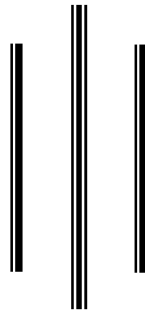# LIABILITIES MANAGEMENT OF COMMERCIAL BANKS
(A Case of NABIL, SCBL, HBL, EBL and NSBI)

A THESIS

Submitted By:
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Submitted To:
Office of the Dean
Faculty of Management
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In Partial Fulfillment of the Requirements for the Degree of
Master of Business Studies (M.B.S.)

Kathmandu, Nepal
March, 2010

RECOMMENDATION

This is to certify that the Thesis

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Entitled:
"LIABILITIES MANAGEMENT OF COMMERCIAL BANKS"
(A CASE OF NABIL, SCBL, HBL, EBL AND NSBI)

Has been prepared as approved by this campus in the prescribed format of the faculty of management. This Thesis is forwarded for examination.

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VIVA-VOCE SHEET

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(A CASE OF NABIL, SCBL, HBL, EBL AND NSBI)

And found the thesis to be the original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as partial fulfillment of the requirement of **Master of Business Studies (M.B.S.)**

VIVA-VOCE Committee:

Chairman (Head of Research Committee) :   …………………………….

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Member (External Expert)   :   …………………………….

DECLARATION

I hereby declare that the work reported in this thesis entitled "Liabilities Management of Commercial Banks" (A Case of NABIL, SCBL, HBL, EBL and NSBI) submitted to Shankar Dev Campus, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement of the Master of Business Studies (MBS) under the supervision of Asso. Prof. Ruchila Pandey and Laxman Raj Kandel, of Shankar Dev Campus.

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&	:	And
ABBS	:	Anywhere Branch Banking System
ADB	:	Asian Development Bank
ATM	:	Automatic Teller Machine
B.S	:	Bikram Sambat
BOP	:	Balance of Payment
CV	:	Coefficient of Variation
CB	:	Cash Balance
CDs	:	Certificate of Deposit
CF	:	Capital Fund
CEO	:	Chief Executive Officer
DA	:	Deposit to Total Assets
DC	:	Deposit to Capital
EBL	:	Everest Bank Ltd.
EBIT	:	Earning Before Interest and Tax
HBL	:	Himalayan Bank Ltd.
IMF	:	International Monetary Fund
IBRD	:	International Bank for Reconstruction and Development
JVBs	:	Joint Venture Banks
M.B.S.	:	Master of Business Studies
NSBI	:	Nepal SBI Bank Ltd.
NRB	:	Nepal Rastra Bank
NPL	:	Non Performing Loan
ND	:	Net Profit to Deposit
NP	:	Net Profit

ROCE	:	Return on Capital Employed
SCBL	:	Standard Chartered Bank Limited
S. NO.	:	Symbol Number
TLF	:	Total Liquid Fund
TD	:	Total Deposit
TA	:	Total Assets
T.U	:	Tribhuvan University

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CHAPTER- I
INTRODUCTION

1.1 Background of Study 1

In the recent time, most of the developing countries are trying to attain growth with stability. But, stability is not the end of any development policy; it is emphasized only because of the fact that instability may delay the growth process. So, non-inflationary environment is preferable for the economic development. In this regard, the commercial banks play an important role because bankers are to be considered not as dealers in money, but the leaders in development. They are not just the store houses of the country's wealth but are the reservoirs of resources necessary for economic development. It is also said that the flow of credit is vary much like the circulation of blood. If the circulation of blood is not smooth that would do irreparable harm to our body, so, also unsteady and unsmooth flow of credit harm to the economy. It has widely been accepted that the economic activities of a country are greatly influenced by the development of a sound banking system. So called developed countries, today, also have fostered their economic development with help of their banking (Sharma; 1968:5).

Banks are most effective medium of mobilizing the national resources, their efficiency in mobilizing the resources lies in expanding their main business i.e. accepting deposits and advances along with making a marginal profit, the instrument of interest rate can also play an important role for such purpose. But the regulation of interest rates are done by the Nepal Rastra bank, the central bank of Nepal and the commercial bank need not face much problem in the fixation of such rates (Sharma; 1975:8)

The commercial banks must keep constant vigilance upon its loan, deposits and other liabilities aspects in order to remain healthy not in the short run but also to ensure effective long run resource mobilization and to win the public's confidence.

A bank is an institution which deals with money and credit. It accepts deposits from the public, makes the funds available to those who need them, and helps in the remittance of money from one place to another (Paul;2004:6). The bank in short can also be identified with the features like: it deals with money and accepts deposits and advances loans, it also deals with credit and it has ability to create credit, i.e. the ability to expand its liabilities as a multiple of its reserves, it is commercial institution, it is a unique financial institution that creates demand deposits which serve as a medium of exchange and, as a result, the banks manage the payment system of the country.

Beyond deposits banks must manage its several liabilities. Management of liabilities means to procure the sources of funds and to utilize them effectively and efficiently in order to gain the maximum from these resources that ensures fair return to the funds providers and the same to the banks. Speaking in another way, liabilities management is the management of financial sources like debentures, equity, reserves and borrowing and other short term obligations with the aim of achieving organizational goals effectively and efficiently in a changing environment.

Thus, the traditional view that all banks income must come from loans and investments had given way to the notion that banks sell a bundle of financial services- credit, Payments, savings, Financial advice etc.- that should each be priced to cover their cost of production. Income from managing the liability side of the balance sheet can help achieve banks profitability goals as much as revenues earned from managing bank loans and other assets (Rose; 2007:109).

1.2 Brief Profile of Selected Banks3

1.2.1 Nepal SBI Bank Limited3

Nepal SBI Bank Ltd. (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India, Employees Provident Fund and Agricultural Development Bank of Nepal through a Memorandum of Understanding signed on 17th July 1992. NSBL was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993 under Reg. No. 17-049/50 with an Authorized Capital of Rs.12 Crores and was licensed by Nepal Rastra Bank on July 6, 1993 under license No. NRB/l.Pa./7/2049/50. NSBL commenced operation with effect from July 7, 1993 with one full-fledged office at Durbar Marg, Kathmandu with 18 staff members. The staff strength has since increased to 351. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on April 26, 2006 under license No.

NRB/I.Pra.Ka.7/062/63. The Authorized and Issued Capitals have been increased to Rs. 200 Crores and Rs. 87.45 Crores, respectively. The management team and the Managing Director who is also the CEO of the Bank are deputed by SBI. SBI also provides management support as per the Technical Services Agreement. Fifty five percent of the total share capital of the Bank is held by the State Bank of India, fifteen percent is held by the Employees Provident Fund and thirty percent is held by the general public.

1.2.2 Everest Bank Limited3

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch

Banking System (ABBS), which enables customers for operational transactions from any branches.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries, which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and UK. Bank has set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services. Joint venture partner of the bank is Punjab National Bank (PNB), its joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India. With its presence virtually in all the important centers at India, Punjab National Bank offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. Among the clients of the Bank are Indian conglomerates, medium and small industrial units, exporters, non-resident Indians and multinational companies. The large presence and vast resource base have helped the Bank to build strong links with trade and industry.

1.2.3 Himalayan Bank Limited4

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities-Loans and Deposits.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. Other financial institutions in the country have been following our lead by introducing similar products and services. Therefore, we stand for the innovations

that we bring about in this country to help its customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under the bank's credit standing with foreign correspondent banks, the bank believes that it obviously leads the banking sector of Nepal. The most recent rating of HBL by Bankers' Almanac as country's number 1 Bank easily confirms our claim.

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster Recovery Management System'. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software- Himal RemitTM. By deputing our own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All this only reflects that HBL has an outside-in rather than inside-out approach where Customers' needs and wants stand first.

1.2.4 NABIL Bank Limited5

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 19

points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the 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.

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Tele - banking system.

1.2.5 Standard Chartered Bank Limited6

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint-venture operation. Today the Bank is an integral part of Standard Chartered Group having an ownership of 75% in the company with 25% shares owned by the Nepalese public. The Bank enjoys the status of the largest international bank currently operating in Nepal. Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest-growing markets with an extensive global network of over 1600 branches (including subsidiaries, associates and joint ventures) in over 70 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. As one of the world's most international banks, Standard Chartered employs around 70,000 people, representing over 125 nationalities, worldwide. This diversity lies at the heart of the Bank's values and supports the Bank's growth as the world increasingly becomes one market. With 17 points of representation, 21 ATMs across the country and with more than 375 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic

network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal. Standard Chartered Bank Nepal Limited offers a full range of banking products and services in Wholesale and Consumer banking, catering to a wide range of customers encompassing individuals, mid-market local corporate, multinationals, large public sector companies, government.

1.3 Statement of the Problem

The commercial banks are to be identified on the ground that how their liabilities are managed. It is widely accepted that the main source of value for modern banks are not only its investment and loan but also the liabilities like debt, equity, reserve, deposit etc. In Nepalese banking field several problems like shortage of liquidity, large amount of non performing loan, decreasing share prices, restriction on loan etc are the general phenomenon. The problem of capital flight, regular pressure on bank interest rate, and increasing interbank transaction are some of market indicators those are due to the incapability of banks to manage its liabilities. Recent periods witnessed a substantial growth of private sector credit. Ironically, the credit off take is not supported by import growth, and any other productive activities except some improvement in tourism sector. Increasing credit-deposit rate also affect the growing lending of commercial banks. These, the entire market scenario calls for the proper analysis and management of banks' sources of funds or liabilities that ensures not only the stability in banking sector but also the sustained growth of the economy as a whole. So it is the urgent case that each commercial bank in the country must put their balanced view towards the liabilities management. In this regard, main problems those have been identified in this research are:

) How the liabilities like debt, equity, current liabilities, liquid fund etc of the banks are managed?

) Does liabilities really matters for the profitability of the banks?

) How efficiently the resources (liquid fund, shareholders' fund, and deposits) are utilized in the Nepalese commercial banks?

) What is the relationship of commercial bank's loan and investment with macro economic variables?

) Is there any relationship between selected dependent variables and independent variables such as investment, total liabilities and profitability of the banks?

1.4 Objectives of the study

After the establishment of joint venture banks, the banking activities is said to be proliferated. This study, in the regard, has tried to accomplish the objectives as given below:

) To assess the management of shot and long term debt, deposit, liquid fund and other liabilities of the banks.

) To evaluate the banks in terms of deposits and Resource mobilization.

) To identify the justifiability of liquidity in terms of profitability of the banks.

) To evaluate the relationship between selected dependent and independent variables regarding liabilities, profitability and macro economic variables.

1.5 Limitation of the Study

Beyond the time and resource constraints some of the unavoidable hindrances may come in course of study are as follows:

) Out of the total commercial banks five commercial banks viz. NABIL Bank, Standard Charter Bank Limited (SCB Bank), Himalayan Bank, Everest Bank and Nepal SBI bank have been selected as sample.

) Available secondary data are used extensively. The reliability depends on it.

) Historical data of over 9 years have been collected and analyzed.

) Selected financial and statistical tools are used for analysis.

1.6 Significance of the Study

Liabilities management is the key factor that must be considered to remain sound and effective to utilize various resources and to contribute positively to the national economy. In this ground, this study will help to consider effective mobilization of resources to formulate corporate strategy.

Liabilities management and other major aspect of resource utilization and relation of financial and economic variables, etc. are the main issues to be dealt with. This study will be helpful to researcher, scholar, students, treasures, policy makers and other interested parties.

Knowledge as to the technique of evaluating the status of resource mobilization and liabilities management may be acquired through this study which helps to control and evaluate the effectiveness of resources, which in turn decreases the cost of holding idle assets and increase the shareholder's wealth.

1.7 Organization of the Study

This research has been organized in the manner 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, book, reports, journal, previous thesis etc.

Chapter III: Research Methodology: Third chapter explains 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 presents the data collected different sources. Based on the data, analysis of liabilities will be performed.

Chapter V: Summary, Conclusion and Recommendation: The fifth chapter summaries, concludes the whole study and offers suggestions for further improvement.

After completion of these five chapters, a list of literature that reviewed earlier has been included alphabetically in bibliography. Likewise, data, information, calculation sheet etc will be incorporated in appendix.

CHAPTER II
REVIEW OF LITERATURE

This section attempts to build strong theoretical background through the help of which further search for solutions of the research problems would be easier. Commercial banks, liabilities assets: its theoretical background, academic insights, nature, advantages, importance and other various issues are addressed here in this chapter as contributed by different management experts and others towards this field. While reviewing literature different sources like books, documents, bulletins, reports, journals and articles etc. are consulted.

2.1 Conceptual Framework

2.1.1 Concepts of key terms

Profit: We have to clarify the meaning of profit first. Generally, profit is the making of gain in business activity for the benefit of the owners of the business whereas profitability indicates the ability to earn a profit. An Income Statement is traditionally used to measure profitability of a company. A pro forma income statement shows projected profitability of company.

Dictionary meaning of profit is the money that you make in business or by selling things, especially after paying costs involved, the advantage that you get from doing something (Hornby; 2000: 101).

Profit is essential to survive in any business concern for its successful operation, future expansion and growth. It is the primary measures of success of business organization. It is the excess income over the cost of production. The word 'profit' implies a comparison of the operations of business between two dates, which are usually separated by an interval of one year. The term 'profit' is very controversial

and there are different interpretations about it. It has various dimensions and views to be realized. The researcher has already accepted the view of Lynch and Williamson, an economist, labour leader, investor, revenue agent and an accountant of the concern has different view about profit. An economist can view that profit is the reward for entrepreneurship for risk taking. A labour leader might say that it is a measure of how efficiently labour has produced and that it provides a base for negotiating a wage increase. An investor can view it as a measure of the return on his or her money. An internal revenue agent might regard it is the base for determining income taxes. The account can define it simply as the excess of a firm's revenue over the expense of predicting revenue in a given fiscal period.

Profit is the reward for risk taking in business. An entrepreneur earns profit as reward for his innovations. Arguments of economists on profit may be put in three broad groups. The first looks upon profit as the reward for bearing risks and uncertainties, the second views profit as the consequence of perfection and in-perfection in the competitive adjustment of the economy to dynamic change, the third sees profit as the reward for successful innovation (Joel; 1997: 6). It could be noted that profit is residual income left after the payment of the contractual rewards to other factors of production (Joshi; 985:45).

Profit is the primary measure of operational efficiency of a business firm. The success of business depends largely upon the profit earned by the business. In other word, the managerial efficiency of any concern is reflected upon the volume of profit. So, profit is a signal for the allocation of resources and a standard for judging managerial efficiency (Kulkarni; 1985: 45).

We can conclude from these definitions that there is no definite definition of profit. It depends on the definer's views; and their interest. The researcher would use the profit as revenue after cost of production. Under the cost of production, all factors of

production should be considered for e.g. house rent, labour wage, material cost, machine cost, cost of capital as well opportunity cost of capital.

Profitability: Profitability of a firm is measured in terms of the firm's sales, total assets, and equity or share value. These provide the base to analyze the firm's earnings with respects to a given level of total assets, the ownership investment or share value. Higher the ratios of the firm, higher will be the profitability and vice versa. In case of a bank, we can take total deposit as equivalent meaning of sales.

Liquidity: Dictionary meaning of liquidity is the state of owning things of value that can easily be exchanged for cash. Any business organization uses different assets while operating the business but these all assets are not liquid. As for example, land and building, vehicle, office equipments etc. are not liquid assets. Liquid assets are those assets which can be converted into cash promptly. Cash in hand, bank balance, gold etc. are examples of liquid assets. Therefore, liquidity is the state in which one can change its assets into cash soon.

Liabilities: Liabilities consist of two parts: one is liabilities for insiders and liabilities for outsider. The former is generally termed as 'capital' and the latter is known as 'liabilities'. Thus total liabilities are the sum of liabilities and capital (Jain and Narang; 1986:8)

2.1.2 Liabilities Management

Since liabilities management consist of separate words, i. e. liabilities and management it can be better understood if defined separately and to combine latter. Management in words of Griffin (2004) "is a set of activities (including planning, organizing, leading, and controlling) directed at an organization's resources (human, financial, physical, and information), with the aim of achieving organizational goals effectively and efficiently in a changing environment." Likewise liabilities is

"debentures, equity, reserves and borrowings and other liabilities those are the claim of outsiders to the firm" (Shrestha and Bhandari;2010:296).

Now, combined together, liabilities management can be defined as the management of financial sources like debentures, equity, reserves and borrowing and other short term obligations with the aim of achieving organizational goals effectively and efficiently in a changing environment.

Commercial banks have to manage the liabilities very carefully to minimize and achieve desirable degree of profitability. Commercial banks have to consider various components of liabilities in details regarding how to manage them properly. The total liabilities of commercial banks consist of their liabilities to depositors, shareholders, lenders and the central bank being the lender of the last resort. The borrowings, deposits, new account, money market liabilities, deposit account, wholesale and retail certificate of deposits, negotiable instruments, brokered deposits, Euro-dollar deposits, negotiable instruments, interest paying liabilities, short term loans, bills payable and other outstanding expenses. All of these item wise explanations commercial banks' liabilities are highlighted as below:

Figure 2.1

Components of liabilities of commercial banks
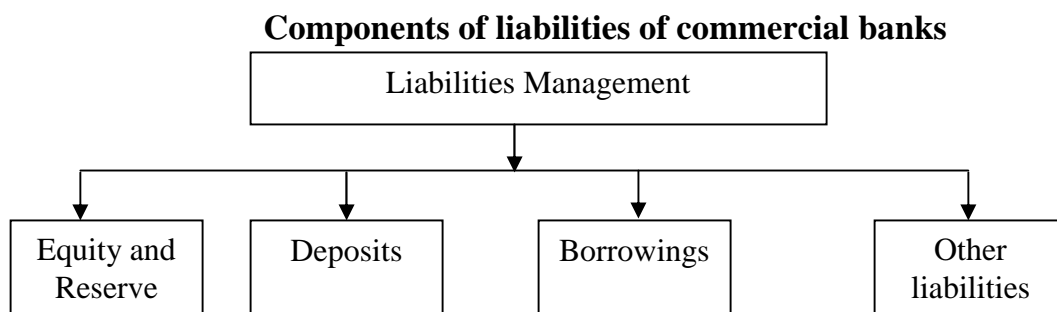
Equity and reserves: the bank's capital comprising of the subscribed share capital, undistributed profits and accumulated reserves and these represent the owner's capital interest in the banking business. Its function, conceptually, is to protect the depositors against loss. In the early stages of banking development, it was considered

expedient to have a fairly large capital base so as to provide a safety margin for the depositors in the event of the bank going into the liquidation.

Banking legislation in some countries stipulate the size of capital base to be adopted by the new banking companies before granting license to carry on banking business. It is also made obligatory to transfer a fixed percentage of the annual profit before declaring dividends to the special reserves. Banks in many countries have the unique privilege of building up undisclosed reserves by valuing their assets conservatively. The practice is being permitted to enable them to absorb the fluctuations in profits likely to occur over the years.

Capital adequacy in banking companies cannot be easily assessed because of the common practice of banks having their total liabilities (Especially deposits) as a multiple of the capital funds. In the field of international banking, the narrow capital base or the very low ratio of capital funds to total liabilities is not favorably considered. At present in our country, Nepal Rastra Bank is making it obligatory to commercial banks to increase their capital base for providing adequate safety net.
As far as the public sector banks are concerned, the government owns their capital. Out of the profits transferred to the government, there are a few instances where part of them are ploughed back to expand the capital base.

Deposits: As the volume of business and profit depend upon the total funds available to the banks, they make best of efforts to mobilize deposits from the public . in this sphere, they have to face the competition from the non-banking financial intermediaries and state-sponsored savings organizations. The \funds gathering \ business of bank is gaining greater attention in the recent years, as they have to cope upon with the growing demand of credit.
Deposits gathered by the banks maybe classified broadly on the basis of their maturity pattern and the ownership pattern. The former classification of deposit is

based on the profitability angle while the other classification is useful for the strategy of deposit mobilization. The demand liabilities and time liabilities are the classification used in the Nepalese context.

The demand liabilities include the current deposit on which no interest is given and the saving bank deposits, which carry an interest and are being operated through cheques. Current accounts, which are largely operated, by the trading and manufacturing companies or individuals are not of a huge magnitude in the deposit pattern of Nepalese banks. At present, commercial banks are following zero deposit accounts providing all the banking facilities.

The saving banks deposits are the more popular deposits usually operated by individuals and some charitable organizations. The attractions of this account, besides the cheques facilities are the free mail transfer facilities for remittances, the convenience of collection of dividend warrants and the facility of self deposit vaults. A portion of the savings banks deposit is volatile due to the frequent withdrawals. The other portion is fairly stable, representing the real savings of the household sector. The relative shares of these two segments vary from bank to bank, depending upon the composition of occupational groups, the location of the branch network and the type of consumer credit facilities available locally.

Among the time liabilities, the fixed deposits are the prominent deposit group. The maturity period of these deposits vary from one year to 5 years. With the growth of banking habits there is a slow shift from the lower interest rate bearing demand deposits to the higher interest rate bearing term deposits.

The Recurring Deposits or the Cumulative deposits are contractual term deposits, where a fixed amount is being deposited regularly for a given term. A few variants of

these contractual savings is include the tiny deposits (daily deposits) or cumulative Deposits with a provision for conversion into fixed deposits after certain period.

Most of the deposit schemes are stereotyped with uniform rates and term and conditions governed by the bankers Association of Nepal. Innovation is the casualty where straightjacket growth is administered. The principal liabilities of any bank are its deposits, representing the financial claims held by business, households, and governments against the bank. In the event a bank is liquidated, the proceeds from the sale of its assets must first be used to pa y off the claims of its depositors (along with the IRS) other creditors and bank stockholders receive whatever fund remain. There are five major types of deposits.

Non-interest-bearing demand deposits, or regular checking accounts, generally permit unlimited check writing, but, under a federal law passed in 1933, they cannot pay any explicit interest rate (though many banks offer to pay postage costs and offer –free- services that yield the demand deposit customer an implicit rate of return on the deposits)

Savings deposits generally bear the lowest rate of interest offered to depositors by a bank but maybe of any denomination (though most banks impose a minimum size requirement) and permit the customer to withdraw at will.

NOW account, which can be held only by individual and nonprofit institutions, bears interest and permit draft (checks to be written against each account to pay third parties). Mooney market deposits (MMDAs) can pay whatever interest rate the offering bank feels is competitive and have limited check- writing privileges attached. No minimum denotation or maturity is required by law, though depository institutions must reserve the right to require seven days notice before any withdrawals are made.

Time deposits (Mainly certificates of deposits, or CDs), usually carry a fixed maturity (term) and a stipulated interest rate but maybe of any denomination, maturity, and yield agreed upon by the bank and its depositor. Included are large (pound 100.00-plus) negotiable CDs – interest-bearing deposits that banks used to raise money from their most well-to-do customers. The bulk of bank deposits are held by individuals and business firms. However, governments (federal, state and local) also hold substantial deposit accounts, known as public fund deposit. Any time a school district sells bonds to construct a new school building, for example, the proceeds of the bond issue will flow into its deposit in a local bank.

Borrowing from Nondeposit sources- while deposit typically represent the largest portion of bank sources of funds, sizable amounts of funds also stem from miscellaneous liability accounts. All other factors held equal, the larger the bank, the greater use it tends to make of nondeposit sources of funds. One reason bank borrowings from nondeposit funds sources have grown rapidly in recent years is that there are no reserve requirements on must of these funds, which lower the cost of nondeposit funding. Also borrowings in the money market usually can be arranged in the few minutes and the funds wired immediately to the bank that needs them. One drawback, however, is that interest rates on nondeposit funds are highly volatile. If there is even a hint of financial problems at a bank trying to borrow from these sources, that banks borrowing cost can rise rapidly, or money market lenders may simply refuse to extend it anymore credit (Rose;2007:109).

Borrowings: Borrowings from the call money market and the borrowings from the central bank constitute the short term liabilities of banks. Call money borrowings or inter-back borrowings are often resorted to meet the temporary liquidity requirements. The rates of interest charge in the call money markets vary largely due to the supply an demand conditions, by and large, this source of borrowings is

somewhat costlier compared to the cost of the funds raised by the banks through deposits.

The borrowings from the central Bank and other term lending institutions are mostly in the form of refinance facilities. Though they are cheaper, their availability is tied up to the bank-s landing and is fixed by a formula. When the central banking authorities introduce the credit restraint measures, the refinance facilities are reduced.

Other liabilities: These liabilities are not of great importance as they include such short duration liabilities like the bills payable, which are subject to day to day fluctuation, the provision made for tax payment and also the pending Items under the inter-branch adjustments. In the annual statement of accounts, and balance sheets, banks are exempted from furnishing the details of these liabilities (Shrestha and Bhandari; 2010:297).

The 1960s and 1970s ushered in dramatic changes in bank asset-liability management strategies. Confronted with soaring interest rates and intense competition for funds, Bankers began to devote greater attention to opening up new sources of funding and monitoring the mix and cost and their deposit and nondeposit liabilities. The new strategy was called liabilities management. Its goal was simply to gain control over their assets. The key control was price, the interest rate and other terms banks could offer on their deposits and borrowings to achieve the volume, mix, and cost desired. A bank faced with heavy loan demand that exceeded its available funds could simply raise the offer rat e on its deposits and money market borrowings relative to its competitor, and funds would flow in. on the other hand, a bank flush with funds but with few profitable outlets for those funds could leave its offer rate unchanged or even lower that price, letting competitors outbid it for whatever funds were available in the marketplace. Following figure presents the asset-liability management strategy:

Figure 2.2

Asset-Liability Management Techniques
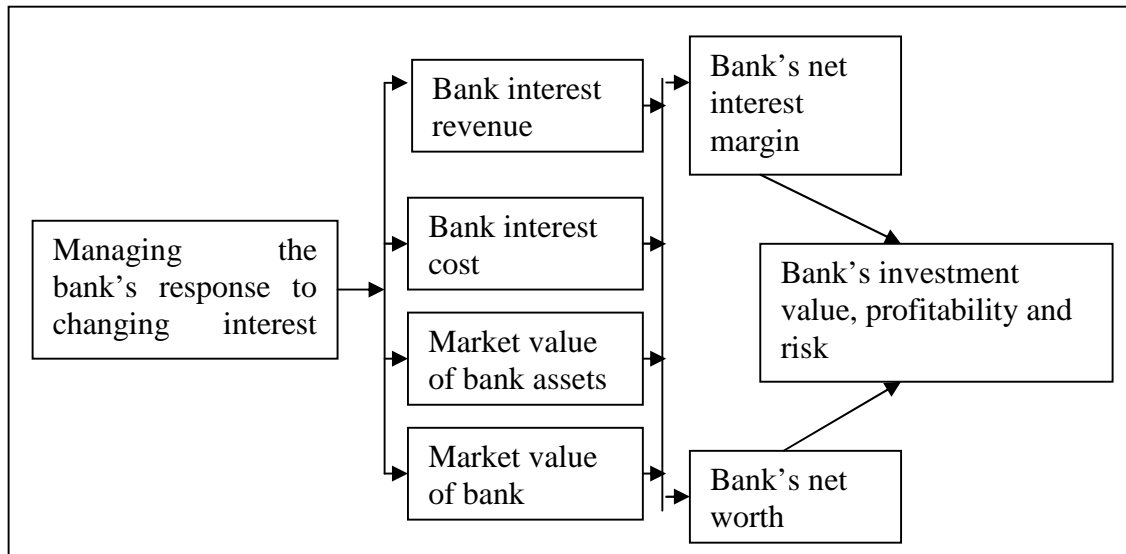
The maturing of liability management techniques, coupled with more volatile interest rates and greater banking risk, eventually gave birth to the funds management approach, which dominates banking today. This view is a much more balanced approach to asset liability management that stresses key objectives:

1. Bank management should exercise as much control as possible over the volume, mix, and return or cost of both assets and liabilities to achieve the bank's goal.

2. Management's control over assets must be coordinated with it control over liabilities so that asset and liability management are internally consistent and do not pull against each other. Effective coordination in managing assets and liabilities will help to maximize the spread between bank revenues and costs and control risk exposure.

3. Revenues and costs arise from both sides of the banks balance sheet (i.e. from both assets and liabilities). Bank policies need to be developed that maximize returns and minimize costs from supply services.

Thus, the traditional view that all banks income must come from loans and investments had given way to the notion that banks sell a bundle of financial services- credit, Payments, savings, Financial advice etc.- that should each be priced to cover their cost of production. Income from managing the liability side of the balance sheet can help achieve banks profitability goals as much as revenues earned from managing bank loans and other assets.

2.1.3 Brief History of Growth of Banking System

The modern banking performing various functions is quite recent growth. But the origins of banking can be traced very far back into history. In this respect Marshall on his book "money credit and commerce has started that the traces of rudimentary banking can be found in Egyptian and Phoenicia history." There are records of money lending by the temples of Babylon as making loans testing and exchanging coins and arranging credit transactions and silver. Roman law recognized transfer of funds in a bank in payment of debt in 5th century. But alone with the down fall of the Roman empire its civilization and the beginning of the dark age towards 475 A.D. all the balking practice tool place towards 12th century and there is evidence that by the 14th century there was a high developed system in several Mediterranean cities (Klise;1972: 22).

The forerunners of modern banking are three ancestors they were merchants, the money lenders and Gold Smith in England, gold smith were main origin of private banks. While in France the trail ants or revenue formers represents the earlier forms of bank, in earlier age those ancestor of modern banking practiced the function of accepting deposits of others, charging some interest for custody of money, gradually other functions were also developed and practiced as accepting of deposit by paying interest for attracting more deposit, by advancing loans on security basis fund transferring, issue notes and cheque and so on.

Mainly development of modern commerce banks was only since the 19th century, the 20th century observed development of various banking institutions which were highly specialized particularly in developed countries like USA, FRANCE, USSR etc. but nowadays there are various international intuitions has been developed such as IMF, IBRD, ADB etc which are key to the developed of modern international business (Mathur; 1999:22)

2.1.4 The Structure, Scope and Objective of Modern Banking

The banking system of word has many similarities but they also differ sometime in quite material aspects. The principle differences are in the details of organization technique the national charter, history, laws and needs. The differences are gradually becoming less because of the growing efficiency of international communication and habit of practices that has been successful in another country.

Banking system may be classified in terms of their structure and purpose (Sayers; 1992:25).

Modern developed financial system will be classified in following points:

1) Central Bank.
2) Commercial Bank.
3) Other financial institutions.

1) Central Bank

It is the bank of apex origin of government itself for the purpose of performing all major financial operation of the government or economy as the whole. In other word it guides, directs supervisor's controls and influences the operation and behavior of all other financial institutions for economic welfare.

2) Commercial Bank

Those types of financial institutions that mainly deal with the activities of the trade commerce, industry and agriculture are commercial banks. The main objective of commercial bank is to mobilization ideal resources in productive use after collecting them from scattered sources and for profit maximization purpose.

3) Other Financial Institutions

Other financial institutions may be classified as following:

- The industrial banks providing long and medium term credit for development of industries.
- The agriculture banks supplying financial assistance for agricultural development.
- The saving banks
- Investment banks to foster investment activities of investors.
- Co-operative institution for the development of rural area.
- Hire purchase financial companies.
- Insurance companies etc.

2.1.5 History of Commercial Banks in Nepal

Though the modern banking institutions have a very recent origin in Nepal, some crude bank operations were known to have been practice even in the ancient time. Effect of Indian currency is too much in the early stages of banking development Indian currency is circulated through out the country. Though the term bank is new thing for Nepalese economy there was banking business in the form of money lending business done by several persons. The this respect J.C. Ojha says, it is not possible to give correct chronological history in view of the fact that not authentic historical record is available in respect of banking , it can be inferred from references in the history of Nepal regarding rebuilding of Kathmandu in 723 A.D. Guna kama

Deva form the borrowing and that of Shankhadhar (a Sudra merchant) action of introduction of Nepalese sambat, Some 57 years and there after to mark the repayment of all debts that money lending have been prevalent long before that (Ojha;1999: 8).

Money lending business is done by Tankadhari during the ruling of Jyasthiti Malla in 14th century. He classified the people in 64 classes on the basis of their occupations. Tankadhari were one of them who occupy money lending and commercial business activities, money lending business particularly for financing the foreign trade with Tibet become quite popular during the reign of Mallas. If we go through the Nepalese history we find that Nepalese participation in foreign trade with Tibet and India. The money lenders at that time advance for commercial transactions against personal security, the farmer also use to borrow money from such money lenders.

On the history of banking development of Nepal Y.P. Pant says, the history of banking and currency in the country become definite only from the 15th century that is in the Lichhivi period when the first coins were minted tin the advance of the 7th century coins of red copper started to be used for exchange purpose. Later on during 12th century in the works of various reforms measures initiated by the rulers particularly during the Mallas period stated the inspiration of the king's names and dates on the coin (Pant; 1979:94).

During the periods from sixteen to eighteen centuries refinement in the coins age and developments in he indigenous banking were brought into circulations for the first time not only this the factor of Nepal sending its coin to circulation in Tibet as legal tender, shows the predominant passion or this country in the internal and external economy of Himalaya. Such trends are indicative of the development of currency and banking (Pant; 1979:94).

Further steps were taken on this ground Ranodip Singh(1877 to 1885) established Tejarath in Kathmandu. Tejarath was Government financial institution supplying credit to people at 5% rate of interest against security of gold silver and armaments (Shrestha; 1974:22). Government servants can also take loans from Tejarath against the personal security. During the time of Chadra Samser (1901-1929) credit facilities of Tejarath were extended to some other parts of country by opening its branches. At the time the volume of loan for consumption purpose was large and to control serious rate of interest ranging from 75% to 35% and also to curb unfair practices on the part of the unscrupulous money lenders. On this ground Y.P. Pant says, in the over all department of banking system in Nepal the Tejarath Adda may be regarded as the father of modern banking institutions and for quite a long time it rendered good services to the government to servant as well as to the general public the institutions adopted one of elementary functions of the granting loans against gold, silver and other collateral securities which probably was not considered to be a function falling within the competence of banking (Pant;1979:96).

In the Nepalese history Nepal bank Ltd. was established in 1994 (BS) as a first modern bank in 2013 (BS). Nepal Rastra Bank was established under the Nepal Rastra Bank Act 2012 B.S. as an apex body of banking institutions. Following the establishment of Rastriya Banijya Bank in 2022 B.S. several joint venture banks were established in Nepal. Among them Nepal Arab Bank Ltd. is the first joint venture bank established in Nepal. Thereafter Nepal Indosuez Bank Ltd, Nepal Grindlays Bank Ltd., Himalayan Bank Ltd., Nepal SBI Bank Ltd., Nepal Balgaladesh Bank Ltd., Everest Bank Ltd., Bank of Kathmandu Ltd., Nepal Bank of Ceylon etc. were established (Khadka, 1999: 6-12).

The Nepalese financial sector is composed of banking sector and nonbanking sector. Banking sector comprises Nepal Rastra Bank (NRB) and commercial banks. The non-banking sector includes development banks, finance companies, micro-credit

development banks, co-operative financial institutions, non-government organizations (NGOs) performing limited banking activities and other financial institutions such as insurance companies, employee's provident fund, citizen investment trust, postal saving offices and Nepal stock exchange. During the last two and half decades the number of financial institutions has grown significantly. At the beginning of the 1980s there were only two commercial bank and development banks in the country. After the induction of economic liberalization policy, particularly the financial sector liberalization, that impetus in the establishment of new bank and non bank financial institutions.

Consequently, the trend of financial sector expansion continued in the current fiscal year as well. As a result, financial sector is gradually becoming more intensified and consolidated. The number of (A Class) commercial banks has reached 25, (B Class) development banks 61, (C Class) finance companies 78, and (D Class) Micro Finance Institutions (MFIs) 13 by mid -April 2009. Likewise, the number of authorized cooperatives for operating limited banking activities and nongovernmental organizations has reached 16 and 45 respectively. In addition to banks and financial institutions, there are 25 Insurance Companies, Employees Provident Fund, Citizens' Investment Trust and Postal Saving Banks making a total of 266 such institutions serving by mid- April (Economic survey; 2008).

In recent years, the financial sector has experienced significant expansion in the numbers as well as economic activities. Such credit expansions through diverse agencies and the wider area covered by commercial banks have laid the foundation and eased the process of financial inclusion. A fair degree of progress is observed while associating the number of commercial banks and their branches with the total population of the country. The earlier ratio of 44,499 persons per branch by mid April 2008 has come down to 42,832 persons per branch by mid-April 2009. In the meantime, per capita deposit of Rs.14,282 in April 2008 has increased notably to

Rs.18,217 by April 2009. Likewise, per capita credit channeled through commercial banks has reached to Rs.17,833 by mid-April 2009 against the earlier Rs.14,717. This data shows the steadily rising trend of bank credits the number of commercial banks that stood at 23 by mid- April 2008, has reached 25 by mid- March 2009. The number of branches has reached 617 by mid- December 2009 (with additional 62 branches) from 555 in 2008. The credit for this expansion goes to the improved situation of peace and security in the country boosted by the liberal policy adopted by NRB. To present the region wise statistics of bank branches, there are 119 in Eastern Region, 302 in the Central, 120 in Western region, 48 in mid- West and 28 branches in Far-Western region by December 2009. During the first 6 months of FY 2008/09, one more development bank was established contributing to further expansion. The total number of banks and financial institutions, ranging from class A to class D has reached 173 at present. Notably the two new commercial banks added this year were upgraded from development bank and financial institution (Economic survey; 2008).

2.1.6 Main Functions and Services of Commercial Banks

Mostly all the commercial banks are authorized to transact various kind of business which is generally considered to be the important functions of commercial banks. Traditional functions of commercial banks are only concern with accepting deposit and providing loans in ancient time but modern commercial banks works for over all development of industry trade and commerce, services and agriculture also. It can not be said with certainly what should be less detach for banking as it is on march as a function of banking are widening it will not be wrong to say that banks will assume in course of time a complete economic lit of man (Bashu;1998:1).

Main function of bank in Nepal is as follows:

1) Accepting deposit

The main function of commercial banks is to accept deposits. The existence of deposit is as old as banking system. Deposit gives life to the commercial banking system. Deposits are mainly of three types

2) Current or demand deposit

In such type of deposits interest are not paid and party can draw or deposit money at any time in his account. There is no limit of deposit or withdrawal in this type of account. In few countries banks charges few commission on the operation of this type of deposit which is negligible. It may be transferred by the order of the owner to other by means cheque. Demands deposits are banks debts payable on call or order do they are just like call loans.

3) Time deposits

This type of account is withdraw able only on the expiry of the period for which would be kept in the bank. Banks pays interest on such account according to the contract of period. Money to 6 months, 1 year, two year or five years it may be more than 5 years . Commercial banks in Nepal are taking deposits on those type of account are for 3 months. 6 months, 1 or 2 year only. These fixed deposits are main sources of loans and advances for commercial deposit.

These deposits are such types of accounts in which depositors are not allowed to draw more than a fixed sum of money more than once or twice a week. This type of account may be opened with little sum of money on. On this deposits interest is paid. In Nepal commercial banks are giving 13% interest per annum.

4) Home saving program

In this type of deposit depositors are given a box locked by the bank and at the end of week depositors brings the box to the bank and bank opens the box in front of depositor and the amount inside the box will be deposited on depositors account. Our commercial banks are practicing this type of account in few branches.

5) Agency services

On this aspect commercial banks performs following functions:

) Dealing with transaction of foreign exchange business.

) Serving as agent or correspondent on the behalf or the clients.

) Issuing of letter of credit circulates notes, bank drafts, and traveler's cheque.

) Purchases and sale of different type of securities, remittance of funds.

) Collections and payment of cheque, bills, promissory notes, coupons, dividend and other type of bonds.

) Acting as executors

) Distribution and supply of legal tender currency through out the country.

) Keeping valuable article in safe custody.

Similarly these banks facilitates other type of different functions in short, ordinary banking business consists of changing cash for bank deposits and band deposits for cash, transferring bank deposits from one person or corporation to another giving bank deposit in exchange for bills of exchange, issuance of government bonds, served promises for business to repay and so forth.]

2.2 Review of Related Studies

2.2.1 Review of Articles and Journals

Sherstha (1998), in the article, *"lending operation of commercial banks of Nepal and its impact on GDP"* presented with the objectives to make an analysis of contribution of commercial bank-s lending to the gross domestic product (GDP) of Nepal. The researcher set hypothesis that there has been positive impact of lending of commercial banks to GDP. In research methodology, the researcher considered GDP as the dependent variable and various sectors of lending like agriculture, commercial, service and social sectors independent variables. A multiple regression technique had been applied to analyze the contribution. The multiple analyses had shown that all the variables except service sectors lending has positive impact on GDP. Thus, conclusion the researcher accepted the hypothesis i-e there has been positive impact

by the lending of commercial banks in various sectors of economy except service sector investment.

Similarly, Sharma (2000) in his article *"Development and operations of commercial banks"* found same result that all the commercial banks are establishing and operating in urban areas. In this study his main remarks are:

1. Commercial banks are establishing and providing their services they do not have interest to establish in rural areas. Only the branch of Nepal Bank Limited and Rastriya Banijya Bank ltd. are running in these sectors.
2. Commercial banks are charging their higher interest credit lending.
3. They have maximum tax concession.
4. They do not properly analyze the credit system.

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

Narayan Poudel (2005) in his article*, "Financial System and Economic Development",* examines the relationship between financial development indicators and economic growth with a view to identify some outstanding issues. Recent literature on finance and growth suggests that financial system arises to perform some important and core financial functions in the economy. Different theories have been proposed in empirically testing the efficiency of capital allocations with an improved financial system, which implies higher economic growth. Liberalization of financial sector leads to competitive environment in which banks and financial institutions render a range of services to satisfy the needs of different customer

segments. One important finding is that liberalized and market-based policies are the prerequisites for the development of financial system. Many studies have shown that for the pace of financial sector development, market oriented economic policies are preferred over government-controlled economic environment. However, in a more liberalized economic environment, the need for an effective mechanism of regulation and supervision is equally important. A sound agency carrying effective and comprehensive regulatory and supervisory functions can minimize the effects of financial system shocks to a large extent. This will equally lead to ensure stability in the financial system. Nepal has been gradually experiencing a series of economic reform measures since the mid 1980s. This has resulted in widening and deepening the financial system both in terms of the volume and nature of financial businesses. However, some problems and challenges associated with the financial system have been appeared to be more crucial for the better functioning of the system. It has been revealed that the Nepalese financial system is basically bank-dominated. Capital markets and stock markets have not been developed in full scale of operations and the banking institutions, particularly the commercial banks, appear to be the major financial intermediaries in satisfying financing need of productive units of the economy. The non-bank financial institutions have not yet been developed in terms of size of the business compared to that of commercial banks. In examining the relationship between financial development and growth, banking indicators have been used and the relationship is examined by using ordinary least square (OLS) method of regression analysis. As there is no unique and universally accepted indicator of financial development and there are still some debates related to this issue, we apply some proxies of the related areas in testing the relationship between the two parameters. The results in this paper confirm the strong and statistically significant relationship between financial depth and economic growth. The result is robust to four different financial development indicators covering the banking system. The effect in each case is powerful, although the size of the effect varies with the particular indicator under consideration. By examining the relationship through

different regression equations, writer finds that monetary aggregate, particularly, narrow money has strong explanatory power in predicting the level of economic development. It is also revealed from the study that financial development indicators such as liquid liabilities (M1 and M2), Commercial banks' total credit and credit to private sector better explain economic growth indicators in nominal term rather than in real terms. The conclusion is that all these financial development indicators used in this study are positively related with the economic growth indicator. The test of significance of the elasticity coefficients also confirms that there exists the relationship between financial development and economic growth.

Koirala (2007) in his article *"A Consolidated Effort for Marketing in Commercial Banks"* reports that the commercial banks in Nepal still appear to be biased towards the traditional practices for the attraction of potential customers. Meeting the needs of potential customers in the 21st century with the knowledge and training of 20th century is a difficult task. Changes in the marketing strategy within a traditional working structure and system have led the banks towards increasing the non-performing loan (NPL). As every sub-system is a part of a system, a small mistake on the loan disbursement process reflects its implication on the loan recovery process. Hence, a new system in loan disbursement and a loan recovery process makes the bank more effective in its operations. In the new system, all the parties involved in decision-making process should be made responsible to their functions and they need to be penalized accordingly if they fail to promote healthy growth of the banking system.

Bhetuwal (2007) in the article *"Financial Liberalization and Financial Development in Nepal"* The analysis of several financial sector policies with the help of a single index of financial liberalization states that financial sector reforms is a process rather than a single moment event. It is clear that after the introduction of financial sector

reforms in 1980s, the Nepalese financial sector has widened. The elimination of direct administration of the

prices of financial products and private sector participation has contributed to this expansion. Financial liberalization is a process of removing restrictions taking several years to complete. Further, it is also characterized by reintroduction of restrictions at times, but only temporarily. Institutional reforms do not predate liberalization but they are vital for the success of financial sector reforms. It covers information on the quality of institutions as well as laws governing the functioning of the financial system. Improved quality of institutions is likely to reduce financial instability. This analysis shows that the process of financial reforms in Nepal is rather slow. During recent years, reforms are concentrated mainly on improving the financial health of large state-owned banks as well as capacity enhancement of central bank and other institutional improvement. The reorganization and reforming the Nepal Stock Exchange has raised the scope of financial market in Nepalese financial system. Global revolution in information technology and the country's integration with the rest of the world requires the financial sector to be more competitive and updated with recent financial products.

The estimated indices show liberalization of the financial sector and thereby steady financial development in Nepal. Financial development is not only caused by policy changes in the financial sector, but it largely depends on the demand of financial services in the economy. The development of the financial sector is vital for economic development of a country. But it cannot be achieved in isolation with the other sectors of the economy. Simultaneous growth in all the sectors of the economy can raise more demand of financial services and it can stimulate financial development. Unidirectional causality from financial liberalization to financial development (at 5 percent level of significance) found from the Granger causality test depicts this practical situation. At 10 percent level of significance, there is bi-

directional causal relationship between financial liberalization and financial development.

Giri (2008) in his article, *"liquidity crisis in Nepalese financial system and its impact on economy"*, states that liquidity shortage circumstances be it a short or long run, it impedes sound financial mobility   in all spheres of life. In crisis period risks are higher to big commercial banks having financial strength than the banks that have low and insufficient funds. Therefore such banks need to move ahead after carrying out proper analysis of such volatile financial risks. Many financial analysists are in the opinion that this kind of situation arises when capital market is directed through behavioral pattern rather than professional and market oriented values. In managing the adequate liquid funds, there is always fear of emerging unhealthy competition amongst commercial banks regarding up surging deposits.   When applied productively, competition amongst commercial banks is good. It forces players to be innovative. Some banks are applying non prudent measures and exposing themselves to higher risks. If they got into trouble, all the banks will feel the ripples of its negative effects.

2.2.2 Review of Previous Thesis

Khadka (2000) conducted a study entitled *"A study on Investment policy of NABIL in comparison to other joint venture banks of Nepal"* The main objective of the study was to evaluate the liquidity, assets, efficiency, profitability and risk position of NABIL in comparison to other JVBs and to study the found mobilization and investment policy with respect to fee based off-balance sheet transaction and fund based on-balance sheet transaction.

 The researcher found that liquidity position of NSBIL is worse than that of Nepal Grindlays Bank Ltd. and Indosuez Bank Ltd. NABIL has more portions of current assets as loan and advances but less portion as investment on government securities.

NABIL is comparatively less successful in on-balance sheet operation as well as off-balance sheet operation than that of other JVBs. NABIL is more successful in deposit mobilization but failure to maintain high growth rate of profit in compare to NGBL and NABIL. The researcher has suggested the joint venture banks to be careful in increasing profit increase sense to maintain high growth rate of point in compare to NGBL and NIBL.

The research has suggested the joint venture banks to be careful in increasing profit in real sense to maintain the confidence of shareholders, depositors and customers. The researcher has strongly recommended NABIL to utilize its risky assets and shareholders fund to gain highest profit margin and reduce its expenses and collect cheaper fund for more profitability. The researcher has recommended investing its funds in different sectors of investment and administering various deposit scheme, price bond, gift cheque scheme, house building deposit scheme etc. the researcher has recommended following liberal lending policy and investment more percentage of total deposit as loan and advances.

A research, conducted by Pradhan (2003) has given certain lights on Nepalese enterprises are thought to be relevant to review here. *"Financial Distress, Financial Ratios and Stakeholder Losses in Corporate Restructuring"* is the title of the research.

This paper aimed at determining the extent of financial distress in Nepalese enterprises, indicating how financial ratios deteriorate as the firm moves into financial distress, pointing the firm moves into financial distress, pointing out concessions to be made by various stakeholders in the restricting process, and analyzing legal framework concerning financial distress in Nepal. The study used both primary as well as secondary data. The primary data were based on interviews conducted with private and public sector respondents while secondary data were collected mainly from final statements of selected enterprises. The enterprise selected

for this study consists of public enterprises only since available published information shows that financial distress is more chronic in public enterprises than in private enterprises. The study was made for the years 1996/97, 1997/98, and 1998/99. Data were analyzed by forming portfolios on net profit ratio, and return on equity to indicate their relationship with measures of liquidity turnover, operating expenses, labour productivity ratio, and coverage ratios. The attempts were also made to estimate various econometric models in order to explain the behaviour of financial ratios in financially distressed firms. In this study, an enterprise is considered to be in financing distress if it suffers losses.

The financial distress in the public enterprises of Nepal is alarming as loss making public enterprises of Nepal consists of more than 50 percent. More recently, the operating losses incurred by these enterprises amount to over Rs. 2100 million per year. The number of profit making companies could not rise over time.

The properties of portfolios formed on net profit ratio indicated how profitability ratio deteriorated in financially distressed firms. As net profit ratio increased from 33 percent in portfolio 1 to 30.3 percent in portfolio 4, return on capital employed and return on equity also improved significantly. Similarly it may also be seen how improvement in net profit ratio also improved operating expenses ratio as one moves from portfolio 1 to 4. The increase in net profit ratios led to increase in liquidity ratios, and the turnover ratios. Similar was the case with labour productivity and debt coverage. As the enterprise moved into financial distress, labour productivity and debt coverage ratios also deteriorated. The regression results showed that net profit ratios are negatively related to operating expenses and positively related to liquidity, turnover, labour productivity and interest coverage.

The portfolios are also formed on return on equity ratios, which indicated that financially distressed enterprises have a lower profitability and liquidity. This analysis also indicated how turnover ratios deteriorated as the enterprises moved into

financially distressed situation. Similarly, the labour productivity and coverage ratios of financial distressed enterprises were lower than that of financially healthy enterprises. The measures of operating expenses, liquidity, turnover ratios, labour productivity and debt coverage showed that operating expenses ratios were negatively related to return on equity while liquidity, turnover, labour productivity and interest coverage were all positively related. With the decline in return on equity, liquidity, turnover, labour productivity and interest coverage are all expected to decline in financially distressed firms.

Despite of significant number of financial distressed firms, legal framework has not received much attention in Nepal. The companies act, the industrial policy, and the ninth plan, are all silent or financial distress in Nepal. The industrial enterprises act 1997 came up with the definition of sick industry only in 1997 through the first amendment. Some facilities were specified for the sick industries while importing machineries and equipments.

Shrestha (2003) on her thesis entitled *"A Comparative Analysis of Financial Performance of Selected Joint Venture Banks"*. The selected banks are NABIL, HBL and NB Bank. The basic objectives of her studies are outlined below:

⌡ To examine the comparative financial strengths and weaknesses if the selected JVBs

⌡ To analyze different financial ratios of these banks etc.

After through analysis of data Shrestha has come with the following conclusions:

⌡ Analysis of liquidity ratio indicates better position of NB bank.

⌡ NB bank is efficiently utilizing its deposit or loans and advances however total investment of NABIL is better than that of NB bank and HBL.

⌡ Capital adequacy ratio of NABIL is better than the other two JVBs

)   Operating profit of NABIL is higher than that of HBL and NB bank

Finally, it is known that previous researchers have conducted the researches relating to profitability as well as profit planning & control for manufacturing companies but the number of studies on banks' liquidity and its relevance in profitability are small. This research will fulfill this lacking to some extent

K.C. (2004) has conducted a research on the topic, *"Profit planning and Case of Profitability in Himalayan Bank Ltd"*. This research work is basically concerned to highlight the current practice of profit planning and its effectiveness in herbs production and processing company limited. Other specific objectives were as follows:

1) To examine the present profit planning premises adopted by HBL.
2) To observe the bank's profit planning on the basis of overall managerial budgeting.
3) To analysis the difference between budgets and actual achievement of the HBL.

In order to complete this research, both primary and secondary source of data have been used. The time period was five years from FY 2051/52 to 2055/56 in this study. Mr. K.C. has pointed our various finding. Among them, few major findings are as follows:

Specific goals and objectives are not conveyed to lower level of staff and it denotes the absence of MBO principle of management. There is lack of proper coordination between the various responsible departments and no cost classification system. Overhead are not classified systematically and it creates problem of analyze its expenses properly. There is the absence of skilled and purely academic manpower in budgeting section, the bank has unable to prepare systematic future plan. There is no

arrangement of any accounting and management planning training by the company. Similarly, actual sales are very below than budgeted sales. There is a lack of entrepreneurship in the operation of the bank and perhaps due to this cause, it is suffering from low contribution margin and high fixed cost.

Regmi (2005) conducted a research entitled *"Profitability Analysis of Nepalese Commercial Bank (A Case Study of NGBL)"*. Major objectives of his study were as follows:

- ❖ To analyze the profitability condition and highlight the growth of NGBL,
- ❖ To show the relationships between EPS, DPS and MPS of the bank and
- ❖ To find out the linear relationship (if any) between and among selected variables of the bank.

This research was conducted taking 5 years data of the bank and major findings were as follows:

- ❖ Profitability of the bank was satisfactory as its net profit during the study period were always positive.
- ❖ Results of the different ratio analysis showed that the bank was able to maintain all activities very nicely and properly.
- ❖ EPS, DPS and MPS were also higher for this bank but dividend was not distributed to its shareholders as per the earning increases.
- ❖ Regression analysis showed that volume of profit was directly related with the size of loans and advances. There is a profit of 7 percent in every loan of Rs.100. though profit includes income from other sources, portion of income from loans and advances were high.
- ❖ Ratio of loan and advances to customers' deposit showed that almost half of customers' deposit was utilized for loans and advances etc. (Regmi, 1995:57).

Another study was conducted by Oskar Kumar Sing (2006) entitled *"A Brief Study on Liquidity and Resource Utilization of Nepalese Commercial Bank (A Case Study*

of Nepal SBI Bank Ltd.)". He took secondary data of 7 years and used different tools and regression analysis as a major tool of analysis. His main objective was to analyze the overall situation of resource utilization and case of profitability of the bank.

He concluded that bank was found inefficient in deposit utilization during the study period. Branch expansion in rural areas was not satisfactory. There was higher degree positive co-relation between expansion and collection of scattered savings and extension of credit by bank as well. Like this, there was higher degree of positive co-relation between deposit collection and expansion of credit by bank and there was positive co-relation between interest rate and deposit collection.

Dharel (2008) in his study entitled *"Liquidity and profitability of selected commercial banks"* puts forth several objectives of his research like: To assess the profitability and liquidity position of the commercial banks, to evaluate the banks in terms of resource utilization and to evaluate the relationship between selected dependent and independent variables regarding liquidity and profitability of the banks.

His main findings are: Both profitability and liquidity positions of the banks are sound and better indicating that shareholders are safe in the long run. Therefore, the banks should keep constant vigilance upon the positions so that they can sustain it even in the long run. Standard Chartered Bank Ltd. and NABIL are efficient so far as the matter of utilizing total assets and owners' equity to generate revenues is concerned while other two banks (EBL and SBI) have comparatively weak position towards it. Therefore, EBL and SBI are recommended to utilize their fund from more efficient manner. For that, these banks have to Invest in the assets that ensure higher rates of return given the manageable risk the banks have to reduce non performing and non interest earning funds so as to upgrade the condition. The banks must not ignore the importance of leverage to enhance the earning power of the assets. As

such it is recommended that the optimum leverage should be injected considering its relative costs and benefits so that earning of the owner' will increase.

Regression analysis indicates that working capital plays significant role to change net profit of the banks therefore the banks should take working capital as 'key variable' and they have to make a proper balance between current assets and current liabilities.

2.3 Research Gap

This research has focused particularly on liabilities management of commercial banks. Various aspects of commercial banks have been analyzed in previous studies but has not been explored the liabilities management to that depth till now even though it has been studied partially only. The latest data used in the research and its comparison with industry norm- the average data of all the commercial banks operating in Nepal, has made the study more reliable and conclusive. Previous studies have given emphasis on several aspects but focused emphasis on liabilities management has not provided. This research has addressed the same by taking latest data and making them more reliable and comparable.

CHAPTER III
RESEARCH METHODOLOGY

Research methodology is a way to solve the research problem systematically. This chapter refers to the overall approach to the research process, covering from theoretical underpinning to the collection and analysis of data. It is composed of both parts of technical aspect and logical aspect. Specially, this chapter has focused on research design, procedure employed, nature and source of data, sample and population, Financial and statistical tool used here in this study.

3.1 Research Design

The research design of this study is descriptive and analytical in nature. This study is quantitative since the quantitative data have extensively been employed. Position and management of liabilities, profitability, liquidity and resource utilization, relation of liabilities to other variables are the main issues to be dealt. To facilitate research, the researcher collects the data of concerned commercial banks and they are tabulated and analyzed by using different financial and statistical tools to find out real condition liabilities management.

3.2 Nature and Sources of Data

The data upon which this study is made are basically secondary in nature. The secondary data have been collected from financial statement, annual report, unpublished official records of concerned banks and financial statement of listed companies published by Nepal stock exchange. All the collected data and information have been properly arranged, synthesized, tabulated and calculated to arrive at the realistic analytical steps.

3.3 Population and Sample

Population for this study is the total Nepalese commercial banks those are in Nepal. Because of the time and resource constraints, convenience sampling technique is designed to follow. Among the commercial banks, the sample banks have been taken on the basis of judgmental sampling - a method of non-probability sampling. Though the sample is relatively small, efforts have been made to make the result more generalizable. The sample banks are given in figure 3.1. The percentage of sample banks out of total banks has come to be 18 percent since five banks have been selected out of twenty eight commercial banks in Nepal.

Table 3.1

Sample Banks

S.N.	Sample Banks	Years	No. of observation
1.	Nabil Bank Ltd (NABIL)	2001 – 2009	9
2.	Standard Chartered Bank Ltd. (SCBL)	2001– 2009	9
3.	Himalayan Bank Ltd (HBL)	2001 – 2009	9
4.	Everest Bank Ltd.(EBL)	2001 – 2009	9
5.	Nepal SBI Bank Ltd.(NSB)	2001 – 2009	9
Total No. of observation (N)			45

3.4 Tools for Analysis of Data

Several financial and statistical tools have been applied for analyzing the liabilities management in Nepalese commercial banks.

3.4.1 Financial Tools

❖ **Management of Deposit and Borrowings**

In order to identify the management of deposit following ratios have been calculated and analyzed:

Credits and Investment to Total Deposit

This ratio identifies the portion of credit and investment out of total deposit. This ratio identifies how much of deposit are invested in interest earning assets. Generally, higher ratio is favorable to lower one. It is calculated using the following expressions:

$$\text{Credits and investment to Total Deposit} = \frac{\text{Credit and investment}}{\text{Total deposit}}$$

Time Deposit to Total Deposit

This ratio denotes the time deposit out of total deposit. More time deposit demands less liquidity and more earnings. This is calculated by employing the following expression:

$$\text{Time Deposit to Total Deposit} = \frac{\text{Time Deposit}}{\text{Total Deposit}}$$

Current Deposit to Total Deposit

This ratio denotes the current deposit out of total deposit. More current deposit demands more liquidity and relatively less earnings. This is calculated by employing the following expression:

$$\text{Current deposit to total deposit} = \frac{\text{Current Deposit}}{\text{Total Deposit}}$$

Total Deposit to Total Assets

This ratio identifies the how much of total assets are funded by deposit liabilities. It is calculated by the equation below:

$$\text{Total deposit to total assets} = \frac{\text{Total Deposit}}{\text{Total assets}}$$

Net profit to total deposit

This ratio spells the efficiency of managing deposit of a bank to generate profits. Higher ratio indicates more efficiency and vice versa. It is calculated using the equation below:

$$\text{Net profit to total deposit} = \frac{\text{Net profit}}{\text{Total deposit}}$$

Total operating income to total deposit (OID)

This ratio is turnover in terms of deposits. Higher ratio denotes that deposit is mobilized efficiently and vice versa. It is calculated using the following:

$$\text{Total operating income to total deposit} = \frac{\text{Total operating income}}{\text{Total deposit}}$$

❖ **Management of Capital**

Capital refers to shareholders' fund or owner' equity. Management of this can be analyzed using the following ratios.

Capital to Total Deposit

This ratio defines the capital out of total deposit lower ratio denotes the lower capital in relation to deposit and vice versa. It is calculated using the expression below

$$\text{Capital to total deposit} = \frac{\text{Capital}}{\text{Total deposit}}$$

Capital to Total Assets

This ratio gives the proportion of capital in relation to total assets or it tells how much of total assets are funded out of capital. It is calculated using following equation:

$$\text{Capital to total assets} = \frac{\text{Capital}}{\text{Total Assets}}$$

❖ Management of Liquidity

In order to identify the management of liquidity following ratios have been considered:

Cash Balance to total liquid fund (CLF)

This ratio measures the bank's liquidity in terms of cash and bank balance only as other current assets except cash and bank balance may not be suspicious to be converted to cash immediately or in a short notice.

$$\text{Cash balance to current assets} = \frac{\text{Cash balance}}{\text{Total liquid fund}}$$

NRB Balance to Total Deposit

This ratio measures the safety position of the bank. Higher ratio is indicative of the bank's ability to make timely payment to its deposits

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

Total liquid fund to total deposit (LD Ratio)

This ratio measures the total liquidity of the bank out the total deposits it has and measured by the following equation:

$$\text{Total liquid fund to total deposit} = \frac{\text{Total liquid fund}}{\text{Total Deposit}}$$

❖ Profitability in relation to liabilities

Net Profit to Total Deposit

Net profit to total deposit gauges the bank's efficiency to generate net profits out of the total deposit it has collected. That means if the bank is able to make more profits

from the deposit collected through the different sources then this ratio tends to be more.

$$\text{Net profit to total deposit} = \frac{\text{Net Profit}}{\text{Total Deposit}}$$

Net Profit to Total Liabilities and capital

This ratio measures the bank's ability to generate profit out the assets (since total assets and liabilities = total assets) it employs. It is calculated using the equation below.

$$\text{Net profit to total assets} = \frac{\text{Net Profit}}{\text{Total Liabilities and caipital}}$$

Return on Capital Employed (ROCE)

The term capital employed refers to long-term fund supplied by the creditors and owners of the firm. Return on capital employed is the relationship between net profits after tax and total capital employed. The ratio measures overall effectiveness of management in earning profit from using total capital. It can be calculated by dividing net profit after tax by total capital employed as given below:

$$\text{Return on Capital Employed (ROCE)} = \frac{\text{Net Profit After Tax}}{\text{Total Capital Employed}}$$

3.4.2 Statistical Tools

Trend analysis

Trend analysis has been used to identify the trends of deposits, capital and borrowings of the selected banks

Correlation analysis

It identifies the linear relationship between several variables like: Net profit, deposit, borrowings, credit and capital etc.

Simple and Multiple Linear Regression Models

Regression is the statistical tool that is used to determine the statistical relationship between two (or more) variables. The equation of simple linear regression model is Y = a + bX whereas in multiple regression model, other variable (s) is added. The variable to predict is called the dependent variable (Y) and the variable on which the prediction is based is called the independent variable (X). In this research the regression (both simple and multiple) is employed in order to observe the relationship between dependent variable viz. profit and selected independent variables and obtained by using SPSS computer software. Following are the simple and multiple regression models those are applied in this research:

Table 3.2

List of Regression Models Formulated in the Study Including Dependent and Independent Variables

Part 1) Simple Regression Analysis	
Independent Variable (s)	Models
1) Return on Total deposit	$ND = a + b_1 DA$
2) Return on Assets	$ROA_t = a + DC$
Part II) Multiple Regression Analysis	
5) Net profit	$NP_t = b_1 D_t + b_2 I_t + b_3 L_t$

Where,

ND= Net profit to deposit

DA= Deposit to total assets

DC= Deposit to capital

NP= Net profit

D, I, L= Deposit, Investment and liquid fund respectively.

3.5 Definition of the key terms

1) Operating profit indicates the profit from operating activities. From this profit interest and tax as well as all kinds of expenses viz. direct and indirect are not deducted. So, it is the earnings before interest and tax (EBIT).

2) Capital fund: Paid-up Capital, Statutory Reserves, Share Premium, Retained Earnings, Others Reserves, Exchange Fluctuation Fund etc. makes the capital fund.

3) 'Current Assets' is the sum of cash in hand and bank balance, bills receivables, etc. of the banks those are provided in annual reports.

4) Generally, 'total assets' is the sum of current assets and fixed assets. However, these banks classify the assets as 'other assets' also. Therefore, 'total assets' is the sum of 'current assets', 'fixed assets' and 'other assets' in this study.

5) 'Vault' means cash and bank balance of the commercial bank those excludes balance with NRB.

6) 'Liquid fund' means cash balance, Bank balance and money at call or short notice.

7) 'Capital' refers to the shareholders fund of the bank.

CHAPTER IV
DATA PRESENTATION AND ANALYSIS

This chapter stands for presenting and analyzing data to achieve the formulated objectives. This section is classified into different sub- sections. Management of deposit, management of Capital, management of liquidity, bank's efficiency to generate net profit, trend of several variables and evaluation of linear relationship between selected dependent and independent variables regarding liabilities of the banks are subsequently presented and analyzed. Finally, this chapter presents the basic findings based on the discussion in preceding sections.

4.1 Management of Deposit

In this section, deposit management is analyzed and interpreted by relating it to other variables and also with industry average. Since deposit is the main liability of commercial banks it has to be managed prudently to remain healthy not only in the short run but also in the long run.

4.1.1 Credit and investment to total deposit

Credit and investment to total deposit denotes the portion of credit and investment out of total deposit of the banks. Generally speaking, higher ratio is favorable to lower one. Moreover the ratio is compared with industry average- the average ratio of all the commercial banks operating in Nepal till the date 2009. Credit and investment of the banks are two main interest earning assets of commercial banks. More of this ratio shows that the bank invest more of its deposits in these components and vice versa. Following table shows this ratio for all the banks under consideration.

Table 4.1

Credit and Investment to Total Deposit

Banks	Year									Mean	CV
	2001	2002	2003	2004	2005	2006	2007	2008	2009		
NABIL	68.86	72.82	86.77	87.30	95.32	79.56	90.03	82.73	85.13	83.17	0.10
SCB	69.02	72.37	67.99	69.04	79.70	76.14	71.65	72.29	64.47	71.41	0.06
HBL	62.80	65.94	70.82	69.70	75.37	78.09	80.68	86.33	85.07	74.98	0.11
NSBI	67.32	90.30	91.23	101.80	106.49	108.18	106.53	114.24	67.14	94.80	0.18
EBL	82.78	100.87	99.04	106.44	99.18	99.06	98.25	98.93	88.56	97.01	0.07
Industry Average	74.03	79.6	83.34	81.13	88.7	88.93	96.4	96.66	93.86	86.96	0.09

Source: Banking and financial statistic; NRB: 2009

Credit and investment to total deposit for all the commercial bank is 86.96 percent in an average. If this industry average is compared with that of the other banks, the ratios for NABIL, SCB and HBL are less in industry and the same for the EBL and NSBI are higher in industry.

The variability of the ratio as measured by the CV is least for SCB (0.06), followed by EBL (0.07), NABIL (0.10) and NSBI (0.18)   respectively. Whether the high credit and investment good or not can not be judged absolutely because higher ratio can not spell the assets' quality. So it is to be judged later by relating the figure with profitability.

4.1.2 Saving Deposit to Total Deposit Ratio

Saving deposit of the commercial banks requires more liquidity than fixed deposit as it should be paid at the demand of customer after the expiration of certain time. More saving deposit requires relatively more liquid funds and vice versa. Following table present the saving deposit of selected commercial banks in terms of total deposit. The last row of the table presents the same for total industry.

Table 4.2

Saving Deposit to Total Deposit

Banks	Year									Mean	CV
	2001	2002	2003	2004	2005	2006	2007	2008	2009		
NABIL	31.04	31.81	38.98	42.52	48.17	45.33	43.64	38.10	39.15	39.86	0.15
SCB	54.47	59.62	56.69	60.35	67.35	63.33	61.87	60.03	53.49	59.69	0.07
HBL	52.03	48.95	51.62	51.49	51.76	55.12	52.78	56.39	57.84	53.11	0.05
NSBI	19.03	22.88	27.91	27.99	31.05	26.10	28.61	30.41	20.83	26.09	0.16
EBL	30.26	31.74	41.20	46.26	47.60	50.20	47.22	49.57	44.36	43.16	0.17
Industry Average	62.90	72.08	67.76	60.50	65.23	51.99	60.59	61.36	46.95	61.04	0.13

Source: Banking and financial statistic; NRB: 2009

Average of Saving to total deposit of all the commercial banks are presented in the last second column. These ratios for all the sample commercial banks are fall short of industry average. Comparing the ratio with industry average of 61.04 percent, the ratio of SCB (59.69 percent) is in line with industry however of all the commercial banks the ratio is less in the industry. The fluctuation of this ratio is more for EBL (0.17), NSBI (0.16), and NABIL (0.15). However same for the other banks is less than that of the industry.

Figure 4.1

Average saving to total deposit of the banks
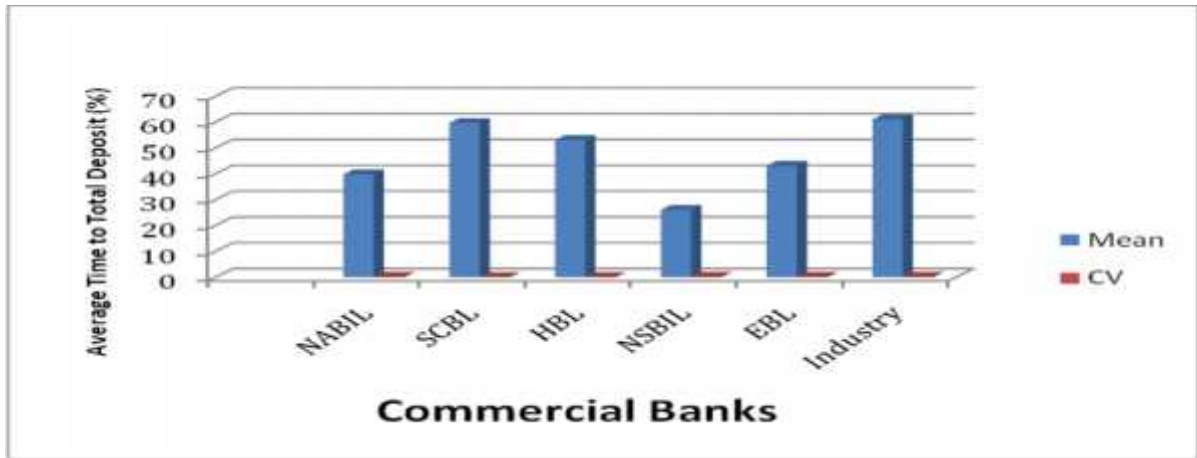
The average of saving deposit to total deposit is also presented by the following figures against the industry average of over the ten year periods. As per the figure the average of this ratio is less for all the commercial banks in comparison to industry average.

4.1.3 Fixed Deposit to Total Deposit

This ratio indicates the fixed deposit out of the total deposit of the commercial banks. Fixed deposit of the commercial bank is more productive as it earns more return by investing in long term investment alternatives. Like wise this should not be repaid urgently thus requires less liquidity. The ratio of the banks is provided by the table below:

65

Table 4.3

Fixed Deposit to Total Deposit

Banks	Year									Mean	CV
	2001	2002	2003	2004	2005	2006	2007	2008	2009		
NABIL	23.48	15.92	16.76	16.39	14.25	17.83	23.28	26.52	22.25	19.63	0.22
SCBL	22.50	14.30	10.39	6.75	7.32	9.27	12.97	11.10	19.80	12.71	0.42
HBL	32.18	32.51	28.00	26.55	25.63	24.00	27.42	20.20	18.39	26.10	0.18
NSBI	44.26	56.22	51.17	46.62	47.26	56.36	48.21	49.98	62.38	51.38	0.11
EBL	54.00	49.34	41.87	36.14	34.11	31.14	29.63	27.52	21.29	36.12	0.29
Industry Average	35.94	34.66	31.04	27.86	26.67	26.29	25.84	24.59	25.06	28.66	0.15

Source: Banking and financial statistic; NRB: 2009

Average of fixed to total deposit of NSBI (51.38 percent) and EBL (36.12) are larger in industry average of 28.66 percent. The ratio for NABIL, SCB, and HBL are smaller in the industry. The company having lower ratio must keep constant vigilance upon its possible withdrawal of the deposit. The company must take seriously the liquidity position because less of the fixed deposit requires more liquidity. The fluctuations of the ratio as measured by the CV are highest for SCB (0.42) followed by EBL (0.29), NABIL (0.22), and HBL (0.18) and NSBI (0.11) respectively. The fluctuation for all the commercial banks is higher except in case of NSBI.

4.1.4 Current Deposit to Total Deposit

Current deposit of the commercial banks is a kind of deposit liabilities that should be paid on demand of the customers. The deposit requires more liquidity in the vault of commercial banks. The table below presents the current deposit to total deposit of the banks concerned.

Table 4.4

Current Deposit to Total Deposit

Banks	Year									Mean	CV
	2001	2002	2003	2004	2005	2006	2007	2008	2009		
NABIL	18.67	17.72	22.51	19.06	19.49	15.26	14.76	16.81	14.77	17.67	0.15
SCBL	21.25	24.05	30.76	27.49	22.52	20.31	19.46	20.76	17.29	22.65	0.19
HBL	13.14	14.27	17.63	19.13	20.19	18.87	18.21	21.38	21.82	18.29	0.16
NSBI	35.66	19.50	19.93	23.68	20.52	12.67	16.87	12.67	10.25	19.08	0.40
EBL	8.74	8.97	8.40	8.93	10.15	8.37	13.72	10.39	14.58	10.25	0.23
Industry Average	19.51	20.05	14.16	14.43	13.73	12.84	13.34	13.16	12.71	14.88	0.19

Source: Banking and financial statistic; NRB: 2009

Average of fixed to total deposit of SCB (22.65 percent), NSBI (19.08), HBL (18.29) and NABIL (17.67) are larger in industry the average for industry is 14.88 percent. The ratio for EBL (10.25) is smaller in industry. The company having higher ratio must keep constant vigilance upon its possible withdrawal of the deposit. The company must take seriously the liquidity position because more of the current deposit requires more liquidity. The fluctuations of the ratio as measured by the CV are highest for NSBI (0.44) followed by EBL (0.23), HBL (0.16) and NABIL (0.15) respectively and these are not in line with industry average of 0.19. The CV of SCB (0.19) is exactly in line with industry average. The current to total deposit ratio of the commercial banks along with industry are also presented with the figure below:

Figure 4.2

Current deposit to total deposit
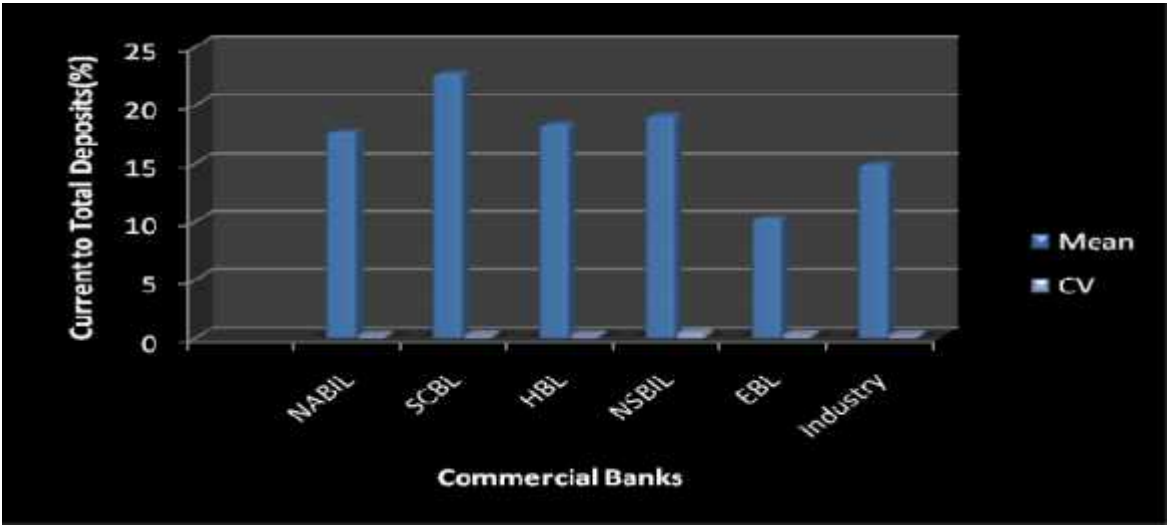
Looking over the figure one can observe the fact that current to total deposit of four of sample banks (viz., NABIL, SCB, HBL and NSBI) are higher in industry. While the ratio in case of EBL is less in the industry.

4.1.5 Total deposit to Total Assets

Total deposit to total assets ratio of the banks denotes how much of total assets is funded by deposit liabilities. If the ratio is more the banks is said to be levered more with deposit and vice versa. Following table presents the fact as to the commercial banks and the industry.

Table 4.5

Total Deposit to Total Assets

Banks	Year									Mean	CV
	2001	2002	2003	2004	2005	2006	2007	2008	2009		
NABIL	81.42	78.24	73.53	77.32	78.36	80.17	78.70	82.94	81.30	79.11	0.04
SCBL	72.04	80.48	84.07	86.52	85.00	86.02	82.31	86.68	86.07	83.24	0.06
HBL	84.16	86.97	84.96	85.08	85.32	85.16	86.32	84.75	85.02	85.31	0.01
NSBI	89.43	80.15	81.53	80.96	81.44	79.01	74.33	73.76	87.39	80.89	0.06
EBL	87.30	80.62	81.05	80.91	67.01	82.58	81.84	83.93	87.69	81.44	0.07
Industry Average	72.27	67.35	66.72	68.81	61.72	67.94	68.79	75.18	69.40	68.68	0.05

Source: Banking and financial statistic; NRB: 2009

According to the table the deposit to total assets ratio of is highest for HBL (85.31 percent), SCB (83.24), NSBI (81.44), NSBI (80.89) and NABIL (79.11) respectively. One of the interesting things here to note is that all the ratio for all the commercial banks are less than that of the industry average of 68.68 percent. The fluctuation of this ratio as measured by coefficient of variation is highest for EBL (0.07) the CV for all other banks are more or less in line with industry average ranging from 0.04 to 0.06 except the fluctuation is very small for HBL(0.01).

4.1.6 Net Profit to Total Deposit

Net profit to total deposit indicates the firm's ability to generate profit out of its total deposit. How efficiently the deposits are managed can shortly be viewed by this ratio. The ratio is provided with the table below along with the industry average of the 26 commercial banks operating in Nepal till the date.

Table 4.6

Net Profit to Total Deposit

Banks	Year									Mean	CV
	2001	2002	2003	2004	2005	2006	2007	2008	2009		
NABIL	2.87	3.37	4.73	4.78	5.61	5.06	2.94	2.35	4.35	4.01	0.29
SCBL	3.29	3.40	2.86	3.11	3.92	2.87	2.81	2.74	2.87	3.10	0.12
HBL	1.57	1.26	1.01	1.16	1.24	2.84	1.72	2.60	3.41	1.87	0.46
NSBIL	0.74	1.09	0.88	1.62	2.51	2.03	3.45	1.86	1.21	1.71	0.51
EBL	2.06	0.26	0.26	0.29	0.29	2.00	1.99	1.25	2.17	1.18	0.76

Source: Banking and financial statistic; NRB: 2009

Net profit to total deposit of NABIL bank is more for almost all the periods resulted into the highest average of 4.01 percent followed by SCB, 3.10 percent, HBL,1.87 percent, NSBI, 1.71 percent, and EBL, 1.18 percent respectively. This ratio shows that NABIL and SCB utilizes the deposit funds more effectively and efficiently so far as the generation of net profit out of the total deposit is concerned. The other banks, namely, HBL, NSBI and EBL are comparatively is poor so far as the matter of utilizing deposit funds to generate total deposit is concerned. The trend of this ratio is shown with the help of following figure.

Figure: 4.3

Average net profit to total deposit
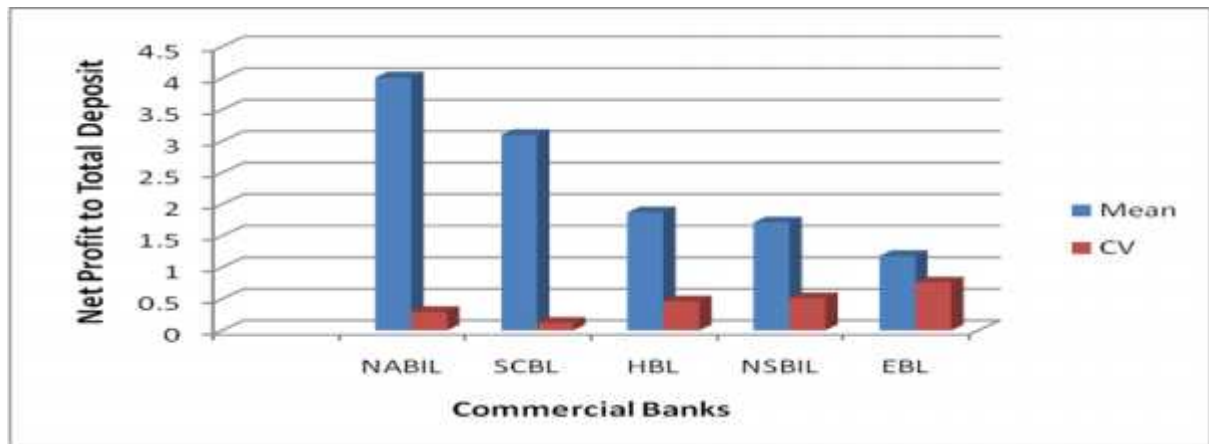
As per the figure the average net profit to total deposit ratio for NABIL is highest of all. Next to this SCB has earned better profit out of its deposits. The ratio for remaining banks ranges from 1.71 to 1.87 representing the weaknesses in generating profit out their deposit liabilities.

Having analyzed the position of the deposit, now the turn is to analyze the position of capital fund of the banks.

4.2 Management Capital

This section analyzes the management of owner's equity by relating it to other variables like total deposit, total assets and net profit etc. these all provide the picture of how capital is managed of all the sample banks.

4.2.1 Capital fund to Total Deposit

This ratio defines the capital out of total deposit lower ratio denotes the lower capital in relation to deposit and vice versa. The ratio for all the commercial banks and for the industry is provided with the table below:

Table 4.7

Capital fund to Total Deposit

Banks	Year									Mean	CV
	2001	2002	2003	2004	2005	2006	2007	2008	2009		
NABIL	6.61	6.91	8.53	12.80	10.16	8.57	8.03	6.45	6.52	8.29	0.25
SCBL	5.96	6.39	5.97	7.22	6.61	6.84	7.12	7.12	6.95	6.69	0.07
HBL	2.85	3.50	3.53	6.31	5.35	5.83	5.91	6.75	7.25	5.25	0.30
NSBI	3.68	9.72	8.94	11.38	7.97	10.32	8.65	8.48	5.06	8.24	0.30
EBL	5.45	9.12	8.77	8.26	9.71	6.03	5.05	6.68	6.20	7.25	0.24
Industry Average	4.53	5.51	5.79	-4.36	-7.58	-6.09	-1.23	2.34	5.39	0.48	11.27

Source: Banking and financial statistic; NRB: 2009

Capital fund to total deposit is highest for NABIL (8.29 percent) in an average, followed by NSBI (8.24 percent), EBL (7.25 percent), SCB (6.69 percent) and HBL (5.25 percent). The ratio for all the sample banks are significantly higher in industry average 0.48 percent. This low ratio for the industry is due to the negative capital fund in the year 2004 to 2007. So, reason of Minus average year is due to negative capital fund.

The higher capital fund to deposit in relation to industry average denotes that the deposit of customer is safer and in a position to provide fair return.

The fluctuation of this ratio as measured by the CV indicates that all the banks' ratios fluctuate less than that of industry (here the CV of industry is 11.27 percent).

4.2.2 Capital Fund to Total Assets

Capital fund to total assets ratio is the measure of how much of total assets is funded by capital fund. More use of the fund shows less leverage and vice versa. The banks' capital fund to total assets is presented with the help of following table:

Table 4.8

Capital fund to Total Assets

Banks	Year									Mean	CV
	2001	2002	2003	2004	2005	2006	2007	2008	2009		
NABIL	5.38	5.41	6.27	9.89	7.96	6.87	6.32	5.35	5.30	6.53	0.24
SCB	4.30	5.14	5.02	6.25	5.62	5.88	5.86	6.17	5.98	5.58	0.11
HBL	2.40	3.05	3.00	5.37	4.56	4.96	5.10	5.72	6.16	4.48	0.30
NSBI	3.29	7.79	7.29	9.22	6.49	8.15	6.43	6.26	4.42	6.59	0.28
EBL	4.76	7.35	7.11	6.68	6.51	4.98	4.13	5.61	5.44	5.84	0.19
Industry Average	3.27	3.71	3.87	-3	-4.65	-4.14	-0.85	1.76	3.74	0.41	8.72

Source: Banking and financial statistic; NRB: 2009

The industry average of capital fund to total assets is 0.41 percent. This low ratio for the industry is due to the negative capital fund in the year 2004 to 2007. The highest ratio is 6.59 percent for NSBI followed by 6.53 percent for NABIL, 5.84 percent for EBL, 5.58 percent for SCB, and 4.48 for HBL. Comparing the ratio with industry it reveals that the ratios for all the sample banks are higher in the industry. The fluctuations of this ratio as measured by CV are also lower for all the commercial banks in comparison to industry of 8.72. Above of the given table minus industry average is due to negative capital fund.

This states that the commercial banks employ more of capital fund to finance their assets in comparison to the industry. However the ratio of 4.48 to 6.59 percent cannot be higher speaking absolutely. The banks tend to employ more deposit liabilities instead of capital fund to finance their assets as reveled by the deposit to total assets ratio because the ratio is 68.68 percent for the industry whereas capital fund to total deposit is reckoned to only 0.41 percent.

4.2.3 Return on Capital Fund

Return on capital fund indicates the managerial efficiency of the concerned banks. Higher ratio is more efficient the management is to generate more profit out of the owners' fund and vice versa. The table below presents the return on capital funds for the concerned commercial banks:

Table 4.9
Return on capital fund

Banks	Year									Mean	CV
	2001	2002	2003	2004	2005	2006	2007	2008	2009		
NABIL	43.49	48.80	55.42	37.36	55.17	59.06	36.57	36.48	66.70	48.78	0.23
SCBL	55.09	53.15	47.90	43.13	59.29	42.03	39.43	38.47	41.24	46.64	0.16
HBL	55.23	36.07	28.64	18.32	23.21	48.80	29.09	38.60	47.04	36.11	0.34
NSBIL	20.02	11.24	9.84	14.21	31.50	19.63	39.85	21.93	23.87	21.34	0.45
EBL	37.77	2.88	2.91	3.56	3.02	33.13	39.49	18.77	34.98	19.61	0.85

Source: Banking and financial statistic; NRB: 2009

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Return on capital fund is highest for the NABIL (48.78 percent), followed by SCB (46.64 percent), HBL (36.11 percent), NSBI (21.34 percent) and EBL (19.61 percent) respectively. The least of the ratio is for EBL. Fluctuation of this ratio is given by the CV for the study periods the large fluctuations is for EBL (0.85), followed by NSBI (0.45) HBL (0.34) NABIL (0.23) and SCBL (0.16) respectively.

Figure: 4.4

Average Return on capital fund
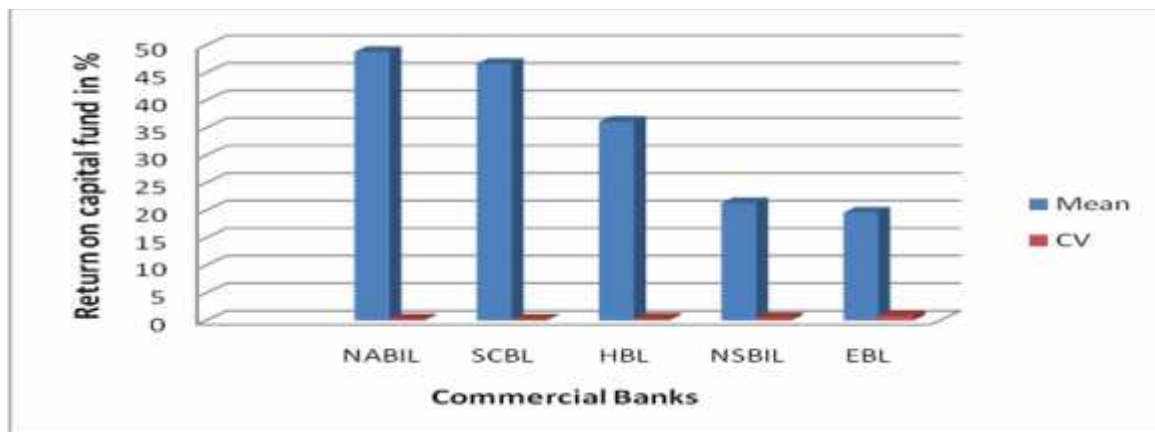
As per the figure too, average return on capital fund is the highest for NABIL followed by SCB, HBL, NSBI and EBL respectively. From the analysis of net profit to total deposit too NABIL, SCB and HBL are in better position. Which shows that these banks are relatively in a better position to generate profit out of both of their deposit and capital fund.

4.2.4 Management of Liquidity

Liquidity measures the short term solvency of a firm. The ratios are the crude measurement of liquidity position of a firm. The ability to pay the firm's short term obligation is measured with the liquidity ratio. Various ratios those measures the liquidity of various banks is presented in this section and compared between them and with industry average.

4.2.4.1 Cash Balance to Total Liquid Fund

This ratio measures the bank's liquidity in terms of cash balance only as other liquid fund except cash balance may be suspicious to be converted to cash immediately or in a short notice.

Table 4.10

Cash balance to total liquid fund

Banks	Year									Mean	CV
	2001	2002	2003	2004	2005	2006	2007	2008	2009		
NABIL	3.31	6.36	4.58	7.32	10.88	10.05	13.77	11.06	17.18	9.39	0.47
SCB	2.32	8.92	6.27	4.43	5.80	8.59	9.47	9.77	6.83	6.93	0.36
HBL	2.08	6.04	4.62	3.18	3.51	11.41	5.44	11.11	10.77	6.46	0.57
NSBI	6.32	11.87	20.25	20.80	31.27	30.15	16.39	19.05	34.49	21.18	0.44
EBL	13.11	21.00	11.82	14.80	11.86	16.02	16.07	25.73	15.33	16.19	0.28
Industry	8.59	11.00	14.26	10.20	13.39	16.24	17.72	19.45	14.94	13.98	0.26

Source: Banking and financial statistic; NRB: 2009

From the table one can observe that average cash as a proportion of total liquid fund is highest for NSBI (i.e. 21.18 percent) followed by EBL (i.e. 16.19 percent), and NABIL (i.e. 9.39 percent), SCB (6.93 percent), and HBL (6.46 percent) respectively. C.V. of HBL is 0.57 the highest of all followed by that of NABIL showing relatively greater variability of cash balance as a percentage of total liquid fund. C.V. of EBL is least of all showing least variability of this variable.

Comparison of this ratio of each of the bank with industry average shows that mean cash balance as a proportion of total liquid fund of NABIL, SCB and HBL is less in industry and that of the remaining two banks are more.

4.2.4.2 NRB Balance to Total Deposit

NRB balance to total deposit is another important measure of liquidity of commercial banks. This ratio simply shows how much deposits are made in NRB out of it total deposit. It also shows the margin of safety depositors may expect of their deposits. Higher the ratio less will be the likelihood that the bank runs out of cash and vice versa.

NRB balance to total deposit of each of the banks is presented in the table below:

Table 4.11

NRB balance to total deposit

Banks	Year									Mean	CV
	2001	2002	2003	2004	2005	2006	2007	2008	2009		
NABIL	3.22	2.38	6.64	4.30	0.74	1.65	4.77	5.73	7.09	4.06	0.55
SCBL	4.27	2.34	6.08	7.25	3.58	3.25	6.55	4.26	5.16	4.75	0.34
HBL	6.09	3.74	5.38	7.13	5.69	4.13	4.24	3.02	6.71	5.13	0.28
NSBI	4.45	21.13	13.68	8.00	4.51	5.80	4.86	2.94	1.59	7.44	0.83
EBL	8.43	6.55	10.83	5.48	7.67	8.26	9.67	4.51	14.37	8.42	0.35
Industry	11.80	12.51	8.27	9.72	7.08	7.23	6.88	7.23	9.85	8.95	0.24

Source: Banking and financial statistic; NRB: 2009

In an average NRB balance as a percentage of total deposit is highest for EBL (8.42%) followed by NSBI (7.44%), HBL (5.13%), SCB (4.75%) and NABIL (4.06%) respectively. The industry average is higher than the ratio of all the sample banks. This indicates that the banks need to pay attention towards this. However if they are being able to invest the funds in a relatively high returns outlet matching the funds maturity it would not be the serious case as seen here.

4.2.4.3 Total Liquid Fund to Total Deposit

Total deposit requires the bank to maintain sufficient liquidity as the depositors may demand cash at the stipulated time. Thus it, roughly, measures the ability of the bank

to discharge its deposit liabilities as and when necessary. This ratio for each of the banks is provided as under:

Table 4.12

Total liquid fund to total deposit

Banks	Year									Mean	CV
	2001	2002	2003	2004	2005	2006	2007	2008	2009		
NABIL	39.68	32.53	30.97	27.78	9.22	12.22	8.41	14.49	10.51	20.65	0.58
SCBL	52.41	18.25	16.90	20.04	17.43	14.11	16.22	14.28	18.92	20.95	0.57
HBL	40.84	41.19	39.43	37.84	32.92	10.12	10.90	7.87	12.68	25.98	0.58
NSBI	35.48	25.18	20.41	10.72	5.32	8.24	15.33	12.04	6.84	15.51	0.64
EBL	18.02	14.82	17.27	10.78	16.08	11.73	17.44	13.34	18.50	15.33	0.18
Industry	30.58	26.97	18.72	19.78	15.20	13.34	13.06	15.70	18.81	19.13	0.32

Source: Banking and financial statistic; NRB: 2009

Interbank comparison of the ratios shows that in an average total liquid fund as a percentage of total deposit is highest for HBL (25.98%) followed by SCB (20.95%), NABIL(20.65%), NSBI(15.51%) and EBL (15.33%) respectively. The industry average, as a benchmark, shows that HBL has more liquid fund, NSBI and HBL have lower while NABIL and SCB has maintained the total liquid fund in line with the industry average. Looking over the return ratios and liquidity position it can be concluded that liquid fund of NABIL, SCB and HBL have managed their liquid fund more effectively than those of remained banks. It is because of the fact that profitability of the banks is better. Variability of this ratio as measured by coefficient of variation shows that this ratio for EBL is more consistent that of the rest of the banks and industry but remaining banks have higher variability than that of the industry.

4.3 Profitability in Relation to Liabilities and Capital

Profitability ratio indicates how efficiently the bank's resources have been utilized in order to generate profits. In another word, it indicates the overall efficiency of the bank. The profitability of the banks has been examined by the following ratios here in this study. This ratio is very important as justifiability of liquidity of the banks as analyzed in the former section can be checked against the profitability of the banks.

4.3.1 Return on Total Liabilities and Capital or Total Assets

It measures the percentage of return on the overall total assets employed for every activity of the Banks. It gives the profit earning efficiency of the company in relation to total assets. The ratio helps to understand the utilization of assets of the enterprises. Return on total assets is presented in table below:

Table 4.13

Return on Total Assets

Banks	Year									Mean	CV
	2001	2002	2003	2004	2005	2006	2007	2008	2009		
NABIL	2.34	2.64	3.48	3.70	4.39	4.06	2.31	1.95	3.54	3.16	0.27
SCB	2.37	2.73	2.40	2.69	3.33	2.47	2.31	2.37	2.47	2.57	0.12
HBL	1.32	1.10	0.86	0.98	1.06	2.42	1.48	2.21	2.90	1.59	0.46
NSBI	0.66	0.88	0.72	1.31	2.04	1.60	2.56	1.37	1.06	1.36	0.47
EBL	1.80	0.21	0.21	0.24	0.20	1.65	1.63	1.05	1.90	0.99	0.78

Source: Banking and financial statistic; NRB: 2009

From the table it is clear that NABIL is most efficient so far as the matter of utilizing total assets towards attaining more profits is concerned. The bank has been able to generate net profit of 3.16 as a percent of total assets in an average over the last 9 years. Same ability of the SCB as measured by the return on assets (2.57 percent) is slightly lower than that of the NABIL, followed by HBL (1.59 percent) and NSBI

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(1.36 percent). EBL is in a lowest position to generate profits out of the total assets it has (0.99 percent). Variability of this ratio for EBL is more because CV of this bank is 0.78, the highest of all the banks, followed by NSBI (0.47), HBL (0.46), SCB (0.12) and NABIL (0.27).

4.3.2 Return on Total Capital

Return on capital employed denotes the bank's ability to manage total capital employed (capital fund plus long term debt) to generate net profit. Following table presents these facts of all the banks under consideration:

Table 4.14

Return on Total Capital

Banks	Year									Mean	CV
	2001	2002	2003	2004	2005	2006	2007	2008	2009		
NABIL	43.49	38.62	30.14	33.14	54.54	53.48	24.86	20.52	36.78	37.29	0.32
SCB	20.20	31.95	44.74	41.03	57.33	41.76	23.49	38.47	36.81	37.31	0.30
HBL	54.64	33.58	16.58	17.51	17.00	39.09	24.17	27.47	39.23	29.92	0.43
NSBI	20.02	7.55	8.85	14.21	28.69	19.63	19.67	8.53	14.41	15.73	0.44
EBL	28.60	1.78	2.55	2.16	3.02	24.35	30.11	15.81	26.99	15.04	0.84

Source: Banking and financial statistic; NRB: 2009

Just as the return on total assets, average return on capital employed is larger for SCB (37.31%) followed by NABIL (37.29%), HBL (29.92%), NSBI (15.73%) and EBL (15.04%) respectively. Looking over the both measure of profitability one of interesting fact one can discover is that the bank which is most efficient to manage its assets its terms of profit generating also most efficient to manage it's total capital in terms of the same dimension. The variability of return on capital employed is more for EBL followed by NSBI, HBL, NABIL and SCB respectively.

The average return on capital employed over the study periods for each of the banks is provided with the help of following figure:

4.3.3 Justifiability of Several Ratios in Relation to Profitability

Several ratios of the banks calculated in the previous sections can be checked for their justifiability making crosscheck with profitability ratios. Following table presents the ratios as against the profitability of the banks.

Table 4.15

Several Ratios of the commercial banks

Banks	Ratios (%)							
	CB/TLF	TLF/TD	NB/TD	ROA	ROC	ROD	TD/TA	CF/TA
NABIL	9.39	20.65	4.06	3.16	37.29	4.01	79.11	6.53
SCBL	6.93	20.95	4.75	2.57	37.31	3.10	83.24	5.58
HBL	6.46	25.98	5.13	1.59	29.92	1.87	85.31	4.48
NSBIL	21.18	15.51	7.44	1.36	15.73	1.71	80.89	6.59
EBL	16.19	15.33	8.42	0.99	15.04	1.18	81.44	5.84

Note: CB, TLF, TD, NB, ROA, ROC, ROD, TA and CF denote cash balance, total liquid fund, total deposit, NRB balance, Return on assets, return on capital employed, return on total deposit, total assets and capital fund respectively.

Liquidity, capital fund and total deposit of NABIL as measured by the several ratios is highly justifiable because it has higher of the profitability ratios i.e. return on assets, return on capital employed and return on total deposit. Liquidity, capital fund and total deposit of SCBL are considered to be good for it has too reasonable level of profitability ratios. However the figures of liquidity, capital fund and total deposit is not justifiable for EBL and NSBI for these banks have lower of the profitability as measured by several ratios. The results for the HBL is also disappointing but not so disappointing as for the EBL and NSBI.

4.4 Trend Analysis

In this section trend of deposit, capital fund, and capital employed is presented and analyzed in order to identify how these variables are changing over the study periods.

4.4.1 Trend of Deposit

The table below shows the deposits of five commercial banks for the 9 years periods.

Table 4.16

Trend of Deposits over the periods (Rs Million)

Banks	Year								
	2001	2002	2003	2004	2005	2006	2007	2008	2009
NABIL	15838.9	15370.6	13437.7	14098	14586.8	19348.4	23342.4	31915	37348.3
SCBL	15430.1	15835.7	18755.5	21161.4	19344	23050.5	24640.3	29743.9	35871.8
HBL	17613.6	18595.2	21002.8	22760.9	24831.1	26456.2	29905.8	31805.3	34681
NSBIL	6618.4	5572.2	6522.8	7232.1	8645.8	10852.7	11445.2	13715.4	27957.2
EBL	4574.5	5461.1	6694.9	8064	10097.8	13802.5	19097.7	23976.3	33322.9

Source: Annual Reports of the banks

Above table and figure below shows the deposits of several banks over the period of 9 years. Looking upon the trend it can be said that deposits of all the banks are increasing except that for NABIL, SCBL and NSBIL for which deposit has decreased in the year 2003, 2005 and 2002 respectively.

Figure 4.5

Trend of total deposit of the banks
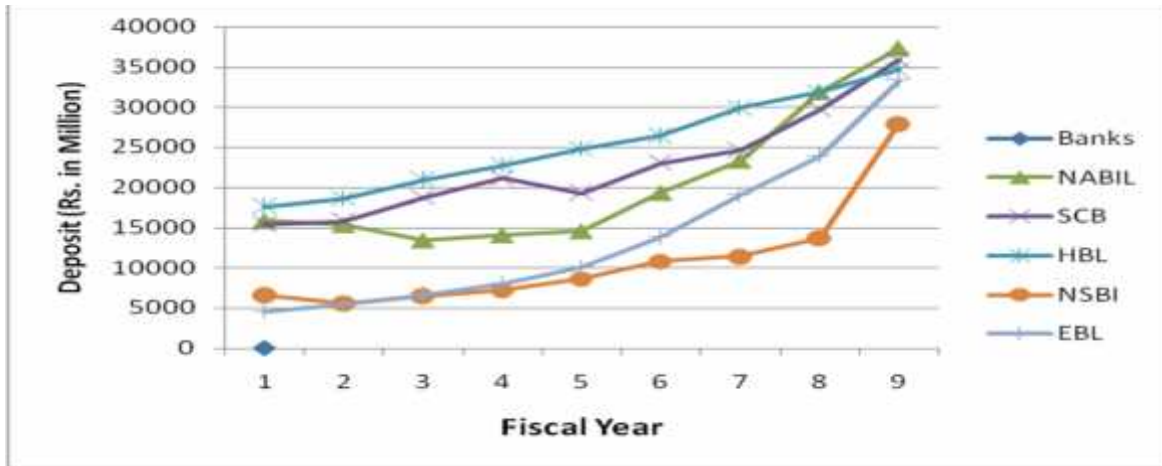
The absolute amount of deposit is highest for HBL for all the periods followed by SCBL, NABIL, EBL and NSBIL. However the deposits of all the banks have come nearly to converse in the year 2009.

4.4.2 Trend of loan and advances

Growth prospects of the banks can be analyzed by looking over the trend of loan and advances of the banks. For this purpose, data regarding the same are plotted and shown in the table and figure as below:

Table 4.17

Trend of loan and advances (Rs. in million)

Banks	Year								
	2001	2002	2003	2004	2005	2006	2007	2008	2009
NABIL	8173.1	7072	7996.9	8635.1	11078	13021.3	15657.1	21514.6	27816.6
SCBL	5838.7	5675.6	6028.5	6662	8213.5	8905.1	10538.1	13355	13118.6
HBL	8836.6	9673.5	10894.2	13081.7	13245	15515.7	17672	19985.2	25292.1
NSBIL	4091	4528.6	4761.1	5490.9	6619.1	8059.6	9846.7	12574.9	15465.2
EBL	2963.7	3969.6	5030.9	6116.6	7914.4	10124.2	14059.2	18814.3	24366.2

Figure 4.6

Trend of loan and advances (Rs Million)
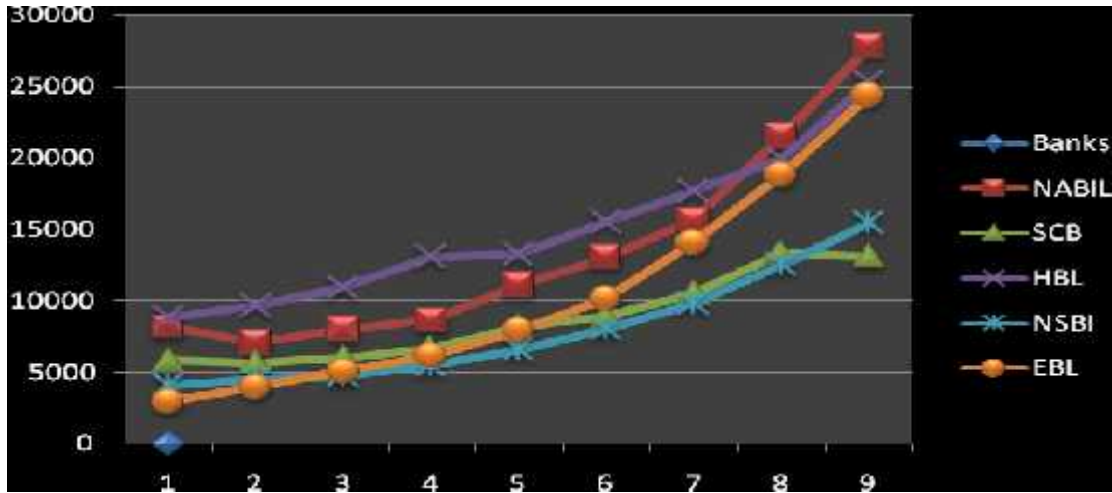
Trend line shows that loan of HBL is increasing over the entire period starting at Rs8836.6 million in the year 2001 to soar upto Rs. 25292.1 million in 2009. The amount of loan and advances for this bank is highest of all the banks upto the year 2007 beyond this the amount of loan and advances is more for NABIL. Loan and advances for NABIL has decreased in 2002 and has risen gradually to level at Rs. 27816.6 million in 2009. The figure for EBL and NSBIL has been increasing gradually from the year 2001 to 2009. However the figure of SCBL is shows more fluctuating trend. It is because of the fact that the figure of loan and advances of the banks disperse more from the average figure it has.

Looking over all the figures and analysis made in the previous sections it reveals that NABIL and SCBL are relatively efficient to mobilize its loan and investment for these have lower of these amount yet has been able to generate more profit in relation to total assets including deposits and capital employed.

Looking upon the trend it can be said that deposits of all the banks are increasing except that for SCBL has decreased in the year 2005. The absolute amount of deposit is highest for HBL for all the periods Followed by SCBL and NABIL. However the deposits of all the banks have come nearly to converse in the year 2009.

4.5 Correlation Analysis

This section strives to analyze the relation of several variables of liabilities and profitability in order to know the general linear relationship of these variables. The correlation coefficient is computed and tested using SPSS computer software. The result thereof is presented along with the following table:

Table: 4.18

Correlation Matrix

NABIL	D	TA	LA	NP	SCB	D	TA	LA	NP
D	1.00	1.00	0.98	0.74	D	1.00	0.99	0.94	0.93
TA	1.00	1.00	0.98	0.75	TA	0.99	1.00	0.94	0.91
LA	0.98	0.98	1.00	0.82	LA	0.94	0.94	1.00	0.88
NP	0.74	0.75	0.82	1.00	NP	0.93	0.91	0.88	1.00
HBL	D	TA	LA	NP	**NSBI**	D	TA	LA	NP
D	1.00	1.00	0.98	0.88	D	1.00	0.81	0.86	0.91
TA	1.00	1.00	0.98	0.89	TA	0.81	1.00	0.99	0.92
LA	0.98	0.98	1.00	0.93	LA	0.86	0.99	1.00	0.96
NP	0.88	0.89	0.93	1.00	NP	0.91	0.92	0.96	1.00
EBL	D	TA	LA	NP					
D	1.00	1.00	1.00	0.94					
TA	1.00	1.00	1.00	0.92					
LA	1.00	1.00	1.00	0.92					
NP	0.94	0.92	0.92	1.00					

Note: D, TA, LA and NP denote the deposit, total assets, loan and advances and net profit.

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From the table it is clear that NABIL's correlation of Deposit with total assets and loan and advances is perfectly positive while the correlation of deposit with net profit is 0.74. Likewise all the other variables are related positively in linear term in case of NABIL bank. Likewise, correlation of several variables for SCBL also shows the same results, that is, deposit, total assets, loan and advances and net profit are positively correlated each others. The result for the NSBIL and HBL is also the same showing strong positive correlation between the several variables. Like wise the correlation result of the EBL shows stronger relationship of the variables.

To sum up the above result, it can be said that the commercial banks deposit, total assets, loan and advances and net profit move together in the direction. It means increase in one or all of these variables forces to increase rest of the variables and the opposite is also hold true, that is, decrease in one or all the variables forces to decrease rest of the variables under consideration.

4.6 Regression Analysis

In this section various variables and their relationship to others are examined using the simple and multivariate model of regression.

4.6.1 Analysis of Association of Return on Deposit (RD) With Liquid Fund to Total Deposit (LF/TD)

How the return on total deposit affects and is affected by liquid fund to total deposit is analyzed here. Return on total deposit is an important variable that indicates the efficiency of the banks to utilize the deposit. How this ratio is affected by the level of liquid fund to total deposit is a burning issue to be addressed. For this purpose following regression model is developed and tested.

The model is:

$RD = a + b_1 LF/DT$

Where,

RD   =   Return on total deposit

a   =   Regression intercept

LF/TD =   Liquid fund to total deposit

b_1 =   Regression parameter

[Note: for more details see in appendix 1]

Table 4.19

Regression Results

Banks	a	b_1	R^2	F-value	F-sig.
A. NABIL	4.430	-.021 [0.582]	0.046	0.339	0.579
B. SCBL	2.931	0.008 [0.674]	0.061	0.455	0.552
C. HBL	3.089	**-0.047** [-3.761]*	0.669	14.142	0.007*
D. NSBIL	2.422	-0.046 [-1.619]	0.273	2.622	0.149
E. EBL	-0.310	0.097 [0.853]	0.094	0.727	0.422

Note: 1) figure in parenthesis indicates t-value

   2) The sign indicates that the value is significant at 5 percent level of significance*

   3) For more detail see appendix-1.

Regression model for NABIL is presented along panel A. Coefficient of determination (R^2) of this model is 0.046 indicates that out of the total variation in return on deposit (RD), liquid fund to total deposit (LF/TD) ratio can explain only 4.6 percent. Thus explaining power of this model can be said as weak. Co-efficient of LF/TD i.e. b_1 is negative indicates negative relationship between LF/DT and RD of NABIL and this value for b_1 is not significant at 5 percent level of significance.

Observing the test of confirmation by the use of F-value, the value is not significant at 5 percent level of significance which means that the model can not best explain the dependent variable.

Coefficient of determination, R^2 is 0.061 for the model of SCBL which indicates very weak predicting power of LF/TD. Likewise t-values of b1 for these bank's models are insignificant at 5 percent level of significance. So LF/TD can not explain the variation in RD for these banks. Similarly, F-value is insignificant at 5 percents level of significance indicates that whole of the models do not explain the variation in dependent variable.

The regression model of HBL is presented along with the panel C. Coefficient of determination (R^2) of this model is 0.669 indicates that out of the total variation in return on deposit (RD), liquid fund to total deposit (LF/TD) ratio can explain 66.9 percent. Thus explaining power of this model is good. Co-efficient of LF/DT i.e. b_1 is negative indicates negative relationship between LF/TD and RD of NABIL and this value for b_1 is significant at 5 percent level of significance. Observing the test of confirmation by the use of F-value, the value is also significant at 5 percent level of significance which means that the model can best explain the dependent variable. This paves the way to conclude that the return on deposit is negatively associated with LF/ TD.   The models of the remaining two banks are presented in the last two panels. The insignificant t- value and f- value indicate that there is no any statistically significant association of the dependent and independent variables.

4.6.2 Analysis of Association of Net Profit (NP) With Loan (L) and Investment (I)

To what degree the net profit is affected linearly by the level of loan and level of investment is analyzed here. For this purpose following regression model is developed and tested.

The model is:

NP = a + b₁L+b₂I

Where,

NP	=	Net profit
a	=	Regression intercept
L	=	Loan
I	=	Investments
b₁ and b₂	=	Regression parameters

[Note: for more Details see appendix 1]

Table 4.20

Regression Results

Banks	a	b_1L	$b_2 I$	R^2	F-value	F-sig.
NABIL	685.18	0.048 [5.114]**	-0.145 [-2.141]	0.813	13.081	0.006
SCBL	78.927	0.03 [2.375]*	0.048 [1.962]	0.859	18.287	0.003
HBL	-349.80	0.064 [5.603]**	-0.02 [-0.601]	0.876	21.207	0.002
NSBIL	-30.172	0.019 [1.81]	0.033 [0.976]	0.734	8.285	0.019
EBL	-30.172	0.033 [2.19]*	-0.013 [-0.188]	0.846	16.534	0.004

Note: 1) figure in parenthesis indicates t-value

2) The sign* and ** indicates t-value is significant at 10 and 5 percent level of significance respectively

3) For more detail see appendix-1.

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The model for NABIL is presented along the first row. The coefficient of determination is 0.813 indicating that 81.3 percent variation in net profit can be explained by loan (L) and investment (I). Value of regression coefficients (b_1) and (b_2) are 0.048 and -0.145 respectively. This indicates that for every 1 percentage change in each loan and investment level there will be 0.048 and -0.145 percentage changes in net profit. This indicates that level of loan and profits have positive relation however the relationship is negative in case of investment and profit. The t value for b_1 is significant and denotes the result statistically conclusive. Observing the test of confirmation of the results by the use of the F- test ratio, it is found that the tested value is smaller than tabulated value at 5 percent level significance and this shows that the model can best explain the variation in independent variable.

Coefficients of multiple determinations (R^2) are 0.734 and 0.846 for NSBI and EBL respectively. Thus the independent variables in case of NSBI and EBL can explain considerable amount of variation in dependent variable. Regression coefficients of level of loan for both of these banks are positive. This indicates the positive relation of net profit over the loan level for both the banks. However there is negative relation of net profit with investment level for EBL in contrast to the positive relation of net profit and investment for NSBI. Observing the test of confirmation by the use of F ratio, the f value is significant for both the models at 5 percent level of significance.

To sum up the above analysis the entire bank's level of loan is positively related to net profit. It means that increase in loan results into increase in the net profit thus level of loan of the banks contributes positively to the net profit of the banks. However the level investment contributes negatively to the net profit of the banks.

4.6.3 Analysis of Association of Net Profit (NP) With Deposit (D) and Liquid Fund (LF).

Profit is said to be an economic reward for every kind of business. Liquid fund and deposit must be managed in the way that contributes to the level of net profit. In this

sense, how the deposit and liquid fund contribute to the profit of the banks has been analyzed here. For this purpose following model is developed and tested.

The model is:

$NP = a + b_1 D + b_2 LF$

Where,

NP	=	Net profit
a	=	Regression intercept
D	=	Deposit
LF	=	Liquid fund
b_1 and b_2	=	Regression parameter

[Note: for more Detail see appendix 1]

Table 4.21

Regression Results

Banks	a	b_1	b_2	R^2	F-value	F-sig.
A. NABIL	431.858	0.03 [3.008]**	-0.068 [-2.244]	0.636	5.249	0.048
B. SCB	169.89	0.023 [5.825]**	0.001 [0.036]	0.856	17.905	0.003
C. HBL	202.536	0.039 [2.571]**	-0.035 [-0.994]	0.81	12.806	0.007
D. NSBI	86.786	0.014 [2.466]**	-0.033 [-0.523]	0.506	3.072	0.121
E.EBL	202.536	0.006 [0.492]	0.097 [1.465]	0.915	32.243	0.001

Note: 1) figure in parenthesis indicates t-value

*2) The sign ** indicates the level t-value is significant at 5 percent level of significance.*

3) For more detail see appendix-1.

The model for NABIL is presented along the first row. The coefficient of determination is 0.636 indicating that 63.6 percent variation in net profit can be explained by deposit (D) and liquid fund (LF). Value of regression coefficients (b_1) and (b_2) are 0.03 and -0.068 respectively. This indicates that for every 1 percentage change in each deposit and level of liquid fund there will be 0.03 and -0.068 percentage changes in net profit. This indicates that level of deposit and profits have positive relation however the relationship is negative in case of liquid fund and profit. The t value for b_1 is significant and denotes the result is statistically conclusive. Observing the test of confirmation of the results by the use of the F- test ratio, it is found that the tested value is smaller than tabulated value at 5 percent level significance and this shows that the model can best explain the variation in independent variable.

Coefficients of multiple determinations (R^2) are 0.856 and 0.81 for SCB and HBL respectively. Thus the independent variables in case of SCB and HBL can explain considerable amount of variation in dependent variable. Regression coefficients of level of deposit for both of these banks are positive. This indicates the positive relation of net profit over the loan level for both the banks. However there is negative relation of net profit with level liquid fund for HBL in contrast to the positive relation of net profit and liquid fund for SCB. Observing the test of confirmation by the use of F ratio, the f value is significant for both the models at 5 percent level of significance. The results for remaining two banks, i.e., for NSBI and EBL too shows the same sort of relationship, i.e., positive relation of the net profit with deposit but inconclusive relation between net profit and level of liquid funds.

To sum up, the banks are being able to utilize the deposit effectively however the management of liquid fund is not effective as this contributes nothing especially to the level of net profit.

4.7 Major findings

Major findings those are notable in this study are:

Credit and investment of the banks are two main interest earning assets of commercial banks. More of this ratio shows that the bank invest more of its deposits in these components and vice versa. Credit and investment to total deposit for all the commercial bank is 86.96 percent in an average. If this industry average is compared with that of the other banks, the ratios for NABIL, SCB and HBL are less in the industry and the same for the EBL and NSBIL are higher in industry average.

The variability of the ratio as measured by the CV is least for SCB (0.06), followed by EBL (0.07), NABIL (0.10) and NSBI (0.18) respectively. Saving deposit of the commercial banks requires more liquidity than fixed deposit as it should be paid at the demand of customer. More Saving deposit requires relatively more liquid funds and vice versa. Average of Saving to total deposit shows that for all the sample commercial banks are fall short of industry average. Comparing the ratio with industry average of 61.04 percent, the ratio of SCB (59.69 percent) is in line with industry however of all the commercial banks the ratio is less in the industry. The fluctuation of this ratio is more for EBL (0.17), NSBI (0.16), and NABIL (0.15). However same for the other banks is less than that of the industry.

Fixed deposit out of the total deposit of the commercial banks indicates that Average of fixed to total deposit of NSBI (51.38 percent) and EBL (36.12) are larger in the industry. While the ratio for NABIL, SCB, and HBL are smaller than the industry. The company having lower ratio must keep constant vigilance upon its possible withdrawal of the deposit. The fluctuations of the ratio as measured by the CV are highest for SCB (0.42) followed by EBL (0.29), NABIL (0.22), HBL (0.18) and NSBI (0.11) respectively. The fluctuation for all the commercial banks is higher except in case of NSBI.

Current deposit of the commercial banks is a kind of deposit liabilities that should be paid on demand of the customers. Average of current to total deposit of SCB (22.65 percent), NSBI (19.08), HBL (18.29) and NABIL (17.67) are larger in industry. The ratio for EBL (10.25) is smaller in industry. The company having higher ratio must keep constant vigilance upon its possible withdrawal of the deposit. The company must take seriously the liquidity position because more of the current deposit requires more liquidity. The fluctuations of the ratio as measured by the CV are highest for NSBI (0.44) followed by EBL (0.23), HBL(0.16) and NABIL (0.15) respectively and these are not in line with industry average of 0.19. The CV of SCB (0.19) is exactly in line with industry average.

Total deposit to total assets ratio of the banks denotes how much of total assets is funded by deposit liabilities. The deposit to total assets ratio of is highest for HBL (85.31 percent), SCB (83.24), NSBI (81.44), NSBI (80.89) and NABIL (79.11) respectively. One of the interesting things here to note is that all the ratio for all the commercial banks are less than that of the industry average of 68.68 percent. The fluctuation of this ratio as measured by coefficient of variation is highest for EBL (0.07) the CV for all other banks are more or less in line with industry average ranging from 0.04 to 0.06 except the fluctuation is very small for HBL(0.01).

Net profit to total deposit indicates the firm's ability to generate profit out of its total deposit. Net profit to total deposit of NABIL bank is more for almost all the periods resulted into the highest average of 4.01 percent followed by SCBL, 3.10 percent, HBL,1.87 percent, NSBI, 1.71 percent, and EBL, 1.18 percent respectively. This ratio shows that NABIL and SCB utilizes the deposit funds more effectively and efficiently so far as the generation of net profit out of the total deposit is concerned.

Capital fund to total deposit is highest for NABIL (8.29 percent) in an average, followed by NSBIL (8.24 percent), EBL (7.25 percent), SCBL (6.69 percent) and

HBL (5.25 percent). The ratio for all the sample banks are significantly higher in industry. The higher capital fund to deposit in relation to industry average denotes that the deposit of customer is safer and in a position to provide fair return.

Capital fund to total assets ratio is the measure of how much of total assets is funded by capital fund. The industry average of capital fund to total assets is 0.41 percent. This low ratio for the industry is due to the negative capital fund in the year 2004 to 2007. The highest ratio is 6.59 percent for NSBI followed by 6.53 percent for NABIL, 5.84 percent for EBL, 5.58 percent for SCBL, and 4.48 for HBL. Comparing the ratio with industry it reveals that the ratios for all the sample banks are higher than the industry. This states that the commercial banks employ more of capital fund to finance their assets in comparison to the industry. However the ratio of 4.48 to 6.59 percent cannot be higher speaking absolutely. The banks tend to employ more deposit liabilities instead of capital fund to finance their assets as reveled by the deposit to total assets ratio because the ratio is 68.68 percent for the industry whereas capital fund to total deposit is reckoned to only 0.41 percent.

Return on capital fund indicates the managerial efficiency of the concerned banks. Higher ratio is more efficient the management is to generate more profit out of the owners' fund and vice versa. Return on capital fund is highest for the NABIL (48.78 percent), followed by SCBL (46.64 percent), HBL (36.11 percent), NSBI (21.34 percent) and EBL (19.61 percent) respectively. The least of the ratio is for EBL. Fluctuation of this ratio is given by the CV for the study periods the large fluctuations is for EBL (0.85), followed by NSBIL (0.45) HBL (0.34) NABIL (0.23) and SCBL (0.16) respectively.

Liquidity measures the short term solvency of a firm. Average cash as a proportion of total liquid fund is highest for NSBI (i.e. 21.18 percent) followed by EBL (i.e. 16.19

percent), and NABIL (i.e. 9.39 percent), SCBL (6.93 percent), and HBL (6.46 percent) respectively.

NRB balance to total deposit is another important measure of liquidity of commercial banks. Inter bank comparison of the ratios shows that in an average total liquid fund as a percentage of total deposit is highest for HBL (25.98%) followed by SCBL (20.95%), NABIL(20.65%), NSBI(15.51%) and EBL (15.33%) respectively. The industry average, as a benchmark, shows that HBL has more liquid fund, NSBI and HBL have lower while NABIL and SCBL has maintained the total liquid fund in line with the industry average.

 Looking over the return ratios and liquidity position it can be concluded that liquid fund of NABIL, SCBL and HBL have managed their liquid fund more effectively than those of remained banks. It is because of the fact that profitability of the banks is better. Variability of this ratio as measured by coefficient of variation shows that this ratio for EBL is more consistent that of the rest of the banks and industry but remaining banks have higher variability than that of the industry.

As indicated by ROA, NABI is most efficient so far as the matter of utilizing total assets towards attaining more profits is concerned. The bank has been able to generate net profit of 3.16 as a percent of total assets in an average over the last 9 years. Same ability of the SCB as measured by the return on assets (2.57 percent) is slightly lower than that of the NABIL, followed by HBL (1.59 percent) and NSBI (1.36 percent). EBL is in a lowest position to generate profits out of the total assets it has (0.99 percent). Variability of this ratio for EBL is more because CV of this bank is 0.78, the highest of all the banks, followed by NSBIL (0.47), HBL (0.46), SCBL (0.12) and NABIL (0.27).

Average return on capital employed is larger for SCBL (37.31%) followed by NABIL (37.29%), HBL (29.92%), NSBI (15.73%) and EBL (15.04%) respectively. Looking over the both measure of profitability one of interesting fact one can discover is that the bank which is most efficient to manage its assts in terms of profit it generates is also most efficient to manage its capital employed in terms of the same dimension. The variability of return on capital employed is more for EBL followed by NSBI, HBL, NABIL and SCBL respectively.

Liquidity, capital fund and total deposit of NABIL as measured by the several ratios is highly justifiable because it has higher of the profitability ratios i.e. return on assets, return on capital employed and return on total deposit. Liquidity, capital fund and total deposit of SCBL are considered to be good for it has too reasonable level of profitability ratios. However the figures of liquidity, capital fund and total deposit is not justifiable for EBL and NSBI for these banks have lower of the profitability as measured by several ratios. The results for the HBL is also disappointing but not so disappointing as for the EBL and NSBI.

Trend of deposit shows that deposits of all the banks are increasing except that for NABIL, SCBL and NSBI for which deposit has decreased in the year 2003, 2005 and 2002 respectively The absolute amount of deposit is highest for HBL for all the periods followed by SCBL, NABIL, EBL and NSBI. However the deposits of all the banks have come nearly to converse in the year 2009.

Trend of loan shows that the level of loan of HBL is increasing over the entire period starting at Rs8836.6 million in the year 2001 to soar upto Rs. 25292.1 million in 2009. The amount of loan and advances for this bank is highest of all the banks upto the year 2007 beyond this the amount of loan and advances is more for NABIL. Loan and advances for NABIL has decreased in 2002 and has risen gradually to level at Rs. 27816.6 million in 2009. The figure for EBL and NSBI has been increasing

gradually from the year 2001 to 2009. However the figure of SCBL is shows more fluctuating trend.

Trend analysis and profitability analysis reveals that NABIL and SCBL are relatively efficient to mobilize its loan and investment because these banks has lower of this amount yet has been able to generate more profit in relation to total assets including deposits and capital employed.

From the result of correlation analysis it can be said that the commercial banks deposit, total assets, loan and advances and net profit move together in the direction. It means increase in one or all of these variables forces to increase rest of the variables and the opposite is also hold true, that is , decrease in one or all the variables forces to decrease rest of the variables under consideration.

From the regression analysis it is found that the entire bank's level of loan and deposit is positively related to net profit. It means that increase in loan and deposit results into increase in the net profit thus level of loan and deposit of the banks contribute positively to the net profit of the banks. However the level investment contributes negatively to the net profit of the banks. Likewise, the banks are being able to utilize the deposit effectively however the management of liquid fund is not effective as this contributes nothing especially to the level of net profit.

CHAPTER- V
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

In this chapter, an attempt has been made to summarize the whole study. Conclusion of the study is also an issue to be presented here in this chapter. Constructive suggestions and recommendations have also been made those can be of immense help to improve and revise the current status of liability management.

5.1 Summary

Chapter one describes about the general introduction, objectives, problems and limitations of the study allowing first step to go through the study. In chapter II, relevant literatures as obtained from journals, books, articles and different studies have been incorporated. Chapter third is research methodology which includes plans and strategy like research design, population, sample, sources and types of data, tools to be applied etc. Chapter next to the third is data presentation and analysis.

This study has covered the period of nine years being from 2001 to 2009. Secondary data have been used in analysis process. Both statistical and financial tools have been employed for the purpose of analyzing the data. In the study five banks are selected as sample. They are NABIL, SCBL, HBL, NSBI and EBL. The analytical results can be summarized as follows:

Credit and investment of the banks are two main interest earning assets of commercial banks. More of this ratio shows that the bank invest more of its deposits in these components and vice versa. Credit and investment to total deposit for all the commercial bank is 86.96 percent in an average. If this industry average is compared with that of the other banks, the ratios for NABIL, SCBL and HBL are less in the industry and the same for the EBL and NSBI are higher.

The variability of the ratio as measured by the CV is least for SCBL (0.06), followed by EBL (0.07), NABIL (0.10) and NSBI (0.18) respectively. Saving deposit of the commercial banks requires more liquidity than fixed deposit as it should be paid at the demand of customer. More Saving deposit requires relatively more liquid funds and vice versa. Average of Saving to total deposit shows that for all the sample commercial banks are fall short of industry average. Comparing the ratio with industry average of 61.04 percent, the ratio of SCBL (59.69 percent) is in line with industry however of all the commercial banks the ratio on industry average is less in the industry. The fluctuation of this ratio is more for EBL (0.17), NSBI (0.16), and NABIL (0.15). However same for the other banks is less than that of the industry.

Fixed deposit out of the total deposit of the commercial banks indicates that Average of fixed to total deposit of NSBI (51.38 percent) and EBL (36.12) are larger in the industry. While the ratio for NABIL, SCBL, and HBL are smaller than the industry. The company having lower ratio must keep constant vigilance upon its possible withdrawal of the deposit. The fluctuations of the ratio as measured by the CV are highest for SCBL (0.42) followed by EBL (0.29), NABIL (0.22), HBL (0.18) and NSBI (0.11) respectively. The fluctuation for all the commercial banks is higher except in case of NSBI.

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Capital fund to total deposit is highest for NABIL (8.29 percent) in an average, followed by NSBI (8.24 percent), EBL (7.25 percent), SCBL (6.69 percent) and HBL (5.25 percent).   The ratios for all the sample banks are significantly higher in industry. The higher capital fund to deposit in relation to industry average denotes that the deposit of customer is safer and in a position to provide fair return.

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NABIL, 5.84 percent for EBL, 5.58 percent for SCBL, and 4.48 for HBL. Comparing the ratio with industry it reveals that the ratios for all the sample banks are higher than the industry. This states that the commercial banks employ more of capital fund to finance their assets in comparison to the industry. However the ratio of 4.48 to 6.59 percent cannot be higher speaking absolutely. The banks tend to employ more deposit liabilities instead of capital fund to finance their assets as reveled by the deposit to total assets ratio because the ratio is 68.68 percent for the industry whereas capital fund to total deposit is reckoned to only 0.41 percent.

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HBL have lower while NABIL and SCBL has maintained the total liquid fund in line with the industry average.

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assets, return on capital employed and return on total deposit. Liquidity, capital fund and total deposit of SCBL are considered to be good for it has too reasonable level of profitability ratios. However the figures of liquidity, capital fund and total deposit is not justifiable for EBL and NSBI for these banks have lower of the profitability as measured by several ratios. The results for the HBL is also disappointing but not so disappointing as for the EBL and NSBI.

Trend of deposit shows that deposits of all the banks are increasing except that for NABIL, SCBL and NSBI for which deposit has decreased in the year 2003, 2005 and 2002 respectively The absolute amount of deposit is highest for HBL for all the periods followed by SCBL, NABIL, EBL and NSBI. However the deposits of all the banks have come nearly to converse in the year 2009.

Trend of loan shows that the level of loan of HBL is increasing over the entire period starting at Rs8836.6 million in the year 2001 to soar upto Rs. 25292.1 million in 2009. The amount of loan and advances for this bank is highest of all the banks upto the year 2007 beyond this the amount of loan and advances is more for NABIL. Loan and advances for NABIL has decreased in 2002 and has risen gradually to level at Rs. 27816.6 million in 2009. The figure for EBL and NSBI has been increasing gradually from the year 2001 to 2009. However the figure of SCBL is shows more fluctuating trend.

Trend analysis and profitability analysis reveals that NABIL and SCBL are relatively efficient to mobilize its loan and investment because these banks has lower of this amount yet has been able to generate more profit in relation to total assets including deposits and capital employed.

From the result of correlation analysis it can be said that the commercial banks deposit, total assets, loan and advances and net profit move together in the direction.

It means increase in one or all of these variables forces to increase rest of the variables and the opposite is also hold true, that is , decrease in one or all the variables forces to decrease rest of the variables under consideration.

From the regression analysis it is found that the entire bank's level of loan and deposit is positively related to net profit. It means that increase in loan and deposit results into increase in the net profit thus level of loan and deposit of the banks contribute positively to the net profit of the banks. However the level investment contributes negatively to the net profit of the banks. Likewise, the banks are being able to utilize the deposit effectively however the management of liquid fund is not effective as this contributes nothing especially to the level of net profit.

5.2 Conclusion

) The banks, NABIL and SCBL, having lower ratio of fixed to total deposit and higher ratio of current to total deposit must keep constant vigilance upon its possible withdrawal of the deposit. The company must take seriously the liquidity position because less of the fixed deposit requires more liquidity.

) Net profit to total deposit ratio shows that NABIL and SCBL utilizes the deposit funds more effectively and efficiently so far as the generation of net profit out of the total deposit is concerned. The other banks, namely, HBL, NSBI and EBL are comparatively is poor so far as the matter of utilizing deposit funds is concerned.

) The higher capital fund to deposit of NABIL and NSBI in relation to industry average denotes that the deposit of customer is safer and in a position to provide fair return. Capital fund to total assets ratio is the measure of how much of total assets is funded by capital fund.. Capital fund to total assets ratio for all the sample banks are higher than the industry. This states that the

commercial banks employ more of capital fund to finance their assets in comparison to the industry. However the ratio in a range of 4.48 to 6.59 percent cannot be higher, speaking absolutely.

⌡ Looking over the several measures of profitability one of interesting conclusion one can draw is that the bank which is most efficient to manage its assts in terms of profit it generates is also most efficient to manage its capital employed in terms of the same dimension. And these banks are NABIL and SCBL.

⌡ Liquidity, capital fund and total deposit of NABIL as measured by the several ratios is highly justifiable because it has higher of the profitability ratios i.e. return on assets, return on capital employed and return on total deposit. Liquidity, capital fund and total deposit of SCBL are considered to be good for it has too reasonable level of profitability ratios. However the figures of liquidity, capital fund and total deposit is not justifiable for EBL and NSBI for these banks have lower of the profitability as measured by several ratios. The results for the HBL is also disappointing but not so disappointing as for the EBL and NSBI.

⌡ Trend of deposit, capital fund and loan and advances show that these figures have constantly increased over the study periods. In this case the banks must strive to manage the deposit liabilities, loan and capital fund effectively in order to make them more productive as a means to maximize shareholder's wealth.

⌡ Trend analysis and profitability analysis reveals that NABIL and SCBL are relatively efficient to mobilize its loan and investment for these has lower of this amount yet has been able to generate more profit in relation to total assets including deposits and capital employed.

⌡ From the result of correlation analysis it can be said that the commercial banks deposit, total assets, loan and advances and net profit move together in the direction. It means increase in one or all of these variables forces to increase rest of the variables and the opposite is also hold true, that is , decrease in one or all the variables forces to decrease rest of the variables under consideration.

⌡ From the regression analysis it is found that the entire bank's level of loan and deposit is positively related to net profit. It means that increase in loan and deposit results into increase in the net profit thus level of loan and deposit of the banks contribute positively to the net profit of the banks. However the level investment contributes negatively to the net profit of the banks. Likewise, the banks are being able to utilize the deposit effectively however the management of liquid fund is not effective as this contributes nothing especially to the level of net profit.

⌡ Some of the commercial banks like EBL and NSBIL are seemed to be vulnerable in terms of the liabilities management. In the context of present economic surrounding in the country like huge trade deficit, BOP deficit, slowed growth rate of remittances, real states bubbles, growing tendency of conflict all over the country, and political instability etc. are the immediate reasons that hinder the effective workings of several capital and liabilities of the banks. Very cautious measures of liquidity and liabilities management are all the necessary for the banks to remain healthy and competitive not in the short but also in the long run.

5.3 Recommendation

On basis of the whole study following recommendations are relevant to made:

) The banks, NABIL and SCBL, having lower ratio of fixed to total deposit and higher ratio of current to total deposit must keep constant vigilance upon its possible withdrawal of the deposit. The company must take seriously the liquidity position because less of the fixed deposit requires more liquidity.

) Net profit to total deposit ratio shows that NABIL and SCBL utilizes the deposit funds more effectively and efficiently so far as the generation of net profit out of the total deposit is concerned. The other banks, namely, HBL, NSBI and EBL are comparatively is poor so far as the matter of utilizing deposit funds is concerned. In this ground NSBI, HBL and EBL are suggested to direct deposit funds to the more earning investment outlets.

) The ratio of capital fund to total deposit of the sample banks is in a range of 4.48 to 6.59 percent which is considered to lower and should be corrected by the way of increasing capital funds.

) Looking over the several measures of profitability one of interesting conclusion one can draw is that the bank which is most efficient to manage its assts in terms of profit it generates is also most efficient to manage its capital employed in terms of the same dimension. And these banks are NABIL and SCBL. The remaining banks, viz, HBL, NSBI and EBL are suggested to keep constant vigilance upon the effective management of total liabilities and capital so that these can contribute more to the profitability.

) Trend of deposit, capital fund and loan and advances show that these figures have constantly increased over the study periods. In this case the banks must

strive to manage the deposit liabilities, loan and capital fund effectively in order to make them more productive as a means to maximize shareholder's wealth.

) Regression analysis shows that the level of loan and deposit of entire bank is positively related to net profit. It means that increase in loan and deposit results into increase in the net profit thus level of loan and deposit of the banks contribute positively to the net profit of the banks. However the level investment contributes negatively to the net profit of the banks.

) This requires the identification of more earning investment alternatives and their active management. Likewise, the management of liquid fund is not effective as this contributes nothing especially to the level of net profit. In case of liquidity too the bank must pay enough care and caution so that it can contribute something positively towards the profit earning ability of the banks.

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APPENDIX

Appendix- I
Regression Results

1. Regression of ROD on LF/TD

1.1 Regression for NABIL

Variables Entered/Removed [b]

Model	Variables Entered	Variables Removed	Method
1	LF/TD [a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: ROD

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.215 [a]	.046	-.090	1.19608

a. Predictors: (Constant), LF/TD

ANOVA [b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.485	1	.485	.339	.579[a]
	Residual	10.014	7	1.431		
	Total	10.499	8			

a. Predictors: (Constant), LF/TD

b. Dependent Variable: ROD

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	4.430	.829		5.341	.001
	LF/TD	-.021	.035	-.215	-.582	.579

a. Dependent Variable: ROD

1.2 Regression for SCBL

Variables Entered/Removed ^b

Model	Variables Entered	Variables Removed	Method
1	LF/TD a	.	Enter

a.   All requested variables entered.

b.   Dependent Variable: ROD

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.247 a	.061	-.073	.39712

a.   Predictors: (Constant), LF/TD

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.072	1	.072	.455	.522a
	Residual	1.104	7	.158		
	Total	1.176	8			

a. Predictors: (Constant), LF/TD

b. Dependent Variable: ROD

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.931	.279		10.493	.000
	LF/TD	.008	.012	.247	.674	.522

a. Dependent Variable: ROD

1.3 Regression for HBL

Variables Entered/Removed ^b

Model	Variables Entered	Variables Removed	Method
1	LF/TD a	.	Enter

a.   All requested variables entered.

b.   Dependent Variable: ROD

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.818 [a]	.669	.622	.53142

a. Predictors: (Constant), LF/TD

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.994	1	3.994	14.142	.007[a]
	Residual	1.977	7	.282		
	Total	5.971	8			

a. Predictors: (Constant), LF/TD

b. Dependent Variable: ROD

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.089	.370		8.349	.000
	LF/TD	-.047	.013	-.818	-3.761	.007

a. Dependent Variable: ROD

1.4 Regression for NSBI

Variables Entered/Removed [b]

Model	Variables Entered	Variables Removed	Method
1	LF/TD [a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: ROD

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.522 [a]	.273	.169	.79390

a. Predictors: (Constant), LF/TD

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.653	1	1.653	2.622	.149[a]
	Residual	4.412	7	.630		
	Total	6.065	8			

a. Predictors: (Constant), LF/TD

b. Dependent Variable: ROD

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.422	.513		4.719	.002
	LF/TD	-.046	.028	-.522	-1.619	.149

a. Dependent Variable: ROD

1.5 Regression for EBL

Variables Entered/Removed [b]

Model	Variables Entered	Variables Removed	Method
1	LF/TD [a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: ROD

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.307 [a]	.094	-.035	.90755

a. Predictors: (Constant), LF/TD

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.599	1	.599	.727	.422[a]
	Residual	5.765	7	.824		
	Total	6.365	8			

a. Predictors: (Constant), LF/TD

b. Dependent Variable: ROD

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.310	1.766		-.175	.866
	LF/TD	.097	.113	.307	.853	.422

a. Dependent Variable: ROD

2. Regression of NP on investment and loan

2.1 Regression for NABIL

Variables Entered/Removed [b]

Model	Variables Entered	Variables Removed	Method
1	L, I [a]	.	Enter

a.   All requested variables entered.

b.   Dependent Variable: NP

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.902 [a]	.813	.751	173.57550

a.   Predictors: (Constant), L, I

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	788235.5	2	394117.752	13.081	.006 [a]
	Residual	180770.7	6	30128.455		
	Total	969006.2	8			

a. Predictors: (Constant), L, I

b. Dependent Variable: NP

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	685.180	239.530		2.861	.029
	I	-.145	.068	-.412	-2.141	.076
	L	.048	.009	.985	5.114	.002

a. Dependent Variable: NP

2.2 Regression for SCBL

Variables Entered/Removed [b]

Model	Variables Entered	Variables Removed	Method
1	L, I [a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: NP

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.927 [a]	.859	.812	71.31697

a. Predictors: (Constant), L, I

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	186022.3	2	93011.159	18.287	.003 [a]
	Residual	30516.665	6	5086.111		
	Total	216539.0	8			

a. Predictors: (Constant), L, I

b. Dependent Variable: NP

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	78.926	125.316		.630	.552
	I	.048	.024	.449	1.962	.097
	L	.030	.012	.543	2.375	.055

a. Dependent Variable: NP

2.3 Regression for HBL

Variables Entered/Removed [b]

Model	Variables Entered	Variables Removed	Method
1	L, I [a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: NP

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.936 [a]	.876	.835	138.76051

a. Predictors: (Constant), L, I

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	816657.4	2	408328.709	21.207	.002[a]
	Residual	115526.9	6	19254.478		
	Total	932184.3	8			

a. Predictors: (Constant), L, I

b. Dependent Variable: NP

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-349.802	153.282		-2.282	.063
	I	-.020	.034	-.107	-.601	.570
	L	.064	.011	.995	5.603	.001

a. Dependent Variable: NP

2.4 Regression for NSBI

Variables Entered/Removed [b]

Model	Variables Entered	Variables Removed	Method
1	L, I [a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: NP

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.857 [a]	.734	.646	75.60599

a. Predictors: (Constant), L, I

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	94719.640	2	47359.820	8.285	.019 [a]
	Residual	34297.591	6	5716.265		
	Total	129017.2	8			

a. Predictors: (Constant), L, I

b. Dependent Variable: NP

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-30.172	59.766		-.505	.632
	I	.033	.034	.318	.976	.367
	L	.019	.010	.589	1.810	.120

a. Dependent Variable: NP

2.5 Regression for EBL

Variables Entered/Removed [b]

Model	Variables Entered	Variables Removed	Method
1	L, I [a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: NP

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.920 [a]	.846	.795	108.58114

a. Predictors: (Constant), L, I

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	389856.8	2	194928.399	16.534	.004 [a]
	Residual	70739.182	6	11789.864		
	Total	460596.0	8			

a. Predictors: (Constant), L, I

b. Dependent Variable: NP

Coefficients ^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-95.640	85.092		-1.124	.304
	I	-.013	.067	-.086	-.188	.857
	L	.033	.015	1.000	2.190	.071

a. Dependent Variable: NP

3. Regression of NP and liquid fund and total deposit

3.1 Regression for NABIL

Variables Entered/Removed ^b

Model	Variables Entered	Variables Removed	Method
1	LF, D ^a	.	Enter

a. All requested variables entered.

b. Dependent Variable: NP

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.798 ^a	.636	.515	242.35683

a. Predictors: (Constant), LF, D

ANOVA ^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	616585.2	2	308292.612	5.249	.048 ^a
	Residual	352421.0	6	58736.834		
	Total	969006.2	8			

a. Predictors: (Constant), LF, D

b. Dependent Variable: NP

Coefficients ^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	431.858	297.091		1.454	.196
	D	.030	.010	.741	3.008	.024
	LF	-.068	.054	-.306	-1.244	.260

a. Dependent Variable: NP

3.2 Regression for SCBL

Variables Entered/Removed [b]

Model	Variables Entered	Variables Removed	Method
1	LF, D [a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: NP

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.925 [a]	.856	.809	71.96602

a. Predictors: (Constant), LF, D

ANOVA [b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	185464.3	2	92732.166	17.905	.003[a]
	Residual	31074.650	6	5179.108		
	Total	216539.0	8			

a. Predictors: (Constant), LF, D

b. Dependent Variable: NP

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	169.893	100.337		1.693	.141
	D	.023	.004	.924	5.825	.001
	LF	.001	.015	.006	.036	.972

a. Dependent Variable: NP

3.3 Regression for HBL

Variables Entered/Removed [b]

Model	Variables Entered	Variables Removed	Method
1	LF, D [a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: NP

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.900 [a]	.810	.747	171.71897

a. Predictors: (Constant), LF, D

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	755259.9	2	377629.933	12.806	.007 [a]
	Residual	176924.4	6	29487.404		
	Total	932184.3	8			

a. Predictors: (Constant), LF, D

b. Dependent Variable: NP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-284.554	560.223		-.508	.630
	D	.039	.015	.685	2.571	.042
	LF	-.035	.035	-.265	-.994	.358

a. Dependent Variable: NP

3.4 Regression for NSBI

Variables Entered/Removed [b]

Model	Variables Entered	Variables Removed	Method
1	LF, D [a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: NP

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.711 [a]	.506	.341	103.07134

a. Predictors: (Constant), LF, D

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	65275.023	2	32637.512	3.072	.121[a]
	Residual	63742.207	6	10623.701		
	Total	129017.2	8			

a. Predictors: (Constant), LF, D

b. Dependent Variable: NP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	86.786	97.049		.894	.406
	D	.014	.006	.744	2.466	.049
	LF	-.033	.064	-.158	-.523	.620

a. Dependent Variable: NP

3.5 Regression for EBL

Variables Entered/Removed [b]

Model	Variables Entered	Variables Removed	Method
1	LF, D [a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: NP

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.956 [a]	.915	.887	80.83723

a. Predictors: (Constant), LF, D

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	421388.0	2	210694.018	32.243	.001[a]
	Residual	39207.944	6	6534.657		
	Total	460596.0	8			

a. Predictors: (Constant), LF, D

b. Dependent Variable: NP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-87.356	52.124		-1.676	.145
	D	.006	.012	.242	.492	.640
	LF	.097	.066	.720	1.465	.193

a. Dependent Variable: NP

Appendix-II
Data of Industry Average

A. Sources of funds

(Rs. In million)

	2001	2002	2003	2004	2005	2006	2007	2008	2009
					Mid-July				
1 CAPITAL FUND	8230.2	10202.5	11814.6	(10201.7)	(19129.5)	(17742.1)	(4149.5)	9960.7	30399.5
a. Paid-up Capital	5504.1	6431.0	7726.0	8350.0	9723.9	10571.7	20017.1	31829.9	40738.3
b. Statutory Reserves	1787.1	2540.0	2820.0	3385.0	3825.9	4841.7	6586.0	7467.1	9514.2
c. Share Premium					10.0	10.0	10.0	347.4	298.4
d. Retained Earning		260.9	75.7	(25056.1)	(34292.8)	(34912.0)	(32800.2)	(31727.9)	(27143.0)
e. Others Reserves	939.0	970.6	1192.9	3119.4	1062.5	1376.8	1607.8	1911.2	6670.4
f. Exchange Fluctuation Fund					541.1	369.7	429.8	133.0	321.4
2 BORROWINGS	2308.7	2349.5	3170.4	3023.6	6842.9	9519.6	12750.4	14408.2	18320.2
a. NRB	411.8	1167.7	1437.0	731.6	4488.6	3644.5	3767.7	2673.1	2154.3
b. "A"Class Licensed Institution	1896.9	953.4	1599.2	1770.5	1347.2	1991.9	3119.3	4410.5	8132.5
c. Foreign Banks and Fin. Ins.	0.0	228.5	134.2	521.4	27.6	2273.2	3692.1	4022.7	4012.7
d. Other Financial Ins.					979.6		111.4	426.2	520.7
e. Bonds and Securities						1610.0	2060.0	2875.7	3500.0
3 DEPOSITS	181767.0	185144.7	203879.3	233811.2	252409.8	291245.6	337497.2	426080.3	563604.5
a. Current	25100.7	24327.0	28862.5	33729.9	34646.4	37386.6	45031.2	56089.3	71651.0
Domestic					29196.3	32794.6	39967.0	48226.3	63927.8
Foreign					5450.0	4592.0	5064.2	7863.0	7723.2
b. Savings	80988.4	83855.6	97238.9	114137.2	129995.0	151639.4	174732.5	211452.0	259925.4
Domestic					123899.0	145701.7	168419.0	203810.7	250353.9
Foreign					6095.9	5937.7	6313.5	7641.3	9571.6
c. Fixed	65322.3	64171.4	63287.6	65130.9	67318.2	76572.8	87212.6	104772.5	141259.4
Domestic					59053.9	63555.6	72661.1	88824.5	110297.3
Foreign					8264.3	13017.2	14551.4	15948.0	30962.1
d. Call Deposits	7691.8	10531.9	12027.9	18061.1	17681.7	22722.1	26953.3	49417.4	84709.7
e. Others	2663.8	2258.8	2462.4	2752.1	2768.5	2924.7	3567.6	4349.2	6058.9
4 Bills Payable					480.2	599.6	698.7	975.6	1738.5
5 Other Liabilities	59221.3	77221.2	86697.4	113183.6	92900.7	86580.7	79854.6	81303.1	87709.2
1. Sundry Creditors					2986.1	4513.5	8064.9	15198.9	17306.4
2. Loan Loss Provision					31419.2	26097.4	28485.1	24730.6	23682.5
3. Interest Suspense a/c					39070.5	36083.1	33659.7	29554.2	27666.2
4. Others	59221.3	77221.2	86697.4	113183.6	19424.9	19886.7	9644.6	11819.3	19054.0
6 Reconcillation A/c					65319.8	47230.1	60737.6	19151.2	95621.7
7 Profit & Loss A/c					10104.8	11272.7	3249.1	14856.8	14772.4
SOURCES OF FUNDS	251527.2	274917.9	305561.7	339816.7	408928.8	428706.2	490638.1	566736.0	812165.9

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B. Uses of funds

1 LIQUID FUNDS	55583.3	49937.2	38163.6	46252.8	38369.4	38842.1	44089.7	66875.4	105989.0
a. Cash Balance	4775.1	5494.8	5440.4	4719.3	5137.3	6306.6	7813.6	13010.3	15839.2
Nepalese Notes & Coins	4116.9	4881.1	4735.9	4283.8	4763.8	5908.6	7359.7	12651.6	15014.6
Foreign Currency	658.2	613.8	704.5	435.5	373.5	398.0	453.9	358.7	824.6
b. Bank Balance	37230.9	31115.2	21334.4	26579.7	21173.5	24309.2	28434.1	43459.7	75438.8
1. In Nepal Rastra Bank	21440.9	23170.3	16867.6	22728.2	17859.5	21058.2	23233.2	30820.1	55539.2
Domestic Currency					16501.0	20866.6	23085.4	30467.6	54348.6
Foreign Currency					1358.6	191.6	147.9	352.5	1190.7
2. "A"Class Licensed Institution	796.1	928.2	683.7	1825.1	848.9	1288.9	1545.4	7094.1	11505.6
Domestic Currency					835.2	1287.7	1511.9	6942.8	11462.2
Foreign Currency					13.7	1.2	33.0	151.3	43.4
3. Other Financial Ins.					0.0	0.0	258.6	320.2	415.4
4. In Foreign banks	14993.9	7016.7	3783.1	2026.4	2465.1	1962.1	3397.0	5225.2	7978.6
c.Money at Call	13577.3	13327.3	11388.8	14953.8	12058.7	8226.3	7841.8	10405.4	14711.1
Domestic Currency					1482.0	1805.5	2768.1	3591.0	8418.7
Foreign Currency					10576.7	6420.8	5073.7	6814.4	6292.4
2 INVESTMENTS	25100.9	28573.8	39045.5	42384.3	50821.9	57539.1	64443.0	71495.5	69261.4
a. Govt.Securities	25100.9	28573.8	39045.5	42384.3	47678.2	57464.7	63889.5	71065.8	68902.0
b. NRB Bond							0.0	0.0	0.0
c. Govt.Non-Fin. Ins.					100.4	0.0	0.0	17.0	17.0
d. Other Non-Fin Ins.					0.0	0.0	0.0	170.0	70.0
e Non Residents					3043.4	74.4	553.5	242.7	272.4
3 SHARE & OTHER INVESTMENT	345.6	5636.0	6340.8	7284.3	9359.1	24634.7	29087.8	37459.3	61595.5
1. Non Residents					6467.5	17515.0	21374.8	18240.7	33293.2
2.Others					2891.5	7119.7	7713.2	19218.6	28302.3
4 LOANS & ADVANCES	107118.9	111694.4	123211.1	138922.9	157198.9	173383.4	228951.9	302913.4	398143.0
a. Private Sector	104209.3	109043.3	120343.4	136403.5	157198.9	168394.7	218597.7	288246.8	387543.3
b. Financial Institutions							4892.7	11893.7	7991.7
c. Government Organizations	2909.6	2651.1	2867.7	2519.4	2442.5	4988.7	5461.4	2772.9	2608.0
5 BILL PURCHED	1887.2	1322.2	1143.8	1050.4	3909.2	3353.8	2824.1	3694.9	3745.7
a. Domestic Bills Purchased					745.7	669.6	500.4	931.4	1308.0
b. Foreign Bills Purchased	1887.2	1322.2	1143.8	1050.4	1053.4	1230.9	1060.3	1381.8	1560.5
c. Import Bills & Imports					2110.1	1453.3	1263.3	1381.7	877.3
6 LOANS AGAINST COLLECTED BILLS	115.0	158.0	167.5	58.2	168.2	83.0	53.5	29.7	17.9
a. Against Domestic Bills					21.7	21.2	1.4	29.6	17.8
b. Against Foreign Bills	115.0	158.0	167.5	58.2	146.5	61.8	52.1	0.0	0.1
7 FIXED ASSETS					3809.6	4026.7	6077.7	8101.2	11004.8
8 OTHER ASSETS	61376.3	77596.3	97489.4	103863.8	50728.6	52632.7	69145.6	55347.5	59152.5
a. Accrued Interests	19888.5	23742.8	27722.2	34458.5	38786.5	36718.0	33444.3	30046.4	28776.5
Govt. Entp.	334.3	308.2	297.8	180.3	161.9	297.7	423.6	432.7	429.2
Private Sector	19554.2	23434.6	27424.4	34278.2	38624.6	36420.3	33020.8	29613.7	28347.2
b. Staff Loans / Adv.						4448.0	5877.6	7959.1	8978.3
c. Sundry Debtors					2427.5	1750.5	7052.0	3450.6	4339.7
d. Cash In Transit					795.8	513.6	584.8	1042.0	993.7
e. Others	41487.8	53853.5	69767.2	69405.3	8718.8	9202.6	12186.9	12849.4	16064.4
9 Expenses not Written off					262.4	377.5	350.0	390.8	475.2
10 Non Banking Assets					1269.9	2109.7	2633.5	2257.1	1889.1
11 Reconciliation Account					75288.9	59040.3	50313.4	7186.3	93915.3
12 Profit & Loss A/c					15300.1	12683.2	2667.8	10984.9	6976.4
USES OF FUNDS	251527.2	274917.9	305561.7	339816.7	406486.3	428706.2	490638.1	566736.0	812165.9