the banking system would increase, if the structural change in one banking habits and practices

and other institutional improvements and in progress in the country. Secondly, increase in bank deposits should emanate from increase in advances. It is known fact that every loan creates deposits through of course in different proportion. The range of propensity deposit out of loans received is between zero and one. Greater the degree of propensity deposit out of new loans larger will be the deposits with banks. High propensity to deposits out of loans reflects low desire of people to hold cash with themselves in relation to deposits. In other words, this indicates increased banking habit and practices among public at least of there who benefit through banks loans (Joshi, V.R. 1990: 57)

Thus it is cleared that commercial banks are set up with a view to mobilize national resources. The first condition for national economic development is to be able to collect more and more deposits. In this context, the yearly increasing rate of commercial bank's deposits clearly shows the satisfactory progress of deposit mobilization.

Therefore, there need a huge amount of capital and the objective of mobilization is to collect the scattered capital in different form within the country. It is much more important to analyze the collected deposit in the priority sector of country. In the context of developing country like Nepal we have to promote our business and other sectors by investing the accumulated capital towards productive sectors. The need of deposit mobilization is felt to control unnecessary expenditure. If there is no savings, the extra money that the people have can flow forwards buying unnecessary and luxury goods. Thus, the commercial banks are playing vital role for national development. Deposit Mobilization is necessary to increase their activities. To increase is to mobilize deposit. It is because if the product of agriculture and industrial product increase it gives additional income which helps to save more and ultimately it plays a good role in deposit mobilization.

2.1.5 Deposit Mobilization

Collecting scattered small amount of capital through different Medias and investing the deposited fund in productive sectors with a view to increase the income of the depositors is meant deposit mobilization. In other words, investing the collecting fund in the productive sectors and increasing the income of the depositors, it also supports

to increase the saving through the investment of increased extra amount (NRB, Bankers Prakashan, 1984, No. 24:12)

When we discuss about deposit mobilization, we are concerned with increasing the income of the low income group of people and to make them able to save more and more to invest again the collected amount in the development activities (NRB, bankers Prakasan, 1984, No. 24:10)

Saving refers to that part of the total income which is more than the expenditure of the individual. In other words, saving equals to total income minus total expenditure. Basically saving can be divided into two parts: voluntary saving and compulsory savings. Amount deposited in different accounts of commercial bank, investment in government securities are some examples of voluntary saving. A commercial bank collects deposit through different accounts like fixed, saving and current.

In developing countries there is always shortage of the capital for the development activities. There is need of development in all sectors. It is not possible to handle and develop all the sectors by the government alone at a time, private people also can not under take large business because the per capita income of the people is very low while their propensity to consume is very high. Due to the low income, their saving is very low and capital formation is also very low. So their saving is not sufficient for carrying on development works.

To achieve the higher rate of growth and per capita income, economic development should be accelerated. “Economic development may be defined in a very broad sense as a process of raising income per head through the accumulation of capital (Johnson, 1965:11)”. But, how capital can be accumulated in the developing countries? There are two ways of capital accumulation in the developing country one from the external sources and other from the internal sources. In the first group foreign aid, loans and grants are the main. While in the later financial institutions operating within the country play a dominant role. In the context of Nepal, commercial banks are the main financial institutions which can play very important role in the resource mobilization for the economic development in the country. Trade industry, agriculture and commerce should be developed for the economic development.

Capital formation is possible through collecting scattered unproductive and small savings from the people. This collected fund can be utilized in productive sector to increase employment and national productivity. Deposit mobilization is the most dependable and important source of capital formations (RBB, Upahar, 2055, N0. 4:14).

Deposits, such as current, saving and fixed deposits are the main part of the working capital. It is due to this reason that banks keep their deposit mobilization campaign always in full swing taking resort to every possible means laying at their disposal (NRB, Nepal Bank, Patrika, 2040, No. 13:2)

Commercial banks are set up with a view to mobilize national resources. The first conditional of National Economic development is to be able to collect more and more deposit. In these context, the yearly increasing rate of commercial banks deposit clearly shows the satisfactory progress of deposit mobilization (RBB, Upahar, 2054, No. 3:20)

2.1.6 Requirements for Deposit Mobilization

The following are some reasons why deposit mobilization is needed in a developing country like Nepal.

a) Capital is needed for the development of any sector of the country. The objective of deposit mobilization is to collect the scattered capital in different forms within the country.

b) The need of deposit mobilization is felt to control unnecessary expenditure, if there is no saving, the extra money that the people have, can flow forwards buying unnecessary and luxury goods. So, the government also should help to collect more deposit, steeping legal procedures to control unnecessary expenditures.

c) Commercial banks are playing a vital role for National Development. Deposit mobilization is necessary to increase their activities. Commercial banks are granting loan not only in productive sectors but also in other sectors like food, grains, gold and silver etc.

d) It is much more important to analyze the collected deposit in one priority sectors of a country. In our developing country's we have to promote our business and other sectors by investing the accumulated capital towards productive sectors.

Deposit mobilization plays a vital role for the economic development of an underdeveloped and developing country rather than developed one. It is because a developed country does not feel the need of deposit mobilization for capital formation due to developed capital markets in every sector. But in an under developed country and developing country, deposit mobilization plays a great role in such countries. Low National income, low per capita income, lack of technical knowledge, vicious cycle of poverty, lack of irrigation and fertilizer, pressure of over population, geographical conditions etc. are the main problems of economic development of an under developed country like Nepal. So far the developments of these sectors concerned, there is needs of more capital. Again, instead of the developments of a particular sector, the development of every sector should go side by side. So, the development process of these sectors on one side and to accumulate the scattered and unproductive sectors deposit on the other is the felt need of an under developed country. We can take this in our country's present context (NRB, Banker's Prakashan, 1984, No. 24:12).

2.1.7 Advantages of Deposit Mobilization

The advantages of deposit mobilization are as follows:

i. Circulation of Idle Money

Deposit mobilization helps to circulate idle money. The meaning of deposit mobilization is to convert idle saving into active saving. Deposit mobilization helps the depositor's habit of saving one side and it also helps to circulate the idle saving in productive sector on the other. This helps to create incentives to the depositors.

ii. To Support Fiscal and Monetary Policy

Fiscal policy of the government and monetary policy of the central bank for economic development of a country can be supported by deposit mobilization. Deposit mobilization helps to canalize the idle money in productive sector. Again, it helps in money supply, which saves the country from deflation and helps central banks objective of monetary policy

iii. Capital Formation

Capital plays a vital role for the development of industries. But in an underdeveloped country, there is always lack of capital to support such industries. Capital formation and industrialization is possible through deposit mobilization.

iv. Development of Banking Habit

One important side of economic development of a country is to increase banking habit in the people. Deposit mobilization helps in these aspects. If there is proper deposit mobilization, people believe on the bank and banking habit develops on the people.

v. To Support Government Development Projects

Every underdeveloped country's government needs a huge amount of money for development projects. The deposit collected by the commercial banks can fulfill to some extent the need of money to the government.

vi. To Promote Cottage Industries

Deposit Mobilization is needed to facilitate cottage industries located in rural and urban areas. If the bank utilizes the collected deposit in the same rural or urban sector for the development of cottage industries, it is helpful not only to promote cottage industries in the area, but also support in the development of the locality as a whole increasing employment and income of the local people.

vii. To Check up Miss-utilization of Money

Mostly our customs and habits are supported by social and religious beliefs. There is also tendency of copying others and to show their superiority buying unnecessary and luxury items in our society. In such society, deposit mobilization proves a tool check up miss utilization of money.

viii. Others

Deposit mobilization supports small savers by earning interest, helps to the development of rural economy, protests villagers from being exploitation of indigenous bankers, increases investment incentives, provides facilities to the small farmers to purchase tools and fertilizers etc. So commercial banks play an important

role for the economic development not only in a development country but also in a developing country.

2.1.8 Loans and Advances

The core function of commercial bank is the granting of credit. Although banks offer wide spectrum of financial services, lending has traditionally been their main function. Banks profess experience, expertise and flexibility in lending which give them a clear competitive advantage over all other financial institution. Bank credit has been responsible for the development and growth of many small and moderate size business that otherwise would have withered and died by providing credit, banks have contributed to t he growth of their respective communities and advances of local well being (Vaidya S. 1999:74)

Commercial bank provides loan to the public through which it creates the credit for the community. Commercial banks mobilize their funds mainly in loan and advances. Loan and advances is the risky assets. There is high ratio of risk on granting loan. Since loan and advances is risky there is possibility of high rate of return. Banks loan and advances contribute high ratio in the profit of the banks. It is the instrumental in creating and maintaining good deposit relationship which are essential for the furthering of banks lending. Making loan is the principle economic functions of banks. Therefore, how well a bank performs it's lending function has a great deal to do with the economic health of the country because bank loans support the growth of the new business and jobs within the bank's country because bank's territory and promote its economic activity.

Though banks loan and advances are the important factor for getting profit to the bank it should not grant loan haphazardly. It should analyze the creditor before sanctioning the loan. A manager must consider character, capacity and capital of the borrower. Another thing in lending is always influenced by the safety, recovery and return. The four conditional principles determine the spread of loans and advances are:

- How to be safe?
- How to meet demand?
- How to meet the cost?
- How to bring about the development in terms of achieving social objectives?

Generally a bank grants two types of loan i.e. short term loan and long term loan against the security. Security is necessary in case of the default of the payment. Banks can sell the property if due balance are not repaid in time with the interest.

2.1.9 Investment and Investment Policy

2.1.9.1 Investment

In general terms, investment means the use of money in the hope of making more money. It is defined as sacrifice of current consumption for future consumption whose objective is to increase future wealth. The sacrifice of current consumption takes place at the present with certainly and the investor expects desired level of wealth at the end of his investment horizon. The general principle is that the investment can be retired when cash is needed. The decision to investment now is a most crucial decision as the future level of wealth is not certain. Time and risk are the two conflicting attributes involved in the investment decision. Broadly, investment alternatives fall into two categories: real assets and financial assets. Real assets are tangible while financial assets involve contracts written on pieces of papers such as common stocks, bonds and debentures. Financial assets are brought and sold in organized security markets.

2.1.9.2 Investment Policy

The initial step setting investment policy involves determining the investor's objective and the amount of his or his invest able wealth. Because there is a positive relationship between risk and return for sensible investment strategies, it is not appropriate for an investor to say that his or her objective is to "make a lot of money". What is appropriate for an investor in this situation is to state that the objective is to attempt to make a lot of money while regarding that there is same chance that there is same chance that large losses may be incurred. Investment objective should be stated in terms of both risk and return (Jack Clark Francis p.10 sixth edition)

2.1.9.3 Characteristics of Sound Investment Policy

Some of the main characteristics of sound lending and investment policies are given below:

i. Liquidity

People deposit money at bank in different account with confidence that the bank repay their money when they are in need. To maintain such confidence of the depositors, the bank must keep this point in mind while investing its excess fund in different securities or at the same time of lending so that it can meet current or short term obligation when they become due to payment.

ii. Safety and Security

The bank should invest its funds in those securities, which are subject to too much depreciation and fluctuation because little difference may cause a great loss. It must not invest its funds into speculative business who may be bankrupt at once and who may earn million in a minute also. The bank should accept the type of securities, which are commercial, durable and marketability and have high market price.

iii. Profitability

Commercial banks can maximize its volume of wealth through maximization of return on their investment and lending. So, they may invest their funds where they gain maximum profit. The profit of commercial banks mainly depends on the interest rate, volume of loan, its time period and nature of investment in different securities.

iv. Legality

Illegal securities will bring many problems for the investors. Commercial banks must follow the rules and regulations as well as different direction issued by NRB, ministry of finance and others while mobilizing its deposits.

v. Purpose of Loan

The loan should be utilized in purposed plan. Everything related with the customer should be examined before lending. If borrower misuses the loan granted by the bank

they can never repay and bank will posses heavy bad debts. Detailed information about the scheme of the project activities should be examined before lending.

2.2 Review of Related Studies

In this segment it has been tried to write the major findings of the various related articles issued by various magazines on different time period and the major findings and analysis of the various thesis that are found to be related to the study.

2.2.1 Review of Articles/Journals

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

Bodhi B. Bajracharya in his article "Monetary policy and deposit mobilization in Nepal" has mentioned the mobilization of domestic savings is one of the prime objectives of the monetary policy in Nepal. For this purpose CBs stood as the active and vital financial intermediary for generating resource in form of deposit of the private sector. So far providing credit to the investors is a different aspect of the money *(Bajracharya, 1999: 93-97)*

Jha (2005) in his article, "Challenges and Opportunities", in The Boss, Vol 2, issue 10, pg 96 has expressed in his article about the challenges and opportunities that the Nepali banking sector faces. Nepali banking sector is going through a rapid transformation. With liberalization in financial markets and integration of domestic market with external markets, bank operations have become more complex and dynamic. The opportunities to enter new business and new markets and to deliver higher level of customer service are immense. Four trends that alter the banking industry in future are consolidation and merger, globalization of operations, development of new technology and sustenance of traditional services. With the new capital adequacy norms coming through, it is expected that few banks have no choice but to merge. In order to have a sustainable growth in the bottom line, banks must increase their global market operations, especially in treasury products by being more innovative and selecting a pool of products which the global market is offering today to reward the calculated risk taken by the bank. *(Source: Resta Jha, representative of*

Standard Chartered Bank in Nepal; "The boss" 15th January-14th February, 2005 Vol.2 Issue 10 pp. 96)

Shrestha (2004), in his article, " A study on deposits and credits of commercial banks in Nepal" concluded that the credit deposits ratio would be 51.3%, other things remaining same in the year 2004 A.D., which was the lowest under the period of review. So he has strongly recommended that the commercial banks should try to give more credit entering new field as far as possible otherwise they might not be able to absorb even its total expenses. *(Source: R. L. Shrestha, (2004) A study on deposits and credit of commercial banks in Nepal, NRB Samachar}*

Pradhan (2053) in his article entitled "Deposit Mobilization, its problem and prospects." He has presented a short glimpse on investment in different sectors, its problem and prospects through his article. On his article he said that "Deposit is the life blood of any financial institution be it Commercial Bank, Finance Companies, Cooperative or Non government organization". He has added, in consider of ten Commercial Banks, nearly three dozen of Financial Companies, the latest figure does produce a strong feeling that a serious review must be of problem and prospects of deposit sector. Besides few Joint Venture Banks, other Organizations rely heavily on the business deposit receiving and credit disbursement.

In the light of this Mr. Pradhan has pointed out the following problem of deposits in Nepalese prospects:

a) Due to lack of education, most of Nepalese people don't go for saving in institutional manner. However they are very much used of saving, be it in the form of cash, ornaments or kind. Their reluctance to deal with institutions system are governed by their lower level of understanding about financial organization, process required, office hour withdrawals system availability of depositing facilities and so on.
b) Due to lesser office hour of banking system people prefers for holding the cash in the personal possession.

c) Unavailability of the institutional services in the rural areas.
d) No more mobilization and improvement of the employment of deposits in the loan sectors.

Mr. Pradhan hasn't only pointed out the problem but also suggested for the prosperity of Deposit Mobilization. They are given as:

a) By cultivating the habit of using formal sector for transaction must be a priority and continuous educational program.
b) By adding service hour system will definitely be an appropriate step.
c) Nepal Rastra Bank could also organize training program to develop skilled manpower.
d) By spreading co-operative to the rural areas mini banking services are to be launched.
e) The scheme of mobilizing the deposit in the firm of free personal accident insurance, deposit insurance may be fruitful. Not only waiting for potential customer it is better to reach to the potential depositer.

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

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

B. M. Magazine, Nov (2000) in one of its article, "How Much Bankable is Your Bank", states that the strength and performance of any commercial bank can't be judged on the basis of single parameter. The parameters of strength could be the total equity employed, that total assets held, total deposits mobilized etc. whereas performance can be measured with operating profit ratio, deposit to advances ratio, growth in advance, deposits and operating profit etc. P/E ratio shows the confidence of the investors in the stock of a bank. *(Source: "B.M Magazine" 2000)*

Pradhan (1984) in his article "Financial Liquidity Assessment and Discriminant Analysis" in the "Pravaha", Journal of management, Vol 8, 1984, published by Nepal Commerce Campus, Tribhuvan University, has made an effort to show how a discriminate analysis may be useful in assessing the financial liquidity position of the selected public enterprises of Nepal. He even tried to arrange 10 public enterprises (5 from manufacturing sectors and 5 from non-manufacturing sectors) on the basis of their risk indicated by Z-scores. The objective of the article was, however, to evaluate and combine two explanatory variables in a manner that forces the selected groups to be as statistically distinct as possible. *(Source: Pradhan, R.S. (1984), "Pravaha",Vol 8 p.24)*

F. Morris in his discussion paper "Latin America's banking system in 1980's A.D." has concluded that most of the banks concentrated on compliance with central bank rules on resources requirement, credit collection and interest rates. While analyzing loan portfolio quality, operating efficiency and soundness of bank investment management has largely been overlooked. The huge losses now find in the bank's portfolio in many developing countries and testimony to the poor quality of this ever sight investment function.

The writer adds that mismanagement in financial institution has involved inadequate and over optimistic loan appraisal, tax loan recovery, high risk diversification mismatching. This has led many banks of developing countries to the failure of 1980s A.D." (Morris, 1990: paper 81)

2.2.2 Review of Relevant Thesis Works

Under this segment it has been tried to find out the major conclusion and recommendations of the previous study made by the T.U. students. Some of the related studies are reviewed here.

Mr. Damber Bahadur Paudyal on research "Funds utilization of commercial banks in Nepal" he has tried to examine the funds mobilization of the commercial banks and he had concluded that the efficient mobilization of fund is more important than collection of one deposit. Also he said lower is the investment lower will be the capital formation. If there is high ratio of investment of the available fund there will create

huge capital formation for which is important to the economic growth of the nation and development of the nation there to. At last, he recommended that the commercial banks should concern their behaviors in the efficient mobilization of the resources to get the profit, (Paudyal: 2004).

Mr. Majendra Nath Karmacharya in his thesis paper "A study on deposit mobilization by the NBL" has concluded that commercial banks play a crucial role in accelerating the growth in the country. The bank mobilizes the savings of the people and diverts them into productive channels. The expansion of branches as more as possible to encourage the savings i.e. to increase the savings habits of people and thereby to mobilize the available financial resources efficiently and effectively in a productive way and concluded that the branch expansion helps to collect more deposits and utilize the available resources. The conclusion is diverted from the analysis of seven years data from 1970 to 1977 A.D. using Karls Pearson's formula, percentage and ratio to meet the objective how far the bank is able to utilize the collected deposits. (Karmacharya: 1978)

Mr. Bindeshwar Mahato in his unpublished master's thesis, "A comparative study of the financial performance of NABIL & NIBL" concluded that NABIL is more oriented towards discharging responsibility towards its shareholders than NIBL. More than this, NABIL is found paying more attention towards the attainment of national objectives. NABIL's participation in the task of economic development with liberal attitude towards the government and being more responsive to the national priorities like branches expansion, ore employment, more resources mobilization etc. so, from the shareholders and government point of view, NABIL is performing much better than NIBL. But it doesn't mean that NIBL is not performing well. Relatively, NABIL is doing better banking business.

Mr. Kishor Poudel, in his thesis paper "Liquidity and Investment position of Joint Venture Commercial Banks in Nepal", has made an attempt to evaluate liquidity and investment of JVBs, with special reference to EBL & NABIL. He has concluded that liquidity of EBL is comparatively better than NABIL. Growth rate of investment is high in EBL then NABIL. He even found that the bank don't have constant and consistent liquidity and investment policy. There is no standard and uniform rate or

ratio for maintaining liquid assets by the commercial banks. A commercial bank at its own judgment may decide to maintain an appropriate level of liquid assets. So he has recommended exploring such investment on share and debenture and the bank should have laid down policy for timely review of portfolio and to maintain risk and return. .

Mr. Keshav Raj Joshi (1989) in his dissertation entitled, "A study on financial performance of commercial banks", has analyzed different ratio of Nepal Bank Ltd. and Rastrya Banijya Bank for the period of five years till fiscal year 1988. He concludes liquidity position of commercial banks is sound. Their debt equity ratio is high and debt on solvency to debt equity ratio is under doubt. Regarding debt solvency to debt equity ratio of local commercial banks is higher than joint venture banks. Conservative credit policy is followed by commercial banks for asset utilization. That is why more investment is done in loan and advances, assets utilization for earning purpose is two third of the total assets. The main sources of income for those banks are interest from loans and advances. Overall profit position of NABIL is better than that of other joint venture banks during the study period. Dividend layout ratios of commercial bank should be determined which should be kept in mind of the shareholder's expectations and their growth requirements of the banks.

Mr. Uttam Raj Pant in his thesis paper tried to highlight the discrepancy between resources collections and resources utilizations. At the end of the thesis he concluded that CBs failure in resource utilization is due to their lending confined to short terms only. So, he recommended the commercial banks to give emphasis on long and medium term lending for better utilization of the deposits.

Mr. Rit Bahadur Joshi in his thesis paper concluded that the CBs have collected many resources from people but they are just behind in their utilizations. Nepalese CBs are lazy to play an active role to utilize their resources collected from different sectors in accordance with the need of the economy.

CHAPTER THREE
RESEARCH METHODOLOGY

In this chapter, efforts have been made to present and explain specific research design for the sake of attaining the research objectives. A sound and systematic methodology is required to carry out any study, if it is to be worthwhile. This chapter, therefore, is designed to throw light on the methodology used to undertake this study which aims at analyzing the overall performance of Nabil Bank Limited and Himalayan Bank Limited and drawing some pertinent conclusions from this. The major contents of the research methodology followed in course of this study are as follows:

3.1 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research question and control variance. To achieve the objectives of the study, descriptive as well as analytical research design have been used. This study is based on secondary data. Some sample statistical methods such as mean, C.V., trend line, correlation and regression analysis have been applied to examine the facts of data. Furthermore, recommendations and suggestions are also derived from the study by taking the NBL and HBL as samples so that all concerned can achieve something from the study.

3.1.1 Populations and Samples

During the period of this study, Nepalese financial system comprises of 27 commercial banks which is the population of the study. It is not within the capacity of this study to include all the listed commercial banks for the analysis due to the absence and heterogeneity of available data. It means the study periods of the selected banks are not homogenous in nature. The sample size of the mentioned 27 commercial banks represents 2/27 or 7.40 percentage of total population. Out of the various methods of selecting a sample, judgment sampling was followed in order to choose NABIL & HBL among the available commercial banks in Nepal. Moreover, the selecting of NABIL & HBL is also based on advice of experts of relevant field, and due to the time constraint and easy access to the researcher.

3.1.2 Period Covered

This study is based on the past data disclosed by annual reports of commercial banks. NRB has dictated the commercial banks to disclose the financial information in the prescribed format since FY 2001/2002. So, the comparison of the financial performance of commercial banks with each other is only possible from FY 2000/2001 onwards.

NABIL and HBL have been operating for a long period. The longer the period covered for analysis the more accurate conclusion we get. However, due to constraints of time and resources only six year period data are used. Therefore, the analysis of the concerned commercial banks are done under yearly basis according to the six yearly balance sheet and income statements indicated from 2003/2004 to 2009/2010.

3.2 Nature and Sources of Data

The main source of data for this thesis is the secondary data, along with the necessary suggestions from various experts as well as the renowned teachers. The secondary data used are the published documents of the banks, booklets, magazines, publications and the articles of the banks, council of the ministry of finance, national planning commission, central bureau of statistics, and previous dissertations.

The data collected from various sources are as follows:

a. Annual report to shareholders of NABIL (Data downloaded from www.nabilbank.com the official website of NABIL.)
b. Annual report to shareholders of HBL (Data downloaded from www.himalayanbank.com the official website of HBL.)
c. Financial statement of the selected banks (Data downloaded from www.nrb.org.np the official website of Nepal Rastra Banks)
d. Previous related researches & dissertations
e. Different books, magazines, newspaper, periodicals & journals.

So, the data used in this study is obviously the secondary data and historical in nature.

3.3 Research Methods

For the purpose of analysis of selected banks under study, financial statement, the profit and loss account and the balance sheet of the companies have been analyzed. Hence, the following financial tools have been used in this thesis.

3.3.1 Financial Tools Used

3.3.1.1 Ratio Analysis

1. Liquidity Ratio

The ability of a bank to meet its short term obligation is known as liquidity. It reflects the short term financial strength of the bank. These ratios are used to know capacity of the concerned to repay its short term liability.

i) NRB Balance to Total Deposit

NRB has required the commercial banks to deposit certain fund of the commercial bank in the central bank, and its amount has been changing as per the demand of the time. The ratio is calculated as under:

$$\text{NRB balance to Total Deposit} = \frac{\text{NRB balance}}{\text{Total Deposit}}$$

Where, Total Deposit= Current Deposits + Saving Deposits+ Fixed Deposits+ Other

ii) NRB Balance to Current and Saving Deposit

The NRB of Nepal has directed to the commercial bank to keep minimum 8% of the total saving and current deposit amount in NRB balance. It is for the purpose of the liquidity to meet the demand of the customer.

NRB Balance to Current and Saving Deposit Ratio= NRB Balance/ Current and Saving Deposit

iii) NRB Balance to Fixed Deposit

Fixed accounts mean an account of amounts deposited in a bank for a certain period of time. The customers can renew the fixed deposit period after the expiry of the fixed time. The rate of interest in the fixed deposit is higher than that of other deposit. For this deposit NRB has directed to the commercial banks to keep 6% of fixed deposit in the NRB balance for the purpose of the liquidity.

NRB Balance to Fixed Deposit= NRB Balance/ Total Fixed deposit

2. Activity Ratio

Activity ratio is also called assets management ratio. It measures the efficiency of the bank to manage its assets in properly to earn high profit. Under this chapter following ratio are studied.

i. Credit to Total Deposit

This ratio reflects extend to which the commercial banks are success in maintaining in their assets on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of deposit on loan and advances and vice-versa.

Credit to Total Deposit = Loan and Advances/ Total Deposit

ii. Investment to Total Deposit

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

Investment to Total Deposit Ratio= Total Investment/ Total Deposit

iii. Credit and Investment to Total Deposit

Credit and investment to total deposit ratio shows the relationship between credit and investment and total deposit. This ratio is calculated to know how the banks are mobilizing their deposit in the credit and investment sector.

Credit Investment to Total Deposit Ratio= Total Credit and Investment/ Total Deposit

Where, Total Credit and Investment = Loan and Advance + Investment

iv. Loan and Advances to Saving Deposit Ratio

Loan and advance to saving deposit ratio shows the relationship between the loan and advance or creditors and total saving account. It is calculated as under:

Loan and Advance to Saving Deposit = Loan and Advance / Total Saving Deposit

v. Time deposit to Total Deposit Ratio

Time deposit ratio shows the relationship between time deposit and total deposit. Total deposit is also called fixed deposit. Time deposit helps the bank to reduce the liquidity and in turn more profitable investment. The higher the ratio higher will be the change of mobilizing the fund with certainly.

Time Deposit to Total Deposit = Fixed Deposit / Total Deposit

3. Risk Ratio

Risk ratio is an important ratio that measures the risk associated with the banking variables. A bank raise capital accepts deposits and finally grants loans. A bank must consider the risk associated with it. Higher the ratio higher will be the profit and vice versa. Following ratios are considered under these ratios.

i. Capital Risk Ratio

Capital risk ratios are related between share capital and loan and advances or total credit is called capital risk ratio. Capital risk ratio of bank indicates how much assets value may decline before the position and other creditors. Therefore, a bank must maintain adequate capital in relation to the nature and condition of its assets, its deposit liabilities and other corporate responsibilities.

Capital Risk Ratio = Share capital / Risk Weight Age Assets

Where, Risk Weight Age Assets= Loan and Advances

ii. Credit Risk Ratio

Credit risk ratio is related into total loan and advances and total assets. It is very essential for a bank to inspect the project i.e. the risk involves in it to avoid default of non payment of loan before making investment on them. The main factor while the bank makes the decision on investment to utilize its collected fund is the risk. The risk behind making investment or granting loan or providing is measured by credit risk ratio.

Credit Risk Ratio = Total Loan and Advance / Total Assets

4. Capital Adequacy Ratio

The ratio has been one of the most controversial ratios. Excess capital decreases the profitability whereas the less capital is the symbol of a weak capital structure. Therefore, a bank must maintain adequate capital in relation to the nature and condition of its assets, its deposit liabilities and other corporate responsibilities. Under this ratio following ratios are calculated:

i. Capital to Total Deposit Ratio

Capital to total deposit ratio shows the relationship between capital and total deposit. This ratio measures how much capital has been rowed by the bank in respect to the deposit.

Capital to Total Deposit Ratio = Total Capital / Total Deposit

ii. Capital to Total Credit Ratio

Capital to total credit ratio shows the relationship between total capital and total credit. It indicates how much capital is raised by the banks in respect to the credit.

Capital to total credit ratio = Total capital fund/ Total credit

iii. Capital to Total Assets Ratio

Capital to total assets ratio measure the relationship between capital and assets. It is calculated as follows:

Capital to Total Assets Ratio = Total Capital / Total Assets

5. Profitability Ratio

Maximization of profit is the main objective of each and every bank. It is very necessary to earn maximum profit for the successful running of a bank concern. According to Lord Keynes, profit is the engine that drives the business enterprises. The profit is also important to preserve the existence of bank as well as strengthen and expand it.

i. Net profit to Total Working Fund Ratio

Return on total working fund measure the relationship between the working fund and profit of the bank. Hence, working fund includes those entire funds which are used for mobilizing to earn profit.

Return to Total Working Fund = Net Profit / Total Working Fund
Where, Total Working Fund = Total Deposit + Borrowings

ii. Net Profit to Loan and Advances

Net profit to loan and advances measures the earning capacity of commercial bank as its deposit mobilized on loan and advances. Higher the ratio greater will be the return and vice- versa.

Where, Return on Loan and Advance = Net Profit / Loan and Advance

6. Growth Ratio

Growth ratio is directly related with to the fund mobilization and investment management of a commercial bank. It represents how well the commercial bank maintaining the economic and financial position. Following ratios are considered under this ratio.

i. Growth ratio of total deposit
ii. Growth ratio of total loans and advances
iii. Growth ratio of total investment
iv. Growth ratio of net profit

3.3.2 Statistical Analysis

Statistical tools are used to draw the relationship between different variables related to the study topic. Although various statistical tools are available to analyze the obtained data, the researcher has selected the most suitable and commonly usable tools for analysis.

Mean or Average

Arithmetic mean is the ratio of the sum of all the observation to the number of the observation. It is a single value of selected series which represents them in average. In general, if X_1, X_2…., Xn are the given n observations, then their arithmetic mean, usually denoted by $\overline{X}$ is given by

$$\overline{X} = \frac{X_1 \Gamma X_2 \Gamma \ldots\ldots\ldots\ldots X_n}{n} = \frac{\mathbf{X}}{n}$$

Where,

n = Number of Observations

$\overline{X}$ = Arithmetic Mean

X_1 = First Observations

X_2 = Second Observations

The arithmetic mean is a single value of selected series, which represents them in average. Out of the various central tendencies, arithmetic mean is one of the most important and is easy to calculate.

Standard Deviation

Standard deviation is the most important and widely used measure of studying dispersion that gives uniform, correct and stable results. The measurement of the scatterness of the mass of figures about the average is known as dispersion. The standard deviation measures the absolute dispersion. A small value of standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series and vice versa. Amongst all methods of finding out dispersion, standard deviation is regarded as the best.

A standard deviation is the positive square root of the average sum of square of deviations of observations from the arithmetic mean of the distribution. The standard deviation for individual series is represented as

$$\pm X\sqrt{\frac{(X - \overline{X})^2}{n}}$$

Where,

$\overline{X}$ = Arithmetic Mean

X = Individual Observation

n = Number of Observations

Coefficient of Variation

The co-efficient of variation is the relative measure of dispersion, comparable across distribution, which is defined as the ratio, of the standard deviation to the mean expressed in percentage. *(Rechard & Rubin, 1994)*

This is a pure number independent of the units of measurement and thus, is suitable for comparing the variability, homogeneity or uniformity of two or more distributions. A distribution with smaller C.V. is said to be more homogeneous or uniform or less variable then other and the series with greater C.V. is said to be more heterogeneous or more variable then the other. *(Gupta, 1999).*

The coefficient of variation is given by:

$$C.V. = \frac{\pm}{\overline{X}} \times 100\%$$

Where,

$\overline{X}$ = Arithmetic Mean

$\pm$ = Standard Deviation

3.3.3 Correlation Analysis

Correlation Analysis is necessary in order to find out whether the selected variables in time series have any relation or not. If there is no correlation there would be no causality so this test is necessary.

Correlation is a measure of the relation between two or more variables. The measurement scales range from -1.00 to +1.00. The value of -1.00 represents a perfect negative correlation, while a value of +1.00 represents a perfect positive correlation. A value of 0.00 or close to zero represents a lack of correlation.

3.3.4 Regression Analysis

Regression analysis is a statistical device which helps to estimate or predict the unknown value of one variable from the known value of other variables. It is one of the scientific techniques and is considered as a useful tool for determining the strength of relationship between two or more variable prediction and estimation that has an important role in the financial sector. The regression line describes the average relationship between the two series. In fact, there is no difference between the lines of the best fit and the regression line though the trend line of the best fit is generally used when X series is related to time and Y series to the value of variable. If both X and Y series are variable, the line of the best fit is known as line of regression. The equation describing the regression line is called regression equation.

Here, regression analysis is divided into two parts; Simple and Multiple regressions.

a. Simple Regression Analysis:

Simple regression analysis describes the average relationship between only two variables at a time. It is also used to study the influences of independent variable on dependent variable. The basic relationship between X and Y is given by

$$Y = a + bx$$

Where, Y denotes the estimated value of Y for a given value of X and a and b are constants

b. Multiple Regression Analysis

The extension of simple regression technique i.e. the use of two more independent variables used to estimate the values of dependent variables is known as multiple regression analysis. However, it is also used to study the influence of independent variables on dependent variable. The multiple regression equation assumes the form

$$Y = a + b_1X_1 + b_2X_2 \text{ .....} + b_nX_n$$

Where, X_1 and X_2 are two independent variable and Y being the dependent variable, and a, b_1 and b_2 are constants.

For the purpose of this study, multiple regression analysis is applied to find out the impact of the independent variables Total Deposit (TD), Total Assets (TA**),** Investment (I), and Loan and Advances (LA) upon the dependent variable Net Profit (NP).

3.3.5 Other Statistical Tools Considered

For our data presentation and analysis we have considered the other different test also.

CHAPTER-FOUR
PRESENTATION AND ANALYSIS OF DATA

The basic objective of this chapter is to analyze and elucidate the collected data following the conversion of unprocessed data to an understandable presentation. Thus this chapter is devoted to the presentation, analysis, interpretation and scoring the empirical findings from the study through definite course of research methodology. Various financial and statistical tools have been used in this study to achieve the objectives of the study.

Analysis of Deposit Mobilization and Loan Diversification Policy of CBs

4.1 Deposit Collection and Mobilization

The main objectives of commercial bank are to safeguard the money of depositors and deposit mobilization. The following table shows the situation of commercial banks with relation to deposit collection and its percentage change.

Table No. 4.1

Change based index of deposit collection of NABIL and HBL (Rupees in millions)

Years	Deposits			
	NABIL	**% Change**	**HBL**	**% Change**
2004	14119	-	22010.33	-
2005	14586.6	103.31	24831.1	109.1
2006	19347.4	132.63	26456.2	106.54
2007	23342.3	120.64	29905.8	113.04
2008	31915	136.72	33239.2	111.14
2009	37,348.30	117.02	34681.34	104.33

Source: Annual Report of NABIL and HBL

From the above table no. 4.1 it is obvious from the change based index of deposit collection of NABIL and HBL that their deposits are increasing every year. The minimum increase in percentage of NABIL is 3.31 percent where as the maximum

increase in percentage is 36.72 percent. Regarding HBL, the minimum increase percentage is 6.54 percent whereas the maximum increase percentage is 13.04 percent. Hence it is clear that the deposit collection of NABIL is better than that of HBL.

Table No. 4.2

Change based index of investment of NABIL and HBL (Rupees in millions)

Years		**Investment**		
	NABIL	**% Change**	**HBL**	**% Change**
2004	6755	-	2781.71	-
2005	5146.4	76.18	5469.7	196.63
2006	7915.6	153.8	5144.4	94.03
2007	9519.8	120.26	6454.8	125.47
2008	9939.77	104.41	10096	156.41
2009	10826.37	108.91	8710.69	86.27

Source: Annual Report of NABIL and HBL

From the above table no. 4.2 it is obvious from the change based index of investment that NABIL is increasing every year as compared to the preceding years. The minimum increase percentage of NABIL is 4.41 percent whereas the maximum increase percentage is 34.98 percent. Similarly, the minimum increasing percentage of HBL is 25.74 percent whereas the maximum increase percentage is 56.41percent. The total investment of HBL has decreased in 2006 and 2009, and hence is not consistent. Thus the table shows that investment growth of NABIL is higher and more consistent than that of HBL.

Table 4.3

Change based index of loan and advances of NABIL and HBL (Rupees in millions)

Years	Loans and Advances			
	NABIL	**% Change**	**HBL**	**% Change**
2004	8549	-	13081.7	-
2005	10946.7	128.04	13245	101.25
2006	13278.8	121.3	15515.7	117.14
2007	15903	119.76	17672	113.9
2008	21759.5	136.82	21114.54	119.48
2009	27589.93	126.79	25519.52	120.86

Source: Annual Report of NABIL and HBL

From the above table no. 4.3 it is clear that the change based indices of loans and advances of both the banks are in increasing trend. The minimum increasing percentage of NABIL is 19.72% whereas the maximum increasing percentage is 36.82%. The minimum increase percentage of HBL's is 1.25% whereas the maximum increase percentage is 20.86%. The table shows that initially the loans and advances of HBL were higher but later in 2009 it became higher in NABIL.

4.2 Ratio Analysis

Ratio analysis is a technique of analysis and interpretation of financial statement through mathematical expression. In short, ratio analysis can be defined as an analysis of financial statements with the help of ratios.

"Ratio analysis is such a powerful tool of financial analysis that through it economic and financial position of a business unit can be fully x-rayed" (Kothari, 1989)

4.2.1 Liquidity Ratio

Liquidity ratios measure the ability of the firm to meet its short term obligations. This is also called solvency ratio or working capital ratio. It is the relative proportion of current assets to current liabilities. Under liquidity ratios, the following ratios are examined.

4.2.1.1 NRB Balance to Total Deposit

NRB has made the commercial banks to deposit certain fund of the commercial bank in the central bank which is changing time to time as the demand of the time. The ratio is calculated as follows:

NRB balance to total deposit = NRB Balance/Total Deposit

Total Deposit = Current + Saving + Fixed + Other

Table 4.4

Calculation of Mean, S.D. and C.V. of NRB Balance to Total Deposit Ratio

(In Percentage)

Years	NABIL	HBL
2004	4.29	7.38
2005	2.67	5.69
2006	1.64	4.13
2007	4.76	4.24
2008	5.73	2.81
2009	7.09	6.71
Mean	4.36	5.16
S.D.	1.81	1.58
C.V.	0.416	0.307

Source: Annex 01

The above table 4.4 shows that the ratio of NABIL and HBL that has been obtained from the annex 01. Through this the short term obligation capacity of the firm is analyzed. It reveals that the average ratio of the balance with NRB to total deposit of NABIL and HBL are 4.36% and 5.16% respectively. The maximum NRB balance to deposit ratio of NABIL is 7.09% in the year 2009 and the minimum is 1.64% in the year 2006. The maximum ratio of HBL is 7.38% in the year 2004 and the minimum is 2.81% in the year 2008. The average ratio of HBL is greater than the average ratio of

NABIL. Furthermore, the C.V. for HBL is lower than that for NABIL showing that HBL has more consistency in this regard.

4.2.1.2 NRB Balance to Current and Saving Deposit Ratio

The NRB has directed the commercial bank to keep minimum of 8% of the total saving and current deposit amount in NRB balance. It is for the purpose of the liquidity to meet the demand of the customer.

NRB balance to current and saving deposit ratio = NRB balance /
Current and Saving Deposit

Table 4.5

Calculation of Mean, S.D. and C.V. of NRB Balance to Current and Saving Deposit Ratio (In Percentage)

Years	NABIL	HBL
2004	6.98	12.76
2005	3.96	10.81
2006	2.72	5.58
2007	8.19	5.98
2008	10.48	4.12
2009	13.17	10
Mean	7.58	8.20
S.D.	3.92	3.44
C.V.	0.517	0.419

Source: Annex 02

The above table shows the ratio of NABIL and HBL which is used to analyze the short term obligation capacity of the firms. It reveals that the average ratio of the balance with NRB to current and saving deposits of NABIL and HBL are 7.58% and 8.20% respectively. NABIL has the highest ratio 13.17% on NRB balance in the year 2009 and the lowest ratio 2.72% on NRB balance in the year 2006 where as HBL has the highest ratio 12.76% on NRB balance in the year 2004 and the lowest ratio 4.12% on NRB balance in the year 2008. The average ratio of NABIL is greater than the average ratio of HBL. It indicates from the point of view the strength regarding the

liquidity position that NABIL is better than HBL. The C.V. of NABIL is greater than C.V. of HBL and this means risk of return is higher in NABIL than HBL.

4.2.1.3 NRB Balance to Fixed Deposit Ratio

A fixed account is an account of amounts deposited in a bank for certain period of time. The customers can renew the fixed deposit period after the expiry of the fixed time. The rate of interest in the fixed deposit is higher than that of other deposit. For this deposit NRB has directed to the commercial banks to keep 6% of fixed deposit in the NRB balance for the purpose of the liquidity.

NRB balance to Fixed Deposit = NRB balance/ Total Fixed Deposit

Table 4.6

Calculation of Mean, S.D. and C.V. of NRB Balance to Fixed Deposit Ratio

(In Percentage)

Years	NBL	HBL
2004	26.25	34.48
2005	18.74	23.12
2006	9.22	17.21
2007	20.48	15.48
2008	21.61	14.56
2009	31.86	36.51
Mean	21.36	23.56
S.D.	7.61	9.73
C.V.	0.36	0.41

Source: Annex 03

From the above table no. 4.6 the ratios of NRB balance to fixed deposits were in fluctuating trend in both banks. Both banks had maintained more than the standard set by NRB. This shows that both banks had tied up their fund in excess deposit in NRB which ultimately affects the profitability negatively. The average ratio of NABIL and HBL are 21.36% and 23.56% respectively which indicates the stronger liquidity position of NABIL and HBL. The maximum value of NABIL is 26.25% in the year 2004 and the minimum is 9.22% in the year 2006. The maximum value of HBL is

36.51% in the year 2009 and the minimum is 14.56% in the year 2008. There is not much difference in the C.V. of HBL and NABIL but C.V. of HBL is higher than NABIL so rate of risk of return is higher in HBL.

4.2.2 Activity Ratio

Activity ratio is also called assets management ratio. It measures the efficiency of the bank to manage its assets properly to earn high profit. Under this following ratio are studied.

4.2.2.1 Credit to Total Deposit

This ratio reflects extent to which the commercial banks are successful in maintaining their assets on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of deposit on loan and advances and vice-versa.

Credit to total deposit = Loan and advances/ Total Deposit

Table 4.7

Calculation of Mean, S.D. and C.V. OF Credit to Total Deposit

(In Percentage)

Years	NBL	HBL
2004	60.54	59.43
2005	75.04	53.38
2006	68.63	58.65
2007	68.12	59.09
2008	68.17	63.52
2009	74.96	73.58
Mean	69.24	61.28
S.D.	5.38	6.84
C.V.	0.08	0.11

Source: Annex 04

The above table 4.7 shows the fluctuation in the ratios of credit to total deposit of NABIL and HBL through the review period. The average ratio of credit to total deposit ratio of NABIL and HBL are 69.24% and 61.28% respectively. NABIL has the highest credit to total deposit ratio of 75.04% in the year 2005 and the lowest

credit to total deposit ratio of 60.54% in the year 2004 where as HBL has the highest credit to total deposit ratio of 73.58% in the year 2009 and the lowest credit to total deposit ratio of 53.38% in the year 2003. NABIL's average ratio is greater than the average ratio of HBL, and thus NABIL has better mobilization of deposit. The C.V. of both NABIL and HBL is 0.08 and 0.11 which means NABIL expects more return than HBL.

4.2.2.2 Investment to Total Deposit

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

Investment to total deposit ratio = Total investment/Total deposit

Table 4.8

Calculation of Mean, S.D. and C.V. of Investment to Total Deposit

(In Percentage)

Years	NABIL	HBL
2004	47.84	12.64
2005	35.28	22.04
2006	40.91	19.44
2007	40.78	21.58
2008	31.14	30.37
2009	28.98	25.11
Mean	37.49	21.86
S.D.	7.03	5.90
C.V.	0.19	0.27

Source: Annex 05

From the above table 4.8, we can conclude that NABIL has mobilized its collected deposits on investment better than HBL since 37.49% > 21.86%. NABIL has the lowest ratio of 28.98% in the year 2009 and the highest ratio of 47.84% in the year 2004 where as HBL has the lowest ratio of 12.64% in the year 2004 and the highest ratio of 30.37% in the year 2008. The C.V. of NABIL is lower than the C.V. of HBL

which means that the rate of return on investment to total deposit ratio is higher in NABIL than HBL.

4.2.2.3 Credit and Investment to Total Deposit

Credit and investment to total deposit ratio shows the relationship between credit and investment and total deposit. This ratio is calculated to know how the banks are mobilizing their deposit in the credit and investment sector.

Credit investment to total deposit ratio = Total credit and investment/

Total deposit

Total credit and investment = Loan and advance + investment

Table 4.9

Calculation of Mean, S.D. and C.V. of Credit to Total Deposit Ratio

(In Percentage)

Years	NABIL	HBL
2004	108.39	75.18
2005	110.32	75.58
2006	109.54	78.09
2007	108.91	80.68
2008	105.52	93.89
2009	102.85	98.69
Mean	107.59	83.69
S.D.	2.84	10.08
C.V.	0.03	0.12

Source: Annex 06

From the above table 4.9 it is clear that NABIL has greater volume of credit and investment in comparison to HBL. The average ratio of NABIL is greater than the average of HBL i.e. 107.59% > 83.69%. The maximum credit and investment ratio of NABIL is 110.32 % in the year 2005 and the minimum is 102.85% in the year 2009. The maximum credit and investment ratio of HBL is 98.69% in the year 2009 and the minimum is 75.18% in the year 2004. The credit and investment volume NABIL fluctuates at increasing and decreasing trend while HBL credit investment volume

changes at only increasing trend. The C.V. of HBL is higher than that of NABIL. Therefore, the expected rate of risk of return on credit investment to total deposit ratio is higher in HBL than NABIL.

4.2.2.4 Loan and Advance to Saving Deposit Ratio

Loan and advance to saving deposit ratio shows the relationship between the loan and advance and total saving account. It is calculated as follows.

Loan and advance to saving deposit = Loan and advance/ Total saving deposit

Table 4.10

Calculation of Mean, S.D. and C.V. of Loan and Advance to Saving Deposit

(In Percentage)

Years	NABIL	HBL
2004	1.42	1.11
2005	1.55	1.03
2006	1.51	1.06
2007	1.56	1.11
2008	1.78	1.17
2009	1.88	1.27
Mean	1.62	1.13
S.D.	0.17	0.09
C.V.	0.11	0.08

Source: Annex 07

The above table 4.10 shows that the ratio of loan and advance to saving deposits were in fluctuating trend in both banks. The fluctuating trend of NABIL is slightly greater than HBL. The average ratio of loans and advances to saving deposit ratios of NABIL and HBL were 1.62% and 1.13% respectively which shows that HBL has lower loan and advance to saving deposit ratio than NABIL. NABIL has the highest ratio of 1.88% in the year 2009 and the lowest ratio of 1.42% in the year 2004 where as HBL has the highest ratio of 1.27% in the year 2009 and the lowest ratio of 1.03% in the year 2005. The C.V. of HBL is less than the C.V. of NABIL.

4.2.2.5 Time Deposit to Total Deposit Ratio

Time deposit to total deposit ratio shows the relationship between time deposit and total deposit. Time deposit is also called fixed deposit. Time deposit helps the bank to reduce the liquidity and in turn more profitable investment. The higher the ratio higher will be the chance of mobilizing the fund with certainly.

Time deposit to total deposit = Fixed deposit /Total deposit

Table 4.11

Calculation of Mean, S.D. and C.V. of Time Deposit to Total Deposit Ratio

(In Percentage)

Years	NABIL	HBL
2004	16.36	21.4
2005	14.24	24.61
2006	17.82	24
2007	23.28	27.42
2008	26.52	19.32
2009	22.25	18.38
Mean	20.08	22.52
S.D.	4.68	3.44
C.V.	0.23	0.15

Source: Annex 08

The above table 4.11 shows the capacity of mobilizing the funds collected as deposit of the banks. The average ratio of NABIL is 20.08% and the average ratio of HBL is 22.52%. The maximum ratio of NABIL is 26.52% in the year 2008 and the minimum is 14.24% in the year 2005. The maximum ratio of HBL is 27.42% in the year 2007 and the minimum is 18.38% in the year 2009. The CV of HBL is lower than NABIL. So, rate of risk of return is higher in NABIL than HBL.

4.2.3 Capital Adequacy Ratio

The ratio has been one of the most controversial ratios. Excess capital decreases the profitability where as the less capital is the symbol of a weak capital structure. So banks have to maintain the adequate capital as per the directives given by NRB. Under this the following ratios are calculated:

4.2.3.1 Total Capital to Total Deposit Ratio

Capital to total deposit ratio shows the relationship between capital and total deposit. This ratio measures how much capital has been rowed by the bank with respect to the deposit.

Capital to total deposit ratio = Total capital/ Total deposit

Table 4.12

Calculation of Mean, S.D. and C.V. of Total Capital to Total Deposit Ratio

(In Percentage)

Years	NABIL	HBL
2004	3.48	2.44
2005	3.37	2.59
2006	2.54	2.92
2007	2.1	2.71
2008	2.15	3.04
2009	2.58	3.5
Mean	2.70	2.87
S.D.	0.59	0.38
C.V.	0.22	0.13

Source: Annex 9

The above table 4.12 shows the fluctuation in the ratios of total capital to total deposits of NABIL and HBL throughout the review period. The average ratio of total capital to total deposit ratio of NABIL and HBL is 2.70% and 2.87% respectively. NABIL has the highest total capital ratio 3.48% on total deposit in the year 2004 and the lowest total capital ratio 2.10 % on total deposit in the year 2007 whereas HBL has the highest total capital ratio 3.5% on total deposit ratio in the year 2009 and the

lowest total capital ratio 2.44% on total deposit ratio in the year 2004. On the other hand, the CV of the NABIL is higher than HBL which means NABIL expects more risk than HBL.

4.2.3.2 Total Capital to Total Credit Ratio

Capital to total credit ratio shows the relationship between total capital and total credit. It indicates how much capital is raised by the banks with respect to the credit.

Capital to total credit ratio = Total capital fund/ Total credit

Table 4.13

Calculation of Mean, S.D. and C.V. of Total Capital to Total Credit Ratio

(In Percentage)

Years	NABIL	HBL
2004	5.75	4.1
2005	4.49	4.86
2006	3.7	4.98
2007	3.09	4.59
2008	3.16	4.8
2009	3.5	4.76
Mean	3.95	4.68
S.D.	1.02	0.31
C.V.	0.26	0.07

Source: Annex 10

The above table 4.13 shows the fluctuation in the ratios of total capital to total credit of NABIL and HBL throughout the review period. The average ratio of total capital to total credit ratio of NABIL and HBL is 3.5% and 4.68% respectively which shows that HBL has higher ratio. The maximum ratio of NABIL is 5.75% in the year 2004 and the minimum ratio of NBL is 3.09% in the year 2007. The maximum ratio of HBL is 4.98% in the year 2006 and the minimum ratio of HBL is 4.10% in the year 2004. The CV of HBL is less than NABIL i.e., 0.07<0.26 which means NABIL has more risk of return than HBL.

4.2.3.3 Capital to Total Assets Ratio

Capital to total assets ratio measures the relationship between capital and assets. It is calculated as follows:

Capital to total assets ratio = Total capital / Total assets

Table 4.14

Calculation of Mean, S.D. and C.V. of Total Capital and Total Assets Ratio

(In Percentage)

Years	NABIL	HBL
2004	2.86	2.161
2005	2.881	2.311
2006	2.201	2.735
2007	1.803	2.745
2008	1.856	2.801
2009	2.2	3.09
Mean	2.30	2.64
S.D.	0.47	0.34
C.V.	0.21	0.13

Source: Annex 11

The above table 4.14 shows that the average ratio of total capital to total assets ratio of NABIL and HBL is 2.30% and 2.64% respectively which shows that there is not much difference between NABIL and HBL. NABIL has the highest capital ratio of 2.881% on total assets in the year 2005 and the lowest capital ratio of 1.803% on total assets in the year 2007 where as HBL has the highest capital ratio 3.09% on total assets in the year 2009 and the lowest capital ratio 2.161% on total assets in the year 2004. The CV of the HBL is 0.13 which is less than that of NABIL i.e., 0.21. This means HBL has low chances of risk of return than NABIL.

4.2.4 Profitability Ratio

Profitability ratio is related to profit. It measures the overall banking operation of the company regarding the profit. Profitability ratio is determined by the financial institution to find out their profit earning capacity on various kinds of deposits. Profit indicated the efficiency of the bank. A bank can make the profit through the sound

lending policy and the quality of service it provides. If the profit is high, the efficiency of bank will be high. Following profitability ratios are calculated:

4.2.4.1 Return on Total Working Fund Ratio

Return on total working fund measures the relationship between the working fund and profit of the bank. Hence, working fund includes those entire funds which are used for mobilizing to earn profit.

Return to total working fund = Net Profit/ Total working fund

Total working fund = Total deposit + borrowings

Table 4.15

Calculation of Mean, S.D. and C.V. of Return on Total Working Fund

(In Percentage)

Years	NABIL	HBL
2004	3.17	3.27
2005	3.56	3.03
2006	3.25	1.91
2007	2.78	2.74
2008	2.24	1.9
2009	2.64	2.17
Mean	2.94	2.50
S.D.	0.48	0.59
C.V.	0.16	0.24

Source: Annex 12

The above table 4.15 shows the ratios of return to working fund ratio of NABIL and HBL throughout the review period. The average ratio of NABIL and HBL are 2.94% and 2.50% respectively which shows that NABIL had higher ratio. The maximum ratio of NABIL is 3.56% in the year 2005 and the minimum ratio of NBL is 2.24% in the year 2008. The maximum ratio of HBL is 3.27% in the year 2004 and the minimum ratio of HBL is 1.90% in the year 2008. It was able to earn more profit than NABIL. The CV of the HBL is higher than C.V of NABIL which means HBL has more chances of risk.

4.2.4.2 Net Profit to Loan and Advance Ratio

Net profit to loan and advances ratio measures the earning capacity of commercial bank as its deposit mobilized on loan and advances. Higher the ratio greater will be the return and vice-versa.

Return on loan and advance = Net profit/ Loan and advance

Table 4.16

Calculation of Mean, S.D. and C.V. of Return on Loan and Advance

(In Percentage)

Years	NABIL	HBL
2004	5.32	5.51
2005	4.75	5.68
2006	4.78	3.31
2007	4.23	4.69
2008	3.43	3.01
2009	3.73	2.95
Mean	4.37	4.19
S.D.	0.71	1.26
C.V.	0.16	0.30

Source: Annex 13

The above table 4.16 shows the ratios of net profit on loan and advances of NABIL and HBL throughout the review period. NABIL has the highest ratio of 5.32% in 2004 and the lowest ratio of 3.43% in 2008 where as HBL has the highest ratio of 5.68% in 2005 and the lowest ratio of 2.95% in the year 2009. The average ratio of return on loan and advance of NABIL and HBL are 4.37% and 4.19% respectively. The CV of the HBL is more than the C.V. of NABIL which means that HBL has higher risk of return.

4.2.5 Risk Ratio

Risk ratio is very essential element. Risk ratio measures the risk associated with the banking variables. A bank raises capital, accepts deposits, and finally grants loan. These entire things come along with the risk. A bank must consider the risk associated

with it. Higher the ratio higher will be the profit. Under this following ratios are analyzed.

4.2.5.1 Capital Risk Ratio

Capital risk ratio shows relationship between share capital and loan and advances. Capital risk ratio of bank indicates how much assets value may decline before the position deposition and other creditors. A bank must maintain an adequate capital in relation to the natures and conditions of its assets, its deposit liabilities and other corporate responsibilities.

Capital risk ratio = Share capital/ Risk weightage assets

Risk weightage assets = Loan and advances

Table 4.17

Calculation of Mean, S.D. and C.V. of Capital Risk Ratio

(In Percentage)

Years	NABIL	HBL
2004	5.75	4.10
2005	4.49	4.85
2006	3.70	4.97
2007	3.09	4.58
2008	3.16	4.80
2009	3.50	4.76
Mean	3.95	4.68
S.D.	1.01	0.31
C.V.	0.26	0.07

Source: Annex 14

The above table 4.17 shows the fluctuation of capital risk ratio of NABIL and HBL throughout the review period. The average capital risk ratio of NABIL and HBL are 3.95% and 4.68% respectively. NABIL has the highest risk ratio of 5.750% in the year 2004, and the lowest risk ratio 3.091% in the year 2007. HBL has the highest risk ratio of 4.977% in the year 2006, and lowest risk ratio of 4.100% in the year 2004.

The CV of the HBL is lower than that of NABIL which means that HBL has lower chances of risk than NABIL.

4.2.5.2 Credit Risk Ratio

Credit risk ratio is related into total loan and advances and total assets. It is very essential for a bank to inspect the project i.e., the risk involved in it to avoid default of non payment of loan before making investment on them. The main factor to consider while the bank makes the decision on investment to utilize its collected fund is the risk. The risk behind making investment or granting loan is measured by credit risk ratio.

Credit risk ratio = Total loan and advance/ Total assets

Table 4.18

Calculation of Mean, S.V. and C.V. of Credit Risk Ratio

(In Percentage)

Years	NABIL	HBL
2004	49.743	52.712
2005	64.15	47.568
2006	59.466	54.95
2007	58.352	59.839
2008	58.599	58.36
2009	62.89	64.9
Mean	58.87	56.39
S.D.	5.06	6.03
C.V.	0.09	0.11

Source: Annex 15

The above table shows the fluctuation in the credit risk ratio of NABIL and HBL throughout the review period. The average credit risk ratio of NABIL and HBL is 58.87% and 56.39% respectively which shows that NABIL has higher risk ratio. NABIL has the highest credit risk ratio of 64.150% in the year 2005 and the lowest credit ratio 49.743% in the year 2004. HBL has the highest credit risk ratio 64.90% in

the year 2009 and the lowest credit risk ratio 47.416% in the year 2003. The CV of HBL is higher than C.V. of NABIL, and therefore HBL has higher chances of risk.

4.2.6 Growth Ratio

Growth ratio is directly related to the deposit mobilization of commercial banks. It denotes how well the banks are preserving their economic or financial position. Growth ratio is calculated as follows:

Dn = Do (1+G) n-1

Where,

Dn = Deposit amount for n periods

Do = current deposit amount

n = Number of years observed

G = Growth rate during the period

4.2.6.1 Growth Ratio of Total deposit

The following table shows the growth rates of total deposits of HBL and NABIL from year 2004 to 2009. The calculated ratio is shown in the rightmost column:

Table 4.19

Growth Rate/Ratio of Total Deposit

Banks	2004	2005	2006	2007	2008	2009	G (%)
NABIL	14119.0	14586.6	19347.4	23342.3	31915.0	37348.25	30.46
HBL	22010.33	24813.99	26456.20	29905.20	33239.20	34681.34	8.69

Source: Annex 16

The above table 4.19 shows that the growth ratio of total deposit of NABIL and HBL are 30.46%and 8.69% respectively. Since growth ratio of total deposit of NABIL is higher we see that its performance of collecting deposit is better in comparison to HBL.

4.2.6.2 Growth Ratio of Loan and Advances

The following table shows the growth rates of Loan and Advances of HBL and NABIL from year 2004 to 2009. The calculated ratio is shown in the rightmost column:

Table 4.20

Growth Rate/Ratio of Loan and Advances

Banks	2004	2005	2006	2007	2008	2009	G (%)
NABIL	8549.0	10946.7	13278.8	15903.0	21759.5	27589.3	20.89
HBL	13081.70	13245.10	15515.70	17672.00	21114.54	25519.52	12.51

Source: Annex 17

The above table 4.20 shows that the growth ratios of loan and advances of HBL and NABIL are 20.89% and 12.51% respectively which means that NABIL has higher growth ratio than HBL. This shows that the performance of NABIL in advancing loan is better in comparison to HBL.

4.2.6.3 Growth ratio of Total Investment

The following table shows the growth rates of total investment of NABIL and HBL from year 2004 to 2009. The calculated ratio is shown in the rightmost column:

Table 4.21

Growth Rate/Ratio of Total Investment

Banks	2004	2005	2006	2007	2008	2009	G (%)
NABIL	6755.6	5146.4	7915.6	9519.8	9939.77	10826.37	9.03
HBL	2781.70	5469.70	5144.40	6454.80	10096.0	8710.69	20.42

Source: Annex 18

The above table shows that the growth ratio of total investment of HBL is significantly higher than that of NABIL. Thus HBL has higher investment ratio in comparison to NABIL.

4.2.6.4 Growth Ratio of Net Profit

The following table shows the growth rate of net profit of NABIL and HBL from year 2004 to 2009. The calculated ratio is shown in the rightmost column:

Table 4.22

Growth Rate/Ratio of Net Profit

Banks	2004	2005	2006	2007	2008	2009	G (%)
NABIL	455.31	520.11	635.26	673.95	746.46	1031.05	15.10
HBL	720.40	752.30	513.60	828.40	635.86	752.83	0.89

Source: Annex 19

The above table shows the growth ratio of net profit of NABIL is significantly higher than that of HBL .

4.3 Statistical Analysis

4.3.1 Simple Correlation Analysis

First of all, an attempt is made to determine the relationship that exists among those selected variables. For this purpose simple correlation has been computed and presented in Table 4.23 in the form of correlation matrix.

This correlation table gives a preliminary idea of the direction of the relationship between the selected variables of the banks.

Table 4.23

Correlation Analysis of Selected Variables of Himalayan Bank Limited

	Net Profit	Investment	Total Deposit	Total Assets	Loans and Advances
Net Profit	1.000000				
Investment	0.002215	1.000000			
Total Deposit	0.094362	0.943244	1.000000		
Total Assets	0.046482	0.919623	0.955907	1.000000	
Loan&Advances	0.100162	0.847821	0.956171	0.971864	1.000000

Source: Annex 20

Strikingly, the correlation analysis table 4.23 shows that net profit has correlation neither with the variables investment, total assets, loan and advances nor with the total deposit. There is moderate correlation between investment and loan and advances, while the correlations between the rests of the variables are very high. Total deposit is highly correlated with investment, loans and advances, and total assets, which is quite natural.

The following correlation matrix gives a preliminary idea of the direction of the relationship between the selected variables of NABIL.

Table 4.24

Correlation Analysis of Selected Variables of NABIL Bank Limited

	Net Profit	Investment	Total Deposit	Total Assets	Loans and Advances
Net Profit	1.000000				
Investment	0.853743	1.000000			
Total Deposit	0.952838	0.914526	1.000000		
Total Assets	0.952373	0.914101	0.999535	1.000000	
Loan&Advances	0.974560	0.873876	0.992382	0.991449	1.000000

Source: Annex 21

The correlation analysis table 4.24 shows that net profit is highly correlated with total deposit, total assets, and loan and advances while it is moderately correlated with investment. Investment is moderately correlated with loan and advances. The correlations between all the other variables are above 0.90, and therefore very high. The correlation matrix clearly shows that there are high correlations between total deposit and all other variables, especially total assets, and loans and advances.

4.5 Regression Analysis

4.5.1 Multiple Regression Analysis of Himalayan Bank Limited

The next aspect of the study is devoted to analyzie how total deposit is related to fundamental variables. For that purpose, the average slopes were computed from linear regression of Total Deposit (TD) on various measures such as loan and

advances, investment and total assets. Net Profit has been specified as the dependent variable and investment (I), total assets (TA), loans and advances (LA), and total deposit (TD) as the independent variables.

Regression Equation considered

Net profit = constant + b1 Investment + b2 Total deposit + b3 Total assets + b4 loan and advances

Where,

C = constant

b1 = beta coefficient of variable investment

b2 = beta coefficient of variable total deposit

b3 = beta coefficient of variable total assets

b4 = beta coefficient of variable loan and advances

Table 4.25

Multiple Regression Analysis of Net Profit (NP) on Total Deposit (TD), Loan and Advances (LA), Investment (I) and Total Assets (TA)

Variables	Coefficient	Std. Error	t-Statistic	Prob.
Constant/slope	-236.3364	5311.274	-0.044497	0.9717
Investment (n=6)	-0.070531	0.345575	-0.204098	0.8718
Total Deposit (n=6)	0.051527	0.231605	0.222476	0.8606
Total Assets (n=6)	0.017235	0.207875	0.082911	0.9473
Loan and Advances (n=6)	-0.034601	0.280773	-0.123236	0.9219

S = 234.536 R-Sq = 10.1% R-Sq(adj) = 0.0%

Analysis of Variance

Source	DF	SS	MS	F	P
Regression	4	6204	1551	0.03	0.996
Residual Error	1	55007	55007		
Total	5	61211			

Source: Annex 22 Note: ‘n’ denotes number of observations

For Himalayan Bank Limited (HBL), the computed multiple regression analysis shows that the entire beta coefficient has priory expected signs but are insignificant.

Among others, the above results indicate that loan and advances (LA) and investment (I) are negatively related to net profit while total assets (TA) and total deposit (TD) are positively related. The results are also consistent with correlation analysis.

Since the standard error is high, the p value is also high. R-square value is also quite low. Adjusted R-square value tells us that little variation in net profit is explained by the other variables investment, total deposit, total assets, and loan and advances. Thus the data of the different variables of HBL do not have high predictability of net profit. All the values of t-statistic are insignificant though t-statistic for total deposit is a little higher than others. Thus analysis of t-statistic shows that all the explanatory variables do not have significant influence upon net profit of HBL.

Furthermore, the F ratio is 0.03 and significant at only a high p = 0.996. This shows that there is no evidence of existence of a linear relationship between the net profit and the four other explanatory variables.

4.3.2.2 Regression Analysis of NABIL Bank Limited (NABIL)

The average slopes were computed from linear regression of Net Profit (NP) on various measures such as Investment (I), Loan and Advances (LA), Total Assets (TA) and Total Deposit (TD). Net Profit has been specified as the dependent variable and the independent variables are specified as I, TA, TD and LA. The results are shown in the table 4.26.

Table 4.26

Multiple regression analysis of Net Profit (NP) on Total Deposit (TD), Total Assets (TA), Loan and Advances (LA) Investment (I)

Variables	Coefficient	Std. Error	t-Statistic	Prob.
Constant/slope	122.1718	106.5302	1.146827	0.4565
Investment (n=6)	0.051370	0.031947	1.607977	0.3542
Total Deposit (n=6)	-0.091412	0.081320	-1.124103	0.4628
Total Assets (n=6)	0.029170	0.061520	0.474151	0.7181
Loan and Advances (n=6)	0.089822	0.031751	2.828952	0.2163
R-squared	0.989982			
S = 45.4177 R-Sq = 99.0% R-Sq(adj) = 95.0%				

Analysis of Variance

Source	DF	SS	MS	F	P
Regression	4	203626	50906	24.68	0.150
Residual Error	1	2063	2063		
Total	5	205689			

Source: Annex 23

Note: 'n' denotes number of observation

The multiple regression analysis for Nabil Bank Limited (NABIL) shows that the entire beta coefficients have priori expected signs. All beta coefficient are found to be insignificant .The above results indicate that total deposit (TD) is negatively related to net profit (NP) while investment (I), loan and advances (LA), total assets (TA) are all positively related. These results are also consistent with multiple correlation analysis.

The t-statistic of the independent variables I, TA, TD are insignificant while the t-statistic of LA is significant. Clearly, the standard errors and p-values are comparatively lesser than that of HBL.

Similarly, the Adjusted R-squared (adjusted) for the regression equation is higher than 95 percent. This indicates that more than 95 percent of variation in dependent variable net profit (NP) has been explained by the independent variables.

Furthermore, the F ratio is 24.68 and significant at p = 0.150. This shows that there is good evidence of existence of a linear relationship between the net profit and the four other explanatory variables.

CHAPTER- FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This study mainly aimed at examining the relationship between the total deposit with other financial indicators of commercial banks within the context of Himalayan Bank Limited and Nabil Bank limited. Its specific objectives were: (1)To analyze and compare the deposit growth of HBL and that of NABIL. (2) To analyze and compare the proportion of the loans and advances of HBL and that of NABIL. (3) To analyze and compare the investment volumes of HBL and that of NABIL. (4) To find out the relationship between total deposits, loans and advances, total investment, total assets, and net profit and compare such relationship of NABIL and HBL. (5) To give the better suggestions and recommendations based on analysis.

This is probably one of a few recent studies of its kind in Nepal that has made attempt to study the relationship between deposit and other financial indicators by considering the recent data and information.

With the purpose of analyzing the deposit mobilization of the selected banks, different controlled variables were considered. Such variables were undertaken to make the direction of analysis more clear and realistic. Using the annual reports of the banks the different financial ratio analyses were performed for providing the idea about deposit mobilization of the selected banks. The percentage changes and indices were calculated to find the magnitude of data over the period of time. The correlation analysis was also performed to find the association between the variables. Furthermore, the multiple regression analysis was done to find the casual association between the different financial indicators and total deposit.

For the purpose of this study, the necessary data on total deposit, investment, loans and advances, total assets, net profit and other information were collected for the period of 2004-2009. A few years' data on the selected variables could not be collected due to unavailability of data and information. Nevertheless, the study successfully illustrates the different relationships between the variables of the banks under study.

5.2 Major Findings and Conclusions

This study mainly aimed at finding the differences between NABIL and HBL regarding deposit mobilization with the help of its indicators.

Deposit is an important variable of commercial banks, and they should work to increase deposit collection so as to increase their profit. As found in the research too, the contribution of the deposit to the net profit is also significantly high in one of the banks selected to study. However, only increment of deposit is not enough for the banks. A bank must have sound investment policy for the mobilization of the available fund as deposit. Thus a commercial bank mainly focuses on its two functions: collection of deposit through various schemes and granting those amounts as loans to the clients.

The study found that the deposit collections of both the banks are in increasing trend each year. The analysis showed that the deposit collection of NABIL is better than that of HBL. Considering a single year of 2009, NABIL is able to collect Rs. 37,348.30 million of deposit, made investment of Rs. 10826.37 million and loan and advances of Rs 27,589.93 million, and made a net profit Rs. 1031.05 million. HBL, on the other hand, is able to collect Rs. 34,681.34 million of deposits, made investment of Rs. 8710.69 million and loan and advances of Rs 25,519.52 million, and made a net profit of Rs 752.83 million in the year 2009.

Regarding investment growth, NABIL's position is better and more consistent than that of HBL. While the former's investment is in increasing trend the latter's trend is more fluctuating.

Analysis on loans and advances shows that it is in increasing trend in both of the banks. However, initially in 2004 the loans and advances of HBL were higher than that of NABIL, but later in 2009 the loans and advances of NABIL exceeded that of HBL.

The financial ratio analyses, which are used to know the capacity of the concerned to repay its short term liability, showed that in overall NABIL has a better position than

HBL although in some respects HBL is better. Regarding the liquidity ratio, NABIL was found to be stronger than HBL. It can be concluded that NABIL could discharge its depositor's obligation more comfortably.

Concerning the NRB balance to total deposit, HBL is found to be more consistent and stronger than NABIL, while concerning the NRB balance to current and saving deposit ratio NABIL is higher, though lower C.V. of HBL shows the latter to have lower risk of return.

NRB balance to fixed deposit ratio analysis showed that both banks had maintained more than the standard set by NRB, and that both banks had tied up their fund in excess deposit in NRB which ultimately affects the profitability negatively.

Regarding overall activity ratios, which measure the efficiency of the bank to manage its assets properly to earn high profit, NABIL seems to be in better position than HBL. Credit to total deposit ratio and investment to total deposit ratio of NABIL are better and more consistent than that of HBL. Similarly, the average of ratio of credit and investment to total deposit and the ratio of loan and advances to saving deposit are higher in NABIL though HBL is more consistent in these aspects. However, the ratio of time deposit to the total deposit is higher and more consistent in HBL than in NABIL.

The capital adequacy ratios, which show the position of different items, is stronger for HBL than for NABIL. Furthermore, the C.V. of HBL is lower than NABIL showing that NABIL has more risks. Averages of all the three ratios under this heading—total capital to total deposit ratio, total capital to total credit ratio, capital to total assets ratio—show that HBL is in better position and with lower risk than NABIL.

In the case of profitability ratios, which measure the earning capacity of the banks, NABIL is in better position than HBL. Moreover, HBL has also higher risk of return due to larger C.V. Averages of the two ratios under profitability—return on total working fund ratio, and return on loan and advances ratio—are better and with lower risk in NABIL than in HBL.

Regarding risk ratios, the average of capital risk ratio is higher in HBL with more consistency than in NABIL. At the same time, the average credit risk ratio of NABIL is higher and more consistent than that of HBL. Thus regarding risk ratios both banks are more or less in equal position.

Regarding growth ratios, NABIL is overall in better position than HBL. The growth ratio of total deposit, the growth ratio of loan and advances, and the growth ratio of net profit are higher in NABIL than in HBL. However the growth ratio of total investment of HBL exceeds that of NABIL.

Regarding the important question of the relationship between total deposits, loans and advances, total investment, total assets, and net profit, the correlation and regression analysis as described in chapter four have given some important conclusions.

Strikingly, the net profit in HBL does not seem to be correlated to any of the other variables including total deposit. In contrast, the net profit of NABIL is highly correlated with all the other variables: investment, loan and advances, total assets, and total deposit. In HBL the total deposit is highly correlated with investment, loans and advances, and total assets except net profit. However, in the case of NABIL the correlation analysis clearly shows that there are high correlations between total deposit and the other variables, especially total assets, and loans and advances.

Multiple regression analysis of HBL counter-intuitively shows that there is no significant evidence of existence of a linear relationship between the net profit and the four other explanatory variables including total deposit, investment, and loan and advances. Presence of high standard error can be attributed to this result. In contrast, the multiple regression analysis of NABIL shows a good evidence of the existence of a linear relationship between the net profit and the four other explanatory variables. Adjusted R-squared value for NABIL also showed that more than 95 percent of variation in dependent variable net profit has been explained by the independent variables.

Thus the relationship between net profit and deposit mobilization of NABIL is higher than in HBL. The lower dependency of net profit of HBL on total deposit can be

attributed to the lower volume of investment and loans and advances than that of NABIL.

In conclusion, the study shows that the two banks have relative strengths and weaknesses regarding different variables. However, in overall, the volume and consistency regarding deposit mobilization including investment, and loans and advances is better in NABIL than that in HBL whose data even did not even show significant evidence of relationships between variables under study.

5.3. Recommendations

Based on the analysis of data, the following recommendations are made:

Recommendations to Nabil Bank Limited:

- NABIL bank should work towards strengthening NRB balance to total deposit and make it and NRB balance to current saving and deposit ratio more consistent and risk free. Furthermore, it should be sensitive to its higher NRB balance to fixed deposit ratio which could affect profitability negatively.
- It should strengthen and make more consistent the ratio of time deposit to the total deposit.
- On the basis of capital adequacy ratios which include total capital to total deposit ratio, total capital to total credit ratio, and capital to total assets ratio, NABIL lies in the inferior position with comparatively higher risk. Therefore the bank needs to improve its mobilization of deposit towards capital.
- NABIL has low capital-risk ratio which can affect profit. Therefore, it should maintain adequate capital in relation to the nature and condition of its assets, its deposit liabilities, and other corporate responsibilities.
- Growth ratio of total investment of NABIL is lower than HBL, and therefore it should better increase its mobilization of deposit on investment.

Recommendations to Himalayan Bank Limited:

- Since the analysis shows that HBL has comparatively lower position regarding deposit collection, investment as well as loans and advances it should endeavour towards increasing them and making more consistent.

- HBL should improve its NRB balance to current and saving ratio, and also be sensitive towards it higher NRB balance to fixed deposit ratio which can affect the profitability negatively.
- Analyses of credit to total deposit ratio, and credit and investment to total deposit ratio show that the bank is relatively weaker in mobilizing its total deposit. Hence, HBL is recommended that it increase the ratios by mobilizing its deposit in loans and advances, and in investment sector.
- Profitability ratios are lower in HBL than in NABIL. Therefore, it is recommended that the bank should increase its mobilization of deposit for higher profitability.
- Credit-risk ratio of HBL is relatively lower, and therefore it is recommended that the bank should diversify its loan on various securities.
- HBL is recommended to work towards strengthening the growth ratio of total deposit, the growth ratio of loan and advances, and the growth ratio of net profit, in which it is relatively weaker.
- Because of high variability and fluctuation no evidence of significant relationship between net profit, total deposit, investment, and loan and advances could be detected. Therefore, the bank should endeavour towards making the variables more consistent to reduce risk, and tie up deposit mobilization including investment and loans and advances with the total profit.

In conclusion, the higher the deposit the more will be the chance of mobilization of working fund and profit. Banks should not invest their funds haphazardly, and they should be careful while advancing loan because loan is the blood of the CBs for survival. Bank should invest their fund in various portfolios after the deep study of the project to be safe from being bankrupt. Diversification of investment is very much important to the commercial banks.

5.4. Further Scope

Though much has been learnt from this research, many issues are still left to be explained. A much bigger study including more banks and longer duration could be done to see better relationships among the variables under study. Furthermore, the financial performance and deposit mobilization of the financial sectors of an economy as a whole remains a fertile area for investigation. Undoubtedly, the development of

financial sectors of an economy is a complex process that is intimately connected to real economic activity. As such, the metamorphosis and transformation of the financial system cannot be fully understood unless it is analyzed in developing country like Nepal. Without recognizing this, it would be difficult to explain how financial institutions evolve and how new financial arrangements emerge. There is need for further research in order to get more evidences regarding the impact and performance of financial institutions by considering different macroeconomic indicators like interest rates, inflation, money supply, price level, employment and poverty alleviation and so on.

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1 ANNEX

1.1

1.2 Annex01

1.2.1

1.2.2 NRB Balance to Total Deposit Ratio of NABIL

(In Percentage)

Fiscal Year	NRB Balance	Total Deposit	Ratio (%)
2004	666.69	14119.00	4.29
2005	389.70	14586.00	2.67
2006	318.35	19347.4	1.64
2007	1113.41	23342.3	4.74
2008	1829.47	31915.0	5.73
2009	2648.59	37348.25	7.09

1.2.3

1.2.4 NRB Balance to Total Deposit Ratio of HBL

(In Percentage)

Fiscal year	NRB Balance	Total Deposit	Ratio (%)
2004	1623.90	22010.33	7.38
2005	1412.00	24813.99	5.69
2006	1093.00	26456.20	4.13
2007	1269.50	29905.80	4.24
2008	935.84	33239.20	2.81
2009	2328.40	34681.34	6.71

2

3 Annex 02

3.1 NRB Balance to Current and Saving Deposit of NABIL

(In Percentage)

Fiscal Year	NRB Balance	Current+saving	Ratio (in %)
2004	666.69	8683.08	6.98
2005	389.70	9825.51	3.96
2006	318.35	11681.34	2.72
2007	1113.41	13582.6	8.19
2008	1829.47	17444.33	1.04
2009	2648.59	20100.93	1.31

3.2 NRB Balance to Current and Saving Deposit of HBL

(In Percentage)

Fiscal Year	NRB Balance	Current + Saving	Ratio (in %)
2004	1623.90	12729.69	12.76
2005	1412.00	13057.37	10.81
2006	1093.00	19576.40	5.58
2007	1269.50	21231.80	5.98
2008	935.84	13188.22	7.09
2009	2328.40	23279.26	10.00

4 Annex03

4.1 NRB Balance to Fixed Deposit of NABIL

(In Percentage)

Fiscal Year	NRB balance	Fixed Deposit	Ratio (%)
2004	666.69	2310.57	26.25
2005	389.70	2078.53	18.74
2006	318.35	3449.09	9.22

2007	1113.41	5435.18	20.48
2008	1829.47	8464.08	21.61
2009	2648.59	8310.70	31.86

4.2 NRB Balance to Fixed Deposit of HBL

(In Percentage)

Fiscal Year	**NRB Deposit**	**Fixed Deposit**	**Ratio (%)**
2004	1623.90	4710.18	34.48
2005	1412.00	6107.43	23.12
2006	1093.00	6350.20	17.21
2007	1269.50	8201.10	15.48
2008	935.84	6423.87	14.56
2009	2328.59	6377.13	36.51

Annex04

4.3 Total Credit to Total Deposit ratio of NABIL

(In Percentage)

Fiscal Year	**Total Credit**	**Total Deposit**	**Ratio (%)**
2004	8549.00	14119.00	60.54
2005	10946.7	14586.6	75.04
2006	13278.8	19347.4	68.63
2007	15903.0	23342.3	68.12
2008	21759.5	31915.00	68.17
2009	27999.01	37348.25	74.96

4.4 Total Credit to Total Deposit ratio of HBL

(In Percentage)

Fiscal Year	**Total Credit**	**Total Deposit**	**Ratio (%)**
2004	13081.76	22010.33	59.43
2005	13245.10	24813.99	53.38

2006	15515.70	26456.20	58.65
2007	17672.00	29905.80	59.09
2008	2114.54	33239.20	63.52
2009	25519.51	34681.34	73.58

Annex05

4.5 Investment to Total Deposit Ratio of NABIL

(In Percentage)

Fiscal Year	**Investment Amount**	**Total Deposit**	**Ratio (%)**
2004	6755.6	14119.00	47.84
2005	5146.4	14586.6	35.28
2006	7915.6	19347.4	40.91
2007	9519.8	23342.3	40.78
2008	9939.77	31915.00	31.14
2009	10826.37	37348.25	28.98

4.6 Investment to Total Deposit Ratio of HBL

(In Percentage)

Fiscal Year	**Investment Amount**	**Total Deposit**	**Ratio (%)**
2004	2781.70	22010.33	12.64
2005	5469.70	24813.99	22.04
2006	5144.40	26456.20	19.44
2007	6454.80	29905.80	21.58
2008	10096	33239.20	30.37
2009	8710.69	34681.34	25.11

4.7

4.8 Annex06

4.9 Total Credit and Investment to Total Deposit Ratio of NABIL

(In Percentage)

Fiscal year	**Credit and Investment**	**Total Deposit**	**Ratio (%)**
2004	15304.00	14119.00	108.39
2005	16093.1	14586.6	110.32

2006	21194.4	19347.4	109.54
2007	111101	23342.3	108.91
2008	33678.4	31915.00	105.52
2009	38416.3	37348.25	102.85

4.10 Total Credit and Investment to Total Deposit Ratio of HBL

(In Percentage)

Fiscal Year	**Credit and Investment**	**Total Deposit**	**Ratio (%)**
2004	16547.70	22010.33	75.18
2005	18754.74	24813.99	75.58
2006	20660.10	26456.20	78.09
2007	24126.80	29905.80	80.68
2008	31210.54	33239.20	93.89
2009	34230.21	34681.34	98.69

4.11 Annex07

4.12 Loan and Advance to Saving Deposit Ratio of NABIL

(In Percentage)

Fiscal Year	**Loan and Advance**	**Saving Deposit**	**Ratio (%)**
2004	8549	5994.12	1.4262
2005	10946.7	7026.33	1.5579
2006	13278.8	8770.75	1.5139
2007	15903.0	10187.35	1.5610
2008	21759.5	12159.96	1.7894
2009	27589.93	14620.40	1.88

4.13 Loan and Advance to Saving Deposit Ratio of HBL

(In Percentage)

Fiscal Year	**Loan and**	**Saving Deposit**	**Ratio (%)**

	Advance		
2004	13081.70	11759.60	1.1124
2005	13245.10	12852.41	1.0306
2006	15515.70	14582.80	1.0640
2007	17672.00	15784.70	1.1196
2008	21114.54	17972.44	1.1748
2009	25519.52	20061.04	1.27

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6 Annex08

6.1 Time Deposit to Total Deposit Ratio of NABIL

(In Percentage)

Fiscal Year	**Fixed Deposit**	**Total Deposit**	**Ratio (%)**
2004	2310.57	14119.0	16.36
2005	2078.53	14586.6	14.24
2006	3449.09	19347.4	17.82
2007	5435.18	23342.3	23.28
2008	8464.08	31915.0	26.52
2009	8310.70	37348.25	22.25

6.2 Time Deposit to Total Deposit Ratio of HBL

(In Percenage)

Fiscal Year	**Fixed Deposit**	**Total Deposit**	**Ratio (%)**
2004	4710.18	22010.33	21.40
2005	6107.20	24813.99	24.61
2006	6350.20	26456.20	24.00
2007	8201.10	29905.80	27.42
2008	6423.87	33239.20	19.32
2009	6377.13	34681.34	18.38

7 Annex 09

8 Total Capital to Total Deposit Ratio of NABIL

(In Percentage)

Fiscal Year	Total Capital	Total Deposit	Ratio (%)
2004	491.65	14119.0	3.48
2005	491.65	14586.6	3.37
2006	491.65	19347.4	2.54
2007	491.65	23342.3	2.10
2008	689.21	31915.0	2.15
2009	965.74	37348.25	2.58

8.1 Total Capital to Total Deposit Ratio of HBL

(In Percentage)

Fiscal Year	Total Capital	Total Deposit	Ratio (%)
2004	536.30	22010.33	2.44
2005	643.50	24813.99	2.59
2006	772.20	26456.20	2.92
2007	810.80	29905.80	2.71
2008	1013.51	33239.20	3.04
2009	1216.21	34681.34	3.50

9

Annex 10

9.1 Total Capital to Total Credit Ratio of NABIL

(In Percentage)

Fiscal Year	Total Capital	Total Credit	Ratio (%)
2004	491.65	8549	5.75
2005	491.65	10946.7	4.49
2006	491.65	13278.8	3.70
2007	491.65	15903.0	3.09
2008	689.21	21759.5	3.16
2009	965.74	27589.93	3.5

9.2 Total Capital to Total Credit Ratio of HBL

(In Percentage)

Fiscal Year	Total Capital	Total Credit	Ratio (%)
2004	536.30	22010.33	4.10
2005	643.50	24813.99	4.86
2006	772.20	26456.20	4.98
2007	810.80	29905.80	4.59
2008	1013.51	33239.20	4.80
2009	1216.21	25519.52	4.76

10 Annex 11

10.1 Total Capital to Total Assets Ratio of NABIL

(In Percentage)

Year	Total Capital	Total Assets	Ratio (%)
2004	491.65	17186.33	2.860
2005	491.65	17064.08	2.881
2006	491.65	22329.97	2.201
2007	491.65	27253.39	1.803
2008	689.21	37132.75	1.856
2009	965.74	43867.39	2.20

10.2 Total Capital to Total Assets Ratio if HBL

(In Percentage)

Year	Total Capital	Total Assets	Ratio (%)
2004	536.30	24817.37	2.161
2005	643.50	27844.69	2.311
2006	772.20	28236.34	2.735
2007	810.80	29532.81	2.745
2008	1013.51	36175.53	2.801
2009	1216.21	39320.32	3.09

11 Annex 12

11.1 Net Profit to Total Working Fund Ratio of NABIL

(In Percentage)

Year	Net Profit	Total Working Fund	Ratio (%)
2004	455.31	14348.66	3.17
2005	520.11	14603.66	3.56
2006	635.26	19520.6	3.25
2007	673.95	24224.87	2.78
2008	746.46	33275.00	2.24
2009	1031.05	39029.55	2.64

11.2 Net Profit to Total Working Fund Ratio of HBL

(In Percentage)

Year	Net Profit	Total Working Fund	Ratio (%)
2004	720.40	22010.33	3.27
2005	752.30	24813.99	3.03
2006	513.80	26839.20	1.91
2007	828.40	30265.80	2.74
2008	635.86	33322.37	1.90
2009	752.83	34681.34	2.17

12 Annex 13

12.1 Net Profit to Loan and Advance Ratio of NABIL

(In Percentage)

Year	**Net Profit**	**Loan and Advance**	**Ratio (%)**
2004	455.31	8549	5.32
2005	520.11	10946.7	4.75
2006	635.26	13278.8	4.78
2007	673.95	15903.0	4.23
2008	746.46	21759.5	3.43
2009	1031.05	27589.93	3.73

12.2 Net Profit to Loan and Advance Ratio of HBL

(In Percentage)

Year	**Net Profit**	**Loan and Advance**	**Ratio (%)**
2004	720.40	22010.33	5.51
2005	752.30	24813.99	5.68
2006	513.80	26456.20	3.31
2007	828.40	29905.80	4.69
2008	635.86	33239.20	3.01
2009	752.83	25519.52	2.95

13Annex 14

13.1 Capital Risk Ratio of NABIL

(In Percentage)

Fiscal Year	**Share Capital**	**Loan and Advance**	**Ratio (%)**
2004	491.65	8549	5.75
2005	491.65	10946.7	4.491
2006	491.65	13278.8	3.702

2007	491.65	15903.0	3.091
2008	689.21	21759.93	3.167
2009	965.74	27589.93	3.5

13.2 Capital Risk Ratio of HBL

(In Percentage)

Fiscal Year	**Share Capital**	**Loan and Advance**	**Ratio (%)**
2004	536.30	22010.33	4.100
2005	643.50	24813.99	4.858
2006	772.20	26456.20	4.977
2007	810.80	29905.80	4.588
2008	1013.51	33239.20	4.800
2009	1216.21	25519.52	4.76

14 Annex 15

14.1 Credit Risk Ratio of NABIL

(In Percentage)

Fiscal Year	**Loan and Advances**	**Total Assets**	**Ratio (%)**
2004	8549.00	17186.33	49.743
2005	10946.7	17064.08	64.150
2006	13278.8	22329.97	59.466
2007	15903.0	27253.39	58.352
2008	21759.5	37132.75	58.599
2009	27589.93	43867.39	62.89

14.2 Credit Risk Ratio of HBL

(In Percentage)

Fiscal Year	**Loan and Advances**	**Total Assets**	**Ratio (%)**
2004	13081.76	24817.37	52.712

2005	13245.10	27844.69	47.568
2006	15515.70	28236.34	54.950
2007	17672.00	29532.81	59.839
2008	2114.54	36175.53	58.36
2009	25519.52	39320.32	64.90

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16 Annex 16

16.1 Calculation of Growth Ratio Of Total Deposit

16.2 For NABIL

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

Or, $14119.00 = 37348.25 (1 + g)^{6-1}$

Or, $141190.00/37348.25 = (1 +g)^5$

Or, $1+g = (3.780)^{1/5}$

Or, $1+g= 1.3046$

Or, $g = 30.46\%$

16.3 For HBL

Or, $22760.90 = 34681.34 (1+g)^{6-1}$

Or, $22760.90/34681.34 = (1+g)^5$

Or, $(1+g) = (0.656)^{1/5}$

Or, $1+g = 0.919$

Or, $g = 8.69\%$

17 Annex 17

17.1 Calculation of Growth Ratio of Loan and Advance

17.2 For NABIL

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

Or, $8549.00 = 27589.93 (1 + g)^{6-1}$

Or, 8549.0/27589.93 = $(1 +g)^5$

Or, 1+g = $(0.3098)^{1/5}$

Or, 1+g= 0.7910

Or, g = 20.89%

17.3 For HBL

Or, 13081.70 = 25519.52 $(1+g)^{6-1}$

Or, 13081.70/25519.52= $(1+g)^5$

Or, $(1+g) = (0.5126)^{1/5}$

Or, 1+g = 0.8748

Or, g = 12.51%

18 Annex 18

18.1 Calculation of Growth Ratio of Total Investment

18.2 For NABIL

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

Or, 6755 = 10826.37 $(1 + g)^{6-1}$

Or, 6755/10826.37 = $(1 +g)^5$

Or, 1+g = $(0.6239)^{1/5}$

Or, 1+g= 0.9099

Or, g = 9.03%

18.3 For HBL

Or, 2781.70= 8710.69$(1+g)^{6-1}$

Or, 2781.70/8710.69 = $(1+g)^5$

Or, $(1+g) = (0.3193)^{1/5}$

Or, 1+g = 0.7958

Or, g = 20.42%

19 Annex 19

19.1 Calculation of Growth Ratio of Net Profit

19.2 For NABIL

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

Or, $455.31 = 1031.o5 (1 + g)^{6-1}$

Or, $455.31/1031.05 = (1 +g)^5$

Or, $1+g = (0.4415)^{1/5}$

Or, $1+g= 0.8491$

Or, $g = 15.10\%$

19.3 For HBL

Or, $720.40 = 752.834 (1+g)^{6-1}$

Or, $720.40/752.834 = (1+g)^5$

Or, $(1+g) = (0.9574)^{1/5}$

Or, $1+g = 0.9913$

Or, $g = 0.89\%$

Annex 20

Correlation Analysis of Selected Variables of Himalayan Bank Limited

ADV	Net Pofit	Investment	Total Deposit	Total Assets	Loan and ADV.
Net Profit	1.000000				
Investment	0.002215	1.000000			
Total Deposit	0.0094362	0.0943244	1.000000		
Total Assets	0.046482	0.919623	0.955907	1.000000	
Loan and Adv.	0.100162	0.847821	0.956171	0.971864	1.000000

Annex 21

Correlation Analysis of Selected Variables of Nabil Bank Limited

ADV	Net Pofit	Investment	Total	Total Assets	Loan and

			Deposit		ADV.
Net Profit	1.000000				
Investment	0.853743	1.000000			
Total Deposit	0.952838	0.914526	1.000000		
Total Assets	0.952373	0.914101	0.999535	1.000000	
Loan and Adv.	0.873876	0.992382	0.956171	0.991449	1.000000

Annex 22

Regression Analysis of Himalayan Bank Limited

Regression Equation considered

net profit = constant + b1 investment + b2 total deposit + b3 total assets + b4 loan and advances

Dependent Variable: Net Profit

Method: Least Squares

Sample: 16

Included Observation: 6

Variable	Coefficient	Std. Error	t-statistic	Prob.
Constant	-236.3364	5311.274	-0.044497	0.9717
Investment	-0.070531	0.345575	-0.204098	0.8718
Total Deposit	0.051527	0.231605	0.222476	0.8606
Total Assets	0.017235	0.207875	0.082911	0.9473
Loan & Adv.	-0.034601	0.280773	-0.123236	0.9219

S = 234.536 R-Sq = 10.1353% R-Sq(adj) = 0.0%

Analysis of Variance

Source	DF	SS	MS	F	P
Regression	4	6204	1551	0.03	0.996
Residual Error	1	55007	55007		
Total	5	61211			

Annex 23

Regression Analysis of Nabil Bank Limited

Regression Equation considered

net profit = constant + b1 investment + b2 total deposit + b3 total assets + b4 loan and advances

Dependent Variable: Net Profit

Method: Least Square

Sample: 2004-2009

Included Observation: 6

Variable	Coefficient	Std. Error	t-statistic	Prob.
Constant/Slope	122.1718	106.5302	1.146827	0.4565
Investment (n=6)	0.051370	0.031947	1.607977	0.3542
Total Deposit (n=6)	-0.091412	0.081320	-1.124103	0.4628
Total Assets (n=6)	0.029170	0.061520	0.474151	0.7181
Loan and Adv. (n=6)	0.089822	0.031751	2.828952	0.2163

S = 45.4177 R-Sq = 99.0% R-Sq(adj) = 95.0%

Analysis of Variance

Source	DF	SS	MS	F	P
Regression	4	203626	50906	24.68	0.150
Residual Error	1	2063	2063		
Total	5	205689			