COMPARATIVE STUDY ON DEPOSIT AND INVESTMENT POSITION OF NABIL AND HBL BANK

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RECOMMENDATION

This is to certify that the thesis

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has been prepared as approved by this department in the prescribed format of Faculty of Management. This thesis is forwarded for the examination

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VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

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"Comparative Study on Deposit And Investment Position of NABIL And HBL Bank"

and found the thesis to be original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as the partial fulfillment of the requirement for

Master's of Business Studies (M.B.S)

VIVA-VOCE COMMITTEE

Chair Person, Research Committee ……………………………..

Member, Thesis Supervisor ………………………………….

Member, External Expert …………………………………….

Date:

DECLARATION

I hereby declare that the work report in this thesis entitled ***"Comparative Study on Deposit And Investment Position of NABIL And HBL Bank"***submitted to the Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the **Master's Degree of Business Studies (MBS**) under the supervision of **Mr. Devraj Shrestha.**

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This project work report entitled ***Comparative Study on Deposit And Investment Position of NABIL And HBL Bank*** is prepared under guidance of **Post Graduate Campus** for partial fulfillment of the requirement for Master of Business Studies (MBS) in second year. The study will help us to analyze the investment position of NABIL and HBL bank.

I owe a great intellectual debt to **Prof. Dr. Khagendra Acharya**, Head of the Management Research Department, Tribhuvan University, Post Graduate Campus, Biratnagar for his kind cooperation & valuable suggestions. I would also like to extend my hearty thanks to my research supervisor, **Mr**. **Devraj Shrestha** for helping, encouraging & guiding me throughout the present research work to completion. I sincerely appreciate his cordial support, guidance and patience. I am also thankful to the staffs of Post Graduate Campus, Biratnagar for their kind support and co-operation.

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ABBREVIATION

NABIL	Nepal Arab Bank Limited
HBL	Himalayan Bank Limited
ANZ	Australia and New Zealand
NGBL	Nepal Grindlays Bank Limited
JVB	Joint Venture Bank
NIC	Nepal Industrial and Commercial Bank Limited
NCC	Nepal Credit and Commercial Bank Limited
NRB	Nepal Rastra Bank
RBB	Rastriya Banijya Bank
ROE	Return on Equity
NBL	Nepal Bank Limited
FY	Fiscal Year
NBBL	Nepal Bangladesh Bank Limited
EBL	Everest Bank Limited
EPS	Earning Per Share
MPS	Market Price Per Share
CB	Commercial Bank
SD	Standard Deviation

CHAPTER – I

INTRODUCTION

1.1 Background of the study

Banks play a significant role in the development of a country. Bank is a financial institution, which maintains the self-confidence of various segment of society and extends credit to the people. The financial institution is an indispensable part for the upliftment of the country. The financial institution is a vast field comprising of banks, financial companies, insurance companies, co-operatives, stock exchange and foreign exchange markets, mutual fund, etc. These institutions collect idle and scattered money from the general public and finally invest in different enterprises that consequently help in reducing poverty, increase in life style of people, increase employment opportunities, and thereby developing society and the country as a whole. Thus, today the financial institutions have become the base for measuring the level of economic development of a country.

Nepal is one of the developed countries of the world. Poverty has stood as a serious challenge to a country. The country is unable to fulfill the national requirement of the people. In such context, it is realized that without industrial development, it is impossible to have social and economic development. So for industrial and economic development, banks play the vital role.

Banking industry has acquired a key in mobilizing resources for finance and social development of a country. Bank assists both the flow of goods and services from the producers to the consumer and the financial activities of the government. Banking provides the country with a monetary system of making payment and also makes loan to maintain production in the economy.

Commercial bank is an institution, which accepts demand deposits, subject to check and make short-term loan to business enterprises, regardless of the scope of its other services. Nowadays, Joint venture Banks (JVBs) are increasing in Nepal. Nepal Arab Bank Limited (currently named as Nabi8l Bank Limited) was the first venture bank established in 1984 with 50% invest by Dubai Bank Limited of UAE and of remaining 50% by Nepalese financial institution comprise 30% and 20% by general public.

In global perspective, joint ventures are the mode of trading through partnership among nations and also a form of negotiations between various groups of industries and trades to achieve mutual exchange of goods and services for sharing comparative advantage. A Joint Venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial investment, production or trade).

Commercial banks have been contributing a lot towards the promotion and expansion of both export and import trade. They provide both pre-shipment and post-shipment finance to exporters. They start their operation with automated system, which could easily attract the elite group of business community due to their prompt served modern management. In this way, joint venture banks are successful to bring healthy competition among banks, increase in foreign investment, prompt and expand export- import trade, introduce new techniques and technologies. All these reveal the vital role and the need of joint ventures in Nepalese banking sector or financial service industry.

The development of the country is always measured by its economic development through economic indices. Therefore, every country gives emphasis on the upliftment and prosperity of its economy. The financial institutes act as intermediaries by transferring the resources from the point of surplus to the deficit. Anew organized financial institution includes financial companies, commercial banks and other financial intermediaries play an important role for the development of the 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 the country. The economic activity of the country can hardly be carried forward without the assistance of financial institutions. They are indispensable part of the development process.

Commercial banks play an important part for economic development of a country as they provide capital for the development of the industries, trade and business by investing the saving collected as deposits from the public. They vender various service to their customer facilitating their economics and social life. Therefore, a competitive and reliable banking is essential to the nation for the development.

Nowadays, there is less opportunity in banking sector to make investment because of competition. In this condition, joint venture banks can take initiation in search of new opportunity, so that they can survive in the competitive market and can earn profit. But investment is very risk job. For a purposeful, safe, profitable investment, banks must follow sound investment and fund mobilizing policy.

In recent times, many commercials banks are providing consumer-financing facilities. They provide direct house loans, home equity loans, vehicle loans, education loans, loan for household appliances, etc. These all activities affect the cash flows, liquidity and profitability of the banks.

The study is basically related to analyze the liquidity mobilization of commercial banks in Nepal. The study has been done with special references to Nepal Arab bank Limited (NABIL) And Himalayan Bank Limited (HBL).

1.2 Profile of sample banks

A. Nepal Arab Bank Limited (Nepal Arab Bank Limited)

Nepal Arab Bank Limited, the first foreign joint venture commercial bank of Nepal, started operations in July 1984; NABIL was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, NABIL provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

NABIL, as a pioneer in introducing many innovative products and marketing concepts in the domestics banking sectors, represents a milestone in the banking history of Nepal as it started an era of modern banking with consumer satisfaction measured as a focal objective while doing business. Highly qualified and experienced team of NABIL bank manages day-to-day operations and risk management. Bank is fully equipped with modern technology, which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Telephone banking system. Nepal Arab Bank Limited is providing full-fledged commercial banking services to its clients.

Form its inception period in 1984 as the first joint venture bank, to commence operations in the kingdom of Nepal, the bank have been a leader in terms of bringing the very best international standard banking practices, products and services to the kingdom. Today, mission of the bank is to be Bank of 1^{st} Choice to all of its stakeholders and customers. For the customers, it want to be the first choice in meeting all of financial requirements, for shareholders, it want to be the investment of choice, for regulator, it want to be an example of modern bank, it want to be an outstanding corporate citizens in all communities, it work in and finally, it want to be the first choice as an employer with whom to build a career. To achieve this mission, it has a core set of values by which we live. The values are C.R.I.S.P., i.e. Customer Focused, Result Oriented, Innovative, Synergistic and Professional. They are committed to live our values everyday in everything we do, for it is, these values that make us uniquely NABIL bank.

NABIL bank is a full service bank providing an entire range of products and services, starting with deposit accounts in local and foreign currency, Visa, and Master-card denominated in rupees and dollars, Visa Electron Debit Cards, Personal Lending Products for Auto, Home and Personal loans, Trade Finance Products, Treasury Services and Corporate Financing. Main aim is to be able to meet customer's entire gamut of financial requirements that is why it prides us in being 'Your Bank At Your Service.'

Table1.1

Capital structure of Nepal Arab Bank Limited

Capital as at 2009	**Amount in Rs. '000'**
Authorised Capital	5,00,000
Issued Capital	4,91,654
Paid up Capital	4,91,654

Sources: Annual Report of NABIL

B. Himalayan Bank Limited (HBL)

Himalayan Bank Limited was incorporated in 1992 by a few distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited one of the largest commercial bank of Pakistan. Banking operation commenced from January 1993. It is the first commercial bank of Nepal whose maximum shares are held by Nepalese private sector. Besides commercial banking services the bank also offers industrial and merchant banking services.

The bank has five branches in Kathmandu valley at the following locations: Thamel, New Road, Maharjgunj, Pulchowk (Patan), and Suryavinayak (moved from Nagarkot). In addition, the bank also has nine other branches outside Kathmandu Valley in Banepa, Tandi, Birgunj, Hetauda, Bhairawa, Biratnagar, Pokhara, Dharan and Butwal. The bank also operates a counter in premises of the Royal Palace. The Bank will be aggressively opening new branches at different parts of the Kingdom to serve its customers better. A new branch at Butwal will be in operation soon.

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

Table: 1.2

Capital Structure of Himalayan Bank Limited

Capital as at 2005	Amount in Rs.'000'
Authorized Capital	1,000,000
Issued Capital	650,000
Paid up Capital	643,500

Sources: Annual report of HBL.

1.3 Focus of the Study

Liquidity mobilization refers to as using money to get loan-term benefit. Investment in its broad sense means the sacrifice of certain percent value for (possible uncertain) future value. In pure financial sense, the subsequent use of the term investment will be in the prevalent financial sense, of placing of money in the hands of other for their use, in return for a proper instrument entitling holder's to fixed income payment or the participation in expected profits.

The present economic position of Nepal is encouraging the savers to deposits their money in bank rather then investing in stocks, assets and new business etc., which in turn is hampering the banks portfolio because deposits are higher and limited, safe investment areas are decreasing day by day.

In spite of low interest rate, the depositors are feeling secured towards commercial banks but the highest surplus deposits are almost idle in the bank due to continuous fall in Nepalese economy because of the conflict situation, changed taxation policy, and adversely affected tourism industry and agriculture industry.

The study focuses on the mobilization of deposits and reinvestment aspects of three banks viz. Nepal Arab Bank Limited, Himalayan Bank Limited. The study is mainly focused on the optimum portfolio between deposits and investment. It revolves round the concept of managing the surplus financial assets in which way that leads to the wealth maximization and provides a significant future source of income. It focuses on analyzing the causes of investment problems, their management and remedies, and developing the new investment areas and sectors, which can again boost the Nepalese economy.

1.4 Statement of the problems

The need of liquidity mobilization for economic development of a country is no more to question. But we are facing an acute problem of resource mobilization. We have 18 commercial banks in Nepal, which are very much considered to be vital financial institution to mobilize domestic resources. They have of course a good performance in the course of mobilizing idle deposits.

The problems associated with commercial banks with regard of liquidity mobilization and reinvestment aspects are highlighted below:

a. What is the deposit position of the sampled banks?
b. What is the investment position of the sampled banks?
c. What is the relationship between investment, loan & advances and total deposits?
d. Are they maintaining sufficient liquidity?
e. How far the gap between deposits and investments of the sampled banks?

1.5 Objectives of the study

The main objective of the study is to find out the way of utilizing the surplus deposit funds and right investments for the economic development of a country. The specific objectives of the study are as follows:

a. To analyze the deposit position of the banks under study.

b. To analyze the investment position of the banks.
c. To measure the profitability of the banks.
d. To provide the suggestions for the improvement on the basis of findings.

1.6 Significance of the study

The proper mobilization & utilization of domestic's resources become indispensable for any developing country aspiring for a sustainable economic prosperity of the nation. The success and prosperity of the banks relies heavily upon the successful formulation and effective implementation of investment policy.

The significances of the study are pointed out as below:

a. The study helps to know how well the banks (Himalayan Bank Limited), (Nepal Arab Bank Limited) of Nepal are utilizing the deposits.
b. The study is important to policy makers and academic professionals to formulate the policies and plans on the basis of the performance of these banks.
c. The study helps these banks to compare each other's performances and plans accordingly for future.
d. The study helps these banks to make sound programs and polices based on the recommendation suggested.
e. The study guides to investors, customers (depositors, loan takers as well as other types of clients), competitor, personnel of the banks, stockbrokers, dealers, market makers, etc. to take various decisions regarding deposits and borrowings.

1.7 Limitation of the study

This study is conducted for the partial fulfillment of master's of business studies, so it possesses some limitations of its own kind. The limitations of the study are follows:

i. The study is based only on secondary data so it may contain limitation of the study.
ii. There is in total, 26 commercial banks in the financial market but this researcher takes only three from them. The sampled banks are Nepal Arab Bank Limited, Himalayan Bank Limited.
iii. The study covers the past and present state of the commercial banks in Nepal and will not make any projection in future.
iv. The study is made within limited timeframe, limited data, and with lack of research experiments.
v. The study covers the data of only five fiscal years from 2005/06 to 2009/10 and the conclusion drawn confines only to the above period.
vi. The study is basically based on secondary data, articles, publication, and journals of the respective banks, which may or may not provide exact vision of the field. Hence, the findings will be in accordance of the data personal judgment sampling to draw the sample.

1.8 Chapter plan

The whole chapter is divided into five different chapters. They are:

Chapter I is the introduction chapter. It includes background of the study, focus of the study, statement of the problems, objective of the study, significance of the study, and limitation of the study and chapter plan of the study.

Chapter II deals with the review of literature, which includes conceptual/theoretical review and review related studies

Chapter III is Research methodology which includes research design, population and sample, sources of data, data collection techniques and data analysis tools.

Chapter IV deals with the various analysis and interpretation of data like analysis of sources and uses of fund of commercial banks, analysis of deposits, loan & advances and investments of Nepal Arab Bank Limited, Himalayan Bank Limited, financial and statistical analysis of primary data.

Chapter V includes summary, findings and conclusions of the study. It also deals with recommendations suggested.

The list of bibliography and appendixes are given at the last for references.

CHAPTER-II

REVIEW OF LITERATURE

2.1Introduction

Literature review is basically a Stock Taking of available literature in one's field of research. The literature survey, thus, provides us with the knowledge of the status of their field of research. Therefore, this chapter has its own importance in the study (kothari: 1990-1991)

This chapter includes the review of previous studies, articles, and conceptual framework of the related studies. To present the real framework of the study, more analysis is not enough and review of some related materials should be dealt with, to give the research a clear vision. Past study knowledge provides foundation to the present study. So analyzing & presenting the following parts define this chapter:

1. Conceptual/Theoretical review
2. Review of related studies

2.2 Conceptual/Theoretical Review

It is basically concerned with the theoretical part relevant to the top

2.2.1 Origin of the Bank

There are different options on the origin of the bank. According to one option, the term bank was originated from the Italian word "Banco" which meant bench. The money exchangers at that time kept heap of money on the bench from which, came the use of word "Banko". In the opinion of

Macleod, since banko means “heap”, it denotes the joint fund contributed by many persons.

The origin of the word ‘bank’ is linked to:

German word ‘bank’ means a joint stock company,

Latin word ‘bank’ means a bench,

Italian word ‘bank’ means a bench and

French word ‘banquet’ means a bench.

Moneylenders in the streets of major cities of Europe used benches for acceptances & payment of valuable & coins. When they are unable to meet their liabilities, the depositors used to break their benches. Hence the word ‘bankruptcy’ is derived from there.

The term bank was first used in Italy in 1157 in 12^{th} century. The first bank was set up in Venice; Italy was a public bank, by the name ‘Bank of Venice’. Subsequently, ‘bank of Barcelona’ in 1401 and ‘Bank of Geneva’ in 1407 were established. In 1609 Bank of Amesterdam’ a famous bank was established. In reality, the history of banking had started from ‘Bank of England’ in 1694. But the modern joint stock banks where established in England only in 1833. In 1844 ‘Bank of England’ was established as a first central bank in the world. The ‘banquet De France’ was established in France 1807. Later, the banks where established in other parts of the world.

2.2.2 Concept of bank

Generally, an institution established by law, which deals with money and credit, is called bank. It is obvious that in a common sense, an institution involved in monetary transaction is called bank.

A bank is financial institute, which plays a significant role in the country. It facilitates the growth of trade and industry, and boost national economy. However, a bank is a resource of economy development, which maintains the self-confidence of various segments of society and extents credit to the people.

A bank is business organization that receives and holds deposits of funds from others, makes loans or extends credits and transfer funds by written orders of depositors (The Encyclopedia America, 1984: 302).

The business of the banking is collection of funds from community and extending credit to people for useful purposes. Bank plays a vital role in making money from lenders to borrowers. Bank is a profit seeking business, not a community charity profit seekers. It is expected to pay dividend and otherwise add to the wealth of shareholder (Encyclopedia, 1984: 6).

Hence, in concise we can say that there is no single universally accepted definition of bank. In brief, it is an institution, which accepts deposits in different accounts, provides loans of different types and creates credits.

2.2.3 History of Banking in Nepal

The history of banking in Nepal is not very old. It goes at least back to the lichchhavi era. There were 'Gosthies' to work as credit banks established under the permission of Royal Jayasthiti Malla from Malla dynasty, allowed 'Tankadhari', a class of people, to deal in depositing & lending money and ornaments. The Banda who still worked in ornaments used to deal in lending and depositing the ornaments in that time also. Then, came the king, Rana

Shah, in developing the banking system in Nepal. He found that unorganized lending was taking place

Though it seemed realizing the development of banking in those early times, it could not be materialized till the end of Rana regime. The first government institutionalized credit house called ‘Tejarath Adda’ was established during the tenure of Prime Minister, Ranoddip Singh (1993-1994). The ‘Tejarath Office’ used to give loans to government employees against the securities of gold, silver, etc.

Banking in true sense started with the inception of Nepal bank Limited on 30th Kartik, 1994. As the first commercial bank of Nepal under Nepalese banking law & Nepal bank act 1994.

After the Nepal Rastra Bank was established as a central bank on 14th Baisakh, 2013 under Nepal Rasta Bank act, 2012. The bank was empowered by the act to have direct control over banking institution of the country to manage the circulation of national currency along with foreign exchange rate. Then came Rastriya Banijya Bank established on 10th Magh, 2022. established under Rastriya Banijya bank act 2021.

Nepal Arab Bank Limited was established on 26th Ashad, 2041. as a first joint venture bank of Nepal under Banijya bank act, 2031. Having observed the success of Nepal Arab Bank Limited ‘currently named as Nabil Bank Limited’ and of liberal economy policy adopted by the government, various other commercial including joint venture banks and privately ownership bank established in Nepal.

2.2.4 Concept of Commercial Banks

Commercial banks are that financial institution which deals in accepting deposits of people and institution and giving loan against securities. They provide working capital needs of trade, industry, and even to agricultural sector. Commercial banks also provide technical and administrative assistance to trade and, industries and business enterprises. Commercial bank is a corporation, which accepts demand deposits, subjects to check and makes short-term loans to a commercial banker is a dealer in money and substitute for money, such as check or bill of exchange. It also provides a variety of financial services (The new Encyclopedia Britanica, 1985: 605).

The American institute of banking has laid down for the function of commercial banks i.e., receiving and handling deposits, handling payment for its clients, granting loan and investment and creating money by extension of credit (American Institute of Banking, 1985: 609).

Principally, commercial banks accept deposits and provide loans, primarily to business firms, thereby facilitating the transfer of funds on the economy .

In the Nepalese context, a commercial bank is one, which exchanges money, deposits money, accepts deposits, grants loans, and performs commercial banking function (commercial bank Act, 2063).

Commercial banks are those banks, which pull together the saving 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.

There 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 loan in the form of cash, credit & overdrafts. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuables, financial advising, etc. to their customers (Vaidya, 2001: 38)

List of licensed commercial banks: -

Nepal Bank Limited

Rastriya Banijya Bank

Himalayan Bank Limited

Nepal Bangladesh Bank Limited

Nepal SBI Bank Limited

Everest Bank Limited

Lumbini Bank Limited

Nepal Industrial And Commercial Bank Limited

Kumari Bank Limited

Nepal Investment Bank Limited

Bank Of Kathmandu

Laxmi Bank Limited

Machhapuchhre Bank Limited

Nepal Credit & Commercial Bank Limited

Siddharth Bank Limited

Global Bank Limited

Sunrise Bank Limited

Citizen Bank Limited

Mega Bank Limited

KIST Bank Limited

Prime Bank Limited

Janata Bank limited

(Source: **www.nepalrastrabank.com.np**)

The Commercial banks in Nepal are categorized into four groups on the basis of capital owned. They are; the fully government bank; Rastriya Banijya Bank, the government and private sector bank; Nepal Bank Limited, the JVBs consist of Nabil Bank Limited, Himalayan Bank Limited, Nepal Bangladesh Bank Limited, Nepal SBI Bank Limited, Everest Bank Limited & the privately owned banks; Lumbini Bank Limited, NIC Bank Limited, Kumari Bank Limited, Nepal Investment Bank, Bank of Kathmandu, Laxmi Bank Limited, NCC Bank Limited and Siddharth Bank Limited.

However, central bank is the main bank of any nation that directs and controls all other banks. In Nepal, Nepal Rastra Bank is the central bank and all the commercial banks perform their functions under its rules, regulations and directions.

2.2.5 Functions of Commercial bank

Commercial banks are the most important types of financial institution for the nation in term of aggregate assets. Traditional functions of Commercial banks are only concerned with accepting deposits and providing loans. But modern commercial banks are only concerned with accepting deposits and providing loans. But modern Commercial banks work for overall development of trade, commerce, services, and agriculture also. The business of banking is very broad in modern business age. The number and variety of services provided by bank will probably expand. Recent innovation in banking includes the introduction of credit cards, accounting services for business firms, factoring, leasing, participating in Euro-dollar market, and lock-box banking. The main function of Commercial banks is as follows:

i. Accepting Deposits: - It is fair deduction that no person or body, corporate or otherwise, can be banker who does not take deposits, issue and pay cheques and collect cheques from his customers. Here, all functions are related with the acceptance of deposits. Therefore, accepting deposits by bank is the oldest function of bank.

A bank accepts deposits in three forms viz. saving, current and fixed. Saving deposit is one of the deposits collected from small depositor and low-income depositors. The banks usually pay small interest to depositors for their deposits. Current account is also known as demand deposits. Under this, any amount may be deposited. There are no restrictions regarding number and amount withdrawals as contrary to saving account. The banks don’t pay any interest on such account but charge small amount on the customer’s having current account. A fixed or time deposits is one where customers are requested to keep a fixed amount in the bank for specific period, generally by those who don’t need money for stipulated time. The bank pays a higher interest on such deposits.

ii. Advancing Loans: - The second major function of a Commercial bank is to provide loans and advances from the money, which it receives by way of deposits for the development of industry, trade, commerce, services and agriculture. The main purpose of Commercial bank is to boost up the development pace of communities and the economy as a whole.

iii. Agency Services: - The bank also performs a number of services on behalf of the customers. The following are the agency function provided by the bank.

Dealing with the transaction of the foreign exchange business

Serving as an agent of correspondent on behalf of the customers

Issuing letter of credit, circulate note, travelers cheques, etc,

Purchasing and selling different types of securities and remitting funds.

Keeping valuable article in safe custody

Providing financial advices to various person and bodies whenever required.

iv. Creating Money: -The major function of the bank that separates it from other financial institution is the ability to create money and to destroy money, which is accomplished by lending and investing activities. The power of the Commercial banking is of great economic significant as it results in the elastic credit system that is necessary for the economic progress at a relatively steady growth rate (American Institute of Banking 1985:149)

2.2.6 Resources of Nepalese Commercial bank

Commercial bank has mainly their sources for they're advancing. They are as follow:

i. Capital: - As far as the capital fund is concerned, it is only a nominal source. Therefore, it can be used for investment purposes. This capital fund consist of two elements; paid up and general reserve.

ii. Deposits: - Deposits are the main resources of the banks for advancing loans. It is received from different forms and accounts. There are mainly three types of deposits viz. saving, current and fixed. In a developing country like Nepal where the majority of people are still poor, saving deposits has played a significant role in the development of a country. Therefore, the main source of raising capital is deposits. The deposit function of the bank is important because it has to aggregate small amount of money lying scattered here and there like twenties, fifties and hundred. Singling these sums has no economic efficiency what so ever but they can accomplish Herculean tasks when they are aggregated and employed by the banker.

iii. Internal and external borrowing: - Internal and external borrowing are very important for important for the developing country like Nepal. Commercial banks alone cannot fulfill the necessity of the society. Therefore, they are allowed to borrow from two sources, internal and external. Generally, external borrowing means the borrowing from foreign bank, foreign government, IBRD, IMF etc. internally, the bank can borrow from only one source. i.e. from NRB.

2.2.7 Concept of Joint Venture Bank

Joint venture banks are the mode of trading to achieve mutual exchange of goods and services for sharing comparative advantages by performing joint investment scheme between the Nepalese investors, financial, non-financial institute as well as private investors and there parent banks each supplying 50 % total investment. The parent banks which have been experiencing highly mechanized and efficient modern banking management skill and an international of banking institution JVBs are performed in Nepal as full-fledged Commercial bank under the Economy Act, 2021 and operated under the Banijya Bank Act, 2032.

All the Nepalese JVBs are established and operated under the rules, regulations and guidance of NRB. NRB has issued a certain direction to the banks regarding the mandatory credit allocation to the private sector. The NRB has directed to the government owned banks to invest 3% and the JVBs to invest 0.5% of their total outstanding credit to the priority sector (Journal of NRB, 1998: 4).

Nepal government's deliberate policy of allowing foreign JVBs to operate in Nepal is basically targeted to encourage local traditionally run Commercial banks enhancing their banking capacity through competition, efficiency, modernization, and mechanizations via computerization and prompt customer services.

2.2.8 Roles of Joint Venture Bank

JVBs pose a serious challenge to the existence to the inefficient native banks. But the same challenge can be taken as an opportunity by the domestic banks to modernize them and sharpen there competitive zealous. It is undoubtedly true that the JVBs are already playing an increasingly dynamic and vital role in the economic development of the country. In brief, the roles of JVBs are presented below:

Introducing new methods and technology in banking service: - The JVBs have invited a new era of banking in this remote Himalayan kingdom by introducing high technology and efficient methods in the banking business. Other areas of expertise are covered for foreign exchange transaction by importers and exporters, merchant banking, inter bank market for money and securities, arranging foreign currency loans etc.

Providing new services: - Even though the JVBs so far have not provided any remarkable new services that where not offered by the domestic banks, they have drawn a large number customers who assumed that they will eventually benefit from their association with these banks when they introduce new services. At present, a speedy service then that of the domestic is the hallmark of the JVBs through their services is basically in their traditional areas. This could highly be educative for the domestic banks.

Offering better links with international market: - The JVBs are usually better placed to raise resources internationally for viable projects in a developing country like Nepal mainly due to there creditability and an access to international market. In other words, it is very much essential for Nepalese business to produce international linkage through JVBs.

Creating a competitive environment: - The JVBs have created a competitive environment in Nepal. Prior to arrival of JVBs there was little competitive zeal between NBL and RBB as they had almost set bunch of customers, working areas and services. This competitive environment will benefit the local people, business and industry and the country as a whole.

Providing more resources for investment: -The JVBs have played a significant role in channeling additional resources for investment and development of the country. Although many that resources rose to locally in the prevailing market argue it those resources would have been mobilized net additional resources if they have tapped so far untapped resources in the local market.

2.2.9. Meaning of Deposit

It is important that the Commercial banks deposit policy is the most essential policy for its existence. The growth of bank primarily depends upon the growth of its existence. The volume of funds that management will use for creating income, through loans and investment, is determined largely by the banks policy governing deposits. In other words, when the policy is restrictive, the growth of bank is restarted or accelerated with the liberalization in the deposit policy. In banking business, the volume of credit extension much depends upon the deposit base of the bank. The deposits creating powers of the 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 Commercial bank was thought to be determined by the depositor and not by the banks management. There are regular changes in this view in the modern banking industry. Thus, the banks have evolved from relatively passive acceptors of deposits to achieve bidders for funds. Deposit is one of the aspects of the bank liabilities that management has been influencing through deliberate action.

Banks deposits arise in two ways, the first is when the banker receive cash and credits customers account. It is known as a primarily or a simple deposit.

Such primary deposit is made from the initiative of depositor. The second, when the bank advances loans, discount bills, provides overdraft facilities and make investment through bonds and securities. This is called derived deposit of derivative deposit. They add to there supply of money. Banks actively create such deposit (The Encyclopedia Britanica, 1981: 700).

2.2.10 Types of Deposits

At the outset it is necessary to know what a deposit is. Commercial bank Act 2063, defines deposit is the amount deposited in a current, saving or fixed account of a bank or financial institution. People in general, the businessman, the industrialist, and other individuals deposit in the bank. Actually, such amount is the main source of capital for the bank. Bank, flow such amount as loan and invest in various sectors to earn profit. Usually, the bank accepts three types of deposit. They are current, saving and fixed. But in other countries we find more than three deposits. In Nepal, the bank grants permission to their customers to open three types of accounts under various terms and conditions. This classification is made on different theoretical and financial basis. Therefore, deposits of the banks are classified on the following basis:

1. Demand deposit: -

The deposit in which an amount is immediately paid at the time of any holder's demand is called demand deposit. In other words it can also be called as current deposit. Current account means an account of amount deposited in the bank, which may be drawn at any time on demand. Its transaction is continual and such deposits cannot be invested in productive sector. So, such type of amount remains as stock in the bank. Though the bank cannot gain profit by investing it in new sector after taking with the customer, this facility is given to the customers. Therefore, the bank does not give interest on this account. From such deposit, the merchants and traders are benefited more than the individuals. The bank should pay as many times as the cheque is forwarded until there is deposit in his/her account. The bank cannot impose any conditions and restrictions in demand deposit. An institution or an individual, who usually need money daily, precedes his/her acts and transactions through such deposit. The current account is very important for the customers of the bank.

2. Saving deposit: -

The bank can collect capital through the saving deposit as well. This deposit is also important and its necessity and scope is not negligible. According to the Commercial bank Act 2063, saving account is an account of amounts deposited in bank for saving purposes. This account is appropriate for the people of middle class, farmers and the labors having low income, officials and small businessman. This saving deposit bears the feature of both the current and fixed period deposit. Generally, most accounts are opened on saving deposit in the bank. Therefore, this deposit is popular in people in general. According to internal rules of banks, some banks demand a small amount and some demand a great deal of money to open saving account. Banks give interest on it.

3. Fixed deposit: -

Under the Commercial bank act 2063, fixed account means an account of amounts deposited in a bank for a certain period of time. The customers opening such account deposit their money in this account for fixed period. In other words, it is called time deposit because this amount is deposited for certain period. Usually, only the person or the institution that want to gain more interest opens such type of account. The period of time can be 3 months, 6 months, 9 months, 1 year, 2 year, 5 year, etc. more interest rate is payable in this deposit than other deposits. Both parties, the bankers and the customers, can take benefit from this deposit. The banks invest this money on the productive sector gaining profit thereby and the customers too can make his financial transaction stronger by getting more interest from this deposit. The amount collected in the fixed deposit must be returned to the customer after the date is expired. The amount can't be withdrawn before the fixed time.

2.2.11 Mobilization of Deposits

Collecting scattered small amount of capital through different Medias and investing the deposited or collected fund in productive sector with a view to increase the income of the depositors is meant deposit mobilization. It also supports to increase the saving through the investment of increased of extra amount (NRB, Bankers Prakashan, 1984:12).

When we discuss about the deposit mobilization, we are concerned with increasing income of the low income group of people and to make them able to save more and to invest again the collected amount in the development activities (NRB, Bankers Prakashan, 1984: 10). The main objective of the deposit mobilization is to convert the idle saving into active saving (NRB, Nepal Bank Patrika, 2037: 7).

In developing countries, there is always the shortage of capital for the development activities. There is the 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’t undertake large business because the per capita income of the people is very low and their prosperity 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 out developmental 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 rising income per head through the accumulation of capital. But the question arises, how capital can be accumulated in the developing countries? There are two ways of capital accumulation in the developing county, which are external and 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 contents of Nepal, commercial banks are the main financial institutions, which can play very important role in the resource mobilization for the economic development. 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 important source of the capital formation (RBB, Upahar, 2055: 14).

Banking transaction refers to the acceptance of deposit from the people for granting loans and advances, and returning the accepted deposit at demand or after the expiry of the certain period according to the banking rules and regulations. This definition clearly states that deposit mobilization is the starting point of banking transaction. Banking activities can be increased as well as the accumulated deposit can be mobilized effectively (NRB, Nepal Bank Patrika, 2037: 7).

A commercial bank changes the scattered unproductive small saving into loanble and active savings. The bank not only collects saving, but also provides incentives to the savers and helps them to be able to save more (RBB, Upahar, 2055: 15).

Commercial banks are set up with a view to mobilize national resources. The first condition of national economic development is to be able to collect more and more deposits. In this context, the yearly increasing rate of commercial banks deposit clearly shows the satisfactory progress of deposit mobilization (RBB, Upahar, 2055: 20).

2.2.12 Needs for Deposit Mobilization

The following are the reasons for why deposit mobilization is needed in the developing countries like Nepal. Workshop report “Deposit mobilization why and how” states the following points as the needs for deposit mobilization:

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.

It is much more important to canalize the collected deposit in the priority sectors of a country. In our developing country, we have to promote our business and other sector by investing the accumulated capital towards productive sectors.

The need for deposit mobilization is felt to control unnecessary expenditure. If there is no saving, the extra money that the people have, can be forwarded buying unnecessary and luxury goods. So, the government also should help to collect more deposit, steeping legal procedures to control unnecessary expenditure.

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, silver, etc. Though these loans are traditional in nature and are not helpful to increase productivity, but it helps, to some extent, to mobilize bank's deposits.

To increase saving is to mobilize deposit. It is because if the production of agriculture and industrial products increases, it gives additional income, which help to save more, and ultimately, it plays a good role in deposit mobilization (NRB, Banker's Prakashan, Group A, 1984: 10).

Low national income, low per capita income, lack of technical know-how, vicious cycle of poverty, lack of irrigation and fertilizers, pressure of population increases, geographical condition, etc. are the main problems to bring economic development in a under developed country like Nepal. Deposit mobilization helps in capital formation and thereby plays a vital role in economic development of a country.

2.2.13 Advantages of Deposit Mobilization

In that report, Group “B” states the following points as the advantages of deposit mobilization:

Circulation of idle money: -Deposit mobilization helps to circulate the idle money. The meaning of deposit mobilization is to convert idle saving into active saving. It helps the depositor’s habit of saving on one side, and it also helps to circulate the idle saving on productive sector on the other. This helps to create incentives to the depositors. Again, investment in productive sector helps directly in country’s economic development, and also increases investor’s income.

To support in 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. It helps to canalize idle money in productive sectors. Again, it helps in money supply, which saves the country from deflation and helps central bank in achieving the objective of monetary policy.

To promote cottage industry: - 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 and urban sectors for the development of cottage industries, it is helpful not only to promote cottage industries in the area, but also supports in the development of the locality as a whole, increasing employment and income of the local people.

Capital formation: - Capital plays the 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.

Deposit of banking habit: - One of the important sides of economic developing country is to increase banking habit in the people. Deposit mobilization helps in this aspect. If there is proper deposit mobilization, people believe bank and banking habit develops in people.

To check the 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 to check the misutilization of money.

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

Co-ordination between different sectors: -Deposit mobilization helps to collect capital from surplus and capital hoarding sectors. The fund can be invested for the needy sectors. Thus, it helps to fulfill the gap between these two different sectors. Earning interest in their deposit and the needy sector receiving loan and advances benefits the surplus and hoarding sectors. Thus, it helps to keep good co-ordination between different sectors.

Others: -Deposit mobilization supports small savers by earning interests, help the development of rural economy, protects villagers from being exploitation indigenous bankers investment incentives, provides facilities to the small farmers to purchase tools and fertilizes, etc (NRB, banker's Prakashan, Group B, 1984: 14)

On this same report, Group "C" views that:

Capital is needed for the economic development of the country. External sources are dependable sources of capital. So, mobilization of external resources has a great significance. This is the only way of receiving capital continuously for a long time.

Group "C" further states that there are various institutions, which mobilize internal resources. These are commercial banks, insurance companies, post offices, etc. among them; commercial banks are the effective and dependable sources mobilizing internal resources. This is due to the fact that commercial bank's branches are scattered all over the country. Deposit mobilization not only helps in country economic development, it is also helpful to the depositor himself. The interest earned in the amount helps to raise the standard of living on one side and on the other the depositor had right to draw the deposited amount at the time needed (NRB, Banker's Prakashan, Group C, 1984: 17).

So, commercial banks play an important role for economic development not only in a developed country, but also in a developing country.

2.2.14 Investment, Investment policy, and Its Principles

2.2.14.1 Investment

Investment is simply defined as the sacrifice of current consumption for future consumption whose objective is to increase future wealth. The sacrifices of current consumption take place at present with certainty &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 invest 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 bought and sold in organized security markets.

2.2.14.2 Investment Policy

The investment policy is the most important strategy performed by the banks. The profit and the growth of the bank totally depend upon the decisions taken by banks to grant the loan. Investment policy involves determining the investor's objectives and the amount of his\her investible wealth. Because there is a positive relationship between risks and return for sensible investment strategies, it is not appropriate for investors to say that his/ her objective is to ‘make a lot of money’. What is appropriate fir an investor in this situation is to state that the objective is to attempt to make a lot of money while recognizing that there is some chance that large lose may be incurred. Investment objectives should be stated in terms of both risk and return.

Investment policy considers the three factors while investing on the projects they are time, risk, and return.

2.2.14.3 Principles of sound investment policy

The principles of sound investment policy, i.e. the features of sound lending policy are explained below:

Safety and security: - A bank should be very careful while planning the investment procedures and setting policy thereto. It should always be able to avoid investing in too much volatility because of little alteration may cause a great loss. It must not invest its funds without careful analysis of the proposal of the borrower. A bank must not invest funds in the speculative business. Such business may cause bankrupt at once and earn millions in a minute. Only commercial, durable, marketable, and high marked valued securities are good for investment to the commercial banks.

Profitability: - There must be profit prospect in the project to make investment decision. It should select the most profitable investment area so that it can be able to maximize the shareholder‘s wealth. The profit of the commercial banks depend on the interest rate, volume of loan provide, maturity period, and the nature of investment.

Liquidity: - Liquidity is the ability of the bank pay cash in exchange of deposit. People deposit their hard earning money in the bank so that they will withdraw it when they need it. So, a bank should always try to maintain the liquidity position. It should not invest all the money seeing the uncertain future profit. Once it losses the trust of the customers, the bank may be in the shortage of the funds in future. So, to have the customers' faith, banks should always maintain the liquidity.

Purpose of loan: - Before sanctioning the loan to the customers, bank should learn the purpose of taking loan by the customers. If the seems to be for unproductive project which may yield nothing for the customers or the customers misuse the then he/she can never repay it on time. Therefore, banks need the detail intention of the customers before granting loan.

Diversification: - Diversification of the investment will reduce the risk. It can diversify the risk of investing in various sectors so that loss on one can be compensated by the profit of other. It should not lay all its eggs on the same basket.

Legality: - All the commercial banks are required to follow the direction given by NRB for the investment. Illegal method of investment seems good on short term but it will consequently hamper the bank leading towards bankruptcy as well.

2.3 Review of Related Studies

This part consists of a review of past studies conducted by other researches, which are relevant to the topic.

2.3.1 Review of Journals and Books

The writer stresses on the fulfillment of credit needs of various sectors, which insures investment. The investment lending policy of commercial bank is based on the profit maximization as well as the economic enhancement of the country (Shrestha, 1995: 31-32).

2.3.2 Review of Articles

Bajracharya, (2047) in the article, “Monetary policy and deposit mobilization in Nepal” has concluded that mobilization of deposit savings in one of the monetary policies in Nepal. For this purpose, commercial banks stood as the vital and active financial intermediary for generating resources in the form of deposits of the private sector so for providing creditor the investor’s in different aspects of the economy.

Pradhan, (2053) in his article “Deposit mobilization, its problem and prospects” has presented that deposit is the life-blood of every financial institution like commercial bank, finance company, co-operative or non-government organization. He further adds that the latest figure does produce a strong feeling that serious review must be made on problems and prospects of deposit sector. Leaving few joint venture banks. Other organizations rely heavily on the business deposit and credit disbursement.

The writer has highlighted problems of Deposit Mobilization in Nepalese context:

- Most of the Nepalese do not go for saving in institutional manner, because of lack of good knowledge; they are very much used of saving in the form of cash or ornaments. Their reluctance to deal with institutional system is governed by the lower level of understanding about financial organization process, withdrawn system, and availability of depositing facility and so on.
- There is unavailability of the institutional services in rural areas.
- Due to lesser office hours of banking system people prefer holding cash in the personal possession.
- There is no more mobilization and improvement of the employment of deposits and loan sectors.
- The writer has also recommended the following points for the prosperity of deposit mobilization which are as follows:
- By providing sufficient institutional services in the rural areas.
- By cultivating the habit of using rural banking unit.
- Nepal Rastra Bank should organize training program, to develop skilled manpower.
- By spreading co-operative to the rural areas development mini branch services.

Sharma, (2000) on his title, “Banking Future on Competition” found that all the commercial banks are establishing and operating in urban areas. His achievements are:

- Commercial banking are charging rate of interest on lending.
- Commercial banks are establishing and providing their services in urban areas only. They do not have interest to establish in rural areas. Only the RBB and NBL have branches in rural areas.
- They do not probably analyze the credit system. The research further states that private commercial banks have mushroomed only in urban areas where large volume of banking transaction and activities are possible.

Kafle, (1990) in the topic, "Monetary and Financial Reports in Nepal" states that consolidation and liberalization of interest rate measure is initiated with a view to provide more option to commercial banks in the mobilization of saving and portfolio management through market determined interest and lending rates.

Willamson, (1998) in the topics, "Personal Saving in Developing Nations" found that saving and investment decisions are highly interdependent in Asian sectors interest rate. Mostly household people try to save money for short period. Its influence is less in the long run saving decisions.

Morris, (1980) in his decision paper, "Latin America's banking system in the 1980's" has concluded that most of the banks concentrated on compliance with central bank's rule on resource requirement, credit allocation, and interest rates. While analyzing loan portfolio quality, operating efficiency and soundness of bank investment management has largely been overlooked. The huge losses are found in the bank's portfolio in many developing countries and testimony to the poor quality of this 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 of lending and investment, high risk concentration connected and insider lending, loan mismatching. This has led many books of developing countries to the failure in 1980s.

2.3.3 Review of Previous Thesis

Phuyal, (2035) in his thesis entitled, “A Study on the Deposit, Loans and Advances of NBL” has tried to examine relationship between deposits and interest rates and to find out the causes of decreases in the loans and advances of the bank. Data is used for five year 2005 to 2009 only secondary data are used. Coefficient of correlation has been applied in order to calculate the loans and advances and deposits.

In the thesis, the writer has found that to increase the loans and advances, the bank should not only consider the security of its borrowers. When bank provides loan without security then the person can utilize in one sense and borrowing is benefited in other way. Bank also should invest its resource to the technicians to import their technical tools. Loans and advances have been decreased due to high rate of interest. So, interest rate must be decreased to increase investment of the bank.

Karmacharya, (1978) conducted research on the topic of, “ A Study on the Deposit Mobilization of NBL” has tried to examine the role of NBL in the deposits accumulation and to see how far the bank is able to utilize the collected deposits. This study covers 8 years data from the year 1970 to 1977 and based on secondary data. Correlation, percentage and ratio analytical tools of statistics are used for the analysis and interpretation of data.

The writer found that the deposit credit ratio is only 52% on average; whish shows unutilized resources are increasing. The security- marketing corporation, which is recently established, can play an active role for utilization of unutilized resources. The writer further found that NBL should not only concentrate in the extension of short-term credit only. Bank should increase the level on priority sector and extent its branches to meet growing needs of the country.

Pradhan, (2037) conducted research on the topic of, “A Study on Investment Policy of NBL” has tried to find out to what extent NBL has been able to utilize mobilized deposits. The data is concerned only from 2005 to 2009 and mainly based on secondary data. Various statistical tools: coefficient of correlation for testing the relationship between the deposits and loan and advances, ratio analysis to compare different factor like loans and advances and deposit, bank’s liquidity position, profitability condition, etc.

The writer found that there is a greater relationship between deposits and loans and advances. Increase in deposits leads to increase in the loans and advances but when immense increase in the deposit leads to little bit increase in loan and advances. The writer also found that it could invest only 2.98% on the priority sector in 2034 bank couldn’t mobilize its resources. In the thesis, the writer recommended that the bank should invest more on agriculture sector and further says the bank should make clear-cut policy to provide the loan. The bank should invest on risky sectors to earn more profit and increase the rate of interest in deposit side and decrease in loans and advances.

Shrestha, (2042) conducted research on the topics of, “ A study on Deposit Mobilization and Utilization of Commercial Banks with reference to NBL,” with the objectives are:

- To sketch the deposit mobilization of NBL.
- To analyze the impact of interest rate in deposit mobilization.
- To analyze the impact of branch expansion on the deposit mobilization.

This study covers 10-year data from the year 2031 to2040. It is related to deposits, loans and advances only. The study is based on secondary data. In this study, statistical tools like percentages changes, correlation test is done and to test its significance analysis, probable error test is carried out.

On this thesis, the writer found that NBL has been much sufficient in collection of resources from the people in both urban and rural areas of the country, but in the process of utilization, the bank is still behind. The interest rate has played important role in mobilizing and utilizing the resources of the bank. So, the structure of interest rate should be changed according to the need of nation. It is also suggested that to expand availability of banking services, branch expansions policy should be continued to mobilize resources as well as accelerate lending to productive sector.

Neupane (1986) conducted research on the topic of, “Deposit Mobilization of Commercial Banks in Nepal, Comparative Study of RBB and NBL, Kirtipur Branch” with the objectives are:

- To examine whether RBB, Kirtipur Branch is successful to complete with NBL, Kirtipur Branch in relation to deposit, loans and advances.
- To examine how far RBB, Kirtipur Branches is successful to provide door to door service to its customers in the collection of more deposits.
- To examine how far the deposits of RBB, Kirtipur Branch have been efficiently mobilized.

The study covers deposit and credit during the year from mid-July 1976 to mid- July 1985 of RBB and NBL Kirtipur Branch. The study is based on both primary and secondary data. Karl’s Person’s formula of coefficient correlation has been used to compare various variables.

In the research, the writer has found that a comparative study of deposit between the two banks branches shows a good position of NBL branch’s deposit comparison to RBB branch as well as credit deposit. The writer has also mentioned that the activities of the branch for mobilizing deposits seem to be idle. The branch has taken no steps for collecting more deposits or advancing more loans except the customers, they knock the door of the branch. Lastly, the researcher found that RBB Kirtipur branch is not successful to collect maximum deposit from the area it covers.

So, the researcher has recommended that local staffs can play an active role in deposit mobilization. So far, at least 4 local staffs are suggested to appoint in the RBB branch out of 8 staffs in deposit counter. He has further suggested that there should be a certain budget to the branch for advertisement about its activities and interest rates must be revised.

Shrestha, (1987) conducted research on the topic of “A Comparative Study on Research Mobilization of NBL and RB,” has tried to see the branch expansion of the banks as sector wise and to examine which bank is mobilizing its deposit property. This study covers the data from the year 1982 to 1986 and basically based on secondary data.

The writer found that branch expansion of RBB is more than NBL but branch expansion activity of NBL is more than RBB in rural and urban areas and the mobilization of total deposits of both banks are in increasing trends but RBB is rather efficient in mobilizing the saving deposit and time deposits than NBL.

Karki, (2001) conducted research on the topic of “An Analysis of Deposit Mobilization of RBB, Lahan Branch” has tried to see the impact of interest rate on deposit mobilization and also to know the efficient utilization of the accumulated deposit. This study is mainly concern with the RBB Lahan Branch. The data presentation analysis of deposits and loans and advances is limited to the period of ten years from the year mid-July1990 to mid-July1999. Most of the data are secondary type and applied the correlation and coefficient as statistical tool. In the study, the researcher has found that RBB Lahan Branch is less successful to collect maximum deposit and the deposit is also not efficiently utilized. There is negative relation between interest rate and total credits.

The researcher has recommended that bank should extend long-term credit, the bank should not be very much conscious about its securities. The person, who has skill but not securities, does not get loan from the bank. The bank should decrease interest on credit side and should be trained. Finally, the researcher has suggested that there should be frequent communication between staffs and key customers, particularly businessman.

Agrawal, (2002) conducted research on the topic of "A Study on Deposits and Investment Position of the Yeti Finance Company Limited" has tried to examine the trend the deposit position and the investment position of the Yeti Finance Company. The study was conducted on the basis of secondary and used various tools to analysis the data. Study just covered only period of five years (i.e. FY 1996/97 to 2000/01). The researcher has found that the deposit policy is not stable but has highly fluctuating trend and investment is gradually in increasing trend. The researcher found that there is highly positive correlation between total deposit and investment. The researcher concluded that finance company has been found profit oriented, ignoring the social responsibilities, which is not a fair strategy to sustain long run.

Therefore it is suggested that the company should involve in social programme which helps the deprive people who are dependent in agriculture. Agriculture is the paramount of Nepalese economy so any finance company should not forget to invest in this sector. In order to do so, they must open their branches in remote areas with an objective of providing cheaper financial services.

The minimum amount to open account and interest rate on credit should be reduced which ultimately intensify the profit and goodwill of the company in future. But in this research there is not clearly mentioned the effect of interest in deposit collection as well as in investment.

Tandukar, (2003) conducted research on the topic of "Role of NRB in Deposit Mobilization of commercial banks has tried to examine the role of NRB in deposit collected by the commercial banks and to analyze the trends of deposit mobilization towards total investment of loans and advances. Projection is for five years (i.e. 1998/2002). The data used in that study is both secondary and primary in nature. The researcher also used different financial tools such as liquidity ratio, activity ratio, profitability ratio, and risk ratio, and coefficient of correlation, trend analysis as statistical tools. The researcher took 22 commercial banks as population and two banks i.e. Nepal Arab Bank Limited (NABIL) and Himalayan Bank Limited (HBL) as sample banks. The researcher has found that all new directives of NRB of commercial banks are effective and it is good for both nations. The loan classification and provision seems to be the little bit uncomfortable to the commercial banks. Deposits and loans and advances of NABIL are higher than HBL, but in case of investment HBL is able to mobilize more funds than NABIL in this sector.

In this study we only concentrate on two banks. The researcher has recommended NABIL that diversification of loan and investment is highly suggestive. As NABIL has given priority in investment in treasury bills, which is risk free, but it yields very low return to the bank, and recommended to HBL to collect the deposit by initiating various new programs to attract the customers, for this it can pay a higher interest rate than other bank.

Roy, (2003) conducted research on the topic of "An Investment Analysis of Rastriya Banijya Bank" has tried to analyze relationship of loans and advances, and total investment with total deposit to compare it with NBL and to compare loans and advances, total deposit and net profit of RBB and compare it with NBL. The study was based on secondary data covering five-year period (i.e. FY 1992/93 to 1996/97). The researcher used most of the financial tools and coefficient of variation (C.V.) as stastical tools.

The researcher has found that RBB has good deposit collection, loans and advances, and small investment in government securities. It is also found that profitability position of RBB is worst. RBB needs immediate steps to increase its profitability. It is also further found that RBB has more low quality of loans and advances.

The researcher has recommended that RBB should enhance its investment in securities. Small amount investment in securities of good company brings better income the large amount investment in securities of worst companies. RBB needs to conduct proper pre- analysis before such investment. He also recommended that RBB should decrease loan loss by decreasing its poor quality of loans and advances. It needs to revise credit collection policy. He further suggested that RBB should decrease interest expenses, unnecessary fixed assets expenses, administration expenses should be controlled. Moreover RBB should enhance it's off- balance sheet operation, remittance, in order to increase it’s earning.

Gupta, (2003) conducted research on the topic of “Deposit and Reinvestment Problems of Nepalese Commercial Banks” said that strengthening and the institutionalization of the commercial banks is very important to have a meaningful relationship between commercial banks and national development through shift of credit to the productive industrial sector. At the same time the series of reforms is also needed such as consolidation of commercial banks, directing attention to venture capital financing, appropriate risk return trade by linking credit to timely repayment schedules, avoiding imperfection, allowing flexibility in landing, one window service from NRB, need of strong supervision and monitoring from NRB, diversity scopes of activities from commercial bank, professional culture within commercial banks, etc. All these are necessary to ensure better future performance of commercial banks that have already been established and growing in Nepal.

The commercial banks in Nepal must work hard to prove that they are really efficient and viable agencies for mobilization of saving and its channelization into productive sectors are professionally managed and competent enough to ensure adequate rate of return on investment and are strategically well planned to be competitive.

2.4 Research Gap

The review of above relevant literature has contributed to enhance fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researches conducted on investment policy, non-performing loans, credit policy, financial performance, etc. The past researches in measuring investment policy have focused on the limited ratio, which are incapable of solving the problems. In this research, various ratios are systematically analyzed and generalized. The ratios are not categorized according to the nature; they are categorized according to their areas and nature.

In this study "Comparative Study on Deposit and Investment Position of NABIL and HBL Banks" is measured by various assets ratios, various statistical tools as well and financial tools are used for analyzing survey data. Since, the researcher has used data of only five fiscal years, all the data are correct and fact. This study tries to define the deposit, loans and advances of commercial banks by applying and analyzing various financial tools and different statistical tools like co-efficient of variance. Probably this will be the appropriate research of commercial banks.

CHAPTER- III
RESEARCH METHODOLOGY

3.1 Introduction

In the last two chapter's backgrounds of the commercial banks including JVBs has already been streamlined and review of literature which possible reviews of relevant ideas and theories and finding have been discussed. As a result, researcher felt very comfortable to come to the choice of research methodology. Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objective.

This chapter basically helps to conclude the deposit and investment aspects of NABIL and HBL and recommended the useful and meaningful point so that all concern can achieve something from study. To accomplish the goal the study follows the research methodology described in this chapter.

3.2 Research Design

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economic in procedure. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate deposits and investment of NABIL and HBI.

3.3 Population and Sample

There are all-together 26 commercial banks functioning all over kingdom and most of their stocks are traded actively in the stock market. In this study convenience sampling has been used. Two banks are taken as sample bank. They are:

- NABIL Bank Limited
- Himalayan Bank Limited

3.4 Sources and Data Collection Techniques

This study is conducted on the basis of secondary data. The data relating to the investment, deposit, loan and advances and profit are directly obtained from the balance sheet and profit and loss of concerned banks. Supplementary data and information are collected from the number of institution and regulating authorities like Nepal Rastra Bank, Security Board Nepal, Nepal Stock Exchange Limited, Ministry of Finance, Budget Speech of different fiscal years, Economic Survey, National Planning Commission, etc.

All the secondary data are compiled, processed and tabulated in the time series as per the need and objective. In other judgment, the reliability of data provided by the banks and other sources are compiled with the annual reports of auditor. Formal and informal talks to the concerned data of the departments of the banks where also helpful to obtain the additional information of the related problems. Similarly, various data and information are collected from the economics journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources.

3.5 Methods of Data Analysis

To achieve the objective of the study various financial, statistical and accounting tools have been used in this study. The analysis of data is done according to pattern of data available. Because of limited time and resources, simple analytical statistical tools such as graph, percentage, Karl Person's coefficient of correlation and the method of least square are adopted in this study. Similarly strong accounting tools such as ratio analysis has also been used.

The various calculated results obtained through financial, accounting and statistical tools are tabulated under different headings. Then, they are compared with each other to interpret the results.

To make the study more specific and reliable, the researcher uses two types of tools for analysis,

- **Financial Tools**
- **Statistical Tools**

3.5.1 Financial Tools

For the sake of analysis, various financial tools are used. The basic tools used are ratio analyses are ratio analysis. Besides it, total deposit, total investment and total income analysis have been used.

3.5.1.1 Ratio Analysis

Ratio analysis is a powerful and most widely used tool of financial analysis. Ratio analysis helps to assess the company's financial position and performance. A large number of ratios can be generated from the components of profit and loss account and balance sheet. There is sound reason for selecting different kinds of ratios for different types of situation. For this study, ratios are categorized into the following major heading:

A. Liquidity Ratios:

Liquidity refers to the ability of a firm to meet its short term or current obligation. So liquidity ratios are used to measure the ability of the firms to meet it short term obligation and from them the present cash solvency as well as ability to remain solvent in the event of adversities.

Inadequate liquidity can lead to unexpected cash short falls that must be covered at inordinate costs, thus to reduce profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. On the other hand excessive liquidity can lead to low assets yields and contribute to poor earning performance. The following ratios are developed under the liquidity ratios to identify the liquidity positions:

i. Cash and Bank Balance to Total Deposit Ratio

This is the most important ratio for measuring the short-term solvency position of the commercial banks. The sound ratio indicated the strong liquid position of the bank to meet the immediate cash requirement of the customers and creditors. This ratio is obtained by dividing the total cash with the bank itself by total deposits. It is calculated as:

$$\text{Cash \& Bank balance to Total Deposit} = \frac{\text{Cash \& Bank balance}}{\text{Total Deposit}}$$

ii. Cash and Bank Balance to Current Assets Ratio

This ratio measures the extent of the portion of the cash and bank balance over total current assets maintained by the bank. It also gives a good indicator of liquid assets in the bank. A moderate ratio is desirable for banks because too high ratio indicates the excess idle funds and the low ratio signifies the shortage of short term funds of the bank. However, there is lack of perfect standard regarding this ratio. It is calculated as:

$$\text{Cash \& bank balance to total current assets} = \frac{\text{Cash\& Bankbalance}}{\text{TotalAssets}}$$

B. Leverage Ratio

These ratios are used to measure the presence of financial risk in a firm due to use of debt capital in financing acts as the two-edged sword. If there is a trend of profit, use of leverage in capital structure stimulates the earnings per share of the firms. But if there is trend of the loss it will intensify the loss of the firms. The major ratio calculated in this part are:

I. Debt Ratio

Debt ratio is use to measure the extent of the use of total debt including both long-term and short-term debt in financing total assets of the banks. The higher the amount of total assets financed with debt capital, the higher will be the financial risk and vice versa. Debt ratio is calculated by using the following formula:

$$\text{Debt Ratio} = \frac{\text{TotalDebt}}{\text{TotalAssets}}$$

II. Debt to Equity Ratio

This ratio provides information regarding the amount of debt part that can be covered through ownership capital. A ratio of 1.0 or more than 100%is considered having higher degree of financial risk. If debt part is used more in financing assets than equity, it will lead to higher risk of default and interest. Debt to equity ratio is calculated as follows:

$$\text{Debt-Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Turnover Ratios

The turnover ratios indicate the extent of the utilization of the total assets of the bank in credit lending schemes. In simple words, these ratios are used to dictate the level of mobilization of deposits collected in lucrative sector. The main purpose of bank is to collect or accept various kinds of deposits and to mobilize them safely in profit generating sectors.

i. Total Deposit Turnover Ratio

This ratio is calculated to identify how effectively the total deposits are mobilized in the banks. Higher ratio is desirable for all commercial banks it is calculated by dividing the total credit (loans) and advances by total deposits. It is calculated as:

$$\text{Total deposit turnover ratio} = \frac{\text{Credit \& Advances}}{\text{Total Deposits}}$$

ii. Credit and Advances to Total Assets Ratio

The entire fund obtained through various sources is invested in banks in the form of various assets. In other words, these are the sectors where the funds collected using various sources are employed or mobilized so as to get respective returns. Higher ratio is desirable for commercial banks. However, such lending must be safe, transparent, and performing. This ratio is calculated as:

$$\text{Credit \& Advance to Total Assets} = \frac{\text{Credit \& Advances}}{\text{Total Assets}}$$

D. Profitability Ratios:

Profitability ratios are used to measure the banks overall effectiveness of operation. The ratios used in this part are one of the good indicators of the best performance. These ratios are used to indicate the profitability per unit with regards to various areas of the investment and sources of funds. The major ratios that we consider in this section are:

i. Return on Total Assets Ratio

Return on total assets measures the profitability of the total investment of a firm. The ratio is useful to measure how well management uses all the assets in the business to generate an operating surplus. Higher the ratio indicated the higher efficiency in the utilization of total assets and vice versa. The ratio is low due to low profit. In other words, it is low utilization of bank assets and overuse of higher interests bearing amount of depth and vice versa in this study, net profit or loss to total assets ratio is examined to measures the profitability of all the financial resources in bank-assets and is calculated by applying the following formula:

$$\text{Net Profit to Total Assets} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

ii. Return on Fixed Assets Ratios

This ratio measures the effectiveness of banks in generating profit through the usage of available fixed assets. This ratio is calculated by dividing the net profit after taxes by net fixed asset of the banks. It is calculated by applying the following formula:

$$\text{Return of Fixed assets} = \frac{\text{Net Profit}}{\text{Fixed Assets}}$$

iii. Return on total credit ratio

This ratio measures the overall effectiveness of credit and advances in generating profit. Higher ratio is desirable for banks. The banks having higher ratio is considered of having sound credit performance with lower bad debts. This ratio is measured by dividing the net profit after taxes by total credit and advances. It is calculated by applying the following formula:

$$\text{Return on total credit} = \frac{\text{Net Profit}}{\text{Total Credit \& Advances}}$$

iv. Earning per Share (EPS)

EPS is one of the most widely coated statistics when there is a discussion of accompanies performance or share values. It is the profit after tax figure that is divided by the no of common shares to calculate the value of earning per shares. This figure tells us what profit the common shareholders earned for every share held. Company can decide whether to increase or reduce the number of shares on issues. This decision will automatically effect the earning per share. The profits available to the ordinary shareholders are presented by net profit after taxes and preferences dividend. Symbolic expression of EPS is given below:

$$\text{EPS} = \frac{\text{Earning available to shareholders}}{\text{Total no. of stocks outstanding}}$$

v. Interests Earned to Credit and Advances Ratios

Credit and advances refer to the major part of cells of the banking services. Sound credit policy with minimal amount of non-performing credit reveals the success of banks in having better performance. In return, the banks charge interest on their amount of lending. Thus, a higher ratio is desirable for all kind of financial institutions.

$$\text{Interests Earned to Credit and Advances} = \frac{\text{Interest income}}{\text{Total Credit \& Advances}}$$

vi. Non-performing Credit to Credit and Advances Ratios

This ratio is used to identify the share of bad debts or useless credits in the total credit and advances of banks. In other words, this is the share or credits, which are failed to generate regular earnings. It is always expressed in percentage. Lower and lower ratio is desirable for banks. It is calculated as:

$$\text{Non-performing Credit to Credit and Advances} = \frac{\text{Non - perfoming Credit}}{\text{Totat Credit \& Advanes}}$$

None

vii. Du-pont Equation Analysis

The du-pont equation is known as the overall summarized form of ratio analysis. The profit margin times the total assets turnover gives the return on assets, and this equation is known as du-point equation. It is calculated as:

Return on Assets (ROA) =Profit margin × Total assets turnover

$$= \frac{\text{Net Profit}}{\text{Sales(Net)}} \;|\; \frac{\text{Sales (Net)}}{\text{Totat Assets}}$$

E. Market Indicator Ratios:

Market indicator ratios or market values ratios are useful in detecting the position or values of the banks in the market. Under it, following ratios have been calculated:

i. Market Price per Share (MPS)

MPS is determined on the basis of demand and supply of shares in the secondary market. Various factors affect on the formation of share prices. Those factors may be both the intrinsic (Company Specific) factors and external factors including international economic scenarios or trends. Higher price is desirable for banks. It is also known as market value per share.

ii. Book Value per Share

Book value per share represents the total net worth left over to the share of each common stock after deducting all external liabilities and provisions. The more the value per share better will be the performance and stronger will be the firm's position. It is obtained by dividing the total book net worth of the firm by the number of common stock outstanding. It is calculated by using the following formula:

iii. Price-Earnings Ratio (P/E Ratio)

It indicates the performance (efficient utilization of funds collected) of the CBs. It indicates the number of times the earnings are turnover with respect to price in the market. Higher ratio is desirable since increase in earnings is associated with the increase in stock's price. However the high ratio obtained by dividing the low price by very low earnings is not considered at any cost. The validity of higher P/E ratio lies only when both the market price and earnings are growing. It is calculated as:

$$\text{Price-Earnings Ratio} = \frac{\text{Market Price Per Share}}{\text{Earning Per Share}}$$

3.5.2 Statistical Tools

For supporting the study, statistical tool such as Mean, Standard Deviation, Coefficient of Variation, and diagrammatic cum pictorial tools have been used under it.

i. Arithmetic Mean ($\overline{X}$)

Averages are statistical constants, which enables us to comprehend in a single effort of the whole. It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the mass of unwieldy numerical data. It is calculated as:

$$\overline{X} = \frac{X}{N}$$

Where, $\sum X$ = Sum of observation

N = Number of Observation

ii. Standard Deviation (S.D)

The standard deviation is the square root of mean squared deviation from the arithmetic mean and is denoted by S.D or σ. It is used as absolute measures of dispersion or variability. It is calculated as:

$$\pm \ \mathrm{X} \ \sqrt{\frac{X^2}{N}\ \mathrm{Z}\ \frac{X}{N}}^{\,2}$$

iii. Coefficient of Variation (C.V)

The coefficient of variation is the relative measure based on the standard deviation and is defined as the ratio of the standard deviation to the mean expressed in percentage. It is independent unit. Hence, it is a suitable measure for comparing variability of two series with same or different units. A series with smaller C.V is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice versa. It is calculated as:

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

Where,

$\pm$ = Standard deviation

$\overline{X}$ = Mean

CHAPTER- IV

ANALYSIS AND INTERPRETATION OF DATA

4.1 Introduction

This part is concerned with the presentation of collected data in suitable tables and diagrams as well as analysis and interpretation of those data using various statistical and financial tools. Different types of ratios have been calculated to reach in the conclusion of this study.

4.2 Analysis of Deposit

It is important that the commercial banks deposit is the most essential. The growth of bank primary depends upon the growth of its existence. The value of funds that management will use for creating income, through loan and investment is determined largely by the banks policy governing deposit.

Bank deposit arises in two ways. The first is, when the bankers receive cash an credits from customers account. It is known as a primary or a simple deposit. Such primary deposit is made from the initiative of depositors. The second, when the bank advances loans, discount bills, provides overdraft facilities and makes investment through bonds and securities.

This classification is made through all different theoretical and financial bases. Therefore, deposits of the banks are classified under the following basis.

i. Demand Deposit
ii. Saving Deposit
iii. Fixed Deposit

4.2.1 Liquidity of Deposit

Liquid fund is necessary to meet the demand of depositor or investor and to gain the confidence of the deposition to commercial banks. Liquid fund are for daily transaction including cash in hand, balance with NRB and balance with commercial banks.

Total deposits of the bank refer to the fixed deposit, saving deposit, retained at the time of issuance of letter of credit, bank guarantee, and other purpose. Liquidity is the bank ability to pay cash in exchange of deposit. Liquidity is regarded as touchstone of any bank because it is only the banks in business that require paying large proportion of cash to the authorized customer that owes deposits in the bank without question of enquiry.

Liquidity ratios such as cash to total deposit ratio, and cash to total assets ratio have been calculated to defect the status of the short term solvency position of the three CBs listed in NEPSE. The amount of liquidity affects a lot in the performance and short-term credit rating of a firm.

i. Cash and Bank Balance to Total Deposit:

This is the most important ratio for measuring the short-term solvency position of the commercial banks. The sound ratio indicates the strong liquid position of the banks to meet the immediate cash requirements of the customers and creditors. This ratio is obtained by dividing the total cash with the bank itself and at the bank as:

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

Table: 4.1

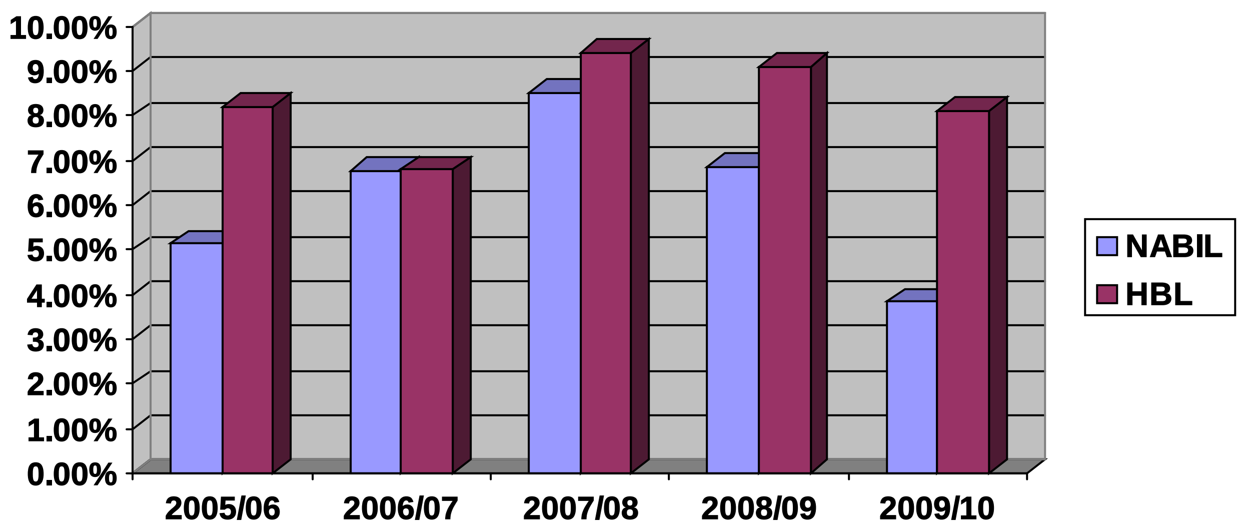
Cash and bank balance to total deposit ratio of CBs

	2005/06	2006/07	2007/08	2008/09	2009/10	Average Ratio
NABIL	5.13%	6.78%	8.51%	6.87%	3.83%	6.22%
HBL	8.19%	6.79%	9.42%	9.09%	8.12%	8.32%

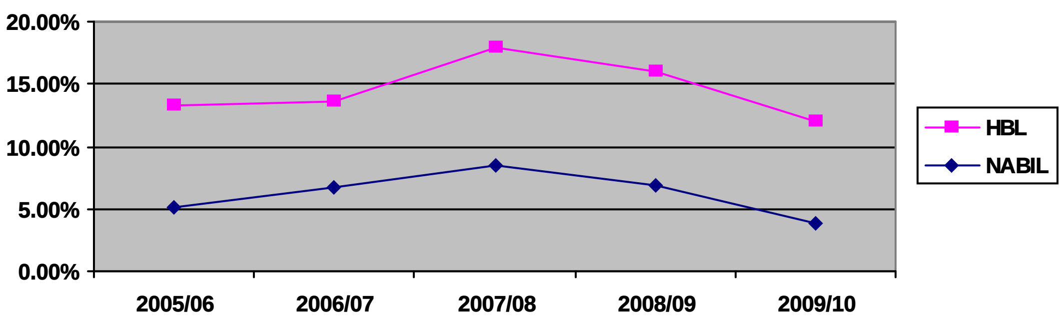
Source: Annual reports of respective banks.

Figure: 4.1

Cash and bank balance to total deposit ratio of CBs



Year



The table depicted above represents the figure excerpted from the respective source shown at the end of the table. The ratio of NABIL was 5.13% in the year 2005/06; it then increased to 6.78%in the year 2006/07 and then to 8.51% in the year 2007/08. However, it got decreased to 6.87% in 2008/09 and to the lowest 3.83% in the year 2009/10. The average ratio of NABIL remained 6.23% over the study period.

Likewise the ratios of HBI remained at 8.19%in the year 2005/06. It then decreased to 6.79%in 2006/07. And then it again increased to 9.42% in 2007/08, which was the highest ratio of the bank itself over the five years period. The ratio decreased slightly and remained at 9.09% in the year 2008/09, and then to 8.12% in the year 2009/10. The average ratio of HBI remained at 8.32% over the five years period.

ii. Cash and Bank Balance to Total Assets:

This ratio measures the extent of the portion of the cash in total assets comprise of a bank. It also gives a good indicator of liquid assets in a bank. A moderate ratio is desirable for the bank. However there is lack of perfect standard regarding this ratio. It is calculated as:

$$\text{Cash and Bank Balance to Total Assets} = \frac{\text{Cash \& Bank balance}}{\text{Total Assetts}}$$

Table 4.2

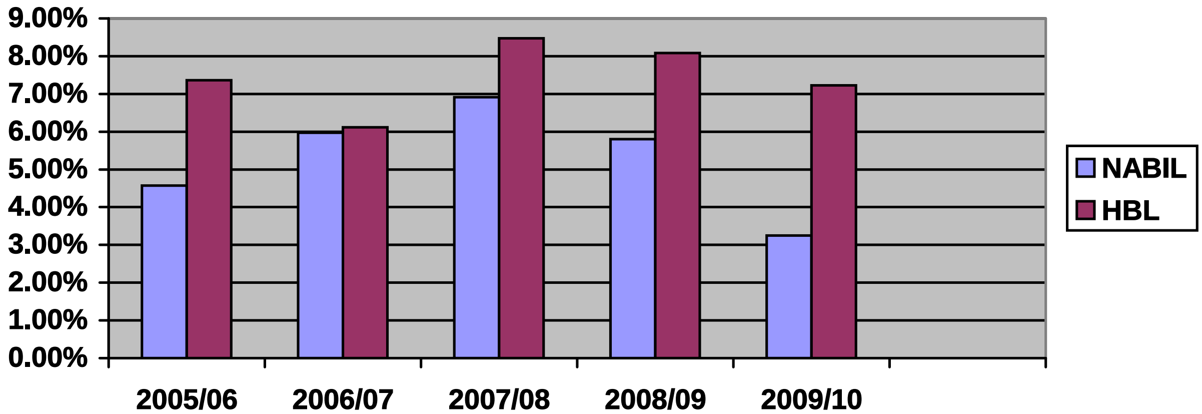
Cash and balance to total assets ratio of CBs

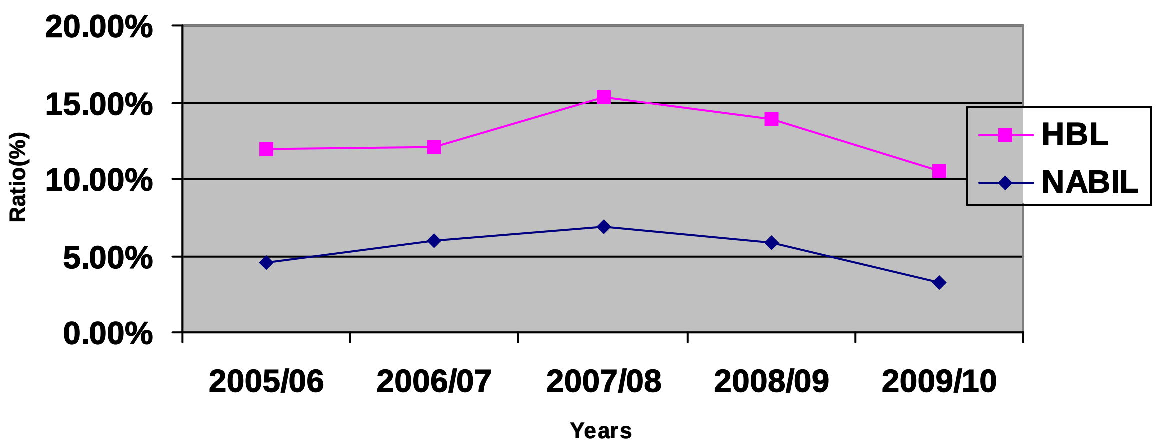
	2005/06	2006/07	2007/08	2008/09	2009/10	Average Ratio
NABIL	4.57%	5.97%	6.91%	5.80%	3.25%	5.30%
HBL	7.36%	6.12%	8.47%	8.08%	7.23%	7.45%

Source: Annual reports of respective banks.

Figure: 4.2

Cash and bank balance to total assets ratio of CBs





The above table depicts the cash and bank balance to total assets ratio of two CBs over the five years period. The ratios of NABIL are 4.57%, 5.97% 6.91%, and 5.80% and 3.25% in the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively with an average ratio of 5.30% over the five year study period. This indicates that 5.305 of the total assets of NABIL comprised of liquid cash (including cash with itself and at NRB) on an average study period of five years.

Likewise, the cash and bank balance to total assets ratio of HBL are 7.36%, 6.12%, 8.47%,8.08%and7.23%in the year 2005/06, 2006/07, 2007/08, 2008/09and2009/10 respectively. The average ratio of the bank remained at 7.45% over the five years study period. It states that 7.45%of the total assets of HBL comprised of liquid cash on an average study of five-year period.

4.2.2 Analysis of Investment

Investment is simply defined as the sacrifice of current consumption for future consumption whose objective is to increase future wealth. The sacrifice of current consumption takes place at present wealth certainty and the investor expects desired level of wealth at the end of its investment horizon. The general principle is that the investment can be retired when cash is needed. The investment is the most important strategy performed by the banks. The profit and the growth of the banks totally depend upon the decision taken by the bank to grant the loan. Investment policy involutes determining the investor objective and the amount of his/her invested wealth. Because there is a positive relationship between risks and return for sensible investment strategies, it is not appropriate for an investor to say that his/her objective is to make a lot of money, which is appropriate for an investor. In this situation it states that objective is to attempt to make a lot of money while recognizing that there is some change, large loss may be incurred. Investment objective should be stated in terms of both risk and return.

i. Total Deposit Turnover Ratios

This ratio is calculated to identify how effectively the total deposit is mobilized in the bank. Higher ratio is desirable for all commercial banks. It is calculated by dividing the total loans and advances by total deposits as:

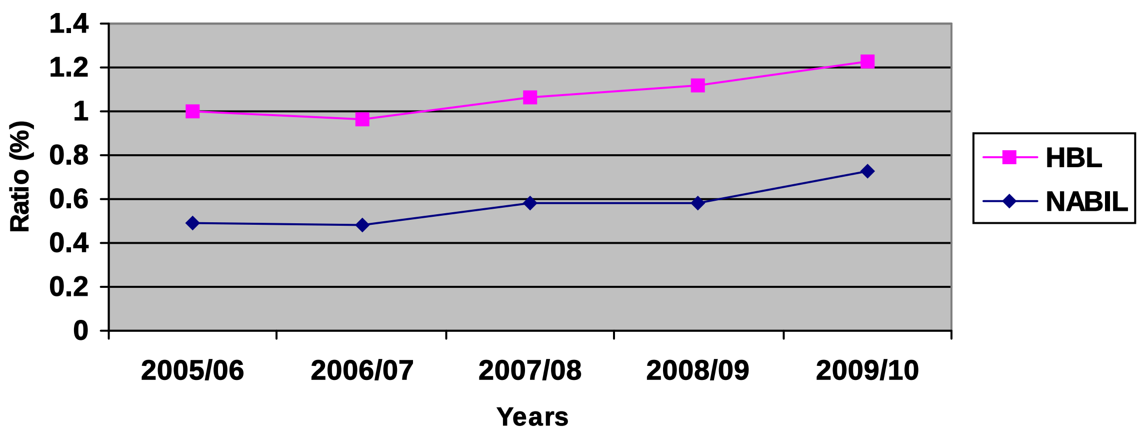
$$\text{Total Deposit Turnover Ratios} = \frac{\text{Credit \& Advances}}{\text{Total Deposits}}$$

Table 4.3
Credit and advances to total ratio of CBs

	2005/06	2006/07	2007/08	2008/09	2009/10	Average Ratio
NABIL	0.49	0.48	0.58	0.58	0.73	0.57
HBL	0.51	0.48	0.48	0.54	0.50	0.50

Source: Annual reports of respective banks.

Figures: 4.3
Credit and advances to total ratio of CBs



The table depicted over reveals the total deposit turnover ratios of the two CBs over the five years study period. The total deposit turnover ratio of NABIL was 0.49 times in the year 2005/06, and then it decreased to0.48 times in the year 2006/07. It increases to 0.58times in the year 2007/08 and remained the same in the year 2008/09. It increases to 0.73 times in the year 2009/10. The average ratio remained at 0.57 times over the five-year study period.

The total deposit turnover ratio of HBL was 0.51 times in the year 2005/06 and decreases to 0.48 times in the year 2006/07 and remained the same in the year 2007/08. It increases to 0.54 times in the year 2008/09 and decreases to 0.50 times in the year 2009/10. Similarly, the average turnover ratio of the bank remained at 0.50 times over the five years study period.

ii. Credit and Advances to Total Assets

The entire funds obtained through various sources are invested in banks in the form of various assets. In other words, these are the sectors where the funds collected using various sources are employed or mobilized, so as to get repetitive returns. Higher and higher ratios are desirable for commercial banks. However, such lending must be safe, transparent, and performing. The ratio is calculated as:

$$\text{Credit and Advances to Total Assets} = \frac{\text{Credit \& Advances}}{\text{Total Assets}}$$

Table: 4.4

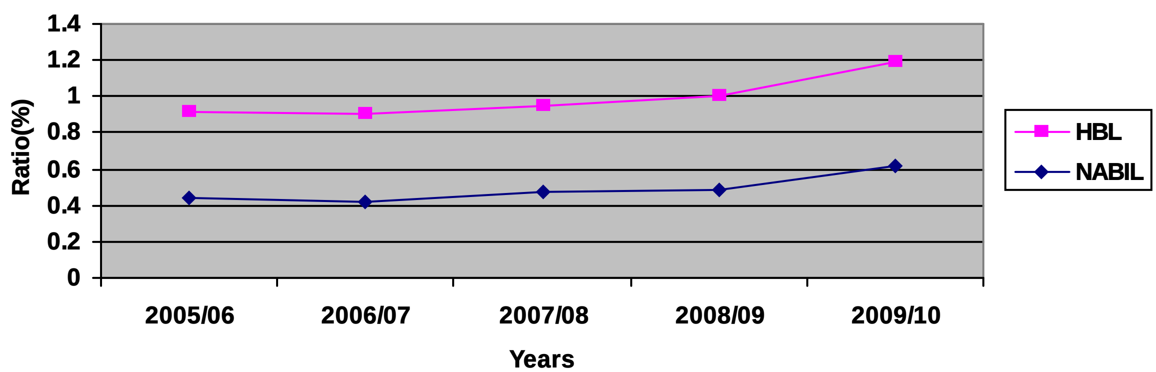
Credit and advances to total assets ratio CBs

	2005/06	2006/07	2007/08	2008/09	2009/10	Average Ratio
NABIL	0.44	0.42	0.47	0.49	0.62	0.49
HBL	0.47	0.48	0.48	0.51	0.57	0.50

Source: Annual reports of respective banks.

Figure: 4.4

Credit and advances to total assets ratio of CBs



The table depicted above shows the total assets turnover of two CBs with respect to the credit and advances that they where able to generate the past five years. The credit and advances of total assets ratio of NABIL where 0.44 times, 0.42 times, 0.49 times, 0.47 times and 0.62 times in the years 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The average ratio of the bank is 0.49 times over the five years study period.

And the same ratio of HBL where 0.47 times, 0.48 times, 0.48 times, 0.51 times and 0.57 times in the years 2005/06, 2006/07, 2007/08, 2008/09 and

2009/10 respectively. The average total assets turnover ratio of the bank remained at0.50 times over the five-year period.

Based on the analysis of the above table showing various turnover ratios of the two listed banks, we can clearly state the absolute assets utilization ratio of the HBL and NABIL respectively where the best of all. However, we cannot regard the overall performance of the bank was good than others because of the possibilities of bad credits. As a result, we need to consult and review other ratios indicating the performance and the effective utilization of the assets both quantitatively and qualitatively.

4.2.3 Profitability Analysis

There must be profit prospects in the project to make investment decision. It should select the most profitable investment area so that it can be able to maximize the shareholders wealth. The profit of the commercial banks depend on the interest rate, volume of the loan provide, maturity period and the nature of the investment.

i. Return on Assets:

The total net assets of the bank reflect the total investment of the total funds collected by them through various sources to earn sufficient profit. The ratio is given by:

$$\text{Net Profit to total Assets} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

Table: 4.5

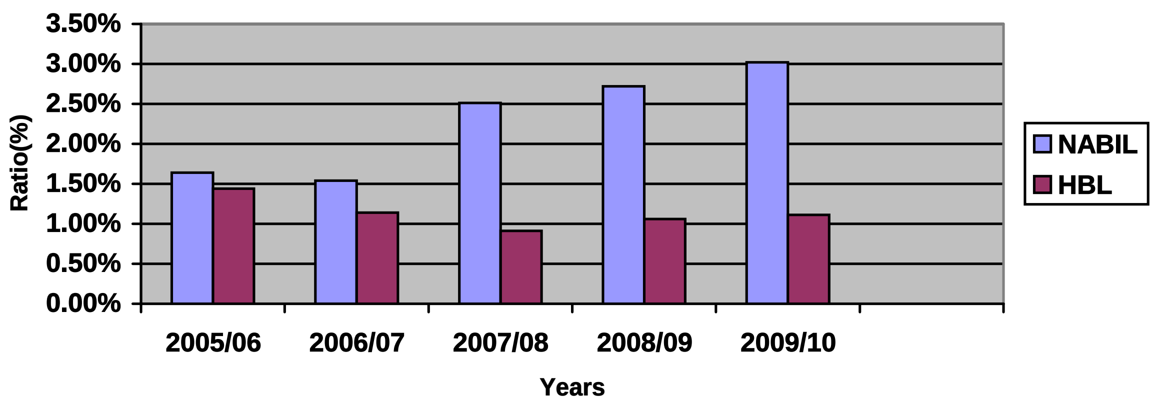
Return on total assets ratio of CBs

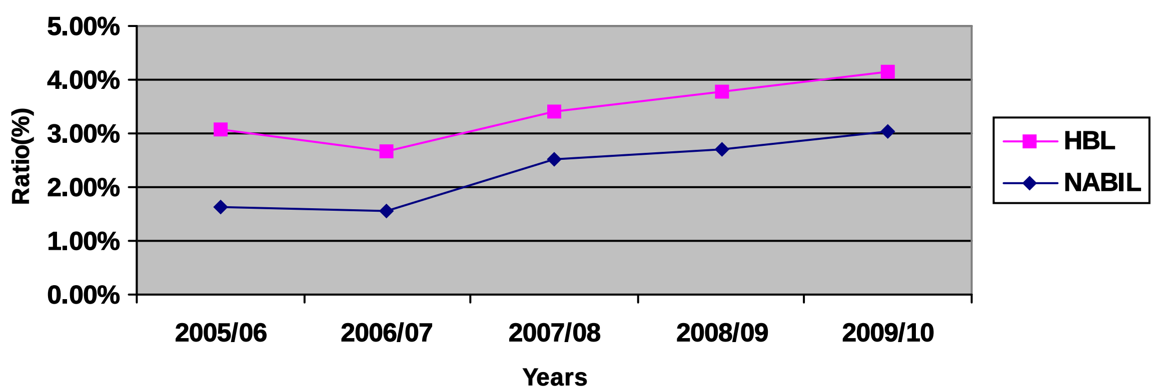
	2005/06	2006/07	2007/08	2008/09	2009/10	Average Ratio
NABIL	1.64%	1.54%	2.51%	2.72%	3.02%	2.29%
HBL	1.44%	1.14%	.91%	1.06%	1.11%	1.13%

Source: Annual reports of respective banks.

Figure: 4.5

Return on total assets ratio of CBs





The above table shows the return on assets of two CBs over the five years period. The returns on assets where 1.64%, 1.54%, 2.51%, 2.72% and 3.02% in the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The average ratio over the period remained at 2.29%. The return on assets of NABIL showed a slightly increasing trend over the five-year study period.

The return on assets of HBL was 1.44% in the year 2005/06. The ratio got decreased to 1.14% in the succeeding year, and again the ratio decreases to 0.91% in the year 2007/08. Then the ratio reached to 1.06% in the year 2008/09 and again increased to 1.11% in the year 2009/10. On an average, the ratio remained at 1.13% of HBL over the five-year study period. The return on assets of HBL was at a rapid decreasing as well as increasing trend over the study period.

ii. Return on Fixed Assets

This ratio measures the effectiveness of banks in generating profit through the usage of available assets. This ratio is calculated by dividing the net profit after tax by net fixed assets of the banks as:

$$\text{Return on Fixed Assets} = \frac{\text{Net Profit}}{\text{Fixed Assets}}$$

Table: 4.6

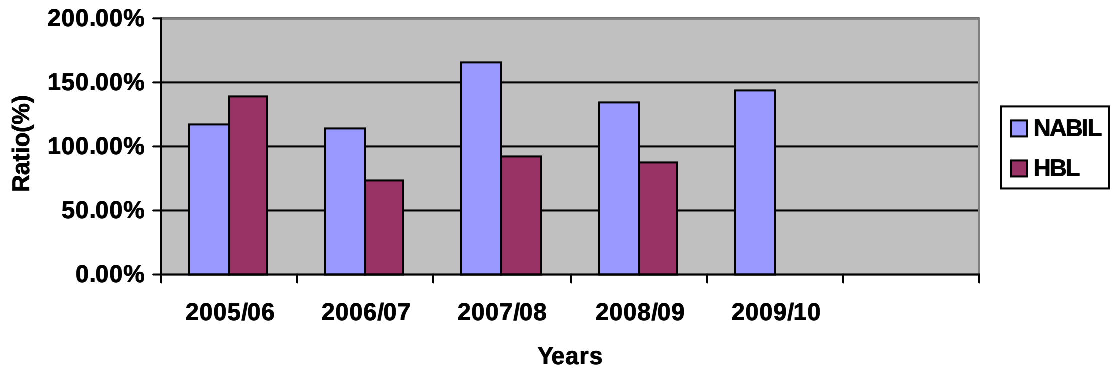
Return on fixed assets ratio of CBs

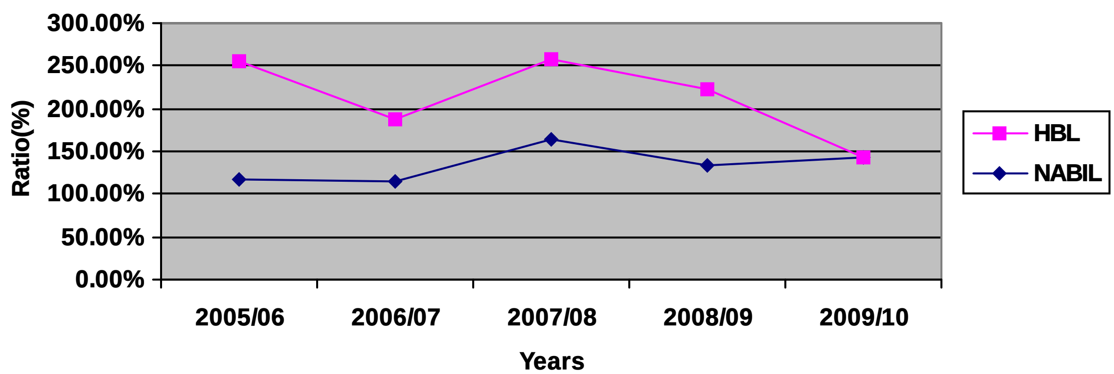
	2005/06	2006/07	2007/08	2008/09	2009/10	Average Ratio
NABIL	117.18%	114.31%	165.23%	134.66%	143.57%	134.99%
HBL	139.18%	73.71%	92.28%	87.79%	1.4.212%	99.43%

Source: Annual reports of respective banks.

Figure: 4.6

Return on fixed assets ratio of CBs





On the basis of above tables, the return on fixed assets of NABIL were 117.18%, 114.31%, 165.23%, 134.66% and 143.57% in the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The average ratio over the five-year period remained at 134.99%.

In the same manner the return on fixed assets ratio of HBL where obtained as 139.18%, 73.71%, 92.28%, 87.79% and 104.21% in the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The average ratio of the bank over the five-year study period remained at 99.43%.

Despite of several fluctuations in the ratios, the return on fixed assets ratios of NABIL shows an upward trend over the five years study period. The trend line of the ratios of NABIL and HBL are almost horizontal in shape. However the slopes of their trends where inclined at a very low rate, but declined at a very higher rate.

iii. Return on Total Credit:

This ratio measures the overall effectiveness of credit and advances (loans and advances) in generating profit. Higher ratio is desirable for banks. The banks having higher ratio is considered of having sound credit performance and with lower bad debts. This ratio is measured by dividing the net profit after taxes by total credit and advances as:

$$\text{Return on Total Credit} = \frac{\text{Net Profit}}{\text{Total Credit \& Advances}}$$

Table: 4.7

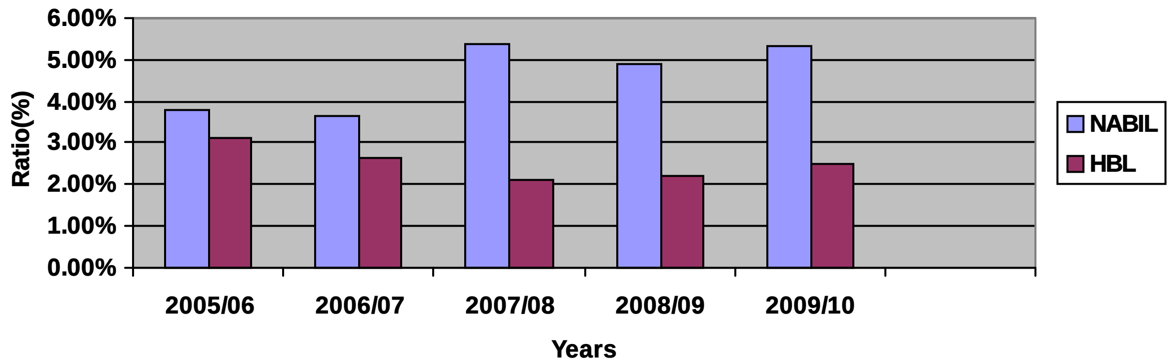
Return on loans and advances ratio of CBs

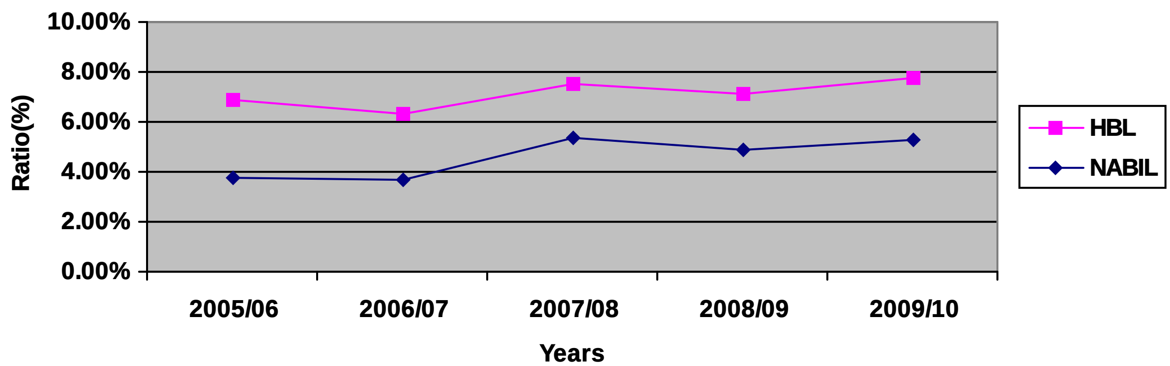
	2005/06	2006/07	2007/08	2008/09	2009/10	Average Ratio
NABIL	3.77%	3.65%	5.37%	4.90%	5.32%	4.60%
HBL	3.11%	2.64%	2.12%	2.20%	2.48%	2.51%

Source: Annual reports of respective banks.

Figure: 4.7

Return on loans and advances ratio of CBs





The tables depicted above shows the profit margin of two listed CBS over the past five years period. Similarly, the figure depicted above represents the five years trends of the two banks. The ratios of NABIL where 3.77%, 3.65%, 5.37%, 4.90% and 5.32% in the years 2005/06, 2006/07 2007/08, 2008/09 and 2009/10 respectively. The ratio for the banks was highest in the year 2007/08 and lowest in the year 2006/07. The ratio of NABIL showed in the fluctuating trend. The average ratio of the bank over the study period remained at 4.60%. The rate of increments is faster in this bank.

In the same way the ratio of HBL where 3.11%, 2.64%, 2.12%, 2.20% and 2.48% in the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The ratio of the bank remained highest in the year 2005/06 and lowest in the year 2007/08. The average ratio of HBL over the five year period is 2.51%. As the variation in the ratios where small, the five-year trend of return on total credit of HBL remained almost horizontal in shape.

The average return on total credit (profit margin) of NABIL remained at 4.60% and the average profit margin of HBL remained at 2.51% over the five years study period. The above analysis of the ratios and the five-year trends shows that NABIL and HBL respectively have the highest average return on credit and advances.

iv. Earning Per Share:

This ratio measures the amount of earning available to each share of common stock. Higher amount is desirable for all firms. it is calculated as:

$$EPS= \frac{\text{Earning available to shareholders}}{\text{Total no. of common stocks outstanding}}$$

Table: 4.8

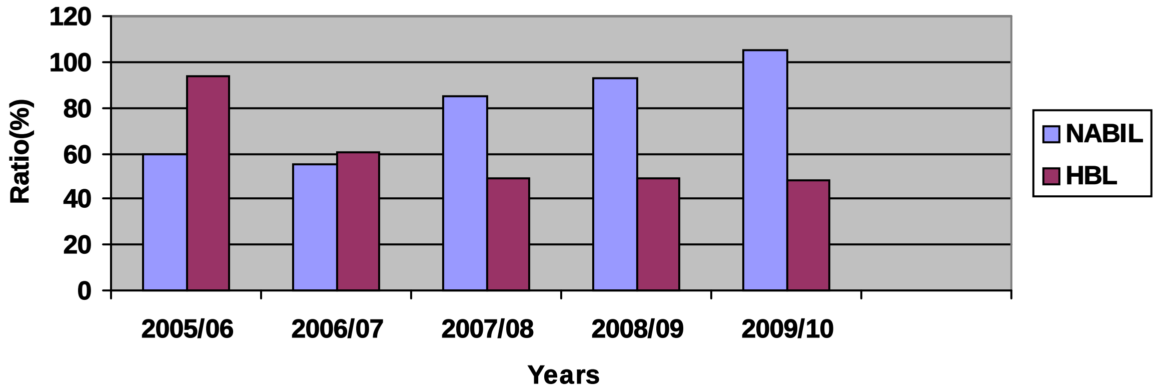
Earning per share (Rs.)

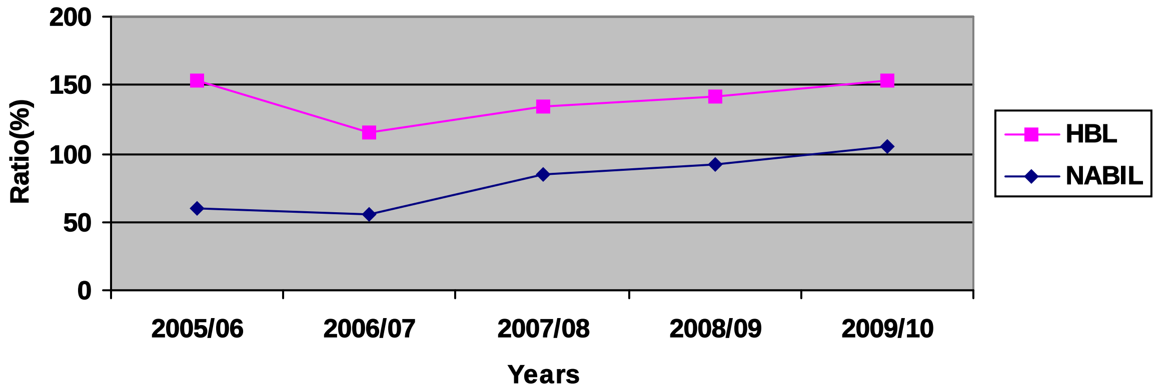
	2005/06	2006/07	2007/08	2008/09	2009/10	Average Ratio
NABIL	59.26	55.25	84.66	92.61	105.49	79.45
HBL	93.57	60.26	49.45	49.05	47.91	60.05

Source: Annual reports of respective banks.

Figure: 4.8

Earnings Per Share (Rs.)





The table depicted above shows the EPS of two listed CBs over the past five years. The earning per share of NABIL where Rs. 59.26, 55.25, 84.66, 92.61 and 105.49 in the years 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The average EPS of the bank over the five-year period remained at Rs. 79.45. The EPS of NABIL shows an upward trend over the period of five years.

The EPS of HBL in the year 2005/06 is Rs. 93.57. It decreased slightly to Rs. 60.26 in the year 2006/07. However, the ratio decreased to Rs 49.45 in the year 2007/08 and Rs. 49.05 in the year 2008/09. Again it decreased heavily to Rs. 47.91 in the year 2009/10. The average EPS of the bank remained at Rs 60.05 over the five years study period. The EPS of HBL shows a downward trend as portrayed by the above figures.

On the basis of above calculation, NABIL has the highest average EPS. This indicates that the EPS of NABIL was more consistent and better than HBL. NABIL has found to be having somewhat upward trend of EPS than HBL. Therefore, we can conclude that earning capacity of HBLs shares was deteriorating over the years.

v. Interest Earned to Credit and Advances

Credit and advances refers to major part of sales of banking services. Sound credit policy with minimum amount of non-performing credit reveals the success of banks in having better performance. In, return the banks charge interest on their amount of lending. Thus, a higher ratio is desirable for all kinds of financial institutions.

$$\text{Interest Earned to Credit and Advances} = \frac{\text{Interest Income}}{\text{Total Credit \& Advances}}$$

Table: 4.9

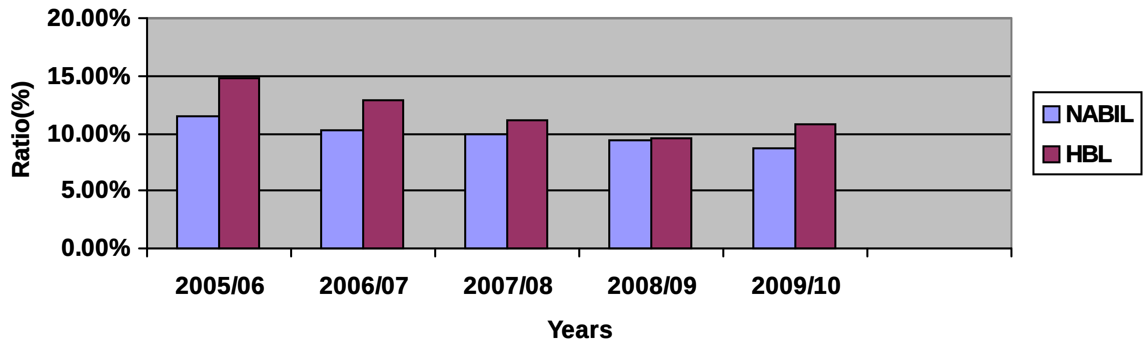
Interest income to credit and advances ratio of CBs

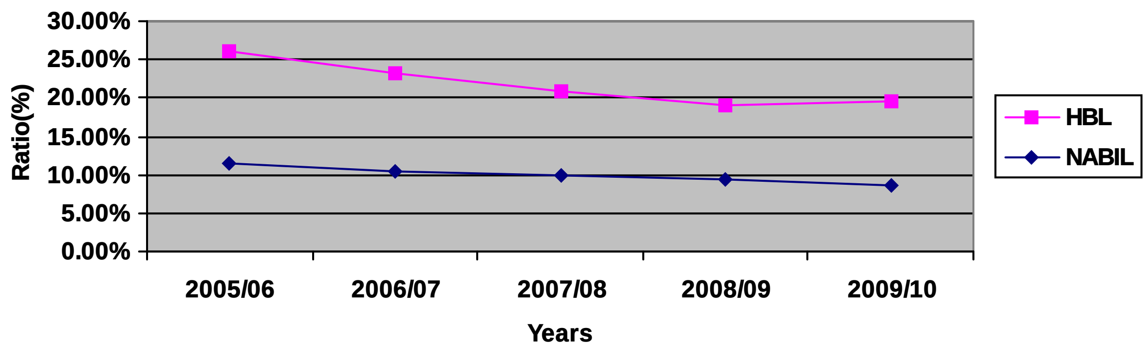
	2005/06	2006/07	2007/08	2008/09	2009/10	Average Ratio
NABIL	11.46%	10.34%	9.83%	9.45%	8.70%	9.96%
HBL	14.71%	12.89%	11.08%	9.64%	10.75%	11.81%

Source: Annual reports of respective banks.

Figure: 4.9

Interest income to credit and advances ratio of CBs





The interest income earned by NABIL by extending credit and advances where 11.46%, 10.34%, 9.83%, 9.45% and 8.70% in the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The average ratio remained at 9.96% in the five years study period. The ratio of the bank showed downward trend as depicted in the figure above.

In the same way the ratio of HBL where 14.71%, 12.89%, 11.08%, 9.64% and 10.75% in the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The average interest earned ratio remained at 11.81% over the five-year period. The ratio of HBL also shows a decreasing trend as given in the figure above.

HBL has the highest average interest earned to credit and advances ratios. However NABIL had been found to have the moderate rate of return over the study period the comparison to HBL.

vi. Non-performing Credit to Credit and Advances:

This ratio is used to identify the share of bad debts or useless credits in the total credit and advances of banks. In other words, this is the share or credits, which are failed to generate regular earnings. It is always expressed in percentage. Lower and lower ratio is desirable for banks. It is calculated as:

$$\text{Non-performing Credit to Credit and Advances} = \frac{\text{Non - Performing Credit}}{\text{Total Credit \& Advances}}$$

Table: 4.10

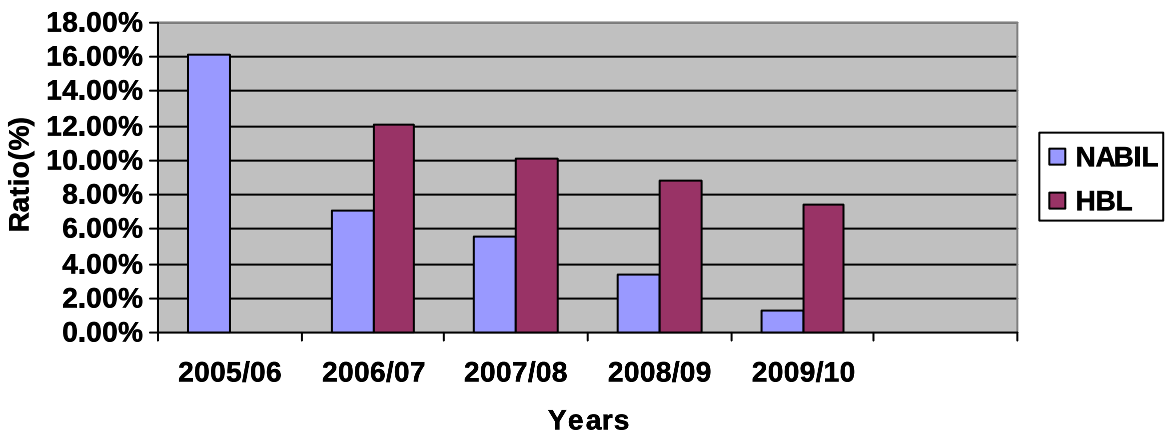
Non- performing credit to credit and advances ratio of CBs

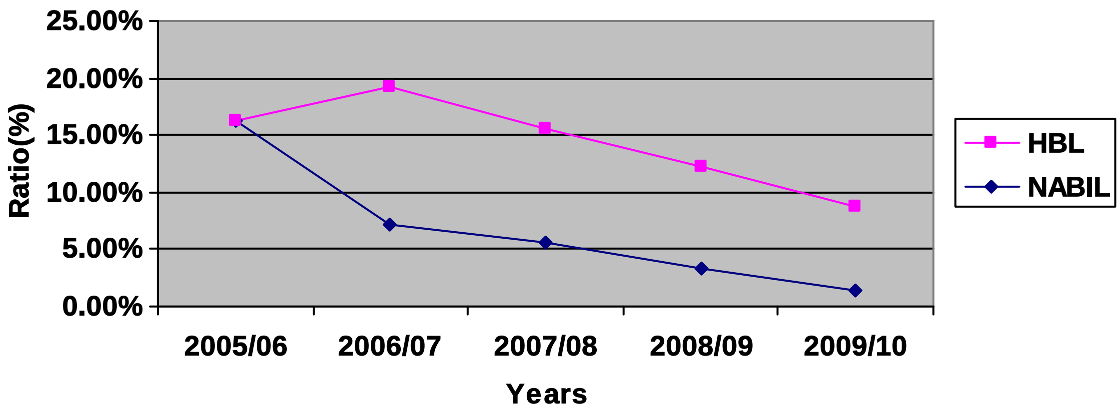
	2005/06	2006/07	2007/08	2008/09	2009/10	Average Ratio
NABIL	16.20%	7.14%	5.54%	3.35%	1.32%	6.71%
HBL	NA	12.1%	10.08%	8.88%	7.44%	9.63%

Source: annual reports of respective banks.

Figure: 4.10

Non- performing credit to credit and advances ratio of CBs





The shares of non-performing assets on credit and advances of NABIL where 16.20%, 7.14%, 5.54%, 3.35% and 1.32% in the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. On an average, 6.71% of the component of the credit and advances remain as non-performing credit. The ratio of NABIL shows a declining trend over the five years study period.

In the same way the shares of non-performing credits over total credit and advances of HBL are 0.00%, 12.1%, 10.01%, 8.88% and 7.44% in the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The average ratio of non-performing credit remains at 9.63% at a slightly decreasing trend except in the last year of period.

On the basis of above calculation and their analysis, it is found that the share of non-performing over total credit and advances ratio of HBL was the highest. There was also a decreasing trend in the last year of study period. It means that the shares of non-performing of HBL are decreasing over the years. NABIL also had the very decreasing trend over the five years of study period.

4.2.4 Market Indicator Ratios

Market indicator ratios or market values ratios are useful in detecting the position or values of the banks in the market. Under it, following ratios have been calculated:

i. Market Price per Share (MPS)

Market price per share is determined on the basis of demand and supply of shares in the secondary market. Various factors affect on the formation of share prices. Those factors may be both the intrinsic (company specific) factors and external factors including international economic scenarios or trends. Higher price is desirable for banks. It is also known as market value per share.

Table: 4.11

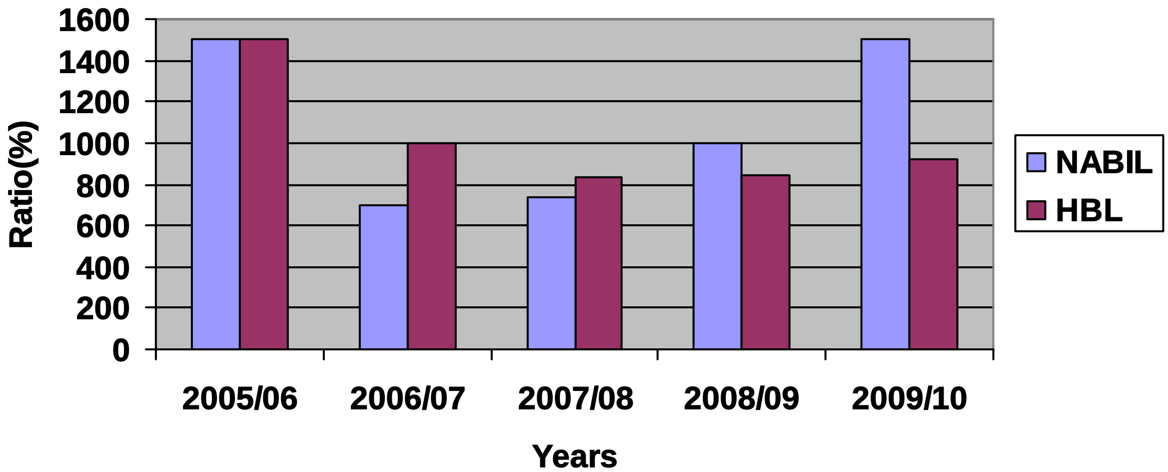
Market Price per share (Rs.)

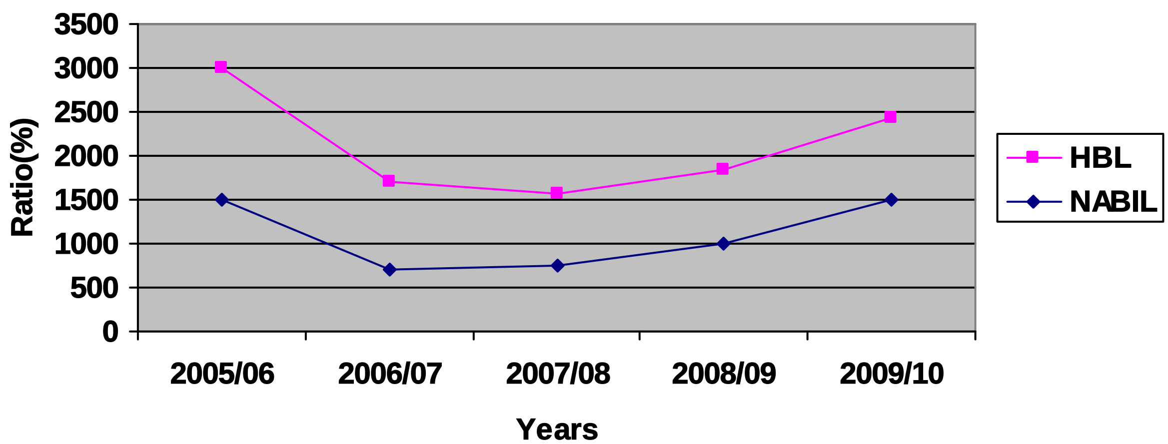
	2005/06	2006/07	2007/08	2008/09	2009/10	Average Ratio
NABIL	1500	700	740	1000	1505	1089
HBL	1500	1000	836	840	920	1019.20

Sources: Annual reports of respective banks.

Figure:4.11

Market Price per share (Rs.)





The table depicted above shows the market price per shares of two CBs over the five-year period. The market price of NABIL bank where Rs 1500, 700, 740, 1000, and 1505 in the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The average price of the bank in the market remained at Rs 1089 over the five-year study period. The market price of NABIL shows a slightly increasing trend despite of fluctuations in the mid-study period.

Similarly, the closing market price off HBL remained at Rs 1500, 1000, 836, 840 and 920 in the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The average share price of the bank was Rs 1019.20 over the study period like NABIL, HBLs share price in the market also showed a slightly increasing trend at the last of the study period.

On the basis of above calculation and presentation it shows that NABIL had the highest average market price per share, whereas, HBL had the lowest average market price per share. The market price of NABIL is at an increasing trend. Therefore, it can be regarded that NABILs image in the public is better and stronger than that of HBL. People's perception and expectation about performance and prices of NABIL and HBL are good and positive.

ii. Book Value Per Share:

Book value per share represents the total net worth left over to the shares of each common stock after deducting all external liabilities and provisions. The more value per share, better will be the performance and stronger will be firm's position. It is obtained by dividing the total book net worth of the firm by the no of common stock outstanding.

$$\text{Book Value Per Share} = \frac{\text{Book Net Worth}}{\text{Total no. of Common Stocks outstanding}}$$

Table: 4.12

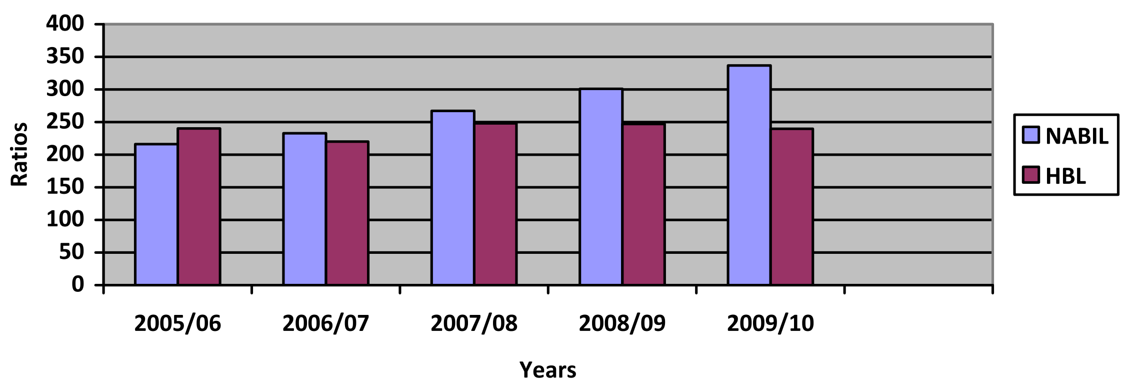
Book Value Per Share (Rs.)

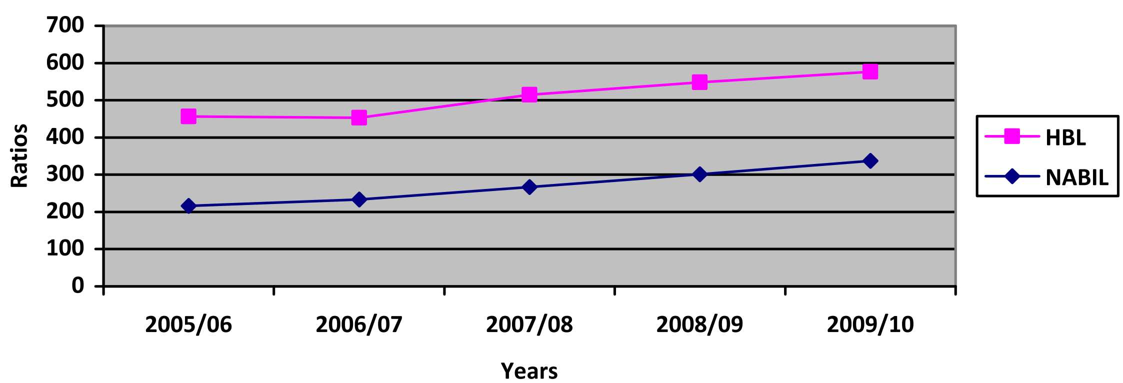
	2005/06	2006/07	2007/08	2008/09	2009/10	Average Ratio
NABIL	216.00	233.00	267.00	301.00	337.00	270.80
HBL	240.19	220.02	247.81	246.93	239.59	238.91

Sources: Annual reports of respective banks.

Figure:4.12

Book Value Per Share (Rs.)





Book value per share of NABIL where Rs 216, 233, 267, 301 and 337 in the years 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The highest book value per share remained in the year 2009/10 and the lowest in the year 2005/06. Therefore, the book value per share of NABIL over the five-year period showed and increasing trend. The average book value per share remains at Rs 270.80 over the five years study period.

In the same way book value per share of HBL where found to be Rs 240.19, 220.02, 247.81, 246.93 and 239.59 in the years 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The lowest price remains in the year 2006/07 and highest price was obtained in the year 2007/08 with some minimum fluctuation over the mid- years. Thus, the book price per share of HBL also shows a slightly inclined trend over the years as reflected by the figure above.

The average book value per share of NABIL and HBL remained at Rs 270.80 and Rs 238.91 respectively over the five-year study period. Therefore NABIL was found to have highest average per share. Therefore, HBL can be regarded as having the lowest book value per share because of its steeply decreasing trend of book price.

iii. Price-Earnings Ratios (P/E Ratios):

It indicates the performance (efficient utilization of funds collected) of the CBs. It indicates the no of times the earnings are turned over with respect to price in the market. Higher ratio is desirable, since increase in earnings is associated with the increase in stock's price. However the high ratio obtained by dividing the low price by very low earnings is not considered good at any cost. The validity of higher P/E ratios lies only when both the market price and earning are growing. It is calculated as:

$$\text{Price-Earnings Ratios (P/E Ratios)} = \frac{\text{Market Price Per Share (MPS)}}{\text{Earnings Per Share (EPS)}}$$

Table:4.13

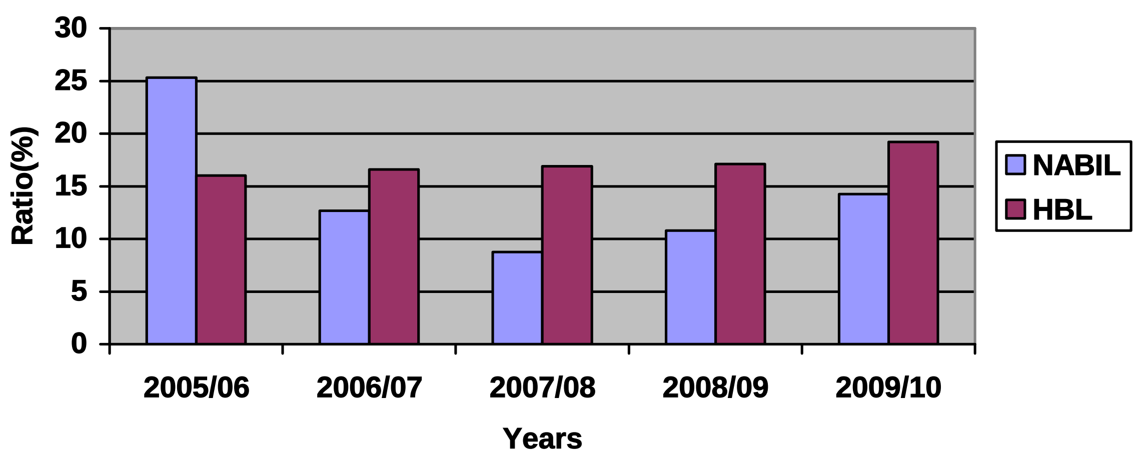
Price Earnings Ratio (times)

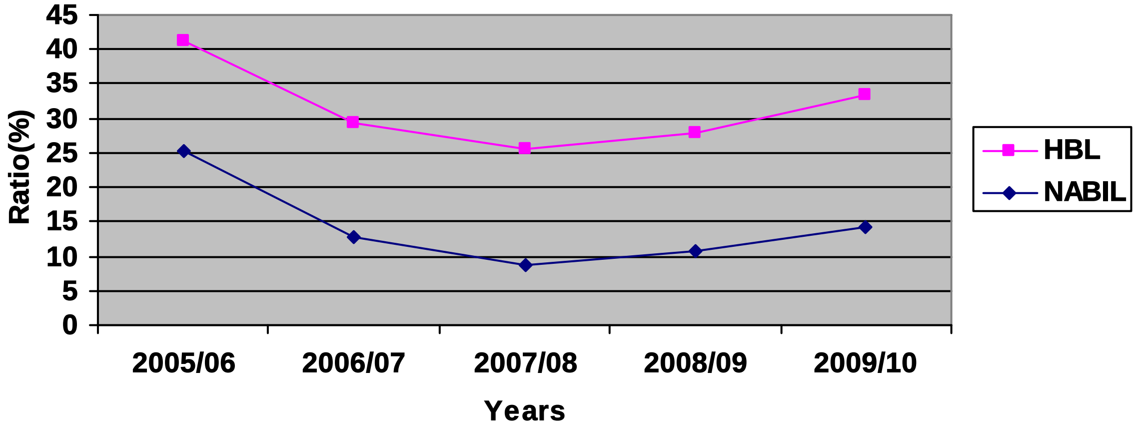
	2005/06	2006/07	2007/08	2008/09	2009/10	Average Ratio
NABIL	25.31	12.67	8.74	10.80	14.27	14.36
HBL	16.03	16.59	16.91	17.12	19.20	17.17

Sources: Annual reports of respective banks.

Figure: 4.13

Price Earning Ratio





The P/E ratios of NABIL where 25.31, 12.67, 8.74, 10.80 and 14.27 times in the years 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The average ratios of the bank remained at 14.36 times.

Similarly, the ratios of HBL where found as 16.03, 16.59, 16.91, 17.12 and 19.20 times in the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The average ratio of HBL over the five-year study period remained at 17.17 times.

On the basis of above calculation and presentation it shows that HBL has the highest average price earning ratios. Despite of the highest ratios, we cannot regard it as the best performing bank, because the rate of price and earnings where deteriorating over the years. Therefore, the P/E ratios of the NABIL can be considered better.

CHAPTER –V

SUMMARY, FINDINGS, CONCLUSIONS AND RECOMMENDATION

5.1 Summary

Nepal is one of the least developed countries of the world. Poverty has stood as a serious challenge to the country. The country is unable to fulfill the national requirement of people. In such context, it is realized that without industrial development it is impossible to have social and economic development. So far industrial and economic development bank play the vital role.

Banking industry has acquired a key position in mobilizing resources for financial and socio-economic development of the country. Bank assists both the following goods and services from the producers to the consumer and the financial activities of the government. Banking provides the country with a monetary system of making payment and also takes loans to maintain production in the economy.

The finding of the mobilization of deposits and investment aspects of two banks viz. Nepal Arab Bank Limited and Himalayan Bank Limited are calculated. It revolves round the concept of making the surplus financial assets in that way, which leads to the wealth maximization and problems of significant future source of income. It focuses an analyzing the causes of investment problems, their management and remedies and developing the new investment areas and sectors which can again boost the Nepalese economy.

Under ratio analysis, calculation of various ratios including leverage, turnover, profitability and market values ratios have been calculated and interpreted, while analyzing the most of the ratios obtained for the same period.

The study is basically related to analyze the liquidity mobilization of commercial banks in Nepal. The study has been done with special reference to Nepal Arab Bank Limited (NABIL) and Himalayan Bank Limited (HBL).

The study is mainly concerned in the deposit and investment position, relationship between investment, loans and advances and total deposits. It also attempts to study whether the studied banks have or not have sufficient liquidity position and how they are utilizing the surplus and how fund is invested in right position.

The proper mobilization of resources helps for a sustainable economic prosperity of the nation. The study guides to investment, customers, competitors, personals of the bank, stock broker, dealers, market makes etc to take various decision regarding deposits and borrowings.

This study is conducted for the partial fulfillment of master's of business studies, so it is made within limited time period, limited data. The study contains five different chapters. In the first chapter it focuses about the background of the study statement of the problems, objective of the study, significance and limitation of the study. Chapters second deals with review of literature as well as related studies. Chapter third is research methodology that includes research design, population and sample, sources of data and data collective techniques and data analysis tools. Chapter four deals with various analysis and interpretation of NABIL and HBL. Chapter five contains summary, findings, conclusion and it also deals with recommendation suggested.

Under ratio analysis, calculations of various ratios including liquidity, leverage, turnover, profitability and market value ratios have been calculated and interpreted. It analyzes most of the ratios obtained from the data during the study period of fiscal year 2005/06 to 2009/10. The average ratios obtained for the individual banks were compared with the average ratios of commercial banking industry for the same period.

5.2 Findings

Under liquidity ratios, cash and bank balance to total deposits and cash and bank balance of total assets ratio where calculated and analyzed. The average cash and bank balance to total deposit ratio of NABIL remained at 6.22%over the study period. The average ratio of HBL remained at 8.32% over the five-year period. The ratio of NABIL bank was at decreasing trend in last year of study period. The average ratio over the period for the overall commercial banking industry was found to be 22.25%. In respect to this the cash and bank balance to total deposit of all the sample banks where found lower than the industry. However, both the banks have maintained sufficient or even higher amount of cash to meet the demand of the deposit holders individually.

Similarly, the average cash and bank balance to total assets ratio of NABIL and HBL over the five years period remained at 5.30% and 7.45% respectively. As compared with the two banks, HBL has the highest liquid assets in component of total assets. NABIL had the lower liquid assets to fulfill the desired demand of total assets in comparison with HBL. However, the average cash ratio of the overall commercial banking industry for the past five years was found to 21.40% which was too high and indicated a major portion of ideal fund in the bank over its current period. But as compared to this figure, the cash ratio of both the bank was lower than the overall industry.

Both the bank has used excessive amount of depth in their capital structure. Therefore, both the banks are exposed to high degree of financial risk. However, HBL had used the highest amount of depth to finance its assets.

The capitals collected on the banks where insufficient to repay the debt capital. And HBL had used the highest amount pf debt capital in comparison to the equity capital in financing purposes.

The average total deposit turnover ratios of NABIL and HBL where 0.57 times and 0.50 times respectively, over the five- years period. It indicates that NABIL had the highest deposit utilization (mobilization) ratio on the other hand HBL had utilized there deposit moderately. Again the average deposit turnover ratio of overall commercial banks was 0.61 times or 61%. As shown in the figures, the deposit mobilization of NABIL and HBL where lower than the overall industry.

The average credit and advances to total assets ratio of NABIL and HBL where 0.49 times and 0.50 times respectively, over the five-year study period. This states that the total assets of HBL where utilized in lending purpose in the best way than in other banks. However, the assets utilization of all the banks can be considered good. The ratio shows an increasing trend for all banks. It was found that on an average the commercial banks where able to mobilize 43% of their total assets in loans and advances sectors.

The average return on total assets of HBL was the least of all banks. The ratios of the two banks showed an increasing trend with positive return at the last year of study period. The average return on total assets of overall commercial banks over the study period was found in negative figure due to high amount of loss occurred in RBB and NBL (the largest commercial banks) in the past periods. In comparison of the average ratio of two individual banks with the industry average, NABIL had been able to utilize its total assets in profit generating sectors efficiently than the other bank. Likewise, HBL had not utilized its overall assets in lucrative sector, thus leading lower profitability over the years.

The average return on fixed assets ratio of NABIL and HBL where 134.99% and 99.43% respectively over the five- year period. NABIL had been able to utilize its fixed assets in an efficient manner as compared to HBL. HBL had been incurring lower profit over the years. However, the average ratio of overall commercial could not be obtained due to lack of sufficient and clear information. Therefore, the ratios of both banks where compared with themselves.

The average return of total credit ratio of NABIL and HBL where 4.60% and 2.51% respectively over the five-year study period. The ratio of NABIL whereas an extremely downward trend and even profit generated by total credit has been found to be the highest and the same was the least for HBL.

The average earning per share of NABIL and HBL where Rs 79.45 and Rs 60.05 over the five year study period. NABILs earning was higher, whereas HBL earning showed an extremely declining trend over the years with the lowest average EPS.

The average interest income to loans and advances ratio of NABIL and HBL where 9.96% and 11.81% respectively over the five years study period. The ratio showed almost horizontal trend. HBL had been able to earn the highest income on credit and advances on an average study of five years. Similarly NABIL had the lowest average interest earned ratio over credit and advances employed.

The average shares of non-performing credit over total credit of NABIL and HBL where 6.71% and 9.63% respectively. The ratios of NABIL and HBL showed downward slope. That means, the non-performing loans of two banks where decreasing continuously over the years. The average non-performing loans of the overall commercial banks over total credit extended for the period was 26.05%. As compared with this figure, the quality of the credit of the two sampled banks was quite good than the condition for the overall banking industry.

The average year-end closing price of each shares of NABIL in the market remained at Rs 1089. Similarly the price of HBL where obtained at Rs 1019.20 respectively over the five years study period. The price of NABIL was at an increasing trend. However, the price of shares of HBL where at a decreasing trend expect in the last year of study period. The image of price and the performance of HBL are bad among the public in the market.

The average book net worth per share of NABIL and HBL remained at Rs 270.80 and Rs 238.91 respectively over the five-year study period. It also shows that NABIL had the highest book value and HBL had the lowest book value per share over the five-year period. The book value of NABIL where at an increasing trend. However, the book value of HBL was at a decreasing trend.

The average price-earnings ratios of NABIL and HBL where 14.36 times and 17.17 times respectively over the five- year study period. The highest ratio of HBL was due to the lowest figure of earning per share. As depicted above, the price of HBL was also the least of all. Therefore the highest price earning ratio of HBL was not valid and better too. For being better price-earning ratio, the ratio should be higher with both the market price and earning per share at an increasing trend.

Major findings of the study

- Table of cash and bank balance to total deposit ratio shows that the ratio of HBL is highest among the sample banks. Whereas NABIL has the lowest ratio.

- HBL comes in first position between the two commercial banks in the case of cash and bank balance to total assets ratio and NABIL comes in last position.
- Credit and advance to total deposit ratio of NABIL and HBL comes in first and second position respectively. HBL has the highest ratio of credit and advances to total assets and NABIL has the lowest ratio.
- In the case of return on total assets ratio, NABIL has the highest among the other sample banks and HBL has the lowest ratio.
- NABIL has the highest ratio and HBL has the lowest ratio of return on fixed assets. NABIL and HBL come first and second position respectively according to return on loans and advances on total credit ratios.
- In the case of earning per share, NABIL has the highest EPS, i.e. Rs 79.45 and HBL has the lowest EPS, i.e. Rs60.05 only.
- HBL has the highest ratio and NABIL has the lowest ratio on the basis on the basis of interest income to credit and advances ratio.
- HBL has the highest ratio of non-performing credit to total credit and advances ratio, whereas NABIL comes in last position.
- NABIL and HBL come in first and second position respectively according to the market price per share.
- Likewise, book value per share is lowest with HBL and highest in NABIL
- HBL has the highest price-earning ratio; whereas NABIL has the lowest ratio among these two commercial banks.

5.3 Conclusion

On the basis of liquidity analysis of two sampled commercial banks, using various statistical as well as financial tools following inferences had been drawn:

The liquidity position of all the banks where strong and enough to meet there immediate needs of cash and short-term obligation. NABIL and HBL had been found to hold short liquidity than the other banks in the whole industry. However, HBL held excess amount of liquidity in assets than other similar banks in the commercial banking industry.

Despite of having the highest deposit mobilization ratio, the quality of the credit of HBL comprised of a heavy portion of bad and non-performing credit. That means the quality of the credit extended by HBL was bad. However, the deposit and the assets of HBL where found slightly under utilized. Out of the two funds obtained from deposit collection and its mobilization in credit extension to the parties, the quality of the loans extended was found to be the best among the sample banks.

The profitability indicators of HBL where the least of all and was lower. The profitability of NABIL was strong. It can be regarded that the deposit and assets of NABIL was utilized effectively in lucrative sectors with the lower amount of non-performing credit. The overall profit of HBL and NABIL was positive but very low.

The net worth or total capital of the shareholder of HBL was in critical position. That mean, the shareholders of HBL where in total threats. More than cent percent of the total assets of the bank had been found to finance with the debt capital (more short-term debt). The shareholders rate of earning of NABIL was sound. The rate of return on equity of NABIL was high, and that of HBL was low. Though the return generated by the utilization of the total assets and mobilization of the deposit in lending sector was quite low for all the banks. The shareholders of all sampled banks where getting fair return due to capital gearing (especially due to excessive use of short-term leverage).

Share price of NABIL occupied the immediate highest position in the market. However, HBL's price in the market was found to be decreasing constantly at a higher rate. That means the investor perception of HBL's performance and price was bad. Due to the adverse image of the performance and dark future prospective, the general investors rating of a HBL's price was too low, and the owners of the share who owned the shares of HBL where found willing to sell or divert in other banks which are better than HBL.

On the basis of major findings, we can summarize and rate the overall performance of the bank as given in the table below:

Name of the Bank	Nonperforming credit`	Market position	Profitability	Overall Performance
NABIL	Lower	1	1	Good
HBL	Higher	2	2	Bad

Rank 1- Highest

Rank 2- Least

5.4 Recommendations

Based on the above analysis and major findings deduced from the study of liquidity mobilization of two joint venture commercial banks, the following suggestions can be made to the sample banks:

- NABIL and HBL should minimize there exist level of excess liquidity by investing in more profitable sectors. Ideal assets of theirs in form excess cash or equivalents should be diverted in various investment opportunities available in the market. Those less risky investment sectors should be identified.
- NABIL and HBL need to bring in newer schemes to mobilize their higher amount of deposit in extending credit.
- Both the banks should have to make effort in order to minimize their non-performing credit. HBL specially, must be more conscious on this part. Making credit policy more transparent, standard and less risky should increase the quality of the credit.
- Both the banks should try to increase their profitability by investing in more profitable sectors and by increasing the quality of their extended credits. They should investigate thoroughly the wide range of investment opportunities in the market in order to improve their profitability situation. Especially, HBL should immediately be more conscious on this part as it is having continuous less profit over the years.
- As formation of price is a very complex process, some extremely outstanding sectors such as management efficiently, profitability status, future prospective, banks investment strategy should be improved. HBL must have to follow these schemes immediately.

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Website

www.nepalrastrabank.com.np

APPENDIX

NABIL

Rs.In Million

Year	Loans and Advances	Total Assets	Total Deposits
2005/06	11222.7	18614.9	14586.8
2006/07	13239.4	24134.6	19348.4
2007/08	15878.3	29660.4	23342.4
2008/09	21769.7	38478.6	31915
2009/10	25440.4	42464.1	33848.5

HBL

Rs.In Million

Year	Loans and Advances	Total Assets	Total Deposits
2005/06	28919.8	77594.1	43489.2
2006/07	27164.7	81087.1	45700.7
2007/08	25422.3	72041.3	50192.6
2008/09	27491.2	84686.2	57990.8
2009/10	28209.9	86517.7	61944.3