

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Overall national development of any country depends upon the economic development of that country and economic development largely depends upon the financial infrastructure of that country. Therefore, the primary goal of any nation including Nepal is rapid economic development to promote the welfare of the people and the nation as well. Nepal being one of the least developed countries has been trying to embark upon the path of economic development by economic growth rate and developing all sectors of economy.

The proper mobilization and utilization of domestic resources is one of the key factors in the economic development of a country. Similarly, integrated and speedy development of the country is only possible when competitive and reliable banking services are reached and operated to every corner of the country. It has been well established that the economic activities of any country can hardly be carried without the assistance and support of financial institutions. Financial institutions have catalytic role in the process of economic development. The investment policy of financial institutions, especially banks has long term impact not only on their growth and sustainability but also on the economic development of the country. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of banks and other financial institutions. Good investment policy has a positive impact on economic development of the country and vice-versa.

Generally the organization that transacts money is called bank. Bank and banking has always played a significant role for the financial activities in the business. So bank is the major need for various developments. Bank collects fund as a saving from the community and invest them into most desirable and highly yielding sector as a full to a process of economic development. It develops saving habits of people. “The importance of the banking as the nerve center of economic development can not be over emphasized and it is said that bank which are the need of and great wealth of

country have get to be kept very scared. Just as water for irrigation, good banks are for the country's industry and trade.”¹

The main objectives of the bank are collection of amount from public in a form of saving and providing short-term loan (for the development of industry, trade, and business) to the ones in need. The development of country's economy is impossible without expansion of banking function in both rural and urban area of the country. Development of trade and industry is dependent upon the development of banking facilities. So it is said that the bank is backbone of economic development in modern society. Banking institutions are inevitable for mobilizing resources, for finance and social economic development of a country and which is important to all parties i.e. generally public, business, organization, government and other small financial institution. The development of a country is always measured by its economic development through economic indices. That's why every country has given emphasis on boost up its economy. At present, the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country.

Bank is resource for economic development that maintains economic confidence of various segments and expands credit to people. Bank means “A financial establishment for the deposit, loans exchange or issue of money and for the transmission of funds.”²

The bank draws surplus money from the public, who cannot use the money at the time and lends to those who give attention to use for productive purposes. Bank lends the loan to the customers; gain interest amount, the bank draw the money from institution or individual or people pay the interest amount by certain interest rate. Banking institutions collect scattered financial resources from the mass and invest them among those who are associated with the economic, commercial, and social activities of the country.

“Bank assists both the flow of goods and services from the products to the consumers and the financial activities of the government. Banking provides the country with a monetary system of making payment and is an important part of financial system,

¹ Desai, V.R. Mutalik, “**Banking Development in India**”. Bombay: Pc Mansktol and Sons PVT LTD, 1967, P-120

² Bhandari, Dilli Raj, “**Banking & Insurance**”, Aayush Publication, Kathmandu, January 2003, P-119

which makes loans to maintain and increase the level of consumption and production in the economy.”³

A new organized financial institution companies, commercial banks and other financial intermediaries play an important role for the development of a country.

1.2 Development of Banks

1.2.1 In Worldwide Context

The concept of banking developed from the very beginning of the economic activities. First of all, the effort was made by the ancient gold and valuables. Under such arrangements, the depositors would have their gold for safekeeping and in turn were given a receipt. Whenever receipt was presented, the depositors would return back their gold and valuable after receiving a small payment as fee.⁴

The word “**Bank**” is orient in medieval age in 1171 AD from an Italian word “**Banko**.” That means the place where people come together for different transaction. The “**Bank of Vanice**” was the first bank, which established in Italy in 1157 AD as a first modern bank. Then after in 1401 AD “**Bank of Barcelona**” is established in Spain, Bank of Geneva established in 1407 AD, Bank of Amsterdam established in 1609 AD. But the credit of the development of modern banks goes to “**The Bank of England**” which was established in 1694 AD in London. The growth of banking accelerated only after the introduction of the banking Act 1883 in United Kingdom as it allowed opening joint stock company banks.

1.2.2 In Nepalese Context

The growth of banking in Nepal is not so old. In the 14th century, Jayasthiti Malla - a king of Kantipur classified people in 64 groups according to their occupations, “**Tanka Dhari**” was one among them who used to lend money at a fixed rate of

³ The American Bankers Association, “**Principle of Bank operation**”, American Institute of Banking, 1972, p-162

⁴ Samulson Paul A., “**Economics**”, Ed. New York Mc Graw Hill Company, Quoted Mahendra Mandal, Comparative Financial Performance Appraisal of Joint Venture Banks, Unpublished master level degertation, (TU) 1998, P-1.

interest. During the period of Ranodip Singh, the Prime minister, a government institution called “**Tejarath Adda**” was established around 1887 AD for providing easy and cheap credit at 5% interest to the public on securing of gold and silver.

“In the overall development of banking system in Nepal, the “**Tejarath Adda**” may be regarded as the father of modern banking institution and for quite a long time it tendered a good servants as well as to the general public.”⁵

The development of modern bank started from the establishment of “**Nepal Bank Limited**” in 1937 AD with put forth effort of government and public, as a commercial bank with 10 million authorized capital. The authorized capital was contributed by the government 51% and remaining by public 49%. It started to provide depositing and borrowing facilities to commercial as well as agricultural sectors. The government felt the requirement of a central bank and established “**Nepal Rastra Bank**” in 2013 BS. It played leading role in development of banking in Nepal and also controlled the monetary culture in the country. NRB was established with the objective of supervising, protecting and directing the functions of commercial banks. Likewise, raising of banking function get popular and more complicated, thus NRB suggested for the establishment of another commercial bank and in 2022 BS(1966 AD) “**Rastriya Banijya Bank**” was established as a fully government owned commercial bank. Now its branches are diversified all over the country. It made another milestone in the history of growth of banking.

A part from this, NIDC was established in 1959 AD & Agricultural Development Bank established in 1976 AD and other development bank and financial institutions were established & continue to establish and are contributing to the economy and banking tradition in Nepal. In 1990 AD, after reestablished of democracy, the government took the liberal policy in banking sector. As an open policy of HMG’s to get permission to invest in banking sector from private and foreign investor under Commercial Bank Act 2031 BS, different private bank are getting permission to establish with the joint venture of other countries.

1.3 Introduction of Commercial Bank

Commercial bank is a financial institution which transfers monetary sources to users. In the process of such intermediation, commercial bank deploys funds raised from different sources into different assets with a prime objective of profit generation an administrative assistance. **According to Commercial Bank Act 2031**, “Commercial

⁵ Shrestha, Sunity, “**Portfolio Behaviour of Commercial Banks in Nepal**,” 1995, P-4

banks are those banks which are established under this act to perform commercial function.” The commercial banks pool together the savings of the community and arrange for their productive uses. They supply financial needs of modern business.

“The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development; it maintains economic confidence of various segments and extends credit to people.”⁶

These banks are established to improve people’s economic welfare and facility, to provide loan to the agriculture, industry and commerce and to offer banking services to the people and the country. It provides internal resources for developing countries economy. It collects diversified capital from different parts of country through its own branches.

“Commercial bank is a corporation which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services.”⁷

The main purpose of establishing RBB was to contribute to the development of banking system, particularly in the remote and hilly regions, providing more banking facilities to the public.

1.3.1 Commercial Banking Scenario in Nepal

Nepal Arab Bank Ltd. (NABIL Bank Ltd.) was the 1st joint venture bank established in 1984 AD, joint ventured with United Arab Emirates Bank. Then two other banks, Nepal Indosuez Bank Ltd. (Nepal Investment Bank Ltd.) with Indosuez Bank of Finance and Nepal Grindlays Bank of London were established in 1986 AD. Himalayan Bank Ltd. joint ventured with Habib Bank of Pakistan and SBI Bank Ltd. with State Bank of India was established in 1993 AD. Everest Bank Ltd. joint ventured with Punjab National Bank, India (early it was joint ventured with United Bank of India, Calcutta) and Nepal Bangladesh Bank Ltd. with IFIC Bank of Bangladesh were established in 1991 AD., Bank of Kathmandu joint ventured with SIAM commercial Bank Public Co., Thailand was established in 1995 AD. And Nepal Bank of Ceylon joint ventured with Ceylon Bank of Sri-Lanka was established in 1997 AD. Besides this, Lumbini Bank Ltd., and NIC Bank Ltd. are also operating from 1997 AD and

⁶ Grywinski, Ronald, “**The new Fashioned Banking**”, London Howard Business Review, 1991, P-87

⁷ “**Principles of Bank Operations**” American Institute of Banking, USA, 1972, P-345

Kumari Bank Ltd. & Siddhartha Bank Ltd. served as a new commercial bank of Nepali financial market.

All of these banks barely follow the directive and policies of Nepal Rastra Bank (NRB). NRB functions as the central Bank of Nepal. NRB formulates financial and monetary policies under which commercial banks, financial institutions are functioning.

Nowadays there are 29 commercial banks operating in Nepali financial market along with 9 joint venture with foreign investors. Lists of licensed commercial banks are presented below:

List of Licensed commercial Banks in Nepal

Name of Banks	Estd (B.S.)
Nepal Bank Ltd.	1994
Rastriya Banijya bank	2022
Agriculture Devt. Bank Ltd.	2024
Nabil Bank Ltd. (Prev. Nepal Arab Bank Ltd.)	2041
Nepal Investment Bank Ltd (Prev. Nepal Indosuez Bank Ltd.)	2042
Standard Chartered Bank Nepal Ltd. (Prev. Nepal Grindlays Bank Ltd)	2043
Himalayan Bank Ltd.	2049
Nepal SBI Bank Ltd.	2050
Nepal Bangladesh Bank Ltd.	2051
Everest Bank Ltd.	2051
Bank of Kathmandu Ltd.	2051
Nepal Credit & Commercial Bank Ltd. (Prev. Nepal Bank of Ceylon)	2053
Nepal Industrial & Commercial Bank Ltd.	2055
Lumbini Bank Ltd.	2055
Kumari Bank Ltd.	2056
Nepal Merchant Bank Ltd.	2056
Development & Credit Bank Ltd.	2057
Machapuchhre Bank Ltd.	2057
Laxmi Bank Ltd.	2058
Siddhartha Bank Ltd.	2059
Global Bank Ltd.	2063
Citizen International Bank Ltd.	2063
Sunrise Bank Ltd.	2064
Bank of Asia	2064
Prime Commercial Bank	2064
Janata Bank Ltd.	2066

1.4. Role of Commercial Bank in Nepal

In global prospective, commercial bank is the mode of trading through partnership among the shareholders and also a form of negotiations between two or more enterprise for the purpose of carrying out a specific operation. So, the main purpose of commercial bank is to operate economic forces in order to achieve desired end. The primary objective of Commercial bank is to earn profit by investing or granting the loan and advances to the people associate with trade, business, industry etc. that means they are required to mobilize their resources properly to acquire profit.

a. Introducing Advanced Banking Techniques

The Commercial banks in Nepal have been largely responsible for the introduction of new banking techniques such as computerization, hypothecation, consortium finance, fee-based activities and syndicating under the foreign exchange transactions by importers and exporters, merchant banking, inter-bank market for the money and securities, arranging foreign currency loans, etc.

b. Bringing in Healthy Competition

The induction of commercial banks also brings the benefit of healthy competition of which the main beneficiaries are the bank customers and the economy. The increase in competition also force the existing banks to improve their qualities of services by simplifying procedures providing training and motivation to their own staff to respond to the new challenge.

Hence, the entrepreneurial dynamic and pivotal role of the commercial banks contributes the economic development of the country by providing various new financial services to modernize traditional Nepalese banking system.

1.5 Focus of the Study

Bank is an institution, which helps in collection and mobilization of savings. The role of commercial banks in uplifting the economic growth of the country is very important. The uplifting of the development of a nation largely depends upon the development of its economic growth. The development of the economy is greatly influenced due to the internal management of the bank.

“General fund mobilizing means to flow the cash in different sectors at profit motive. Investment in its broadest sense means the sacrifice of certain present value for (possibly uncertain) future value. In pure financial sense, the subsequent use of the term investment will be in the prevalent financial sense of the placing of money in the hands of other for their use, in return for a proper instrument entitling the holders to fixed income payment or the participation in expected profits. It can define the terms of investment at manufacturing and trading forms those long term expenditures that aim at increasing plant capacity of efficiency or at building up goodwill, there by producing an increased return over a period. Experts define the terms of investment from economic view point that investment as a productive process by means of which additional are made to capital equipment’s. It is finding to clear the terms of investment at different points of view. But it needs to clear the terms of investment in financial point of view as related to this study.”⁸

This research focuses on the comparative study of fund mobilization of three commercial banks; NABIL Bank Ltd., Nepal Investment and Commercial Bank Ltd. and Nepal Investment Bank Ltd. These three banks are compared as per their fund mobilization procedure by taking 5 years data from the year 2004 to 2009.

1.6 Profile of the Concerned Banks

As there has been number of commercial banks established, the research has been taken into consideration of NABIL, NIBL and NICBL Therefore, short glimpse of these commercial banks are given as:

1.6.1 Nepal Industrial and Commercial Bank Limited

Nepal Industrial & Commercial Bank Limited (NIC Bank) commenced its operation from 21st July 1998. Promoted by several prominent business houses of Nepal, it is the first commercial bank in the country to be capitalized at NPR 500 million. It is one of the most widely held companies in Nepal with close to 35 thousand shareholders. The present shareholding constitutes 51% of promoters’ stake and 49% general public. The shares of the Bank are actively traded in Nepal Stock Exchange with market capitalization of about NPR 12.8 billion as at the fiscal year ended 15th July 2009.

⁸ Swami, Radhe and Basudevan, S.V., “A text Book of Banking; Law, Practice and Theory of Banking”, S. Chanda and Co. Ltd., India 1979

The Bank has been in profitable operation from its inception and has recorded a robust growth in its overall business and profitability during the recent years. The Bank expanded its branch network to 20 different locations throughout the country stretching from the far west to the eastern region, as at the fiscal ended 15th July 2009. The Bank has been consistently embarking on sustainable network expansion and has successfully added several new branches every year in strategic new locations. The Bank plans to continue to grow its presence in newer locations this year as well and has already added 2 new branches during the first quarter this year. All its branches are interconnected through V-Sat and/ or Optical-fiber network and are capable of providing on-line real time transactions. NIC Bank has played a pioneering role in the Nepalese banking sector introducing innovative and customized products and services to its customers. The Bank has managed to achieve many "Firsts" to its credit, besides also receiving several internationally coveted recognitions, some of which are listed below: The First Bank in Nepal to be awarded an ISO 9001: 2000 Certification for Quality Management System.

The First Bank in Nepal to be sanctioned a credit line by International Finance Corporation, World Bank Group, under Global Trade Finance Program.

The First Bank in the country to introduce Savings Account scheme bundled with life insurance. The First Bank in Nepal to offer lowest-priced Home Loan schemes. The First Bank to offer bullion trading in the country by directly importing from internationally recognized mints.

The First Bank to introduce high-interest-earning Fixed Deposit scheme with the ease of a Savings Account. Besides the above, NIC Bank is also one of the few banks to receive a line of credit from Asian Development Bank under its Trade Finance Facilitation Programme. The Bank was also awarded "Bank of the Year 2007" by The Banker Magazine, Financial Times, London. NIC Bank believes that the achievements and recognitions above are testimony to its success, robust growth, transparency and professionalism it has consistently displayed.

1.6.2 NABIL Bank Ltd.

NABIL Bank commenced operations 25 years ago, on the 12th of July 1984 through Joint venture with Dubai Bank Ltd. marking a turning point in the banking history of Nepal. Banking has been redefined and service remolded. Since then Banking thitherto suffered setbacks and the commencement of NABIL Bank Ltd. introduced how philosophies and best practices to the industry. This in essence opened up a plethora of opportunities for all: entrepreneurs, industries, individuals for better futer. Commencing with a team of about 50 staff and 28 millions as capital professional banking evolved thru NABIL in Nepal.

The Bank that started its operations from a small office at Durbarmarg has now spread from Mechi to Mahakali, Hill to Terai serving customers of all strata of society. Looking back It has great many achievements to take pride in and looking forward there are even bigger challenges and opportunities. Past experience and present performance has made it confident of taking bigger strides forward to continue to leave its mark in the banking industry. Taking the ongoing political and economic developments in consideration and looking forward to the opportunities in the face of aggressive looming market forces at hand, It had framed strategic plans in FY 07/08 in our drive and momentum of going forward. The new mottos for the years ahead are: Surge Ahead Faster – Further together to be the 1st Choice Provider of Complete Financial Solutions.

1.6.3 Nepal Investment Bank Limited

Nepal Investment Bank Ltd(NIBL), previously Nepal Indosuez Bank Ltd. was established as a third joint venture bank between Nepalese and French partners in 21st January 1986 under the Company Act 1964. The French partner (hold capital of NIBL) was credit Agricole Indosuez, a subsidiary of one of the largest banking world, 50% of the shares of Nepal Indosuez Bank Ltd. held by credit Agricole. Indosuez was sold to the Nepalese promoters on April 25, 2002 as per the transaction report of NEPSE. After the divestment of shares by Nepalese owners, the name of the company was changed to Nepal Investment Bank Limited its 15th Annual General Meeting (A.G.M.) held on May 31, 2002.

Out of total equity shares of NIBL, 15% shares hold by a group of company, 50% shares by commercial banks, another 15% by financial institutions and remaining 20% hold by general public. It provides following facilities and services to their customers:

- Trade Finance
- Remittance
- Export Credit
- Tele Banking
- ATM with any Branch Banking
- Vehicle Loan
- E-Banking Service
- Locker Facilities
- Any Branch Banking
- Ezee Saving Scheme
- 365 Days Banking

The ownership of NIBL is composed as:

Subscription	% Holding
Group of companies	15%
Commercial banks	50%
Financial Institutions	15%
General Public	20%
Total	100%

The present capital structure of NIBL is presented below:

Share Structure	Amount (Rs.)
Authorized Capital	59,00,00,000
Issued Capital	29,52,93,000
Paid- Up Capital	29,52,93,000

Source: Report of NIBL

1.7 Statement of the Problems

After introducing the liberalization policy of the government, many banks and institutions are established rapidly. These days many commercial banks, developments bank and financial institutions are operating their work to assist in the process of economic development in the country. Due to the high competition between the financial institutions the collected huge amount from public is comparatively lower than fund mobilization and investment practice of collected funds. Therefore, it raised the problems of investment and proper mobilization of collected funds. Strong fund

mobilization activities play a vital role in utilization of collected funds and overall development of the economy of the nation.

If the funds are wrongly invested without thinking any financial risk, business risk and other related facts, the bank cannot obtain profitable return as well as it should sometimes lose its principle. Fund mobilization policy may differ from one Commercial banks to another but there is no optimum utilization of shareholders fund to have greater return in any bank. Nepal Rastra Bank has also played significant role to make commercial bank mobilize their fund in good sector. For this purpose, NRB imposed many rules and regulation so that commercial bank can have sufficient liquidity and security. Though most of the joint-venture banks have been successful to earn profit from fund mobilization, none of them seem to be capable to invest their entire fund in more profitable sectors.

To meet the requirement of NRB, Commercial banks must have 6% deposits of total current account and fixed deposit account of local currency with NRB. They should have 3% minimum cash balance in their own vault of total currency of all types of accounts. Except this, they have fund from current, saving and fixed deposits borrowing, from other banks, cash margin for different purpose, amount of bills payable and retained earning, reserves share capital and other liabilities.

Commercial banks are reported to be criticized by customer due to implementation of wrong investment policies. They are said to be investing less risky and highly liquid sector, they keep high liquid position and flow less funds in productive sectors, so these types of function prove less investment opportunity of the fund. Sometimes they seem to be ready to invest the idle fund even in those investment, which have lower risk and comparatively greater profit the another problem is diversification of investment. The bank cannot achieve profitable return from their resources as well as they sometimes may lose their principle resulting in decreasing of national economy.

Fund mobilization is the most important factor from the shareholder and banks management point of view. This study is a comparative study on fund mobilization of Nabil Bank Ltd., Nepal Industrial and Commercial Bank Ltd. and Nepal Investment Bank Ltd. The problems related to fund mobilization procedures of the commercial banks of Nepal have been presented briefly as under:

- a) Is there any stability in fund mobilization between NABIL, NIBL and NICBL?

- b) What is the relationship between deposit and total capital raised, deposit with total investment and loan and advances with total deposits?
- c) Does the investment decision affect the total earning capacity of the bank?
- d) Are they maintaining sufficient liquidity position?
- e) Which banks have more effective investment policy among NABIL, NIBL and NICBL?

1.8 Objectives of the Study

For any kind of research work or study, first of all the objectives should be determined. It shows the way to achieve desired goals. Likewise, the main objectives of this research work is to examine, interpret and analysis the fund mobilization procedures adopted by three Commercial Banks; NABIL Bank Ltd., Nepal Investment Bank Ltd. and Nepal Investment and Commercial Bank Ltd. This study is concerned with whether NABIL, NIBL and NICBL are adopting efficient fund mobilizing policy or not. The main objectives related to this study are presented below:

- To study and evaluate the growth and risk ratio of loan and advances and total investment with respective to growth rate of total deposit and net profit of NABIL, NIBL and NICBL.
- To make comparative evaluation on operating, financial and investment efficiency of three commercial banks.
- To examine the relationship between deposits and total investment, deposits and loan and advance and net profits of NABIL, NIBL and NICBL.
- To recommend some measures for improvement of financial performance of NABIL, NIBL and NICBL on the basis of study findings.

1.9 Significance of the Study

Fund mobilization activities of commercial banks greatly effects the growth and earning of banks. Effective, stable, appropriate fund mobilizing policy may cause the earning of sufficient return to the banks. Most of the banks have been successful to earn profit from effective fund mobilization. Fund mobilizing policy may differ from one commercial bank to another but there is no optimum utilization of shareholders fund to have sufficient return in any bank.

Optimum utilization of fund makes better impact on the economy of the nation. Fund mobilization activities must consider customer, national and government as well as its

shareholders interest. Significance of the fund mobilization can be written as the following manner:

- The depositor's general public can make decision to deposit their money in the bank after analyzing the fund mobilization of commercial banks.
- By the help of this study, general public can know the funds mobilizing activities of banks.
- It is also beneficial for the government while formulating policies and rules regarding commercial bank.
- From the study of fund mobilizing policy about bank, shareholders and companies would get information related to the fund mobilizing scheme of the bank and they may know how banks are mobilizing their fund and resources. And it is fruitful to make investment on shares of various commercial banks.
- The study of fund mobilizing policy would provide information to the management of the bank that would be helpful to take corrective action in the bank activities.
- Effective fund mobilization activities are the cause to increase earnings of the banks.
- This study will serve to be a guide to the management of banks, financial institutions, related parties, shareholders, general public (customer, depositors and creditors).

1.10 Limitation of the Study

For the completion of the study, some facts are to be considered as limitation of this research work:

- This study is based on secondary data and accuracy depends upon the data collected and provided by the organization.
- The whole study is based on the data of 5 years period (i.e. from F.Y. 2005/06 to 2009/10).
- This study has been only of three commercial banks for sample, they are NABIL, NIBL and NICBL.
- Non availability of the various references of sources acts as constraints for the study.
- Only the fund mobilization aspects are analyzed. Other performance of the organizations is fully neglected, while providing suggestions.

1.11 Organization of the Study

The entire study carried out to different stages and procedures as it needed. The study organized in the following chapters in order to make the study easy to understand.

The **first chapter** is an introductory chapter which contains background of the study, introduction of commercial banks, focus of the study, statement of the problems, research methodology, and objectives of the study, limitation of the study and organization of the study.

The **second chapter** is concerned with review of literature. This contains conceptual framework, review of legislative provision, review of research paper and published and unpublished master's thesis of T.U.

The **third chapter** is the most important part of the study. It deals with the research methodology, which is applied to collect the data and analyze them in this study. It contains introduction, research design, sources of data, population and sample, financial analysis and statistical analysis.

The **fourth chapter** is analyzing chapter, which deals with presentation and analysis of relevant data through definite courses of research methodology with financial and statistical analysis related to investment and fund mobilization of NABIL, NIBL and NICBL. Major findings of the study have been presented at the end of this chapter.

The **fifth chapter** is the last part of the study, which provides summary and conclusion, suggestions and recommendations for improving the future performance of the sample banks. Finally, an extensive, bibliography and appendices are also presented at the end of the thesis work.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Introduction

This chapter deals with the theoretical aspect of the topic on investment policy in more detail and descriptive manner. It provides the foundation for developing a comprehensive theoretical framework and knowledge of the status relevant to the field of research in order to explore the relevant and true facts for the reporting purpose. Hence, in this chapter, the focus has been made on the review of literature relevant to the investment policy of commercial banks. For this study, different books, journals, articles, annual reports and some research paper related with this topic has been reviewed. Therefore, this chapter is arranged in the following order

2.2 Theoretical Framework

Basically, theoretical framework describes the following terms which are closely related to the research work.

2.2.1 Features of Sound Lending and Fund Mobilization Policy

Income and profit of the financial institutions like commercial banks and financial institutions depend upon its lending procedure, lending policy and mobilizing collected fund through investing in different securities. The greater the credit created by the bank the higher will be the profitability. Some required features of sound lending policy and fund mobilization is explained as under:

a) Safety and Security

Financial institutions should inlets their deposit in profitable and secured sectors. They should not invest their fund in securities of those companies whose securities are too much depreciated and fluctuated because of risk of loss factors. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable. In this case MAST should be applied for the investment.

Where,

M = Marketability

A = Ascertain ability

S = Stability

T = Transferability

b) Legality

Each and every financial institution follow the rules and regulation of the company, government and various directions supplied by Nepal Rastra Bank, Ministry of Finance and on while issuing securities and mobilizing their fund. Illegal securities will bring out any problems to the investors. Lastly, the reputation and goodwill of the firm may be lost.

c) Liquidity

Liquidity is the position of the firm to meet current or short-term obligations. General public or customers deposit their savings at the banks in different accounts having full confidence of repayment by the banks whenever they require. To show a good current position and maintain the confidence, every firm must keep proper cash balance with them while investing in different securities and granting loan for excess fund.

d) Profitability

To maximize the return on investment and lending position, financial institutions must invest their collected fund in proper sectors. Finally they can maximize their volume of wealth. Their return depends upon the interest rate, volume of loan its time period and nature of investment on different securities and sectors.

e) Tangibility

A commercial bank should prefer tangible security to an intangible one. Though it may be considered that tangible properly doesn't yield an income a part from intangible securities, which have lost their value due to price level inflation.

f) Purpose of loan

Banks and other financial institutions must examine why loan is required to the customer. If customers do not use their borrowings, they can never repay and the financial institutions will have heavy bad debts. So, they should collect detailed information about the plan and scheme of the borrowing.

g) Diversification

A firm can invest its deposit collection in various securities to minimize the risk. So, all the firms must diversify their fund or make portfolio investment. Diversification helps to earn a good return and minimize the risks and uncertainty. So, the firms are making portfolio investment with different securities of different companies.

2.2.2 Meaning of Some Important Terminologies

The study in this section comprises of some important banking terminology for which efforts have been made to clarify the meaning, which are frequently used in this research work. Their brief summary is presented below:

a) Loan and Advances

Loan, advances and overdrafts have occupied a huge portion for the mobilization of funds of the commercial banks. Bank deposits can be crossed beyond a desired level but the level of loans and advances and overdrafts will never cross it. Commercial Banks and other financial institution may take more preferential collateral while granting loan and advances. Some portion of loan and advances and overdrafts includes that amount which is given to staffs of the banks as home loan, vehicle loan, personal loan and others.

b) Investment on Government Securities, Shares and Debentures

Commercial bank can earn some interest and dividend from the investment on government securities, shares and debentures. It is not the major portion of income but it is treated as a second source of banking business. A commercial bank may extent credit by purchasing government securities, bond and shares for several reasons. Some of them are given as:

- It may want to space its maturing so that the inflow of cash coincides with expected withdrawals by depositors of large loan demands of its customers.
- It may wish to have high-grade marketable securities to liquidate if its primary reserve becomes inadequate.
- It may also be forced to invest because the demand for loans has decreased or it is not sufficient to absorb its excess reserves.

However, investment portfolio of commercial bank is established and maintained primarily with a view of nature of banks liabilities since depositors may demand funds in great volume without previous notice to banks. The investment must be of a type that can be marketed quickly with little or no shrinkage in value.

c) Investment on other Company's Shares and Debentures

Due to excess funds and least opportunity to invest these funds in much more profitable sector and to meet the requirement of NRB directives many commercial banks have to utilize their funds to purchase shares and debentures of many other financial and non-financial companies. These days most of the commercial banks have purchased regional development banks, NIDC and other development bank's shares.

d) Off- Balance Sheet Activities

Off-balance sheet activities involve contracts for future purchase and sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities on balance sheet. Some good example of these items are letter of credit(L/C), letter of guarantee, bills of collections etc. nowadays, such activities are stressfully highlighted by some economist and finance specialists to expand the modern transaction of a bank.

e) Other use of Fund

A commercial bank must maintain the minimum bank balance with NRB i.e.6% for fixed deposits and 8% for each of current and saving deposit account in local currency. Likewise, 3% cash balance of local cash balance, in local currency, accounts must be maintained in the vault of the bank. Again a part of

the fund should be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computers, stationery etc.

f) Deposits

Deposit is the most important source of the liquidity for each and every commercial bank. For financial strength of banks, it is treated as a barometer. In the word of Eugene, “a bank’s deposits are the amount that it owes to its customers.” A deposit is the lifeblood of the commercial banks. Even though, they constitute the great bulk of bank liabilities, the success of a bank greatly depends upon the extent to which it may attract more and more deposits, for accounting and analyzing purpose, deposits are categorized in three headings. They are:

- Current Deposits
- Saving Deposits
- Fixed Deposits

2.2.3 Review of Legislative Provisions

Legislative environment has significant impact on the commercial bank’s establishment, their mobilization and utilization of resources. All the commercial banks have to conform to the legislative provisions specified in the Commercial Bank Act 2031 and the rules and regulation formulated to facilitate the smooth running of commercial banks.

Compulsory Cash Reserve Ratio (CRR) and Refinancing

In order to improve the sluggish economy, continuity has been given to flexible monetary policy. NRB has revised the compulsory CRR effective from 22nd July 2002 with a view to reduce the cost of fund of banks which will facilitate the banks to reduce their lending rates without changing in deposit rates. As per this revision, in respect to balance with NRB requirements of commercial banks, the present level of 7 % of the domestic current and saving deposit liabilities and 4.5% of time deposit liability remain unchanged. The requirement of cash reserve in their own vault, however, has been brought down to 2% from 3%. In respect of refinancing rates, the present rate of 2% for export credit in foreign currency; 3% rehabilitation of sick

industries, 4.5% for Grameen Bikas Banks(Rural Development Banks) and export credits in Nepalese currency; and 5.5% for all other types of refinancing remains unchanged. An additional amount of Rs. 1500 million has been set aside to provide refinancing facilities for such industries.

Revised Compulsory Cash Reserve Ratio (in Percentage)

S.N	Description	20 December 2002	22 July 2002	Difference in % points
1	Cash deposit requirement in NRB by the commercial banks:			
	Total domestic current and savings deposit liabilities	7.0	7.0	
	Total domestic time deposit liabilities	4.5	4.5	
2	Cash-in-Vault requirement of the commercial banks(of total deposit liabilities)	3.0	2.0	1.0

Policy Guidelines on the Establishment of the Commercial Banks

Receiving applications for the establishment of commercial banks has been stopped since 1995. Visualizing that such an administrative restriction is not in conformity with the liberal financial policy, the following new policy guidelines have been made public on 16th May 2003:

1) Paid up Capital

To establish a commercial bank of national level having its office in Kathmandu, joint investment with foreign bank and financial institution or a management contract at least for 3 years with such institutions is required. The paid up capital of such bank must be at Rs. 1000 million. To establish the commercial banks in all the places in the Kingdom other than in the Kathmandu Valley, the paid up capital must be Rs. 250 million.

2) Share Capital

In general, the share of commercial banks will be available for the promoters (70 percent) and general public (30 percent). The foreign banks and financial institutions could have a maximum of 67 % share in investment on the commercial banks of national level. In order to provide adequate opportunity for investment to the Nepali promoters in national level banks, only 20 % of total share capital will be made available to general public on the condition that the foreign bank and financial institutions are going to acquire 50% of the total share. In case of commercial banks to be established outside Kathmandu Valley, share investment of promoters and general public should stand at 70% and 30% respectively.

3) Legal Procedure

Banks to be established with foreign promoters, participation have also to be registered fulfilling all the legal processes prescribed by the prevalent Nepal laws.

4) Banks Already in Operation

Banks that is already in operation and those who have already acquired letter of intent before the enforcement of these provisions have to bring their capital level within seven years, i.e. by 16 July 2009, as per the recently declared provision. Such increase in the capital should be at a rate of 10 percent should be at the minimum.

5) Concerning up gradation

Banks to be established outside Kathmandu Valley could be allowed to operate throughout the Kingdom including Kathmandu Valley only on the condition that they have brought their paid up capital level to Rs. 1000 million and also fulfilled other prescribed conditions. Until and unless such banks do not get license to operate throughout the kingdom, they will not be allowed to open any office in Kathmandu Valley.

6) Promoters Share Payment Procedure

Of the total committed share capital, the promoters has to deposit in NRB an amount equal to 20% along with the application and another 30% at the time of receiving the letter of intent on a interest free basis. The bank should put into operation within one year of receiving the letter of intent. The promoters have to pay fully the remaining balance of committed total share capital before the bank comes into operation. Normally, within 4 months from the date of filling the application, NRB should give its decision for the establishment of the bank whether it is in favor or against it. If it declines to issue license, it has to inform in writing with reasons to the concerned body.

7) Promoters Qualification and Experience

Action on the application from promoters will not be initiated if it is proved that their collateral has been put on auction by the bank and financial institutions as a result of non-payment of loans in the past, who have not cleared such loans or those in the black list of the Credit Information Bureau and 5 years have not elapsed from the date of the removal of their name from such list. The application will be deemed automatically cancelled irrespective of it being on any stage of process for license issuance if the above events are proved. Of the total promoters, one-third should be its chartered accountant or at least a graduate of Tribhuvan University or recognized institutions with major in economics or accountancy, finance, law, banking or statistics. Likewise, one-fourth promoters should have the work experience of bank or financial institution or similar nature.

8) Promoters Share

Promoter Group's share can be disposed or transferred only on the condition that the bank has been brought in operation; the share allotted to the general public has been floated in the market and after completion of 3 years from the date it has been registered in the Stock Exchange. But before the disposal of such shares it is mandatory to get approval from NRB. The share allotted to general public has to be issued and sold within 3 years from the date the bank cannot issue bonus shares or declare and distribute dividends, shareholders of the promoters group and their family members cannot have access to loans or facilities from the same institution.

9) Branch Expansion

The commercial banks established in national level will initially be authorized to open a main branch office in Kathmandu Valley. They will be authorized to open one more branch in Kathmandu Valley only after they have opened two branches outside the Kathmandu Valley.

10) Disqualify from Becoming Director

An individual who is already serving as a director in one of the bank or financial institutions licensed by NRB cannot be considered eligible to become the director in other banks or financial institutions. Also, stock brokers, market makers and also an individual and institution involved as an auditor of the bank and institutions carrying on financial transactions cannot be a director.

(Source: Economic Survey 2002/03)

2.2.4 Fund Mobilizing Procedure of Commercial Banks

All the banks of entire world were applied their own fund mobilizing procedure. In practice, straightforward and effective fund mobilization procedure has adopted by the bank. Effective fund mobilization is the indicator of banks prosperity and its growth. Banks have some fund mobilizing procedure they are summarized below:

1. Sources of Fund

In the economic activities there are so many sources of fund. In these sources, issuing share and borrowing loan from different sector. The sources of funds can be categorized in two ways.

A. Owned Funds/ Equity Capital of Bank

Following are the sources of owned funds:

a) Ordinary Share

Ordinary sources are the bank's strong and reliable sources of funds. Banks promoters issue ordinary shares to the public in fixed number. Banks collects the

fund by selling fixed ordinary shares to the public by adopting fixed rules and regulation. These public make shareholders after purchasing the issued share.

b) Preference Share

It is that kind of share which receive dividend and after liquidation money before ordinary share. But in Nepal, bank can not issue preference share. But some situation it can issue preference share by taking permission from Nepal Rastra Bank.

c) Bonus Share

Company issue the extra share to the shareholder from the saving from profit and reserve fund by capitalizing these funds is known as bonus share. Bank issue shares to shareholders instead of banks amount. From this share, bank collects some share of funds.

d) Retained Earning

Banks earns profit by investing the funds in different sector through the principle of profit earning. Banks invests its fund in productive or profitable industries and business. Bank earns some amount from these investments.

e) Reserve Fund

Bank separates some share of capital in reserve funds in the time of banking activities. The reserve funds size based on banks earning and rules and regulation. Banks must separate some share of amount from profit in reserve fund. Banks have been earning by investing the reserve funds in liquid sector.

f) Undistributed Dividend

Bank does not distribute all profit to the shareholders. Banks invest some amount from profit by not distributing to shareholders. By this, the invested profit makes sources of funds to the banks.

B. Borrowed Fund of Bank

Bank collects the funds from another source except owned funds. Another source is borrowing from different sector. These types of funds collect borrow and debt capital. Following are the sources of the borrowed fund:

a) Selling of Debenture

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

b) Deposits

The bank performs two-fold functions, i.e. the receipt of the deposits and granting the loans. The bank borrows money by accepting different types of deposits. The bank attracts the deposits from the public. The bank not only undertakes to take care of the deposits but also agrees to honors the demands of the depositor for withdraw of money from the deposits. Deposits accepted by the bank are of different types. They are:

- **Current Deposit**

It is also known as demand deposit. A customer can open a current account with a bank by making an initial of Rs. 100. Any amount may be deposited in this account. The bank makes a small charge on the customer having current deposit account.

- **Saving Deposit**

In this deposit, there are restriction on the maximum amount that can be deposited and also withdrawals from the account. The bank may not permit more than one or two withdrawals during a week.

- **Fixed Deposit**

A fixed deposit is one where a customer is required to keep a fixed amount with the bank for specific periods. He is not allowed to withdraw amount before expiry of the period. The rate of interest is higher than on other deposit account during this period the bank is free to make use this money for granting loans and advances.

c) Loan from the Central Bank

NRB is the central bank of Nepal. All banks should operate their banking activities by maintaining the rules and regulations directed by the NRB. In the time of necessity, NRB provides the loans for the banks. The loan granted by the central bank is a bank capital.

d) Loan from the Financial Institutions

Financial institutions also provide loan for the banks. Bank can receive loans from financial institutions in the form of borrowing. The loan granted by the financial institutions is also a bank capital.

e) Loan from Commercial Banks

If banks need money, it receives money from other commercial bank also in the form of borrowing. Banks fulfill the need of cash by taking loan from other banks. It is also the types of bank capital.

2. Mobilization of Funds

Banks utilize its funds in suitable area and right sector. Banks can not achieve its goals until and unless it mobilizes its funds in right sectors and by performing different activities. Many kind of activities and other thing can origin for the purpose of receiving invest from the bank. But bank should separate the useful and profitable sector for mobilization its funds. Banker being only a financial intermediary, we will not be able to make any profit unless he has to pay interest on deposits, meet establishment expenses, meet liquidity of cash balance, and yet allow him some balance from out of which he can build reserve and pay dividend to the shareholder.

As commercial bank they are expected to make profit. If there is no profit, there will be adverse criticism against public sector banking, both in and outside the parliament when these banks are asked to open new branches in areas which do not allow profits for years, or asked to grant loan to the priority sectors such as small industries and agriculture with a high incidence of bad debts, there is need for counter balancing profit from elsewhere. Therefore, these banks will have to show an ascending order of profits in order to ensure growth with stability. For this purpose the bank will have to allocate land able resources to different segments in such a manner these banks can ensure adequate profitability while at the same time responding to policies laid down in accordance with national objectives.

Therefore, banks should mobilize its funds in suitable and profitable banking activities and right sector. Generally bank has mobilized its funds in the following activities.

a. Liquid Funds

A bank has kept a volume of amount in liquid funds. The funds have so many responsibilities in banking activities liquid funds has covered following transactions.

-) Cash in hand
-) Balance with NRB
-) Balance with domestic bank
-) Call money

b. Investment

Bank invests its fund in different banking activities and different fields. Many types of fields are shown in market for investment. But banks invest its funds in profitable and safety activities. Bank invests its fund in the following titles:

-) Share and debenture
-) Government securities
-) NRB bond

c. Loan and Advances

Banks mobilize its funds by providing different types of loan and advances to customers, by charging fixed interest. Different types of loan and advances are

-) To government enterprises
-) To provide enterprises

Bank manages the different types of loans i.e. providing loan, business loan, and traditional loan to priority area.

d. Fixed Assets

Land and buildings are essential for the establishment of bank. Bank's funds are used in buying of furniture, vehicle, computer, and other concerned instrument, which are related to banking activities. Bank cannot take direct gain from these assets, but bank should buy it. A bank has a need of fund to purchase fixed assets for the new branches of the bank.

e. Administrative and Miscellaneous Expenses

Bank should manage funds for administrative and other miscellaneous expenses. The administrative expenses are:

-) Salary of Employee
-) Allowances
-) Pension
-) Advertisement
-) Stationery
-) Provident Fund
-) Rent
-) Income tax
-) Donation
-) Insurance
-) Tour expenses
-) Commission

The miscellaneous expenses are

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

In this way, bank mobilizes its fund by performing different activities to achieve its desired goals i.e. earning profit. Banks are able to earn sufficient profit by mobilizing its funds in proper way into the different profitable sector. It can utilize its collected fund as well as own funds in all banking activities by performing effective fund mobilization procedure.

2.3 Review of Related Studies

2.3.1 Review of Books

Banks are that kind of institutions, which deals with money and substitutions for money. They deal with credit and credit instrument. Effective circulation of credit is more significant for the banks. Unsteady and unevenly flow of credit harms the economic situation of the nation. Because of this, collected fund should be invested and mobilized into the right sector. An investment of fund decides the life and death of the banks.

“An investment is a commitment of money that is expected to generate additional money that is expected to generate additional money. Every investment entails sacrifice for a future uncertain benefit.”⁹

Likewise, **Cheney and Moses** are concerned with the objective of investment and indicate that the risk is in proportion with the degree of returns. They write, “The investment objective is to increase systematically the individual’s wealth, defined as assets minus liabilities. The higher the level of the desired wealth, the higher must be received. An investor seeking higher return must be willing to face higher level of risk.”¹⁰

⁹ Francis, Jack Clark “**Investment Analysis and Management**” Mc Graw Hill, International Edition, 1991.

¹⁰ Cheney, John M. and Moses, Edward A., “**Fundamental of Investment**”, St. Paul; West Publishing Company, P-12

Charles P. Jones, emphasizing on the proper management of an investor's wealth says, "Investment is the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor's wealth, which is the sum of current income and present value of all future income."¹¹

According to **William J. Sharpe and Alexander J. Gorden** has defined the term "investment" as the sacrifice of money today for the prospective money tomorrow. They write, "Investment in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all and the magnitude is uncertain. In some cases the element of time predominates (e.g. government bond). In other cases, risk is the dominant attribute (e.g. call option on common stock). In yet both time and risk are important."¹²

James B. Baxley expresses his opinion as "Investment policy fixed responsibilities for the investment disposition of the banks assets in term of allocating funds for investment and loan and establishing responsibility for day to day management of those assets."¹³

Preeti Singh has defined investment in the way, "Investment is the employment of funds with the aim of achieving additional income of growth in value."¹⁴

In the view of **Gittman and Jochnk**, "Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns."¹⁵

Sakespeare Baidya has an elaborated definition on "investment" which beseeches of sound investment policy and covers wider aspects. He writes, "A sound investment policy of bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to the

¹¹ Charles, Jones P., "**Investment Analysis and Management**," Bombay: Himalayan Publishing House, 1999, P-2

¹² Sharpe, J. William and Gorden, J. Alexander, "**Investment**", 5th Edition, New Delhi: Prentice Hall of India, 1996, P-1

¹³ Baxley, James B., "**Banking Management**", Subject Publication, New Delhi, 1987

¹⁴ Singh, Preeti, "**Investment Management**", Bombay: Himalayan Publishing House, P-87

¹⁵ Gittman and Jochnk, L.J., "**Fundamental of Investment**" 4th Edition Harper & Row Publishers, New York, 1990, P-18

depositors and banks on the other hand. Moreover, risk in banking sector tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually springs from significant amount of loans that have become uncollectible due to mismanagement, illegal economic downturn. Therefore, the banks investment policy must be such that it ensures sound and prudent in order to protect public funds.

“Further in details he deals with what type of loan do banks make? And, how much of loan is to be invested? The banks make a variety of loans to a wide variety of customers from many different purposes from purchasing automobile to construct of homes and making trade with foreign countries. There, no uniform rules can be laid down to determine the portfolio of bank. The environment in which the bank operates influences its investment policy. The nature and availability of funds and assets also differ widely from region to region within a country or country to country. For example, the scope of operating a bank in Jumla will be different from the scope of a bank operating in Kathmandu. The investment policy to be applied in Kathmandu may not be applicable to the customer of Jumla because the demand for loans is less in rural areas whereas it is higher in urban areas.”¹⁶

V.K. Bhalla has derived a three- pointed basic concept of investment. His view on investment cover:

-) Economic investment that is an economics definition of investment.
-) Investment in a more general or extended sense which is used by the man of street or ordinary people
-) The sense in which we are going to be very much interested namely financial investment.

He says, “Banks are those institutions which accepts deposits from the public and in return provide credit to trade, business and industry that directly makes a remarkable impact on the economic development of a country. To collect fund and collect as a good investment is a very risky job. Ad-hoc investment decision leads the bank out of the business thereby drawn the economic growth of a country. Hence sound investment policy is another secret of a successful bank.”¹⁷

¹⁶ Baidya Sakespeare, “**Banking Management: Monitor Nepal**” , 1997, P-47

¹⁷ Bhalla, V. K., “**Investment Management**”, Fourth Edition, New Delhi, S. Chand and Company Ltd. 1997

Dr. Sunity Shrestha has expressed similar view on investment. She stresses on the fulfillment of credit needs of various sectors which ensures investments. She expressed in her books 'Portfolio Behaviors of Commercial Banks in Nepal's writes, "The commercial banks fulfill the credit needs of various economic sectors including policy of commercial banks is based on the profit maximization of the institute as well as the economic enhancement of the country."¹⁸

In the view of **Reed, Cotter, Gill and Smith**, "commercial banks still remain the heart of our financial system holding the deposits of millions of persons, governments and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and governments. Commercial banks are the most important type of financial institutions in the nation in terms of aggregate assets."¹⁹

The primary function of commercial banks is the extension of credit to worthy borrowers. In making credit available, commercial banks are rendering a great social service. Through their action, production is increased, capital investments are expanded, and a higher standard of living is realized. Although the investment activities of commercial banks are usually considered separately from lending, the economic effects and social results are the same.

Emphasizing the importance of investment policy, **H.D. Crosse** puts his opinion like this way, "Lending is the essence of commercial banking, and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit."²⁰

2.3.2 Review of Journals/Articles, Research Papers and Previous Studies

In this subject, effort has been made to examine and review some of the related articles published in different economic journals, Bulletin of World Bank, dissertation papers,

¹⁸ Shrestha, Sunity, "Investment Planning of Commercial Banks in Nepal", Kathmandu

¹⁹ Reed, Edward W., Gill, Edward K., Cotter, Richard V., Smith, Richard K., "Commercial Banking", 2nd Edition, Prentice Hall, Inc. Englewood Cliffs, 1980, New Jersey, P 1-5

²⁰ Crosse, H.K., "Management Policies for Commercial Banks", Englewood Cliffs, Prentice Hall, Inc., New Jersey, 2nd Edition, 1963, P-38

newspapers, researchers view and findings towards fund mobilization and other related books.

Mr. Sunil Chopra in his article, “Role of Foreign banks in Nepal” had conducted that the joint venture banks playing an increasingly dynamic and vital role in the economic development of the country that will undoubtedly increase with time.²¹

Sunity Shrestha has analyzed in her article, “Financial performance of commercial banks using both descriptive and diagnostic approach.”²² In her studies she has concluded the following points:

- a. The structural ratio of commercial banks show that banks invest on the average 75% of their total deposit on the government securities and the shares.
- b. The analysis of resources position of commercial banks should quit high percentage of deposit as cash reserve.
- c. Return ratio of all the banks show that most of the time foreign banks have higher return as well as higher risk than Nepalese banks.
- d. The debt-equity ratios of commercial banks are more than 100% in most of the time period under study period. It led to conclude that the commercial banks are highly leveraged and highly risk. Joint venture banks had higher capital adequacy ratio but has been dealing every day.
- e. In case of the analysis of the management achievement foreign banks have comparatively higher total management achievement index.

Likewise, **Mr. Ramesh Lal Shrestha** in his article, “A study on deposit and credit of commercial banks in Nepal”²³ concluded that the credit deposit ratio would be 51.30%, other things remaining the same in Nepal, which was the lowest under the period of review. Therefore, he had strongly recommended that the Commercial banks should try to give more credit entering new field as far as possible, otherwise, they might not be able to absorb even the total expenses.

²¹ Chopra, Sunil,” **Role of Foreign Banks in Nepal**”, Nepal Rastra Bank Samachar, NRB-1989, Kathmandu, P 1-2

²² Shrestha , Sunity, “**Lending operations of Commercial Banks of Nepal and its impact on GDP**”, The Business Voice of Nepal (the special issue of Banijya Sansar), T.U. 1997, P 23-27

²³ Shrestha, Ramesh Lal, “**A study on deposit and credits of commercial banks in Nepal**”, Nepal Rastra Bank Samachar, NRB-1988

Mr. Shiva Raj Shrestha has presented a short scenario of investment management from his article “Portfolio Management in Commercial Bank, Theory and Practice.”²⁴ He has stressed in the following issues, in case of investors having lower income, portfolio management may be limited to small saving incomes. But, on the other hand, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore, portfolio management becomes very important both for an individuals as well as institutional investors. Large investors would like to select a best mix of investment assets and subject to the following aspects:

- a. Higher return which is comparable with alternative opportunities available according to the risk class of investor.
- b. Good liquidity with adequate safety on investment.
- c. Certain capital gains
- d. Maximum tax concession
- e. Flexible investment
- f. Economic and efficient investment

In the view of these aspects, investors are expected to develop the following strategy:

- a) Do not hold any single security; try to have a portfolio of different securities.
- b) Do not pull all the eggs in one basket i.e. to have a diversified investment.
- c) Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower return with added objectives wealth maximization.

In order to prepare structure and modus operandi of effective portfolio management, Mr. Shrestha has presented the following approaches to be adopted.

1. To find out the investing assets (generally securities) having scope for better returns depending upon individual characteristics like age, health, need deposition, liquidity and tax liquidity etc.
2. To find out the risk of securities depending upon the attitude of investor towards risks.

²⁴ Shrestha, Shiv Raj, “Portfolio Management in Commercial Bank, theory and Practice”, Nepal Bank Patrika, Baishakh Masanta, 2055, Page-13

3. To develop alternative investment strategies for selecting a better portfolio this will ensure a trade-off between risk and return so as to attain the primary objective of wealth maximization at lowest risk.
4. To identify variety of securities for investment to reduce volatility of returns and risk.

According to **Mr. Bodi B. Bajracharya** in his article “Monetary Policy and Deposit Mobilization in Nepal” that “the mobilization of domestic saving is one of the prime objectives of monetary policy in Nepal. For this purpose, commercial banks stood as the active and vital financial intermediary for generating resources in form of deposit of the investors in different aspects of the economy.”²⁵

He has explained that commercial banks only can play an important role to mobilize the national savings. Now a days other financial institutions like finance companies, cooperative societies have been established actively to mobilize deposits in the proper sectors so that return can be ensured from the investment.

Similarly, **Mr. Bhaskar Sharma** has found same results that all the commercial banks are establishing and operating in urban areas, in this study, “banking the future on competition.”²⁶ His achievements are:

Commercial banks are establishing and providing their services in urban areas only. They do not have interest to establish in rural areas. Only the branch of Nepal Bank Ltd. and Rastriya Banijya Bank Ltd. are running in those sectors.

- Commercial banks are charging higher interest rate on lending
- They have maximum tax concession
- They do not properly analyze the system

According to him, “Due to the lack of investment avenues, banks are tempted to invest without proper credit appraisal and on personal guarantee, whose negative side effects would show colors only after four or five years.” He has further included that private commercial banks have mushroomed only in urban areas where large volume of banking transaction and activities are possible.

²⁵ Bajracharya, Bodhi B., “**Monetary Policy and Deposit Mobilization in Nepal**”, Rajat Jayanti Smarika, Rastriya Banijya Bank, Kathmandu 2047, P-93-97

²⁶ Sharma, Bhaskar, “**Banking the future on Competition**”, Business age, October, 2000, P-13

In the view of **Mr. Shekhar Bahadur Pradhan**, in his articles, “Deposit mobilization, its problem and prospects”²⁷ He has presented the following problems in the context of Nepal:

- People do not have knowledge and proper education for saving in institutional manner. They so now know financial organizational process, withdrawal system, depositing system etc.
- Financial institutions do not want to operate and provide their services in rural areas.
- He has also recommended about how to mobilize the deposit collection by the financial institutions by rendering their services in rural areas, by adding various services.
- By operating rural banking programmes and unit
- Nepal Rastra Bank must organize training programmes to develop the skilled human resources
- By spreading a numbers of co-operative societies to develop mini banking services and improves the habits of public on deposit collection to the rural areas.

Dr. Radhe Shyam Pradhan has done a research for which he carried out a survey of 78 enterprises. Through his research entitled, “Financial management practices in Nepal.” He found some of the major features of the Nepalese financial management. According to him “the most important one appeared to be maintaining good relation with stockholder. The finding reveals that banks and retained earning are most widely used financing sources. Most enterprises do not borrow from one bank only and they do switch between banks to banks whichever offers best interest rates. Most enterprises find that banks are faxable in interest rate. Among the banks loan, bank loan of less than one year are more popular in public sector where as banks loan of 1-5 years are more popular in private sector. In period of light money, the majority of private sector enterprises fell that bank will treat all firms equally while public sector does not feel so. Similarly, he concluded that the majority of enterprises in traded sector find that bank’s interest rate is just right while the majority of non-traded sector find that the some is one higher side.”²⁸

²⁷ Pradhan, Shekhar Bahadur, “**Deposit Mobilization, its Problem and Prospects**”, Nepal Bank Patrika, Baishakh Masanta, 2053, P-9

²⁸ Pradhan, Radhe Shyam, “**Financial Management Practice in Nepal**”, Vikash Publishing House, New Delhi, India

2.3.3 Review of Theses

Before this study, various studies regarding the various aspects of commercial banks such as fund mobilizing policy, financial performance, investment policy, lending policy, interest rate structure, resource mobilization and capital structure have conducted several thesis works. Some of them, which are relevant for this study, are presented below:

Udaya Bahadur Silwal has conducted a study on “Lending Policy of Commercial Banks in Nepal”²⁹ having following objectives:

- To analyze the role of commercial banks in its historical perspective
- To show the relationship between deposits and loan and advances
- To identify major weakness of lending policy of the commercial banks

The research was conducted mainly on the basis of secondary data. Findings of this research are summarized below:

- Effectiveness of lending policy is directly based upon a sound banking system. But due to geographical variation, transportation and other regional disparities, it is very difficult to expand branches in different rural areas. So, it can be said that commercial banks in Nepal are not playing an active role to utilize their sources collected from different sectors.
- By paying higher interest rate, the banks are increasing deposits, which in turn increase saving habits of the general people. Then the banks will be able to utilize these idle funds in productive channels. This type of business of commercial bank is really a necessary one in an agricultural country like Nepal, where public investment has limited capacity.

Mr. M.N. Karmacharya, in his thesis paper “A study on the Deposit Mobilization by the joint venture banks”³⁰ has mentioned that the bank has successfully maintained its liquid asset position but could not mobilize its resources efficiently. He has concluded that Nepal Bank’s utilization side is weak as compare to the collection of resources. He suggested for extending its branches, so NBL’s deposit collection and also long-

²⁹ Silwal, Udaya Bahadur, “Lending Policy of Commercial Banks in Nepal”, Unpublished Masters thesis, Kritipur, 1980

³⁰ Karmacharya, M.N., “A study on the Deposit Mobilization of the Nepal Bank Ltd”, Unpublished Masters level thesis, T.U., 1998

term as well as short-term credit may increase. He has recommended not to consider security factor only but to provide loan to genuine projects without securing.

Uttam Raj Panta, in his thesis paper “A Study of Commercial Bank Deposits and Utilizations”³¹ has tried to examine the resources collection and utilization. He has concluded that commercial banks have failed to utilize their resources due to lending for short term only. So that he has suggested that all commercial banks should give preference on long term lending sectors for the better utilization of the deposits and improvement of their existing situation.

He has tried to show the deposit position and utilization. He has not also explained the risk factors. His main focus is deposit collection, which can not show and analyze the financial position and proper investment policy. His study period is up to FY 1975/76 which can not show deposit position and its utilization for succeeding years.

Bhoj Raj Bohara, in his thesis paper “A Comparative Study of the Financial Performance of Nepal Arab Bank Ltd. and Nepal Indosuez Bank Ltd.”³² has studied mainly financial performance of two joint venture banks. His main objective is to examine the comparative financial performance (during FY 1986/87 to 1990/91) of NABIL and SCBNL in terms of their liquidity, activity and profitability. He has summarized and concluded that the increasing trend of SCBNL’s earning per share, cash dividend per share, tax per share, net profit, total loans, total deposits and advances and market value per share in the last deposits, total loans and advances and market value per share in the last three years of the study period had shown improvement than that of NABIL.

- a. **Statement Recommendation:** She has suggested about investment in government securities, OBS operation loan recover act, sound credit collection policy, and project oriented approach, effective portfolio management, and innovative approach to bank marketing and banking facilities.
- b. **Theoretical Recommendation:** She has suggested about liberal policy and coat management strategy.

³¹ Panta, Uttam Raj, “A study of Commercial Bank Deposits and its Utilization”, an Unpublished Masters Degree Thesis, T.U., Kathmandu, 1976

³² Bohara, Bhoj Raj, “A Comparative Study of the Financial Performance of Nepal Arab Bank Ltd and Nepal Indosuez Bank Ltd”, an Unpublished Masters Degree Thesis, T.U., Kathmandu, Dec. 1992

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives. This chapter refers to the overall research method from the theoretical aspects to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspects and logical aspect. This research tries to perform a well-designed quantities and qualitative research in a very clear and direct way using both financial and statistical tools

3.2 Research Design

This study is analytical in nature. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. The research design allows the researchers to take an appropriate measure and direction towards the predetermined goals and objectives.

“A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.”³³

The research examines the facts and postulates in certain frameworks on details and supplies the important information on subject matter, summary of the study, major findings of the study, recommendations, conclusion etc. are the most significant information among them, they are derived with the help of some financial and statistical tools were adapted to evaluate the fund mobilization of Commercial banks viz. NABIL, NIBL, and NICBL in consideration not only to research about them but also to facilitate among them.

³³ Kothari, C.R., “**Quantitative Techniques**” Vikash Publishing House Pvt. Ltd, New Delhi., 1992, P-25

3.3 Sources of Data

The study is mainly based on secondary data. The secondary sources of data collections are those that have been used from published on used by someone previously. The secondary sources of data are Balance Sheet, Profit & Loss account and literature publication of the concerned banks. The NEPSE report of the concerned bank has furnished some important data to this research work. Some supplementary data and information have been collected from the authoritative sources like Nepal Rastra Bank, Post Graduate Campus library, National Planning Commission, different journals, magazines and other published and unpublished reports documented by the authorities.

In order to fulfill the objectives of this research work, all the secondary data are compiled, processed and tabulated in time series. And to judge the reliability of data provided by the banks and other sources, they were compiled with the annual reports of auditors. Formal and informal talks to the concerned head of the department of the bank were also helpful to obtain the additional information of the related problem.

3.4 Nature of Data

In case of primary data, some personal views and ideas of individual's respondent are collected. But in case of entire study secondary data used are basically of the following nature.

- Most of the data taken for the analysis is collected in the form of published by the concerned banks through their annual reports.
- Since all the banks which are taken into account for the study are listed in NEPSE, the figures are all most reliable and suitable too.

3.5 Population and Sample

There are altogether 29 commercial banks functioning all over the kingdom and most of their stocks are traded actively in the stock market. . In this study three Commercial banks are to be taken for research work. These banks are compared as per fund mobilizing activities. NABIL, NIBL, and NICBL are selected from population and population is presented below:

Nepal Bank Ltd.
Rastriya Banijya Bank Ltd.
Global Bank Ltd.
Nepal Investment and Commercial Bank Ltd.
Standard Chartered Bank Ltd.
Nepal Merchant Bank Ltd.
Nepal SBI Bank Ltd.
Nepal Bangladesh Bank Ltd.
Everest Bank Ltd.
Bank of Kathmandu Ltd.
Agriculture Devt. Bank Ltd.
Nepal Credit and Commercial Bank Ltd.
Lumbini Bank Ltd.
Nepal Industrial and Commercial Bank Ltd.
Machhapuchhre Bank Ltd.
Kumari Bank Ltd.
Laxmi Bank Ltd.
Siddhartha Bank Ltd.
Citizen International Bank Ltd.
Sunrise Bank Ltd.
Nepal Merchant Bank Ltd.
Development & Credit Bank Ltd.
Bank of Asia Ltd.
Prime Commercial Bank Ltd.

Among all the banks which are presented above only three banks are taken as a sample for comparative study. They are:

1. NABIL Bank Ltd.
2. Nepal Investment and Commercial Bank Ltd.
3. Nepal Investment Bank Ltd.

These three banks are compared as per fund mobilization procedure, that they are adopting to mobilize their collected funds as well as own funds.

3.6 Data Analysis Tools

Analysis and presentation of the data is the core of each and every research work. This study requires some financial and statistical tools to accomplish the objective of the

study. The financial and statistical tools are most reliable. In this study various financial, statistical and accounting tools have been used. These tools make the analysis more effective, convenience, reliable and authentic.

The various results obtained with the help of financial, accounting and statistical tools are tabulated under different headings. Then they are compared with each other to interpret the results. Two kinds of tools have been used to achieve the certain goals.

1. Financial Tools
2. Statistical Tools

3.6.1. Financial Tools

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

- I. Ratio Analysis
- II. Cash flow Analysis

I. Ratio Analysis

Ratio analysis is the powerful tool of financial analysis. A ratio is defined as “the indicated quotient of two mathematical expressions “the relationship between two or more things.”³⁴ In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The relationship between two accounting figure expressed mathematically, is known as a financial ratio or simply a ratio. An accounting figure conveys meaning when it is related to some relevant information.³⁵

“A ratio is a mathematical relationship between two variables. It is significant for financial analysis. It also helps us to predict the future performance of a company based on study of ratios of earlier years.”³⁶

Thus, ratio analysis is the part of whole process of analysis of financial statements of any business or industrial concerned especially to take output and credit decision.

³⁴ Merriam, G. & C., “**Webster’s New Collegiate Dictionary**”, 8th Edition, Springfield, 1975, P-958.

³⁵ Pandey, I.M., “**Financial Management**” ,7th Revised Edition, Vikash Publishing House Pvt. Ltd., New Delhi, 1975, P-104

³⁶ Benerjee, Subir Kumar, “**Financial Management**”, S. Chand & Company Ltd., Ram Nagar, New Delhi, P-95

Ratio indicates a quantitative relationship, which can be, in turn, used to make a qualitative judgment. Even though there are various types of ratios to analyze and interpret the financial statement, only six types of ratios have been taken in this study, which are related to fund mobilization of the banks. They are presented below:

A. Liquidity Ratios

- i) Cash and bank balance to total deposit ratio
- ii) Cash and bank balance to current assets ratio

B. Assets Management Ratios

- i) Loan and advances to total deposit ratio
- ii) Total investment to total deposit ratio
- iii) Loan and advances total working fund ratio

C. Profitability Ratios

- i) Return on loan and advances ratio
- ii) Return on total working fund ratio
- iii) Total interest earned to total working fund ratio

D. Risk Ratios

- i) Liquidity risk ratio
- ii) Credit risk ratio

E. Growth Ratios

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

A. Liquidity Ratios

Liquidity ratios are applied to measure the ability of the firms to meet short term obligations. It measures the speed of firms to convert the firms asset into cash to meet deposit withdraws and other current obligations. This is quick measure of the liquidity and financial strength of the firm.

“Liquidity ratios examine the adequacy of funds, the solvency of the firms ability to pay its obligation when due.”³⁷ Various types of liquidity ratios are applied in these studies, which are explained below:

i) Cash and Bank Balance to Total Deposit

Cash and bank balance are the most liquid current assets of a firm, cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositors immediately. This ratio is computed dividing the amount of cash and bank balance by the total deposits. It can be presented as,

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

Where, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance held abroad. Total deposits consist of deposits on current account, saving account, fixed account, money at call and short notice and other deposits.

ii) Cash and Bank Balance to Current Assets Ratio

This ratio measures the percentage of liquid assets i.e. cash and bank balance among the current assets of a firm. Higher ratio shows the higher capacity of firms to meet the cash demand. This ratio is calculated dividing cash and bank balance by total current assets and can be calculated as,

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

Hence, cash and bank balance includes cash in hand, foreign cash and foreign banks.

iii) Total Investment to Current Assets Ratio

This ratio is used to find the percentage of current assets invested in profitable sectors. It can be mentioned as:

$$\text{Total Investment to Current Assets} = \frac{\text{Total Investment}}{\text{Current Assets}}$$

³⁷ Hampton, John J., “Financial Decision Making Concept”, P-139

B. Assets Management Ratios (Activity Ratio)

The asset management ratios, measures how effectively the firm is managing its assets. These ratios are designed to answer this question: does the total amount of each type of asset as reported on the balance sheet seem reasonable or not. If a firm has excessive investments in assets then its capital costs will be unduly high and its stock price will suffer.³⁸

In this study this ratio is used to indicate how efficiently the selected banks have arranged and invested their limited resources. The following financial ratios related to fund mobilization are calculated under asset management ratio and interpretation is made by these calculations.

i) Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out how successfully the selected banks are utilizing their total collections or deposits on loan and advances for the purpose of earning profit. Greater ratio shows the better utilization of total deposits. This ratio can be obtained dividing loan and advances by total deposits, which can be shown as,

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\text{Total loan and Advances}}{\text{Total Deposit}}$$

ii) Total Investment to Total Deposit Ratio

Investment is one of the major sources of earning of profit. This ratio indicates how properly firm's deposits have been invested on government securities and shares and debentures of other companies. This ratio is computed by using following formula:

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

Where, total investment includes investment on government securities, investment on debentures and bonds, share in subsidiary companies, shares in other companies and other investments.

³⁸ Brigham, Eugene F., "Financial Management", A Harcourt Publishers, International Company, P-74

iii) Loan and Advances to Total Working Fund Ratio

The main element of total working fund is loan and advances. This ratio indicates the ability of selected banks in terms of earning high profit from loan and advances. Loan and advances to working fund ratio can be obtained dividing loan and advances amount by total working fund. That is formulized as,

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

Where, total working fund includes total amount of assets given in balance sheet which refers to current assets, net fixed assets, total loans for development banks and other sundry assets except off balance sheet items i.e. letter of credit, letter of guarantee etc.

C. Profitability Ratios

Profit is only appeared when there is positive difference between total revenues and total cost over a certain period of time. Profitability ratios show the combined effects of liquidity, assets management, and debt on operating results. Profitability ratios are very helpful to measure the overall efficiency of operations of a firm. It is a true indication of the financial performance of each and every business organization. Here profitability ratios are calculated and evaluated in terms of the relationship between net profit and assets. Profitability of the firms can be presented through the following different ways:

i) Return on Loan and Advances Ratio

Return on loan and advances ratio shows how efficiently the banks have utilized their resources to earn good return from provided loan and advances. This ratio is computed dividing net profit (loss) by the total amount of loan and advances and can be mentioned as,

$$\text{Return on Loan and Advances Ratio} = \frac{\text{Net Profit (Loss)}}{\text{Loan and Advances}}$$

ii) Return on Total Working Fund Ratio

Return on total working fund ratio measures the profit earning capacity of the banks by utilizing available resources i.e. total assets. If the bank's well managed and efficiently utilized its working fund, it will get higher return. Maximizing taxes, this in the legal options available will also improve the return. It is computed as:

$$\text{Return on Total Working Fund Ratio} = \frac{\text{Net Profit}}{\text{Total Working Fund}}$$

iii) Total Interest Earned to Total Working Fund Ratio

This ratio reflects the extent to which the banks are successful in mobilizing these total assets to acquire income as interest. This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the income as interest. We have,

$$\text{Total Interest Earned to TWF Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Working Fund}}$$

iii) Total Interest paid to Total Working Fund Ratio

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher interest expenses on total working fund and vice-versa. This ratio is calculated as:

$$\text{Total Interest paid to Total Working fund Ratio} = \frac{\text{Total Interest paid}}{\text{Total Working fund}}$$

D. Risk Ratios

Generally, risk means uncertainty which lies in the business transaction of investment management. When a firm wants to bear risk and uncertainty, profitability and effectiveness of the firm is increased. This ratio checks the degree of risk involved in the various financial operations. For this study, following risk ratios are used to analyze and interprets the financial data and investment policy.

i) Liquidity Risk Ratio

The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources

and deposit, as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need.

This ratio is low if funds are kept idle as cash and bank balance but this reduces profitability. When the bank makes loan, its profitability increases and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated by dividing cash and bank balance to total deposit.

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

ii) Credit Risk Ratio

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

$$\text{Credit Risk Ratio} = \frac{\text{Total Investment} + \text{Total Loan and Advances}}{\text{Total Assets}}$$

E. Growth Ratios

The growth ratios represent how well the commercial banks are maintaining their economic and financial position. The higher ratios represent the better performance of the selected firms to calculate, check and analyze the expansion and growths of the selected banks the following growth ratios are calculated. Growth ratios are directly related to the fund mobilization and investment of those firms.

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

II. Cash Flow Analysis

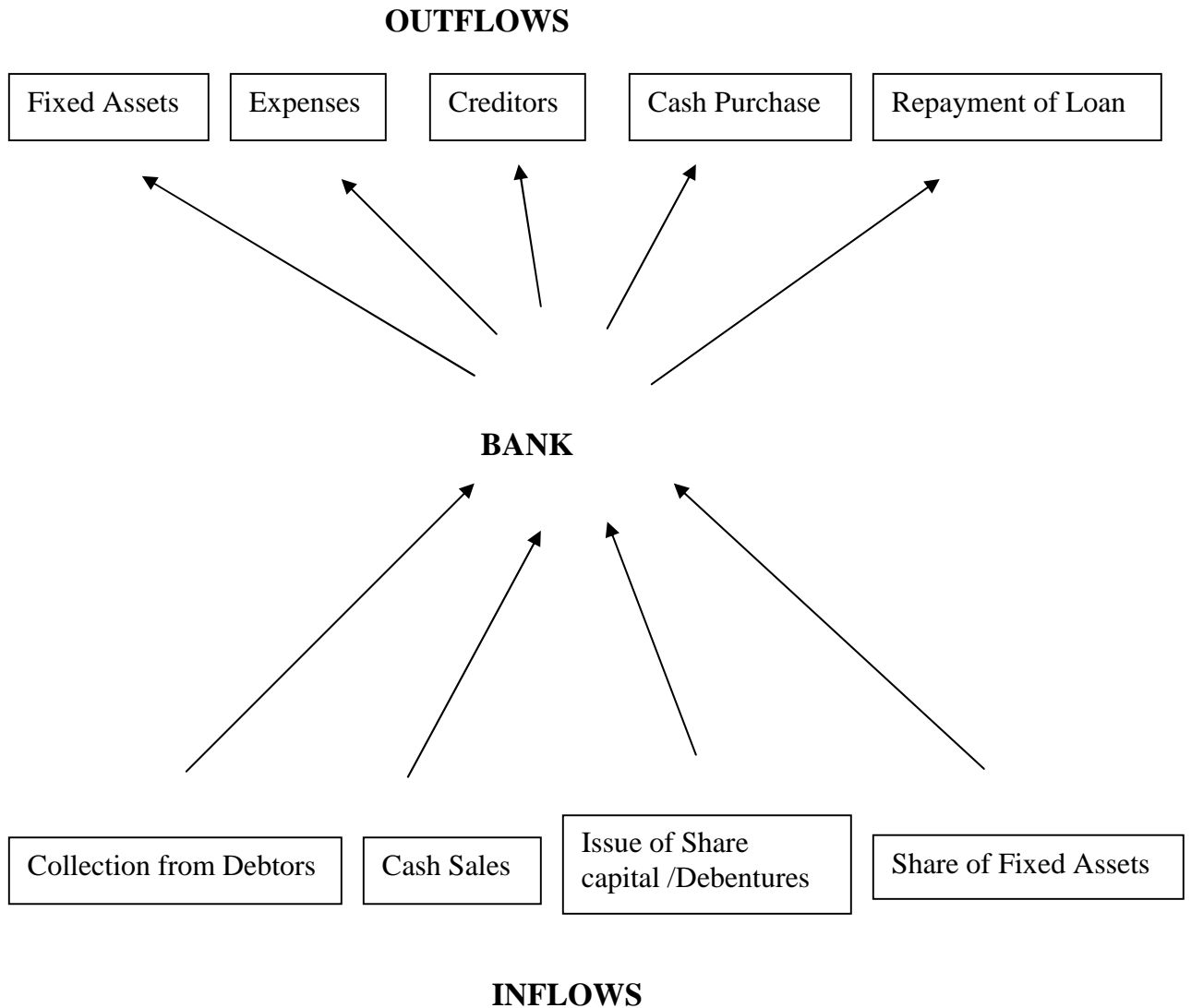
Cash is the lifeblood of an organization. No business can be satisfactorily managed unless careful attention is paid to its requirements of cash. Without it a business will cease to operate. Therefore, an analysis of cash flows is useful for short-run planning.

A firm needs sufficient cash to pay debts maturing in the near future, to pay interest and other expenses and to pay dividends to shareholders.

The analysis of events and transactions that affects the cash position of company is termed as cash flow analysis. Cash flow analysis is done through statement of cash flows. A cash flow statement is a statement of company's ability to generate cash from various activities such as **operating, investing, and financing** and their need of cash. It is a statement which shows the inflows and outflows of cash and cash equivalents during the year.³⁹

This statement is prepared to know clearly the various items of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis relates to the movement of cash rather than the inflow and outflow of working capital. It summarized the causes of change in cash position between dates of two balance sheets. While preparing cash flow statement, only cash receipts from debtor against credit dates are recognized as the source of cash. Similarly, cash purchases and cash payment to supply for credit purpose is regarded as the use of cash. The projection of cash flow for near future can be made to determine the availability of cash. This cash balance can be matched with the firm's need for cash during the period and accordingly, arrangements can be made to meet the deficit or invest the surplus cash temporarily. A historical analysis of cash flows provides insight to prepare reliable cash flow projections for the immediate future.

³⁹ Wagle, Keshab Nath & Dahal, Rewan Kumar, "**Management Accounting**", First Edition, Khanal Publications, Min Bhawan, Kathmandu, 2003, P-11.2



3.6.2 Statistical Tools

In this study, some important statistical tools have been used to present and analyze the data for achieving the objectives. Such as coefficient of correlation between different variables, trend analysis of important variables as well as hypothesis test (t-statistic) has been used, which are presented below:

- i) Karl Pearson's of Coefficient of Correlation Analysis
- ii) Coefficient of Variation (C.V)
- iii) Standard Deviation (S.D)
- iv) Probable Error (P.E)
- v) Testing of Hypothesis(T-test)

i) Karl Pearson's Coefficient of Correlation Analysis

This statistical tool has been used to analyze, identify and interpret the relationship between two or more variables. It interprets whether two or more variables are correlated positively or negatively. Statistical tool analyses the relationship between those variables and helps the selected banks to make appropriate investment policy regarding to profit maximization and deposit collection; fund mobilization through providing loan and advances.

For the purpose of decision-making, interpretation is based on following term:

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

Karl Pearson's correlation coefficient has been used to find out the relationship between the following variables:

a) Coefficient of correlation between deposit and loan and advances

Correlation coefficient between deposits and loan and advances measures the degree of relationship between two variables i.e. X and Y. In this analysis, deposit is independent variables (X) and loan and advances is dependent variables (Y). The main purpose of calculating correlation coefficient is to justify whether the deposits are significantly used in proper way or not and whether there is any relationship between these two variables.

b) Coefficient of correlation between deposit and total investment

Correlation coefficient between deposit and investment is to measure the degree of relationship between deposit and total investment. In this analysis, deposit is independent variables (X) and total investment is dependent variables (Y).

Karl Pearson's Correlation coefficient(r) can be obtained as:

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

Where,

n = number of observations in series X and Y

$\sum X$ = sum of observations in series X

$\sum Y$ = sum of observations in series Y

$\sum X^2$ = sum of squared observations in series X

$\sum Y^2$ = sum of squared observations in series Y

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

ii) Coefficient of Variation (C.V)

The coefficient of variation is the most commonly used measure of relative variation. It is used in such problems where the researcher wants to compare the variability of more than two years. Greater the C.V, the variable or conversely less consistent, less uniform, more consistent, more uniform, more stable and homogeneous.

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

iii) Standard Deviation (S.D)

The standard deviation is an important and widely used measure of dispersion. The measurement of the scatter-ness of the mass of figure in a series about an average is known as dispersion. The greater the amount of dispersion, greater the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposites it is denoted by the letter †.

$$\text{S.D} (\uparrow) = \sqrt{\frac{1}{N} \sum (X - \bar{X})^2}$$

Where,

N = Number of observations

X = Expected return of the historical data

iv) Probable Error (P.E)

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

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

Where,

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

r = Correlation coefficient

n = Number of observations

vi) Test of Hypothesis (T-test)

If we draw a large number of small samples i.e. (n < 30) and compute the mean for each sample and then plot the frequency distribution of these means, the resulting sampling distribution would be t-test. On these study sample are taken only for five years.

Assumptions:

- a) The present population from which the sample is drawn is normal or approximately normal.
- b) The given sample is drawn by random sampling method.
- c) The population standard deviation (\uparrow) is not known.

Under this analysis the effort has been made to test the significance level regarding the parameter of the population on the basis of sample drawn from the population. The following steps have been followed for the test of hypothesis:

- a) Formulating hypothesis
 - i) Null Hypothesis (H_0)
 - ii) Alternative Hypothesis (H_1)
- b) Computing the t- statistic
- c) Fixing the significance level
- d) Finding critical region
- e) Deciding two-tailed or one-tailed test
- f) Decision making

In the following lines, some of main hypothesis tests are calculated and decision is made according to findings.

Null Hypothesis (H_0): $\mu_1 = \mu_2 = \mu_3$ i.e., there is no significant difference between mean ratios of loan and advances to total deposit of NABIL, NIBL and NICBL.

Alternative Hypothesis (H_1): $\mu_1 \neq \mu_2 \neq \mu_3$ i.e., there is significant difference between mean ratios of loans and advances to total deposits of NABIL, NIBL and NICBL.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

This is an analytical chapter, where an attempt has been made to analyze and evaluate major financial items, which have an impact on investment management and fund mobilization of NICBL, NABIL and NIBL. A number of financial ratios -- crucial in evaluating the funds mobilization system of commercial banks -- have been calculated and analyzed in this chapter.

4.1 Ratio Analysis

4.1.1 Liquidity Ratios

4.1.1.1 Cash and Bank Balance to Total Deposit

Cash and bank balance to total deposit ratio is computed by using following formula:

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

Table 1

Comparative Cash and Bank Balance to Total Deposit Ratios

Year	Ratio (%)		
	NABIL	NICBL	NIBL
2005/06	3.26	8.54	11.18
2006/07	6	5.96	9.97
2007/08	8.37	9.11	16.96
2008/09	9.03	9.38	13.6
2009/10	3.02	9.34	10.9
Mean(\bar{X})	5.93	8.47	12.52
S.D. (\dagger)	2.01	1.288	2.52
C.V.	33.98	15.21	20.12

Source: Appendix -I

From the above comparative table, cash and bank balance to total deposit ratio of the three banks followed a fluctuating trend. NIBL has maintained the higher ratio i.e.

16.96% of cash and bank balance to total deposit than other two banks during the study period.

The average ratio of NIBL is higher than NICBL and NABIL. The variability of the ratio is lower in NICBL. It states that NICBL is more consistent among three banks. Similarly, the variability of the ratio is higher in NIBL among three banks.

4.1.1.2 Cash and Bank Balance to Current Assets

This ratio is calculated dividing cash and bank balance by total current assets and can be calculated as,

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

Table 2
Comparative Cash and Bank Balance to Current Assets Ratios

Year	Ratio (%)		
	NABIL	NICBL	NIBL
2005/06	2.86	7.24	10.09
2006/07	5.19	5.14	9.1
2007/08	7.31	7.93	15.24
2008/09	7.81	7.9	12.13
2009/10	2.73	7.37	9.91
Mean(\bar{X})	5.18	7.11	11.29
S.D. (\dagger)	1.91	1.025	2.09
C.V.	36.81	14.42	18.52

Source: Appendix -I

From the above comparative table, it reveals that cash and bank balance to current assets ratios of NICBL has less fluctuating trend. The highest ratio of NICBL is 7.93% in the year 2007/08 and lowest ratio is 5.14 % in the year 2006/07. NIBL has highest ratio of 15.24% and lowest ratio of 9.1%. In the same way NABIL has highest ratio of 7.81% and lowest ratio of 2.73%. Among three banks, NIBL has maintained the highest ratio than other banks i.e. 15.24%.

Similarly, C.V. ratio of NICBL is less than that of two banks i.e. 14.42%. It indicates that ratio of NICBL is more stable than that of NABIL and NIBL.

4.1.2 Assets Management Ratios

The following financial ratios related to fund mobilization are calculated under asset management ratio and interpretation is made by these calculations:

4.1.2.1 Total Investment to Current Assets

This ratio is used to find the percentage of current assets invested on government securities, treasury bills and development bonds. It can be mentioned as:

$$\text{Total Investment to Current Assets} = \frac{\text{Total Investment}}{\text{Current Assets}}$$

Table 3
Comparative Total Investment to Current Assets Ratios

Year	Ratio (%)		
	NABIL	NICBL	NIBL
2005/06	28.07	23.97	26.7
2006/07	33.17	13.71	24.25
2007/08	27.21	15.36	14.24
2008/09	25.06	16.36	15.37
2009/10	26.61	19.36	18.14
Mean(\bar{X})	28.02	17.75	19.74
S.D. (†)	2.72	3.65	4.91
C.V.	9.72	20.56	24.89

Source: Appendix -I

The mean ratio of NABIL is the highest i.e.28.02% than that of NICBL and NIBL. Coefficient of variation of NABIL is 9.72%. It seems that NABIL is more consistent to make investment in government securities than NICBL and NIBL.

4.1.2.2 Loan and Advances to Total Deposit

This ratio can be obtained by dividing loan and advances to total deposit, which can be shown as,

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\text{Total loan and Advances}}{\text{Total Deposit}}$$

Table 4
Comparative Loan and Advances to Total Deposit Ratios

Year	Ratio (%)		
	NABIL	NICBL	NIBL
2005/06	66.79	75.92	67.5
2006/07	66.6	88.81	70.59
2007/08	66.9	86.09	77.61
2008/09	73.87	87.8	78.27
2009/10	69.53	90.80	80.48
Mean(\bar{X})	68.74	85.9	74.89
S.D. (†)	2.78	5.22	4.96
C.V.	4.05	6.08	6.62

Source: Appendix -I

The above comparative table shows that these three banks have mobilized their collected deposits in fluctuating trend as loan and advances during the study period. The highest ratio of loan and advances to total deposit of NABIL, NICBL and NIBL are 73.87%, 90.8% and 80.48% respectively.

NABIL has mobilized 68.74% of its collected deposit in loan and advances which is less than that of NICBL and NIBL in average. Coefficient of variation of NABIL is 4.05%, which shows that NABIL is more stable than NICBL and NIBL in mobilizing collected deposit.

4.1.2.3 Total Investment to Total Deposit

This ratio is computed by using following formula:

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

Table 5
Comparative Total Investment to Total Deposit Ratios

Year	Ratio (%)		
	NABIL	NICBL	NIBL
2005/06	31.93	28.29	29.6
2006/07	38.32	15.89	26.57
2007/08	31.14	17.67	19.95
2008/09	28.99	19.42	15.85
2009/10	29.46	24.52	17.24
Mean(\bar{X})	31.96	21.15	21.84
S.D. (\dagger)	3.35	4.58	5.35
C.V.	10.49	21.66	24.5

Source: Appendix -I

From the above comparative table, it can be concluded that the NABIL bank has the highest ratios during the study period. In average also it has invested more amount of its total deposit in comparison to NICBL and NIBL i.e. 31.96%. The coefficient of variation of NABIL is 10.49%. It indicates that EBL is more consistent to make investment of total deposits than NICBL and NIBL.

4.1.2.4 Loan and Advances to Total Working Fund

Loan and advances to working fund ratio can be obtained dividing loan and advances amount by total working fund. That is formulized as,

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

Table 6
Comparative Loan and Advances to Total Working Fund Ratios

Year	Ratio (%)		
	NABIL	NICBL	NIBL
2005/06	57.87	64.1	59.9
2006/07	57.04	76.56	62.65
2007/08	57.54	73.92	68.36
2008/09	62.89	72.95	69.37
2009/10	61.88	70.76	70.36
Mean(\bar{X})	59.44	71.65	66.1
S.D. (†)	2.44	4.21	3.76
C.V.	4.1	5.88	5.69

Source: Appendix -I

Above table describes the loan and advances to total working fund ratio of NABIL, NICBL and NIBL in fluctuating trend. During the study period NABIL, NICBL and NIBL have highest ratio of 62.89%, 76.56% and 70.36% in year 2008/09, 2006/07 and 2009/10 respectively. On average, NICBL maintains highest ratio of 71.65% than NABIL and NIBL of 59.44% and 66.1% respectively. The coefficient of variation of NABIL is more consistent than NICBL and NIBL because it has the ratio of lowest variation i.e.4.1%.

4.1.3 Profitability Ratios

Here profitability ratios are calculated and evaluated in terms of the relationship between net profit and assets. Profitability of the firms can be presented through the following different ways:

4.1.3.1 Return on Loan and Advances

This ratio is computed dividing net profit (loss) by the total amount of loan and advances and can be mentioned as,

$$\text{Return on Loan and Advances Ratio} = \frac{\text{Net Profit (Loss)}}{\text{Loan and Advances}}$$

Table 7
Comparative Return on Loan and Advances Ratios

Year	Ratio (%)		
	NABIL	NICBL	NIBL
2005/06	4.92	1.45	2.7
2006/07	4.1	1.77	2.9
2007/08	3.49	2.16	2.49
2008/09	3.74	2.32	2.58
2009/10	3.53	1.79	3.14
Mean(\bar{X})	3.95	1.89	2.76
S.D. (\dagger)	2.68	.31	.279
C.V.	40.78	16.43	10.11

Source: Appendix-I

In the above analysis the return on loan and advances of NABIL, NICBL and NIBL have the ratio of fluctuating trend. During the study period NABIL has the highest ratio of 4.92% than that of NICBL and NIBL i.e. 2.32% and 3.14% respectively. In average NABIL has the highest mean ratio of 3.95% where as NICBL and NIBL has the mean ratio of 1.89% and 2.76%. Coefficient of variation indicates that NABIL has no more variance between five years study period.

Pie Diagram showing average loan and advances and average total investment of NABIL (From 2005/06 to 2009/1)

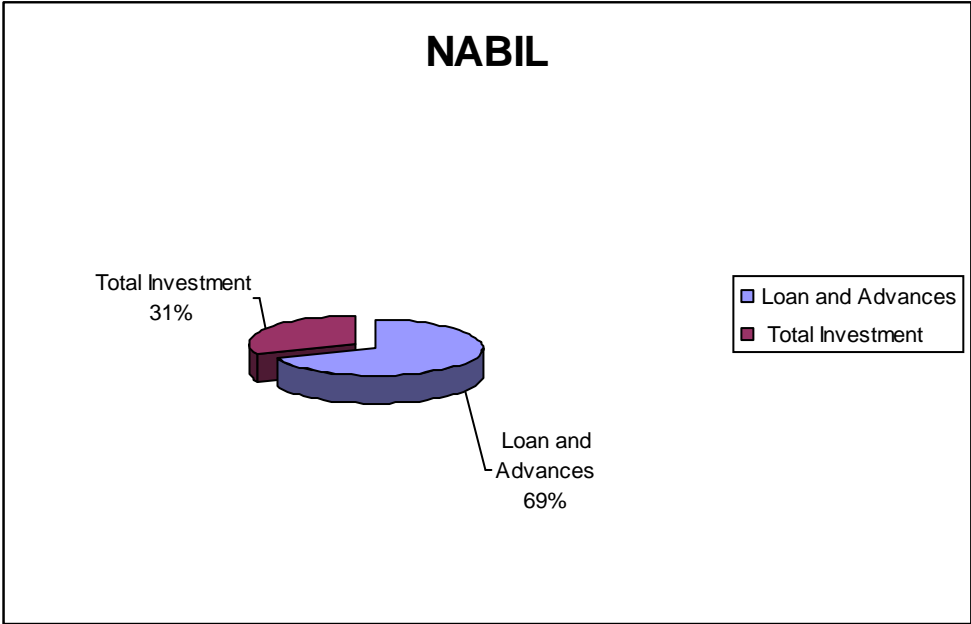


Figure 1

Pie Diagram showing average loan and advances and average total investment of NICBL (From 2005/06 to 2009/10)

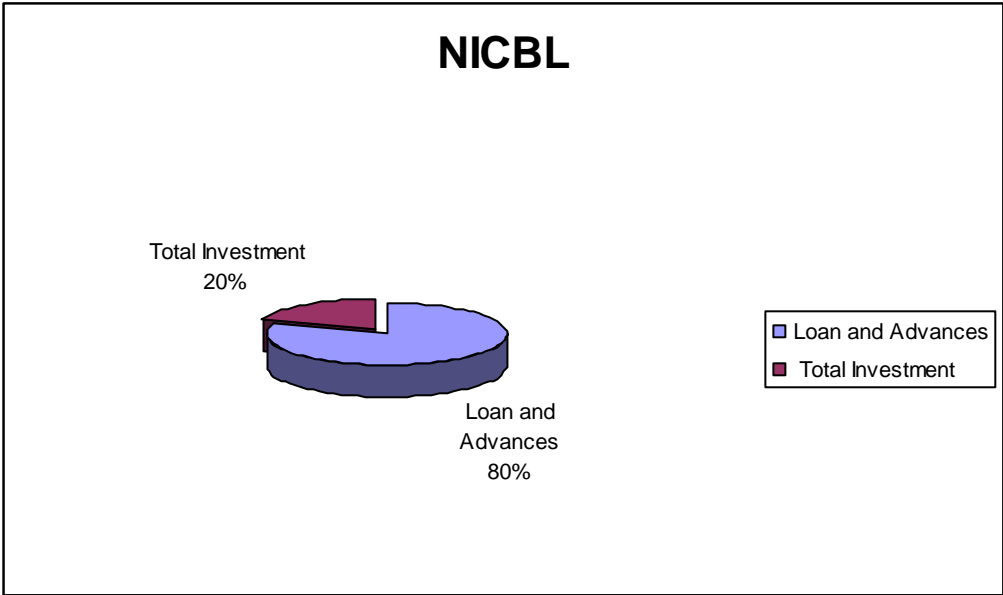


Figure 2

Pie Diagram showing average loan and advances and average total investment of NIBL (From 2005/06 to 2009/10)

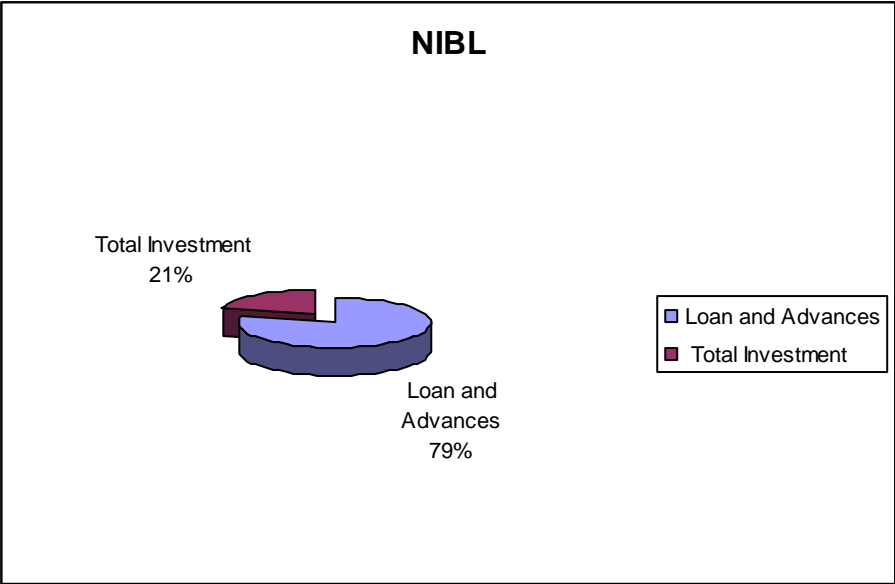


Figure 3

4.1.3.2 Return on Total Working Fund

Return on total working fund ratio is computed as:

$$\text{Return on Total Working Fund Ratio} = \frac{\text{Net Profit (Loss)}}{\text{Total Working Fund}}$$

Table 8
Comparative Return on Total Working Fund Ratios

Year	Ratio (%)		
	NABIL	NICBL	NIBL
2005/06	2.84	.93	1.64
2006/07	2.47	1.36	1.82
2007/08	2.01	1.59	1.79
2008/09	2.35	1.69	1.7
2009/10	2.18	1.27	2.21
Mean(\bar{X})	2.37	1.37	1.83
S.D. (†)	.31	.265	.2
C.V.	13.15	19.37	10.93

Source: Appendix-I

As per the above comparative table the return on total working fund of NABIL, NICBL and NIBL have the ratio of rising and falling trend. During the study period, NABIL has the highest average ratio of 2.37% than that of NICBL and NIBL, i.e. 1.37% and 1.83% among three banks in average. In case of coefficient of variation, NIBL has the lowest C.V. of 10.93%, than that of NICBL and NABIL i.e. 19.37% and 13.15% respectively.

4.1.3.3 Total Interest Earned to Total Working Fund

This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the income as interest. We have,

$$\text{Total Interest Earned to TWF Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Working Fund}}$$

Table 9
Comparative Total Interest Earned to Total Working Fund Ratios

Year	Ratio (%)		
	NABIL	NICBL	NIBL
2005/06	4.27	2.31	3.2
2006/07	3.79	2.61	3.26
2007/08	3.29	2.79	3.09
2008/09	3.75	2.75	2.98
2009/10	4	2.2	3.66
Mean(\bar{X})	3.82	2.53	3.23
S.D. (†)	.32	.206	.235
C.V.	8.45	8.15	7.29

Source: Appendix-I

The above analysis shows the NABIL has highest interest earned to total working fund ratio of 4.27% in the year 2005/06 and lowest ratio of 3.29% in the year 2007/08. Likewise NICBL and NIBL have the highest ratio of 2.79% and 3.66% in year 2007/08 and 2009/10 respectively.

NABIL has 3.82% mean ratio, but NICBL and NIBL have only 2.53% and 3.23% respectively. The coefficient of variation of NIBL is less than NICBL and NABIL i.e. 7.29%. It indicates that interest earning power of NIBL is more consistent than NABIL and NICBL.

4.1.3.4 Total Interest paid to Total Working Fund

Total interest paid to total working fund ratio is calculated as:

$$\text{Total Interest paid to Total Working fund Ratio} = \frac{\text{Total Interest paid}}{\text{Total Working fund}}$$

Table 10
Comparative Total Interest paid to Total Working Fund Ratios

Year	Ratio (%)		
	NABIL	NICBL	NIBL
2005/06	1.6	3.28	2.33
2006/07	2.04	3.61	2.48
2007/08	2.04	3.32	2.55
2008/09	2.63	4.09	3.18
2009/10	3.76	3.85	4.46
Mean(\bar{X})	2.41	3.63	3
S.D. (†)	.749	.309	.785
C.V.	31.09	8.53	26.18

Source: Appendix -I

From the above comparative table, NIBL and NABIL have interest paid to total working fund ratio in fluctuating trend. Similarly, NICBL has the ratio of decreasing trend from the year 2009/10. NIBL has 4.46% highest ratio in the year 2009/10 and lowest ratio of 2.33% in the year 2005/06. NICBL has 3.63% mean ratio, which is greater than that of NABIL and NIBL i.e. 2.41% and 3% respectively.

The coefficient of variation of NICBL is more stable than NABIL and NIBL i.e. 8.53%.

4.1.4 Risk Ratios

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

4.1.4.1 Liquidity Risk Ratio

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

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

Table 11
Comparative Liquidity Risk Ratios

Year	Ratio (%)		
	NABIL	NICBL	NIBL
2005/06	3.26	8.54	11.18
2006/07	6	5.96	9.97
2007/08	8.37	9.11	10.9
2008/09	9.03	9.38	16.96
2009/10	3.02	9.34	13.6
Mean(\bar{X})	5.93	8.46	10.52
S.D. (\dagger)	4	1.28	3.22
C.V.	67.53	15.18	30.61

Source: Appendix-I

The above table shows that NIBL has highest cash and bank balance to total deposit ratio of 16.96% in the year 2008/09 and lowest ratio of 9.97% on 2006/07. Whereas NICBL and NABIL have highest ratio of 9.38% and 9.03% on 2008/09 and lowest ratio of 5.96% and 3.02% in the year 2006/07 and 2009/10 respectively.

The mean ratio of NABIL is lower than that of NICBL and NIBL i.e. 5.93 % < 8.46 % < 10.52%. It means that NABIL has maintained the lower liquidity risk ratio which means it operates with higher risk for higher profit. The coefficient of variation of NABIL i.e. 67.53% is highest than that of NICBL and NIBL where as NICBL and NIBL have 15.18% and 30.61%. It shows that the ratio of NABIL is more variable than of NIBL and NICBL.

4.1.4.2 Credit Risk Ratio

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

$$\text{Credit Risk Ratio} = \frac{\text{Total Investment} + \text{Total Loan and Advances}}{\text{Total Assets}}$$

Table 12
Comparative Credit Risk Ratios

Year	Ratio (%)		
	NABIL	NICBL	NIBL
2005/06	85.54	87.98	86.16
2006/07	89.86	90.2	86.23
2007/08	84.37	89.6	87.05
2008/09	87.57	89.09	82.32
2009/10	88.09	89.87	85.43
Mean(\bar{X})	87.07	89.07	85.43
S.D. (\dagger)	1.93	.808	1.64
C.V.	2.22	.91	1.92

Source: Appendix-I

The above comparative table shows that NABIL, NICBL and NIBL have the credit risk ratio is in consistent trend. NABIL, NICBL and NIBL have the highest ratio of 89.86%, 90.2% and 87.05% in the year 2005/06, 2006/07 and 2007/08 respectively whereas they have lowest ratio of 84.37%, 87.98% and 82.32% in year 2007/08, 2006/07 and 2008/09 respectively.

On the basis of mean ratio, it can be said that the credit risk of NIBL is lowest than that of NABI and NICBL i.e. 85.43% <87.07% and 89.7%.

NABIL has the highest coefficient of variation than that of NICBL and NIBL i.e. 2.22% which shows more variable ratios of NABIL than others.

4.1.5 Growth Ratios

The growth ratios represent how well the commercial banks are maintaining their economic and financial position. To calculate, check and analyze the expansion and growth of the selected banks the following growth ratios are calculated.

4.1.5.1 Growth Ratio of Total Deposits

Table 13
Growth Ratio of Total Deposits

(Rs. in million)

Banks	Total Deposits					Growth Rate (%)
	2005/06	2006/07	2007/08	2008/09	2009/10	
NABIL	19347.399	23342.28	31915	37348.25	46410.7	19.12
NICBL	8766.95	10068.23	13084.68	15579.93	16937.75	14.08
NIBL	18927.30	24488.85	34451.72	46698.1	50094.72	21.49

Source: Appendix-II

The table presented above shows that NABIL, NICBL and NIBL are increasing their deposit collection during five years study period. But NIBL total deposits are slowly increase than NABIL and NICBL. The growth ratio of NABIL, NICBL and NIBL are 19.12%, 14.08% and 21.49% respectively. The growth ratio of total deposits of NIBL seems higher than NABIL and NICBL.

4.1.5.2 Growth Ratio of Total Investment

Table 14
Growth Ratio of Total Investment

(Rs. in million)

Banks	Total Investment					Growth Rate (%)
	2005/06	2006/07	2007/08	2008/09	2009/10	
NABIL	6178.5	8945.31	9939.77	10826.37	13670.91	17.21
NICBL	2479.91	1599.48	2311.46	3026.02	4153.23	10.86
NIBL	5602.8	6505.67	6874	7399.81	8635.53	9.04

Source: Appendix-II

The above table shows that NABIL has consistently increased its investment from the year 2005/06 to 2009/10 . NABIL, NICBL and NIBL have the growth rate of 17.21%, 10.86% and 9.04% respectively. Among them NABIL has the highest growth rate than NICBL and NIBL.

4.1.5.3 Growth Ratio of Loan and Advances

Table 15
Growth Ratio of Loan and Advances

(Rs. in million)

Banks	Year (Loan and Advances)					Growth Rate (%)
	2005/06	2006/07	2007/08	2008/09	2009/10	
NABIL	12922.54	15545.31	21365	27589.93	32268.87	20.08
NICBL	6655.96	8941.39	11264.67	13679.39	15379.43	18.23
NIBL	12776.2	17286.42	26966.65	36241.2	40318.3	25.84

Source: Appendix-II

The above table describes the growth ratio of loan and advances of NABIL, NICBL and NIBL under five years study period. The table shows the high growth ratio of NIBL 25.84% and low growth ratio of NICBL 18.23%. But NABIL has the medium growth ratio i.e. 20.08%.

4.1.5.4 Growth Ratio of Net Profit

Table 16
Growth Ratio of Net Profit

(Rs. in million)

Banks	Year (Net Profit)					Growth Rate (%)
	2005/06	2006/07	2007/08	2008/09	2009/10	
NABIL	635.26	673.95	746.46	1031.05	1139.09	12.39
NICBL	96.58	158.47	243.05	317.43	275.96	23.36
NIBL	350.53	501.39	696.73	900.62	1265.94	29.28

Source: Appendix-II

The above table represents the growth ratio of net profit of NABIL, NICBL and NIBL during five years study period. It shows that NIBL has the highest ratio of 29.28% and NABIL has the lowest ratio of 12.39%.

4.3 Cash Flow Analysis

The cash flows of the banks are grouped into three categories according to the nature of business activities, namely cash flows from operating activities, investing activities and financing activities. These activities show the movements of cash in the three banks. They are summarized in the following table.

4.3.1 Cash Flow Analysis of NABIL

The cash flow of NABIL from different activities is shown in the following table.

Table 17
Cash Flow from different Banking Activities of NABIL
(Rs. in million)

Year	HBL		
	CFOA	CFIA	CFFA
2005/06	1030.74	(1101.36)	-
2006/07	544.23	(225.35)	-
2007/08	1503.61	(472.3)	240
2008/09	1725.55	(1084.17)	354.06
2009/10	1405.88	(248.26)	318.26

Source: Appendix-VIII

Above analysis shows the cash inflow and outflow of NABIL during five years study period. Operating activities of NABIL is in fluctuating trend. Operating efficiency of this bank is increasing from the year 2005/06 to 2007/08. NABIL has the maximum operating activities in year 2008/09.

Investing activities of NABIL is high in the year 2005/06. But it fluctuates from the year 2006/07. NABIL has the maximum investment of (Rs.1101.36) million in year 2005/06. By investing more cash in investing activities it can achieve profitable opportunity.

Cash flow from financing activities of NABIL is increasing from the year 2007/08. NABIL has more cash flow from Financing activities in year 2008/09 i.e. (Rs.354.06).

NABIL is unable to create cash inflow from financing activities during the year 2005/06 and 2006/2007. It has outflow of (Rs.1101.36) million and (225.35).

4.3.2 Cash Flow Analysis of NICBL

The cash flow of NICBL from different activities is shown in the following table.

Table 18
Cash Flow from different Banking Activities of NICBL
(Rs. in million)

Year	EBL		
	CFOA	CFIA	CFFA
2005/06	196.05	(6.06)	196.84
2006/07	218.94	(145.62)	-
2007/08	328.56	(72.02)	151.87
2008/09	374.01	(136.7)	32.63
2009/10	389.03	(159.8)	13.54

Source: Appendix-IX

Above analysis shows the cash inflow and outflow of NICBL. The operating efficiency of NICBL is in increasing trend. Cash flow from investing activities is maximum in the year 2009/10 i.e. (Rs.159.8). Cash from financing activities is fluctuating.

4.3.3 Cash Flow Analysis of NIBL

The cash flow of NIBL from different activities is shown in the following table.

Table 19
Cash Flow from different Banking Activities of NIBL
(Rs. in million)

Year	NIBL		
	CFOA	CFIA	CFFA
2005/06	1450.33	(80.31)	202.84
2006/07	1931.56	(490.47)	251.35
2007/08	2641.78	(303.65)	452.22
2008/09	3803.63	(240.16)	801.84
2009/10	5288.77	(490.85)	13.87

Source: Appendix-X

Above analysis shows that cash flow from operating activities of NIBL is in increasing trend. Cash available for operating activities is maximum in the year 2009/10 i.e.

Rs.5288.77 million. But cash from financing activities is in fluctuating. Cash from financing activities is in fluctuating trend.

4.3.4 Comparative Cash Flow Analysis of NABIL, NICBL and NIBL

4.3.4.1 Cash Flow Analysis from Operating Activities (CFOA)

Following comparative table shows the cash flow from operating activities and their percentage change.

Table 20
Comparative CFOA of NABIL, NICBL and NIBL
(Rs. in million)

Year	Banks					
	NABIL	% Change	NICBL	% Change	NIBL	% Change
2005/06	1030.74	-	196.05	-	1450.33	-
2006/07	544.23	(47.20)	218.94	11.68	1931.56	33.18
2007/08	1503.61	176.28	328.56	50.07	2641.78	36.77
2008/09	1725.55	14.76	374.01	13.83	3803.63	43.98
2009/10	1405.88	(18.58)	389.03	4.02	5288.77	39.05

From the above analysis operating activities of NABIL and NICBL are in fluctuating trend whereas NIBL has the increasing trend for four years and decreasing in last years during study period. We observed the more fluctuations in cash inflows of NABIL, there is the highest cash inflow of Rs.1725.55 million in FY 2008/09 and the lowest cash inflow of Rs.544.23million in FY 2006/07.

In the above analysis we can see the positive as well as negative changes in cash flow from operating activities of NABIL due to fluctuations in operating activities. Whereas NICBL and NIBL have the positive cash changes due to the increasing trend of cash flow from operating activities. It indicates that NICBL and NIBL operating efficiency are increasing during the study period.

4.3.4.2 Cash Flow Analysis from Investing Activities (CFIA)

Following comparative table shows the cash from investing activities of three banks.

Table 21
Comparative CFIA of NABIL, NICBL and NIBL

(Rs. in million)

Year	Banks					
	NABIL	% Change	NICBL	% Change	NIBL	% Change
2005/06	1101.59	-	6.06	-	80.31	-
2006/07	225.35	(79.54)	145.62	2302.97	490.47	510.72
2007/08	472.3	109.59	72.02	(50.54)	303.65	(38.09)
2008/09	1084.17	129.55	136.7	89.81	240.16	(20.91)
2009/10	248.26	(336.71)	159.8	16.9	490.85	104.2

The investing activities of three banks have incurred cash outflows throughout the study period. In comparison NABIL has the highest cash outflow than NICBL and NIBL. They all have the cash outflow of fluctuating trend. Study shows that NABIL has the highest cash outflow of (Rs.1101.59) million in FY 2005/06 where as NICBL has the lowest cash outflow of (Rs.6.06) million in FY 2005/06. Cash flow from financing activities of three banks in all FYs verifies the fact that there never occurred cash inflow from investing activities.

Considering percentage changes in investing activities of three banks, we observed that the negative and positive cash changes in three banks. It is because of fluctuations in investing activities. We can see the more changes in investing activities of NICBL in the year 2006/07 i.e. 2302.97%. It means that NICBL drastically increased its investment in this year in comparison to previous years.

4.3.4.3 Cash Flow Analysis from Financing Activities (CFFA)

Following comparative table shows the cash from financing activities of three banks

Table 22
Comparative CFFA of NABIL, NICBL and NIBL

(Rs. in million)

Year	Banks					
	NABIL	% Change	NICBL	% Change	NIBL	% Change
2005/06	-	-	196.84	-	202.84	-
2006/07	-		-		251.35	23.92
2007/08	240		151.87		452.22	79.92
2008/09	354.06	47.53	32.63	(78.51)	801.84	
2009/10	318.26	(10.11)	13.54	(58.54)	13.87	(98.27)

The above analysis shows that cash flow of financing activities of three banks is in fluctuating trend. NIBL flow more cash for financing activities than NABIL and NICBL. It shows that cash acquisition efficiency of NIBL is more than other two banks. Alternatively NABIL is unable to create cash inflow from financing activities during the year 2005/06 and 2006/07 and it is able to increase its financing activities in year 2008/09 comparison to preceding years.

In the analysis of proportionate changes of cash flow from financing activities, we observed that all the banks have the positive and negative changes. During the year 2006/07 NICBL is unable to generate cash inflow. Due to this reason NIBL has more proportion of net cash changes than other years.

4.4 Correlation Analysis

Correlations between the important variables are analyzed under this heading.

4.4.1 Analysis of Correlation Coefficient between Deposits and Total Investment

The following table describes the relationship between deposits and total investment of NABIL, NICBL and NIBL under five years study period. In this case, deposit is independent variables (X) and total investment is dependent variable (Y).

Table 23
Correlation Coefficient between Deposits and Total Investment

Banks	Base of Evaluation			
	R	R ²	P.E.	6×P.E.
NABIL	0.2256	0.0509	0.2863	1.717
NICBL	0.8623	0.7436	.0774	0.464
NIBL	0.981	0.963	0.009	0.054

Source: Appendix -III

From the above table, it is found that coefficient of correlation between deposits and total investment of NABIL is 0.2256 i.e. low degree of positive correlation between these two variables. And the value of coefficient of determination (R²) is also 0.0509 which means 5.09% of investment decision is depend upon deposit and only 15.4% investment is depend upon other variables. Similarly probable error (P.E.) is 0.2863 and 6P.E. is 1.717 which shows that 'r' is lower than 6P.E. Therefore it reveals that relationship between deposit and investment is not significant.

Likewise in case of NICBL, coefficient of correlation between investment and deposit is 0.8623 i.e. there is high degree of positive correlation between two variables. Coefficient of determination (R²) is 0.7436, which means 74.36% of investment decision is depend upon deposit and only 25.64% investment is depend on other variables. And its P.E. is 0.0774 and similarly 6P.E. is .464 which is lower than 'r' i.e. 0.8623. It means correlation of coefficient between deposit and Investment of NICBL is significant positive relationship between them.

Similarly, coefficient of correlation of NIBL is 0.981 i.e. there is high degree of positive correlation between two variables. Coefficient of determination (R²) is 0.963, which means 96.3% of investment decision is depend upon deposit and only 3.7% investment is depend on other variables. And P.E. is 0.009 and 6P.E. is 0.054 which is higher than 'r' i.e. 0.981. It means correlation of coefficient between deposit and investment of NIBL is significant

4.4.2 Analysis of Correlation Coefficient between Deposits and Loan and Advances

The following table describes the relationship between deposit and loan and advances of NABIL, NICBL and NIBL with comparatively under five years study period. In the

following case, deposit is independent variables(X) and loan and advances is dependent variables(Y).

Table 24
Correlation Coefficient between Deposits and Loan and Advances

Banks	Base of Evaluation			
	R	R ²	P.E.	6×P.E.
NABIL	0.984	0.968	0.008	0.049
NICBL	0.997	0.995	0.001	0.008
NIBL	0.988	0.977	0.006	0.036

Source: Appendix –III

From the above table, we can find that the coefficient of correlation between deposit and loan and advances value of ‘r’ of NABIL, NICBL and NIBL are 0.984, 0.997 and 0.988 respectively. This shows the positive relationship between these two variables i.e. loan and advances and deposits. By considering coefficient of determination (R²), the value of R² is 0.968 in case of NABIL, 0.995 in case of NICBL and 0.977 in case of NIBL.

The value of R² of NABIL is 0.968, which means 96.8% of loan and advances decision is depend upon deposit and only 3.20% loan and advances depend upon other variables. The value of R² of NICBL is 0.995 which means that 99.5% of loan and advances decision is depend upon deposit and only 0.50% loan and advances depend upon other variables. Similarly, the value of R² of NIBL is 0.977, which means 97.7% of loan and advances decision is depend upon deposit and only 2.30% loan and advances depend upon other variables.

By considering the probable error (P.E.), the value of R² is less than the 6 times of P.E., i.e. 0.968>0.049, 0.995>0.008 and 0.977>0.36 which indicates that there is significant relationship between deposits and loan and advances.

Figure 4
Total Investment to Total Deposit

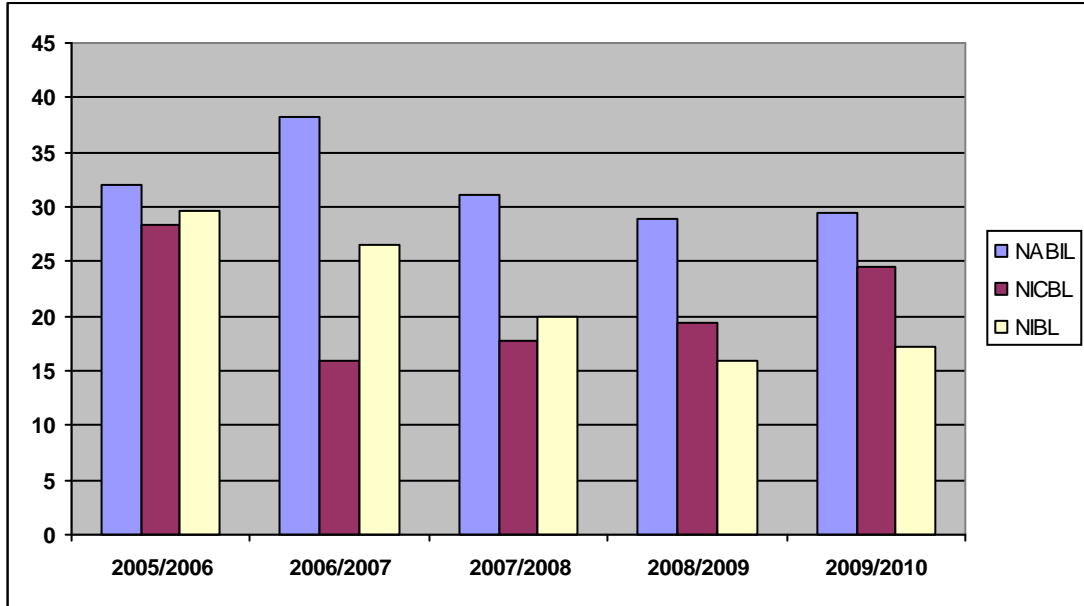
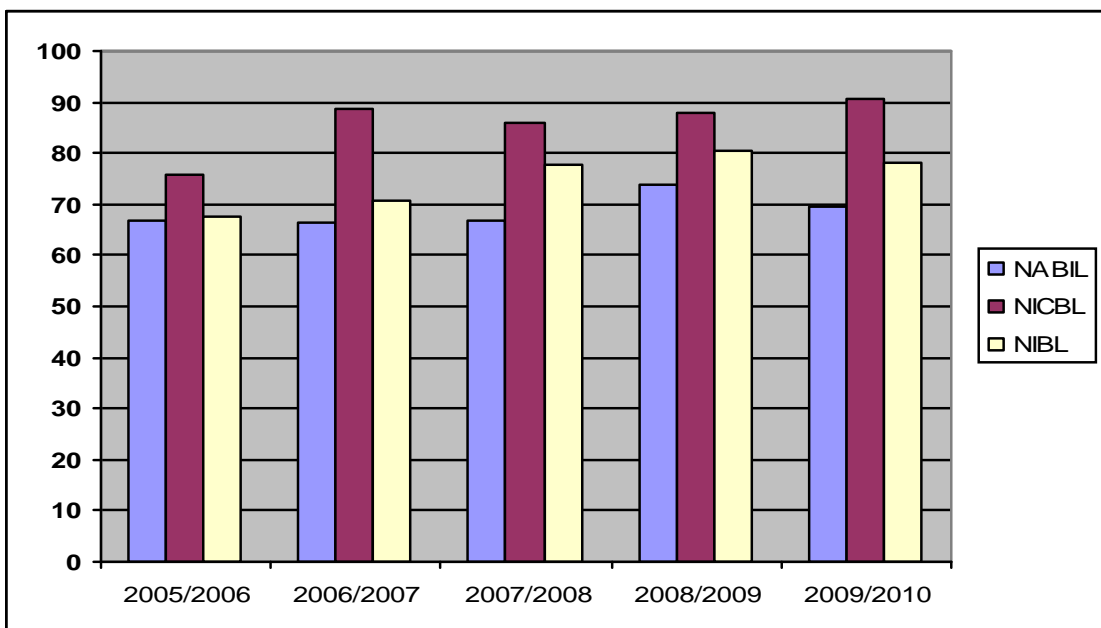


Figure 5
Loan & Advance to Total Deposit



4.6 Test of Hypothesis

Under this analysis an effort has been made to test the significance level regarding the parameter of the population on the basis of sample drawn from the population.

4.6.1 Test of Hypothesis on Loans and Advances to Total Deposit Ratio

In this analysis ratios of loan and advances to total deposits of NABIL, NICBL and NIBL are taken and are carried out under t-test of significance difference.

Table 25
Test of Hypothesis on Loans and Advances to Total Deposit ratios between NABIL, NICBL and NIBL

S.N.	Fiscal Year	NABIL			NICBL			NIBL		
		X ₁	x ₁	x ₁ ²	X ₂	x ₂	x ₂ ²	X ₃	x ₃	x ₃ ²
1	2005/06	66.79	- 1.95	3.8	75.92	- 9.98	99.6	67.5	- 7.39	54.61
2	2006/07	66.6	- 2.14	4.58	88.81	2.91	8.47	70.59	-4.3	18.49
3	2007/08	66.9	- 1.84	3.38	86.09	.19	.0361	77.61	2.72	7.4
4	2008/09	73.87	5.13	26.31	87.8	1.9	3.51	80.48	5.59	31.25
5	2009/10	69.53	.79	.62	90.8	4.9	24	78.27	3.38	11.42
		343.69		38.69	429.5		135.61	374.45		123.17

Here,

$$\bar{X}_1 = \frac{X_1}{n_1} = \frac{343.69}{5} = 68.74 \quad \bar{X}_2 = \frac{X_2}{n_2} = \frac{429.5}{5} = 85.9 \quad \bar{X}_3 = \frac{X_3}{n_3} = \frac{374.45}{5} = 74.89$$

$$\text{Again, } x_1 = X_1 - \bar{X}_1 \quad x_2 = X_2 - \bar{X}_2 \quad x_3 = X_3 - \bar{X}_3$$

a) Test of Significance of difference between NABIL and NICBL

Here,

Null Hypothesis (H₀): $\bar{X}_1 = \bar{X}_2$ i.e. there is no significant difference between mean ratios of loans and advances to total deposit of NABIL and NICBL.

Alternative Hypothesis (H₁): $\bar{X}_1 \neq \bar{X}_2$ i.e. there is significant difference between mean ratios of loans and advances to total deposit of NABIL and NICBL (Where \bar{X}_1 is mean ratio of NABIL and \bar{X}_2 is mean ratio of NICBL).

Under H₀, the test statistic is given by,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where,

$$S^2 = \frac{1}{n_1 + n_2 - 2} \left[\sum x_1^2 + \sum x_2^2 - \frac{(\sum x_1)^2}{n_1} - \frac{(\sum x_2)^2}{n_2} \right] = \frac{1}{5 + 5 - 2} [38.69 + 135.64] = 21.787$$

Now,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}} = \frac{68.74 - 85.9}{\sqrt{21.78 \left(\frac{1}{5} + \frac{1}{5} \right)}} = -5.813$$

Hence, $|t| = 5.813$

Degree of freedom = $n_1 + n_2 - 2 = 5 + 5 - 2 = 8$

The tabulated value of t for 8 d.f. at 5% level of significance for two tailed test is 2.306

Conclusion:

Since, the calculated value of $|t|$ i.e. 5.813 is greater than the tabulated value i.e. 2.306. It is significant, null hypothesis is rejected hence alternative hypothesis is accepted which means that there is significant difference between mean ratios of loan and advances to total deposit of NABIL and NICBL.

b) Test of Significance of difference between NABIL and NIBL

Here,

Null Hypothesis (H₀): $\bar{X}_1 = \bar{X}_3$ i.e. there is no significant difference between mean ratios of loans and advances to total deposit of NABIL and NIBL.

Alternative Hypothesis (H₁): $\bar{X}_1 \neq \bar{X}_3$ i.e. there is significant difference between mean ratios of loans and advances to total deposit of NABIL and NIBL (Where \bar{X}_1 is mean ratio of NABIL and \bar{X}_3 is mean ratio of NIBL).

Under H₀, the test statistic is given by,

$$t = \frac{\bar{X}_1 - \bar{X}_3}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_3} \right)}}$$

Where,

$$S^2 = \frac{1}{n_1 + n_3 - 2} \left(\sum x_1^2 + \sum x_3^2 - \frac{(\sum x_1)^2}{n_1} - \frac{(\sum x_3)^2}{n_3} \right) = \frac{1}{5+5-2} (38.69 + 123.17 - \frac{68.74^2}{5} - \frac{74.89^2}{5}) = 20.23$$

Now,

$$t = \frac{\bar{X}_1 - \bar{X}_3}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_3} \right)}}$$

$$= \frac{68.74 - 74.89}{\sqrt{20.23 \left(\frac{1}{5} + \frac{1}{5} \right)}} = -2.162$$

Hence, $|t| = 2.162$

Degree of freedom = $n_1 + n_3 - 2 = 5 + 5 - 2 = 8$

The tabulated value of t for 8 d.f. at 5% level of significance for two tailed test is 2.306

Conclusion:

Since, the calculated value of $|t|$ i.e. 2.162 less than the tabulated value i.e. 2.306. It is significant, null hypothesis is accepted hence alternative hypothesis is rejected which means that there is no significant difference between mean ratios of loan and advances to total deposit of NABIL and NIBL.

c) Test of Significance of difference between NICL and NIBL

Here,

Null Hypothesis (H₀): $\bar{X}_2 = \bar{X}_3$ i.e. there is no significant difference between mean ratios of loans and advances to total deposit of NICBL and NIBL.

Alternative Hypothesis (H₁): $\bar{X}_2 \neq \bar{X}_3$ i.e. there is significant difference between mean ratios of loans and advances to total deposit of NICBL and NIBL (Where \bar{X}_2 is mean ratio of NICBL and \bar{X}_3 is mean ratio of NIBL).

Under H₀, the test statistic is given by,

$$t = \frac{\bar{X}_2 - \bar{X}_3}{\sqrt{S^2 \left(\frac{1}{n_2} + \frac{1}{n_3} \right)}}$$

Where,

$$S^2 = \frac{1}{n_2 + n_3} \left[\sum x_2^2 - \frac{(\sum x_2)^2}{n_2} + \sum x_3^2 - \frac{(\sum x_3)^2}{n_3} \right] = \frac{1}{5 + 5} [35.61 + 23.17] = 32.34$$

Now,

$$t = \frac{\bar{X}_2 - \bar{X}_3}{\sqrt{S^2 \left(\frac{1}{n_2} + \frac{1}{n_3} \right)}}$$

$$= \frac{85.9 - 74.89}{\sqrt{32.34 \left(\frac{1}{5} + \frac{1}{5} \right)}} = 3.0612$$

Degree of freedom = $n_2 + n_3 - 2 = 5 + 5 - 2 = 8$

The tabulated value of t for 8 d.f. at 5% level of significance for two tailed test is 2.306

Conclusion:

Since, the calculated value of t i.e. 3.0612 greater than the tabulated value i.e. 2.306. It is significant, null hypothesis is rejected hence alternative hypothesis is accepted which means that there is significant difference between mean ratios of loan and advances to total deposit of NICBL and NIBL.

4.6.2 Test of Hypothesis Total Investment to Total Deposit Ratio

In this analysis ratio of total investment to total deposits of NABILL, NICBL and NIBL are taken and are carried out under t-test of significance difference.

Table 26
Test of Hypothesis on Total Investment to Total Deposit ratios between NABIL, NICBL and NIBL

S.N.	Fiscal Year	NABIL			NICBL			NIBL		
		X ₁	x ₁	x ₁ ²	X ₂	x ₂	x ₂ ²	X ₃	x ₃	x ₃ ²
1	2005/06	31.93	-.03	.0009	28.29	7.13	50.86	29.6	7.758	60.19
2	2006/07	38.82	6.86	47.06	15.89	-5.26	27.66	26.57	4.73	22.37
3	2007/08	31.14	-.82	.672	17.67	-3.48	12.11	19.95	-1.89	3.572
4	2008/09	28.99	-2.97	8.82	19.42	-1.73	2.99	15.85	-5.99	35.88
5	2009/10	29.46	-2.5	6.25	24.52	3.37	11.36	17.24	-4.6	21.16
		159.84		62.80	105.79		104.98	109.21		143.17

Here,

$$\bar{X}_1 = \frac{X_1}{n_1} = \frac{159.84}{5} \quad \bar{X}_2 = \frac{X_2}{n_2} = \frac{105.79}{5} \quad \bar{X}_3 = \frac{X_3}{n_3} = \frac{109}{5} = 21.84$$

$$= 31.96$$

$$= 21.15$$

$$\text{Again, } x_1 = X_1 - \bar{X}_1$$

$$x_2 = X_2 - \bar{X}_2$$

$$x_3 = X_3 - \bar{X}_3$$

a) Test of Significance of difference between NABIL and NICBL

Here,

Null Hypothesis (H₀): $\bar{X}_1 = \bar{X}_2$ i.e. there is no significant difference between mean ratios of total investment to total deposit of NABIL and NICBL.

Alternative Hypothesis (H₁): $\bar{X}_1 \neq \bar{X}_2$ i.e. there is significant difference between mean ratios of total investment to total deposit of NABIL and NICBL (Where \bar{X}_1 is mean ratio of NABIL and \bar{X}_2 is mean ratio of NICBL)

Under H₀, the test statistic is given by,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where,

$$S^2 = \frac{1}{n_1 + n_2 - 2} \sum (x_1^2 + x_2^2) = \frac{1}{5 + 5 - 2} \{62.8 + 104.98\} = 20.97$$

Now,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

$$= \frac{31.96 - 21.15}{\sqrt{20.97 \left(\frac{1}{5} + \frac{1}{5} \right)}} = 3.7325$$

Degree of freedom = $n_1+n_2-2 = 5+5-2 = 8$

The tabulated value of t for 8 d.f. at 5% level of significance for two tailed test is 2.306

Conclusion:

Since, the calculated value of t i.e.3.7325 is greater than the tabulated value i.e. 2.179. It is not significant, null hypothesis is rejected hence alternative hypothesis is accepted which means that there is significant difference between mean ratios of total investment to total deposit of NABIL and NICBL.

b) Test of Significance of difference between NABIL and NIBL

Here,

Null Hypothesis (H₀): $\bar{X}_1 = \bar{X}_3$ i.e. there is no significant difference between mean ratios of total investment to total deposit of NABIL and NIBL.

Alternative Hypothesis (H₁): $\bar{X}_1 \neq \bar{X}_3$ i.e. there is significant difference between mean ratios of total investment to total deposit of NABIL and NIBL (Where \bar{X}_1 is mean ratio of NABIL and \bar{X}_3 is mean ratio of NIBL)

Under H₀, the test statistic is given by,

$$t = \frac{\bar{X}_1 - \bar{X}_3}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_3} \right)}}$$

Where,

$$S^2 = \frac{1}{n_1 + n_3 - 2} \left[\sum x_1^2 - \frac{(\sum x_1)^2}{n_1} + \sum x_3^2 - \frac{(\sum x_3)^2}{n_3} \right] = \frac{1}{5 + 5 - 2} [62.8 - \frac{143.17^2}{5} + \dots] = 25.74$$

Now,

$$t = \frac{\bar{X}_1 - \bar{X}_3}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_3} \right)}}$$

$$= \frac{31.96 \sqrt{21.84}}{\sqrt{25 \cdot .74 \left(\frac{1}{5} \Gamma \frac{1}{5} \right)}} = 3.1539$$

Degree of freedom = $n_1+n_3-2 = 5+5-2 = 8$

The tabulated value of t for 8 d.f. at 5% level of significance for two tailed test is 2.306

Conclusion:

Since, the calculated value of t i.e.3.1539 is greater than the tabulated value i.e. 2.306. Hence the null hypothesis is rejected so alternative hypothesis is accepted which means that there is significant difference between mean ratios of total investment to total deposit of NABIL and NIBL.

c) Test of Significance of difference between NICBL and NIBL

Here,

Null Hypothesis (H₀): $\bar{X}_2 = \bar{X}_3$ i.e. there is no significant difference between mean ratios of total investment to total deposit of NICBL and NIBL.

Alternative Hypothesis (H₁): $\bar{X}_2 \neq \bar{X}_3$ i.e. there is significant difference between mean ratios of total investment to total deposit of NICBL and NIBL. (Where \bar{X}_2 is mean ratio of NICBL and \bar{X}_3 is mean ratio of NIBL)

Under H₀, the test statistic is given by,

$$t = \frac{\bar{X}_2 - \bar{X}_3}{\sqrt{S^2 \left(\frac{1}{n_2} \Gamma \frac{1}{n_3} \right)}}$$

Where,

$$S^2 = \frac{1}{n_2 + n_3 - 2} \left[\sum x_2^2 - \frac{(\sum x_2)^2}{n_2} + \sum x_3^2 - \frac{(\sum x_3)^2}{n_3} \right] = \frac{1}{5 + 5 - 2} [104.98 + 143.17] = 31.02$$

Now,

$$t = \frac{\bar{X}_2 - \bar{X}_3}{\sqrt{S^2 \left(\frac{1}{n_2} + \frac{1}{n_3} \right)}} = \frac{21.15 - 21.84}{\sqrt{31.02 \left(\frac{1}{5} + \frac{1}{5} \right)}} = -0.1959$$

Degree of freedom = $n_2 + n_3 - 2 = 5 + 5 - 2 = 8$

The tabulated value of t for 8 d.f. at 5% level of significance for two tailed test is 2.306

Conclusion:

Since, the calculated value of t i.e. 0.1959 is less than the tabulated value i.e. 2.306. It is not significant, null hypothesis is accepted hence alternative hypothesis is rejected which means that there is no significant difference between mean ratios of total investment to total deposit of NICBL and NIBL.

4.7 Major Findings of the Study

Basically in this research work, all the data has been obtained from secondary sources. Data has been analyzed by using financial as well as statistical tools. This topic focuses on the major findings of the study, which are derived from the analysis of fund mobilization of NABIL, NICBL and NIBL with comparatively applying five years data from 2005/06 to 2009/10.

The major findings of the study derived from the analysis of financial tools of HBL, EBL and NIBL are given below:

1. Findings from Liquidity Ratios

- i) The mean ratio of cash and bank balance to total deposits of NIBL is higher than NABIL and NICBL and NABIL has lowest mean ratio. It states that the liquidity position of NIBL is better in this regard. The ratio of NABIL is less consistent and NICBL has more consistent ratio. It shows NABIL has taken more risk to meet the daily cash requirements.
- ii) The mean ratio of cash and bank balance to current assets of NIBL is higher than NABIL and NICBL and NABIL has lowest mean ratio. It reveals that liquidity position of NIBL is better than two banks. It also indicates that NIBL has the higher capacity to meet the cash demand of its customer deposit than that of other commercial banks. The ratio of NABIL is less consistent and NICBL has more consistent ratio.

The above result shows that the liquidity position of NIBL is comparatively better than NABIL and NICBL. NIBL has the highest cash and bank balance to total deposit and cash and bank balance to current assets ratio. At last, it can be concluded that NIBL has good deposit collection and higher ability to meet the cash requirements. NIBL has less consistent mean ratio.

2. Findings from Assets Management Ratios

- i) The mean ratio of loan and advances to total deposit of NICBL is greater than NABIL and NIBL. The variability ratio of NABIL is lower than that of other two banks. It seems more consistent than NICBL and NIBL.
- ii) The average ratio of total investment to total deposit ratio of NABIL is higher than that of NICBL and NIBL. The variability ratio of NABIL is also lower than that of other two banks. It seems more consistent than NICBL and NIBL.
- iii) The average ratio of loan and advances to total working fund of NICBL is higher than NABIL and NIBL. The variability ratio of NABIL is

lower than that of NICBL and NIBL. It is the indication of more consistency of loan and advances.

From the above analysis it helps to conclude that no one banks is fully successful but one is success in one and another is success in other to invest in productive sector and has mobilized its collected deposits to provide loan and advances. Similarly, NABIL has mobilized its collected deposits in investment.

3. Findings from Profitability Ratios

- i) The mean ratio of return on total working fund of NABIL is greater than NICBL and NIBL. Where as the variability ratio of NIBL is lower than NABIL and NICBL. It indicates that the return on total working fund of NIBL is stable.
- ii) The mean ratio of return on loan and advances of NABIL is higher than NICBL and NIBL. The variability ratio of NIBL is lower than NICBL and NABIL. It seems NIBL has stable return.
- iii) The mean ratio of total interest paid to total working fund of NABIL is lower than NICBL and NIBL. It reveals that NABIL has not paid high interest as NICBL and NIBL. The ratio of NICBL is more consistent than that of other two banks.
- iv) In case of mean ratio of total interest earned to total working fund of NABIL is highest among three banks. The variability ratio of NIBL is lower than NABIL and NICBL. It reveals that NABIL is mobilizing its working fund successfully so that it has high earning capacity.

From the above analysis of profitability ratios, it can be concluded that the NABIL is profitable in comparison to other compared banks.

4. Findings from Risk Ratios

- i) In case of credit risk ratio, NIBL has the lower risk than NABIL and NICBL. The variability ratio of NICBL is lower than NABIL and NIBL. It indicates that the credit risk ratio is consistent. But in case of NABIL and NICBL, they have comparatively high credit risk ratios.

- ii) The mean ratio of liquidity risk of NABIL is lower than NICBL and NIBL and in case of NIBL it is higher than NABIL and NICBL. Degree of risk and variability of risk is also lower in NICBL in comparison to two banks. It seems liquidity risk ratio is consistent.

From the above analysis, NABIL has maintained the lower liquidity risk and NIBL has maintained lower credit risk. And lower liquidity risk means higher risk for higher profit.

5. Findings from Growth Ratios

- i) The growth ratio of loan and advances of NIBL is in increasing trend whereas NABIL and NICBL has highly fluctuating trend. Growth rate of NIBL is higher among three banks. Though NABIL is providing more funds in loan and advances it appears too weak in growth rate point of view.
- ii) The growth rate of total investment of NABIL is highly fluctuated than that of NIBL and NICBL. Although NIBL is investing more funds but it seems weak in comparison to NABIL and NICBL because of lowest growth ratio. It shows that NABIL had adopted a policy to keep on increasing its investment.
- iii) The growth ratio of total deposits of NABIL and NIBL are increasing every year whereas growth rate of NICBL is in fluctuating trend. Out of three banks growth rate of total deposits of NABIL is greater than NICBL and NIBL. It shows that NABIL has increased its deposit collection capacity.
- iv) The growth ratio of net profit of NIBL is in increasing trend the during study period. NICBL and NABIL has fluctuating trend. NIBL has the highest growth ratio of net profit among three banks.

From the above findings it can be observed that the NIBL has maintained the high growth ratio in total deposits, loan and advances and net profit but it has low position in investment. The growth rate of total investment of NABIL is better than NICBL and NIBL.

6. Findings from Cash Flow Analysis

i) Findings from Operating Activities

Overall operating activities of NABIL, NICBL and NIBL have been occurred cash inflows throughout the study period. Operating efficiency of NABIL is in increasing trend during the study period.

ii) Findings from Investing Activities

The investing activities of three banks have deserved cash outflows throughout the study period. NABIL and NIBL has fluctuating trend whereas NIBL has highly fluctuating trend of investing activities. By the help of investing activities, these three banks are able to increased long term assets as well as carry out profitable opportunity.

iii) Findings from Financing Activities

It shows that cash acquisition capacity of NIBL is more than other two banks. During the year 2005/06 and 2006/7 NABIL is unable to create cash inflow from financing activities. The condition may arise due to the unavailability of cash flow from share, insufficient profit, dividend payment.

7. Findings from Coefficient of Correlation Analysis

- i) Correlation coefficient between deposit and total investment of NIBL is higher than other compared banks. It indicates that NIBL is successfully mobilizing its deposits as investment. There is significant relationship between correlation coefficient of deposit and total investment of NICBL and NIBL
- ii) NICBL has the highest degree of correlation coefficient between deposit and loan and advances than other two banks. It states that the NICBL is in better position of mobilization of deposit as loan and advances in comparison to NABIL and NIBL. There is significant relationship between correlation coefficient of deposit and loan and advances of NABIL, NICBL and NIBL

8. Findings from Test of Hypothesis

- i) There is significant difference between mean ratios of total investment to total deposit of NABIL and NICBL.
- ii) There is significant difference between mean ratios of total investment to total deposit of NABIL and NIBL.
- iii) There is no significant difference between mean ratios of total investment to total deposit of NICBL and NIBL.
- iv) There is significant difference between mean ratios of loan and advances to total deposit of NABILL and NICBL.
- v) There is no significant difference between mean ratios of loan and advances to total deposit of NABIL and NIBL
- vi) There is significant difference between mean ratios of loan and advances to total deposit of NICBL and NIBL.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Basically the entire research work focuses on the comparative study on fund mobilization of three Commercial banks; Nabil Bank Ltd., Nepal Investment Bank Ltd. and Nepal Investment and Commercial Bank Ltd. These three Commercial Banks are composed as per their fund mobilization activities by taking five years data from the year 2005/06 to 2009/010.

The study is mainly based on secondary sources. All data are taken from concerned banks annual report, literature publication, balance sheet, profit and loss account, previous thesis report, different website, related books and booklets, journals and articles. After collecting data from different sources, it is analyzed by using financial and statistical tools. Findings are drawn by applying various financial tools viz. liquidity ratio, assets management ratio, profitability ratio, growth ratio, risk ratio, and cash flow analysis. Similarly, statistical tools have been used viz. mean, standard deviation, coefficient of variation and coefficient of correlation.

In an attempt to fulfill the objectives of the research work, all secondary data are compiled, processed and tabulated as per necessity and figures, diagrams, different types of chart are also used.

This study suffers from different limitations; it considers three banks only and time and resource are the constraints of the study. Therefore the study may not be generalized in all cases and accuracy depends upon the data collected and provided by the organization.

5.2 Conclusion

The above-mentioned major findings led this study to following conclusions.

- From the analysis of liquidity ratio, the liquidity position of NABIL is comparatively better than NICBL and NIBL. NIBL has the highest cash and

bank balance to total deposit and cash and bank balance to current assets ratio. Liquidity position of NICBL is comparatively lower than NIBL and NABIL.

- ✚ Considering asset management aspect of three banks, NIBL is relatively successful to invest in productive sector and has mobilized its collected deposits to provide loan and advances for the purpose of earning profit. NABIL has weak condition in mobilizing its collected deposits and total working fund in loan and advances. NICBL is weak in investing its collected deposits in comparison to NABIL and NIBL. NICBL has not invested its fund efficiently towards productive activities.
- ✚ The liquidity risk ratio of NIBL is higher than that of NABIL and NICBL which appears to be less profitable return of NIBL. On the other hand liquidity risk ratio of NABIL has the lowest among three banks which specified that NABIL has kept idle funds in the form of cash and bank balance but this reduces profitability. NIBL has the lowest credit risk ratio among three banks. Credit risk involved in loan and advances and total investment of NICBL is more than NABIL and NIBL. It may arise due to default risk or non-repayment of loan.
- ✚ NABIL appears to be more successful to earn profit on loan and advances than NIBL and NICBL. Profit earning capacity of NICBL is considered too weak. The average ratio of return on total working fund indicates that working fund of NABIL is well managed and efficiently utilized. Alternatively total asset of NICBL has not well managed. NICBL was not able to receive high interest on its total working fund in comparison with NABIL and NIBL. On the other hand, NABIL has mobilized its working fund properly and its earning capacity is also high. NABIL is in better position from the viewpoint of interest expenses. It seems to be successful to collect its working fund from less expensive sources in comparison to NIBL and NICBL whereas NICBL is in weak position.
- ✚ Growth ratio of total deposits, total investment and loan and advance of NICBL seem too weak in comparison to NABIL and NIBL. NABIL has low growth ratio of net profit in comparison to NICBL and NIBL. NIBL has maintained high growth ratios in total deposit, loan and advances and net profit but it has weak position in investment. Therefore, we must say that the bank is successful to increasing its sources of funds and its mobilization.

- ✚ Deposit is the strongest sources of fund whereas borrowings cover fewer portions of sources of fund. NICBL has kept fewer amounts in deposits in comparison to other two banks. Among the uses of funds, loan and advances covers maximum portion and interest accrued covers less portion. NICBL has invested fewer amounts into loan and advances in comparison to NABIL and NIBL.
- ✚ The operating activities of NABIL, NICBL and NIBL have been occurred cash inflows throughout the study period. Operating efficiency of NABIL is in increasing trend during the study period. The investing activities of three banks have deserved cash outflows throughout the study period. By the help of investing activities, these three banks are able to increase long term assets as well as carry out profitable opportunity. It shows that cash acquisition capacity of NABIL is more than other two banks. During the year 2005/06 and 2006/07 NABIL is unable to generate cash inflow from financing activities. The condition may arise due to the unavailability of cash flow from share, insufficient profit, dividend payment.
- ✚ Correlation coefficient between deposit and total investment of NABIL, NICBL and NIBL elucidates the positive relationship or there is high degree of positive correlation. Most of the investment decision of these three banks depends upon deposits and only few decisions are depend upon other variables. Moreover by considering the probable error, the value of coefficient of determination of NABIL is less than 6 P.E. so it is insignificant i.e. there is no significant relationship between deposits and total investment though there is positive relation between them. On the other hand there is significant relationship between deposits and total investment of NICBL and NIBL.
- ✚ Correlation coefficient between deposits and loan and advances indicates the positive relationship between the variables of NABIL, NICBL and NIBL. In most of the cases it has been found that investment decision depends upon the deposits and only few decisions depend upon other variables. By considering the probable error, the value of coefficient of determination of all banks is greater than that of 6 P.E. so it can be concluded that the value of correlation coefficient is significant i.e. there is significant relationship between total deposits and loan and advances.

In case of testing of hypothesis we can conclude that there is significant difference between mean ratio of loan and advances to total deposits of NABIL

& NICBL and NIBL & NICBL. Alternatively there is no significant difference between mean ratio of total investment to total deposit of NICBL and NIBL.

5.3 Recommendations

On the basis of analysis, findings, following recommendations are made. The banks can make use of these recommendations to overcome their weakness, inefficiency and improve their present fund mobilization and their overall investment policy.

➤ **To maintain effective liquidity position**

The liquidity position of a bank may be affected by internal as well as external factors. The affecting factors may be interest rates, supply and demand position of loan and advances as well as savings, investment situations, central banks directives, the lending policies, capability of management, strategic planning and funds flow situations. The ratio of cash and bank balance to total deposit and current assets of NIBL is higher than that of NABIL and NICBL. It means NIBL has higher cash and bank balance than NABIL and NICBL and it indicates NIBL has higher idle cash and bank balance. It may decrease profit of bank. NIBL is recommended to mobilize its idle cash and bank balance in profitable sector as loan and advances.

➤ **To increase deposit collection**

The main source of commercial banks is collecting deposit from public who don't need that fund recently. So, it is recommended to collect more amounts as deposits through large variety of deposits schemes and facilities, like cumulative deposit scheme, prize bonds scheme, gift cheques scheme, recurring deposit scheme (life insurance), monthly interest scheme, house building scheme, direct finance housing scheme, education loan scheme and many others.

“something is better than nothing”

➤ **To make more investment on share and debentures**

To get success in a competitive market and to raise financial and economic development of the country a commercial bank must mobilize its fund in different sectors such as purchase of share and debenture of other financial and non-financial

companies and other government and non-government companies. It is also genuine means of utilization of resource. Thus these companies may get chances to rise and that help to development of the country. Out of total working fund, investment on shares and debentures no one of these three banks invest its fund in share and debentures of different companies. So I suggest to invest on Shares and debentures.

➤ **To make profitable return**

As a private sector, commercial banks can not keep their eyes closed from the profit motive. They should be careful in increasing profit motive. They should be careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and all its customers. NICBL's profitability position is worst than that of other two banks. So, NICBL is strongly recommended to utilize risky assets and shareholders fund to gain highest profit margin. Similarly, it should reduce its expenses and should try to collect cheap fund being more profitable.

➤ **To prefer aggressive-defensive policy**

Observing the findings of growth analysis and trend of growth, it has noticed that NABIL has been adopting an aggressive policy in all the parameters including loan and advances. As the economy has not been able to show the survival growth, the aggressive policy may prove to be harmful in future. NICBL should rather prefer an aggressive-defensive policy in mobilizing the resources into loans.

➤ **To invest deprive and priority sector**

NRB has directed to commercial banks to invest their certain percentage in deprives and Priority sector and it is also responsibility of banks. The study has been found that NABIL has earned high profit because their services are only for profitable sector. It reveals that it has not granted loan on priority and deprives sector. So NABIL is recommended to thoroughly follow the directives issued by NRB and invest in priority and deprive sector and also to invest on other small-scale industries like, public utilities, health, sanitation and drinking water, education and agricultural etc.

➤ **To make effective portfolio management**

The total fund of a bank is the aggregation of different portfolios such as deposits, capital fund, borrowings and other deposit liabilities. It is need not to state that deposit liability is the major contributing source. Considering the position of NABIL and NIBL, the contribution of deposit to total sources of funds is high. It is definitely not a good sign. NABIL and NIBL are therefore, recommended to enhance its capital base and operational resources of funds in order to have an appropriate combination to the total funds of the bank. High contribution of deposits to the total sources of funds demands high level of liquid assets and it is the threat of withdrawals.

Portfolio management is very important for every investor. In each investment, risk is involved. Risk is the chance of loss or the variability of the returns of a period. The greater the variability of the returns project will be riskier. So it is kept in mind while investing in the project which would be lower risk and higher return. Portfolio management plays vital role with dividing total investment in different areas. Portfolio management of the bank assets basically means allocation of funds in different components of banking assets having different degrees of risk and varying rate of return in such a way that the conflicting goal of maximum yield and minimum risk can be achieved. So, portfolio conditions of NABIL , NICBL and NIBL should be examine carefully from time to time and alteration should be made to maintain equilibrium in the portfolio condition as far as possible. So, it can be said “all eggs should not be kept in the same basket”. The bank should make continuous efforts to explore new, competitive and high yielding investment opportunities to optimize their investment portfolio.

➤ **Liberal lending policy and sound credit collection policy**

To get success in competitive banking market, commercial bank must utilize their deposit as loan and advances. Loan and advances are the main source of income and also means of utilization resources of commercial banks. Negligence in administrating these assets could be the cause of liquidity crisis in bank and one of the main reasons of the bank failure. Collection of loan has been most challenging task of commercial banks these days, increasing on non-performing assets discloses the failure of commercial banks in recovery of loan. Therefore, it is recommended to NABIL, NICBL and NIBL to follow liberal lending policy when sensations loan and advances with sufficient guaranty and implement a sound

collection policy including procedure which rapid identification of bad debtor loans, immediate contact with borrower, continual follow up and as well as legal procedure if require.

➤ **To adopt innovative approach to bank marketing**

In the light of growing competition in the banking sector, the business of the bank should be customer oriented. Marketing is an effective tool to attract and retain the customers. Without effective marketing strategy any one be along behind in today's competitive environment. Different marketing techniques like advertisement through audio-visual, published web site, documentary etc. are flowed. Similarly, draw attentions of customers through new technologies like, E-banking, increase investment through their wide international banking network should be introduced.

➤ **To extend branches all over the country**

Economic development of the country depends upon the growth of commercial banks. If the service of commercial banks expands all over the country it collects idle money from every corner of the country and can be utilized for income generation purpose. HMG/N has also encouraged the Commercial banks to expand banking service in rural areas and communities without making unfavorable impact in their profit. Therefore, all banks are recommended to expand their branch and providing banking service and facilities to the rural areas and communities to accelerate the economic development of the country.

Being a developing country, economic environment of Nepal is not in a good condition. The strong economic structure is needed for the rapid overall development. Commercial banks play vital role in the developing country like Nepal. Commercial banks are facing several problems related to fund mobilization. They have to rush with modern banking technology so that, they would be a professional institutions. If commercial banks follow above- mentioned suggestions, they would be successful in reaching to the modern innovative and competitive banking market.

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