CHAPTER – I

INTRODUCTION

1.1 Background of the Study

The word "banking" has been derived from French word "Benque" and Italian word "Banca" which means accumulation of money. In Italian business house, banking was called benchi and the word was received from the German word banch which means bank in English. Thus the first meaning of bank is derived from Italian and then from German.

A bank is an establishment of the custody of money, which it pays out on customers' orders. In other words, bank is an organization that collects the various types of deposit from people. Bank is a mediator between people because it takes deposits in one side and provides the loan to them in other side.

Nowadays, the term bank is generally understood as an institution that holds a banking license. Banking license are granted by bank regulatory authorities and provide rights to conduct the most fundamental banking services such as accepting deposits and providing loans. There are also financial institutions that provide certain banking services without meeting the legal definition of a bank, called non-banking financial company. Banks have a long history, and have influenced economics and politics for centuries. The word bank is derived form the Italian banca, which is derived from German language and means bench. The terms bankrupt and "broke" are similarly derived from banca rotta, which refers to an out of business bank, having its bench physically broken. Money lenders in Northern Italy originally did business in open areas, or big open rooms, with each lender working form his bench or table

"Bank assists both the flow of goods and services from the products to the consumers and the financial activities of the government. Banking provides the country with a monetary system of making payment and is an important part of financial system, which makes loans to maintain and increase the level of consumption and production in the economy" (The American Bankers Association, 1972: 162).

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

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

Deposit mobilization is one of the essential tools for the economic development of an underdeveloped and developing countries rather than the developed countries. It is because the developed countries deposit collection for capital formation due to developed capital market in every sector. Low national income, low per capital income, lack of technical knowledge, vicious cycle of poverty, lack of irrigation and fertilizer, pressure of population increase, geographical conditions etc. are the main problems of developing countries like Nepal. Banking thus increases the supply of funds by collecting lodgments from public an then combining them with its capital and reserve fund. Their lodgments are accepted as current, saving and fixed accounts. Overall, however they fall into demand and time deposits. The former payable as and when demand is made and later after the expiry of stated period. (Nigam; 1987:25)

Banks today have gained paramount trust of the public. They hold the deposit of millions of persons, government and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and government. Thus, their task is to provide a collecting point for saving of relatively small average amount from a large number of individual sources and invest them into a productive and needed sector of the country, so as to develop the nation. The importance of commercial banks may be measured in a number of ways. Banks are still the principal means of making payments, through the checking accounts, credit cards and electronic transfer services they offer. In the same way commercial banks are important because of their ability to create money from excess reserves made available from the public's deposits.

1.2 Banking History in Nepal

History of Finance industry in Nepal is not that matured. Comparison can not be made between ancient and modern banks, yet it is necessary to know how the banking system gradually developed to the present state. In comparison to other developing or developed countries, the institutional development of banking system in Nepal is lagging far behind. Nepal had to wait for a long time to come to this present banking system.

As the specific date of the beginning of money and banking deal in Nepal is not obvious, it is speculated that during the region of the King Mandev, the coin ‘Manank’ was in use. Historical example as to the pre modern banking system was found in 723 A.D. when Gun Kam Dev, the king of Kathmandu had brought money to rebuild and rule Kathmandu (NRB- Nepal Bank Patrika; 2037:37). During the reign of Gun Kam Dev, the coin ‘Gunank’ was in use. Historically, we find the evidence of minted coin of Amshuverma in 7th Century. At the end of 8th century, Shankhadhar, a merchant of Nepal, paid all the outstanding loans of the Nepali people and started a new era (Nepal Sambat). Sadashiva Dev in 12th century introduced silver coins. Jayasthiti Malla, ruler of Kathmandu classified people into 64 different casts on the basis of their occupation towards the end of the 14th century. At that time, king Malla had given the responsibility to a caste of society called ‘Tankadhari’ whose occupation is to collect and lend money. So, they can be called as traditional bankers. In the same century, copper coins were used by King Ratna Malla of Kathmandu, silver coins by Mahendra Malla and the gold coins by the last Malla King of Kathmandu Jaya Prakash Malla.

Coin Mohar had been used by the great king Prithivi Narayan shah in his name, after the unification of Nepal. During the reign of Ranodip Singh, an office named ‘Tejarath’ was established in Kathmandu in 1933 B.S. It is used to provide loans to the government officials and the people against deposit of gold and silver. It was the first institutional financial intermediaries at the time. Although it played a vital role in the banking system, it provided credit facility to only the government officials.

Though all the banking activities were not performed by Tejarath Adda, during the tenure of the Prime Minister Ranodip Singh, modern banking practices began with the establishment of the First banking institution, Nepal Bank Limited which was established in 30th Kartik, 1994 B.S. The bank was established to render services to the people and for the economic development of the country. Prior to the establishment of Nepal Rastra Bank, it has played the vital role as a central bank also. With establishment of NRB in 2013, the development of the financial system took a momentum realizing the importance of industrial development. Then HMG/N and NRB established the Nepal Industrial Development Corporation (NIDC) in 2013. The move towards the financial liberalization encouraged the entry of joint venture commercial banks. The Nepal Arab Bank Limited (recent name NABIL Bank Ltd), the first joint venture commercial bank of Nepal was established in 2041 under the Commercial Bank Act of 2031. At present the number of commercial banks in the country has reached to 27.

Table - 1
List of Licensed Commercial Banks

S.No.	Names	Operation Date (A.D.)	Head Office
1	Nepal Bank Limited	1937/11/15	Kathmandu
2	Rastriya Banijya Bank	1966/01/23	Kathmandu
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu
4	NABIL Bank Limited	1984/07/16	Kathmandu
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu
6	Standard Chartered Bank Nepal Limited.	1987/01/30	Kathmandu
7	Himalayan Bank Limited	1993/01/18	Kathmandu
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu
9	Nepal Bangladesh Bank Limited	05/06/1994	Kathmandu
10	Everest Bank Limited	1994/10/18	Kathmandu
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu
12	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar,Rupendehi
13	Lumbini Bank Limited	1998/07/17	Narayangadh,Chitawan
14	Nepal Industrial & Commercial Bank Limited	1998/07/21	Biaratnagar,Morang
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara, Kaski
16	Kumari Bank Limited	2001/04/03	Kathmandu
17	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa
18	Siddhartha Bank Limited	2002/12/24	Kathmandu
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
20	Citizens Bank International Ltd.	2007/6/21	Kathmandu
21	Prime Commercial Bank Ltd	2007/9/24	Kathmandu
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu
24	Development Credit Bank Ltd.	2001/01/23	Kamaladi, Kathmandu
25	NMB Bank Ltd.	1996/11/26	Babarmahal, Kathmandu
26	Kist Merchant Banking & Finance Ltd.	2003/02/21	Kamalpokhari, Kathmandu
27	Janata Bank Ltd.	2010/04/12	Baneshwor, Kathmandu

Source : www.nrb.org.np

Megha Bank, Commerge & Trust Bank, Civil Bank, Century Bank, State Bank of Nepal, Commercial Bank Ltd. are in pipeline. After Opening of these banks, number of commercial banks are upgrade to 33.

1.3 Role of Joint Venture Bank in Nepal

The concerned bank Nabil Bank Limited and Himayan Bank Limited both are joint venture bank. In this matter role of joint venture bank cannot be ignored in this study. In global prospective, joint venture bank is the mode of trading through partnership among the nations and also a form of negotiations between two or more enterprise for the purpose of carrying out a specific operation. So, the main purpose of joint venture is to join economic forces in order to achieve desired end. Under joint venture basis, to operate a business organization, there should be at least two partners from the different countries. The primary objective of joint venture bank is to earn profit by investing or granting the loan and advances to the people associate with trade, business, industry etc. that means they are required to mobilize their resources properly to acquire profit "A joint venture is forming of two forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial investment, production trade)" (Gupta, 1984: 25).

The Nepal Government budget for the FY 1984/85 provided the following justification for allowing the setting up of joint venture banks in the following words: "At present, the financial institutions of the country have been effortful to mobilize resources. On one hand, the major part of the few individual where as the small traders and entrepreneurs are facing difficulties to receive loans on the other. The only solution to this problem is to encourage competition in the banking sector. Therefore, a policy of allowing new commercial banks under joint venture with foreign collaboration has been adopted; this will promote competition among banks whereby the clients will get improved facility. Addition, the share of these new banks will also be sold to the general public and while distributing the shares, it will be ensured that the ownership is spread out to the maximum extent possible". In such manner, joint venture banks are successful to bring healthy competition among banks, increase in foreign investment, promoted and expand export-import trade, introduce new techniques and technologies. The various roles plays by the joint venture banks in Nepal can be classified into three categories:

a. Introducing Advanced Banking Techniques

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

b. Introducing Foreign Investment in Nepal

When looking at the possibility of investing in Nepal, multinational companies are unfamiliar with the local rules, regulations and practices. Though there are many system actually operates during the implementation period. In this context, the joint venture banks help the multinational companies to build up their confidence for investment by providing necessary information and financial support.

c. Bringing in Healthy Competition

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

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

1.4 Profile of the Concerned Banks

1.4.1 Nabil Bank Limited : An overview

Nepal Arab Bank Ltd.(Nabil) was incorporated in 2041 B.S.(1984 A.D.) as a first foreign joint venture bank by the joint investment of Dubai Bank and Nepalese promoters. Nepalese investors include government organization and general public owing 20% and 30% of the total capital respectively and other half portion of capital is borne by Dubai Bank Ltd. Later on the share owned by Dubai Bank Ltd. were transferred to Emirates Bank International Ltd. After this National Bank of Bangladesh required 50% of shares and has become the promoter. Nepal Arab Bank Ltd. (Nabil) was registered in May 1984 A.D. in Department of Commerce, His Majesty's Government of Nepal. Nabil commenced its banking operation on 1984/07/16. Now it has the highest level of deposits and advances among all joint venture banks of Nepal.

The Head Office of Nabil is situated at Kamaladi, Kathmandu. It has altogether 32 branches and counters in present. They are spread over in fifteen districts of Nepal, including urban and rural areas. The branches located at Kathmandu, Lalitpur, Bhaktapur, Birgunj, Biratnagar, Butwal, Pokhara, Nepalgunj, Dharan, Jhapa, Makawanpur, Chitwan, Baglung, Dang, Dhangadi, Mahendranagar.

The Share Capital of Nabil is shown as :

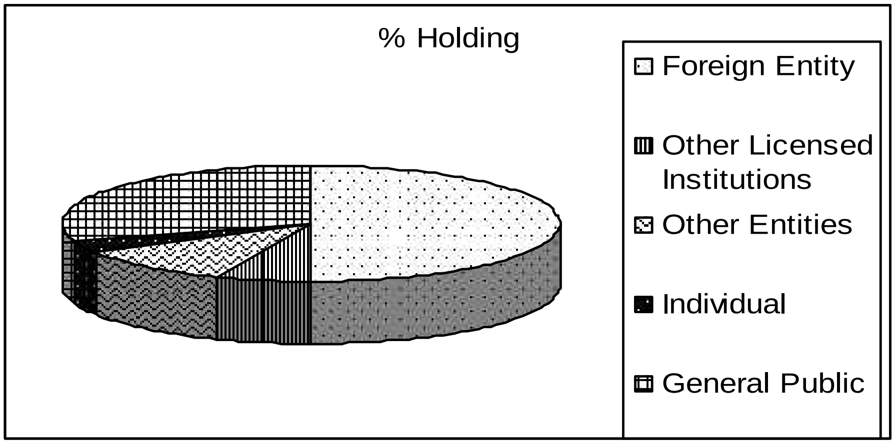
Particulars	Amount
1) Authorized Capital 16,000,000 Ordinary shares of Rs. 100 each	1,600,000,000
2) Issued Capital 6,892,160 Ordinary shares of Rs. 100 each	689,216,000
3) Paid up Capital 6,892,160 Ordinary shares of Rs. 100 each	689,216,000

source : Nabil's Annual Report as on 15th July, 2008

The Share ownership of Nabil is shown as :

Subscription	**% Holding**
Foreign Entity	50%
Other Licensed Institutions	6.15%
Other Entities	10.42%
Individual	3.44%
General Public	30%
Total	100%

The Share ownership of Nabil is shown as : Promoter 70% (which includes Foreign Entity 50%, Other licensed institutions 6.15%, Other Entities 10.42%,Individual 3.44%) and General public 30%.



source : Nabil's Annual Report as on 15th July, 2008

1.4.2 Himalayan Bank Limited (HBL) : An Overview

Himalayan bank limited is a Joint Venture Bank with Habib Bank of Pakistan, was established in 1992 under the company act 1964 as a fourth joint venture bank of Nepal. This is the first Joint Venture Bank managed by Nepali Chief Executive. The operation of the bank started from 1993 February. HBL does not include government ownership. It has been established to maintain the economic welfare of the general people to facilitate loan for agriculture, industry and commerce to provide the banking services to the country and people. It is the first commercial bank of Nepal with maximum share holding by the Nepalese private sector. Besides commercial activities, the Bank also offers industrial and merchant banking. Its ownership is composed of founder shareholders 51%, Habib bank of Pakistan 20%, Karmachari Sanchaya Kosh 14% and general public 15%. It is the first bank having domestic ownership more than 50%.

At present, the bank has nine branches in Kathmandu valley namely Thamel, Newroad, Maharajgung, Pulchowk, Suryabinayak, Teku, Swoyambhu, Chabahil and New Baneshwor. Besides these, it has sixteen branches outside the Kathmandu valley namely Tandi, Bharatpur, Birgunj, Hetauda, Bhairahawa, Biratnagar, Banepa, Dharan, Pokhara, Butwal, Nepalgunj, Itahari, Palpa, Ghorahi, Trishuli and Damak. The bank is also operating a counter in the Royal Palace. The head office of HBL is situated at Thamel. The bank has a very aggressive plan of establishing more branches in different parts of the country in near future.

The Share Capital of HBL is shown as :

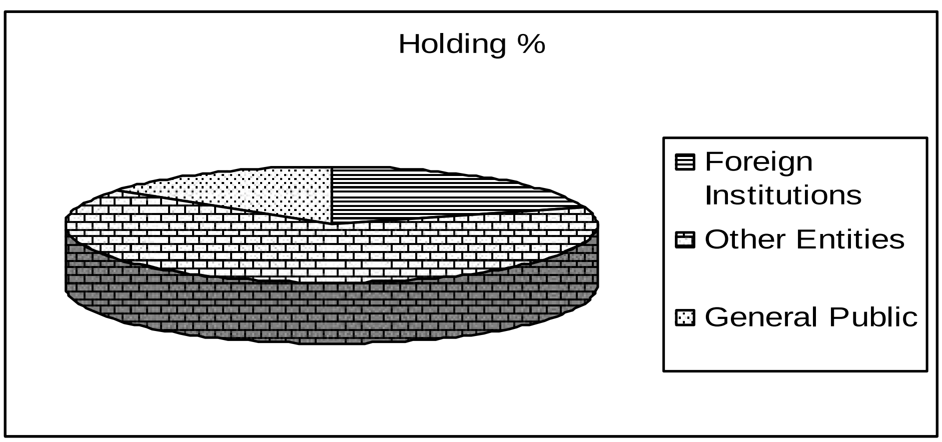
Particulars	Amount
1) Authorized Capital 20,000,000 Ordinary shares of Rs. 100 each	2,000,000,000
2) Issued Capital 10,135,125 Ordinary shares of Rs. 100 each	1,013,512,500
3) Paid up Capital 10,135,125 Ordinary shares of Rs. 100 each	1,013,512,500

source : HBL's Annual Report as on 15th July, 2008

The Share ownership of HBL is shown as :

Subscription	**Holding %**
Foreign Institutions	20%
Other Entities	65%
General Public	15%
Total	100%

The Share ownership of HBL is shown as : Foreign Institutions 20%,Other Entities 65% and General public 30%.



source : HBL's Annual Report as on 15th July, 2008

1.5 Statement of the Problem

Nepal’s development efforts enhanced only after 2046 B.S. when the people’s movement reinstated the democracy. After the reinstatement of democracy, the government took the free market economy policy, which induced the joint venture banks in the country.

The establishment of commercial bank (including joint venture banks), the enforcement of priority sector and productive sectors lending policy of NRB to financial institutions don't seem to have an appropriate impact. Nepal being listed among least developed countries, In this situation the commercial banks have plays a catalytic role in the economic growth of country. It's investment range from small-scale cottage industries to large industries in making investment in loans and government securities. One may always wonder which investment is better. It can be hypothesis that bank portfolio variables like loan, investment, cash receive, deposit and borrowing affects the national income. And also how the government policy affects these variables such as the effect of an interest rate on the bank portfolio variable is a great concern. Therefore, when monitoring money and credit condition, the central bank has to keep an eye on the bank portfolio behaviors.

Fund mobilization is the most important factor from the shareholder and banks management point of view. This study focused on comparative study on deposit mobilization of Nabil Bank Ltd. and Himalayan Bank Ltd. The problems related to deposit mobilization procedures of the joint venture banks of Nepal have been presented briefly as under:

a) Is there any stability in fund mobilization between Nabil and HBL?
b) State the relationship of investment, loan and advances with total deposits?
c) What is the effect of the investment decision to the total earning of the bank?
d) Is there appropriate utilization of available funds?
e) Are Nabil and HBL maintaining sufficient liquidity position?
f) Which joint ventures (Nabil or HBL) have more effective and investment policy?

1.6 Objectives of the Study

The main objective of this study is comparative analysis of deposit mobilization policy adopted by Nabil Bank Ltd. and Himalayan Bank Ltd. The specific objectives of the study are as follows:

1. To evaluate the growth and risk ratio of loan and advances and total investment with respective to growth rate of total deposit and net profit of Nabil and HBL.
2. To evaluate comparatively operating, financial and investment efficiency of these two joint venture banks.
3. To analyze the relationship between total investment, loan and advance with deposit and net profits of Nabil and HBL.
4. To analyze the sources and uses of funds and analysis of cash flow of these two joint venture banks.
5. To suggest and recommend some measures for improvement of financial performance of Nabil and HBL.

1.7 Significance of the Study

Optimum fund mobilizing policy of a bank depicts the sound health of the bank as well as economy of the nation and successfully formulation of fund mobilizing policy and its effective implementation is a most in banking business. Fund mobilization activities must consider customer, national and government as well as its shareholders interest.

The Significances of the study are: -

1. This study is important to banks to make policies based on recommendations and suggestions in this thesis.
2. It is also beneficial for the government while formulating policies and rules regarding joint venture bank.
3. This study may encourage the researchers to research further.
4. It is important for investors, customers and personnel of bank to take various decisions regarding deposits.

5. By the help of this study, general public can know the deposit mobilizing activities of banks.

1.8 Limitation of the Study

Every research has its own limitations. This study has also its own limitation. Following are the limitations of the study: -

1. This research design and analysis followed for this study are based on secondary data, which covers the five years of period. (i.e.from F.Y. 2004 to 2008).
2. Time and resources constraints may limit the area covered by the study.
3. The accuracy of the research work will be dependent on the data provided by concerned banks.
4. The major sources of the secondary data are the financial statements of concerned banks that are extracted from the progress report of related banks, Nepal Stock Exchange, Central Bureau of Statistics and other published and unpublished articles and thesis.

1.9 Organization of the Study

The study has been organized into five chapters. They are:
Chapter 1: Introduction
Chapter 2: Review of literature
Chapter 3: Research Methodology
Chapter 4: Data Presentation and Analysis
Chapter 5: Summary, Conclusion and Recommendations

CHAPTER – 1. INTRODUCTION

It includes the introduction and background of the study. It contains the introduction, background of the study, Banking history of Nepal, Role of joint venture bank in Nepal, Introduction of Nabil Bank Ltd, Introduction of Himalayan Bank Ltd, statement of the problem, objective of the study, significance of the study, limitation of the study, organization of the study are depicts.

CHAPTER – 2. REVIEW OF LITERATURE

It includes review of literature of the relevant studies. It contains the conceptual frameworks, review of related book, research papers and published and unpublished thesis studies and related articles.

CHAPTER – 3. RESEARCH METHODOLOGY

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

CHAPTER – 4. DATA PRESENTATION AND ANALYSIS

This is an analyzing chapter, which deals with presentation and analysis of relevant data through definite courses of research methodology with financial and statistical analysis related to investment and deposit mobilization of Nabil and HBL. Major findings of the study have been presented at the end of this chapter.

CHAPTER–5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is the last part of the study, which contains the summary, conclusion and recommendation of the study. This chapter provides recommendations for improving the future performance of the concern banks.

A bibliography and appendix will be enclosed at the end of the study.

CHAPTER – II

REVIEW OF LITERATURE

The review of literature is a crucial aspect for planning of the study. The main objective of the review of literature is to find out what works have been done in the area on the subject under study and what has not been done in the research study being undertaken. The study is based on past knowledge. The previous studies can not be ignored because they provide the foundation to the present study. In this context, conceptual review and different books, reports journals, research studies published by various institutions and some dissertations reports submitted by Master level students, have been reviewed in this chapter. In this chapter inputs are reviewed as follows.

2.1 Conceptual Framework

Banks are the heart of the financial system and play a very important role in the economy of the country. Economic activity cannot take place without a continue flow of money and credit. The economies of all market-oriented nations depend on banks that make payment and keep financial assets safe. Banks accept and hold deposits from the public, use these funds to provide loan advances and overdraft or make investment on HMG Securities, NCM Mutual Fund and other companies' shares.

A bank is business establishment that safeguards people's money and uses it to provide loans and investments (The world encyclopedia, 1996: 91).

“A banker or bank is a person or company carrying on the business of receiving and collecting grafts for customers subject to the obligation of honoring cheques drawn upon them from time to time by the customers to the extent of the amount available in the current accounts" (Radhaswamy, 1979:50).

2.2 Types of Banks

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

• **Central Bank**

It is the guardian of the entire banking system. All other banks are required to comply with instructions of the central bank. It is the regulating and controlling authority. Usually central bank control monetary policy and may be the lender of last resort in the even of crisis. They are often charged with controlling the money supply, including printing paper money. Bank of England (1964 AD) is the first central bank. Now; almost all the countries have their own central banks. The central bank of the Nepal is Nepal Rastra Bank (2013- 01-14 B.S.).

• **Commercial Bank**

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

• **Agriculture Bank**

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

• **Industrial Bank /Development Bank**

Development banks are established for development of certain sector. They normally give long-term loan and provide technical and other advice as well. Origin of development banks dates back to industrial revolution in U.K.

• **Savings Bank**

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

• **Merchant Bank**

Merchant banks are traditionally banks which engaged in trade financing. The modern definitions, however, refers to bank which provides capital to firm in the form of shares rather than loans. Unlike venture capital firms, they tend not to invest in new company. In Nepal finance companies involve in merchant banking activities.

• **Postal Savings Bank**

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

• **Retail Bank**

In the retail banks, primary customers are individuals. An example of a retail bank is Washington mutual fund of the USA.

• **Land Development Bank**

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

• **Universal Bank**

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

2.3 Concept of Commercial Bank

Commercial institutions are those financial institutions, which deals in accepting the deposits of people and institutions and giving loan against securities. They provide working capital needs of trade, industry and even to agricultural sectors. Moreover commercial banks also provide technical and administrative assistance to trade, industries and business enterprise. “Commercial banks are a corporation which accepts demand deposits, subject to check and make short term loans to business enterprises, regardless of the scope of its other services.”Commercial banks are the heart of financial system. They hold the deposits of many persons, government establishment and business units. They make fund available through their lending and investing activities to borrowers, individual, business firms and government establishment units. Therefore commercial banks are those banks that pool together the saving of community and arrange for their productive use. They supply the financial needs of modern business by various means. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short terms needs of trade and industry. They cannot finance in fixed assets. A part from financing, they also lender services like collection of bills and cheque, safe keeping of valuables, financial advising etc to their customers (Vaidya, 2001: 38).

Commercial Bank Act 2031 B.S. of Nepal has defines that “ A commercial bank is one which exchange money, deposits money, accepts deposits, grants loan and performs commercial banking function and which is not a bank meant for cooperative, agriculture, industries or for such specific purpose.” (Commercial Bank Act 2031 B.S.)

“Commercial banks deal with other people’s money. They have to find ways of keeping their assets liquid so that they could meet the demands of their customers. In this anxiety to make profit the bank can’t afford to lock up their funds in assets, which are not easily releasable. The depositors must be made to understand that the bank is fully solvent. The depositor’s confidence could be secured only have the bank is able to meet the demand for cash promptly and fully. The banker has to keep adequate cash for this purpose. Cash is an idle asset and the bankers can’t afford to keep a large possession of his assets in the form of cash. Cash brings in no income to the bank. Therefore the bankers have to distribute his assets in such a way that he can have adequate profits without sacrificing liquidity’’ (Radhaswamy, 1979: 27)

The American institute of Banking has laid down the four major function of Commercial bank such as receiving and handing of deposits, handing payments of its clients making loans and investments and creating money by extension of credit. (Principle of Bank Operation, USA: 609).

According to John Holland, "Commercial banks are financial intermediaries that borrow money from savers in the form of deposit and re-lend them to ultimate borrowers by making loans on buying securities"(Holland, 1997: 67).

In the Nepalese context, commercial banks act, 2031 defines “commercial bank as one which exchange money, deposits money, accepts deposits, gratt loans and performs commercial banking functions” (Commercial Bank Act 2031).

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

However, central bank is the main bank of the any nation that directs and controls all the banks whose existence is in the country. In Nepal, Nepal Rastra Bank is the central bank of the country. All the commercial banks perform their functions under rules, regulations and the directives provided by Nepal Rastra Bank. Under the free enterprise system like U.S.A. the interest of nation as well as those of individuals and stockholders are supposed to be best served by vigorously seeking profit. But the profit cannot be the sole objective of the any enterprise. It should not be evaluated just on the ground of profit earned. Neither the bank nor the community will be best serve if the banker unreasonably scarifies the safety of theirs fund or the liquidity of their bank in an effort to increase income (Vaidya, 1947: 24 and Nepal Commercial Bank Act).

Hence we can conclude from the above that the commercial banks including joint venture banks, they are mainly receiving the money from depositor and invest in different sectors. So that banks are the main source of development of a nation. In the context of Nepal, it is a poor and least developed county having low per capita income and GDP. As a result, many economic problems such as inflation, depression of money trade, trade deficit, budget deficit etc arises. For the sake of removing these problems, many joint ventures are being incorporated in our country by sharing Nepal's and foreign investment towards making more profit by using the funds in profitable sectors. Therefore bank should be invested in different sector which helps in the growth of national economy.

2.4 Function of Commercial Banks

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

A) Accepting Deposit

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

a) Current Deposits

b) Saving Deposits

c) Fixed Deposits

B) Advancing Loan

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

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

C) Agency Services

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

D) Credit Creations

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

E) Other functions

Other functions of the commercial banks are as follows:

- Borrowing raising and taking up of money
- Provide guarantee of services
- Provide facility of discounting bills and promissory notes
- Provide Tele banking services
- Provide safe deposit vault
- Provide transit facility of foreign currency
- Provide remittance service
- Provide service of letter of credit (L/C), travelers'cheque
- Provide facilities on bill clearing, purchase and collection services
- Provide locker facilities and other commercial services

2.5 Role of Commercial Banks

The role of commercial bank in the economy is obviously a prime prerequisite for the formulation of the bank policy as the role shape, the nature and character of the bank. The deposit minded banker may under emphasize safety. Often commercial bank performs a number of interrelated functions. There are not only the custodians of the community's money but the suppliers of its liquidity. For these banks customer who seldom borrow from the bank an impartment function may be the acceptance and safe keeping of deposits. But those customers who often take loans from the bank, the credit creation function may be the most important. The commercial bank is different from the other banks especially from central bank. In appearance the main distinction between central bank and a commercial bank is that nowadays the central bank does not do much banking, but the more fundamental difference is one of aim. The main objective of the commercial bank is to make profit where as the central bank thinks of the effects of its operations on the working of the economic system. The commercial bank has the shareholders and is expected to do the best it can for them but the government by contrast usually owns the central bank. The commercial bank may be few or many and they are to be found business with the general public all over the country. But, there is only one central bank in each country. Its market operations are mainly impersonal and are confined to what is necessary for influencing the country's financial business in the directions citrated by economic policy (Sayers, 1972:17- 18).

For all countries of the world and more so far the developing countries like Nepal, fast economic development is one of the most important aspects of the developmental activities. However, it is obvious that unless the development of the most important sector like agriculture, industry, and commerce are achieved, envenomed development is impossible. For all the development, the regular supply of financial resources is a prerequisite. Finance is thus like fuel for providing energy to move the tempo of economic development and financial institution naturally, serve as reservoir for supplying and controlling the stream of that fuel i.e. finance. The commercial banks which are the financial institutions dealing with activities of agriculture industry, trade and commerce play the most important role for the business activities of the world. The objectives of the commercial banks are to mobilize the idle resources in productive uses collection then from scattered and various sources. Its role in economic development is thus immense in order to bring out greater mobility of resources to meet the ever increasing needs of financing or the various economic activities. Presently, the contribution of commercial banks and joint venture banks in agriculture sectors has been expanding. It provides the credit facilities for the development of agriculture on cases where Agricultural Development Banks and Cooperative Societies don't enter into the field. The agriculture sector needs more and more capital for the improved methods of farming viz. the fertilizers, equipment, irrigation facilities etc. require obliviously more investment. Thus, role of commercial bank in promoting agriculture sector is increasing in many of other countries, especially in developing countries like Nepal. The economy of our country is dominated by agricultural sector. This could be exemplified from the figures that about 80 percent of the total population is engaged on agriculture and about 40 percent of the national income comes from the agriculture. Similarly 51 percent of the export trade is in agricultural product. Also if we take into account of the major industries of Nepal, they are mainly based on agriculture. This is very clear that in such a country the financial help to the agriculture sector is most urgent and indispensable for strengthening the base of national economic structure.

The role of commercial bank is indispensable for industrial development of Nepal. Due to insufficiency of capital, industries are depending more and more upon the supply of capital by the banks. It wouldn't be exaggeration to state that commercial banks are mainly responsible for whatever the industrial development has been achieved by Nepal. However many other financial institutions like ADB/N, NIDC have already been established for the development of agriculture and industrial sector of the country. The commercial banks are also continuously participating in these activities. Being a mountainous country, many places are very remote and sometimes it requires many weeks to approach some of the places. Due to lack of transport and communication facilities and other geographical causes, the country has been still facing the problem of imbalances economic growth. The scattered capital of the country is unable to solve the problem of imbalance of the economy growth. Commercial banks have their appropriate role to play here by expanding their branches in the different Hilly and Tarai regions available loan to the local people. In industrial sector, commercial banks are providing the necessary financial help for the industrial establishment in the country. They provide short and medium term loan to industries to purchase machineries, tools, raw materials etc. and to introduce new and developed techniques of production. So the role of commercial banks is extremely important for the development of industries, trade commerce, agriculture, hotel, transport etc. of the country. In fact, no nation can develop itself without the development of these banks. It is not only true in the capitalist countries but also true in the socialist countries and mixed economic countries like Nepal as well.

2.6 Deposit Mobilization

In developing countries there is always shortage of the capital for the developmental activities. There is need of development in all sectors. It is not possible to handle and develop all the sectors by the government alone at a time; people also can not undertake large business because the per capita income of the people is very low while their propensity to consume is very high. Due to the low income their saving is very low and capital formation is also very low. So their saving is not sufficient for carrying on developmental works. To achieve the higher rate of growth and per capita income, economic development should be accelerated.

Collecting small scattered amount of capital through different media and investing the deposited fund in productive sector with a view to increase the income of the depositors is meant deposit mobilization. In other words, investing the collecting fund in the productive sectors and increasing the income of the depositors, also supports increase in the saving through the investment of increased extra amount (NRB, Bankers rakashan; 1984:24.12)

“Economic development may be defined in a very broad sense as a process of rising income per head through the accumulation of capital” (Johnson, 1965:11).

But how capital can be accumulation in the developing countries, there are two ways of capital accumulation in the developing country, one from the external sources and other from the internal sources. From external Foreign Aid, Loan and Grants are main. While in the later financial institutions operating within the country play a dominant role. In the context of Nepal, commercial banks are the main financial institutions, which can play very important role in the resource mobilization for the economic development in the country. Trade, industry, agriculture and commerce should be developed for the economic development.

Deposits, such as current, saving and fixed deposits are the main part of the working capital. It is due to this reason that banks keep their deposit mobilization campaign always in full swing taking resort to every possible means lying at their deposit (NRB, Nepal Bank Partika; 2040:13.2)

Commercial banks are set up with a view to mobilize national resources. The first condition of National Economic Development is to be able to collect more and more deposit. In these contexts, the yearly increasing rate of commercial banks deposit clearly shows the satisfactory progress of deposit mobilization. (RBB, Upahar; 2054:3.20)

When we discuss about deposit mobilization, we are concerned with increasing the income of the low-income group of people and to make them able to save more and to invest again the collected amount in the development activities. Collecting scattered small amount of capital through different Medias and investing the deposited fund in productive sector with a view to increase the income of the depositors is meant deposit mobilization. In other words, investing the collecting fund in the productive sectors and increasing the income of the depositors, it also supports to increase the saving through the investment of increased extra amount (NRB, Bankers Prakashan, 1984: 10- 12).

Banking transaction refers to the acceptance of deposits from the people for granting loan and advances, and returning the accepted deposit at demand or after the expiry of a certain period according to banking rules and regulations. This definition clearly states that Deposit Mobilization is the starting point of banking transactions. Banking activities can be increased as much as we can mobilize the accumulated deposit effectively (NRB, Nepal Bank Patrika, 2037:4-7).

Increasing the income of the low-income group of people and making them able to save more deposit mobilization helps to the collected deposit in desired sectors. Deposit depends among others, on the level of country's per capita income and its growth rate, population growth rate, interest rate on deposits or on the bank accounts, banking and financial facilities and net factor income etc. The national income is the measure of the nation from the economic activities. Saving is the excess if income over consumption. Investment is the expander made for the formulation of the fixed capital. Mobilization of saving implies transfer of resources from surplus spending units to deficit units. In these connections, financial intermediaries play an important role in mobilization of voluntary saving. The amount of saving of a typical household in Nepal is small because the people have limited opportunities for investment. They prefer to spend savings on commodities rather than on financial assets. These restricts the process of financial intermediation, which might otherwise bring such as reduction of investment risk and increase in liquidity when capital is highly mobile internally, saving from abroad can also finance the investment need at home. When capital is not mobile internally, saving from abroad will limit investment at home.

2.7 Need for Deposit Mobilization

The following are some reasons for why Deposit Mobilization is needed in a developing country like Nepal. Workshop report, “Deposit Mobilization why and how” (NRB Bankers Prakashan, 1984 No. 24) Group “A” states the following points as the need for deposit mobilization.

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

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

- To increase saving is to mobilize deposit. It is because if the production of agricultural and industrial products increases, it gives additional income, which helps to save more, and ultimately it plays a good role in deposit mobilization.

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

- Commercial banks are playing a vital role for National Development. Deposit mobilization is necessary to increase their activities. Commercial banks are granting loan not only in productive sectors but also in other sector like food grains, gold and silver etc. Though these loans are traditional in nature and are not helpful to increase productively, but it helps to some extent, to mobilize the bank deposit.

2.8 Advantage of Deposit Mobilization

In that report, Group B states following points as the advantages of Deposit Mobilization.

1. To Support Fiscal and Monetary Policy

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

2. Capital Formation

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

3. Circulation of Idle Money

Deposit Mobilization helps to circulate idle money. The meaning of deposit mobilization is to convert idle saving into active saving. Deposit Mobilization helps the depositor's habit of saving on one side and helps to circulate the ideal saving in productive sector and other. This helps to create incentives to the depositors. Again, investments in productive sector helps directly in country's economic development and also increases in investor income.

4. Co-ordination between Different Sectors

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

5. Development of Banking Habit

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

6. To Promote Cottage Industries

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

7. To Support Government Development Projects

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

8. To check up Miss Utilization Of Money

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

9. Others

Deposit Mobilization supports small savers by earning interests, helps to the development of rural economy, protects villagers from being exploitation of indigenous bankers, increases investment incentives, provides facilities to the small farmers to purchase tools and fertilizers etc.

Economic progress is the function among other things of the rate of new capital formation. Capital is needed for the economic development for a country. External sources are not dependable sources of capital. So, mobilizations of internal sources have a great significance. This is the only way of receiving capital continuously for a long time. Capital formation is the low process, which involves putting to production use that part of the current incomes, which is not use for current consumption. The process of capital formation may be divided into three stages. Firstly the creation of savings by individuals, business houses or public authorities, secondly mobilization and canalization of saving, i.e. conversion of savings into funds. Which are available for investment in Agriculture, Industry and Trade, finally reacquisition of capital goods out of such funds. The essence of the process of the diversion of a part of society's current available resources for increasing the stock of capital goods to make possible an expansion of consumable output in the future. Therefore, the drive for capital formation requires actions to increase, mobilize and appropriately channel the domestic resources available for economic development. It is complex problem with wide dimensions, but the present survey is contained to banking sector alone, which is perhaps the most important agency for this purpose (Ghosal and Sharma, 1965:63).

Banking has acquired a new significance and the banking activities a new dimension. Social responsibilities have been enjoyed by the banks by bringing about economic development in the country in a big way. They are assigned priority sectors of the economy for special attention in extending credit. All the activities of the banks now are geared to accelerate the growth of economy at all levels to iron out the regional imbalances. It is also hoped now that the banks can do a lot in solving the unemployment problem in the country, which has assured large dimension.

Thus commercial banks provide opportunities for gainful employment to citizen who has limited economic capacity. Therefore, on one hand it solves the problem of unemployment in the country and on the other it utilizes the fund in the best possible manner for the economic development.

2.9 Review of Related Studies

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

2.9.1 Review of Journals and Books

Banks are those types of financial institutions, which deals in money and substitute for money. They deal with credit and credit instruments. The most important thing for the bank is good circulation of credit. Fluctuated flow of credit and week decision harms the whole economy and the bank as well. Thus to collect fund effectively, its utilization is the very challenging task for the bank. The decision of an investment of fund may be the question of life and death for the bank.

Surendra Pradhan (2000) entitled “Financial analysis is to analyze the achieved statements to see if the result meet the objectives of the firm, to identify the problems, if any, in the past or present and/ or likely to be in the future and to provide recommendation to solve the problems".

According to I.M Pandey, “Investment decision expenditure benefits should be measured in cash. In investment analysis, cash flow is more important than accounting profit. It may also be pointed out of that investment decision affects the firm’s value will increase in investments are profitable and add to the shareholders wealth. Thus, investment should be evaluated on the basis of a criterion, which is compatible with the objectives of the shareholder’s fund maximization. Investments will add to the shareholder’s wealth if it yields benefits in excess of the minimum benefits as per the opportunity cost of capital". (Pandey, I.M, 1999: 407).

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

An investment may be defined as the current commitment of funds for a period of time to derive a future follow of funds that will compensate the investing unit for the time the funds are committed for the expected rate of inflation and also for the uncertainty involved in the future follow of funds (Reilly, 1991: 3.)

The fulfillment of credit needs of various sectors, which insures investment. The investment lending policy of commercial bank is based on the profit maximization as well as the economic enhancement of the country (Shrestha, 2058: 31-32).

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

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

2.9.2 Review of Articles

Many researchers have analyzed their fund mobilizing view and finding in their research paper in this subject through deposits and investments policy of commercial banks.

Dr. Govinda Bahadur Thapa (1994), has presented his view that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loan advance of these banks are also increasing but compared to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds. The banks are increasing their lending to non-traditional sectors along with the traditional sectors. Nepal Bank Ltd. and Rastriya Banijya Bank Ltd. are operating with a nominal profit, the later turning to wards negative from time to time. Because of no recovery of accrued interest, the margin between interest income and interest expanses are declining. Because of these two local banks, in traditional off balance sheet operations, these banks have not been able to increase their income from commission and discount. On the contrary, they have got heavy burden of personal and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected.

On the other hand, the foreign venture banks have been functioning in an extremely efficient way. They are making huge profit year after year and have been distributing large amount of bonus and dividends to its employees and shareholders. Because of their effective persuasion for loan recovery overdue and defaulting loans have been limited resulting tin high margins between interest income and interest expenses. Similarly, concentration of these banks to modern off balance sheet operations and efficient personnel management has added to maximization of their profits.

At the end of this article, he concludes that by it's varying nature of the public sector. The domestic banks couldn't compete with the private sector banks, so only remedy to the problem of these banks. As the government decided, is to hand over the ownership as well as the management of these banks to the private hands.

According to Mandira Dali in 2057 her article entitled "Lending practices of commercial banking" has included that economic growth has been made for reaching the ambition of our country. This calls for an increasing volume of productive investment. But low saving and low investment being the basic problems of our economy, it is necessary to channels the limited resources in socially productive investment. Our banks seem to every effortful in this case. So, they have succeeded to mobilize deposits accounts.

Shekhar Bahadur Pradhan (1996) has presented a short glimpse on investment in different sectors, its problem and prospects, through his article “Deposit mobilization, its problem and prospects”. On his article he has expressed that deposit is the life blood of any financial institution, be it commercial bank, finance company, co-operative or non-government organization. He also added, in consideration of 10commercial banks and nearly three dozens finance companies, the latest figure does produce a strong feeling that a serious review must be made of problems and prospects of deposit sector. Except few joint venture banks, other organizations rely heavily on the business receiving and credit disbursement.

In the light of this, Mr. Pradhan has pointed out following problems of deposit mobilization in Nepalese perspective:

- Due to the lesser office hours of banking system people prefers for holding the cash in the personal possession.
- Unavailability of the institutional services in the rural areas.
- No more mobilization and improvement of the employment of deposits in the loan sectors.
- Due to lack of education most of Nepalese people do not go for saving in institutional manner. However, they are much used of saving, be it in the form of cash, ornaments of kind. Their reluctance to deal with institutional system are governed by their lower level of understanding about financial organizations, process requirements, office hours withdrawal system, availability of depositing facilities and so on.

Mr. Pradhan mentioned that deposit mobilization carried out effectively is in the interest of depositors, society, financial sector and the nation. Lower level of deposit rising allows squeezed level of loan delivery leaving more room to informal sector. That is why higher priority to deposit mobilization has all the relevance.

In Harvard Business Review (HBR) vol. 69, page 144 it was depict that the banking organization have been unable to adopt efficiently to financial innovation and improvements in IT because of artificial restrictions on banks have tried to maintain their market share by releasing their underwriting standards and increasing their deposit rate. This process has eroded spreads between deposit and loan rate and made it more difficult for all banks to remain profitable.
(Harvard Business Review)

On Nov. 2002, vol.2 no. 6 it has depict that the adoption of market economy has give the birth of the number of commercial banks in the country. These banks are
performing well in the sector of the bonuses. With the slow down of the economy the interest rate are falling down. All the banks are flushed with the funds and looking for the safe and profitable investment. The strength of the commercial banks can be judged by the number of parameters they are total equity employed, total asset hold, total deposits mobilized etc. whereas performance can be measured with the operating profit ratio, deposit to advance ratio, growth in advances, deposits and operating profits, P/E ration shows the confidence of the investors in the stock of an individual bank, and so on. The performance of individual bank against this parameter has been ascertained to know their bank ability (Business Manager).

According to Anil Shah 2004, Past GM of NABIL Bank Ltd., current trend in banking is retail banking. Consumer financing sector is growing too rapidly, but every thing depends on the security situation. He said that with 17 commercial banks and dozens of other financial institution we are over-banked. Especially given the size of economy is not stagnant but shrinking. He thinks that over the next three or four years is a lot of mergers and acquisitions. Anil Shah said that the problem of excess liquidity is a reality. One of the reasons is that there are a lot of people putting money into banks for safely reasons. Secondly, the avenues of investment for individuals are limited. Nepalese people are not playing in the stock market, investing in mutual funds etc. because they can't trust on them and
so they come to banks, even at low interest rates. On the other side of the coin, the banks have nowhere to invest because there are no large projects coming up. This is due to the security situation. So there is created huge liquidity and it is true that there is very large liquidity in the market (Business age, 2004).

Sharma, Bhasker (2000) on the entitled ***"****Banking the Future on Competition"* found that all the commercial banks are establishing and operation in urban areas, his achievements are:

- Commercial banks are charging higher rate of interest on lending.

- Commercial banks are establishing and providing their services in urban areas only. They do not have interested to establish in rural areas. Only the RBB and NBL have branches in rural areas.

- They do not properly analyze the credit system. The researcher further states that private commercial banks have mushroomed only in urban areas where large volume of banking transaction and activities are possible.

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

Bhagat Bista (1971), in his research paper, *"Nepalma Adhunik Banking Byabastha"* has made an attempt to highlight some of the important indicators, which have contributed to the efficiency and performance of joint venture banks a decade ago marks beginning of modern banking era in Nepal. The joint venture banks have brought in many new banking techniques such as computerization, hypothecation, consortium finance and modern fee based activities into the economy. These are indeed significant milestones in the financial development process to the economy.

2.9.3 Review from Thesis

Phuyal, Dilli Prasad (2035 B.S.), Conducted research on the topic of "A Study on the Deposits and Loans and Advances of NBL'' has tried to examine relationship between deposits and interest rates and to find out the causes of decrease in the loans and advances of the bank. Data ware used for five years from the year 2028 B.S to 2033 B.S only secondary data are used. Coefficient of correlation has been applied in order to calculate the loans and advances and deposits.

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

Khadka, Raja Ram (1995), on his study, "*A Study on the Investment Policy of Nepal Arab Bank Ltd.(NABIL) in Comparison to the Other Joint Venture Banks of Nepal*" compared NABIL with that of Grindlays Bank Ltd. (NGBL) and Nepal Indosweze Bank Ltd. (NIBL). The main objectives of the study were to evaluate the liquidity, assets management efficiency and profitability positions related to fund mobilization of NABIL in comparison to the other joint venture banks. To discuss fund mobilization and investment policy of NABIL in respect of its feebased off-balance sheet transaction and to evaluate the growth ratios of loan and advances and total investment with respective growth rate of the total deposits, and net profit of sample banks. To find out the relationship between deposit and investment, deposit and loan and advances and net profit and outside assets of sample banks. To evaluate the trends of deposit utilization and its projection for next five years of in case of NABIL comparing it with that of other JV Banks. And to suggest and recommend some measures on the banks of comparative fund mobilization and investment policy of NABIL and other JV Banks for the improvement of financial performance of NABIL in future.

Regmi, Jay Prasad (2001) in his study entitled "A comparative study of the Financial Performance of Himalayan Bank Ltd. and Nepal Bangladesh Bank Ltd". The researcher's objective of the study was to examine the current financial position of these banks and to analyze the comparative financial position of these joint venture banks. Through his research Mr. Regmi has found that the current assets of HBL are adequate to meet the current liabilities where as it is in sufficient for NBBL. Further as per his study long term debt to net worth ratio is higher in NBBL than in HBL but both banks are following an aggressive strategy of higher risk higher return. And capital adequacy of NBBL is greater than that of HBL during the study period. This shows that NBBL is always more capable to meet any windfall. According to his research both banks are utilizing their deposits fund through loan and advances to generate revenue efficiently, but comparatively NBBL is doing more efficiently than HBL.

Mr. Regmi has also stated that HBL has better utilization of resources in shortterm investment and NBBL has more non-earning idle assets as cash and bank balance and profitability position of HBL is better than that of NBBL. HBL has higher net profit to working fund ratio, net profit to total deposit ratio and return to net worth ratio is also higher than NBBL. But the interest earned to working fund ratio, Earning per share, Dividend per share, Dividend pay out ratio is higher in HBL than NBBL. Price earning ratio of NBBL is higher than HBL. He has found that average operating income from interest and commission and discount are higher in HBL, where as foreign exchange fluctuation gain and other income are higher in NBBL. Above studies show that there are still various obstacles in the efficient operation of the commercial banks in Nepal.

Agrawal, Sameer (2002), in the thesis entitled, "A study on deposit and investment position of Yeti finance Company Ltd." has tried to examine the trend of the deposit position and investment position of the Yeti Finance Company. That study was conducted on the basis of secondary data and used various financial tools to analyze the data. Study just covered only period of 5 years i.e. 1996/97 to 2000/2001. The researcher has found that the deposit policy is not stable but has highly fluctuating trend and investment is gradually in increasing trend. The researcher found there is highly positively correlation between total deposit and total investment. The researcher concluded that finance companies have been found profit oriented, ignoring the social responsibility, which is not a fair strategy to sustain in long run. Therefore, it is suggested the company should involve in social program which helps the deprive people who are depended helps in agriculture. Agriculture is the paramount of Nepalese economy so that any finance company should not forget to invest in this sector. In order to do so, they must open their branches in remote area with an objective of providing cheaper financing services. The minimum amount to open accounts and interest rate in credit should be reduced which ultimately intensify the profit and goodwill of the company in future. But in his research there is not clearly mentioned the effect of interest in deposit collection as in investment.

Adhikari, Ashok (2002) in his study entitled "Inter Bank Business in Nepal". According to him inter bank market is the mainstay of the banking business. The inter-bank market serves as a wholesale market for banks. The inter-bank market has come up to enable banks to fund liquidity for their growing fund requirements. Except during times of tight liquidity situation, funds are always available at price. Inter-bank transaction are conducted not only with in the domestic money market, but it can be done in all financial cities Tokyo, London, New York, Hong Kong, Dubai Paris, Frankfurt and others. Due to time difference in this financial center, the marketers are open for about 24 hours. The marketers start its business right from Tokyo, followed to Singapore, Hong Kong and Nepal then to Europe, Canada and America and again start from Tokyo from next day.

Types of Inter-bank transaction,

He has presented two types of transaction in the article.

1. Deposits (Placement)/Loans (Borrowings)
2. Foreign Exchange

He has presented about inter bank dealing operation-"the dealers deal with each other as per the guideline of the NRB and prescribed by their own management. For the smooth operation of inter bank transaction, Foreign Exchange and Money Dealer's Association of Nepal (FEDAN) has also sets rules and regulation for the members banks. A few aspects of inter bank dealing operation are presented here under.

- Position
- Nostro Accounts
- Inter-Banks deposits (Placement)
- Inter-banks sales and purchases

He has explain about function of inter banks market and looking ahead, “the inter banks market works as intermediaries function in the flow of funds. It enables banks to take speculation and or hedging position against interest rate and exchange rate movements. A major function of inter-banks market is to enable banks to cope up with the lumpiness of wholesale, sized deposits and loans and also plug up holes in the balance sheet. Unwanted deposits can be laid down of to other needy banks. Funds, needed to support lending can be bid in the inter-bank market. Inter banks market gives confidence that funds to meet balance-sheet contingency. In addition, the inter banks enable the risk lending to be spread among other banks. The size and

the volume of Nepalese inter bank transaction is very small. Out of different commercial banks, only three banks are foreign exchange sellers while other banks are purchasers in the inter banks business. Likewise, only one bank is accepting foreign exchange deposit from other banks. Forward sale contract of foreign exchange for customers are yet to be started by country's larger two old
banks. These two banks, which have mobilized their more than 50% of deposits and extended about 60% of loans have also yet started, inter bank placement transaction. A limited number of hedging tools like; spot purchases and sale of foreign exchange and forward sale of foreign exchange swaps contracts were done between few banks.Recently, in view to take benefit from prevailing higher rate of interest in loan term placements. NRB has permitted commercial banks entering into interest swap contracts. It is hoped that after the hand over of the management of two larger old banks to the international experts, the inter bank market will be more efficient and comparative. Without active participation of these two banks in the inter bank, the inter bank business in the country could not work properly.

Laudari (2003) in his study entitled, “Lending policy of commercial banks in Nepal.” The researcher's main objective of study was to examine the liquidity, assets management and profitability position and investment policy of NIBL in comparison to Nepal SBI Bank Ltd. to study the growth ratios of loan and advances and investment to total deposits and net profit of NIBL in comparison to Nepal SBI Bank Ltd.

Through his research Mr. Laudari has found that the both banks current assets have exceeded the current liabilities therefore the ratio is considered satisfactory. But there cash reserve ratios have fluctuated in high degree. However NIBL has maintained both current ratio and cash reserve ratio better than that of NSBI. As per Mr. Laudari the assets management ratios show that deposit utilization of NIBL is less effective than NSBI. He has stated that NIBL has invested lesser amount on government securities and share and debenture than that of NSBI, not only did NIBL a better performance in (i) return on total assets and loan and advances, (ii) interest earning but it paid lower interest amount to working fund. The growth ratio of total deposit, loan and advances, total investment and net profit of NIBL are less than that of Nepal SBI.

Tandukar, Sharmila (2003) in the thesis entitled, *"Role of NRB in Deposit Mobilization of Commercial Bank"* has tried to examine role of NRB in deposit collection by the commercial banks and to analyze the trends of deposit mobilization towards total investment and loan and advances. Projection is for five years i. e. 2098/99 to 2002/2003. The data used in that study is both secondary and primary nature. The researcher used different financial tools such as liquidity ratio, activity ratio, profitability ratio, and risk ratio and coefficient of correlation and trend analysis as statistical tools. The researcher took 17 commercial banks as population and two banks i.e. Nepal Bangladesh Bank Ltd. (NBBL) and Everest Bank Ltd.(EBL) as sample banks. The researcher found that, it can said that all new directives of NRB of commercial banks are effective and it is good for both nation and the future of the banks but the loan classification and provisioning seems to be little bit uncomfortable to the commercial banks. And deposit and loan and advances of NBBL are higher than EBL but in code of the investment of EBL is able to mobilize more funds than NBBL in this sector.

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

Manandhar, Shaseela (2006), conducted research on the topic of "A Study on the Deposit Mobilization of RBB" has tried to examine the role of RBL in the deposits accumulation and to see how far the bank is able to utilize the collected deposits. This study covers 10 years data from the year 2052 to 2061 and based on secondary data. Correlation, percentage and ratio analytical tools of statistics are used for the analysis and interpretation of data.

This study tries to analyze relationship between the amount of the total deposit and amount of total credit granted by RBB.

The specific objectives of the study are as follows:

- To examine and analyze the various deposit services offered by RBB.
- To evaluate the effectiveness of current RBB deposit Policy.

- To study the strength and flows for the existing deposit policy and relationship of deposit and loans and advances of RBB.
- Identification of RBB interest rates of deposits has positive relationship with the deposit collection of RBB.
- To analyze and examine the deposited fund position of RBB.

The Researcher found that the deposit credit ratio is only 76.55% on average, which is satisfactory. The position of deposit collection is increasing. But the utilization of these deposits is not in favorable condition. This average credit deposit ratio shows that the RBB has to be improve to mobilize its collected fund better and better in future. It is also observed the total credit including Loan and advances and bill discount.

Trend values of total deposit & total credits are in increasing trend in two expected year 2062 & 2063. Researcher tries to recommend that bank have to focus on promoting short-term loans and trade finance products. Interest rate cuts are envisaged in light of severe competition and reduction in deposit interest rates. Banking with poor (BWP)is an important and development oriented program to eliminate the absolute poverty of the country. The program should launched under the priority sector credit program.

RBB can't be an exception to the growing need to embrace the latest information technology. The bank has been lagging behind in terms of automation of its operations and access to the latest banking technology.

Computerizing the branches is the biggest challenge faced by the bank. More than half the accounts maintained at RBB belong to uneducated people who use their fingerprints rather than signature. They are uncomfortable with modern banking system due to their reluctance to change. RBB has a lack of computer literate employees.

To attract new customer the bank have to come up with new and innovative products matching international standards like new products debit card, mobile banking, internet banking, home banking, any branch banking etc.

Once the political situation of the country stabilized and peace is restored the demand for deposits will increase with the increase in demand for investment by the industries and thus the competition for deposit will intensity. Bank should make transparent in service charge and interest rate. Should be minimum charge acceptable by customers.

Panday, Pramita (2007), Conducted research on the topic of “A Study on the Liquidity Mobilization of Joint Venture of NABIL, SCBNL, and HBL” has tried to examine the liquidity positions of all the banks, which were strong, and enough to meet this immediate needs of cash and short-term obligations. Data is used for five years from the year 2001 to 2005. Only secondary data are used. Coefficient of correlation has been applied in order to calculate the Loans and advance and deposits.

In this thesis, the researcher has fund the ways of utilizing the surplus deposit and the right reinvestment for the economic development of a country. The specific objectives of the study are as follows:

- To analyze the deposit position of the banks under study.
- To analyze the reinvestment position of the banks.
- To analyze the gap between deposits and loan and advances.
- To provide suggestions for the improvement on the basis of findings.

Following suggestions can be made to the sampled banks:

- NABIL, SCBNL and HBL should minimize their existing level of excess liquidity by investing in more profitable sectors. Idle assets of theirs in form of excess cash or equivalents should be diverted in various investment opportunities available in the market. Those less risky investment sectors should be identified.
- NABIL, SCBNL and HBL need to bring in newer schemes to mobilize their higher amount of deposits in extending credit.
- All the banks should have to make effort in order to minimize their nonperforming credits. HBL especially, must be more conscious on this part. Making credit policy more transparent, standard and less risky should increase the quality of the credit.
- All the banks should try to increase their profitability by investing in more profitable sectors, and by increasing the quality of their extended credits. They should have to investigate thoroughly the wide rage of investment opportunities in the market in order to improve their profitability situation. Especially, HBL should immediately be more conscious on this part as it is having continuous less profit over the years.

- As formation of price is a very complex process, some extremely outstanding sectors such as management efficiency, profitability status, future perspective, bank's investment strategy, etc should be improved. HBL must have to follow this scheme immediately.

Ojha, Bijaya Kumar (2008), Conducted research on the topic of "Deposit Mobilization of Commercial Banks" . This study is mainly focused on a comparative study of Nepal SBI Bank Ltd & Nepal Bangladesh Bank Ltd. This study is based on secondary data and covers seven years period (2001 to 2007).

<u>The specific objective of the study are as follows :</u>

- To study the financial position of Nepal SBI Bank Ltd and Nepal Bangladesh Bank Ltd.
- To examine the trend of deposit of Nepal SBI Bank Ltd and Nepal Bangladesh Bank Ltd.
- To examine the trend of loan and investment position of the Nepal SBI Bank Ltd and Nepal Bangladesh Bank Ltd.
- To suggest applicable and appropriate suggestions for the improvement of the selected commercial banks on the basis of findings.

<u>Following recommendations can be suggest to the sample banks :</u>

- SBI Bank Limited and NB Bank Limited both should target their business segment on the middle class family. For this they have to keep the affordable minimum balance to open the account, which will help to expand customer and deposit amount.
- The commercial banks i.e. NSBI Bank Limited and NB Bank Limited should go for some new areas of investment like hydro electricity and infrastructure development of the economy as well as banks' operation.
- Commercial banks i.e. NSBI Bank Limited and NB Bank Limited are suggested to follow decentralization policy and formulate new plans and policies to develop banks' credit operation.

- Commercial banks i.e. NSBI Bank Limited and NB Bank Limited are recommended to activate for increasing foreign investment in Nepal by means of their wide international banking network.
- It is recommended that NSBI Bank Limited and NB Bank Limited should develop innovative approach to banks marketing for its well being and sustainability in the market, upgrade the banking facilities as per the changing need of the customers.
- Lastly, SBI Bank Limited and NB Bank Limited are suggested to support the social welfare event to promote the business.

Shakya, Ajaya (2008), conducted research on the topic of "Fund Mobilization and Investment Policy of Everest Bank Limited" has tried to examine the role of Everest Bank Ltd. in the fund accumulation and to see how far the bank is able to utilize the collected funds. This study covers five years data from the year 2060 (B.S) to 2064 (B.S) and based on secondary data. Correlation, percentage and ratio analytical tools of statistics are used for the analysis and interpretation of data.

This study tries to analyze relationship between the amount of the total deposit and amount of total credit granted by Everest Bank Ltd.

The specific objectives of the study are as follows:

- To analyze the trends of deposit utilization towards total investment and loan and advances.
- To evaluate the growth ratio of loans and advances, total investments with total deposit.
- To evaluate the liquidity, efficiency and trends of variable.
- To discuss deposit mobilization and investment policy of Everest Bank Ltd.

On the basis of analysis and findings of the study, following recommendations can be made to overcome weakness, inefficiency and to improve present fund mobilization and investment of EBL.

- To get success in competitive banking environment, depositor's money must be utilized as loan and advances. If it is neglected, then it could be the main cause of liquidity crisis in the bank and one of the main reasons for a bank's failure. In this situation EBL is strongly recommended to follow liberal lending policy and invest more and more percentage of total deposit in loan & advances and similarly, maintain more stability on the investment policy.

- EBL has to make way for small depositors and entrepreneurs for the promotion and mobilization of small investor's fund. So it is recommended that the bank should fix minimum level of bank balance and the amount needed to open an account should also be affordable for such small depositors.

- EBL has invested a lot of money in Govt. Treasury Bills. Through it is risk free it yields very few to the bank. So, it will be beneficial to EBL to mobilize the fund in risky but high profitable projects rather than giving importance to the Govt. Treasury Bills.

- In the context of commercial banks in Nepal, for the speedy development of the kingdom, Nepal Government as well as the commercial banks is suggested to follow decentralization policy in order to extend the modern and computerized banking facilities to the remote areas and the lower level people of the kingdom.

Ahikari, Namita (2008), conducted research on the topic of "Fund Collection and Mobilization of Joint Venture Banks" has tried to examine the role of JVBs in the fund collection and its utilization. In this study four joint venture banks namely Himalayan Bank Ltd. Everest Bank Ltd, NABIL Bank Ltd, standard Chartered Bank Ltd. are chosen for their fund collection and mobilization activities by taking six year date from 2002-2007. Correlation coefficient tools of statistics are used for the analysis and interpretation of data.

Some of the main objectives of the study are as follows:

- To find out the effectiveness of the selected joint venture banks in fund mobilization.
- To analyze the ability of the selected joint venture banks in mobilizing the total collected funds.
- To identify the factors affecting the fund mobilization.
- To provide suggestions and recommendations on the basis of analysis.

Following conclusion have been drawn from this research work:

- During the six year study period EBL is more successful in invest in productive sector and has mobilized its collected deposits to provide loan and advances for the purpose of earning profit. SCBNL has weak condition in mobilizing collected deposit. HBL and NABIL are comparable in this sector. In comparison to another banks SCBNL is more string in investing.

- Considering the profitability aspect of six JVBs, NABIL in relatively more successful to earn profit on total assets than other three banks. It has a highest average return on total assets ratio and also the coefficient of variation of return on assets is also less than other three banks. It can be regarded that the return on assets of NABIL is better than other banks. It indicates that NABIL's assets are utilized in a better way than of other three banks. All the banks are generating profits. The ratio of profit over the total assets employed could only be regarded as satisfactory.

- The average interest income to credit and advances ratios of SCBNL is greater than other five banks. The ratios of these banks are at increasing trend. The credit lending of SCBNL can be regarded as more efficient than other three banks.

2.10 Research Gap

The present thesis work reflects the following research gap.

This thesis work has covered the period of study only 2004-2008 A.D. This research is mainly focuses on concerned bank Nabil and HBL's deposit mobilization and compared between these banks The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make study meaningful and purposive. There has been lots of article published related to financial performance and fund mobilization of commercial banks. There are various researches conducted on financial performance and fund mobilization of commercial banks. Many research has been already done on the topic of ‘'Fund mobilization of Himalayan Bank Ltd." and some research has been done on the topic of "Fund mobilization of Nabil bank Ltd." But this study is based on the topic of "Compared study on Deposit Mobilization of Nabil Bank Ltd. and Himalayan Bank Ltd." Therefore, the researcher attempts to study in this area. So, this study will be fruitful to those interested person, parties, scholars, professor, students, banks, businessman and government for academically as well as policy perspective.

CHAPTER – III
RESEARCH METHODOLOGY

“Research methodology is the systematic way of solving research problems. Research methodology refers to the overall research process, which a researcher conducts during his/her study, if all the procedures from theoretical foundation to the collection and analysis of data. As most of the data are quantitative, the research is based on the scientific models. It is composed of both parts of technical aspect and logical aspect. On the basis of historical data, research is systematic and organizational effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well thought out activities of gathering, recording and analyzing and interpreting the data with the purpose of finding answer to the problem. Hence, the entire process by which we attempt to solve the problem is called research” (Kothari, 1990:21).

Research methodology describes the method and process applied in the entire subject of the study. This chapter describes the methodology employed on the topic of "Compared study on Deposit Mobilization of Nabil Bank Ltd. and Himalayan Bank Ltd." The followings are the details of research methodology used in the analysis.

3.1 Research Design

“A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure” (Kothari, 1992: 25).

Research is a systematic search for the knowledge. In order to make any type of research systematic, which fulfills the objectives of the study. Research and development must be in a definite procedure and technique, which guides the study and proposed the ways for research viability. In fact the research design is the conceptual structure within which research is conducted; it constitutes the blue print for collection, measurement and analysis of data, the research design of the study is descriptive as well as analytical to make the study more authentic and reliable. This information is used to study on the topic of "Compared study on Deposit mobilization of Nabil Bank Ltd. and Himayalan Bank Ltd."

3.2 Population and Sample

There are altogether 27 commercial banks functioning all over the kingdom and 6 banks are in pipeline after opening of these banks total number of commercial banks are upgrade to 33 and most of their stocks are traded actively in the stock market. Among them, nine are JVBs and others are domestic commercial banks. Among all the banks only two banks are taken as a sample for comparative study. These banks are compared as per deposit mobilizing activities. They are:

1. Nabil Bank Ltd.
2. Himalayan Bank Ltd.

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

3.3 Nature and Sources of Data

The research is based on secondary source of data. The data relating to the investment, deposit, loan and advances, assets and profit are directly obtained from the balance sheet and Profit and Loss A/C of the concerned bank's annual reports. Supplementary data and information are collected from number of institution and authoritative sources like Nepal Rastra Bank, Security Exchange Board, Nepal Stock Exchange Ltd., Ministry of Finance, Budget speech of different fiscal years, economic survey and National Planning Commission, different websites etc. The data provided by the banks and other sources are complied with the annual reports of auditors in order to judge the reliability of the data. For the additional information, informal-formal talks to the concerned head of the department
of the bank were also done. Similarly, various data and information are collected from the periodicals economic journals, managerial magazines and other published and unpublished reports and documents from the various sources.

3.4 Analysis of Data

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

3.4.1 Financial Tools

Financial tools basically help to identify the financial strength and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. Financial tools are categorized into two parts. They are:
I) Ratio Analysis
II) Sources and Uses of Funds

I) Ratio Analysis

Ratio analysis is a technique of analysis and interpretation of financial statement. To evaluate the performances of an organization by creating the ratios from the figure of different accounts consisting in balance sheet and income statement is known as ratio analysis. Five types of ratios have been analyzed in this study, which are related to fund mobilization of the banks. They are presented below:

a) Liquidity Ratio: - Liquidity ratio measures the short-run solvency .In other words, it measures the short run debt paying ability of the firm under the following ratios. The objective of computing this ratio is to measure the ability of the banks. Commercial banks maintain its satisfactory liquidity position to meet the credit need of the community. Demand for the deposit withdrawals, pay maturity in time and convert non-cash assets into cash to satisfy immediate need without loss to bank and consequent impact or long-run profit. Following ratios are calculated under this topic:

i) Cash and Bank Balance to Total Deposits Ratio: - Cash and bank balance is said to be first line defense of every bank. The ratio between the cash and bank balance and total deposit measures the ability of a bank to meet the unanticipated call on all types of deposit. Higher the ratio greater will be the ability to meet the sudden demand of deposit. But every ratio is not desirable since bank has to pay interest on deposit. This also maximizes the cost of fund to the bank.

$$\textit{Cash and Bank Balance to Total Deposits Ratio} = \frac{CashandBankBalance}{TotalDeposits}$$

Where**,**

Cash and bank balance is composed up of cash on hand including foreign cheques and other cash item; balance with domestic banks and aboard. Deposits include current, saving, fixed money at short call notice and other types of deposits.

ii) Cash and Bank Balance to Current Assets Ratio: - This ratio shows the bank's liquidity capacity on the basis of cash and bank balance that is the most liquid assets. High the ratio indicates the bank's ability to meet the daily cash requirements of their customer deposits and vice versa. But the high ratio is not preferred as the bank has to pay more interest on deposit and will increase the cost of fund. Low ratio is also very dangerous, as the bank may not be able to make the payment against the cheques presented by the customers.

We have,

$$\textit{Cash and Bank Balance to Current Assets Ratio} = \frac{CashandBankBalance}{CurrentAssets}$$

iii) Investment on Government Securities to Current Assets Ratio: - This ratio is used to find out the percentage of current assets invested on government securities, treasury bills and development bonds.

We can find out as:

$$\textit{Invt. on Govt. Sects. to Current Assets Ratio} = \frac{InvestmentonGovt.Securities}{CurrentAssets}$$

Where**,**

Investment on Government Securities involves treasury bills and development bonds.

b) Assets Management Ratio: - "A set of ratio which measure how efficiently a firm is managing its assets and whether or not the level of those assets is properly related to the level of operation. In this study this ratio is used to indicate how effectively the selected banks have arranged and invest their limited resources. The assets management ratios measure how effectively the firm is managing its assets. These ratios are designed to answer this question; does the total amount of each type of assets as reported on the balance sheet seem reasonable or not? If a firm has excessive investments in assets, then its capital cost will be unduly high and its stock price will be suffer" (Brigham , 1989).

i) Loan and Advances to Total Deposits Ratio: - This ratio is calculated to find out how successfully the selected banks are utilizing their collections or deposits on loan and advances for the purpose of earning profit.

We have,

$$\textit{Loan and Advances to Total Deposits Ratio} = \frac{\textit{Total LoanandAdvances}}{\textit{TotalDeposits}}$$

ii) Total Investment to Total Deposits Ratio: - Investment is one of the major sources of earning profit. It shows how properly firm's deposit has been invested on government securities and shares and debentures of other companies.

$$\textit{Total Investment to Total Deposits Ratio} = \frac{\textit{TotalInvestment}}{\textit{TotalDeposits}}$$

iii) Loan and Advances to Total Working Fund Ratio: - This ratio shows the ability of selected banks in terms of earning high profit from loan and advances. Loan and advances to working fund ratio can be calculated by dividing loan and advances amount by total working fund.

CashandBankBalance

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

iv) Investment on Government Securities to Total Working Fund Ratio: -

Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage, it is calculated for this purpose by following formula:

$$\text{Investment on Govt. Securities to TWF Ratio} = \frac{InvestmentonGovt.Securities}{TotalWorkingFund}$$

v) Investment on Shares and Debentures to Total working Fund Ratio:

Investment on shares and debentures to total working fund ratio shows the investment of banks on the shares and debentures of other companies in terms of total working fund. This ratio can be obtained dividing on shares and debentures by total working fund. It is calculated as:

$$\text{Investment on Shares and debn.to TWF Ratio} = \frac{InvestmentonShareandDebenture}{TotalWorkingFund}$$

c) Profitability Ratio: - This ratio is related to profit of the banks is essential for the survival of the bank, so it is regarded as the engine that drives the banks and indicates economics progress. It calculated to measure the overall efficiency of the banks.

i) Return on Loan and Advances Ratio: - Return on loan and advances ratio shows how efficiently the banks have utilized their resources to earn good return from provided loan and advances. This ratio is computed as,

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

ii) Return on Total Working Fund Ratio: - Return on total working fund ratio measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the bank's working fund is well managed and efficiently utilized. Maximizing taxes, this in the legal options available will also improve the return.

We have,

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

iii) Total Interest Earned to Total Working Fund Ratio: - This ratio reflects the extent to which the banks are successful in mobilizing these total assets to acquire income as interest. This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the income as interest.
We have,

$$\textit{Total Interest Earned to TWF Ratio} = \frac{TotalInterestEarned}{TotalWorkingFund}$$

iv) Total Interest paid to Total working Fund Ratio: - This ratio measures the percentage of total interest expenses on total working fund and vice-versa. This ratio is calculated as,

$$\textit{Total Interest paid to Total Working Fund Ratio} = \frac{TotalInterestPaid}{TotalWorkingFund}$$

d) Risk Ratios: - Commonly, risk means chance or possibility of loss, uncertainty which lies in the business transaction of investment management. When a firm wants to bear risk and uncertainty, profitability and effectiveness of the firm is increased. This ratio checks the degree of risk involved in the various financial operations. For this study following risk ratios are used to analyze and interprets the financial data and investment policy.

i) Liquidity Risk Ratio: - The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

$$\textit{Liquidity Risk Ratio} = \frac{CashandBankBalance}{TotalDeposit}$$

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

$$\textit{Credit Risk Ratio} = \frac{TotalInvestment + LoanandAdvances}{TotalAssets}$$

e) Growth Ratio: - The growth ratio represents how well the commercial banks are maintaining their economics and financial position. Higher the ratio batter performance of the bank and vice-versa. Under this topic four types of growth ratio are studied, that are directly related to the fund mobilization of commercial banks.

The following ratios are calculated by using the formula of growth rate:

i) Growth ratio of total deposits

ii) Growth ratio of total investment

iii) Growth ratio of loans and advances

iv) Growth ratio of net profit

II) Sources and Uses of Funds

Management of funds is the important part of the banking business. The problem of managing funds is great for banks than it is for almost any other enterprise. The sources and uses analysis took out proportion of each source and each use to the total funds of the bank and it were expressed in percentage. The percentage was compared with the standard percentage of a typical bank. This analysis also concerned behaviors of the sources of funds. The uses were analyzed in terms of their supporting ability to the sources of funds to which they represent.

3.4.2 Statistical Tools

Some important statistical tools have been used to present and analyze the data for achieving the objectives such as coefficient of correlation between different variables, trend analysis as well as test of hypothesis which are presented below:

i) Coefficient of Correlation Analysis

Correlation is the statistical tools that we can use to describe the degree to which one variable is linearly related to another (Richard, 1991). The coefficient of correlation measure the degree of relationship between two sets of sigma. There is various method of finding out coefficient of correlation but Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1. It is indicated by r. When r = +1, it means there is perfect relationship between two variables and vice-versa. When r = 0, it means there is no relationship between two variables. The complete formula is mentioned below:

$$r = \frac{N\Sigma XY - \Sigma X.\ \Sigma Y}{\{N\Sigma X^2-(\Sigma X)^2\}.\{N\Sigma Y^2-(\Sigma Y)^2\}}$$

Where,

N= Number of observation

ΣX= Sum of observation in series X

ΣY= Sum of observation in series Y

ΣX^2= Sum of squared observation in series X

ΣY^2= Sum of squared observation in series Y

ΣXY= Sum of the product of observation in series X and Y

Correlation analysis describes the relationship between variables with positive or negative. It helps to determine whether

- A positive or negative relationship exists.
- The relationship is significant or insignificant and
- Establish cause and effect relation if any.

The statistical tool, correlation analysis is preferred in this study to identify relationship between variables, whether the relationship is significant or not.

For the purpose of decision making interpretation are based on following terms.

1. When, r = 1, there is perfect positive correlation.

2. When, r = -1, there is perfect negative correlation.

3. When, r = 0, there is no correlation.

4. When 'r' lies between 0.7 to 0.999(-0.7 to 0.999) there is a high degree of positive (or negative) correlation.

5. When 'r' lies between 0.5 to 0.699 there is a moderate degree of correlation.

6. When 'r' is less than 0.5, there is a low degree of correlation.

ii) Probable Error (P.E)

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

$$\text{Probable Error (P.E.)} = 0.6745 \times \frac{1-r^2}{n}$$

Where,

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

r = Correlation coefficient

n = Number of observations

iii) Standard Deviation (S.D)

The measurement of the scatter ness of the mass of figure in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion. The greater the amount of dispersion, greater will be the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposites. In this study, standard deviation of different ratio is calculated. It is denoted by ‘σ ’.

$$\textbf{S.D} (\sigma) = \sqrt{\frac{1}{N} \Sigma (X - \bar{X})^2}$$

Where,

N = Number of observations

X = Expected return of the historical data

iv) Co-efficient of Variance (C.V)

"The co-efficient of variance is the relative measure of dispersion comparable across distribution which is defined as the ratio of the standard deviation to the means expressed in percent."(Richard, 1991). It is calculated as:

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

v) Trend Analysis

The easiest way to evaluate the performance of a firm is to compare its current ratios with past ratios. When financial ratios over a period of time are compared it is known as the trend analysis. It gives an indication of the direction of change and reflects whether the firm's financial performance has improved, deteriorated or remain constant over time. This type of statistical analysis interprets the trend of deposits, loan and advances, investments and net profit of Nabil and HBL from 2004/2005 to 2008/2009. It is necessary to calculate the forecasting for next five years till 2013/14.

The projections are based on the following assumptions:

i) Other things will remain unchanged.

ii) The bank will run in present position.

iii) The economy will remain in the present stage.

iv) NRB will not change its guidelines to commercial banks.

The trend values used in this study are presented below:

a) Trend Analysis of total investment to total deposits ratio

b) Trend Analysis of loan and advances to deposits ratio

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

The main objectives of commercial banks are to safe guard the money of depositors and deposit mobilizations. Deposit mobilization means to flow the cash in different sectors at profit motive. All the banks were applied their own deposit mobilizing procedure. Effective deposit mobilization is the indicator of banks prosperity and its growth.

This chapter is primarily concerned with presentation and analysis of data. In this study effort has been made to analyze the collected data by using financial and statistical tools as well as various graphical presentations. Like wise, comparative balance sheet and comparative profit and loss account from the year 2004 to 2008 of Nabil and HBL are presented in appendices.

4.1 Ratio Analysis

Ratio analysis is a technique of analysis and interpretation of financial statement. There are five types of ratios analyzed in this study, which is presented below:

4.1.1 Liquidity Ratios

Liquidity ratio measures the short-run solvency. Following ratios are calculated under this topic:

4.1.1.1 Cash and Bank Balance to Total Deposit

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

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

Table 4.1

Comparative Cash and Bank Balance to Total Deposit Ratio

Year	Ratio (%)	
	Nabil	**HBL**
2004	6.87	9.09
2005	3.83	8.12
2006	3.26	6.48
2007	6	5.85
2008	8.37	4.55
Mean(X)	**5.67**	**6.82**
S.D. (σ)	**0.1049**	**0.1667**
C.V.	**1.85**	**2.44**

Source: Appendix-I

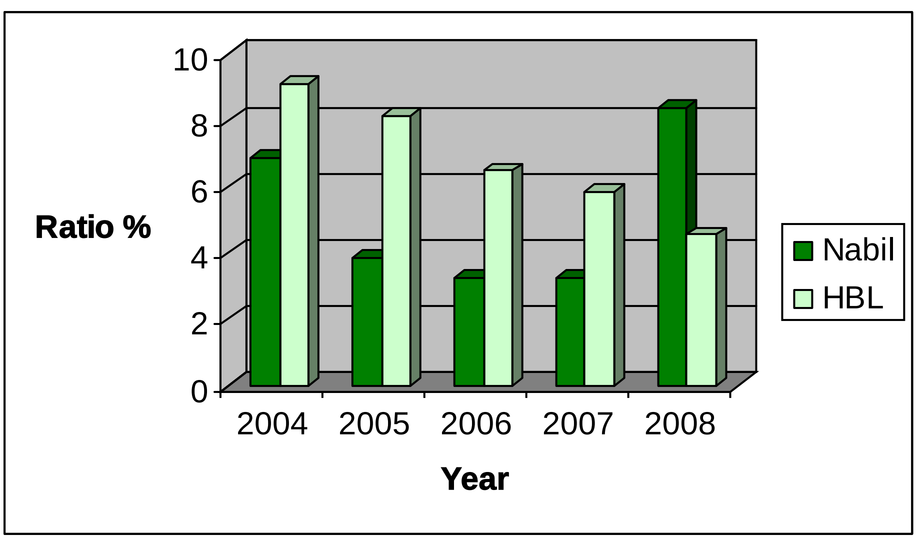
From the above comparative table, cash and bank balance to total deposit ratio of the two banks followed a fluctuating trend. HBL has maintained the higher ratio i.e. 9.09% of cash and bank balance to total deposit than Nabil during the study period.

The average ratio of HBL is higher than Nabil. Nabil has the average ratio of 5.67% when HBL has 6.82%. The variability of the ratio is lower in Nabil it states that Nabil is more consistent than HBL .

This ratio can be presented by the help of diagram, which is shown below:

Figure 4.1

Comparative Cash and Bank Balance to Total Deposit Ratio



4.1.1.2 Cash and Bank Balance to Current Assets

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

$$\textit{Cash and Bank Balance to Current Assets Ratio} = \frac{\textit{CashandBankBalance}}{\textit{CurrentAssets}}$$

Table 4.2
Comparative Cash and Bank Balance to Current Assets Ratio

Year	Ratio (%)	
	Nabil	**HBL**
2004	6.81	10.76
2005	3.77	10.79
2006	3.48	8.06
2007	6.22	6.37
2008	8.47	4.90
Mean(X)	**5.75**	**8.18**
S.D. (σ)	**1.89**	**2.35**
C.V.	**32.87**	**28.73**

Source: Appendix-I

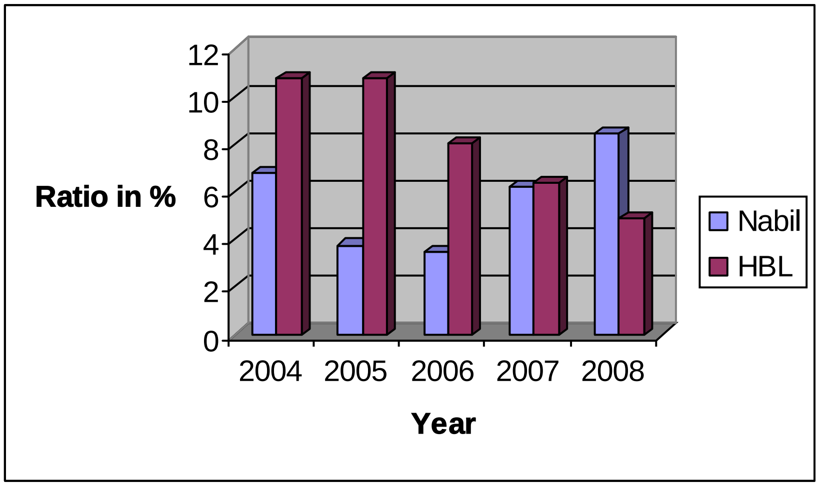
From the above comparative table, it reveals that cash and bank balance to current assets ratio of Nabil is in fluctuating trend. The highest ratio of Nabil is 8.47% in the year 2008 and lowest ratio 3.48% in the year 2006. HBL has highest ratio of 10.79% in the year 2005 and lowest ratio 4.90% in the year 2008. Between two banks, HBL has maintained the highest ratio than Nabil.

Similarly, C.V. ratio of HBL is less than Nabil i.e. 28.73%. It indicates that ratio of HBL is more stable than Nabil.

This ratio can be presented by the help of diagram, which is shown below:

Figure 4.2

Cash and Bank Balance to Current Assets Ratio



4.1.1.3 Investment on Government Securities to Current Assets

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

$$\text{Invt. on Govt. Sects. to Current Assets Ratio} = \frac{\text{Investment on Govt. Securities}}{\text{Current Assets}}$$

Table 4.3

Comparative Investment on Government Securities to Current Assets Ratio

Year	Ratio (%)	
	Nabil	**HBL**
2004	25.78	18.66
2005	16.29	29.30
2006	12.69	24.16
2007	21.35	23.41
2008	14.74	25.26
Mean(X)	**18.17**	**24.16**
S.D. (σ)	**4.76**	**3.42**
C.V.	**26.20**	**14.16**

Source: Appendix-I

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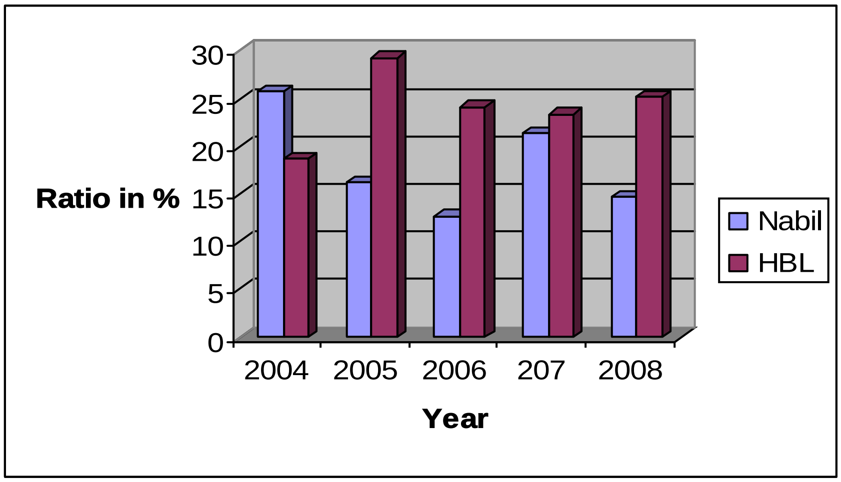
The above comparative table shows HBL invest more portions of current assets in government securities i.e. 29.30% in the year 2005 in comparison to Nabil during the study period.The mean ratio of HBL is highest i.e. 24.16% and coefficient of variation of HBL is lowest i.e 14.16%. than that of Nabil. It seems that Nabil is more consistent to make investment in government securities than HBL.

This ratio can be presented by the help of diagram, which is shown below:

Figure 4.3
Investment on Government Securities to Current Assets Ratio



4.1.2 Assets Management Ratio

The following financial ratios related to fund mobilization and calculated under assets management ratio and interpretation is made by these calculations.

4.1.2.1 Loan and Advances to Total Deposit

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

$$\textit{Loan and Advances to Total Deposits Ratio} = \frac{\textit{Total LoanandAdvances}}{\textit{TotalDeposits}}$$

Table 4.4
Comparative Loan and Advances to Total Deposit Ratio

Year	Ratio (%)	
	Nabil	**HBL**
2004	58	54.30
2005	72.57	50.07
2006	66.79	55.27
2007	66.60	56.57
2008	66.94	61.23
Mean(X)	**66.18**	**55.48**
S.D. (σ)	**4.67**	**3.60**
C.V.	**7.06**	**6.49**

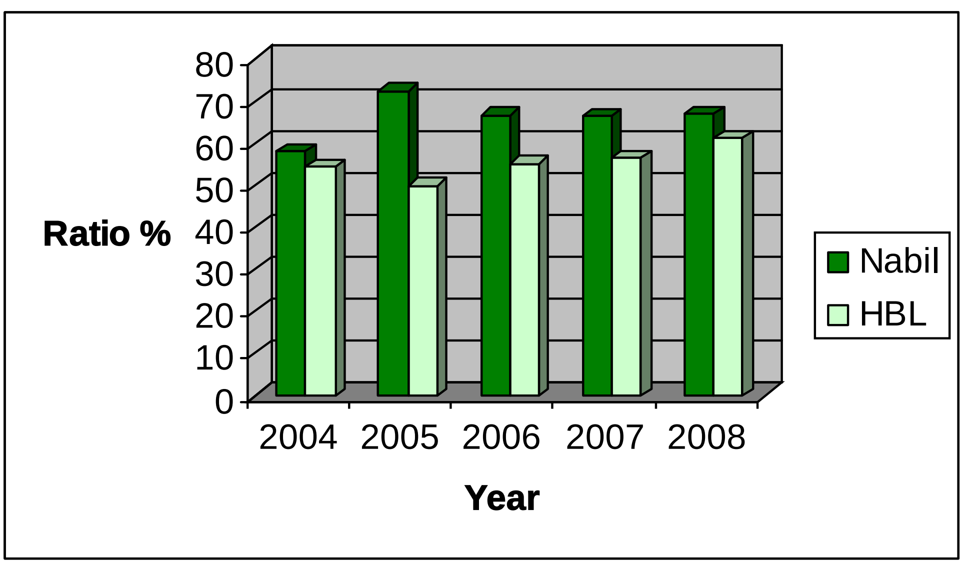
Source: Appendix-I

The above comparative table shows that these two banks have mobilized their collected deposits in fluctuating trend as loan and advances during the study period. The higher ratio of loan and advances to total deposit of Nabil and HBL are 72.57 and 61.23 respectively. HBL has mobilized 55.48% of it's collected deposit in loan and advances which is less than Nabil in average, coefficient of variation of Nabil is 7.06% where as HBL has only 6.49% which shows that HBL is more stable than Nabil in mobilizing collected deposit.

This ratio can be presented by the help of diagram, which is shown below:

Figure 4.4

Comparative Loan and Advances to Total Deposit Ratio



4.1.2.2 Total Investment to Total Deposit

This ratio is computed by using following formula.

$$\textit{Total Investment to Total Deposits Ratio} = \frac{TotalInvestment}{TotalDeposits}$$

Table 4.5
Comparative Total Investment to Total Deposit Ratio

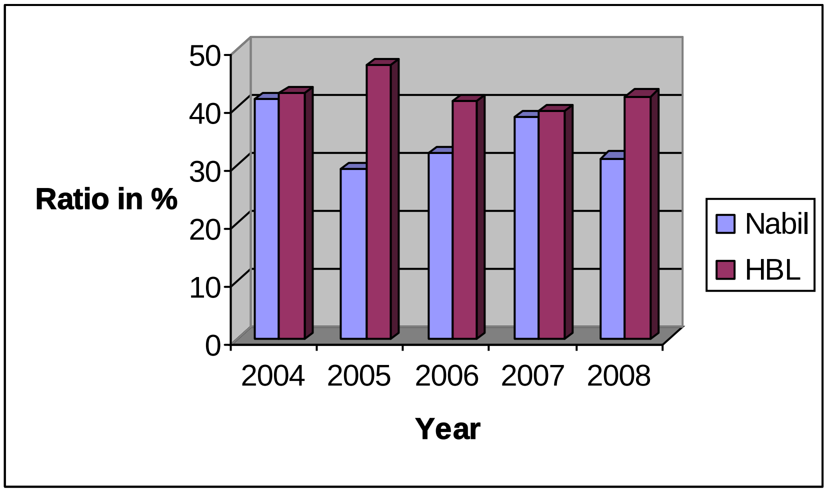
Year	Ratio (%)	
	Nabil	**HBL**
2004	41.33	42.40
2005	29.33	47.12
2006	31.95	41.11
2007	38.32	39.35
2008	31.23	41.89
Mean(X)	**34.43**	**42.37**
S.D. (σ)	**4.59**	**2.59**
C.V.	**13.33**	**6.11**

Source: Appendix-I

From the above comparative table, it can be conclude that the ratios of these two banks are in fluctuating trend during the study period. In average HBL invested more amount of its total deposit in comparison to Nabil i.e. 42.37%. The coefficient of variation of Nabil is 13.33% where as HBL has only 6.11% It indicates that HBL is more consistent to make investment of total deposit than Nabil.

This ratio can be presented by the help of diagram, which is shown below:

Figure 4.5
Comparative Total Investment to Total Deposit Ratio



4.1.2.3 Loan and Advances to Total Working Fund

Loan and advances to working fund ratio can be obtained dividing loan and advances amount by total working fund that is formulizes as,

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

Table 4.6
Comparative Loan and Advances to Total Working Fund Ratio

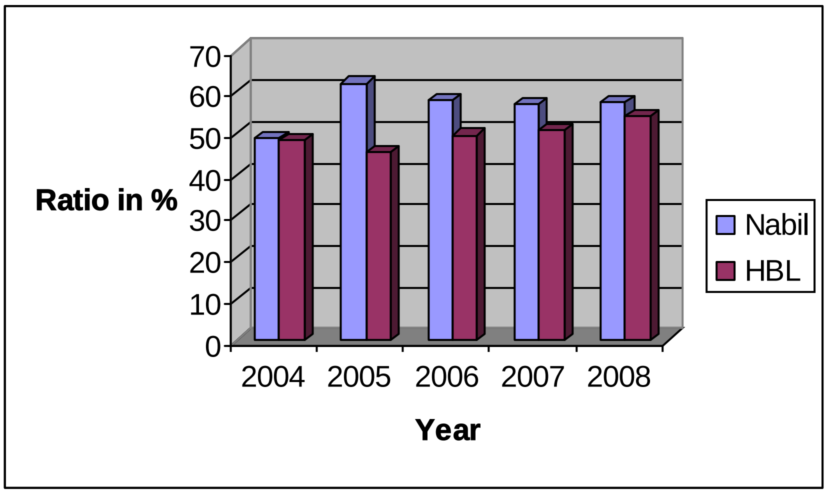
Year	Ratio (%)	
	Nabil	**HBL**
2004	48.91	48.26
2005	62.04	45.37
2006	57.87	49.47
2007	57.04	50.71
2008	57.54	53.90
Mean(X)	**56.68**	**49.54**
S.D. (σ)	**4.28**	**2.81**
C.V.	**7.55**	**5.67**

Source: Appendix- I

Above table describes the loan and advances to total working fund ratio of Nabil and HBL in fluctuating trend. During the study period Nabil and HBL have highest ratio 62.04 and 53.90 in year 2005 and 2008 respectively. On average Nabil maintains highest ratio of 56.68% than HBL. HBL has the lowest coefficient of variation i.e. 5.67%. It indicates that HBL is more consistent to make loan and advance to total working fund ratios.

This ratio can be presented by the help of diagram, which is shown below:

Figure 4.6
Loan and Advances to Total Working Fund Ratio



4.1.2.4 Investment on Government Securities to Total Working Fund

Investment on government securities to working fund ratio show how much part of investment is there on government securities. It can be obtained by:

$$\textit{Investment on Govt. Securities to TWF Ratio} = \frac{\textit{InvestmentonGovt.Securities}}{\textit{TotalWorkingFund}}$$

Table 4.7
Comparative Investment on Government Securities to Total Working Fund Ratios

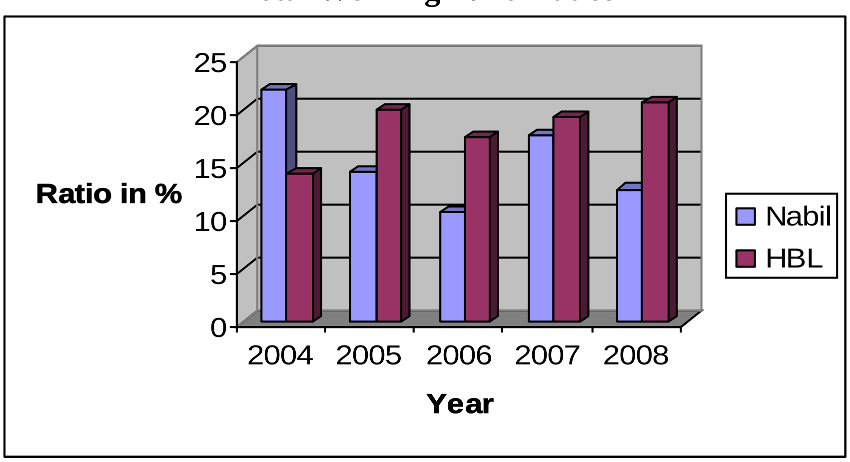
Year	Ratio (%)	
	Nabil	**HBL**
2004	21.93	14.02
2005	14.17	20
2006	10.31	17.47
2007	17.64	19.26
2008	12.51	20.65
Mean(X)	**15.31**	**18.28**
S.D. (σ)	**4.08**	**2.38**
C.V.	**26.65**	**13.02**

Source: Appendix- I

Above comparative table shows the investment on government securities to total working fund of Nabil and HBL are in fluctuating trend. Nabil and HBL have the highest ratio of 21.93% and 20.65% in year 2004 and 2008 respectively. Like wise they have the lowest ratio of 10.31% and 14.02% in year 2006 and 2004 respectively. HBL has highest mean ratio 18.28% than Nabil. The coefficient of variation indicates HBL (i.e. 13.02%) has more stable ratio than that of Nabil.

This ratio can be presented by the help of diagram, which is shown below:

Figure 4.7
Investment on Government Securities to Total Working Fund Ratios



4.1.2.5 Investment on Shares and Debentures to Total Working Fund

This ratio can be obtained dividing shares and debentures by total working fund. It is calculated as:

$$\text{Investment on Shares and debn.to TWF Ratio} = \frac{\text{InvestmentonShareandDebenture}}{\text{TotalWorkingFund}}$$

Table 4.8
Comparative Investment on Shares and Debentures to Total Working Fund Ratio

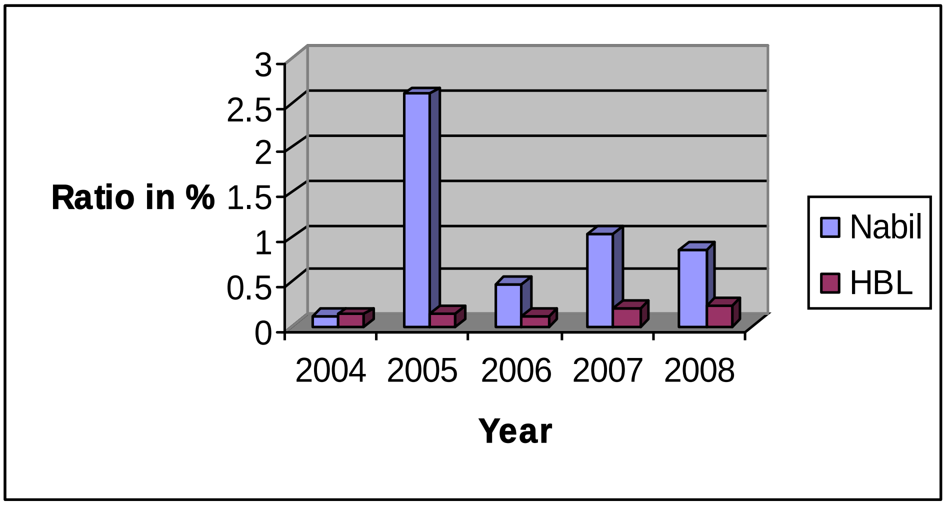
Year	Ratio (%)	
	Nabil	HBL
2004	0.13	0.14
2005	2.60	0.15
2006	0.47	0.13
2007	1.05	0.22
2008	0.87	0.25
Mean(X)	**1.02**	**0.18**
S.D. (σ)	**0.85**	**0.04**
C.V.	**83.33**	**22.22**

Source: Appendix-I

From the above analysis Nabil and HBL have a highest ratio of 2.60% and 0.25% in year 2005 and 2008 respectively. In Average Nabil has invested more amounts in shares and debentures i.e. 1.02% than HBL. The coefficient of variation shows more stable ratio of HBL i.e. 22.22%.

This ratio can be presented by the help of diagram, which is shown below:

Figure 4.8
Investment on Shares and Debentures to Total Working Fund Ratio



4.1.3 Profitability Ratio

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

4.1.3.1 Return on Loan and Advances

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

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

Table 4.9
Comparative Return on Loan and Advances Ratios

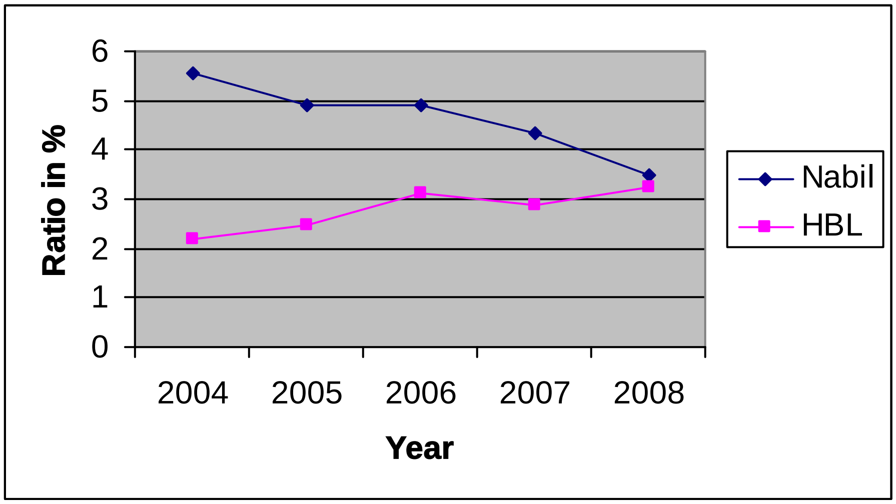
Year	**Ratio (%)**	
	Nabil	**HBL**
2004	5.56	2.20
2005	4.89	2.48
2006	4.92	3.12
2007	4.34	2.89
2008	3.49	3.26
Mean(X)	**4.64**	**2.79**
S.D. (σ)	**0.69**	**0.40**
C.V.	**14.87**	**14.34**

Source: Appendix-I

In the above analysis the return on loan and advances of Nabil and HBL are in fluctuating trend. During the study period, Nabil has a higher ratio 5.56% than HBL i.e. 3.26%. In average Nabil has the highest mean ratio of 4.64% where as HBL has the mean ratio of 2.79% .Coefficient of variation of these two banks was no more different.

This ratio can be presented by the help of graph as following :

Figure 4.9
Return on Loan and Advances Ratios



4.1.3.2 Return on Total Working Fund

Return on Total Working fund Ratio is computed as:

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

Table 4.10
Comparative Return on Total Working fund Ratio

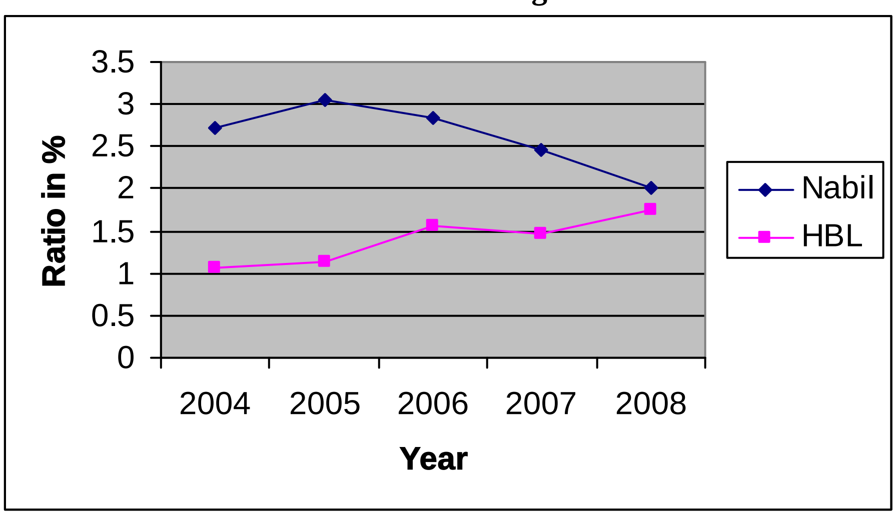
Year	Ratio (%)	
	Nabil	**HBL**
2004	2.72	1.06
2005	3.04	1.13
2006	2.84	1.55
2007	2.47	1.47
2008	2.01	1.76
Mean(X)	**2.62**	**1.39**
S.D. (σ)	**0.35**	**0.26**
C.V.	**13.36**	**18.71**

Source: Appendix-I

As per above comparative table the return on total working fund of Nabil and HBL is not in stable trend. During the study period Nabil has the highest ratio 3.04% than HBL i.e. 1.76%. Nabil has highest return total working fund i.e. 2.62 % than HBL. In case of coefficient of variation, Nabil has the lowest CV of 13.36 % than HBL. It indicates that Nabil in more stable than HBL.

This ratio can be presented by the help of graph as following :

Figure 4.10
Return on Total Working fund Ratio



4.1.3.3 Total Interest Earned to Total Working Fund

The ratio actually reveals the earning capacity of commercial banks by mobilizing its total interest earned to total working fund ratio.

we have,

$$\textit{Total Interest Earned to TWF Ratio} = \frac{TotalInterestEarned}{TotalWorkingFund}$$

Table 4.11
Comparative Total Interest Earned to Total Working Fund Ratio

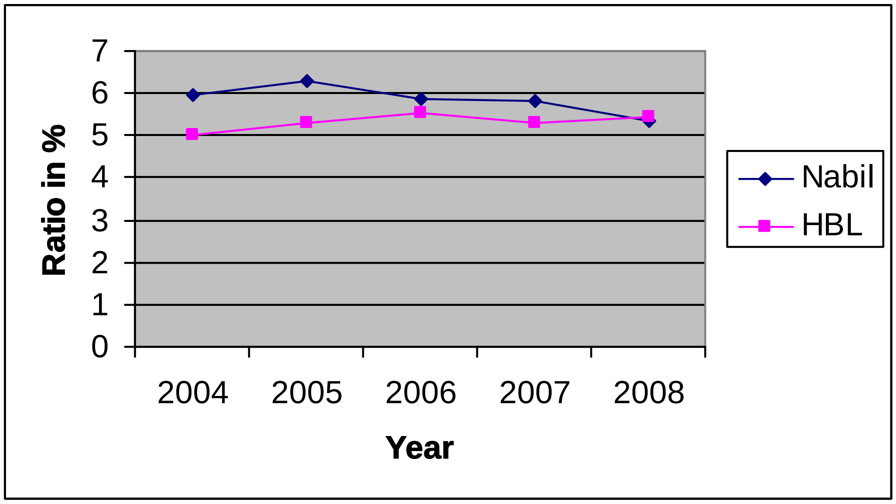
Year	Ratio (%)	
	Nabil	**HBL**
2004	5.98	5.03
2005	6.27	5.28
2006	5.87	5.52
2007	5.83	5.29
2008	5.33	5.43
Mean(X)	**5.86**	**5.31**
S.D. (σ)	**0.30**	**0.17**
C.V.	**5.12**	**3.20**

Source: Appendix-I

The above analysis shows the Nabil has highest interest earned to total working fund ratio 6.27 % in the year 2005 and the lowest ratio 5.33% in the year 2008. Like wise HBL has highest ratio 5.52% and lowest ratio 5.03% in the year 2006 and 2004 respectively. Nabil has 5.86% mean ratio but HBL has only 5.31%. The coefficient of variation of HBL is less than Nabil i.e. 3.20%. It indicates that interest earning power of HBL is more consistent than Nabil.

This ratio can be presented by the help of graph as following.

Figure 4.11
Total Interest Earned to Total Working Fund Ratio



4.1.3.4 Total Interest Paid to Total Working Fund

Total Interest Paid to Total Working Fund ratio is calculated as:

$$\textit{Total Interest Paid to TWF Ratio} = \frac{\textit{Total Interest Paid}}{\textit{Total Working Fund}}$$

Table 4.12
Comparative Total Interest Paid to Total Working Fund Ratios

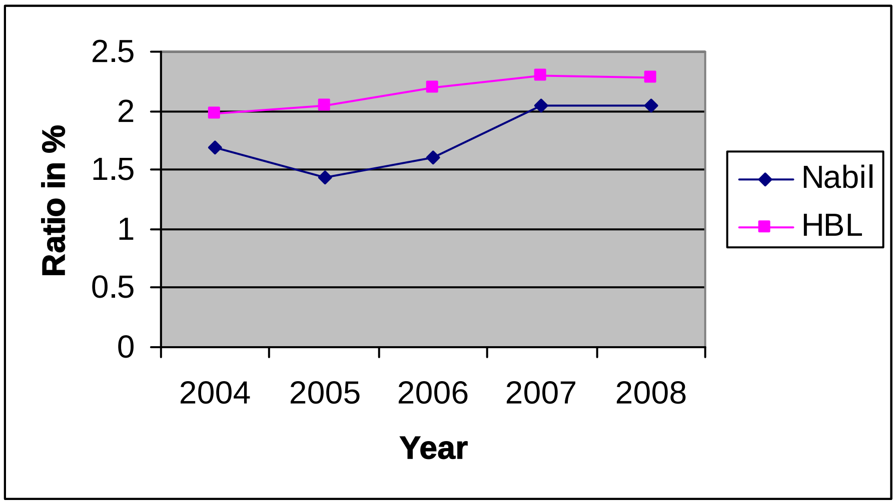
Year	Ratio (%)	
	Nabil	HBL
2004	1.69	1.98
2005	1.43	2.05
2006	1.60	2.20
2007	2.04	2.29
2008	2.04	2.28
Mean(X)	**1.76**	**2.16**
S.D. (σ)	**0.24**	**0.12**
C.V.	**13.63**	**5.56**

Source: Appendix-I

From the above comparative table both bank has paid to total working fund ratio in fluctuating trend. Nabil has 2.04% highest ratio in year 2007 and 2008 and lowest ratio 1.43 in year 2005. And HBL has highest ratio of 2.29 % and lowest ratio 1.98 in year 2007 and 2004 respectively. HBL has 2.16% mean to ratio, which greater than that of Nabil i.e. 1.76%. The coefficient of variation of HBL is more stable than Nabil i.e. 5.56%

This ratio can be presented by the help of graph as following.

Figure 4.12
Total Interest Paid to Total Working Fund Ratios



4.1.4 Risks Ratio

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

4.1.4.1 Liquidity Risk Ratio

This ratio is calculated by dividing Cash and Bank Balance to Total Deposit.

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

Table 4.13
Comparative Liquidity Risk Ratio

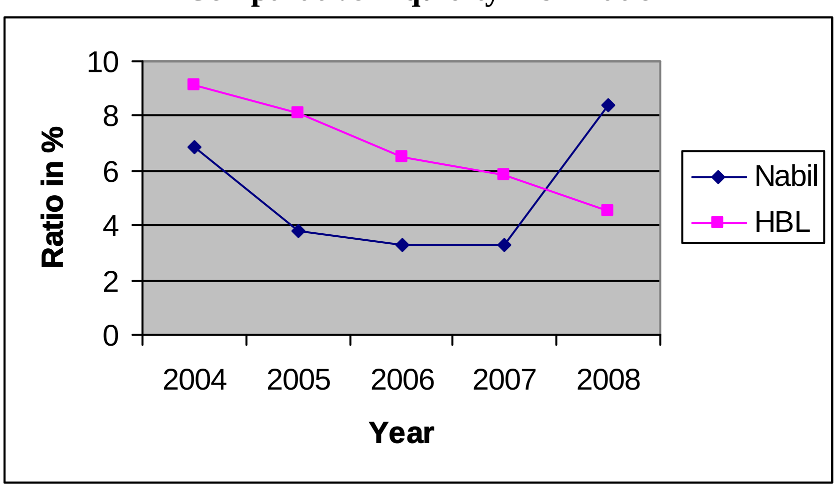
Year	Ratio (%)	
	Nabil	**HBL**
2004	6.87	9.09
2005	3.83	8.12
2006	3.26	6.48
2007	6	5.85
2008	8.37	4.55
Mean(X)	**5.67**	**6.82**
S.D. (σ)	**0.1049**	**0.1667**
C.V.	**1.85**	**2.44**

Source: Appendix- I

The above table shows that HBL has highest cash and bank balance to total deposit ratio of 9.09% in the year 2004 and lowest ratio of 4.55% in the year 2008 whereas, Nabil have the highest ratio of 8.37% in the year 2008 and lowest ratio 3.26 % in the year 2006 and 2007. The mean ratio of Nabil is lower than that HBL i.e. 5.67% <8.62%. It means the Nabil has maintained the lower liquidity risk ratio which means it operates with higher risk of higher profit. The coefficient of variation of HBL i.e. 2.44% is high that of Nabil i.e. 1.85. It shows that the ratio of HBL is more variable than Nabil.

This ratio can be presented by the help of graph as following.

Figure 4.13
Comparative Liquidity Risk Ratio



4.1.4.2 Credit Risk Ratio

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

$$\textit{Credit Risk Ratio} = \frac{TotalInvestment + LoanandAdvances}{TotalAssets}$$

Table 4.14
Comparative Credit Risk Ratio

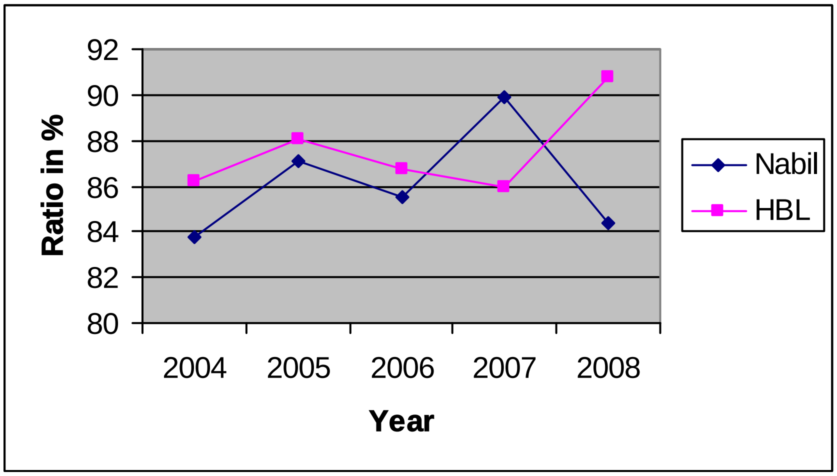
Year	Ratio (%)	
	Nabil	**HBL**
2004	83.76	86.25
2005	87.11	88.06
2006	85.55	86.73
2007	89.86	85.98
2008	84.38	90.77
Mean(X)	**86.13**	**87.56**
S.D. (σ)	**2.19**	**1.76**
C.V.	**2.54**	**2.01**

Source: Appendix-I

The above comparative table shows both banks has credit risk ratio in fluctuating trend. Nabil and HBL has the highest ratio 89.86% and 90.77 % in the year 2007and 2008 respectively. On the basis of mean ratio it can be said that the credit risk of Nabil is lower than of HBL i.e. 86.13% < 87.56%. Nabil has the highest coefficient of variation than HBL i.e. 2.54% >2.01% which shows more variable ratio of Nabil.

This ratio can be presented by the help of graph as following.

Figure 4.14
Comparative Credit Risk Ratio



4.1.5 Growth Ratios

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

4.1.5.1 Growth Ratio of Total Deposits

Table 4.15
Growth Ratio of Total Deposits

Rs. in million

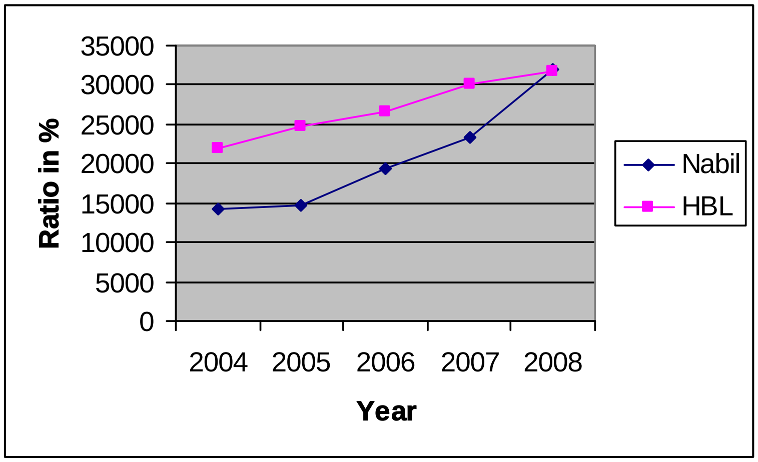
Banks	**Year**					**Growth Rate in %**
	2004	**2005**	**2006**	**2007**	**2008**	
Nabil	14119.03	14586.61	19347.40	23342.29	31915.05	22.62%
HBL	22010.33	24814.01	26490.85	30048.42	31842.79	9.67%

Source: Appendix -II

The table presented above shows that Nabil and HBL are increasing their deposit collecting five years study period. The growth ratio of total deposits of HBL seems lower than Nabil.

Growth ratio of total deposit of Nabil and HBL has shown in the following graph:

Figure 4.15
Growth Ratio of Total Deposits



4.1.5.2 Growth Ratio of Total Investment

Table 4.16
Growth Ratio of Total Investment

Rs. in million

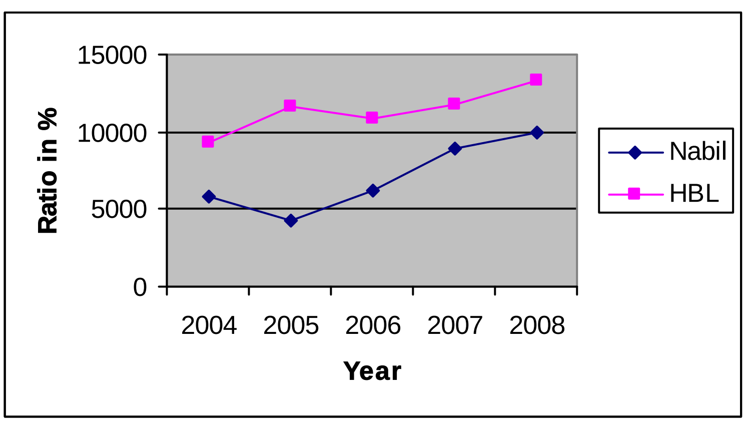
Banks	Year					Growth Rate in %
	2004	2005	2006	2007	2008	
Nabil	5836.07	4277.95	6180.65	8943.81	9966.56	14.32%
HBL	9332.1	11692.34	10890.38	11822.98	13340.18	9.34%

Source: Appendix -II

The above table shows the growth rate of 14.31% and 9.34% of Nabil and HBL respectively. Among them, Nabil has the highest growth rate than HBL.

It can be presented by this graph as following:

Figure 4.16
Growth Ratio of Total Investment



4.1.5.3 Growth Ratio of Loan and Advances

Table 4.17
Growth Ratio of Loan and Advances

Rs. in million

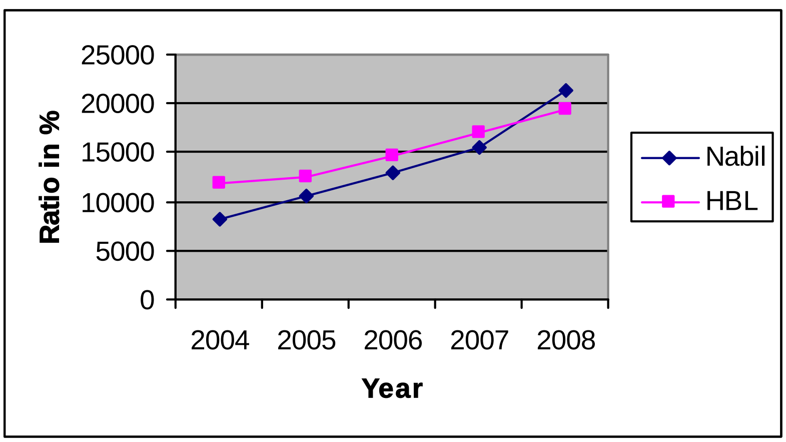
Banks	Year					Growth Rate in %
	2004	2005	2006	2007	2008	
Nabil	8189.99	10586.17	12922.54	15545.78	21365.05	27.09%
HBL	11951.87	12424.52	14642.56	16998.00	19497.52	13.01%

Source: Appendix -II

The above table describes the growth ratio of loan and advances of Nabil and HBL are in increasing order under five years study period. The table shows the high growth ratio of Nabil 27.09% and low growth ratio of HBL 13.01%.

Growth ratio of loan and advances of Nabil and HBL are also shown in the following line chart.

Figure 4.17
Growth Ratio of Loan and Advances



4.1.5.4 Growth Ratio of Net Profit

Table 4.18
Growth Ratio of Net Profit

Rs. in million

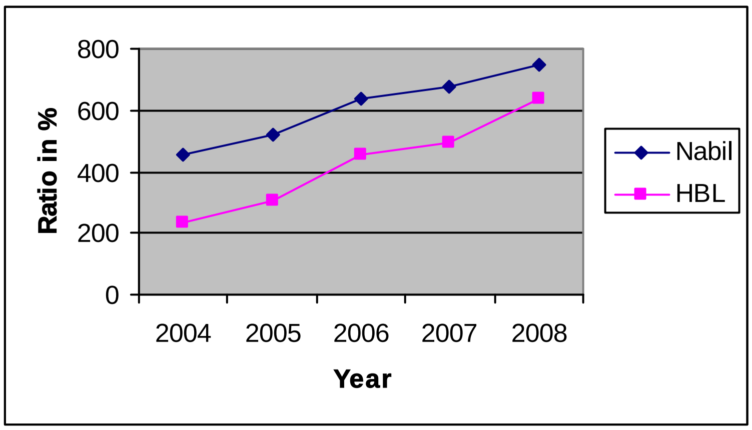
Banks	Year					Growth Rate in %
	2004	2005	2006	2007	2008	
Nabil	455.31	518.64	635.26	673.96	746.47	13.16%
HBL	263.05	308.28	457.46	491.82	635.87	24.69%

Source: Appendix –X & XI

The above table represents the growth ratio of net profit of Nabil and HBL during 5 years study periods. Its shows the HBL has highest ratio 24.69%

Growth ratio of Net Profit of Nabil and HBL are also shown in the line chart.

Figure 4.18
Growth Ratio of Net Profit



4.2 Analysis of sources and uses of Funds

The following table presents the list of sources and uses of funds of Nabil and it represents the proportionate contribution to the total funds Nabil.

4.2.1 Analysis of sources and uses of funds of Nabil

Table 4.19
Percentage of various sources of Funds from Total Sources of Nabil

Particulars	Year						
	2004	**2005**	**2006**	**2007**	**2008**	**Total**	**Average**
1.Capital Funds	9.30	8.74	8	7.14	6.23	39.41	7.88
2.Deposits	72.79	79.19	84.64	83.58	84.11	404.31	80.86
3.Borrowings	1.18	0.10	0.76	3.16	3.58	8.78	1.76
4.Others	16.73	11.97	6.60	6.12	6.08	47.5	9.5
Total	**100**	**100**	**100**	**100**	**100**	**500**	**100**

Source: Banking and Financial Statistics of NRB Mid July 2008 (Appendix- IV)

Table 4.20
Percentage of various uses of funds form Total uses of Nabil

Particulars	Year						
	2004	**2005**	**2006**	**2007**	**2008**	**Total**	**Average**
1. Liquid Funds	20.19	7.77	10.35	7.09	12.19	57.59	11.52
2. Investments	30.09	23.21	27.03	32.03	26.20	138.56	27.71
3.Loan&Advances	45.21	57.47	56.53	55.67	56.31	271.19	54.24
4.Interset+Accured	0.90	0.92	0.83	0.40	0.34	3.39	0.68
5.Others	3.61	10.63	5.27	4.81	4.96	29.28	5.86
Total	**100**	**100**	**100**	**100**	**100**	**500**	**100**

Source: Banking and Financial Statistics of NRB Mid July 2008 (Appendix- IV)

From the above analysis, contribution of capital fund in total sources is 7.88% likewise, deposits contribute more funds out of total sources of funds i.e. 80.86% considering the contribution of borrowings to total sources, it is 1.76% which is lowest among others sources of funds other sources of funds is 9.50%. Deposit is the only one reliable source of funds of Nabil.

The above sources of funds are used for different purposes. Nabil has maintained liquid funds of 11.52%. It has maintained sufficient liquid funds in the starting period of the study. It makes average investment of 27.71% similarly; it provides loan and advances of 54.24% for its customers to fulfill their daily cash requirements. Similarly interest accrued and others cover 0.68% and 5.86% respectively.

Figure 4.19
Sources of Funds of Nabil Based on Mean Ratio Percentage

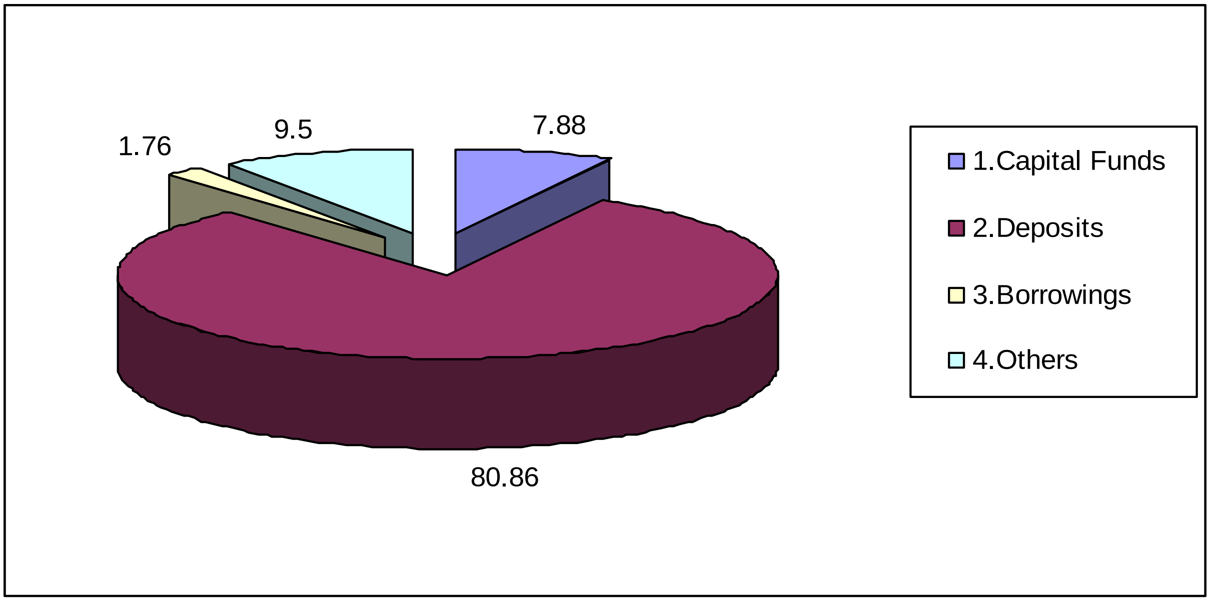
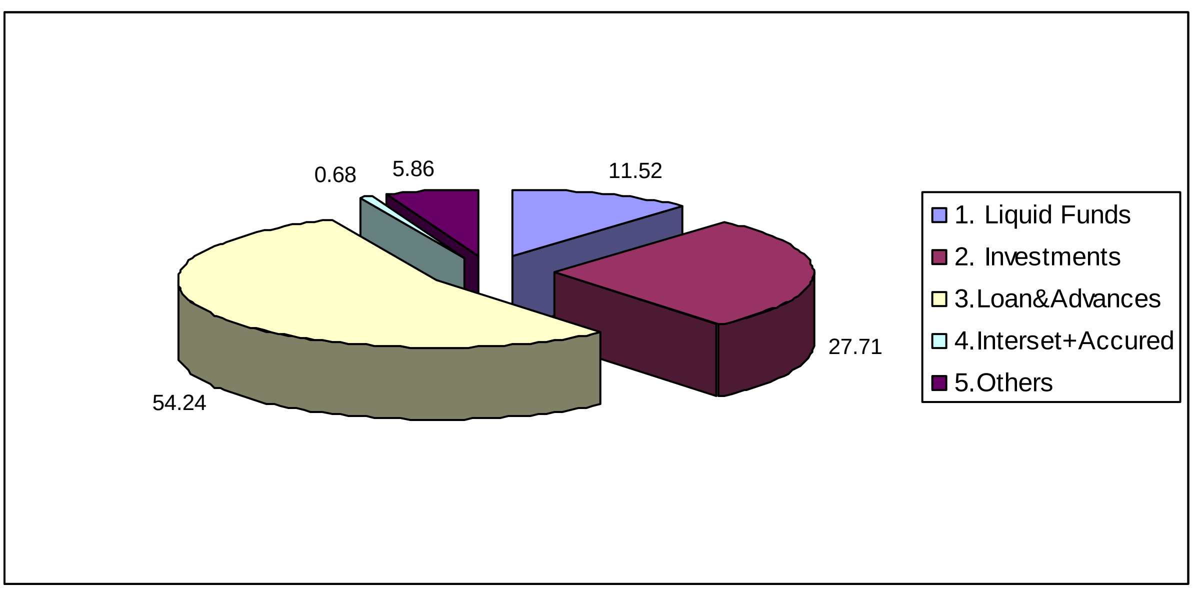


Figure 4.20
Uses of Funds of Nabil Based on Mean Ratio Percentage



4.2.2 Analysis of sources and uses of funds of HBL

Table 4.21
Percentage of various sources of funds total sources of HBL

Particulars	Year						
	2004	**2005**	**2006**	**2007**	**2008**	**Total**	**Average**
1.Capital Funds	5.37	4.56	4.96	6.94	6.76	28.59	5.72
2.Deposits	85.18	85.32	85.16	85.61	86.40	477.67	85.53
3.Borrowings	0.25	1.67	1.23	0.67	0.23	4.05	0.81
4.Others	9.20	8.45	8.65	6.78	6.61	39.69	7.94
Total	**100**	**100**	**100**	**100**	**100**	**500**	**100**

Source: Banking and Financial Statistics of NRB Mid July 2008 (Appendix- V)

Table 4.22
Percentage of various uses of funds from total uses of HBL

Particulars	Year						
	2004	**2005**	**2006**	**2007**	**2008**	**Total**	**Average**
1. Liquid Funds	32.20	28.08	8.62	9.88	5.34	84.12	16.82
2. Investments	10.76	18.93	35.06	33.69	36.20	134.64	26.93
3.Loan&Advances	48.90	46.70	50.76	50.70	54.75	251.18	50.36
4.Interset+Accured	2.47	2.41	2.22	0.96	0.94	9	1.8
5.Others	5.67	3.88	3.34	4.77	2.77	20.43	4.09
Total	**100**	**100**	**100**	**100**	**100**	**500**	**100**

Source: Banking and Financial Statistics of NRB Mid July 2008 (Appendix - V)

From the above analysis, contribution of capital fund in total sources of funds of HBL is 5.72%. Similarly deposits contribute more funds in total sources of funds i.e. 85.53%. Borrowing occupies only 0.81% of the total source. And remaining funds is contributed by other sources i.e.7.94%. It can be said that deposits is the main sources of funds.

These above sources of funds are used for different purposes. HBL has maintained liquid funds of 16.82% out of total sources. It makes average investment of 26.93%. It provided loans and advances of 50.36% to its customer. Out of total uses percentage covered by other uses is 4.09% and interest occurred is 1.8% of the total uses of funds.

Figure 4.21
Sources of Funds of HBL Based on Mean Ratio Percentage

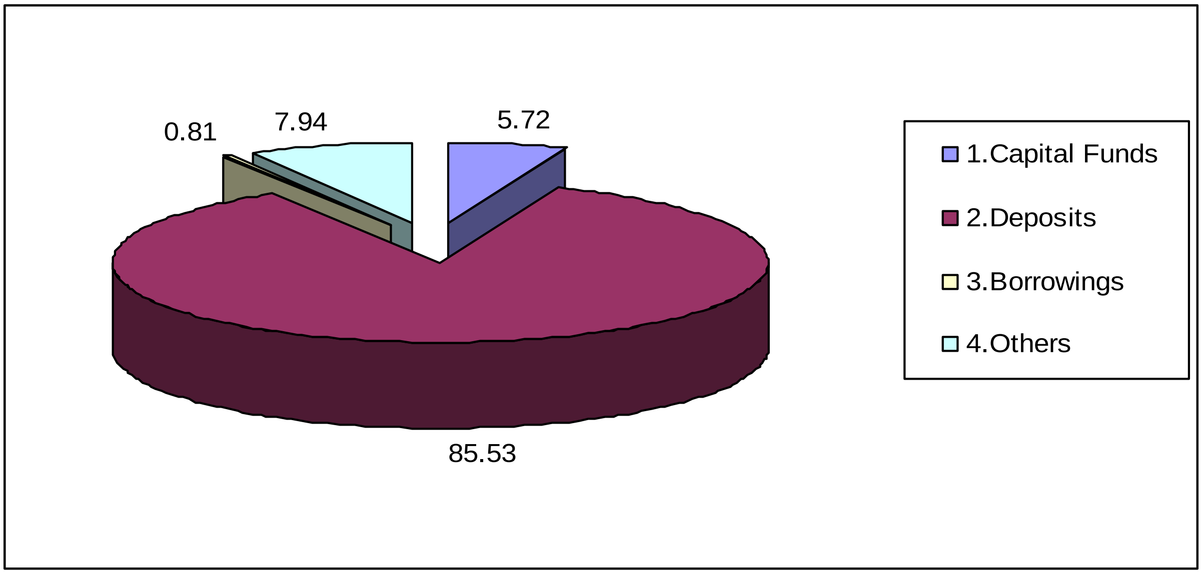
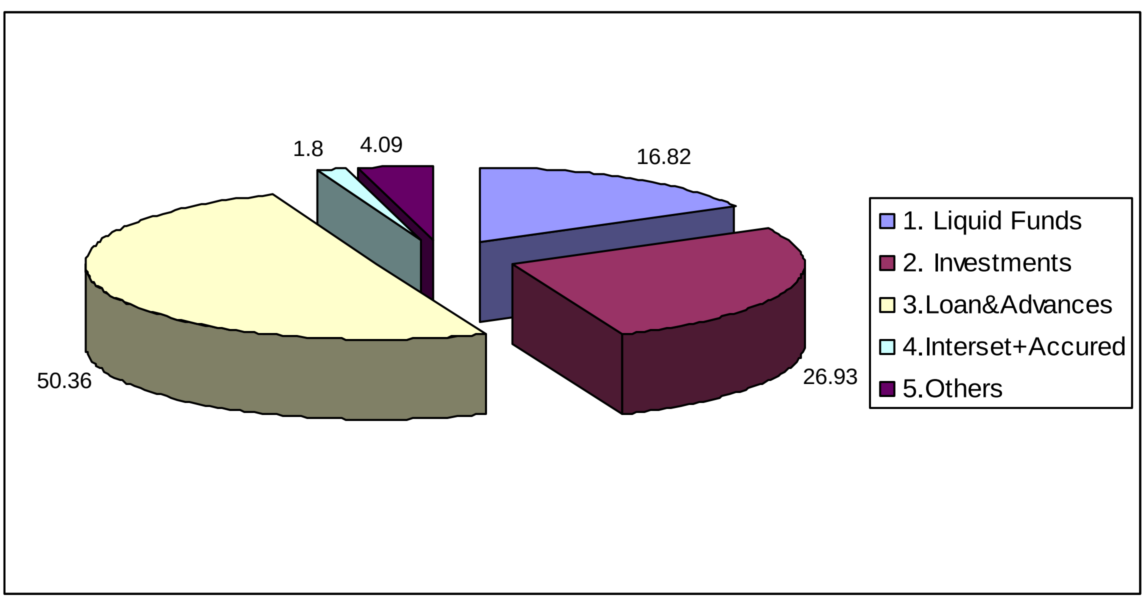


Figure 4.22
Uses of Funds of HBL Based on Mean Ratio Percentage



4.2.3 Comparative Analysis of Sources

The following table shows the average sources of two joint venture banks.

Table 4.23
Comparative average sources of Nabil and HBL

Particulars	Average %	
	Nabil	HBL
Capital Fund	7.88	5.72
Deposits	80.86	85.53
Borrowings	1.76	0.81
Others	9.5	7.94
Total	100	100

From the above analysis, capital fund of Nabil is higher in comparison to HBL i.e. 7.88% capital base of HBL is not good. Since the deposit, contribution to total sources of funds is high. The deposit proportion of HBL is higher than Nabil. Nabil has borrowed proportionately more fund than that of HBL. Deposit proportion of Nabil is lower than that of HBL. Likewise involvement of other sources of fund of Nabil is 9.5% which is greater than HBL.

4.2.4 Comparative Analysis of Uses

The subsequent table shows the average uses of funds of the two joint venture banks.

Table 4.24

Comparative Average uses of funds of Nabil and HBL

Particulars	Average %	
	Nabil	HBL
Liquid Funds	11.52	16.82
Investments	27.71	26.93
Loan and Advances	54.24	50.36
Interest+ Accured	0.68	1.8
Others	5.86	4.09
Total	100	100

HBL has maintained high liquid funds than Nabil i.e. 16.82%. Nabil is successful to make investment indifferent sector in comparison to HBL. Nabil has proportionally higher investment i.e. 27.71%, which is grater than HBL. Out of total uses of funds, loan and advances of Nabil contribute 54.24% in average which is higher than HBL. Nabil has the low proportion of interest receivable i.e. 0.68%. Nabil is comparatively able to realize interest as it has maintained low proportion of interest receivable in relation to total available funds. HBL has least allocation of funds under other assets in comparison to Nabil.

4.3 Cash flow Analysis

The cash flow analysis of the banks are grouped in to three categories according to the nature of business activities namely cash flows from operating activities, investing activities an financial activities. These activities show the movements of cash in the two banks. They are summarized in the following table.

4.3.1 Cash flow Analysis of Nabil

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

Table 4.25

Cash flow from different Banking Activities of Nabil

(Rs. in Million)

Year	CFOA	CFIA	CFFA
2004	710.65	109.02	720.56
2005	138.78	549.88	0
2006	1030.74	1101.60	0
2007	544.23	225.35	0
2008	1503.62	472.30	240

Source: Annual Report of Nabil (Appendix- VI)

Above analysis shows the cash in flow and out flow of Nabil during five years study period. Operating activities of Nabil is in fluctuating trend operating efficiency of this bank is decreasing in 2005, increasing in 2006 again decreasing in 2007 and increasing in 2008 respectively. Nabil has the maximum operating activities in year 2008.

Investing activities of Nabil is in fluctuating trend. Investing efficiency of this bank is increasing in 2004 to 2006 and decrease in 2007 and again increase in 2008 by some portion.

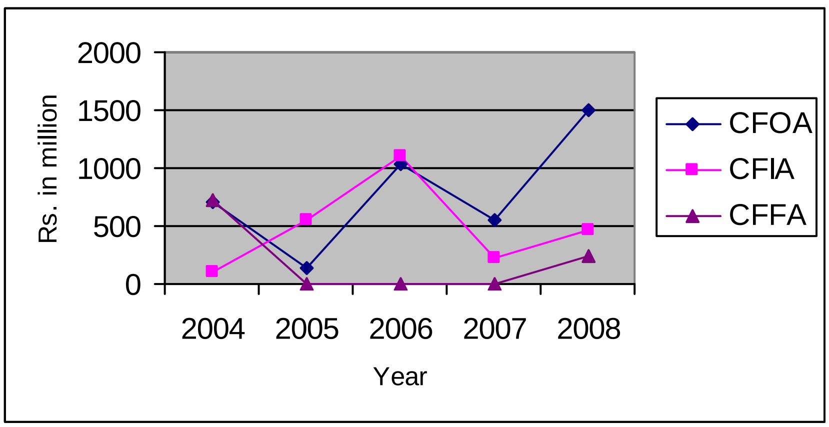
Nabil has the maximum investment of Rs.1101.60 million in year 2006. Investing more cash in investing activities it can achieve profitable opportunity.

Cash flow from financing activities of Nabil is fluctuating. Year 2005,2006 and 2007 Nabil has unable to generate cash flow. It has more cash flow from financing activities in year 2004 i.e. Rs. 720.56 million. It appears cash acquisition efficiency of bank is better in year 2004.Is has only Rs.240 million from financing activities in the year 2008.

Cash flow activities of Nabil are also shown by the help of following figure.

Figure 4.23

Cash flow from different Banking Activities of Nabil



4.3.2 Cash flow Analysis of HBL

Table 4.26

Cash Flow of Different Banking Activities of HBL

(Rs. in Million)

Year	CFOA	CFIA	CFFA
2004	4241.36	781.03	90.10
2005	585.54	31.31	0
2006	590.61	287.41	0
2007	700.78	997.51	0
2008	273.07	1144.97	366.76

Source: Annual Report of HBL (Appendix- VII)

Above analysis shows the cash in flow and outflow of HBL. The operating efficient of HBL is in decreasing fluctuation trend it is high is in the year 2004 i.e Rs.4241.36 million and low is in the year 2008 i.e. Rs.273.07 million.

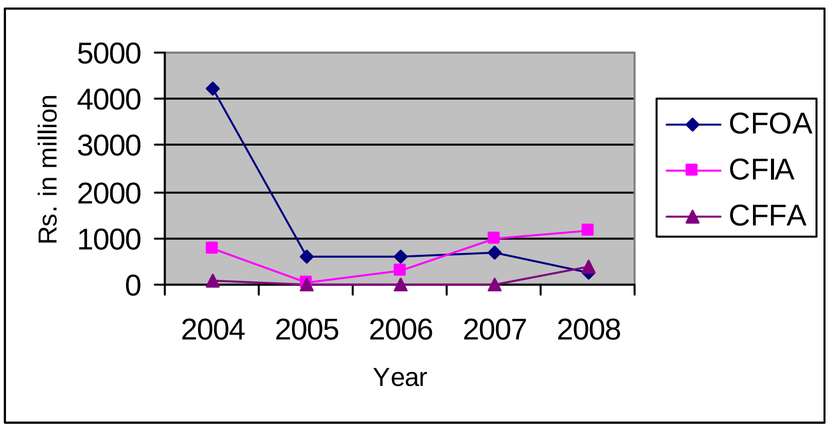
Investing activities of HBL is in fluctuating trend. It is high is in the year 2008 i.e Rs.1144.97 million and low is in the year 2005 i.e. Rs.31.31 million.

Cash flow from financing activities of HBL is fluctuating. Year 2005,2006 and 2007 Nabil has unable to generate cash flow. It has more cash flow from financing activities in year 2008 i.e. Rs. 366.76 million. It appears cash acquisition efficiency of bank is better in year 2008.Is has only Rs.90.10 million from financing activities in the year 2004.

Cash flow activities of HBL are also shown by the help of following figure.

Figure 4.24

Cash Flow of Different Banking Activities of HBL



4.3.3 Comparative Cash Flow Analysis of Nabil and HBL

4.3.3.1 Cash Flow Analysis from Operating Activities (CFOA)

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

Table 4.27

Comparative CFOA of Nabil and HBL

Rs. in million

Year	Nabil	% Change	HBL	% Change
2004	710.65	_	4241.36	_
2005	138.78	(80.47)	585.54	(86.19)
2006	1030.74	642.72	590.61	0.87
2007	544.23	(47.20)	700.78	18.65
2008	1503.62	176.28	273.07	(61.03)

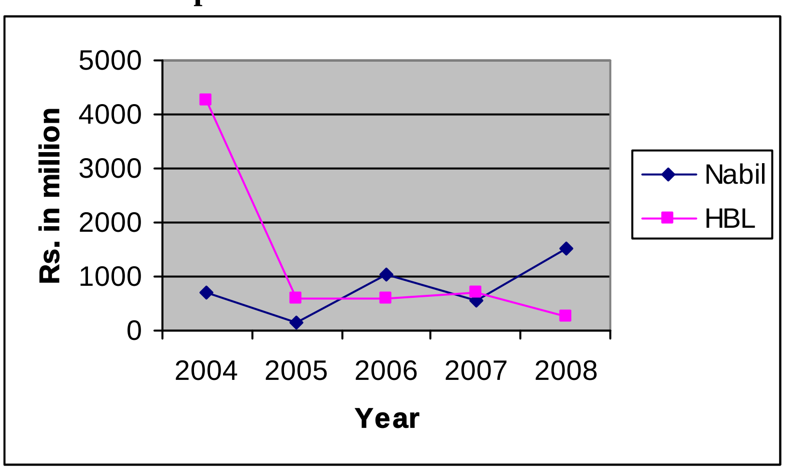
Source : Annual Reports of Nabil and HBL

From the above analysis operating activities of Nabil and HBL are in fluctuating trend where as HBL has the more fluctuating in cash flows, in comparative analysis there is the highest cash inflow Rs.4241.36 million in the FY 2004 of HBL and lowest cash inflow of Rs. 138.78 million in the FY 2005 of Nabil.

In the above analysis we can see that the positive as well as negative changes in cash flow from operating activities of Nabil and HBL due to fluctuation in operating activities.

Cash flow from operating activities of two banks are also shown by the help of following figure:

Figure 4.25
Comparative CFOA of Nabil and HBL



4.3.3.2 Cash Flow Analysis from Investing Activities (CFIA)

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

Table 4.28
Comparative CFIA of Nabil and HBL

Rs. in million

Year	Nabil	% Change	HBL	% Change
2004	109.02	_	781.03	_
2005	549.88	404.38	31.31	(95.99)
2006	1101.60	100.33	287.41	817.95
2007	225.35	(79.54)	997.51	247.07
2008	472.30	109.59	1144.97	14.78

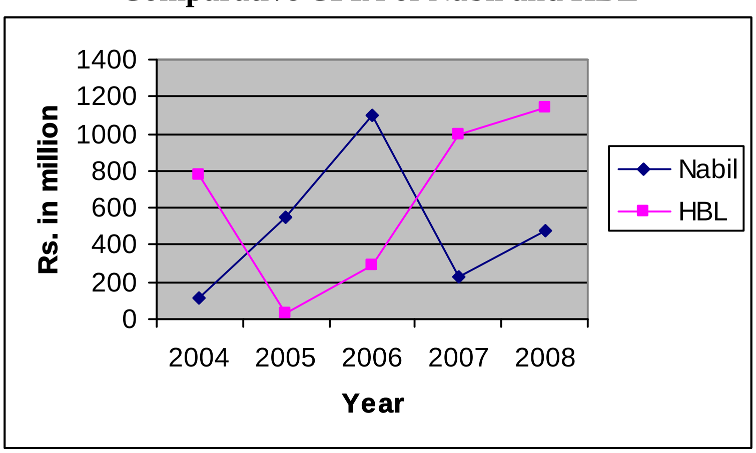
Source: Annual Report of Nabil and HBL

The investing activities of two banks have cash outflows in fluctuating trend throughout the study period. HBL has the highest cash outflow of Rs.1144.97 million in FY 2008 and lowest cash outflow Rs.31.31 million in FY 2005 where as Nabil has the highest cash outflow of Rs.1101.60 million in FY 2006 and lowest cash outflow Rs.109.02 million in FY 2004.

Considering percentage changes in investing activities of two banks, we observe that the negative and positive cash changes in two banks. It is because of fluctuations in investing of activities we can see more changes in investing activating of HBL in year 2006 i.e. 817.95%. It means that HBL drastically increased its investment in comparison to previous years.

Cash from investing activities of two banks are also shown by the help of following figure:

Figure 4.26
Comparative CFIA of Nabil and HBL



4.3.3.3 Cash Flow Analysis from Financing Activities (CFFA)

Following comparative table shows the cash from financing activities of two banks.

Table 4.29
Comparative CFFA of Nabil and HBL

Rs. in million

Year	Nabil	% Change	HBL	% Change
2004	720.56	_	90.10	_
2005	0	(100)	0	(100)
2006	0	_	0	_
2007	0	_	0	_
2008	240	_	366.76	_

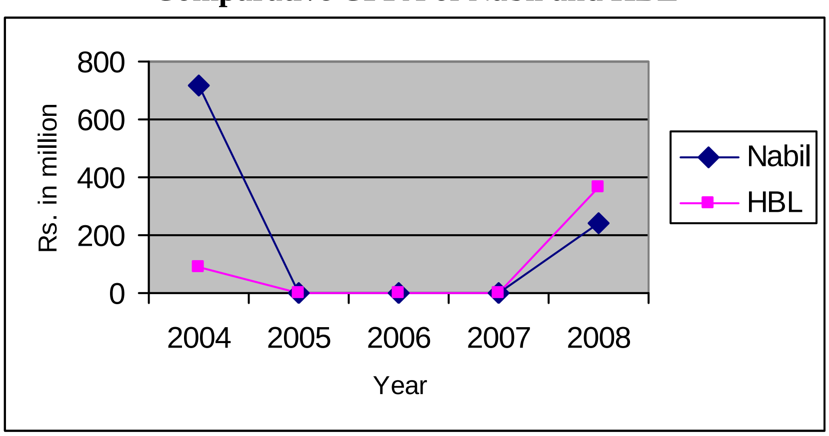
Source: Annual Report of Nabil and HBL

The above analysis shows that cash flow of financing activities of two banks. Cash flows of Nabil in the FY 2004 is Rs.720.56 million and FY 2008 is Rs.240 million. Similarly Cash flows of HBL in the FY 2004 is Rs.90.10 million and FY 2008 is Rs.366.76 million but both banks are unable to create cash in flow from financing activities from the FY 2005 to 2007. Nabil has the more cash for financing activities than HBL in the year 2004 but HBL has the more cash for financing activities than Nabil in the year 2008.

In the analysis of proportionate changes of cash flow from financing activities, we observed that two banks have the negative changes in the FY 2005 and during the year FY 2004 and FY 2006 to 2008 both banks are unable to generate cash inflow.

Cash from financing activities of two banks is also shown by the help of following figure:

Figure 4.27
Comparative CFFA of Nabil and HBL



4.4 Correlation Analysis

Correlation analysis describes the relationship between variables with positive or negative. This analysis are analyzed under this heading.

4.4.1 Analysis of Correlation Coefficient between Deposits and Total Investment

The following table describes the relationship between deposits and total investment of Nabil and HBL under 5 years study period. In this case deposit is independent variable (X) and total investment is dependent variables (Y).

Table 4.30
Correlation Coefficient between Deposits and Total Investment

Banks	Base of Evaluation			
	r	r^2	P.E.	6× P.E.
Nabil	0.9273	0.8599	0.0219	0.1314
HBL	0.8901	0.7923	0.0627	0.3762

Source : Appendix III

From the above table, it is found that coefficient of correlation between deposits and total investment of Nabil is 0.9273 i.e. high degree of positive correlation between these two variables. And the value of coefficient of determination (r^2) is also 0.8599 which means approximately 86% of investment decision is depend upon deposit and only 14% investment is depend upon other variables. Similarly probable error P.E. is 0.0219 and 6P.E is 0.1314 which shows that 'r' is highly greater than 6P.E. Therefore it reveals that relationship between deposit and investment is significant.

Like wise in case of HBL, coefficient of correlation between investment and deposits is 0.8901 i.e. high degree of positive correlation between two variables. Coefficient of determination (r^2) is 0.7923 which means approximately 79% of investment decision is depend upon deposit and only 21% investment depends and other variables and P.E. is 0.0627 and 6P.E. is 0.3762 which is less than 'r' i.e. 0.8901. It means correlation of coefficient between deposit and investment of HBL is significant.

4.4.2 Analysis of Correlation Coefficient between Deposits and Loan and Advances

The following table describes the relation between deposits and loan and advances of Nabil and HBL with comparatively under five years study period. In the following case deposit is independent variables (X) and loan and advances is dependent variables (Y).

Table 4.31
Correlation Coefficient between Deposits and Loan and Advances

Banks	Base of Evaluation			
	r	**r^2**	**P.E.**	**6× P.E.**
Nabil	**0.9894**	**0.9789**	**0.0064**	**0.0382**
HBL	**0.9734**	**0.9476**	**0.0158**	**0.0106**

Source : Appendix III

From the above table, we can find that the coefficient of correlation between deposits and loan and advances value of 'r' of Nabil and HBL are 0.9894 and 0.9734 respectively. This shows the positive relationship between these two variables i.e. loan and advances and deposits. By considering coefficient of determination (r^2) the value of r^2 is 0.9789 incase of Nabil and 0.9476 in case of HBL. The value of r^2 of Nabil is 0.9789 which means approximately 98% of loan and advance decision is depend upon deposits and only 2% loan and advance depends upon other variables. The value of r^2 of HBL is 0.9476 which means that approximately 95% of loan and advance decision is depend upon deposit and only 5% loan and advance depends upon other variables.

By considering the probable error (P.E.) the value of r^2 less than the 6 times of P.E. i.e. 0.9789 >0.0382 and 0.9476 > 0.0106 which indicates that there is significant relationship between deposits and loan and advances of Nabil and HBL respectively.

The value of r^2 of Nabil is 0.9789 which means approximately 98% of loan and advances decision is depend upon deposit and only 2% is depend upon loans advances. Similarly, the value of r^2 of HBL is 0.9476 which means approximately 95% of loan and advances decision is depend upon deposit and only 5% is depend upon loans advances.

4.5 Major Findings

Basically in this research work, all the data has been obtained from secondary sources. Data has been analyzed by using financial as well as statistical tools. This topic focuses on the major findings of the study, which are derived from the analysis of fund mobilization of Nabil and HBL with comparatively applying five years data from 2004 to 2008.

The major findings of the study derived from the analysis of financial tools of Nabil and HBL given below:

1. Findings from Liquidity Ratios

i. The mean ratio of cash and bank balance to total deposit of HBL is higher than Nabil. It states that the Liquidity position of HBL is better in this regard. The ratio of HBL is less consistent and Nabil has more consistent ratio. It shows Nabil has taken more risk to meet the daily cash requirements.

ii. The mean ratio of cash and bank balance to current assets of HBL is higher than Nabil. It reveals that HBL has the higher capacity to meet the cash demand of its customer deposit than that of Nabil. The ratio of HBL is less consistent and Nabil has more consistent ratio.

iii. The average ratio of investment of government securities to current assets of HBL is higher than that of Nabil. It reveals that investment on government securities of HBL is stronger than Nabil. Analysis shows that investment of government securities of Nabil is more consistent.

The above result shows that the Liquidity position of HBL is comparatively better than Nabil. HBL has highest cash and bank balance to current assets and investment on government securities to current assets ratio. HBL has enough in cash and bank balance to total deposit ratio. At Last, it can conclude that HBL has good deposit collection higher ability to meet the cash requirements.

2. Findings from Assets Management Ratios

i. The mean ratio of loan advances to total deposit of Nabil is greater than HBL. The variability ratio of Nabil is lower than HBL. It seems more consistent than HBL.
ii. The average ratio of total investment to total deposit ratio of HBL is higher than that of Nabil. The variability ratio of Nabil lowers than HBL.
iii. The average ratio of loan and advances to total working fund of Nabil is higher than HBL. The variability ratio of Nabil is lower than that of HBL. It is the indication of more consistency of loan and advances.
iv. The average ratio of investment on government securities to total working fund of HBL is higher than Nabil. It seems Nabil has more consistent to make investment on government securities.
v. The mean ratio of investment on shares and debentures to total working fund of Nabil is greater than HBL, where HBL has the lower variability of the ratio. It shows the stable investment on shares and debentures.

From the above analysis it helps to conclude that Nabil is comparatively successful to invest in loan and advance, total deposit, total working fund and investment on share and debenture and HBL has successful to invest in government securities in productive sector. It seems stronger incase of investing fund.

3. Findings from Profitability Ratio

i. The mean ratio of return on loan and advances of Nabil is higher than HBL. The variability ratio (C.V.) of HBL is lower than Nabil. It seems HBL has stable return.
ii. The mean ratio of return of on total working fund of Nabil is greater than HBL, where as the variability ratio of Nabil is lower than HBL. It indicates that the return on total working fund of Nabil is stable.
iii. In case of mean ratio of total interest earned to total working fund of Nabil is higher ratio than HBL. The variability ratio of HBL is lower than Nabil. It reveals that Nabil is mobilizing its working fund successfully so that is has high earning capacity.

iv. The mean ratio of total interest paid to total working fund of Nabil is lower than HBL. It reveals that Nabil has not paid high interest as HBL. The ratio of HBL is more consistent than Nabil.

From the above analysis of profitability ratio, it can be concluded that Nabil is profitable in comparison to HBL.

4. Findings from Risk Ratios

i. The mean ratio of Liquidity risk of Nabil is lower than HBL. Degree of risk and variability of risk is also lower in Nabil in comparison to HBL. It seems Liquidity risk ratio of Nabil is more is consistent.

ii. In case of credit risk ratio Nabil has the lower risk than HBL. The variability ratio of HBL is lower than Nabil. It indicates that the credit risk ratio of HBL is more consistent.

From the above analysis Nabil has maintained the lower Liquidity risk and lower credit risk and lower Liquidity risk means higher risk for higher profit.

5. Findings from Growth Ratios

i. The growth ratios of total deposits of Nabil & HBL are increasing every year. Out of two banks growth rate of total deposits of Nabil is greater than HBL. It shows that Nabil has increased its deposit collection capacity.

ii. The growth rate of total investment of Nabil is higher than HBL. It means HBL must adopted a policy to keep on increasing investment.

iii. Growth rate of Nabil is higher than HBL. Though HBL is providing more funds in loan and advances it appears weak in growth rate point of view.

iv. The growth rate of profit of HBL is increasing trend the during study period. HBL has the higher growth ratio of net profit than Nabil. From the above findings it can be observed that the Nabil has maintained the high growth ratio in total deposits, total investment Loan and advances and HBL has maintain net profit.

6. Findings from Analysis of sources and uses of funds

i. Capital base of Nabil has been better than HBL. It can be said that Nabil has been able to generate high volume of profit from operation than HBL.

ii. HBL has been remained very successful incase of mobilizing deposits during the study period in comparison to Nabil. HBL is considered as a high Liquidity sensitive bank.

iii. In case of borrowing of funds borrowing from different sources are used. It depends upon borrowing to discharge its obligation. This is an indication that the internal fund management of HBL is not satisfactory towards meeting Liquidity needs. Whereas Nabil has been borrowing low proportion in comparison HBL.

iv. In Comparison of two banks, Nabil is successful to generate funds from other sources.

v. HBL has maintained high Liquid funds than Nabil. Considering Liquidity, it is good for holding necessary Liquid. In the banks but holding necessary Liquid funds is not favorable for income generation.

vi. Nabil has been successful to make investment in different sectors in comparison to HBL.

vii. Nabil provide more funds as a loan and advances than HBL.

viii. Nabil is comparatively able to realize interest as it has maintained low proportion of interest receivable in relation to total available funds. Whereas HBL is not able to realize interest receivable because of high proportion of interest receivable.

ix. Nabil allocates more proportion of funds to other assets high allocation of such assets leads a bank to a less liquid position and vice versa.

7. Findings from Cash Flow Analysis

a. Finding from Operating Activities

Overall operating activities of Nabil and HBL have been occurred cash inflows throughout the study period. Operating efficiency of both banks in fluctuating trend during the study period.

b. Finding from Investing Activities

The investing activities of two banks have occurred cash outflows throughout the study period. Nabil and HBL both are fluctuating trend where as Nabil has highly fluctuating trend of investing activities. By the help of investing activities, these two banks are able to increase long term assets as well as carry out profitable opportunity.

c. Finding from Financing Activities

It shows that cash acquisition capacity of HBL is more than Nabil. During year 2005,2006 and 2007 Nabil and HBL both are unable to create cash inflow from financing activities. The condition may arise due to the unavailability of cash flow from share, insufficient profit, dividend payment. Due to these cause Nabil invested less amount which all arise from operating activities.

8. Finding from Coefficient of Correlation Analysis

i. Correlation coefficient between deposit and total investment of Nabil is higher than HBL. It indicates that Nabil is successfully mobilizing its deposits as investment. There is significant relationship between correlation coefficient of deposit and total investment of Nabil and HBL.

ii. Nabil has the highest degree of correlation coefficient between deposit and loan and advances than HBL. It states that the Nabil is better position of mobilization of deposit as loan and advances in comparison to HBL, there are significant relationship between correlation coefficient of deposit and loan and advances of Nabil and HBL.

CHAPTER- V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Basically the entire research work focus on the comparative study on deposit mobilization of two Joint Venture Banks, Nabil Bank Ltd. And Himalayan Bank Ltd. These two joint venture banks are composed as per their deposit mobilization activities by taking five years data from the year 2004 to 2008.

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

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

This study suffers from different Limitation, it considers two banks only and time and resource are the constraints of the study. Therefore the study may not be generalized in all cases and accuracy depends upon the data collected and provided by the organization and previous thesis studies.

5.2 Conclusion

From the analysis of Liquidity ratio, the Liquidity position of HBL is comparatively better than Nabil. HBL has highest cash and bank balance to current assets and investment to government securities to current assets ratio.

Considering assets management aspect of two banks, Nabil is relatively successful to invest in productive sector and has mobilized its collected deposits to provide loan and advance for the purpose of earning profit. HBL has weak condition in mobilizing its collected deposits in comparison to Nabil. In comparison of two banks, Nabil seems more successful in mobilizing total working fund on loan and advances and investment on shares to maximize its earning capacity and HBL seems more successful in mobilizing total working fund on investment on Govt. securities.

The Liquidity risk ratio of HBL is higher than Nabil that appears to be less profitable return of HBL. On other hand Liquidity risk ratio of Nabil has the lowest in comparison to HBL which specified that Nabil has kept idle funds in the form of cash and bank balance but this reduces profitability. Nabil has lowest credit risk ratio. Credit risk involved in loan and advances and total investment of HBL is more than Nabil. It may arise due to default risk or non repayment of loan.

Nabil appears to be more successful to earn profit on loan and advances than HBL. The average ratio of return to total working fund indicates the total working fund of Nabil is well managed and efficiently utilized.HBL was not able to receive high interest on total working fund in comparison with Nabil. On the other hand, Nabil has mobilized its working fund properly and its earning capacity is also high. Nabil is in better position from the viewpoint of interest expenses.

Growth ratio of total deposits, total investment, loan and advances and net profit of Nabil in comparison to HBL, HBL has low growth ratio in comparison to Nabil. HBL has maintained high growth ratio of profit. Therefore, we must say that the Nabil is successful in increasing its sources of funds and its mobilization.

Deposit is the strongest sources of fund where as borrowings cover fewer portions of sources of fund. HBL has kept fewer amounts in deposit in comparison to Nabil. Among the uses of funds loan and advances cover maximum portion and interest occurred coverless portion of both banks. HBL has invested fewer amounts into loan and advances in comparison to Nabil.

The operating activities of Nabil and HBL have been occurred cash inflows throughout the study period. Operating efficiency of two banks are in fluctuating trend during the study period. The investing activities of two banks have deserved cash outflows throughout study period. By the help of investing activities, these two banks are able to increase long term assets as well as carry out profitable opportunity. The financing activities shows the cash acquisition capacity of HBL is more than Nabil. During the year 2005,2006 and 2007 both banks are unable to generate cash inflow from financing activities. The condition may arise due to unavailability of cash flow from share, insufficient profit dividend payment.

Correlation coefficient between deposit and total investment of Nabil and HBL indicates the positive relationship or there is high degree positive correlation. Most of the investment decisions depend upon deposits and only few decisions of two banks are depend upon other variables. Moreover by considering the probable error, the value of coefficient of determination of Nabil and HBL both are more than 6 P.E. so it is significant relationship between deposit and total investment.

Correlation coefficient between deposits and loan and advances indicates the positive relationship between the variables of Nabil and HBL. In most of the investment decision of these two banks depends upon deposits and only few decisions are depend upon other variables. Moreover by considering the probable error the value of coefficient of all banks is greater than that of 6 P.E. so it can be concluded that the value of correlation coefficient is significant i.e. there is significant relationship between total deposit and loan and advances.

5.3 Recommendations

Suggestion is the output ions of the whole study. It helps to take corrective action in their activities in future. Different analysis were done till arrive this step on the basis of above analysis and findings of the study, following suggestions may be referred to over come weakness, inefficiency and to deposit mobilization of Nabil and HBL.

- **To maintain effective Liquidity Position**

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

- **To Increase Deposit Collection**

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

- **To make more Investment in Government Securities**

From the study Nabil has not invested more funds in government securities. Nabil has made lower investment amount on government securities. Nabil’s investment on government securities is not satisfactory position. Investment on those securities issued by government i.e. treasury bills, development bonds, saving certificates are free of risk and highly Liquid in nature and such securities yield the low interest rates of a particular maturity due to lowest risk in future, it is more better in regard to safety than other means of investment. So, Nabil is strongly recommended to give more importance to invest more funds in government securities instead of keeping them idle.

- **To make more Investment on Share and Debentures**

To get success in the competitive market and to raise financial and economic development of the country, a commercial bank must mobilize its fund in different sectors such as purchase of share and debentures of other financial and non-financial companies and other government and non-government companies. It is also genuine means of utilization of resource. Thus those companies may get chances to rise and that help to development of the country. Out of total working fund, investment on shares and debentures of HBL is lower than Nabil. HBL is suggested to invest more of its fund in share and debentures of different companies.

- **To Make Profitable Return**

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

- **To Prefer Aggressive Defensive Policy**

Observing the findings of growth analysis; it has noticed that Nabil has been adopting an aggressive policy in all the parameters including loan and advances. Although HBL's profitability position is weak than Nabil, HBL has the high ratio in growth ratio of net profit. As the economy has not been able to show the survival growth, the aggressive policy may prove to be harmful in future. Nabil should rather perform an aggressive defensive policy in mobilizing the resources into loans.

- **To Invest Deprive and Priority Sector**

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

- **To Make Effective Portfolio Management**

The total fund of bank is the aggregation of different portfolio such as deposits, capital fund, borrowing and other deposit liabilities. It is need not to state that deposit liability is the major contribution source of considering the position of HBL, the contribution of deposits of total source funds is high .It is definitely not a good sign .HBL are therefore, recommended to enhance its capital base and operation resources of funds of the bank. High contribution of deposition the total source of funds demands, high level of liquid assets and it is threat of with drawls.

Portfolio management is very important for every investor. In each investment risk is involved. Risk is the chance of loss or the variability of the returns of a period. The greater the variability of the returns project will be a riskier. So it is kept in mind while investing in the project which would be lower risk and higher return. Portfolio Management plays vital role with dividing total investment in different areas. Portfolio management of the bank assets basically means allocation of funds in different components of banking assets having different degrees of risk and varying rate or return in such a way that the conflicting goal of maximums yield and minimum risk can be achieved. So portfolio conditions of Nabil and HBL should be examined carefully from the time to time and alteration should be made to maintain equilibrium in the portfolio.

condition as far as possible. So it can be said "all eggs should not be kept in the same basket." The bank should make continuous efforts to explore new competitive and high yielding investment opportunities to optimize their investment portfolio.

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