CHAPTER – I

INTRODUCTION

1.1 Background of the Study

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

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

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

Commercial bank is an institution, which accepts demand deposits, subject to check and make short-term loan to business enterprises, regardless of the scope of its other services. Nowadays, Joint venture Banks (JVBs) are increasing in Nepal. Nepal Arab Bank Limited (Currently named as Nabil Bank Limited) was the first joint venture bank established in 1984

with 50% invest by Dubai Bank Limited of UAE and of remaining 50% by Nepalese financial institutions comprise 30% and 20% by general public.
In global perspective, joint ventures are the mode of trading through partnership among nations and also a form of negotiations between various groups of industries and trades to achieve mutual exchange of goods and services for sharing comparative advantages. A Joint Venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial investment, production or trade) (Gupta, 1994: 24).

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

The development of the country is always measured by its economic development through economic indices. Therefore, every country gives emphasis on the upliftment and prosperity of its economy. The financial institutes act as intermediaries by transferring the resources from the point of surplus to the deficit. A new organized financial institution including financial companies, commercial banks and others financial intermediaries play an important role for the development of the country. They collect scattered financial resources from the mass and invest them among those who are associated with the social, commercial, and economic activities of the country. The economic activity of the country can hardly be carried forward without the assistance of financial institutions. They are indispensable part of the development process.

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

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

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

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

1.2 Brief Profile of Sample Banks

After the restoration of democracy in Nepal on 2046, Nepalese economy adopts liberalization. After that road cleared for establishment of joint venture companies, as a result many joint venture companies established including many banks. Altogether 25 commercial banks are running in Nepalese financial market among them the researcher takes NABIL, SCBNL and HBL as sample banks. The brief introduction of sample banks are as follows:

NABIL Bank Ltd.

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

NABIL, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Highly qualified and experienced team of NABIL bank manages day-to-day operations and risk management. Bank is fully equipped with modern technology, which includes ATMs, credit cards, state-of-art, world-renowned software from Technologies System, Bangalore, India, Internet banking system and Tele-banking system. NABIL bank limited is providing full-fledged commercial banking services to its clients.

From its inception period in 1984 as the first joint venture bank, to commence operations in Nepal, the bank have been a leader in terms of bringing the very best international standard banking practices, products and services to the nation. Today, mission of the bank is to be the Bank of 1st Choice to all of its stakeholders and customers. For the customers, it want to be the first choice in meeting all of the financial requirements, for shareholders, it want to be the investment of choice, for regulators, it want to be an example of a model bank, it want to be an outstanding corporate citizen in all the communities, it work in and finally, it want to be the first choice as an employer with whom to build a career. To achieve this mission, it has a core set of values by which we live. The values are C.R.I.S.P., i.e. Customer Focused, Result Oriented, Innovative, Synergistic and Professional. They are committed to live our values everyday in everything we do, for it is, these values that make us uniquely NABIL bank. NABIL bank is a full services bank providing an entire range of products and services, starting with deposit accounts in local and foreign currency, Visa and Master-Card denominated in rupees and dollars, Visa Electron Debit Cards, Personal Lending Products for Auto, Home and Personal loans, Trade Finance Products, Treasury Services and Corporate Financing. Main aim is to be able to meet customer's entire gamut of financial requirements that is why it prides us in being 'Your Bank at Your Service’.

Table: 1.1

Capital Structure of NABIL Bank Limited

Capital as at 2006/07	**Amount in Rs. '000'**
Authorized Capital	500,000
Issued Capital	491,654
Paid up Capital	491,654

Himalayan Bank Limited (HBL)

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

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

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

Table: 1.2

Capital Structure of Himalayan Bank Limited

Capital as at 2006/07	Amount in Rs. '000'
Authorized Capital	1,000,000
Issued Capital	650,000
Paid up Capital	643,500

Standard Chartered Bank Nepal Limited (SCBNL)

Standard Chartered Bank Nepal Limited, formally known as Nepal Grindlays Bank Limited has been in operation since 1987. It is one of the topmost joint venture banks of Nepal. Capital structure of this bank is; 50 percent by Chartered Grindlays Bank, 33 percent by Nepal Bank Limited, the country's oldest and largest financial institutions and 17 percent by the Nepalese public. On 31st July 2000, Standard Chartered Bank Nepal Limited conducted the acquisition with ANZ Grindlays Bank Limited of the Australia and New Zealand Banking Group. With this acquisition, 50 percent shares of Nepal Grindlays Bank Limited (NGBL), previously owned by ANZ Grindlays Bank Limited, change the name of bank to Standard Chartered Bank Nepal Limited with effect from 16 July 2001/02.

Table: 1.3

Capital Structure of Standard Chartered Bank Nepal Limited

Capital as at 2006/07	Amount in Rs. '000'
Authorized Capital	1,000,000
Issued Capital	500,000
Paid up Capital	374,640

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

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

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

1.3 Statement of the Problems

The need of liquidity mobilization for economic development of a country is no more to question. There is a problem of resource mobilization. There are 25 commercial banks in Nepal, which are very much considered to be vital financial institutions to mobilize domestic resources. This has attracted the potential customers to deposit their money into banks, as there are very few sectors to make a profitable investment and the investors are always reluctant to risk. They do not take initiation to invest in other sectors. Therefore commercial banks have a lot of deposits but very little investment opportunity. They are even discouraging people by offering very low interest rate and minimum threshold balance. This will definitely make inverse impact on economy of the country. This has decelerated the pace of economic development. Lack of sound investment policy is another reason for a commercial bank not to properly utilize its deposits that is making loan and advances or lending for a profitable project. This condition will lead the commercial bank to the position of liquidation. They face so many difficulties to mobilize their deposit fund on the profit making investment, so they can achieve sufficient return from the investment and satisfy their shareholder. The lack of knowledge on financial risk, interest rate risk, management risk, business risk, liquidity risk, default risk and purchasing risk, granting loan against insufficient deposit, overvaluation of goods pledge, land and building mortgaged, risk averting decision regarding loan recovery and negligence in recovery of overdue loan are some of the basic lapses and the result of unsound credit policy sighted in the banks.

They have a good performance in the course of mobilizing idle deposits. The problems associated with commercial banks with regard of liquidity mobilization and reinvestment aspects are highlighted below:

- What is the deposit position of the sampled banks?
- What is the investment position of the sampled banks?

- What is the profitability, liquidity, assets management and leverage position of the sampled banks?
- What is the relationship between investment, loan and advances and total deposits?
- What is the trend of total deposits of the selected banks?
- How far the gap between deposits and investments of the sampled banks?
- What are the sources and uses of funds of the sample banks?

1.4 Objectives of the Study

The main objective of the study is to analyze the liquidity mobilization position of the sample commercial banks. The specific objectives of the study are as follows:

- To analyze the deposit position of the sample commercial banks,
- To analyze the liquidity mobilization position of the sample commercial banks,
- To analyze the relationship between deposits, loan and advances and total investment of the sample commercial banks,
- To analyze the financial position of the sample commercial banks on the basis of profitability, liquidity, assets management etc.,
- To analyze the trend of total deposit and loan and advance of sample commercial banks.

1.5 Significance of the Study

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

The significances of the study are pointed out as below:

- The study helps to know how well the banks (Himalayan Bank Limited, NABIL Bank Limited and Standard Chartered Bank Nepal Limited) are utilizing their deposits.
- The study is important to policy makers and academic professionals to formulate policies and plans on the basis of the performance of these banks.
- The study helps these banks to compare each other's performance and plan accordingly for future.

- The study helps these banks to make sound programs and policies based on the recommendation suggested.
- The study guides to investors, customers (depositors, loan takers as well as other types of clients), competitors, personnel of the banks, stockbrokers, dealers, market makers, etc. to take various decisions regarding deposits and borrowings.

1.6 Limitations of the Study

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

- The study is based only on secondary data so it may contain reporting errors.
- There is in total, 25 commercial banks in the financial market but this researcher takes only three from them. The sampled banks are NABIL Bank Limited, Standard Chartered Bank Nepal Limited and Himalayan Bank Limited.
- The study covers the past and present state of the commercial banks in Nepal and will not make any projection in future.
- The study is made within limited timeframe, limited data, and with lack of research experiments.
- The study covers the data of only five fiscal years from 2001/02 to 2006/07 and the conclusion drawn confines only to the above period.
- This research used only the selective tools for analysis and interpretation of data.

1.7 Organization of the Study

This research has been organized in five chapters as below:

Chapter I: Introduction

The first chapter deals with introduction. This includes background, statement of problem, objectives of the study, significance of the study, limitation of the study.

Chapter II: Review of Literature

Second chapter presents review of available literature. It includes review from book, reports, journal, previous thesis etc.

Chapter III: Research Methodology

Third chapter incorporates the research methodology used in the study, which includes research design, sources of data population and samples, methods of data collection and analysis etc.

Chapter IV: Presentation and Analysis of Data

The fourth chapter deals with data collected from different sources. Based on the data analysis of analysis of investors' preferences will be made using statistical and non-statistical tools. This chapter also includes major findings.

Chapter V: Summary, Conclusion and Recommendation

The fifth chapter includes summary, conclusion and offers suggestions for further improvement

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

CHAPTER – II

REVIEW OF LITERATURE

The chapter includes two main parts. The first part of the chapter implies the conceptual framework of the study and second part implies the review of previous study. It includes prior theories and review of the empirical evidences of previous studies and the review of previous studies, articles, and conceptual framework for the related studies. To present the real framework of the study, mere analysis is not enough and review of some related materials should be dealt with to give the research a clear vision. The importance of review of literature in any type of research works some of these are; Review of literature helps to: identify research problems in which previous works have been conducted, determine the methodology for research work, know scope for studies, avoid unintentional replication of previous studies and interpret the significance of researcher's results in precise manner. Thus to review the related literature, a researcher is advised as to identify the past research work and studies by reviewing books, articles, reports etc. review should be made in terms of objectives, methodology and finding gaps etc.

2.1 Conceptual Framework

There are different opinions on the origin of the bank. According to one opinion, the term bank was originated from Italian word 'Banco' which meant bench. The money exchangers at that time kept heap of money on the bench from which came the use of word 'Banko'. In the opinion of Macleod, since banko means 'heap', it denotes the joint fund contributed by many persons.

The origin of the word 'Bank' is linked to German word 'Bank' means a joint stock company. Latin word 'Bank' means a bench. Italian word 'Bank' means a bench and French word 'banquet' means a bench. Moneylenders in the streets of major cities of Europe used benches for acceptance and payment of valuables and coins. When they are unable to meet their liabilities, the depositors used to break their benches. Hence the word 'Bankruptcy' is derived from there.

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

2.1.1 Concept of Bank

Generally, an institution established by law, which deals with money and credit is called bank. It is obvious that in a common sense, an institution involved in monetary transactions is called bank. A bank is a financial institution, which plays a significant role in the country. It facilitates the growth of trade and industry, and boost national economy. However, a bank is a resource of economic development, which maintains the self-confidence of various segments of society and extends credit to the people. A bank is a business organization that receives and holds deposits of funds from others, makes loans or extends credits and transfers funds by written orders of depositors.

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

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

2.1.2 Historical Development of Bank in Nepal

The history of banking in Nepal is not very old. It goes at least back to the Lichchhavi era. There were 'Gosthies' to work as credit banks established under the permission of Royal order and they were conducted through local legislation called 'Panchali'. Then the King

Jayasthiti Malla from Malla dynasty, allowed 'Tankadhari', a class of people, to deal in depositing and lending of money and ornaments. The Banda who still worked in ornaments used to deal in lending and depositing the ornaments in that time also. Then, came the King, Ram Shah, in developing the banking system in Nepal. He found that unorganized lending was taking place in the society at very high interest rates. So, he fixed up the interest rates of lending.

Though it seemed realizing the development of banking in those early times, it could not be materialized till the end of Rana regime. The first government institutionalized credit house called 'Tejarath Adda' was established during the tenure of Prime Minister, Ranoddip Singh (1936-1937A.D.). The 'Tejarath Office' used to give loans to government employees against the securities of gold, silver, etc.

Banking in true sense started with the inception of Nepal Bank Limited on 15th Nov, 1937 A.D. as the first commercial bank of Nepal under Nepalese Banking Law and Nepal Bank Act 1937 A.D. formulated by the Industrial Board of Nepal.

After that Nepal Rastra Bank was established as a central bank on 26th April, 1956 A.D under Nepal Rastra Bank Act, 1955 A.D. The bank was empowered by the Act to have direct control over banking institution of the country to manage the circulation of national currency along with foreign exchange rate. Then came Rastriya Banijya Bank established on 23rdJan, 1966 A.D established under Rastriya Banijya Bank Act, 1964 A.D.

Nepal Arab Bank Limited was established on 09th July, 1984 A.D as a first joint venture bank in Nepal opened under Banijya Bank Act, 1974 A.D. Having observed the success of Nepal Arab Bank Limited (currently named as Nabil Bank Limited) and of liberal economic policy adopted by the government, various other commercial banks including joint venture banks and privately ownership banks established in Nepal.

2.1.3 Concept of Commercial Bank

Commercial banks are that financial institutions which deal in accepting deposits of people and institutions and giving loans against securities. They provide working capital needs of trade, industry, and even to agricultural sector. Commercial banks also provide technical and administrative assistance to trade, industries, and business enterprises. Commercial bank is a corporation, which accepts demand deposits, subject to check and makes short-term loan to business enterprises, regardless of the scope of its other services.

A commercial banker is a dealer in money and substitutes for money, such as cheque or bill of exchange. It also provides a variety of financial services (The New Encyclopedia Britanica, 1985: 605).

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

Commercial banks are those banks, which pool together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand of on short notice. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short-term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant loans in the form of cash, credits and overdrafts. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuables, financial advising, etc. to their customers (Vaidya, 2001/02:38).

Principally, commercial banks accept deposits and provide loans, primarily to business firms, thereby facilitating the transfer of funds on the economy (Bhandari, 2003/04: 65).

In the Nepalese context, a commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans, and performs commercial banking functions (Commercial Bank Act, 2006/07).

In Nepal, 25 Commercial banks are operating so far. The commercial banks in Nepal are categorized into four groups on the basis of capital owned. They are; the fully government owned bank; Rastriya Banijya Bank, the government and private sector bank; Nepal Bank Limited, the JVBs consist of Nabil Bank Limited, Standard Chartered Bank Nepal Limited, Himalayan Bank Limited, Nepal Bangladesh Bank Limited, Nepal SBI Bank Limited, Everest Bank Limited and the privately owned banks; Lumbini Bank Limited, NIC Bank Limited, Kumari Bank Limited, Nepal Investment Bank Limited, Bank of Kathmandu Limited, Laxmi Bank Limited, Machhapuchhre Bank Limited, NCC Bank Limited and Siddhartha Bank Limited, Global Bank Limited, Citizens Bank International Limited, Bank of Asia Limited, Prime Bank Limited, Sunrise Bank Limited, Vibhor Bank Limited, Nirdhan Utthan Bank Limited.

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

2.1.4 Functions of Commercial Bank

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

B **Accepting Deposits**

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

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

B **Advancing Loans**

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

*** Agency Services**

The bank also performs number of services on behalf of the customers. The following are the agency functions provided by the bank.

- Dealing with the transaction of foreign exchange business
- Serving as an agent of correspondent on behalf of the customers
- Issuing letter of credit, circulate note, traveler's cheques, etc.
- Purchasing and selling different kinds of securities and remitting funds
- Keeping valuable article in safe custody
- providing financial advice to various persons and bodies whenever required

B **Creating Money**

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

2.1.5 Resources of Nepalese Commercial Bank

Commercial banks have mainly three sources for their advancing. They are as follows:

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

Deposits:- Deposits are the main resource of the banks for advancing loans. It is received from different forms and accounts. There are mainly three types of deposits viz. saving, current, and fixed. In a developing country like Nepal where the majority of people are still poor, saving deposits has played a significant role in the development of a country. Therefore, the main source of raising capital is deposits. Sudharsanam (1976) rightly says, “The deposit function of the bank is important because it has to aggregate small sums of money lying scattered here and there like twenties, fifties, and hundreds. Singling these sums has no economic efficiency what so ever but they can accomplish herculean tasks when they are aggregated and employed by the banker” (Sudharsanam, 1976: 20).

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

2.1.6 Concept of Joint Venture Bank

Joint Venture banks are the mode of trading to achieve mutual exchange of goods and services for sharing comparative advantages by performing joint investment scheme between Nepalese investors, financial, non financial institute as well as private investors and their parent banks each supplying 50% total investment. The parent banks, which have been experiencing highly mechanized and efficient modern banking management skill and an international of banking institutions, JVBs are formed in Nepal as full-fledged commercial bank under the Economy Act, 1964 A.D and operated under the Banijya Bank Act, 1975 A.D.

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

Nepal Government's deliberate policy of allowing foreign JVBs to operate in Nepal is basically targeted to encourage local traditionally run commercial banks enhancing their banking capacity through competition, efficiency, modernization, and mechanization via computerization and prompt customer service (Vaidhya, 1999: 44-45).

2.1.7 Roles of Joint Venture Bank

JVBs pose a serious challenge to the existence of the inefficient native banks. But the same challenge can be taken as an opportunity by the domestic banks to modernize them and sharpen there competitive zealous (Bhandari, 2003/04: 37). It is undoubtedly true that the JBVs are already playing an increasingly dynamic and vital role in the economic development of the country. In brief, the role of JVBs is presented below:

- Introducing new methods and technology in banking services: - The JVBs have invited a new era of banking in this remote Himalayan sectors by introducing high technology and efficient methods in the banking business. Other areas of expertise are forward cover for foreign exchange transaction by importers and exporters, merchant banking, inter-bank market for money and securities, arranging foreign currency loans, etc.
- Providing new services: - Even though the JVBs so far have not provided any remarkable new services that were not offered by the domestic banks, they have drawn a large number of customers who assume that they will eventually benefit from their association with these banks when they introduce new services. At present, a speedy service than that of the domestic banks is the hallmark of the JVBs though their services are basically in traditional areas. This could highly be educative for the domestic banks.
- Offering better links with international market: - The JVBs are usually better placed to raise resources internationally for viable projects in a developing country like Nepal mainly due to their creditability and an access to international markets. In other words, it is very much essential for Nepalese business to produce international linkage through JVBs.
- Creating a competitive environment: - The JVBs have created a competitive environment in banking business in Nepal. Prior to arrival of JVBs, there was little competitive zeal between NBL and RBB as they had almost set bunch of

customers, working areas, and services. This competitive environment will benefit the local people, business and industry, and the country as a whole.

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

2.1.8 Meaning of Deposit

It is important that the commercial bank's deposit policy is the most essential policy for its existence. The growth of bank primarily depends upon the growth of its existence. The volume of funds that management will use for creating income, through loans and investment, is determined largely by the bank's policy governing deposits. In other words, when the policy is restrictive, the growth of bank is restarted or accelerated with the liberalization in the deposit policy. In banking business, the volume of credit extension much depends upon the deposit base of a bank. The deposits creating powers of the banks forces to raise the assets along with the liabilities side of the balance sheet. In other words, assets give rise to liabilities. Traditionally, the deposit structure of a commercial bank was thought to be determined by the depositors and not by the bank's management. There are regular changes in this view in the modern banking industry. Thus, the banks have evolved from relatively passive acceptors of deposits to achieve bidders for funds. Deposit is one of the aspects of the bank liabilities that management has been influencing through deliberate action (Vaidya, 1999: 68).

Bank deposits arise in two ways. The first is when the banker receives cash and credits customer's account. It is known as a primary or a simple deposit. Such primary deposit is made from the initiative of depositors. The second, when the bank advances loans, discounts bills, provides overdraft facilities and makes investments through bonds and securities. This is called derived deposit of derivative deposit. They add to the supply of money. Banks actively create such deposits (The Encyclopedia Britanica, 1981: 700).

2.1.9 Types of Deposits

At the outset, it is necessary to know what a deposit is. Commercial Bank Act 2006/07 A.D, defines deposits is the amounts deposited in a current, saving or fixed accounts of a bank or financial institution. People in general, the businessmen, the industrialists, and other individuals deposit in a bank. Actually, such amount is the main source of capital for the bank. Bank, flows such amount as loan and invest in different sectors to earn profit. Usually, the bank accepts three types of deposits. They are current, saving, and fixed. But in other countries, we find more than three deposits. In Nepal, The bank grants permission to their customers to open three types of accounts under various terms and conditions. This classification is made on different theoretical and financial basis. Therefore, deposits of the bank are classified on the following basis:-

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

ii. Saving Deposit:- The bank can collect capital through the saving deposit as well. This deposit is also important and its necessity and scope is not negligible. According to the Commercial Bank Act 2006/07 A.D, saving account means an account of amounts deposited in a bank for saving purposes. This account is suitable and appropriate for the people of middle class, farmers, and the labours having low income, officials, and small businessmen. This saving deposit bears the features of both the current and fixed period deposits. Generally, most accounts are opened on saving deposit in a bank. Therefore, this deposit is popular in people in general. According to internal rules of banks, some banks demand a small amount and some demand a great deal of money to open saving account. Banks give interest on it.

iii. Fixed Deposit:- Under the Commercial Bank Act 2006/07 A.D, fixed account means an account of amounts deposited in a bank for a certain period of time. The customers opening such account deposit their money in this account for a fixed period. In other word, it is called time deposit because this amount is deposited for a certain period. Usually, only the person or the institution that wants to gain more interest opens such type of account. The period of time can be 3 months, 6 months, 9 months, 1 year, 2 years, 3 years, etc. more interest rate is payable in this deposit than other deposits. Both parties, the bank and the customers, can take benefit from this deposit. The bank invests this money on the productive sector gaining profit thereby and the customers too can make his financial transaction stronger by getting more interest from this deposit. The amount collected in the fixed deposit must be returned to the customer after the date is expired. The amount can’t be withdrawn before the fixed time (Bhandari, 2003/04: 73-76).

2.1.10 Mobilization of Deposits

When we discuss about the deposit mobilization, we are concerned with increasing income of the low income group of people and to make them able to save more and to invest again the collected amount in the development activities (NRB, Bankers Prakashan, 1984: 10).

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

The main objective of the deposit mobilization is to covert the idle saving into active saving (NRB, Nepal Bank Patrika, 2037: 7).

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

To achieve the higher rate of growth and per capita income, economic development should be accelerated. Economic development may be defined in a very broad sense as a process of rising income per head through the accumulation of capital (Johnson, 1985: 11). But how capital can be accumulated in the developing countries? There are two ways of capital accumulation in the developing country, which are external and internal sources. In the first group, foreign aid, loans and grants are the main, while in the later, financial institutions operating within the country play a dominant role. In the context of Nepal, commercial banks are the main financial institutions, which can play very important role in the resource mobilization for the economic development. Trade, industry, agriculture, and commerce should be development for the economic development.

Banking transaction refers to the acceptance of deposit from the people for granting loan and advances, and returning the accepted deposit at demand or after the expiry of the certain period according to the banking rules and regulations. This definition clearly states that deposit mobilization is the starting point of banking transactions. Banking activities can be increased as well as the accumulated deposit can be mobilized effectively (NRB, Nepal Bank Patrika, 1980: 7).

Capital formation is possible through collecting scattered unproductive and small savings from the people. This collected fund can be utilized in productive sectors to increase employment and national productivity. Deposit mobilization is the most important source of the capital formation (RBB, Upahar, 1998: 14).

A commercial bank changes the scattered unproductive small savings into lonable and active savings. The bank not only collects saving, but also provides incentives to the savers and helps them to be able to save more (RBB, Uphahar, 1998: 15).

Commercial banks are set up with a view to mobilize national resources. The first condition of national economic development is to be able to collect more and more deposits. In this context, the yearly increasing rate of commercial banks deposit clearly shows the satisfactory progress of deposit mobilization (RBB, Uphahar, 1998: 20).

2.1.11Needs for Deposit Mobilization

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

- Capital is needed for the development of any sector of the country. The objective of deposit mobilization is to collect the scattered capital in different forms within the country.
- It is much more important to canalize the collected deposit in the priority sectors of a country. In our developing country, we have to promote our business and other sectors by investing the accumulated capital towards productive sectors.
- The need for deposit mobilization is felt to control unnecessary expenditure. If there is no saving, the extra money that the people have, can be forwarded buying unnecessary and luxury goods. So, the government also should help to collect more deposit, steeping legal procedures to control unnecessary expenditures.
- Commercial banks are playing a vital role for national development Deposit mobilization is necessary to increase their activities. Commercial banks are granting loan not only in productive sectors, but also in other sectors like food grains, gold and silver, etc. Though these loans are traditional in nature and are not helpful to increase productivity, but it helps, to some extent, to mobilize bank's deposits.
- To increase saving is to mobilize deposit. It is because if the production of agriculture and industrial products increases, it gives additional income, which helps to save more, and ultimately, it plays a good role in deposit mobilization (NRB, Banker's Prakashan, Group A, 1984: 10).

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

2.1.12 Advantages of Deposit Mobilization

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

- **Circulation of idle money**:- Deposit mobilization helps to circulate the idle money. The meaning of deposit mobilization is to convert idle saving into active saving. It helps the depositor's habit of saving on one side, and it also helps to circulate the idle saving in productive sector on the other. This helps to create incentives to the depositors. Again, investment in productive sector helps directly in country's economic development, and also increases investor's income.
- **To support in fiscal and monetary policy**:- Fiscal policy of the government and monetary policy of the central bank for economic development of a country can be supported by deposit mobilization. It helps to canalize idle money in productive sectors. Again, it helps in money supply, which saves the country from deflation and helps central bank in achieving the objective of monetary policy.
- **To promote cottage industries**:- Deposit mobilization is needed to facilitate cottage industries located in rural and urban areas. If the bank utilizes the collected deposit in the same rural or urban sector for the development of cottage industries, it is helpful not only to promote cottage industries in the area, but also supports in the development of the locality as a whole, increasing employment and income of the local people.
- **Capital formation**:- Capital plays a vital role for the development of industries. But in an underdeveloped country, there is always lack of capital to support such industries. Capital formation and industrialization is possible through deposit mobilization.
- **Developing of banking habit**:- One of the important sides of economic developing country is to increase banking habit in the people. Deposit mobilization helps in this aspect. If there is proper deposit mobilization, people believe bank and banking habit develops in people.
- **To check the miss utilization of money**:- Mostly our customs and habits are supported by social and religious beliefs. There is also tendency of copying others

and to show their superiority buying unnecessary and luxury items in our society. In such society, deposit mobilization proves a tool to check the misutilization of money.

- **To support government development projects**:- Every underdeveloped country's government needs a huge amount of money for development projects. The deposit collected by the banks can fulfill to some extent the need of money of the people.
- **Co-ordination between different sectors**:- Deposit mobilization helps to collect capital from surplus and capital hoarding sectors. The fund can be invested for the needy sectors. Thus, it helps to fulfill the gap between these two different sectors. Earning interest in their deposit and the needy sector receiving loan and advances, benefits the surplus and hoarding sectors. Thus, it helps to keep good co-ordination between different sectors.
- **Others**:- Deposit Mobilization supports small savers by earning interests, helps to the development of rural economy, protects villagers from being exploitation of indigenous bankers investment incentives, provides facilities to the small farmers to purchase tools and fertilizers, etc (NRB, Banker's Prakashan, Group B, 1984: 12-14).

On This Same Report, Group "C" Views That

Capital is needed for the economic development of a country. External sources are not dependable sources of capital. So, mobilization of internal resources has a great significance. This is the only way of receiving capital continuously for a long time.

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

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

2.1.13 Investment, Investment Policy, and Its Principles

Investment

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

Investment Policy

The investment policy is the most important strategy performed by the banks. The profit and the growth of the bank totally depend upon the decision taken by the banks to grant the loan. Investment policy involves determining the investor's objectives and the amount of his/hr investible wealth. Because there is a positive relationship between risk and return for sensible investment strategies, it is not appropriate for an investor to say that his/her objective is to 'make a lot of money'. What is appropriate for an investor in this situation is to state that the objective is to attempt to make a lot of money while recognizing that there is some chance that large lose may be incurred. Investment objectives should be stated in terms of both risk and return (Francis, 1983: 10).

Principles of Sound Investment Policy

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

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

- **Profitability**:- There must be profit prospect in the project to make investment decision. It should select the most profitable investment area so that it can be able to maximize the shareholders' wealth. The profits of the commercial banks depend on the interest rate, volume of loan provide, maturity period, and the nature of investment.
- **Liquidity**:- Liquidity is the ability of the bank pay cash in exchange of deposit. People deposit their hard earned money in the bank making in the min that they will withdraw it when they need it. So, a bank should always try to maintain the liquidity position. It should not invest all the money seeing the uncertain future profit. Once it losses the trust of the customers, the bank may be in the shortage of the funds in future. So, to have the customers' faith, banks should always maintain the liquidity.
- **Purpose of loan**:- Before sanctioning the loan to the customers, banks should learn the purpose of taking loan by the customers. If the seems to be for unproductive project which may yield nothing for the customers or the customers misuse the then he/she can never repay it on time. Therefore, banks nee the detail intention of the customers before granting loan.
- **Diversification**:- Diversification of the investment will reduce the risk. It can diversify the risk by investing in various sectors so that loss on one can be compensated by the profit of other. It should not lay all its eggs on the same basket.
- **Legality**:- All the commercial banks are required to follow the directions given by NRB for the investment. Illegal method of investment seems good on short term but it will consequently hamper the bank leading towards bankruptcy as well.

2.2 Review of Related Studies

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

2.2.1 Review of Journals and Books

When funds are plentiful, market rate generally tend to decline, banks seek an aggressively and therefore lower their rates induce marginal borrower to come into the market. When funds are scare, banks raise their rates and some potential borrowers may differ the use of credit or seek it elsewhere (Crosse, 1963: 63).

Investment policy is defined responsibility for the investment disposition of the banks assets in terms of allocating funds for investment and loan, and establishing responsibility for day-to-day management of these assets (Beslay, 1973: 17).

Fry (1974) in the article “Resource mobilization and financial development in Nepal” says that the interest rate fixing authorities cause adverse effect on income distribution. Interest rate affects the saving and its mobilization. A high interest rate diverts the resources from unproductive tangible assets into financial claim. For Nepalese people and Nepalese undeveloped money and capital market, interest rate can be taken as an important weapon in mobilizing the internal resources. Higher interest rate pushed people to some money and it allows people to invest into best opportunities.

Morris (1980) in his discussion paper “Latin America’s banking system in the 1980’s” has concluded that most of banks concentrated on compliance with central bank’s rule on resource requirement, credit allocation, and interest rates. While analyzing loan portfolio quality, operating efficiency and soundness of bank investment management has largely, operating efficiency and soundness of bank investment management has largely been overlooked, The huge losses are found in the bank’s portfolio in many developing countries and testimony to the poor quality of this ever sight investment function.

The writer adds that mismanagement in financial institution has involved inadequate and over optimistic loan appraisal, tax loan recovery, high risk diversification of lending and investment, high risk concentration connected and insider lending, loan mismatching. This has led many banks of developing countries to the failure in 1980’s.

Bajracharya (1990) in the article, “Monetary policy and deposit mobilization in Nepal” has concluded that the mobilization of domestic saving is one of the monetary policies in Nepal.

For this purpose, commercial banks stood as the vital and active financial intermediary for generating resources in the form of deposit of the private sector so for providing credit to the investor's in different aspects of the economy.

Kafle (1990) Conducted research in the topic of "Monetary and financial reports in Nepal" states that consolidation and liberalization of interest rate measure is initiated with a view to provide more option to commercial banks in the mobilization of saving and portfolio management through market determined interest and lending rates.
An investment may be defined as the current commitment of funds for a period of time to derive a future follow of funds that will compensate the investing unit for the time the funds are committed for the expected rate of inflation and also for the uncertainty involved in the future follow of funds (Reilly, 1991: 3).

The investment objective is to increase systematically the individual's wealth defined as assets minus liabilities. The higher the level of desired wealth the higher the return must be received (Cheney and Moses, 1991: 23).

Investment is the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor's wealth, which is the sum of current income and present value of all future income (Charles, 1993: 97).

Investors seeking higher return must be willing to face higher level of risk. Finance company being only a financial inter me diary, we will not be able to make any profit unless we mobilize funds suitably. It is from out of the interest, finance company earns on loan and advance, further he has to pay interest on deposit meet liquidity of cash balance. Meet establishment expenses keep some balance for reserve and pay dividend to the shareholders.

Investment in its broadest sense means the sacrifice of certain present value for future value (Sharpe and Alenxander, 1994: 39).

Pradhan (1996) in his article "Deposit mobilization, its problem and prospects" has presented that deposit is the life-blood of every financial institution like commercial bank, finance company, co-operative or non-government organization. He further adds consider the most of banks and finance companies that the latest figure does produce a strong feeling that serious review must be made on problems and prospects of deposit sector. Leaving few joint venture banks, other organizations rely heavily on the business deposit and credit disbursement.

Willamson (1998) Conducted research in the topic of “Personal saving in developing nations” Found that saving and investment decisions are highly interdependent in Asia sectors interest rate. Mostly household people try to save money for short period. Its influence is less in the long run saving decisions.

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

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

Fry in the article stresses on the fulfillment of credit needs of various sectors, which insures investment. The investment lending policy of commercial bank is based on the profit maximization as well as the economic enhancement of the country (Shresha, 2001/02: 31-32).

The writer Pradhan has highlighted following problems of deposit mobilization in Nepalese context:

- Most of the Nepalese do not go for saving in institutional manner, because of lack of good knowledge. However, they are very much used of saving in the form of cash or ornaments. Their reluctance to deal with institutional system is governed by the lower level of understanding about financial organization process, withdrawn system, and availability of deposing facilities and so on.
- There is unavailability of the institutional services in rural areas.
- Due to lesser office hours of banking system people prefer holding cash in the personal possession.

- There is no more mobilization and improvement of the employment of deposits and loan sectors.
- The writer has also recommended the following points for the prosperity of deposit mobilization which are as follows:
- By providing sufficient institutional services in the rural areas.
- By cultivating the habit of using rural banking unit.
- By adding service hour system to bank.
- Nepal Rastra Bank should organize training program, to develop skilled manpower.
- By spreading co-operative to the rural areas development mini branch services.

2.2.3 Review of Previous Thesis

Karki (2001) Conducted research on the topic of "An analysis of deposit mobilization of RBB, Lahan Branch" has tried to see the impact of interest rate on deposit mobilization also to know the efficient utilization of the accumulate deposit. This study is mainly concern with the RBB Lahan Branch. The data presentation analysis of deposits and loan advances is limited to the period of ten year from the year Mid-July 1990 to Mid- July 1999. Most of data are secondary type and applied the correlation coefficient as statistical tool. In the study, the researcher has found that RBB Lahan Branch is less successful to collect maximum deposit and also the deposits cannot efficiently utilized and there is negative correlation exists between interest rates and total credits.

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

Agrawal (2002), Conducted research on the topic of "A study on deposit and investment position of Yeti Finance Company Limited" has tried to examine the trend the deposit position and investment position of the Yeti Finance Company. That study was conducted on the basis of secondary data and used various financial tools to analyze the data. Study just covered only period of 5 years (i.e. FY 1996/97 to 2000/01). The researcher has found that the deposit policy is not stable but has highly fluctuating trend and investment is gradually in increasing trend. The researcher found there is highly positively correlation between total deposit and total investment. The researcher concluded that finance companies have been found profit oriented, ignoring the social responsibility, which is not a fair a strategy to sustain in long run. Therefore, it is suggested the company should involve in social program which helps the deprive people who are depended helps in agriculture. Agriculture is the paramount of Nepalese economy so that any finance company should not forget to invest in this sector. In order to do so, they must open their branches in remote area with an objective of providing cheaper financing services.

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

Tandukar (2003) Conducted research on the topic of “Role of NRB in deposit mobilization of commercial bank” has tried to examine role of NRB in deposit collection by the commercial banks and to analyze the trends of deposits mobilization towards total investment and loan and advances. Projection is for five years i.e. (1998 to 2002). The data used in that study is both secondary and primary nature. The researcher used different financial tools such as liquidity ratio, activity ratio, profitability ratio, risk ratio and coefficient of correlation, trend analysis as statistical tools. The researcher took 25 commercial banks as population and three banks i.e. Nepal Arab Bank Limited (NABIL), Standard Chartered Bank Nepal Limited (SCBNL) and Himalayan Bank Limited (HBL) as sample banks. The researcher has found that it can be said that all new directives of NRB of commercial banks are effective and it is good for both nation and the future of the banks but the loan classification and provisioning seems to be little bit uncomfortable to the commercial banks. And deposit and loan and advances of NBBL are higher than EBL but in case of the investment EBL is able to mobilize more funds than NBBL in this sector.

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

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

Roy (2003) Conducted research on the topic of "An investment analysis of Rastriya Banijya Bank" has tried to analyze relationship of loan and advance, and total investments with total deposit and to compare it with that of NBL and to compare loan and advance, total deposit and net profit of RBB and compare it with of NBL. That study was based on secondary data covering five years period from FY 1992/93 to 1996/97. The researcher used most of financial tools and coefficient of variation (C.V.) as statistical tools.

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

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

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

2.2.4 Research Gap

The researchers had tried to explain about the utilization and mobilization of funds of commercial banks in their previous research studies. Although there are various studies' topic of thesis related to liquidity mobilization of financial institutions in Nepal. Among them few studies are developed to the liquidity mobilization of commercial banks in Nepalese context. These few studies conducted earlier have new needed to carry out a study to assess the recent development in banking sectors of the liquidity management. The previous studies are unable to focus on all criteria for comparing their liquidity position. Researchers focused only on a particular aspect (point). There is gap between present research and previous research. The previous research did not disclose monitoring and control, lending policy, deposit policy, investment and regulation, inspections and supervision conducted by NRB. It could not reveal out the result of NRB based on its policies and principles. More over previous researchers has not done this study as separately. Thus to fill the gap this study has been conducted. This study will be milestone. The field of liquidity management of listed commercial banks in spite of above multiple gaps among the researcher's view as well as there is time gap regarding the study of liquidity mobilization of commercial banks in Nepal.

CHAPTER- III

RESEARCH METHODOLOGY

Research Methodology adopted in this chapter is the set of various instrumental approaches used in achieving the predetermined objectives as stated in the earlier chapters. It represents the resources and techniques available and to the extent of their reliability and validity in this chapter follows some limited but crucial steps aimed to achieve the objectives of the research. Research methodology refers to the various sequential steps (along with a rational of each such step) to be adopted by researcher in studying a problem with certain objectives in view.

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view (Kothari, 1992: 131).

Research methodology is a sequential procedure and collection of scientific methods to be adopted in a systematic study. In other words, research methodology decides the methods and process applied in the entire of the study. It is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it the researcher studies the various steps that are generally adopted by a researcher in studying his/her research problem along with the logic behind them. Thus, this chapter deals with the research design, nature of data, data gathering procedure, population and samples, and data processing procedures.

3.1 Research Design

A research design is a plan for the collection and analysis of data. It presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the goal. This study aims to portray accurately upon the liquidity mobilization of Standard Chartered Bank Limited, NABIL Bank Limited and Himalayan Bank Limited. A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 1992: 133).

Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate deposits and investment of NABIL, SCBNL and HBL.

3.2 Population and Sample

There are altogether 25 commercial banks functioning all over the nation and most of their stocks are traded actively in the stock market which are considered as the population and out of these three commercial banks NABIL, SCBNL and HBL are taken as sample.

3.3 Nature and Sources of Data

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

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

3.4 Analysis of Data

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

3.4.1 Financial Tools

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

Ratio Analysis

Ratio analysis is a powerful and most widely used tool of financial analysis. A ratio defined as "The indicated quotient of two mathematical expression" and as the "Relationship between two or more things" (Webster, 1975: 132).

A ratio is a figure or a percentage representing the comparison of one-dollar amount with some other dollar amount as a base (Roy, 1974: 49). Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. In financial analysis, a ratio is used as an index for evaluating the financial position and performance of a firm. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's performance (Pandey, 1994: 234).

A large number of ratios can be generated from the components of profit and loss account and balance sheet. They are sound reasons for selecting different kinds of ratios for different types of situations. For this study, ratios are categorized into the following major headings:

A. Liquidity Ratios

Inadequate liquidity can lead to unexpected cash short falls that must be covered at inordinate costs, thus reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. On the other hand, excessive liquidity can lead to low asset yields and contribute to poor earnings performance (Scott, 1991: 13).

Liquidity refers to the ability of a firm to meet its short-term or current obligations. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined (Van Horne, 1997: 147).

To find out the ability of banks to meet their short-term obligations, which are likely to mature in the short period, these ratios are calculated. The following ratios are developed under the liquidity ratios to identify the liquidity position:

Cash and Bank Balance to Total Deposit Ratio

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

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

Cash and Bank Balance to Current Assets Ratio

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

$$\text{Cash and bank balance to total current assets} = \frac{\text{Cash \& bank balance}}{\text{Current assets}}$$

B. Turnover Ratios

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

Total Deposit Turnover Ratio

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

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

Credit and Advances to Total Assets Ratio

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

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

C. Profitability Ratios

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

Return on Total Assets Ratio

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

$$\text{Net profit to Total Assets} = \frac{\text{Net profit}}{\text{Total assets}}$$

Return on Fixed Assets Ratio

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

$$\text{Return on fixed assets} = \frac{\text{Net profit}}{\text{Fixed assets}}$$

Return on Total Credit Ratio

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

$$\text{Return on total credit} = \frac{\text{Net profit}}{\text{Total credit \& advances}}$$

Earnings per share (EPS)

EPS is one of the most widely quoted statistics when there is a discussion of a company's performance or share value. It is the profit after tax figure that is divided by the number of common shares to calculate the value of earnings per share. This figure tells us what profit the common shareholders earned for every share held. A company can decide whether to increase or reduce the number of shares on issue. This decision will automatically affect the earnings per share. The profits available to the ordinary shareholders are represented by net profit after taxes and preference dividend. Symbolic expression of EPS is given below:

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

Interest Earned to Credit and Advances Ratio

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

$$\text{Interest income to credit and advances} = \frac{\text{Interest Income}}{\text{Total Credit \& Advances}}$$

Non-performing Credit to Credit and Advances Ratio

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

$$\text{Non-performing credit to credit and advances} = \frac{\text{Non - performing credit}}{\text{Total credit \& advances}}$$

3.4.2 Statistical Tools

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

Arithmetic Mean ($\overline{X}$)

Averages are statistical constants, which enable us to comprehend in a single effort of the whole (Gupta, 2000: 87). It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

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

Where,

X = Sum of observations

N = Number of observations

Standard Deviation (S.D.)

The standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by S.D. or σ (Shrestha, 1991: 43). It is used as absolute measure of dispersion or variability. It is calculated as:

$$\sigma = \sqrt{\frac{\phi\varepsilon^2}{N} - \left(\frac{\phi\varepsilon}{N}\right)^2}$$

Coefficient of Variation (C.V)

The Co-efficient of variation (C.V.) is the relative measure based on the standard deviation and is defined as the ratio of the standard deviation to the mean expressed in percentage (Shrestha, 1991: 45). It is independent of units. Hence, it is a suitable measure for comparing variability of two series with same or different units. A series with smaller C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice versa. It is calculated as:

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

Where,

σ = Standard Deviation

$\overline{X}$ = Mean

Correlation Analysis

The popular method of statistical tool, Karl Pearson's co-efficient of correlation has been adopted to measure the significance of the relation between total deposits, total investments and loan and advances of NABIL Bank Limited, Standard Chartered Bank Nepal Limited and Himalayan Bank Limited. The formula for computing the correlation coefficient (r) between total deposits and total investments using direct method is as follows:

Karl Pearson's co-efficient of correlation (r) = $\frac{N \sum xy - (\sum x).(\sum y)}{\sqrt{N \sum x^2 - (\sum x)^2} \cdot \sqrt{N \sum y^2 - (\sum y)^2}}$

Here,

N = Number of pairs of x and y observed

x = Values of Total Deposits

y = Values of Total Investments

r = Karl Pearson's coefficient of correlation

3.4.3 Trend Analysis

Trend analysis is the tools that are used to show grandly increase and decrease of variable in a period of time, is known as trend analysis. With the help of tend analysis; the tendency of variables over the period can be seen clearly. Here, trend analysis of deposit, investment and profit has been conducted. The projections are based on the following assumptions.

I. The main assumption is that other thing will remain unchanged.
II. The bank will run in this present position.

III. The economy will remain in this present stage.
IV. The forecast will be true only when the limitation of least suare method is carried out.
V. Central government will not change its guidelines to the commercial banks.

The trend of related variable can be calculated as Y = a+bx.

Where Y = Dependent variable
X = Independent variable
a = Intercept
b = Slope of the trend line.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

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

4.1 Ratio Analysis

Ratio analysis is one of the tools of financial analysis. Under ratio analysis, calculation of various ratios including liquidity, profitability, asset-management and market value ratios have been calculated and interpreted. For the sake of interpretation and analysis of those ratios calculated, both the methods of vertical and horizontal analysis have been implemented. Specifically, the following groups of ratios have been selected for analysis:

4.1.1 Liquidity Ratios

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

Cash and Bank Balance to Total Deposit

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

Table: 4.1

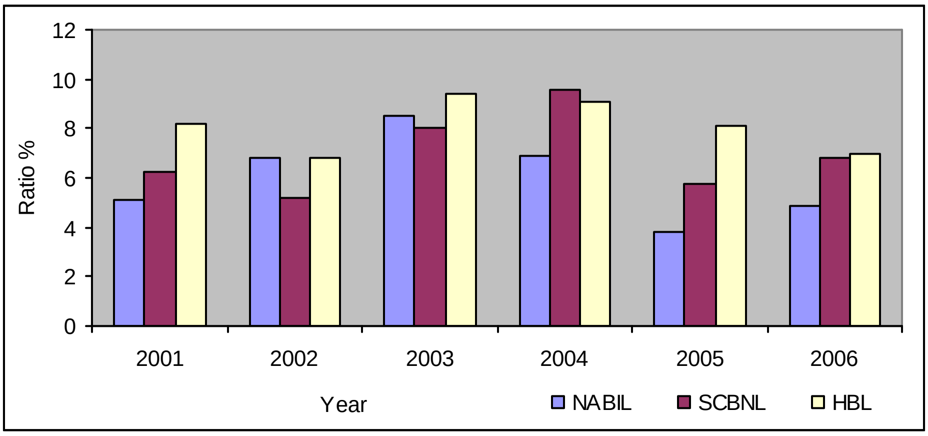
Cash and bank balance to total deposit ratio of CBs (In %)

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Mean ($\overline{X}$)	S.D (σ)	C.V
NABIL	5.13	6.78	8.51	6.87	3.83	4.85	**5.99**	**1.7**	**28.38**
SCBNL	6.23	5.21	8.06	9.56	5.75	6.85	**6.94**	**1.61**	**23.27**
HBL	8.19	6.79	9.42	9.09	8.12	6.95	**8.10**	**1.07**	**13.26**

Source: Appendix - 1

Figure: 4.1

Cash and bank balance to total deposit ratio of CBs



The table depicted above represents the figure excerpted from the respective source shown at the end of the table. The ratio of NABIL was 5.13% in the year 2001/02, it then increased to 6.78% in 2002/03 and then to 8.51% in the year 2003/04. However, it got decreased to 6.87% in 2004/05, 4.85% in 2006/07 and to the lowest 3.83% in the year 2005/06. The average ratio of NABIL remained at 5.99% over the study period.

Similarly, the ratio of SCBNL was 6.23% in the year 2001/02. It then decreased to 5.21% in 2002/03. And it again increased to 8.06% in 2003/04, then to the highest of 9.56% in 2004/05. However, it was decreased to 5.75% in 2005/06 and 6.95% in the year 2006/07. The average ratio of SCBNL remained at 6.94% over the six-year period.

Likewise, the ratios of HBL remained at 8.19% in 2001/02. It then decreased to 6.79% in 2002/03. And it again increased to 9.42% in 2003/04, which was the highest ratio of the bank itself over the six years period. The ratio decreased slightly and remained at 9.09% in 2004/05, and then to 8.12% in 2005/06 and 6.95 in the year 2006/07. The average ratio of HBL remained at 8.10% over the six years period.

Cash and Bank Balance to Total Assets

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

Table: 4.2

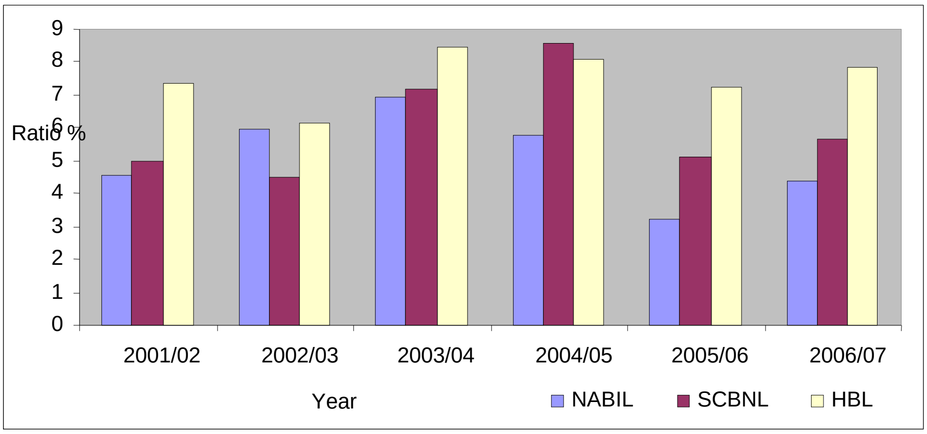
Cash and bank balance to total assets ratio of CBs (In %)

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Mean ($\bar{X}$)	S.D (σ)	C.V
NABIL	4.57	5.97	6.91	5.80	3.25	4.35	**5.14**	**1.33**	**25.77**
SCBNL	4.96	4.47	7.20	8.56	5.08	5.65	**5.99**	**1.57**	**26.29**
HBL	7.36	6.12	8.47	8.08	7.23	7.85	**7.52**	**0.82**	**10.96**

Source: Appendix - 2

Figure: 4.2

Cash and bank balance to total assets ratio of CBs



The above table depicts the cash and bank balance to total assets ratio of three CBs over the six-year study period. The ratios of NABIL were 4.57%, 5.97%, 6.91%, 5.80% 3.25% and 4.35% in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively with an average ratio of 5.14% over the study period. This indicates that 5.14% of the total assets of NABIL comprised of liquid cash (including cash with itself and at NRB) on an average study period of six-years.

Similarly, the same ratios of SCBNL were 4.96%, 4.47%, 7.20%, 8.56%, 5.08% and 5.65% in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio of the bank remained at 5.99% over the study period. It states that 6.98% of the total assets of SCBNL comprised of liquid cash on average study of six-year period.

Likewise, the cash and bank balance to total assets ratio of HBL were 7.36%, 6.12%, 8.47%, 8.08%, 7.23% and 7.85% in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio of the bank remained at 7.52% over the study period. It states that 7.52% of the total assets of HBL comprised of liquid cash on average study of six-year period.

4.1.2 Turnover Ratios

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

Total Deposit Turnover Ratio

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

Table: 4.3

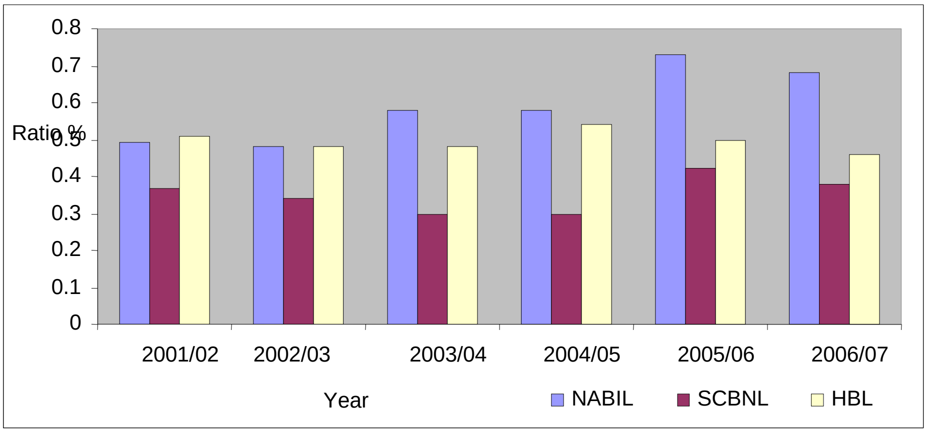
Credit and advances to total deposit ratio of CBs

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Mean ($\overline{X}$)	S.D (σ)	C.V
NABIL	0.49	0.48	0.58	0.58	0.73	0.68	**0.59**	**0.10**	**16.95**
SCBNL	0.37	0.34	0.30	0.30	0.42	0.38	**0.35**	**0.05**	**13.51**
HBL	0.51	0.48	0.48	0.54	0.50	0.46	**0.50**	**0.03**	**5.68**

Source: Appendix - 3

Figure: 4.3

Credit and advances to total deposit ratio of CBs



The table depicted above reveals the total deposit turnover ratios of the three CBs over the six-year study period. The total deposit turnover ratios of NABIL were 0.49 times, 0.48 times, 0.58 times, 0.58 times, 0.73 times and 0.68 times in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio over the six-year period remained at 0.59 times.

In the same manner, the ratios for SCBNL were 0.37 times, 0.34 times, 0.30 times, 0.30 times, 0.42 times and 0.38 times in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average total deposit turnover ratio of the bank was just 0.35 times over the six-year period.

At last, the total deposit turnover ratios of HBL were 0.51 times, 0.48 times, 0.48 times, 0.54 times, 0.50 times and 0.46 times in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, the average turnover ratio of the bank remained at 0.50 times over the six-year study period.

Credit and Advances to Total Assets

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

Table: 4.4

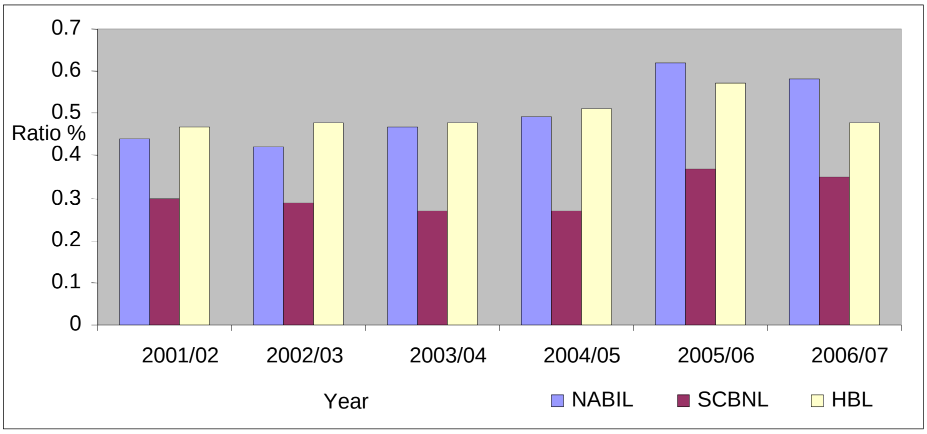
Credit and advances to total assets ratio of CBs (In %)

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Mean ($\bar{X}$)	S.D (σ)	C.V
NABIL	0.44	0.42	0.47	0.49	0.62	0.58	**0.50**	**0.08**	**15.83**
SCBNL	0.30	0.29	0.27	0.27	0.37	0.35	**0.31**	**0.04**	**13.67**
HBL	0.47	0.48	0.48	0.51	0.57	0.48	**0.50**	**0.04**	**7.55**

Source: Appendix - 4

Figure: 4.4

Credit and advances to total assets ratio of CBs



The table depicted above portrays the total assets turnover of the three CBs with respect to the credit and advances that they were able to generate over the past six years. The credit and advances to total assets ratios of NABIL were 0.44 times, 0.42 times, 0.47 times, 0.49 times, 0.62 times and 0.58 times in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio of the bank over the six-year period was confined to 0.50 times.

Similarly, the ratios of SCBNL were 0.30, 0.29, 0.27, 0.27, 0.37 and 0.35 times in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average assets utilization ratio for the bank remained at 0.31 times over the study period.
And the same ratios of HBL were 0.47, 0.48, 0.48, 0.51, 0.57 and 0.48 times in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average total assets turnover ratio of the bank remained at 0.50 times over the six-year period.

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

4.1.3 Profitability Ratios

Profitability ratios are used to measure the bank’s overall effectiveness of operation. These ratios are used to indicate the profitability per unit with regards to various areas of the investment and sources of funds. The major ratios that we consider in this section are:

Return on Assets

The total net assets of the banks reflect the total investments of the total funds collected by them through various sources to earn sufficient profits. This ratio is given by:

Table: 4.5

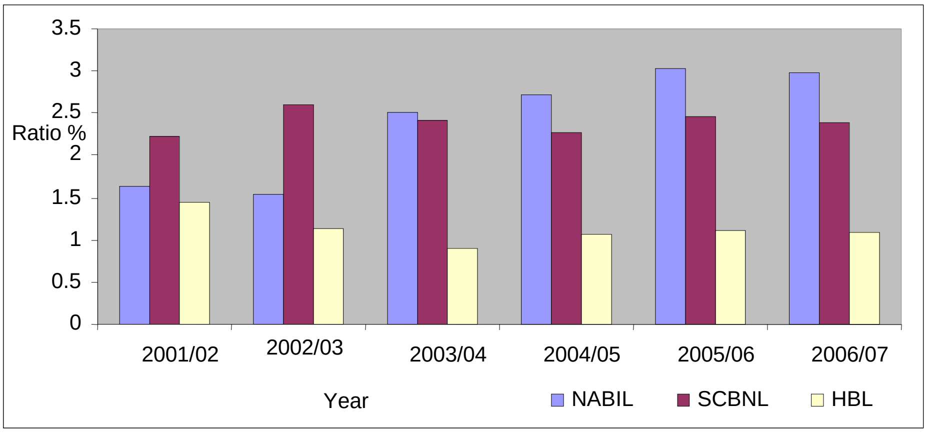
Return on total assets ratio of CBs (In %)

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Mean ($\overline{X}$)	S.D (σ)	C.V
NABIL	1.64	1.54	2.51	2.72	3.02	2.98	2.40	**0.66**	**27.32**
SCBNL	2.23	2.60	2.41	2.27	2.46	2.38	2.39	**0.13**	**5.59**
HBL	1.44	1.14	0.91	1.06	1.11	1.08	1.12	**0.17**	**15.53**

Source: Appendix - 5

Figure: 4.5

Return on total assets ratio of CBs



The above table shows the return on assets of three CBs over the six-year period. The returns on assets of NABIL were 1.64%, 1.54%, 2.51%, 2.72%, 3.02% and 2.98% in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio over the period remained at 2.40%. The return on assets of NABIL showed a slightly increasing trend over the study period.

Similarly, the returns on assets of SCBNL were calculated as 2.23%, 2.60%, 2.41%, 2.27%, 2.46% and 2.38% in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio for the bank remained at 2.39% over the study period. The ratios of SCBNL showed almost horizontal trend over the years.

The return on assets of HBL was 1.44% in 2001/02. The ratio got decreased to 1.14% in the succeeding year. Then the ratio again decreased to 0.91% in 2003/04. Then the ratio reached to 1.06% in the year 2004/05 and again increased to 1.11% in the year 2005/06 and decreased to 1.08% in the year 2006/07. On an average, the ratio remained at 1.12% for HBL over the study period. The return on assets of HBL was at a rapid decreasing as well as increasing trend over the study period.

Return on Fixed Assets

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

Table: 4.6

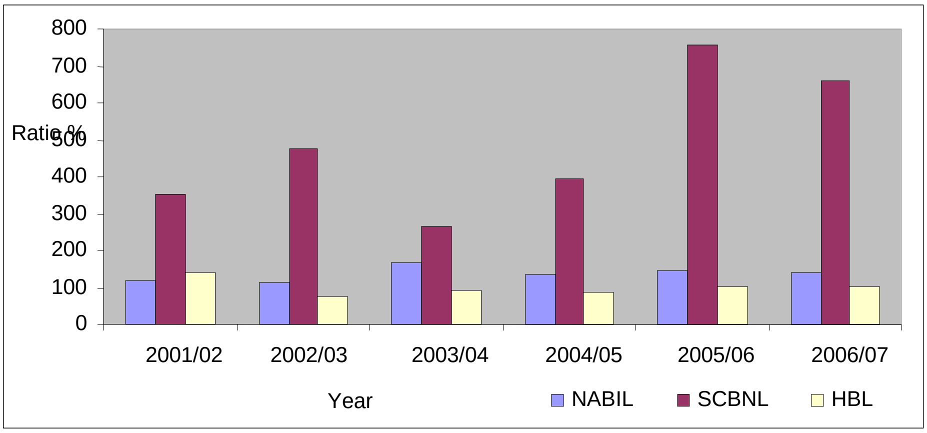
Return on fixed assets ratio of CBs (In %)

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Mean ($\bar{X}$)	S.D (σ)	C.V
NABIL	117.18	114.31	165.23	134.66	143.57	138.27	**135.54**	**18.67**	**13.77**
SCBNL	353.69	474.18	264.44	394.74	755.05	658.25	**483.39**	**188.19**	**38.93**
HBL	139.18	73.71	92.28	87.79	104.21	101.37	**99.76**	**22.15**	**22.21**

Source: Appendix - 6

Figure: 4.6

Return on fixed assets ratio of CBs



On the basis of above tables, the return on fixed assets of NABIL were 117.18%, 114.31%, 165.23%, 134.66%, 143.57% and 138.27% in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio for the six-year period was 135.54%.

The returns on fixed assets of SCBNL were 353.69%, 474.18%, 264.44%, 394.74%, 755.05% and 658.25% in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio of the bank over the six-year period remained at 483.39%. In the same manner, the ratios of HBL were obtained as 139.18%, 73.71%, 92.28%, 87.79%, 104.21% and 101.37% in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio of the bank over the study period remained at 99.76%.

Despite of several fluctuations in the ratios, the return on fixed assets ratios of SCBNL showed an upward trend over the study period. Similarly, the trend lines of the ratios of NABIL and HBL were almost horizontal in shape. However, the slopes of their trends were inclined at a very lower rate but declined at a very higher rate.

Return on Total Credit

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

Table: 4.7

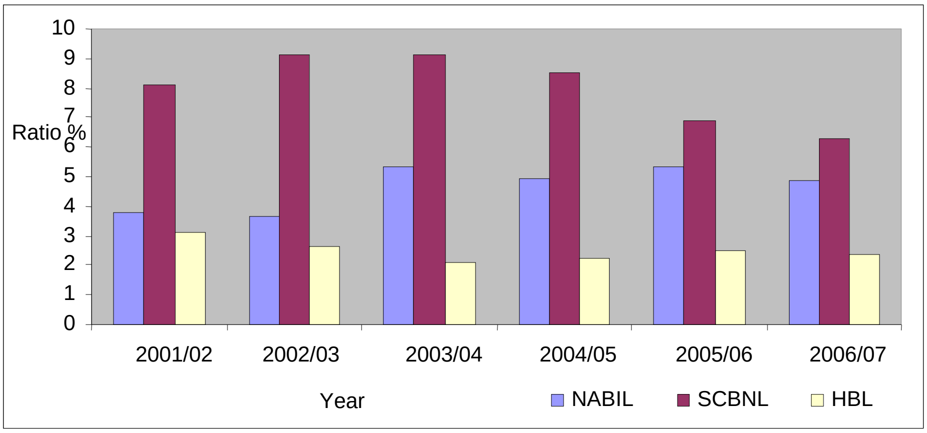
Return on loans and advances ratio of CBs (In %)

	2001/02	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Mean ($\bar{X}$)**	**S.D (σ)**	**C.V**
NABIL	3.77	3.65	5.37	4.90	5.32	4.89	**4.65**	**0.76**	**16.27**
SCBNL	8.12	9.13	9.09	8.51	6.88	6.28	**8.00**	**1.18**	**14.74**
HBL	3.11	2.64	2.12	2.20	2.48	2.37	**2.49**	**0.36**	**14.41**

Source: Appendix - 7

Figure: 4.7

Return on loans and advances ratio of CBs



The tables depicted just above shows the profit margin of three listed CBs over the past six years. Similarly, the figure depicted above represents the six-year trends of the three banks. The ratios of NABIL were 3.77%, 3.65%, 5.37%, 4.90%, 5.32% and 4.89% in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The ratio for the bank was highest in the year 2003/04 and lowest in the year 2002/03. The ratios of NABIL showed in fluctuating trend. However, the rate of increment and decrement is faster 4.69% .

The same ratios for SCBNL were 8.12%, 9.13%, 9.09%, 8.51%, 6.88% and 6.28% in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The return on total credit for the bank was highest in the year 2002/03 and lowest in the year 2005/06. The average ratio over the six-year period is 8.00%. The ratios of SCBNL were found to be in declining trend but at a slower pace over the six-year period.

At last, the ratios of HBL were 3.11%, 2.64%, 2.12%, 2.20%, 2.48% and 2.37% in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The ratio of the bank remained highest in the year 2001/02 and lowest in the year 2003/04. The average ratio of HBL over the six-year period is 2.49%. As the variations in the ratios were small, the six-year trend of return on total credit of HBL remained almost horizontal in shape.

The average return on total credit (profit margin) of NABIL remained at 4.60%. Similarly, the average ratio of SCBNL remained at 8.00% over the six years period. And the average profit margin of HBL remained at 2.49% over the six-year period.

The above analysis of the ratios and the six yearly trends showed that SCBNL, NABIL and HBL respectively had the highest average return on credit and advances.

Earnings per Share (EPS)

This ratio measures the amount of earnings available to each share of common stock. Higher amount is desirable for all firms.

Table: 4.8

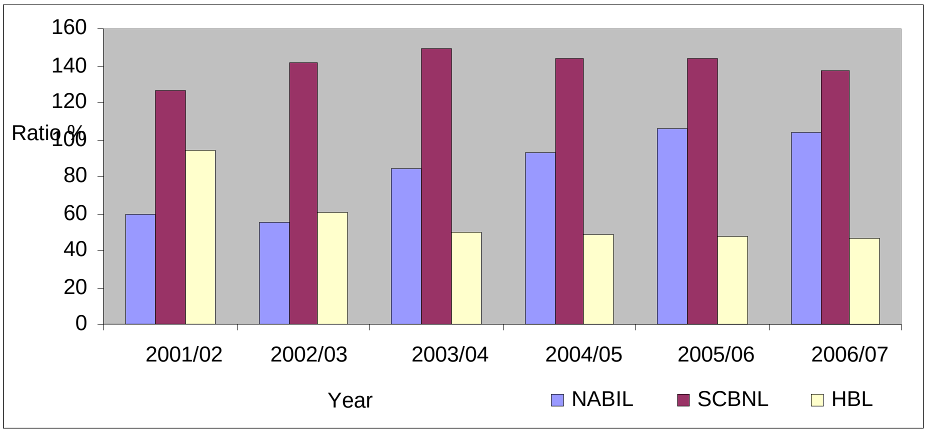
Earnings per Share (In Rs.)

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Mean ($\bar{X}$)	S.D (σ)	C.V
NABIL	59.26	55.25	84.66	92.61	105.49	103.28	**83.43**	**21.66**	**25.96**
SCBNL	126.88	141.13	149.30	143.55	143.93	137.29	**140.35**	**7.68**	**5.47**
HBL	93.57	60.26	49.45	49.05	47.91	46.25	**57.75**	**18.24**	**31.58**

Source: Appendix - 8

Figure: 4.8

Earnings per Share (In Rs.)



The table depicted above typifies the EPS of three listed CBs for six years. The earnings per share of NABIL were Rs. 59.26, 55.25, 84.66, 92.61, 105.49 and 103.28 in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average EPS of the bank over the six years remained at Rs. 83.43. The EPS of NABIL showed an upward trend over the period of six years.

The EPS of SCBNL were Rs. 126.88, Rs. 141.13, Rs. 149.30, Rs. 143.55, Rs. 143.93 and Rs.137.29 in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio of SCBNL was Rs. 140.35 over the six-year period. On the basis of figure shown above, the EPS trend of SCBNL over the period was at slightly increasing trend.

The earning per share of HBL in the year 2001/02 was Rs. 93.57. It decreased slightly to Rs. 60.26 from Rs. 93.57 in the year 2002/03. However, the ratio decreased to Rs. 49.45 in the year 2003/04 and Rs. 49.05 in the year 2004/05. Again it decreased heavily to Rs. 47.91 in the year 2005/06 and Rs. 46.25 in the year 2006/07. The average EPS of the bank remained at Rs. 57.75 over the study period. The EPS of HBL showed a downward trend as portrayed by the above figure.

On the basis of above calculations, SCBNL, NABIL and EBL respectively had the highest average EPS. This indicates that the EPS of SCBNL was more consistent and better than other banks. All the banks were found to be having somewhat upward trend of EPS except HBL. Therefore, we can conclude that the earnings capacity of HBL's shares was deteriorating over the years.

Interest Earned to Credit and Advances

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

Table: 4.9

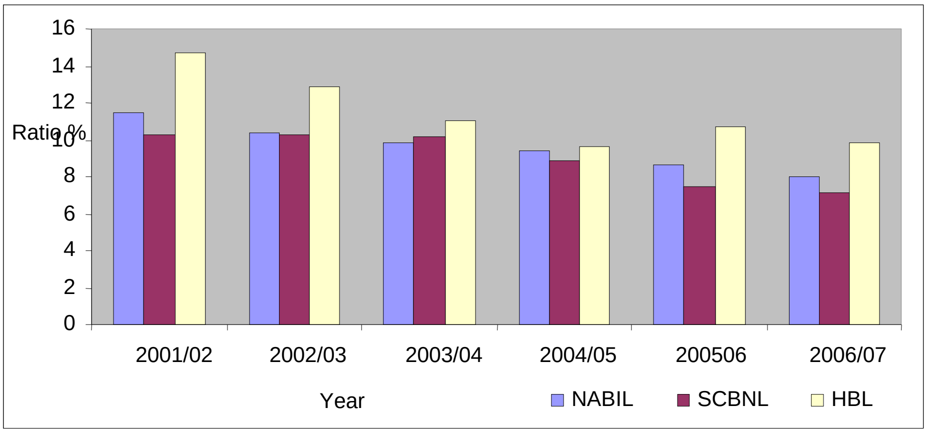
Interest income to credit and advances ratio of CBs (In %)

	2001/02	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Mean ($\bar{X}$)**	**S.D (σ)**	**C.V**
NABIL	11.46	10.34	9.83	9.45	8.70	7.95	**9.62**	**1.23**	**12.82**
SCBNL	10.22	10.31	10.11	8.83	7.43	7.15	**9.01**	**1.44**	**15.57**
HBL	14.71	12.89	11.08	9.64	10.75	9.88	**11.49**	**1.95**	**16.99**

Source: Appendix - 9

Figure: 4.9

Interest income to credit and advances ratio of CBs



The interest incomes earned by NABIL by extending credit and advances were 11.46%, 10.34%, 9.83%, 9.45%, 8.70% and 7.95% in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio remained at 9.62% in the six-year period. The ratio of the bank showed a downward trend as depicted in the figure above.

The interest income to credit and advances ratios of SCBNL were 10.22%, 10.31%, 10.11%, 8.83%, 7.43% and 7.15 in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average interest earned over credit and advances ratio of the bank over the six-year period remained at 9.01%. Likewise, it also showed a downward trend over the study period. The ratios of HBL were 14.71%, 12.89%, 11.08%, 9.64%, 10.75% and 9.88% in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average interest earned ratio remained at 11.49% over the six-year period. The ratio of HBL also showed a decreasing trend as given in the figure above.

HBL had the highest average interest earned to credit and advances ratio. Similarly, SCBNL had the lowest average interest earned ratio over credit and advances employed. However, NABIL had been found to have the moderate rate of return over the study period with comparison to HBL and SCBNL.

Non-performing Credit to Credit and Advances

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

Table: 4.10

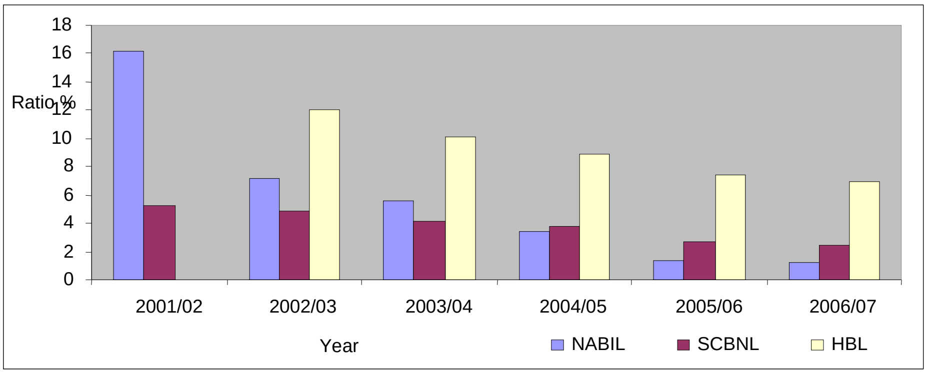
Non-performing credit to credit and advances ratio of CBs (In %)

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Mean ($\overline{X}$)	S.D (σ)	C.V
NABIL	16.20	7.14	5.54	3.35	1.32	1.27	**5.80**	**5.60**	**96.44**
SCBNL	5.23	4.84	4.13	3.77	2.69	2.45	**3.85**	**1.12**	**29.09**
HBL	NA	12.1	10.08	8.88	7.44	6.96	**7.58**	**4.15**	**22.90**

Source: Appendix - 10

Figure: 4.10

Non-performing credit to credit and advances ratio of CBs



The shares of non-performing assets on credit and advances of NABIL were 16.20%, 7.14%, 5.54%, 3.35%, 1.32% and 1.27% in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. On an average, 5.80% of the component of the credit and advances remained as non-performing credit. The ratio of NABIL showed a declining trend over the years as shown in the figure above.

The non-performing credit to credit and advances ratio of SCBNL were 5.23%, 4.84%, 4.13%, 3.77%, 2.69% and 2.45% in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio of the bank however remained at 3.85% over the six-year period. The ratios of SCBNL also showed a declining trend over the years.

The shares of non-performing credits over total credit and advances of HBL were 0.00%, 12.1%, 10.08%, 8.88%, 7.44% and 6.96% in the years 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio of non-performing credit remained at 7.58% at a slightly decreasing trend except in the last year of 2005/06 periods. On the basis of above calculations and their analysis, it is found that the share of non-performing credit over total credit and advances ratio of HBL was the highest of all banks. And they were found even at a decreasing trend also in the last year of study period. It means that the shares of non-performing credit of HBL are decreasing over the years. Among all, the non-performing credit of SCBNL was the lowest of all. And they were declining over the years. Therefore, we can regard that SCBNL had been performing well. But NABIL had the very decreasing trend over the six-years of study period.

4.2 Analysis of Sources and Uses of Funds

The following table presents the list of sources and used of funds of NABIL, SCBNL and HBL respectively. And it represents the proportionate contribution to the total fund.

4.2.1 Analysis of Sources and Uses of Funds of NABIL

Management of fund is the importance part of the banking business. The problem of managing fund is a great for bank. Then it is for almost any other enterprise. The sources and uses analysis took out proportion of each source and each use to the total funds of the bank and it were expressed in percentage. The percentage was compared with the standard percentage of a typical bank. This analysis also concerned behaviors of the sources of funds.

Table: 4.11

Percentage of Various Sources of Funds from Total Sources of NABIL

Particulars	Years						Total	Average (%)
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07		
Capital Funds	5.38	5.41	6.27	9.89	7.90	6.87	**41.73**	**6.96**
Deposits	81.42	78.24	73.53	77.32	77.79	80.17	**468.45**	**78.08**
Borrowings	0.00	1.43	5.26	1.26	0.09	0.72	**8.75**	**1.46**
Others	13.20	14.93	14.94	11.53	14.22	12.25	**81.06**	**13.51**

Source: Annual reports of respective banks.

From table 4.14, average contribution of capital fund in total sources is 6.96%. Major source of capital funds are; share capital, statutory reserve and others reserves. Likewise deposits contribute more funds out of total source of funds i.e. 78.08%. Major source of deposits are; savings, fixed, current accounts and call deposits. Considering the contribution of borrowing to total sources, it is 1.46 which is the lowest among other sources of funds. Major sources of borrowings are, inter bank and NRB. Other source of fund is 13.51%.

Table: 4.12

Percentage of Various Uses of Funds from Total Uses of NABIL

Particulars	Years						Total	Average (%)
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07		
Liquid Funds	32.31	25.45	22.77	21.48	7.17	9.80	**118.98**	**19.83**
Investments	14.05	20.97	20.05	20.14	15.07	9.83	**100.11**	**16.69**
Loan and Advances	43.37	37.30	45.24	48.09	59.07	53.95	**287.03**	**47.84**
Others	10.28	16.28	11.94	10.28	18.68	26.42	**93.88**	**15.65**

Source: Annual reports of respective banks.

These sources of funds are used for different purpose. From table 4.15, NABIL has maintained liquid funds of 19.83%. Major uses of funds as liquid funds in call money, in the other financial institutions and cash in hand. NABIL make average investment of 16.69% on government securities and share and debentures. Similarly it provides loan and advances of 47.84% to its customers. Major uses of funds are as loan and advances in private sector and government enterprises. Interest accrued and other uses cover 15.65%.

4.2.2 Analysis of Sources and Uses of Funds of SCBNL

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

Table: 4.13

Percentage of Various Sources of Funds from Total Sources of SCBNL

Particulars	Years						Total	Average (%)
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07		
Capital Funds	4.30	5.14	5.02	6.25	5.62	5.88	**32.20**	**5.37**
Deposits	72.04	80.48	84.07	86.52	85.00	86.02	**494.13**	**82.35**
Borrowings	7.42	3.41	0.35	0.32	0.19	0.04	**11.74**	**1.96**
Others	16.24	10.96	10.56	6.92	9.20	8.06	**61.94**	**10.32**

Source: Annual reports of respective banks.

From table 4.16, average contribution of capital fund in total sources is 5.37%. Major source of capital funds are; share capital, statutory reserve and others reserves. Likewise deposits contribute more funds out of total source of funds i.e. 82.35%. Major source of deposits are; savings, fixed, current accounts and call deposits. Considering the contribution of borrowing to total sources, it is 1.96 which is the lowest among other sources of funds. Major sources of borrowings are, inter bank and NRB. Other source of fund is 10.32%.

Table: 4.14

Percentage of Various Uses of Funds from Total Uses of SCBNL

Particulars	Years						Total	Average (%)
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07		
Liquid Funds	37.76	14.69	14.21	17.34	14.81	12.14	**110.95**	**18.49**
Investments	22.46	29.40	30.13	32.50	31.66	32.26	**178.41**	**29.73**
Loan and Advances	27.66	29.42	27.26	27.51	36.09	33.23	**181.17**	**30.19**
Others	12.12	26.49	28.40	22.65	17.44	22.37	**129.47**	**21.58**

Source: Annual reports of respective banks.

These sources of funds are used for different purpose. From table 4.17, SCBNL has maintained liquid funds of 18.49%. Major uses of funds as liquid funds in call money, in the other financial institutions and cash in hand. SCBNL make average investment of 29.73% on government securities and share and debentures. Similarly it provides loan and advances of

30.19% to its customers. Major uses of funds are as loan and advances in private sector and government enterprises. Interest accrued and other uses cover 21.58%.

4.2.3 Analysis of Sources and Uses of Funds of HBL

The problem of managing fund is a great for bank. Then it is for almost any other enterprise. The sources and uses analysis took out proportion of each source and each use to the total funds of the bank and it were expressed in percentage.

The percentage was compared with the standard percentage of a typical bank. This analysis also concerned behaviors of the sources of funds. The uses were analyzed in terms of their supporting ability to the source of funds to which they represent. In order to make study easier, the sources and uses of funds of banks were categorized and presented below:

Table: 4.15

Percentage of Various Sources of Funds from Total Sources of HBL

Particulars	Years						Total	Average (%)
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07		
Capital Funds	2.40	3.05	3.00	5.37	4.56	4.96	**23.33**	**3.89**
Deposits	84.16	86.97	84.96	85.08	85.32	85.16	**511.66**	**85.28**
Borrowings	0.03	0.23	2.18	0.25	1.67	1.23	**5.58**	**0.93**
Others	13.42	9.76	9.87	9.30	8.45	8.64	**59.44**	**9.91**

Source: Annual reports of respective banks.

From table 4.18, average contribution of capital fund in total sources is 3.89%. Major source of capital funds are; share capital, statutory reserve and others reserves. Likewise deposits contribute more funds out of total source of funds i.e. 85.28%. Major source of deposits are; savings, fixed, current accounts and call deposits. Considering the contribution of borrowing to total sources, it is 0.93 which is the lowest among other sources of funds. Major sources of borrowings are, inter bank transactions. Other source of fund is 9.91%.

Table: 4.16

Percentage of Various Uses of Funds from Total Uses of HBL

Particulars	Years						Total	Average (%)
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07		
Liquid Funds	34.37	35.82	33.50	32.20	28.08	8.62	**172.59**	**28.77**
Investments	10.68	12.27	16.24	10.76	18.93	35.06	**103.93**	**17.32**
Loan and Advances	43.85	45.24	44.80	48.90	45.51	49.95	**278.25**	**46.37**
Others	11.11	6.67	5.46	8.14	7.47	6.38	**45.23**	**7.54**

Source: Annual reports of respective banks.

These sources of funds are used for different purpose. From table 4.19, HBL has maintained liquid funds of 28.77%. Major uses of funds as liquid funds in call money, in the other financial institutions and cash in hand. HBL make average investment of 17.32% on government securities and share and debentures. Similarly it provides loan and advances of 46.37% to its customers. Major uses of funds are as loan and advances in private sector and government enterprises. Other uses of HBL cover 7.54% of total uses of funds.

4.3 Relationship between Total Deposits and Total Investments

In this research study, here the researcher interprets the relationship between total deposits and total investment of NABIL, SCBNL and HBL. In this case, total deposits are independent variables (X) and total investment is dependent variable (Y).

Table: 4.17

Relationship between Total Deposits and Total Investments

Name of Banks	Base of Evaluation				Remarks
	r	R^2	P.E	6 x P.E	
NABIL	**0.67**	**0.45**	**0.150**	**0.901**	**Insignificant**
SCBNL	**0.87**	**0.75**	**0.069**	**0.414**	**Significant**
HBL	**0.83**	**0.69**	**0.085**	**0.509**	**Significant**

Source: Appendix - 14

From the above table it is found that the coefficient of correlation between total deposits and total investments is 0.67, 0.87 and 0.83 of NABIL, SCBNL and HBL respectively. It shows a high and positive relationship. Similarly it considered the value of coefficient of determination (R^2) of 0.45, 0.75 and 0.69 of the banks NABIL, SCBNL and HBL respectively. It means the total variation in the dependent variable has been explained by the independent variable. Since, r of NABIL is positive and is lesser than 6P.E, it can be said that there is only positive relationship between total deposits and total investments. However r is positive and r > 6P.E, it can be concluded that SCBNL and HBL have very high significant and strong positive correlation between total deposits and total investments.

4.4 Relationship between Total Deposits and Loan and Advances

Under this study, here the researcher construes the relationship between total deposits and loan and advances of NABIL, SCBNL and HBL. In this case, total deposits is independent variable (X) and loan and advances is dependent variable (Y).

Table: 4.18
Relationship between Total Deposits and Loan and Advances

Name of Banks	Base of Evaluation				Remarks
	r	R^2	P.E	6 x P.E	
NABIL	**0.70**	**0.49**	**0.142**	**0.850**	**Insignificant**
SCBNL	**0.79**	**0.63**	**0.103**	**0.616**	**Significant**
HBL	**0.98**	**0.96**	**0.010**	**0.061**	**Significant**

Source: Appendix - 14

The above table reflects that the coefficient of correlation between total deposits and loan and advances is 0.70, 0.79 and 0.98 of NABIL, SCBNL and HBL respectively. It shows a high and positive relationship. Similarly it considered the value of coefficient of determination (R^2) of 0.49, 0.63 and 0.96 of the banks NABIL, SCBNL and HBL respectively.

It means the total variation in the dependent variable has been explained by the independent variable. Since, r of NABIL is positive and is lesser than 6P.E, it can be said that there is only positive relationship between total deposits and loan and advances. However r is positive and r > 6P.E, it can be concluded that SCBNL and HBL have very high significant and strong positive correlation between total deposits and loan and advances.

4.5 Trend Analysis of Total Deposits

Here the trend value of NABIL, SCBNL and HBL has been calculated for six year from 2001/02 to 2006/07. The forecast for next five years till 2011 has been done.

Table: 4.19

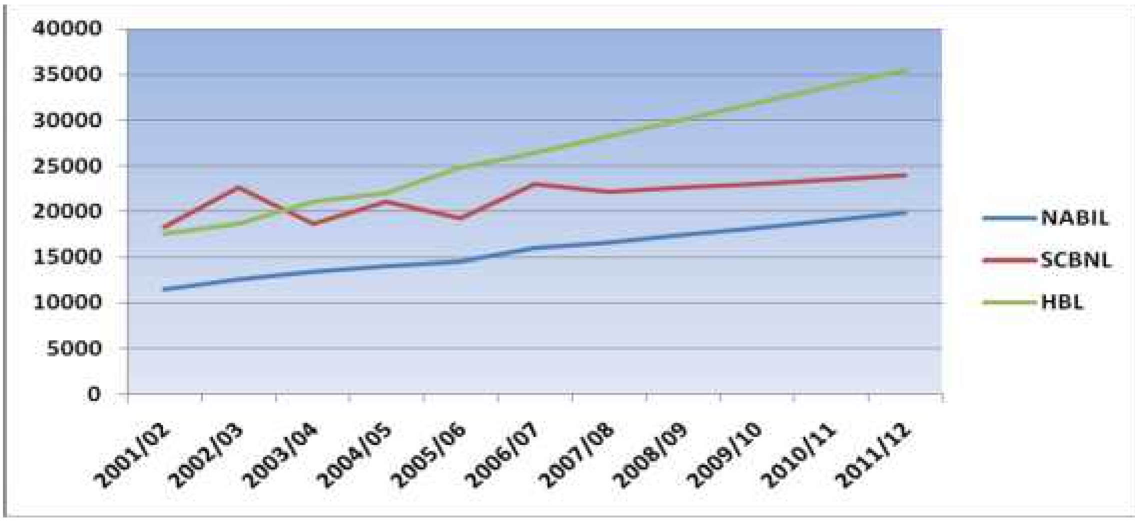
Trend Value of Total Deposits of NABIL, SCBNL and HBL (Rs. In Million)

Years	NABIL	SCBNL	HBL
2001/02	11550	18350.22	17532.40
2002/03	12650	22650.23	18619.37
2003/04	13448	18755.63	21007.37
2004/05	14119	21161.44	22010.33
2005/06	14587	19363.47	24831.1
2006/07	16000	23061.03	26456.2
2007/08	16598.86	22166.97	28168.52
2008/09	17419.77	22626.96	30004.44
2009/10	18240.68	23086.96	31840.36
2010/11	19061.59	23546.94	33676.28
2011/12	19882.50	24006.93	35512.2

Source: Appendix - 15

Figure: 4.11

Trend Line of Total Deposits of NABIL, SCBNL and HBL



The above comparative table of trend values of total deposits shows that deposits of three banks NABIL, SCBNL and HBL has increasing trend. Other things remaining the same, the deposits of NABIL in the year 2011 will be Rs. 19882.50 million, SCBNL Rs. 24006.93 million and HBL Rs. 35512.2 million which are the highest under the study period.

From the above analysis, it can be concluded that HBL's deposit is comparatively better than that of NABIL and SCBNL.

4.6 Trend Analysis of Loan and Advance

Here in the following part of the study trend analysis of Loan and Advance of the sample three banks has been done. The trend of all three banks is forecasted up to fiscal year 2011/012.

Table: 4.20

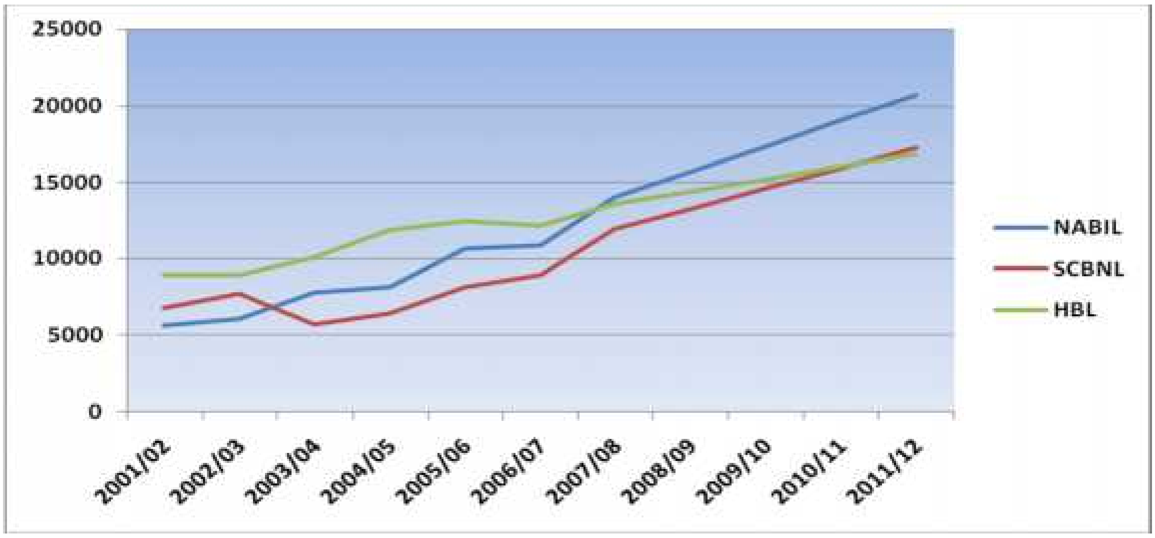
Trend Value of Loans and Advance of NABIL, SCBNL and HBL (Rs. In Million)

Years	NABIL	SCBNL	HBL
2001/02	5659.5	6789.58	8941.52
2002/03	6072	7701.08	8937.30
2003/04	7799.84	5695.82	10083.54
2004/05	8189.02	6410.24	11885.58
2005/06	10648.51	8143.21	12415.55
2006/07	10880	8935.42	12169.86
2007/08	14051.86	11951	13576.72
2008/09	15721.49	13285.83	14387.54
2009/10	17391.16	14620.63	15198.35
2010/11	19060.75	15955.43	16009.16
2011/12	20730.38	17290.23	16819.97

Source: Appendix – 15

Figure: 4.12

Trend Line of Loan and Advance of NABIL, SCBNL and HBL



From the above table and figure the trend of total loan and advances of all the three sample banks the trend of loan and advance is seen as smoothly in increasing trend.

The trend value of loan and advance of NABIL bank will be Rs. 20738 million in FY 2011/12, SCBNL will be Rs. 17290.23 million and that of HBL will be Rs. 16819.97 million.

4.7 Analysis of Primary Data

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

Knowledge with investors about liquidity mobilization policy

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

Table 4.21

Knowledge with investors about liquidity mobilization policy adopted by Commercial Banks

Response	No.of respondents	percentage
Yes	-	-
No	25	100
Total	25	100

Source: field survey, 2009

Reason for not interest of investors in liquidity mobilization policy

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

Table: 4.22

Reason for not interest of investors in liquidity mobilization policy

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

Source: Field Survey, 2009

Indication the level of risk in investing in current situation

With respect to the indication to find out the level of risk in investing in current situation. The options were; high, moderate, less and no risk. Most of the executives indicated that the level of risk is moderate but investors indicate the level of risk is high. There are few respondents who said that there is less risk. Regarding this query, the results drown from the respondents' views were as shown in above table. The majority of the respondents (64%) gave the first important to moderate; the second (20%) is to indicate high and remaining (16%) told less risk.

Table: 4.23

Indication the Level of Risk in Investing in Current Situation

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

Source: Field Survey, 2009

Priority to give investment to the Rural Area of the Country

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

Table: 4.24

Priority to give investment to the Rural Area of the country

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

Source: Field Survey,2009

Reason for increasing Minimum Threshold Balance and Reduction of Interest Rate on the Client's Deposits

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

Table: 4.25

Reason for increasing the minimum threshold Balance and Reduction of Interest rate on the Client's Deposits

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

Source: Field Survey, 2009

Reasons behind for not providing Banking Facilities to the Rural Areas

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

Table :4.26

Reasons behind for not providing Banking Facilities to the Rural Areas

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

Source: Field Survey, 2009

4.8 Major Findings of the Study

1. Table of cash and bank balance to total deposit ratio shows that the ratio of HBL is highest among the sample banks; SCBNL has moderate ratio and lowest ratio with NABIL.
2. HBL comes in first position, SCBNL comes in second position and NABIL comes in last position among these three commercial banks in the case of cash and bank balance to total assets ratio.
3. Credit and advance to total deposit ratio of NABIL, HBL and SCBNL come in first, second and third position respectively.
4. HBL has the highest ratio of credit and advance to total assets according to standard deviation and coefficient of variation, NABIL has the moderate ratio and SCBNL has the lowest ratio.
5. In the case of return on total assets ratio, NABIL has the highest among all of the sample banks. Similarly, SCBNL has the moderate ratio and HBL has the lowest ratio.
6. SCBNL has the highest ratio, NABIL has the moderate ratio and HBL has the lowest ratio of return on fixed assets.
7. SCBNL, NABIL and HBL come respectively in first, second and third position according to return on loans and advances or total credit ratio.
8. In the case of earning per share, SCBNL has highest EPS, i.e. Rs. 140.35, NABIL has the moderate EPS, i.e. Rs. 83.43 and HBL has the lowest EPS, i.e. Rs. 57.75 only.
9. HBL has the highest ratio, NABIL comes in second position and SCBNL comes in last position on the basis of interest income to credit and advances ratio.
10. HBL has the highest ratio of non-performing credit to total credit and advances ratio, then after NABIL comes in second position and SCBNL comes on last position among these three sample banks.
11. HBL has the highest sources of fund of deposits with 85.28% whereas SCBNL has a moderate amount of deposits of 82.35% and similarly NABIL has the lowest deposits as sources of funds among all banks i.e. 78.08%.
12. NABIL has become the most successful bank to use its funds in loan and advances i.e. 47.84%. On the other hand, HBL has moderate use of 46.37% and SCBNL has only 30.19% of uses from the funds.

13. The relationship between total deposits and total investments of the entire bank is positive. But, correlation coefficient (r) of NABIL is less than 6 x P.E, so it has insignificant relationship. Conversely, coefficient of correlation (r) of rest banks are greater than 6 x P.E. Among these, SCBNL has higher degree of positive correlation between these two variables which can be said as more significant and consistent.
14. Trend analysis of total deposits shows that deposits of all the banks are in increasing trend. Deposits of NABIL bank is increasing slowly whereas deposits of SCBNL reach near to double of its beginning amount. Finally, deposits of HBL exceeded the double of its figure. From this analysis, it seems that deposit trend of HBL is the highest, moderate of SCBNL and the lowest for NABIL.
15 The trend of loan and advance of all three sample banks is seen as smoothly in increasing trend. The trend value of loan and advance of NABIL is greater than the SCBNL and HBL. The trend value of loan and advance of HBL is lowest in FY 2011/012 and that of the SCBNL is morderate.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter highlights some selected actionable conclusions and recommendations on the basis of the major findings of the study derived from the comparative analysis of NABIL, SCBNL and HBL. The study has covered six years data from the year 2001/02 to 2006/07. The major findings of the study based on financial and statistical analysis listed in chapter-iv of this research in order to carry out this study mainly secondary data are used. The analysis of data is carried out with the help of various financial and statistical tools. The findings of the study are summarized and conclusion and some recommendation drawn as follows:

5.1 Summary

It is well known that Nepal is one of the least developed countries of the world. Poverty has stood as a serious challenge to the country. The country is unable to fulfill the national requirement of people. Overall development of the country depends upon economic development of the country. So every country has given emphasis in development of its economy. In such context, it is realized that without industrial and banking development, it is impossible to have social and economic development. So for infrastructure and economic development, banks play the vital role.

The main objective of this study is to evaluate the liquidity mobilization of NABIL, SCBNL and HBL and to suggest these banks according to the findings to improve the liquidity position and its mobilization. This study is mainly based on secondary data from the year 2001/02 to 2006/07. The data have been basically obtained from annual report and financial statements of related banks, official records, journals and bulletins, various published reports, relevant unpublished master's thesis and different related websites. In this study, the financial tools ratio analysis viz. liquidity ratio, turnover ratio, profitability ratio and market indicator ratio and statistical tools like mean, standard deviation, coefficient of variation, correlation coefficient and trend analysis have been used for the analysis and interpretation of the data. The various ratios show the liquidity mobilization of NABIL, SCBNL and HBL, over the six year period. Correlation analysis helps to establish the relationship between two variables, which can be useful to know how one variable affects another. Similarly trend analysis is used to find out the trend of total deposits on the basis of past data of these banks. This can be used to predict the value of this element in future.

Under ratio analysis, calculation of various ratios including liquidity, leverage, turnover, profitability and market value ratios have been calculated and interpreted. While analyzing the most of the ratios obtained from the data during the study period, the average ratios obtained for the individual banks were compared with the average ratios of commercial banking industry for the same period.

5.2 Conclusion

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

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

Despite of having the highest deposit mobilization ratios, the quality of the credit of HBL comprised of a heavy portion of bad and non-performing credit. That meant the quality of the credit extended by HBL was bad among the three sampled banks. However, the deposit and the assets of HBL were found slightly underutilized. The deposit mobilization of SCBNL was too low than the amount of deposit collection. Out of the total funds obtained from deposit collection and its mobilization in credit extension to the parties, the quality of the loan extended by NABIL and HBL was found the best among all sampled banks. The profitability indicators of HBL were the least of all and were lower. The profitability position of NABIL and SCBNL were strong. However, SCBNL had the highest profitability ratios. It can be regarded that the deposits and assets of SCBNL were utilized effectively in lucrative sectors with the lower amount of non-performing credit. The overall profitability of HBL and NABIL were also positive but quite lower.

The net worth or total capital of the shareholders of HBL was in critical condition. That meant, the shareholders of HBL were in total threat. The shareholders' rates of earnings in rest of two banks were sound. Though the return generated by the utilization of the total assets and mobilization of the deposits in lending sector was quite low for all the banks, the shareholders of all sampled banks were getting fair return due to capital gearing (especially due to excessive use of short-term leverage).

SCBNL’s price lead all other studied banking institution’s shares in the market. In addition, the net worth per share of this bank was also the highest among all. It means that the image of this bank in the general public was also high. Share price of NABIL immediately occupied the highest position in the market. However, HBL’s price in the market was found decreasing constantly at a higher rate for the first three years. That means the investors’ perception of HBL’s performance and price was bad. Due to the adverse image of the performance and dark future perspective, the general investors' rating of the HBL's price was too low, and the owners of the shares who owned the shares of HBL were found willing to sell or divert in other banks which are better than HBL.

5.3 Recommendations

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

- NABIL, SCBNL and HBL should minimize their existing level of excess liquidity by investing in more profitable sectors. Idle assets of theirs in form of excess cash or equivalents should be diverted in various investment opportunities available in the market. Those less risky investment sectors should be identified.
- NABIL, SCBNL and HBL need to bring in newer schemes to mobilize their higher amount of deposits in extending credit.

- All the banks should have to make effort in order to minimize their non-performing credits. HBL especially, must be more conscious on this part. Making credit policy more transparent, standard and less risky should increase the quality of the credit.
- All the banks should try to increase their profitability by investing in more profitable sectors, and by increasing the quality of their extended credits. They should have to investigate thoroughly the wide range of investment opportunities in the market in order to improve their profitability situation. Especially, HBL should immediately be more conscious on this part as it is having continuous less profit over the years.
- As formation of price is a very complex process, some extremely outstanding sectors such as management efficiency, profitability status, future perspective, bank's investment strategy, etc should be improved. HBL must have to follow this scheme immediately.
- The commercial banks i.e. NABIL, SCBNL and HBL should go for new areas of investments like hydro electricity, infrastructure development and information technology of the economy as well as banks' operations.
- These banks should target their business segment on the middle family. For this they have to keep the affordable minimum balance to open an account at present the bank SCBNL charges higher than other commercial banks. So that it can earn more customers and generate more deposit amount.

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