CHAPTER I

INTRODUCTION

1.1 General Background

Banks have played a critical role in the economic development of a country. Banks today are important not just from the point of view of economic growth, but also financial stability. In emerging economies, banks are significant for three important reasons. First, they take a leading role in developing other financial intermediaries and markets. Second, due to the absence of well-developed equity and bond markets, the corporate sector depends heavily on banks to meet its financing needs. Finally, in emerging markets such as Nepal, banks cater to the needs of a vast number of savers from the household sector, who prefer assured income and liquidity and safety of funds, because of their inadequate capacity to manage financial risks.

Banking activities are referred to as 'accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal, by cheque, draft, order or otherwise.' This definition points to the three primary activities of a commercial bank which distinguish it from the other financial institutions. These are: (i) maintaining deposit accounts including current accounts, (ii) issue and pay cheques, and (iii) collect cheques for the bank's customers.

Forms of banking have changed over the years and evolved with the needs of the economy. The transformation of the banking system has been brought about by deregulation, technological innovation and globalization. While banks have been expanding into areas which were traditionally out of bounds for them, non-bank intermediaries have begun to perform many of the functions of banks. Banks thus compete not only among themselves, but also with nonbank financial intermediaries, and over the years, this competition has only grown in intensity. Globally, this has forced the banks to introduce innovative products, seek newer sources of income and diversify into non-traditional activities. But this is only possible when bank operates efficiently through effective fund mobilisation. Fund mobilisation is always related with risks and returns. The objective is to make a lot of money by recognising

the possible losses. Fund mobilisation policy also involves the identification of the possible categories of financial assets for consideration in the ultimate portfolio (Joshi).

The most important objective of fund mobilisation is the generation of funds from convenient sources that guarantee cost effectiveness and time efficiency. The most prominent used strategies for fund mobilization among financial institutions are the call marketing strategy, corporate image strategy, and product innovation and packaging. These strategies reveal obvious shifts in both orientation and policy along the following lines: (a) arm-chair banking increasingly being replaced with aggressive call marketing strategy, revealing radical shifts from conservatism to aggressiveness, (b) made-to-measure replacing off-the-peg type of services, and (c) general realization and awareness that treasury management is a strategy in itself.

The role of commercial banks in Nepal has been, and continues to be one undergoing continuous changes in response to emerging economic environment. Prior to nationalisation banks had developed a powerful trend in the direction of monopoly and concentration of wealth in few hands. They were giving credit to only big business houses and large-scale industries and helped financially those individuals who were rich and prosperous. This had led to the process of economic concentration. Agriculture, cottage and small scale industries were totally neglected. In order to bring allocation of credit in consistent with the plan priorities, the concept of priority sector lending was evolved. Financing of priority sectors of the economy has become one of the strategies of the commercial banks in their development

With the nationalisation of major banks, banks became public sector enterprises and their activities were directed towards serving in larger measure the neglected sectors of the economy. Since the neglected sectors constituted the bulk of the Nepalese society, banks had to grow and reach them all over the society. Banks networks were expanded particularly in un-banked and under-banked centres reducing regional disparities in the level of economic development. As present, banks are playing a catalyst role in the development process of the economy.

In this study, we have focused on the fund mobilisation of commercial banks of Nepal in general with reference to five major commercial banks namely, Standard Chartered Bank Ltd., Nabil Bank Ltd., Everest Bank Ltd., Himalayan Bank Ltd. and Nepal Investment Bank Ltd. as its sample out of the total population; which are briefly introduced as follows:

1.1.1. Introduction of Sample Banks:

1.1.1.1. Standard Chartered Bank Ltd. (SCBL):

SCBL started its operation in Nepal in 1987 through initial registration as a joint-venture operation. Globally, it has a history of over 150 years in banking and operates in many of the world's fastest-growing markets with an extensive global network of over 1750 branches (including subsidiaries, associates and joint ventures) in over 70 countries. This diversity lies at the heart of the bank's values and supports the bank's growth as the world increasingly becomes one market.

In Nepal, the bank has pioneered in introducing "customer focused" products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. It is the first bank in Nepal that implemented the Anti-Money Laundering policy and applied the "Know Your Customer" procedure on all the customer accounts. Today the bank enjoys the status of the largest international bank currently operating in Nepal.

Table 1.1: Ownership Structure of SCB

Subscription	% Holding
Foreign ownership	75%
Nepalese Public share holder	25%
Total	**100%**

Source: website: www.standardchartered.com.np

Leading by example to be the right partner for its stakeholders, the Group is committed to building a sustainable business over the long term that is trusted worldwide for upholding high standards of corporate governance, social responsibility, environmental protection and employee diversity.

1.1.1.2 Nabil Bank Ltd. (NABIL)

Nabil Bank Limited commenced its operation on 12 July 1984 as the first joint venture bank in Nepal. Dubai Bank Limited, Dubai (later acquired by Emirates Bank International, Dubai) was the first joint venture partner of NABIL. Currently, NB (International) Limited, Ireland is the foreign partner. Nabil Bank Limited had the official name Nepal Arab Bank Limited

till 31st December 2001. NABIL is pioneer in introducing many innovative products and marketing concept in banking sector of Nepal. Now days Nabil Bank has different cards like visa electronic debit card, local currency visa and master card, USA dollar Master Card and foreign currency travel Master Card. The ownership of NABIL is composed as:

Table 1.2: Ownership Structure of NABIL

Subscription	% Holding
Foreign ownership	50%
Financial Institution (Employees Provident Fund)	20%
Nepalese Public share holder	30%
Total	**100%**

Source: website: www.nabilbank.com

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

1.1.1.3 Himalayan Bank Ltd. (HBL)

Himalayan Bank Limited was incorporated in 1992 A.D. by distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial bank of Pakistan. Banking operation was commenced from January 1993 A.D. and is the first joint venture bank managed by Nepali Chief Executive. Besides commercial activities, bank also offers industrial and merchant banking facilities. The ownership of HBL is composed as:

Table 1.3: Ownership Structure of HBL

Subscription	% Holding
Promoter Share Holders	51%
Habib Bank Ltd., Pakistan	20%
Financial Institution (Employees Provident Fund)	14%
Nepalese Public share holder	15%
Total	**100%**

Source: website: www.himalayanbank.com

Himalayan Bank Limited holds of a vision to become a leading bank of the country by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the Bank.

1.1.1.4 Everest Bank Ltd (EBL)

Everest Bank Ltd. Started its operation in 1994 with a view and objective of extending professionalised and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries, which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and UK.

EBL has set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

Table 1.4: Ownership Structure of EBL

Subscription	% Holding
Foreign Institutions	20%
Other Institutions	9.34%
Individuals	40.66%
General Public	30
Total	**100%**

Source: website: www.everestbankltd.com

Recognizing the value of offerings a complete range of services, EBL have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals.

1.1.1.5 Nepal Investment Bank Ltd. (NIBL)

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world.

With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office.

Table 1.5: Ownership Structure of NIBL

Subscription	% Holding
Foreign Ownership	50%
Rastriya Banijya Bank	15%
Rastriya Beemna Sansthan	15%
Nepalese Public share holder	20%
Total	**100%**

Source: website: www.nibl.com.np

`The vision of the bank is to be the most preferred provider of financial services in Nepal.

1.2 Statement of the Problem

Fund mobilisation has always been a major issue driving the ultimate success of any commercial bank. As the major source of funds of Bank happens to be collected deposits, those funds must be effectively and efficiently utilised to minimise the possible chances of monetary failure. Financial failure of international banks was much evidenced by the global credit crunch that resulted from the investment of huge percentage of portfolio in real estate business. The most perfect cited investment policy turned into a great disaster. This proves that a sound financial position and performance of any commercial banks depends on effective and efficient fund mobilisation undertaken considering both the present and future circumstances.

Commercial Banks in Nepal have mushroomed over a short period of time. Generally high flow of money in financial market is evidenced by less viable and profitable investment opportunities in both financial and commercial terms. The numbers of banks have remarkably increased but the investment boundaries have not expanded as expected to be the case.

The central banks, Nepal Rastra Bank have issued rules and regulations at regular intervals on fund mobilisation by commercial banks. However, the reactive approach have resulted in insufficient information on financial risk, interest rate risk, management risk, business risk, liquidity risk, default and purchasing risk, etc and reactive approach of the banks at the most of the time has resulted unsound investment policy.

The national savings is attracted by commercial banks into deposits which are then mobilised into investments into the productive sectors of the economy. The investment into the sectors like agriculture, commerce, service, industry as well as the deprived sectors of the economy helps in the economic growth of the economy. The higher the economic growth, the higher will be the national savings of the economy. It has been found that the present liberal policies and regulatory framework in the banking industry have played a positive role in the growth of commercial banks. The moderate growth of savings and low saving deposit ratio show that there are opportunities for new banks and expansion of the existing ones. The investments mobilized by these banks in sectors like agriculture, commerce; industry and service help strongly in contributing to the gross domestic product (GDP). Hence, the commercial banks in Nepal are playing a very positive role in resource mobilization especially in utilizing the available funds into investments. However, the low saving deposit ratio calls for more concerted effort by these banks as well as demonstrates the feasibility for more banks and bank expansion.

There are still room for improvements for commercial banks to take comprehensive measures of fund mobilisation: to promote the mobilisation of domestic medium and long term funds; exploit and utilise efficiently long term funds from international organisations to finance projects of small and medium-size enterprises, from the rural finance Project, the rural enterprises' finance Project, Corporate Governance to invest in projects of enterprises on manufacturing high-quality products, which are highly competitive in domestic and international markets. Commercial banks should, at the same time, take active and positive measures to collect debts, particularly overdue debts and non-performing to strengthen their funds availability.

In the face of deteriorating investment environment and the elevated level of remittances, there could be an increase in exposure of commercial banks and financial institutions to the real estate sector. These increase lead to the surge of real estate prices. As the banks and financial institutions provide loans to real estate based on the market value of land and houses as collateral, a bubble in the real estate market directly affects the banking sector. However, currently NRB has laid down rules restricting the large volume of transactions in real estate businesses.

In this ground, the study deals with the following issues:

a) Is there any relationship between investment and loan and advances with total deposits?
b) What is the effect of the investment decision on the total earnings of the sample banks?
c) What is the relationship between earning assets and net profit?
d) Is there any stability in fund mobilization among sample banks?
e) Are they maintaining sufficient liquidity position?
f) What is the existing investment policy and practices of commercial banks in Nepal?

1.3 Objectives of the Study

The main objective of the study is to analyse the fund mobilisation policy of commercial banks with the comparative study of the five major commercial banks. The specific objectives of the study are as follows:

a) To analyse the investment policy and practices of commercial banks of Nepal.
b) To examine the relationship of total deposits with total investment, loans and advances and net profit.
c) To evaluate the relationship of investment, loans and advances with total earnings commercial banks.
d) To indicate the trend in fund mobilisation of commercial banks
e) To assess the existing liquidity position of sample banks.
f) To evaluate the relationship of earning assets and net profit of sample banks.

1.4 Limitations of the Study

The following factors have resulted in the hindrance of this study to some extent:

a) The conclusion has been drawn with reference to short period of time of seven years, starting from 2001/02 to 2007/08.
b) The authenticity of the study depends on the accuracy of the data collected from secondary sources.
c) Only five major commercial banks have been selected as part of the study out of the total commercial banks of Nepal and thus the final conclusion drawn may not resemble the true picture.

1.5 Organisation of the Study

The study has been divided into the following five chapters:

Chapter One 'Introduction' deals with general introduction regarding fund mobilisation in general, commercial banks in Nepal with sample details, statement of the problem, objectives of the study, significance of the study and organisation of the study.

Chapter Two 'Review of literature' is mainly focused on literature review that includes a discussion on the conceptual framework on fund mobilisation and review of related empirical studies.

Chapter Three describes the research methodology used to conduct the present research. It deals with research design, sources of data, data processing procedures, population and sample, period of the study, method of analysis, and financial and statistical tools.

Chapter Four deals with presentation, analysis and interpretation of the relevant data through definite courses of research methodology using various financial and statistical tools with major findings of the study.

Chapter Five is related to summary, conclusion and recommendations of the study. Bibliography and appendices have been presented at the end of the study.

CHAPTER II
REVIEW OF LITERATURE

Review of literature refers to the reviewing of the past studies in the concerned field. The chapter has been divided into four main parts. The first part of the chapter is related to the conceptual framework of the study, the second part to the theories/ process of fund mobilisation, the third part with review of related empirical studies and the last section includes conclusions.

2.1. Conceptual Framework

The banking industry offers a wide range of services encompassing the needs of public of different walks of life. It has acquired a key position in mobilising resources for finance and social economic development of a country. "Bank assists both the flow of goods and services, form the products to the customers and the financial activities of the government. Banking provides the country with a monetary system of making payments and is an important part of the financial system, which makes loan to maintain and increase the level of consumption and production in the economy" (American Bankers Association, 1972:162).

The development of the country is always measured by its economic development through economic indices. Therefore, every country has given emphasis on the upliftment of its economy. Nowadays, financial institutions act as catalyst in the process of the economic development through mobilisation of domestic resources. The financial institutions act as intermediaries by transferring the resources from the point of surplus to the deficit. A well managed and organised financial institution including financial companies, commercial banks and other financial intermediaries play an important role in the development of a country. They collect scattered financial resources from the mass and invest them among those who are associated with the social, commercial and economic activities of a country. The most dominant financial institution in the economy of Nepal is none other than the commercial bank itself. This institution offers the public both deposit and credit services. Commercial bans provide capital for the development of industry, trade and commerce by investing the savings collected as deposits from the public. They render various services to their customer facilitating their economic and social life. Therefore, a healthy competitive

and reliable banking system with effective and efficient fund mobilisation policy is essential in very country for its growth and development.

2.1.1 Commercial Banks in Nepal

The commercial banking industry in Nepal started in 1937 with the establishment of Nepal Bank Limited. The government owned 51 percent of the shares in the bank and controlled its operations to a large extent. Nepal Bank Limited was headquartered in Kathmandu and had branches in other parts of the country.

There were other government banking institutions. Rastriya Banijya Bank (National Commercial Bank), a state-owned commercial bank, was established in 1966. The Land Reform Savings Corporation was established in 1966 to deal with finances related to land reforms.

There were two other specialized financial institutions. Nepal Industrial Development Corporation, a state-owned development finance organization headquartered in Kathmandu, was established in 1959 with United States assistance to offer financial and technical assistance to private industry. Although the government invested in the corporation, representatives from the private business sector also sat on the board of directors. The Co-operative Bank, which became the Agricultural Development Bank in 1967, was the main source of financing for small agribusinesses and cooperatives. Almost 75 percent of the bank was state-owned; 21 percent was owned by the Nepal Rastra Bank, and 5 percent by cooperatives and private individuals. The Agricultural Development Bank also served as the government's implementing agency for small farmers' group development projects assisted by the Asian Development Bank and financed by the United Nations Development Programme. The Ministry of Finance reported in 1990 that the Agricultural Development Bank, which is vested with the leading role in agricultural loan investment, had granted loans to only 9 percent of the total number of farming families since 1965.

Since the 1960s, both commercial and specialized banks have expanded. More businesses and households had better access to the credit market although the credit market had not expanded.

In the mid-1980s, three foreign commercial banks opened branches in Nepal. The Nepal Arab Bank was co-owned by the Emirates Bank International Limited (Dubai), the Nepalese government, and the Nepalese public. The Nepal Indosuez Bank was jointly owned by the French Banque Indosuez, Rastriya Banijya Bank, Rastriya Beema Sansthan (National Insurance Corporation), and the Nepalese public. Nepal Grindlays Bank was co-owned by a British firm called Grindlays Bank, local financial interests, and the Nepalese public.

Nepal Rastra Bank was created in 1956 as the central bank. Its function was to supervise commercial banks and to guide the basic monetary policy of the nation. Its major aims were to regulate the issue of paper money; secure countrywide circulation of Nepalese currency and achieve stability in its exchange rates; mobilize capital for economic development and for trade and industry growth; develop the banking system in the country, thereby ensuring the existence of banking facilities; and maintain the economic interests of the general public. Nepal Rastra Bank also was to oversee foreign exchange rates and foreign exchange reserves.

Prior to the establishment of Nepal Rastra Bank, Kathmandu had little control over its foreign currency holdings. Indian rupees were the prevalent medium of exchange in most parts of the country. Nepalese currency was used mostly in the Kathmandu Valley and the surrounding hill areas. The existence of a dual currency system made it hard for the government to know the status of Indian currency holdings in Nepal. The exchange rates between Indian and Nepalese rupees were determined in the marketplace. Between 1932 and 1955, the value of 100 Indian rupees varied between Rs71 and Rs177. The government entered the currency market with a form of fixed exchange rate between the two currencies in 1958. An act passed in 1960 sought to regulate foreign exchange transactions. Beginning in the 1960s, the government made special efforts to use Nepalese currency inside the country as a medium of exchange.

It was only after the signing of the 1960 Trade and Transit Treaty with India that Nepal had full access to foreign currencies other than the Indian rupee. Prior to the treaty, all foreign exchange earnings went to the Central Bank of India, and all foreign currency needs were provided by the Indian government. After 1960 Nepal had full access to all foreign currency transactions and directly controlled its exports and imports with countries other than India.

Commercial banks in Nepal have i8traditionally focused on meeting the short-term financial needs of industry, trade and agriculture. However, given the increasing sophistication and

diversification of the Nepalese economy, the range of services extended by commercial bankshas increased significantly, leading to an overlap with the functions performed by other financial institutions. Further, the share of long-term financing (in total bank financing) to meet capital goods and project-financing needs of industry has also increased over the years.

2.2 Sources and Mobilization of Fund

Every bank has its own fund mobilizing procedure. Generally, the bank adopts such procedures which are easy, quick and effective in practice. The process of fund mobilization is concerned with collection of funds from different sources and allocating them into most profitable sectors. The general fund mobilizing procedure adopted by banks has been presented as follows:

2.2.1. Sources of Fund

In the economic activities there are so many sources of fund. The sources of funds can be categorized in two ways.

A) Owned fund / Equity capital: Following are the sources of owned funds:

I) Ordinary Shares: - Ordinary shares are the bank's a strong and reliable source of funds. Bank promoters issue ordinary shares to the public in fixed number. Banks collect the fund by selling fixed ordinary shares to the public, by adopting fixed rules and regulations. These public make shareholder after purchasing the issued share.

II) Preference Shares: - A Preference share means a type of shares, which receive dividend after liquidation before ordinary shares. But in some situation it can issue preference share by taking permission from Nepal Rastra Bank. If Nepal Rastra Bank gives the permission bank can collect the fund by issuing preference shares.

III) Bonus Shares: - Bonus share means the extra share to the share holder from the saving from profit and reserve fund of the company. Banks issue shares to the shareholders instead of dividend. From bonus share, bank collects some share of funds.

IV) Retained Earning: - Bank earns profit by investing the funds in different sector through the principle of profit earning. Banks invest its fund in productive or profitable industries and

business. Bank earns some amount from these investments. These earnings called bank's funds.

V) Reserve Funds: - Bank separates some share of capital in reserve funds in the time of banking activities. The reserve funds size based on banks earning and rules and regulation. Banks must separate some share of amount from profit in reserve fund. Banks have been earning by investing the reserve funds in liquid sector. So the reserve funds are also kinds of sources of funds.

VI) Undistributed Dividends: - Banks do not distribute all profit to the shareholders. Banks invest some amount from profit by not distributing to the shareholders. By this, the invested profit makes sources of funds to the banks (Baxley, 1987:42).

B) Borrowed Fund of Bank: Except owned funds, banks collect the funds from another source. These types of funds collect borrow and debt capital. Following are the sources of borrowed fund of bank.

I) Deposits: The receipt of the deposits and granting loans, these are the two – fold functions which are performed by the bank. The bank borrows money by accepting different types of deposits. It not only undertakes to take care of the deposits but also agrees to honour the demand of the depositor for withdraw of money from the deposits. Deposits accepted by the bank are of different types namely current, saving and fixed deposits.

- Current Deposits

Current deposits are also known as demand deposits. The deposit in which an amount is paid immediately at the time of any account holder's demand is called demand deposit. Though the bank can't gain profit by investing it in new sector after taking from the customer, this facility is given to the customer. Therefore, the bank does not give interest on this account. A customer can open a current a/c with a bank by making an initial of Rs.1000. Any amount may be deposited in this account. The bank makes small charges on the customer having current deposit account.

- Saving Deposits

In saving deposits, there is restriction on the maximum amount that can be deposited and also withdrawals from the account. The bank may not permit more than one or two withdrawals during a week. This deposit is suitable and appropriate for the people of middle class who have low income and small saving. The bank usually pays small interest to the depositor against their deposit.

- Fixed Deposits

Fixed deposit is the one, which a customer is required to keep a fixed amount with the bank of specific periods, generally by those who do not need money for the stipulated period. She/he is not allowed to withdraw the amount before expiry of the period. The rate of interest is higher than other deposit. The bank pays a higher interest on such deposit.

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

III) Loan from the Central Bank: Nepal Rastra Bank is the central bank of Nepal. It is known as bank of banks. All banks should operate their banking activities by maintaining the rules and regulations directed by NRB. Central bank provides loan to the banks if needed. The loan provided by the central bank is a bank capital.

IV) Loan from the Financial Institution: Banks can receive loans from financial institutions in the form of borrowing. Financial institutions also provide loan for the banks. The loan granted by the financial institutions is also a bank capital.

V) Loan from Commercial Bank: Bank receives loans from other bank in the form of borrowing when needed. Bank solves the money problem of other banks by providing loan. That is also a type of bank capital (Baxley, 1987).

2.2.2 Mobilization of Fund

Banks mobilize their funds into suitable and profitable sector. Bank cannot get its aim of profit earning without mobilizing its fund in right sectors and different activities. Banker being financial intermediary, we will not able to make any profit unless he has to pay interest

on deposits, meet establishment expenses, meet liquidity of cash balance, and yet allow him some balance from out of which he can build reserve and pay dividend to the shareholder.

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

Therefore bank should mobilize its funds in suitable and profitable banking activities. Mainly a bank has mobilized its funds in following activities:

A) **Liquid funds:** A bank has kept a volume of amount in liquid funds. Liquid funds have covered the following transactions:

- Cash in hand
- Balance with Nepal Rastra Bank
- Balance with domestic bank
- Call Money

B) **Investment:** banks deploy a part of their resources in the form of investment in securities/ financial instruments. The bulk of a bank's assets are held either in the form of (a) loans and advances and (b) investments. Investments form a significant portion of a bank's assets, next only to loans and advances, and are an important source of overall income. Commercial banks' investments are of three broad types: (a) Government securities, (b) other approved securities and (c) other securities. These three are also categorised into SLR (Statutory Liquidity Ratio) investment and non-SLR investments. SLR investments comprise Government and other approved securities, while non-SLR investments consist of 'other securities' which comprise commercial papers, shares, bonds and debentures issued by the corporate sector.

Under the SLR requirement, banks are required to invest a prescribed minimum of their net demand and time liabilities (NDTL) in Government securities. While the SLR provision reduces a bank's flexibility to determine its asset mix, it helps the Government finance its fiscal deficit.

C) **Loan and advances**: can be broadly classified into: fund-based lending and non-fund based lending.

Fund based lending: This is a direct form of lending in which a loan with an actual cash outflow is given to the borrower by the Bank. In most cases, such a loan is backed by primary and/or collateral security. The loan can be to provide for financing capital goods and/or working capital requirements.

Non-fund based lending: In this type of facility, the Bank makes no funds outlay. However, such arrangements may be converted to fund-based advances if the client fails to fulfill the terms of his contract with the counterparty. Such facilities are known as contingent liabilities of the bank. Facilities such as 'letters of credit' and 'guarantees' fall under the category of non-fund based credit.

D) **Fixed assets:** Land and Buildings are essential for the establishment of bank. Bank's funds are used as capital expenditure such as investment in furniture, vehicles, computers and other concerned instrument, which are related to banking activities. A bank has need of fund to purchase fixed assets for the expansion of the bank.

E) **Expenses:** All the necessary expenses for the smooth operation of the business require to be funded. Such expenses include:

Administrative and Miscellaneous Expenses: Bank should manage a fund for administrative and other miscellaneous expenses. Different types of administrative expenses are as follows (Adhikari, 2002):

- Salary of Employees
- Allowances
- Pension
- Provident Fund
- Advertisement

- Stationary
- Rent
- Income Tax
- Donation or Charity
- Insurance
- Commission
- Tour Expenses

Different types of miscellaneous expenses

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

Thus a bank must and is required to generate and invest adequate fund for the both the stability and further expansion of the business. The requirement is even more intense in today's dynamic global market.

2.3 Principles of Fund Mobilisation Policy

To mobilise fund, banks depend largely on deposits from the public as its source. Banks act as custodian of public deposits. Since the depositors require safety and security of their deposits, want to withdraw deposits whenever they need and also adequate return, bank lending and investment must necessarily be based on principles that reflect these concerns of the depositors. These principles include:

Safety

Banks need to ensure that advances are safe and money lent out by them will come back. Since the repayment of loans depends on the borrowers' capacity to pay, the banker must be satisfied with the credibility of the concerned client's business. In addition, bankers many times insist on security against the loan, which they fall back on if things go wrong for the business. The security must be adequate, readily marketable and free of encumbrances.

Liquidity

To maintain liquidity, banks have to ensure that money lent out by them is not locked up for long time by designing the loan maturity period and investment period appropriately. Further, money must come back as per the repayment schedule and terms agreed. If loans become excessively illiquid, it may not be possible for bankers to meet their obligations vis-à-vis depositors.

Profitability

To remain viable, a bank must earn adequate profit on its investment. This calls for adequate margin between deposit rates and lending rates. In this respect, appropriate fixing of interest rates on both advances and deposits is critical. Unless interest rates are competitively fixed and margins are adequate, banks may lose customers to their competitors and become unprofitable.

Risk diversification

To mitigate risk, banks should lend to a diversified customer base. Diversification should be in terms of geographic location, nature of business etc. If, for example, all the borrowers of a bank are concentrated in one region and that region gets affected by a natural disaster, the bank's profitability can be seriously affected.

2. 4 Review of Empirical Studies

2.4.1 Review of Empirical Studies in General

Finance institution utilizes its funds in suitable areas. The aim of earning profit cannot be achieved without mobilizing funds in right sectors, in right activities and at the right time. Adequate margins on loan and advances are required to pay interest on deposits, meet establishment expenses, meet liquidity of cash balance and yet to allow some surpluses so as to build reserve for future expansion and to pay dividend to the shareholders.

An investment may be defined as the current commitment of funds for a period of time to derive a future flow 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 uncertainly involved in the future flow of the funds (Reilly, 1998).

The investment objective is to increase systematically the individual's wealth, defined as assets minus liabilities. The higher the level of the desired wealth the higher must be received. An investor seeking higher return must be willing to face higher level of risk (Cheny and Moses, 1983).

The commercial banks fulfil the credit needs of various sector of the economy including agriculture, industry, commercial and social service sectors. The lending policy of commercial banks is based on the profit maximizing of the institution as well as the economic enhancement of the country (Shrestha, 1995).

Banks are those institutions, which accept deposit from the public and in return provide credit to trade, business and industry that directly makes a remarkable impact on the economic development of a country. To collect fund and utilize it in good investment is very risky job. Ad-hoc investment decision leads the bank out of the business there by downing the economic growth of the country. Hence sound investment policy of the bank is another secret of a successful bank (Bhalla,1997).

A sound investment policy of a bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to the depositors and bank on the other hand. Moreover, risk in banking sector tends to be concentrated in the loan portfolio, when a bank gets into serious financial trouble its problem usually spring from significant amount of loan that have become un-collectible due to mismanagement, illegal manipulation of loan, misguided lending policy or unexpected economic downturn. Therefore the banks investment policy must be such that it ensures sound and prudent in order to protect public funds (Bhatta, 1999).

Further in details he deals with what type of loan do banks make? The banks make a variety of loans to a wide variety of customers for many different purposes from purchasing automobile to construction of homes and making trade with foreign countries. There is no uniform rules can be laid down to determine the portfolio of bank. The environment in which the bank operates is influenced by its investment policy. The nature and availability of funds and assets also differ widely from country to country and also from region to region within a

country. For example, the scope of bank operating in Jumla will be different from the scope of bank operating in Kathmandu. The investment policy to be applied in Kathmandu may not be applicable to the customer of Jumla because the demand of loans is less in rural areas whereas it is higher in urban areas (Bhatta, 1999).

2.4.2 Review of Empirical Studies in Nepalese Context

Articles, journals and bulletins are of great significance for conducting research study, so various published articles by different management experts and journals / bulletins relating investment policy of commercial banks has been gathered for analyzing the fund mobilizing policy.

Before 2000

Shrestha (1997) concluded that bank portfolio (loan and investment) of commercial banks has been influenced by the variable securities rates. Investment planning and operation of commercial banks in Nepal has not been found satisfactory in terms of profitability, safety, liquidity productivity and social responsibility. To overcome this problem she suggested that "Commercial banks should take their investment function with proper business attitude and should perform lending and investment operation efficiently with proper analysis of the project".

Pradhan (1998) said that, "the most important finance function appeared to be working capital management. The last important one appeared to be maintaining good relation with stakeholder. The finding revealed that banks and retained earnings are two most widely used financing sources. Most enterprises do not borrow from one bank only and they do switch between banks to banks whichever offers best interest rates. Most enterprises find that banks are flexible in interest rate. Among the bank's loan, bank loan of less than one year are more popular in public sector where as banks loan of 1 to 5 years are more popular in private sector. In period of light money, the majority of private sector enterprises fell that bank will treat all firm equally while public sector does not feel so. Similarly he concluded that the majority of enterprises in traded sector find that bank's interest rate is just right while the majority of non-traded sector find that the some is one higher side. The study was carried out by the survey of 78 enterprises which focused on the features of financial management.

Pradhan (2053) presented a short glimpse on investment in different sector, its problem and prospects through his article. In his article, he said that, "Deposit is the life blood of any financial institution, be it commercial bank, finance company, co-operative or non government organization". He added, in consideration of ten commercial banks, nearly three dozen of finance companies, the latest figure does produce a strong feeling that a serious review must be of problem and prospects of deposit sector. Besides few joint venture banks, other organizations rely heavily on the business deposits receiving and credit disbursement.

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

a) Due to lack of education, most of Nepalese people do not go for saving in institutional manner. However, they are very much used of saving, be it in the form of cash, ornament or kind. Their reluctance to deal with institutions system are governed by their lower level of understanding about financial organization, process requirement, office hour withdrawals system availability of depositing facilities and so on.
b) Due to the lesser office hour of banking system people prefers for holding the cash in the personal possession.
c) Unavailability of the institutional services in the rural areas.
d) No more mobilization and improvement of the employment of deposits in the loan sectors.

Mr. Pradhan not only pointed out the problems but also suggested for the prosperity of deposit mobilization. They are given as follows:

a) Cultivating the habit of using the formal sector for transactions must be a priority and continuous educational programme.
b) Adding service hour system will definitely be an appropriate step.
c) Providing sufficient institutional service in due rural areas. If deposit mobilization, materialize, that should be taken as major achievement as this generated fund can be used somewhere by the bank. NRB could endorse this deposit collection by continuing to subsidize overhead cost far little longer period. A full scale of field office system could be taken back and modes manpower strength deputed to cut down overhead cost.

d) NRB could also organize training program to develop skilled manpower.
e) Spreading co-operative to the rural areas mini banking services are to be launched.
f) The scheme of mobilizing the deposit in the form of free personal accident insurance, deposit insurance may be fruitful. It is better to reach to the potential depositors rather than waiting for them.

At last, Mr. Pradhan mentioned deposit mobilization carried out effectively is in the interest of depositors, society, financial sectors and the nation. Lower level of deposit rising allows squeezed level of loan delivery leaving more room to informal sectors. That is why higher priority to deposit mobilization has all the relevance. Bhatta (1999) gave more emphasis on Nepalese financial market sector. He mentioned that the financial crisis occurred in China, Mexico, South Asia, Russian Federation, Equador Brazil and Argentina. This crisis affected all these economic by posing negative effects in their real output. He had also focused on Nepalese financial market, which is directly affected by the national and international events. The most affected event was 11, September incident in USA, have added more to the fragility in the global financial market. In present context in many parts of the world, the move towards liberalization is getting its momentum on one hand and the process of economic development is being threatened due to various unanticipated incidents on the other. He has defined a financial crisis is a description to financial market in which adverse selection and moral hazard problems become much worse, so that financial markets are unable to efficiently channel funds to those who have the most productive investment opportunities.

He has given light on the dynamics of financial crisis dividing it into three stages. Also he has suggested the policies to prevent financial crisis. Following policies are supposed to be applicable for preventing financial crisis:

a. Prudential supervision
b. Accounting standards and disclosure requirements
c. Legal and Judicial system
d. Monetary policy and price stability
e. Exchange rate regimes and foreign exchange reserves
f. Capital controls
g. Restriction on foreign denominated debt
h. Reduction of the role of the state owned financial institution
i. Encouraging market based discipline

j. Entry of foreign banks
k. Limitation of too-big-to fail in the corporate sector
l. Sequencing financial liberalization etc.

Lastly, he concluded that there is no doubt that the key to preventing future financial crisis is to implement sound domestic economic policies and build robust financial institutions. The experience of the crisis hit countries, especially during the decade of nineties, has proved that a country opening to liberalized economic policy should adopt sequencing policies constraining the pace of participation in the global market place until a sound domestic infrastructure can be put into place. Mandala (1998) studied mainly three banks i.e. Nepal Arab Bank Ltd, Nepal Grindlays Bank Ltd. and Nepal Indosuez Bank Ltd. His main finding is that both NABIL and NIBL have mobilized the debt funds in proper way for generating more return but NIBL could not do as good as NABIL and NGBL. He recommended enhancement of banking facilities to rural sector by encouraging small promoter's development programmes to play merchant banking role, to mobilize the deposit funds in productive sectors and to grant more priority to the local manpower.

Khadka (1998) compared investment policy of NABIL with NGBL and NIBL. His study is based on five years period from 1992 to 1996. He has taken two banks to compare the investment policy of NABIL. Mr. Khadka has suggested the joint venture banks to be careful in increasing profit in real sense to maintain the confidence of shareholders, depositors, and customers. He has strongly recommended NABIL to utilizing risk assets and shareholders' funds to gain higher profit margin, reduce its expenses, and collect cheaper fund more profitability. Investing funds in different sector and administering various deposit schemes, gift cheque scheme, house building deposits schemes etc

Laudari (1980), 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.

2000 to till- the-date

Adhikari (2002), 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 within the domestic money market, but also in all financial cities such as 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 transactions, Foreign Exchange and Money Dealer's Association of Nepal (FEDAN) has also set rules and regulations 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 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 handover 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.

Sapkota (2000) made conclusion that the liquidity position of SCB was not satisfactory. Loan and advances and cash and bank balance ratio seems too weak than NBBL and HBL. Investment on share and debenture and interest earning power on total working fund seems also weaker than NBBL and HBL. Growth ratio of deposits, loan and advances, investments, net profit seems too weak in comparison to NBBL and HBL. The relation of investment and loan and advances with deposits seems positive and the relation of net profit with outside assets seems to be positive.

On the basis of conclusion, he has recommended to increase cash and bank balance of SCB to meet the need of investment and demand of loan and advances. Since SCB used to provide

less loan and advances in comparison to its total deposits, SCB is strongly recommended to follow a liberal lending policy so that more percentage of deposits can be invested to different profitable sector as well as towards loan and advances. Besides giving priority of investing in government securities, SCB is recommended to invest its fund in the purchase of share and debenture of other financial, non-financial companies, hotels and government companies. This also helps in the maintenance of a sound portfolio of the bank.

Regmi (2001) conducted 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 short-term 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 earnings 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.

2.4 Concluding Remarks

One of the major areas of macro-economy that has been the subject of focused attention is the efficiency and soundness of the financial sector. Within the broad scope of the financial sector, a stable and properly performing banking system has become the cynosure of the

research efforts throughout the world. Particularly in developing countries like Nepal, the focus on the banking sector has heightened due to globalization of banking operations with continuing deregulation, more competition and technological developments leading to the transformation of a bank from an intermediary between the saver and the borrower to a more customer centric entity. Since majority of the Nepalese financial sector assets come from the banking system, it is all the more important to study the efficiency of the Nepalese commercial banks, understand the potential risks involved and develop an effective policy measures towards a more stable and vibrant fund mobilization.

Numerous research studies have been carried forward on the topic but they are just like a few drops of water cast in a sea. Moreover, the continuously changing global and national environment necessities further extensive research on the subject matter. The works of earlier researchers acts as a pavement providing direction toward the final goal. It is believed that even more rigorous and extensive research work has to be carried to arrive at the desired state of effective and efficient fund mobilization.

CHAPTER III

RESEARCH METHODOLOGY

This chapter deals with the research methodology employed in the entire aspect of the study. Research methodology is the process of arriving at solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of facts and figures (Kothari, 1989). In other words, research methodology refers to the various methods of practices applied by the researcher in the entire aspect of the study. This chapter includes the research design, population and sample, nature and sources of data and analysis of data.

3.1 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to the research question. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of data (Kerlinger, 1986). It is in fact the arrangement of condition for collection and analysis of data in a manner that aims to combine. In this study, descriptive as well as analytical research design has been used. Some statistical and financial tools have also been applied to examine facts and evaluate fund mobilization policy of commercial banks with comparison between Standard Chartered Bank, Nabil bank, Everest Bank, Himalayan Band and Investment Bank. The study is based on secondary data.

3.2 Population and Sample

The method of selecting for study a small portion of the population to draw general conclusion about characteristics of the population is known as sampling. Sampling may be defined as the selection of a part of the population on the basis of which a judgment or inference about the universe is made. At present there are thirty one commercial banks listed in Nepal Stock Exchange, which are regarded as a population of the study. They are as follows:

Table 2
Schedule of Listed Commercial Banks

S.N.	Name of Banks
1	Nepal Bank Ltd.
2	Rastriya Banijya Bank Ltd.
3	Nabil Bank Ltd.
4	Nepal Investment Bank Ltd.
5	Standard Chartered Bank Nepal Ltd.
6	Himalayan Bank Ltd.
7	Nepal SBI Bank Ltd.
8	Everest Bank Ltd.
9	Bank of Kathmandu Ltd.
10	Nepal Credit and Commerce Bank Ltd.
11	Lumbini Bank Ltd.
12	Nepal Industrial and Commercial Bank Ltd.
13	Machhapuchhre Bank Ltd.
14	Kumari Bank Ltd.
15	Laxmi Bank Ltd.
16	Siddhartha Bank Ltd.
17	Nepal Bangladesh Bank Ltd.
18	Agricultural Development Bank Ltd.
19	Global Bank Ltd.
20	Citizen International Bank Ltd.
21	Prime Commercial Bank Ltd.
22	Bank of Asia Nepal Ltd.
23	Sunrise Bank Ltd.
24	Development Credit Bank Ltd.
25	NMB Bank Ltd.
26	KIST Bank Ltd.
27	Mega Bank Ltd
28	Janata Bank Nepal Ltd
29	Century Commercial Bank Ltd.
30	Commerz and Trust Bank Ltd
31	Civil Bank Ltd

Source: website: www.nrb.org.np

However, due to time and other resources constraints, we have focused the study on only five major commercial banks namely, Standard Chartered Bank Nepal Ltd., NABIL Bank Ltd., Everest Bank Ltd., Himalayan Bank Ltd. and Nepal Investment Bank Ltd.

Table 3
A Schedule of Sample Banks Selected for Study

S.No.	Name of Banks	Study Period	Observations
1	SCB	2002-2008	7
2	NABIL	2002-2008	7
3	EBL	2002-2008	7
4	HBL	2002-2008	7
5	NIBL	2002-2008	7
Total			**35**

3.3 Nature and Sources of Data

The study is based on secondary data. The data relating to investment, deposits, loans and advances, assets and profitability have been directly obtained from the financial statements of the concerned banks. These financial statements were obtained from the official website of the concerned banks.

Supplementary data and information are collected from number of institutions 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, internet search sites, etc.

3.4 Techniques of Data Analysis

Various financial and statistical tools have been used in this study. 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 mean, median, standard deviation, coefficient of variation and simple regressions 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 strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. Ratio analysis has been used as financial tool.

Ratio Analysis

Ratio analysis is a technique of analysis and interpretation of financial statement. To evaluate the financial performance and position of an organization by creating the ratios from the figures of different accounts consisting in balance sheet and income statement is known as ratio analysis. Five major types of ratios have been analyzed in this study. They are presented below:

a) Liquidity Ratios

Liquidity ratio measures the short-run solvency. In other words, it measures the ability of the firm to repay its debt in the short run. Commercial bank must maintain satisfactory liquidity position to meet its credit needs. It must fulfill the demand for the deposit withdrawals, payment of obligations in time and conversion of non-cash assets into cash to satisfy immediate need without any financial or non financial loss to the banks. 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.

j) Higher the ratio, greater will be the ability to meet the sudden demand of deposit. However, it may also mean that funds which could be invested elsewhere for profit has been locked up unnecessary.

$$\textit{Cash and Bank Balance to Total Deposits Ratio} \, \mathrm{X} \frac{Cash \quad and \quad Bank \quad Balance}{Total \quad Deposits}$$

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. Higher ratio indicates the bank's ability to meet the daily cash requirements of their customer deposits and vice versa. However, the reason cited for point (i) may also apply here. 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,

$$\textit{Cash and Bank Balance to Current Assets Ratio} \; \mathrm{X} \frac{Cash \quad and \quad Bank \quad Balance}{Current \quad Assets}$$

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. Investment on government securities is the risk free investment.

$$\textit{Invt. on Govt. Sects. to Current Assets ratio} \; \mathrm{X} \frac{Investment \quad on \quad Govt.Securities}{Current \quad Assets}$$

Investment on Government Securities involves treasury bills and development bonds etc.

b) Assets Management Ratios

It is a set of ratio which measures 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 the effectiveness of the firm to manage its resources. These ratios are designed to answer the 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,

$$\textit{Loan and Advances to Total Deposits Ratio} \text{ X } \frac{\textit{Loan and Advances}}{\textit{Total Deposits}}$$

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.

$$\textit{Total Investment to Total Deposits Ratio} \text{ X} \frac{\textit{Total Investment}}{\textit{Total Deposits}}$$

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.

$$\textit{Investment on Govt. Securities to TWF Ratio} \text{ X} \frac{\textit{Investment on Govt.Securities}}{\textit{Total Working Fund}}$$

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:

$$\textit{Investment on Shares and debn. to TWF Ratio} \ \text{X} \frac{\textit{Investment on Share and Debenture}}{\textit{Total Working Fund}}$$

b) Profitability Ratios

Although cash may indicate sound financial position of a company, it is the profit which determines the survival. Profit is regarded as the engine that drives a bank and indicates economic progress. Profitability ratio is 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,

$$\textit{Return on Loan and Advances Ratio} \ \text{X} \frac{\textit{Net Profit / Loss}}{\textit{Loan and Advances}}$$

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,

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

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

$$Total\ Interest\ Earned\ to\ TWF\ Ratio\ \mathrm{X}\frac{Total\quad Interest\quad Earned}{Total\quad Working\quad Fund}$$

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,

$$Total\ Interest\ paid\ to\ Total\ Working\ Fund\ Ratio\ \mathrm{X}\frac{Total\quad Interest\quad Paid}{Total\quad Working\quad Fund}$$

c) Risk Ratios

Risk means chance or possibility of loss and 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:

$$Liquidity\ Risk\ Ratio = \frac{Cash\quad and\quad BankBalance}{Total\quad Deposit}$$

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

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

d) Growth Ratios

The growth ratio represents how well the commercial banks are maintaining their economics and financial position. Higher the ratio, better the performance of the bank and vice-versa. Under this topic four types of growth ratio are studied. They are as follows:

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

These ratios are directly related to the fund mobilization of commercial banks and are calculated by using the formula of growth rate:

$D_n = D_o (1+g)^{n-1}$

Where,

D_n = Value in the nth Year

D_o = Value in the initial Year

g = Growth rate

n = Total number of years

3.4.2 Statistical Tools

Some important statistical tools have been used to present and analyze the data for achieving the objectives are as below:

i) Descriptive Statistics

Descriptive Statistics like mean, standard deviations, and coefficient of variation has been used in this study.

Mean

The most common expression for the mean of a statistical distribution with a discrete random variable is the mathematical average of all the terms. To calculate it, add up the values of all the terms and then divide by the number of terms. The formula to calculate it as follows:

Mean ($\overline{X}$) = ∑X/N

Where,

∑X = Summation of the values of all the terms

N = Number of terms

Standard Deviation (S.D)

The measurement of the scatterings 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 '± '.

$$\text{S.D } (\pm) = \sqrt{\frac{1}{N} \quad (X \; Z\overline{X})^2}$$

Where,

N = Number of observations

$\overline{X}$ = Average return of the historical data

X = Historical data

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. It is calculated as:

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

ii) Simple Regression

In a simple regression analysis, one dependent variable is examined in relation to only one independent variable. The analysis is designed to derive an equation for the line that best models the relationship between the dependent and independent variables. This equation has the mathematical form:

Regression Equation(y) = a + bx

Slope (b) = $(N\Sigma XY - (\Sigma X)(\Sigma Y)) / (N\Sigma X^2 - (\Sigma X)^2)$

Intercept(a) = $(\Sigma Y - b(\Sigma X)) / N$

where,

x and y are the variables.

b = The slope of the regression line

a = The intercept point of the regression line and the y axis.

N = Number of values or elements

X = First Score

Y = Second Score

ΣXY = Sum of the product of first and Second Scores

ΣX = Sum of First Scores

ΣY = Sum of Second Scores

ΣX^2 = Sum of square First Scores

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

This chapter is concerned with the presentation, analysis and interpretation of data from various secondary sources. The chapter has been divided into main three sections. The first section includes the results of financial analysis, second section comprises results of regression analysis and the third part is the major findings of the study.

4.1 Results of Financial Analysis

4.1.1 Liquidity Ratios

(a) Cash and Bank Balance to Total Deposits Ratio

This ratio measures the bank's ability of withdrawal of fund immediately by their depositors. A higher ratio represents a greater ability to cover their deposits and vice-versa. The large ratio shows the idle cash and bank balance in banks while small ratio shows the utilisation of deposit from banking perspective.

Table: 4.1
Cash and Bank Balance to Total Deposits Ratio

Year	Ratio (%)				
	SCB	**NABIL**	**HBL**	**EBL**	**NIBL**
2001/02	18.23	6.99	8.68	13.06	8.12
2002/03	16.90	13.50	10.14	17.02	12.20
2003/04	20.04	13.38	10.77	10.16	13.34
2004/05	17.41	9.79	9.90	16.04	10.39
2005/06	14.11	12.22	10.28	11.74	12.71
2006/07	15.35	8.41	11.54	13.15	11.45
2007/08	14.28	14.49	6.18	12.57	10.90
Mean ($\overline{X}$)	**16.62**	**11.25**	**9.64**	**13.39**	**11.30**
S.D.(±)	**2.17**	**2.87**	**1.76**	**2.39**	**1.74**
C.V.	**13.06**	**25.51**	**18.26**	**17.85**	**15.40**

Source: Appendix 11

Figure: 4.1
Cash and Bank Balance to Total Deposits Ratio

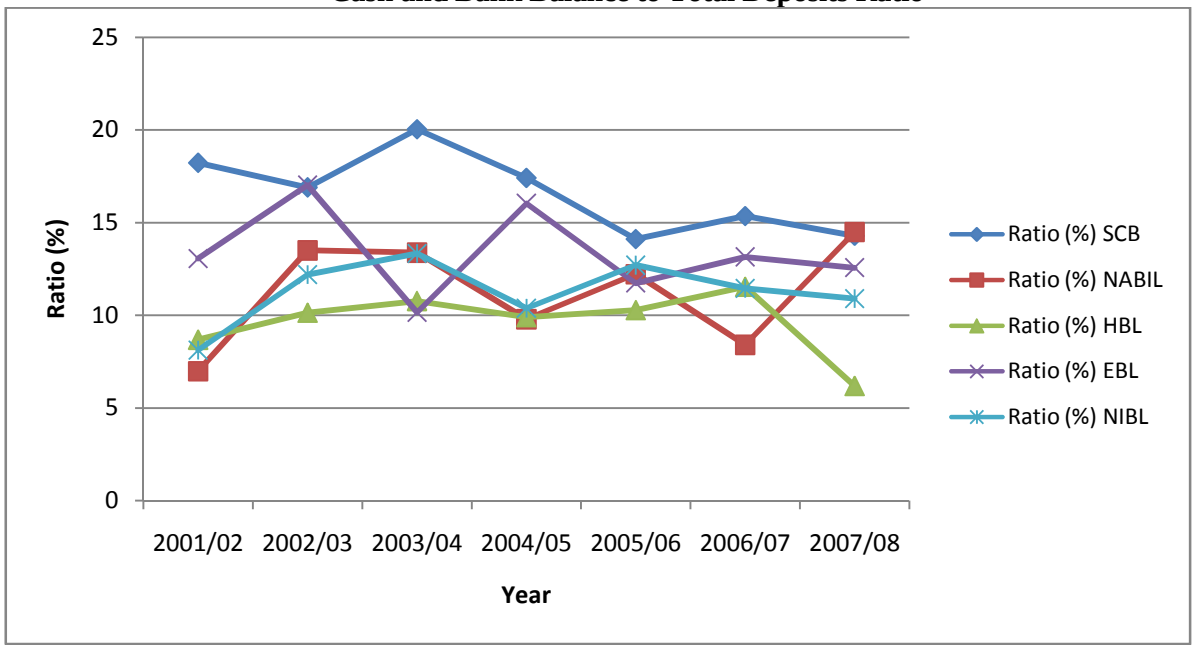


Table 4.1 indicates that cash and bank balance to total deposit ratio of the five banks are in fluctuating trend. The higher ratio of five banks is 20.04% (SCB), 14.49% (NABIL), 17.02% (EBL), 11.54% (HBL), 13.34% (NIBL) in the year 2003/04, 2007/08, 2002/03, 2006/07 and 2003/04 respectively. The average ratio of SCB (16.62%) is greater than that of other banks (ranging from 9.64% to 13.39%). Among the five banks NABIL has the highest standard deviation (2.87) and highest coefficient of variation (25.51).

(b) Cash and Bank Balance to Current Assets Ratio

This ratio reflects the proportion of cash and bank balance out of total current assets. It can be calculated as follows:

$$Cash\ and\ Bank\ Balance\ to\ Current\ Assets\ ratio = \frac{Cash\ \ and\ \ BankBalance}{Current\ \ Assets}$$

Table: 4.2
Cash and Bank Balance to Current Assets Ratio

Year	Ratio (%)				
	SCB	**NABIL**	**HBL**	**EBL**	**NIBL**
2001/02	19.44	8.14	11.35	10.20	10.15
2002/03	18.46	13.09	12.56	14.45	12.86
2003/04	21.11	13.26	12.74	8.70	13.79
2004/05	17.55	9.54	11.75	14.03	10.60
2005/06	15.15	13.04	11.75	10.69	13.44
2006/07	17.17	8.60	12.57	11.40	11.89
2007/08	15.47	14.80	6.65	11.35	10.98
Mean ($\overline{X}$)	**17.76**	**11.50**	**11.34**	**11.55**	**11.96**
S.D.(±)	**2.12**	**2.66**	**2.13**	**2.05**	**1.44**
C.V.	**11.94**	**23.13**	**18.78**	**17.75**	**12.04**

Source: Appendix 12

Figure: 4.2
Cash and Bank Balance to Current Assets Ratio

Table 4.2 indicates that all the banks have maintained the cash and bank balance to current assets in fluctuating trend. The highest ratio is maintained by SCB 21.11% in the year 2003/04 and lowest ratio is maintained by HBL in the year 2007/08. Among the five banks NIBIL has the lowest standard deviation 1.44 and SCB has the lowest coefficient of variation 11.94 whereas NABIL has the highest standard deviation 2.66 and NABIL has the highest coefficient of variation of 23.13.

(c) Investment on Government Securities to Current Assets Ratio

Government Securities can be easily sold in the market or they can be converted into cash. The main purpose of this ratio is to examine that portion of commercial banks current assets that has been invested into different government securities. This ratio is calculated by dividing investment on government securities by current assets.

$$\textit{Investment on Govt. Securities to Current Assets} = \frac{\textit{Investment on Gov.Securities}}{\textit{Current Assets}}$$

Table: 4.3
Investment on Government Securities to Current Assets Ratio

Year	Ratio (%)				
	SCB	**NABIL**	**HBL**	**EBL**	**NIBL**
2001/02	38.95	30.95	21.40	17.81	6.72
2002/03	39.15	25.88	23.59	20.28	5.32
2003/04	39.56	25.78	18.45	26.18	17.96
2004/05	37.49	16.12	26.17	18.19	13.95
2005/06	40.26	12.69	22.20	23.43	14.09
2006/07	32.26	21.06	23.41	22.42	13.81
2007/08	29.64	14.87	25.26	18.16	9.23
Mean ($\overline{X}$)	**36.76**	**21.05**	**22.93**	**20.92**	**11.58**
S.D.(±)	**4.12**	**6.78**	**2.57**	**3.10**	**4.58**
C.V.	**11.21**	**32.21**	**11.21**	**14.82**	**39.55**

Source: Appendix 13

Figure: 4.3
Investment on Government Securities to Current Assets Ratio

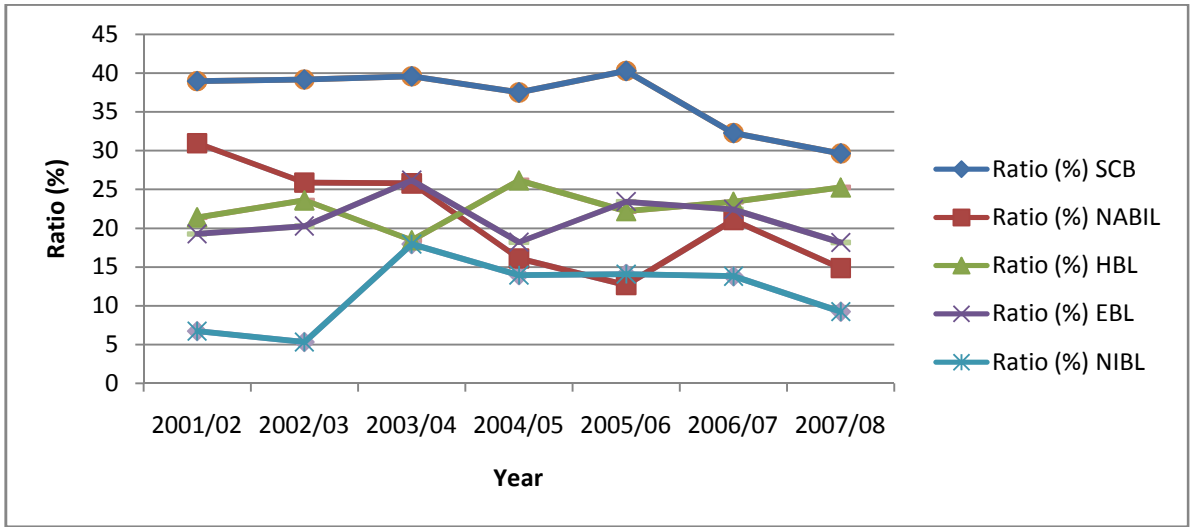


Table 4.3 points that all the banks have invested their fund in government securities in variable trend. Among five banks SCB has invested the high portion of current assets in government securities for all the year the highest being 40.26% in the year 2005/06. The lowest ratio among five banks is maintained by NIBL 5.32% in the year 2002/03. The mean ratio of SCB is highest 36.76 and lowest is of NIBL 11.58%. NABIL seems more variable in investing its current assets than that of other four banks.

4.1.2 Assets Management Ratio

Assets management ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. A commercial bank must manage its assets properly to earn high profit. Under this chapter following ratio are studied:

(a) Loan and Advances to Total Deposits Ratio

The ratio measures the extent to which the banks are successful to mobilize their total deposits on loan and advances. We have,

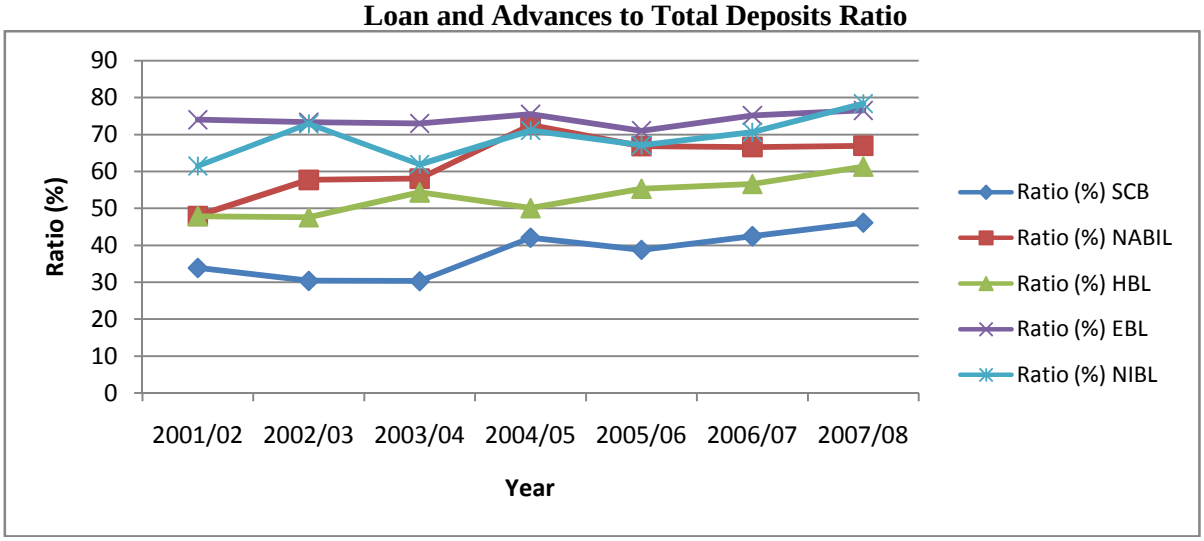
$$Loan\ and\ Advances\ to\ Total\ Deposits\ Ratio = \frac{Loan\ \ and\ \ Advances}{Total\ \ Deposit}$$

Table: 4.4
Loan and Advances to Total Deposits Ratio

Year	Ratio (%)				
	SCB	**NABIL**	**HBL**	**EBL**	**NIBL**
2001/02	33.87	47.97	47.87	73.98	61.43
2002/03	30.37	57.68	47.61	73.32	72.86
2003/04	30.29	58.01	54.3	72.97	61.87
2004/05	42.05	72.57	50.07	75.45	71.04
2005/06	38.75	66.79	55.27	71.01	67.05
2006/07	42.46	66.60	56.57	75.13	70.59
2007/08	46.12	66.94	61.23	76.49	78.36
Mean ($\overline{X}$)	**37.70**	**62.37**	**53.27**	**74.05**	**69.03**
S.D.(±)	**6.28**	**8.27**	**5.01**	**1.82**	**6.07**
C.V.	**16.66**	**13.26**	**9.40**	**2.46**	**8.79**

Source: Appendix 14

Figure: 4.4
Loan and Advances to Total Deposits Ratio



A high ratio of loan and advances indicates better mobilization of deposits collected and vice versa. But very high ratio is not regarded better from liquidity point of view. The above comparative table shows that though all the banks have mobilized deposits in variable trend EBL has mobilized deposit in somewhat consistent manner ranging from 73.98 to 76.49%. In average SCB has mobilized 37.70%, NABIL 62.37%, HBL 53.27%, EBL 74.05% and NIBL 69.03%.

(b) Total Investment to Total Deposits Ratio

This ratio measures the extent to which the banks are able to mobilize their deposit on investment in various securities. A high ratio indicates the success in mobilizing deposit in securities and vice versa. We have,

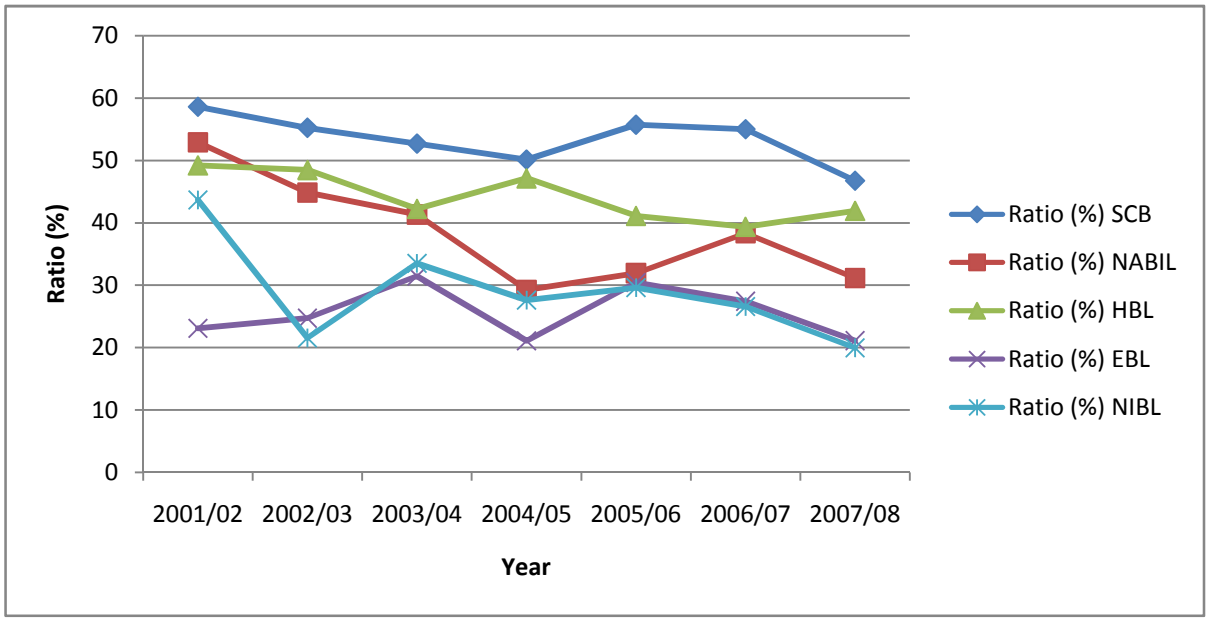
$$\text{Total Investments to Total Deposits Ratio} = \frac{Total \quad Investment}{Total \quad Deposit}$$

Table: 4.5
Total Investment to Total Deposits Ratio

Year	Ratio (%)				
	SCB	**NABIL**	**HBL**	**EBL**	**NIBL**
2001/02	58.58	52.88	49.18	23.08	43.65
2002/03	55.22	44.85	48.44	24.70	21.52
2003/04	52.68	41.33	42.22	31.44	33.51
2004/05	50.11	29.25	47.12	21.08	27.60
2005/06	55.71	31.93	41.10	30.43	29.60
2006/07	54.99	38.32	39.35	27.41	26.57
2007/08	46.74	31.14	41.89	21.10	19.95
Mean ($\overline{X}$)	**53.43**	**38.53**	**44.19**	**25.61**	**28.91**
S.D.(±)	**3.95**	**8.54**	**3.95**	**4.25**	**7.97**
C.V.	**7.39**	**22.16**	**8.94**	**16.60**	**27.57**

Source: Appendix 15

Figure: 4.5
Total Investment to Total Deposits Ratio



From the table 4.5 we conclude that SCB is mobilizing on an average 53.43% of its collected deposit on investment which is the highest among the banks in comparison and lowest is of EBL i.e. 25.61%. In the year 2001/02 SCB had invested 58.58% (highest) of its deposit on investment whereas EBL has invested only 21.10% (lowest) in the year 2007/08. The coefficient of variation of SCB is 7.39.85% which is least i.e. more consistent approach while mobilizing deposits

(c) Loan and Advances to Total Working Fund Ratio

This ratio reflects the extent to which the commercial banks are success in mobilizing their assets on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of fund on loan and advances and vice versa. We have,

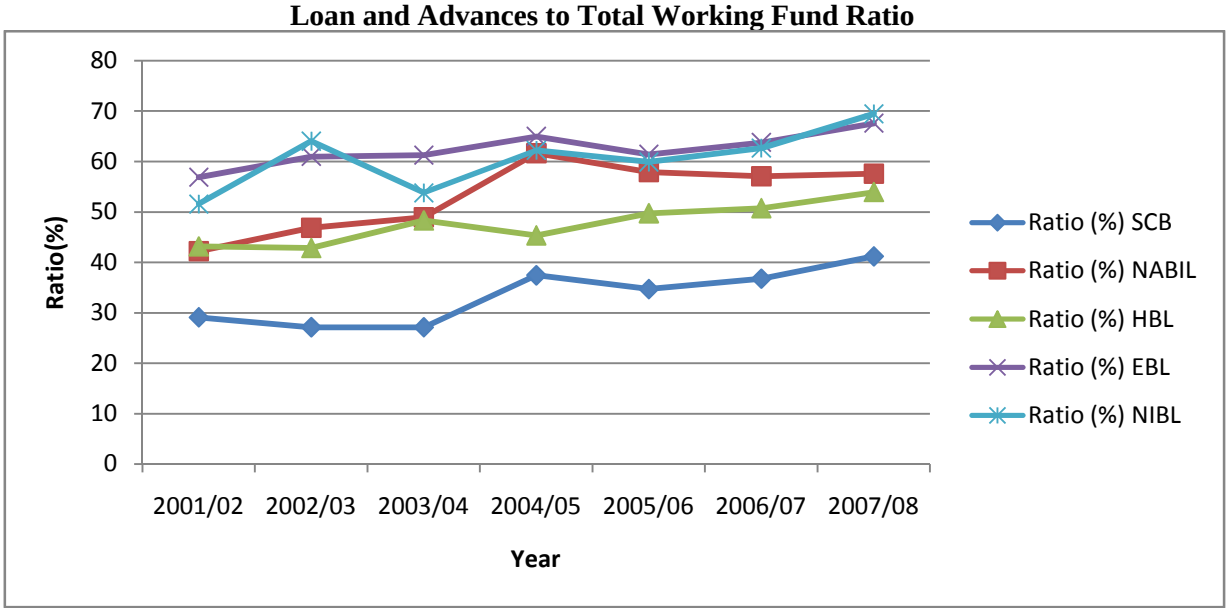
$$Loan\ and\ Advances\ to\ TWF\ Ratio = \frac{Total\ \ Loan\ \ and\ \ Advances}{Total\ \ Working\ \ Fund}$$

Table: 4.6
Loan and Advances to Total Working Fund Ratio

Year	Ratio (%)				
	SCB	**NABIL**	**HBL**	**EBL**	**NIBL**
2001/02	29.08	42.19	43.12	56.87	51.56
2002/03	27.12	46.83	42.82	60.96	64.03
2003/04	27.11	48.91	48.27	61.24	53.79
2004/05	37.39	61.60	45.31	64.94	62.22
2005/06	34.67	57.87	49.7	61.41	59.90
2006/07	36.73	57.04	50.71	63.75	62.65
2007/08	41.15	57.54	53.90	67.55	69.45
Mean ($\overline{X}$)	**33.32**	**53.14**	**47.69**	**62.39**	**60.51**
S.D.(±)	**5.77**	**7.14**	**4.13**	**3.41**	**6.13**
C.V.	**17.13**	**13.43**	**8.66**	**5.47**	**10.13**

Source: Appendix 16

Figure: 4.6
Loan and Advances to Total Working Fund Ratio



During the study period NIBL has the highest ratio of 69.45% in the year 2007/08 and SCB has the lowest 27.11% in the year 2003/04. The mean ratio of SCB 33.32% is the lowest and 62.39% of EBL is the highest. Coefficient of variation of EBL 5.47% is the lowest whereas 17.13% of SCB is the highest.

(d) Investment on Government Securities to Total Working Fund Ratio

The main purpose of this ratio is to examine the portion of commercial banks total working fund that has been invested into different government securities. This ratio is calculated by dividing investment on government securities by total working fund.

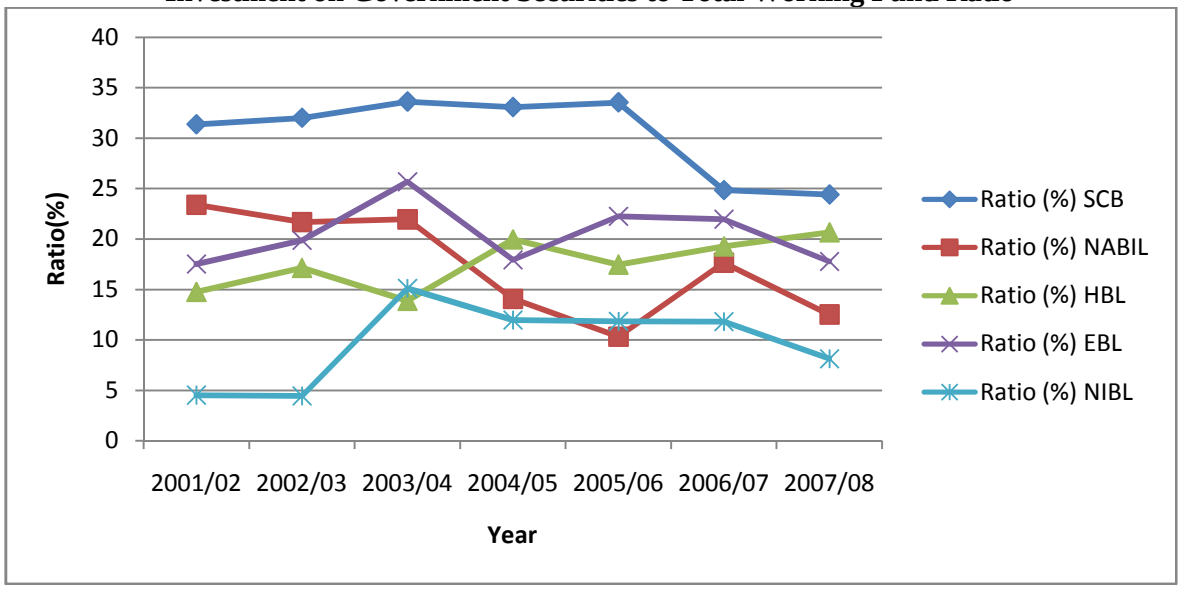
$$\textit{Invt. on Govt. Securities to Total Working Fund} = \frac{\textit{Total Investment on Govt.Securities}}{\textit{Total Working Fund}}$$

Table: 4.7
Investment on Govt. Securities to Total Working Fund Ratio

Year	Ratio (%)				
	SCB	**NABIL**	**HBL**	**EBL**	**NIBL**
2001/02	31.37	23.37	14.74	17.50	4.51
2002/03	32.01	21.67	17.12	19.86	4.44
2003/04	33.62	21.93	13.86	25.67	15.10
2004/05	33.07	14.04	19.95	17.90	11.97
2005/06	33.54	10.31	17.46	22.24	11.83
2006/07	24.85	17.64	19.26	21.95	11.80
2007/08	24.41	12.51	20.65	17.76	8.12
Mean ($\overline{X}$)	**30.41**	**17.35**	**17.58**	**20.41**	**9.68**
S.D.(±)	**4.03**	**5.16**	**2.58**	**3.04**	**4.09**
C.V.	**13.25**	**29.74**	**14.68**	**14.90**	**42.25**

Source: Appendix 17

Figure: 4.7
Investment on Government Securities to Total Working Fund Ratio



Above analysis shows that investment on government securities to total working fund is in fluctuating trend. EBL has the lowest ratio 4.44 in the year 2002/03 whereas SCB has the highest 33.62% in 2003/04. SCB has the highest mean ratio 30.41% whereas the HBL has the lowest standard deviation 2.58% and SCB has the lowest coefficient of variation of 13.25%

(e) Investment on Shares and Debentures to Total Working Fund Ratio

The main purpose of this ratio is to examine that portion of commercial banks total working fund that has been invested into investment on share and debentures. This ratio is calculated by dividing investment on share and debenture by total working fund.

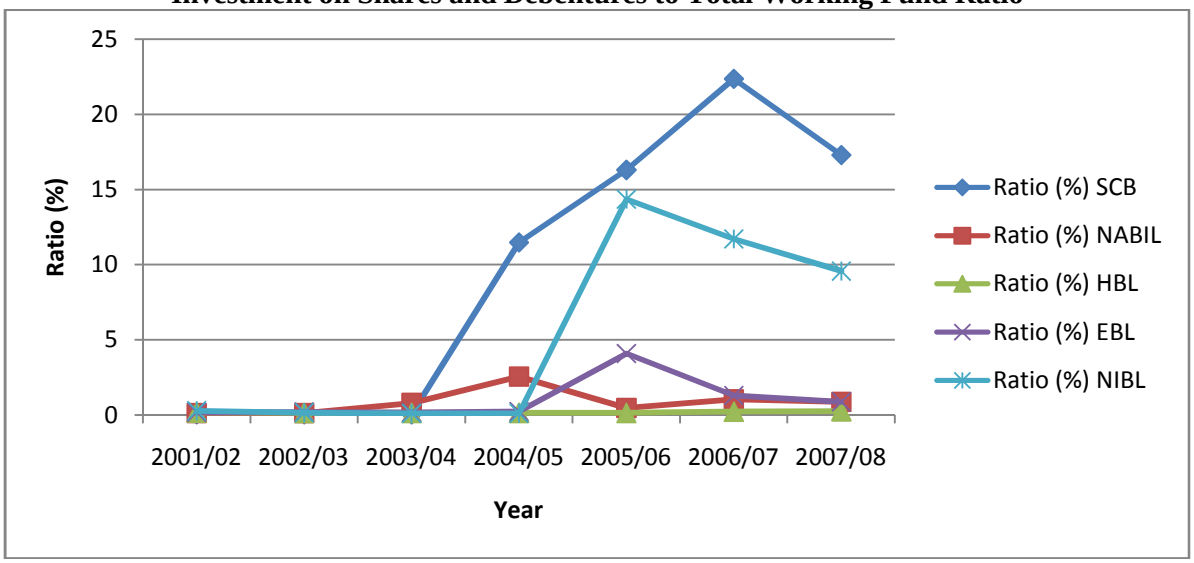
$$Investment\ on\ Shares\ and\ Debenture\ to\ TWF\ Ratio = \frac{Inv.\ \ on\ \ Shares\ \ and\ \ Debentures}{Total\ \ Working\ \ Fund}$$

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

Year	Ratio (%)				
	SCB	**NABIL**	**HBL**	**EBL**	**NIBL**
2001/02	0.06	0.13	0.17	0.24	0.28
2002/03	0.05	0.13	0.15	0.21	0.15
2003/04	0.05	0.80	0.14	0.18	0.10
2004/05	11.48	2.56	0.15	0.24	0.11
2005/06	16.30	0.47	0.14	4.08	14.35
2006/07	22.35	1.05	0.22	1.30	11.71
2007/08	17.29	0.87	0.25	0.88	9.57
Mean ($\overline{X}$)	**9.65**	**0.86**	**0.17**	**1.02**	**5.18**
S.D.(±)	**9.52**	**0.83**	**0.04**	**1.42**	**6.41**
C.V.	**98.65**	**96.51**	**23.53**	**139.22**	**123.74**

Source: Appendix 18

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



Comparatively, SCB has the greater volume of investment than that of other four banks in study. All the banks followed a fluctuating trend in investing shares and debentures from total working funds. HBL has the lowest standard deviation and coefficient of variation of 0.04 and 23.53 respectively.

4.1.3 Profitability Ratios

(a) Return on Loan and Advances Ratio

Return on loan and advances ratio measures the earning capacity of a commercial bank on its deposit mobilized on loan and advances higher the ratio greater will be the return and vice versa. It is calculated as follow:

$$Return\ on\ Loan\ and\ Advances\ Ratio = \frac{Net\ \Pr ofit / Loss}{Loan\ \ and\ \ Advances}$$

Table: 4.9
Return on Loan and Advances Ratio

Year	Ratio (%)				
	SCB	**NABIL**	**HBL**	**EBL**	**NIBL**
2001/02	8.93	3.65	2.64	2.11	2.23
2002/03	8.90	7.51	2.12	1.92	2.02
2003/04	9.44	5.56	2.20	2.44	2.14
2004/05	8.37	4.90	2.48	2.21	2.30
2005/06	8.09	4.92	3.12	2.42	2.74
2006/07	7.74	4.34	2.89	2.17	2.90
2007/08	5.97	3.49	3.26	2.46	2.58
Mean ($\overline{X}$)	**8.21**	**4.91**	**2.67**	**2.25**	**2.42**
S.D.(±)	**1.14**	**1.36**	**0.44**	**0.20**	**0.33**
C.V.	**13.89**	**27.70**	**16.48**	**8.89**	**13.64**

Source: Appendix 19

Figure: 4.9
Return on Loan and Advances Ratio

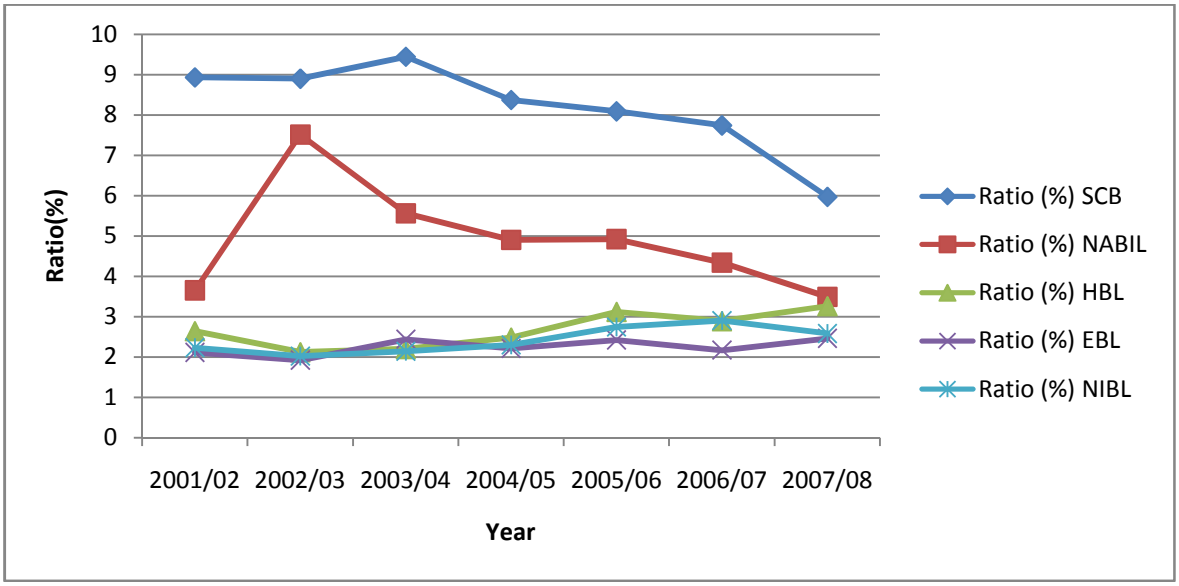


Table 4.9 specifies that, SCB has the highest ratio of 9.44% among the banks in comparisons in the year 2003/04 and NIBL has the lowest ratio of 2.02% in 2002/03. SCB has the highest mean ratio of 8.21% and coefficient of variation of NABIL is most variable i.e. 27.70%.

(b) Return on Total Working Fund Ratio

Return on total working fund ratio measures the earning capacity of a commercial bank on its deposit mobilized on total working fund, higher the ratio greater will be the return and vice versa. It is calculated as follow:

$$Return\ on\ Total\ Working\ Funds\ Ratio = \frac{Net\ \Pr ofit / Loss}{Total \quad Working\ \ Fund}$$

Table: 4.10
Return on Total Working Fund Ratio

Year	Ratio (%)				
	SCB	**NABIL**	**HBL**	**EBL**	**NIBL**
2001/02	2.60	1.54	1.14	1.20	1.15
2002/03	2.41	3.52	0.91	1.17	1.30
2003/04	2.27	2.72	1.06	1.49	1.15
2004/05	2.46	3.02	1.12	1.43	1.43
2005/06	2.56	2.84	1.55	1.49	1.64
2006/07	2.42	2.47	1.47	1.38	1.82
2007/08	2.46	2.01	1.76	1.66	1.79
Mean ($\overline{X}$)	**2.45**	**2.59**	**1.29**	**1.40**	**1.47**
S.D.(±)	**0.11**	**0.66**	**0.31**	**0.17**	**0.29**
C.V.	**4.49**	**25.48**	**24.03**	**12.14**	**19.73**

Source: Appendix 20

Figure: 4.10
Return on Total Working Fund Ratio

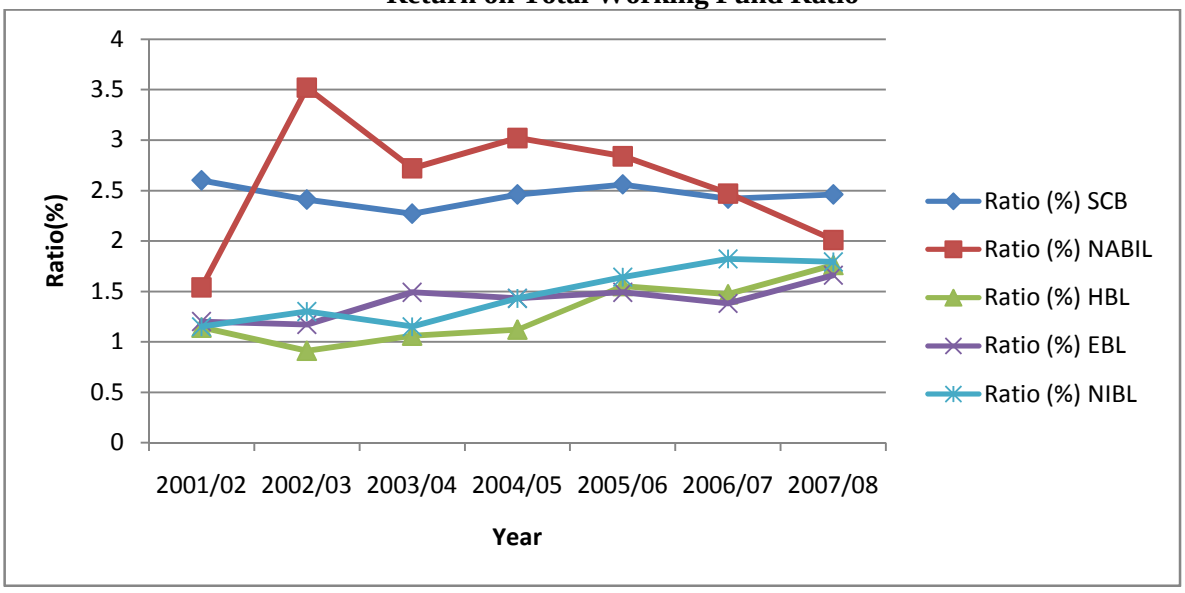


Table 4.10 indicates that the highest ratio is of NABIL 3.52% and lowest of HBL 0.91% both in the year 2002/03. NABIL has the highest mean of 2.59% where as SCB has lowest standard deviation of 0.11 and lowest coefficient of variation of 4.49 among the five banks.

(c) **Total Interest Earned to Total Working Fund Ratio**

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. It is calculated as follow:

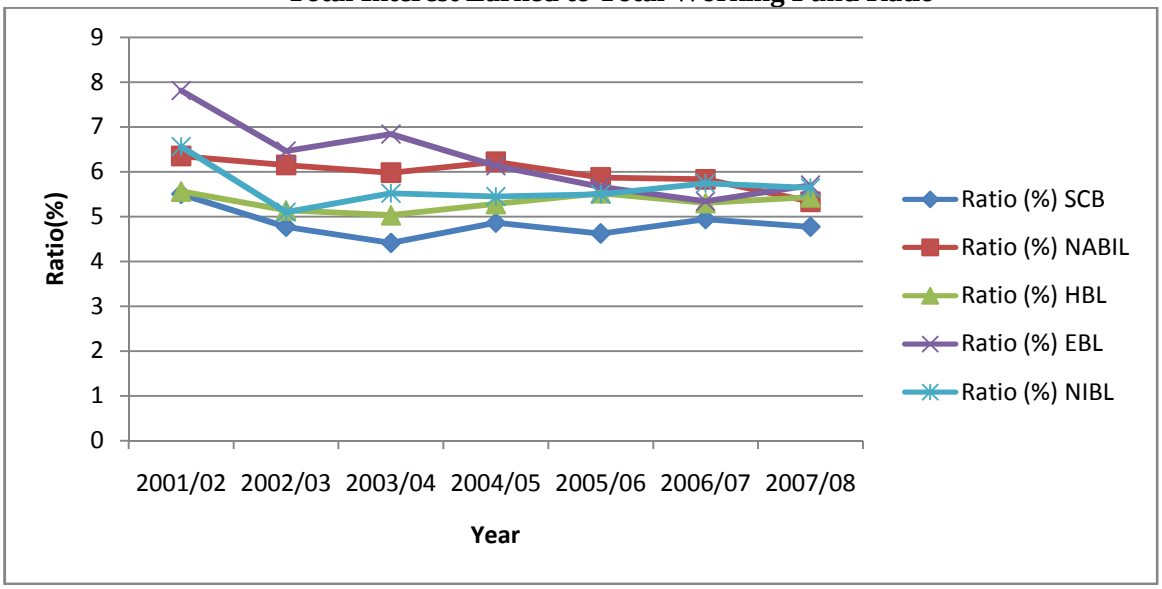
$$\textit{Total Interest Earned to Total Working Funds Ratio} = \frac{\textit{Total Interest Earned}}{\textit{Total Working Fund}}$$

Table: 4.11
Total Interest Earned to Total Working Fund Ratio

Year	Ratio (%)				
	SCB	**NABIL**	**HBL**	**EBL**	**NIBL**
2001/02	5.50	6.35	5.56	7.81	6.56
2002/03	4.77	6.15	5.14	6.46	5.1
2003/04	4.41	5.98	5.03	6.84	5.52
2004/05	4.86	6.22	5.28	6.13	5.45
2005/06	4.62	5.87	5.52	5.66	5.5
2006/07	4.94	5.83	5.3	5.34	5.74
2007/08	4.77	5.33	5.43	5.70	5.64
Mean ($\overline{X}$)	**4.84**	**5.96**	**5.32**	**6.28**	**5.64**
S.D.(±)	**0.31**	**0.31**	**0.18**	**0.79**	**0.42**
C.V.	**6.40**	**5.20**	**3.38**	**12.58**	**7.45**

Source: Appendix 21

Figure: 4.11
Total Interest Earned to Total Working Fund Ratio



All the banks have variable trend of interest earned to total working fund ratio. The highest ratio of 7.81 % is of EBL in the year 2001/02 whereas lowest is of SCB 4.41% in the year 2003/04. The mean ratio of SCB 4.84 % is the lowest. The lowest standard deviation is of HBL i.e. 0.18 and lowest coefficient of variation of 3.38 is that of HBL

(d) Total Interest paid to Total Working Fund Ratio

This ratio actually reveals the paying capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the paying capacity of interest. It is calculated as follow:

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

Table: 4.12
Total Interest Paid to Total Working Fund Ratio

Year	Ratio (%)				
	SCB	**NABIL**	**HBL**	**EBL**	**NIBL**
2001/02	1.63	2.62	2.80	3.90	2.62
2002/03	1.21	1.92	2.37	3.82	2.10
2003/04	1.17	1.69	1.99	3.29	2.46
2004/05	1.17	1.42	2.05	2.55	2.18
2005/06	1.18	1.6	2.20	2.52	2.30
2006/07	1.44	2.04	2.29	2.41	2.48
2007/08	1.42	2.04	2.28	2.33	2.55
Mean ($\overline{X}$)	**1.32**	**1.90**	**2.28**	**2.97**	**2.38**
S.D.(±)	**0.18**	**0.39**	**0.27**	**0.69**	**0.19**
C.V.	**13.64**	**20.53**	**11.84**	**23.23**	**7.98**

Source: Appendix 22

Figure: 4.12
Total Interest Paid to Total Working Fund Ratio

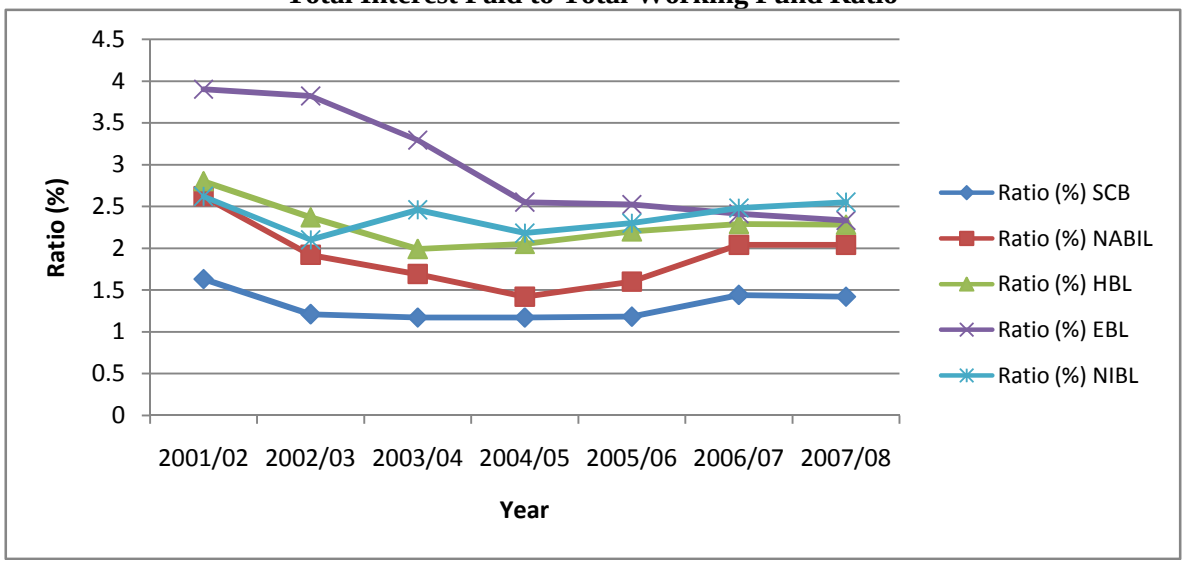


Table 4.12 shows that EBL has more fluctuating trend than that of NIBL. EBL has the highest ratio of 3.902% in the year 2001/02 whereas SCB has the lowest 1.17 in the year 2003/04 & 04/05. EBL has the highest mean ratio of 2.97. SCB has the lowest standard deviation of 0.18 and NIBL has the lowest coefficient of variation of 7.98

4.1.4 Measurement of Risk

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

(a) Liquidity Risk Ratio

Liquidity risk means its liquidity need for deposits. The ratio is calculated by dividing cash and bank balance by total deposits.

$$\text{Liquidity Risk Ratio} = \frac{Cash \quad and \quad BankBalance}{Total \quad Deposit}$$

Table: 4.13
Liquidity Risk Ratio

Year	Ratio (%)				
	SCB	**NABIL**	**HBL**	**EBL**	**NIBL**
2001/02	18.23	6.99	8.68	13.06	8.12
2002/03	16.90	13.50	10.14	17.02	12.20
2003/04	20.04	13.38	10.77	10.16	13.34
2004/05	17.41	9.79	9.90	16.04	10.39
2005/06	14.11	12.22	10.28	11.74	12.71
2006/07	15.35	8.41	11.54	13.15	11.45
2007/08	14.28	14.49	6.18	12.57	10.90
Mean ($\overline{X}$)	**16.62**	**11.25**	**9.64**	**13.39**	**11.30**
S.D.(±)	**2.17**	**2.87**	**1.76**	**2.39**	**1.74**
C.V.	**13.06**	**25.51**	**18.26**	**17.85**	**15.40**

Source: Appendix 23

Figure: 4.13
Liquidity Risk Ratio

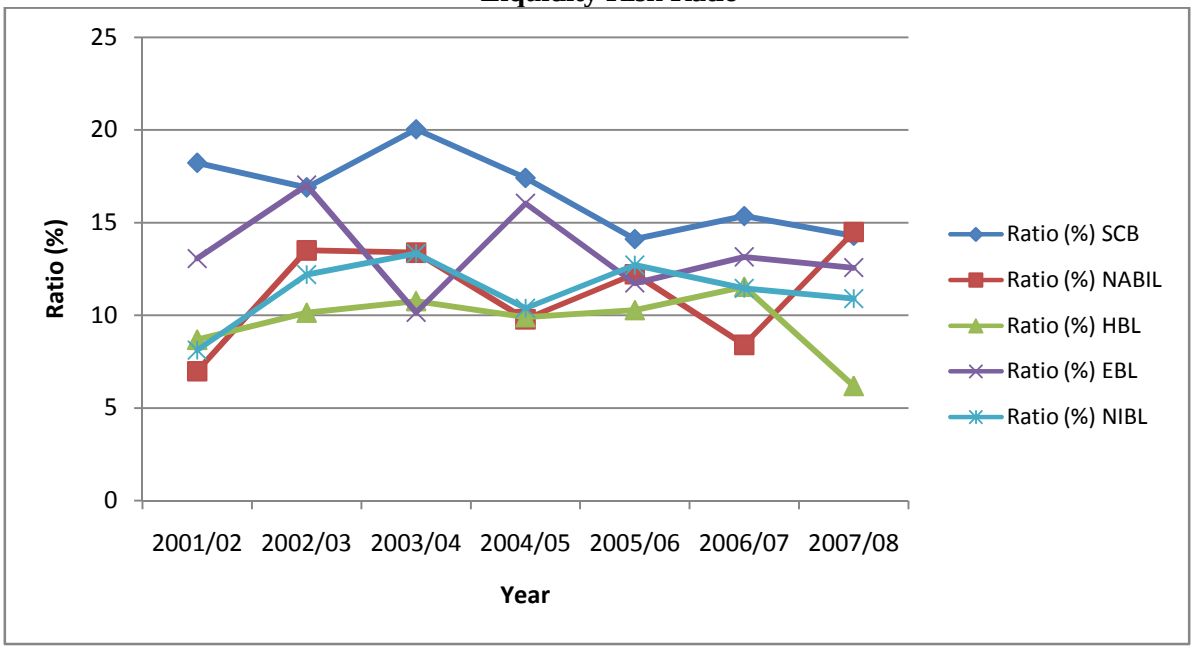


Table 4.13 shows that SCB has the highest cash and bank balance to total deposit ratio of 20.04% in the year 2003/04 and the lowest being that of NABIL i.e. 6.99% in the year 2001/02. SCB has the highest mean ratio of 16.62% and is the most liquid bank whereas HBL has the highest liquidity risk

(b) Credit Risk Ratio

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

$$\text{Credit Risk Ratio} = \frac{Total \quad Investment \; \Gamma \, Total \quad loan \quad and \quad Advances}{Total \quad Assets}$$

Table: 4.14
Credit Risk Ratio

Year	Ratio (%)				
	SCB	**NABIL**	**HBL**	**EBL**	**NIBL**
2001/02	79.38	88.70	87.42	74.62	88.19
2002/03	76.44	83.24	86.39	81.50	82.95
2003/04	75.17	83.76	85.79	87.63	82.93
2004/05	81.93	86.43	87.96	83.08	86.40
2005/06	84.51	85.54	86.66	87.73	86.16
2006/07	84.12	89.86	85.98	87.01	86.23
2007/08	82.86	84.32	90.77	86.18	87.13
Mean ($\overline{X}$)	**80.63**	**85.98**	**87.28**	**83.96**	**85.71**
S.D.(±)	**3.71**	**2.51**	**3.26**	**4.76**	**2.02**
C.V.	**4.61**	**2.93**	**3.82**	**5.67**	**2.36**

Source: Appendix 24

Figure: 4.14
Credit Risk Ratio

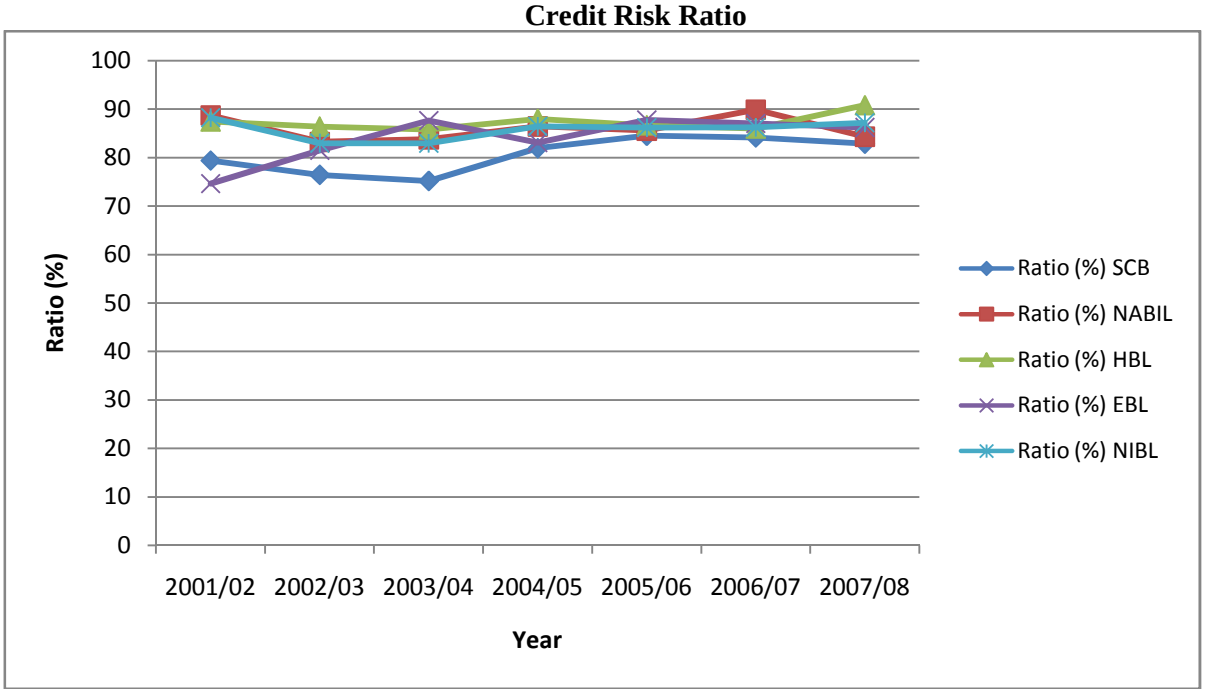


Table 4.14 shows that all the banks have credit risk in the fluctuating trend. HBL has the highest credit risk ratio of 90.77 in the year 2007/08 and EBL has the lowest credit risk of 74.62 in the year 2001/02. The mean ratio of SCB 80.63 is the lowest while 87.28 of HBL is the highest.

4.1.5 Growth Ratios

Growth ratio denotes that how well the banks are preserving their economic or financial position. To calculate, check and analyze the expansion and growth of the selected bank the following ratios are calculated:

(a) Growth Ratio of Total Deposits

Table: 4.15
Growth Ratio of Total Deposits

Bank	Year (Total Deposits) (Rs. in millions)							Growth Rate %
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	
SCB	15835.75	18755.63	21161.44	19363.50	23061.03	24647.02	29744.00	**11.08**
NABIL	15506.43	13447.66	14119.03	14586.61	19347.40	23342.29	31915.05	**12.78**
HBL	18619.38	21007.38	22010.33	24814.01	26490.85	30048.42	31842.79	**9.36**
EBL	5466.61	6694.96	8063.90	10097.69	13802.44	18186.25	23976.30	**27.94**
NIBL	4174.76	7922.77	11524.68	14254.57	18927.31	24488.86	34451.73	**42.16**

Source: Appendix -25

Figure: 4.15
Growth Ratio of Total Deposits

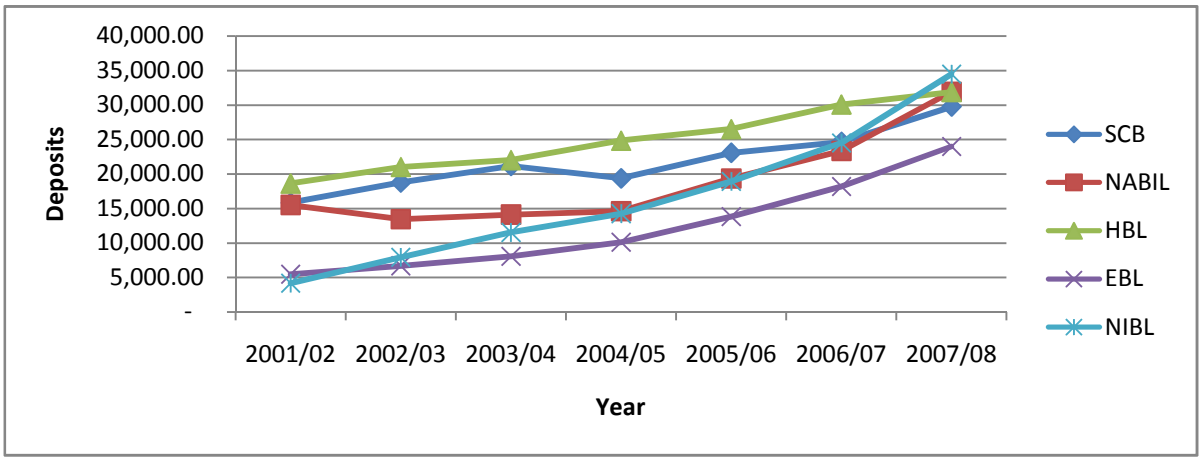


Table 4.15 shows that there is increasing trends in deposits and the growth rate of NIBL 42.16% is the highest followed by EBL 27.94%, NABIL 12.78%, SCB 11.08% and 9.36% that of HBL is the lowest.

(b) Growth Ratio of Loan and Advances

Table: 4.16
Growth Ratio of Loan and Advances

Bank	Year (Loan and Advances) (Rs. in millions)							Growth
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Rate %
SCB	5364.01	5695.82	6410.24	8143.21	8935.42	10502.64	13718.60	**16.94**
NABIL	7437.89	7755.95	8189.99	10586.17	12922.54	15545.78	21365.05	**19.23**
HBL	8913.72	10001.85	11951.87	12424.52	14642.56	16998	19497.53	**13.93**
EBL	4044.23	4908.46	5884.12	7618.67	9801.31	13664.08	18339.09	**28.65**
NIBL	2564.42	5772.14	7130.13	10126.06	12776.21	17286.43	26996.65	**48.04**

Source: Appendix -25

Figure: 4.16
Growth Ratio of Loan and Advances

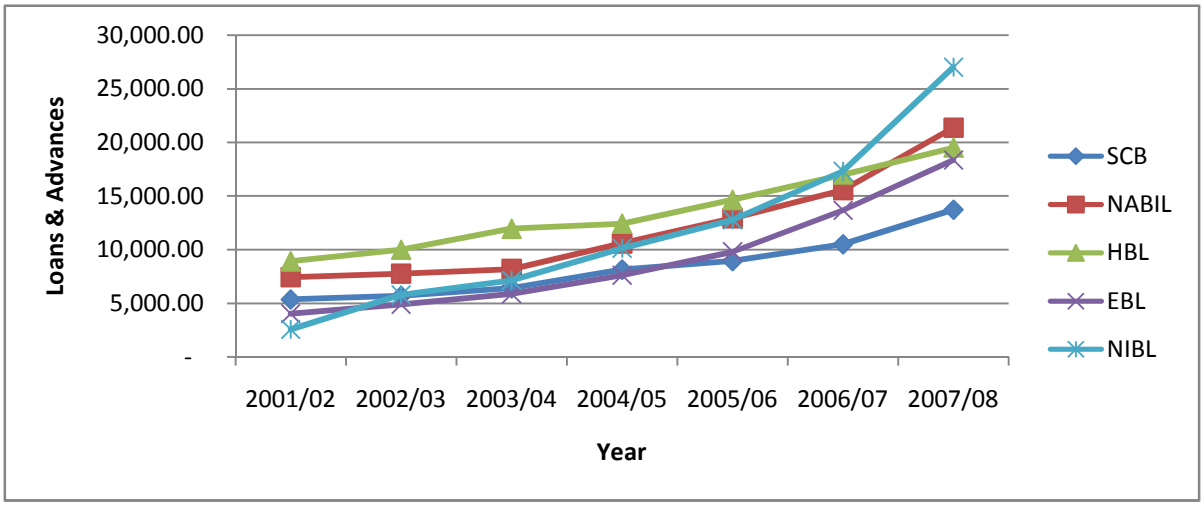


Table 4.16 shows that there is increasing trends in loans and advances portfolio of the banks and the growth rate of NIBL 48.04% is the highest followed by EBL 28.65%, NABIL 19.23%, SCB 16.94% and 13.93% of that of HBL is the lowest.

c) Growth Ratio of Total Investment

Table 4.17
Growth Ratio of Total Investment

Bank	Year (Total Investment) (Rs. in millions)							Growth Rate %
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	
SCB	9275.88	10357.69	11360.34	9702.56	12847.54	13553.23	13902.81	**6.98**
NABIL	8199.51	6031.17	5836.08	4267.22	6178.52	8945.30	9939.77	**3.26**
HBL	9157.12	10175.44	9292.11	11692.34	10889.04	11822.98	13340.17	**6.47**
EBL	1779.17	1653.97	2535.65	2128.93	4200.54	4984.31	5059.55	**19.03**
NIBL	1822.16	1705.25	3862.49	3934.19	5602.86	6505.68	6874.03	**24.77**

Source: Appendix -25

Figure 4.17
Growth Ratio of Total Investment

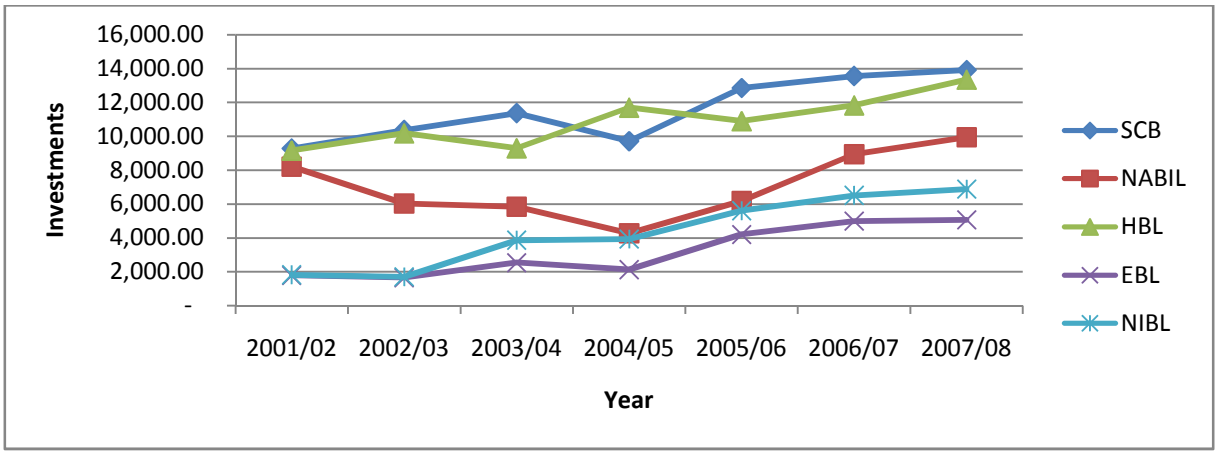


Table 4.17 shows that there is overall increasing trends in Investment portfolio of the banks and the growth rate of NIBL 24.77% is the highest followed by EBL 19.03%, SCB 6.98%, HBL 6.47% and 3.26% of that of NABIL is the lowest.

(d) Growth Ratio of Net Profit

Table: 4.18
Growth Ratio of Net Profit

Bank	Year (Net Profit) (Rs. in millions)							Growth Rate %
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	
SCB	479.21	506.93	537.80	539.20	658.76	691.67	818.92	**9.34**
NABIL	271.68	582.45	455.31	518.63	635.26	673.97	746.45	**18.35**
HBL	235.02	212.12	263.06	308.27	457.46	491.81	635.89	**18.04**
EBL	85.35	94.18	143.57	168.21	237.29	296.41	451.21	**31.98**
NIBL	57.11	116.82	152.62	232.15	350.54	501.40	696.73	**51.73**

Source: Appendix -25

Figure: 4.18
Growth Ratio of Net Profit

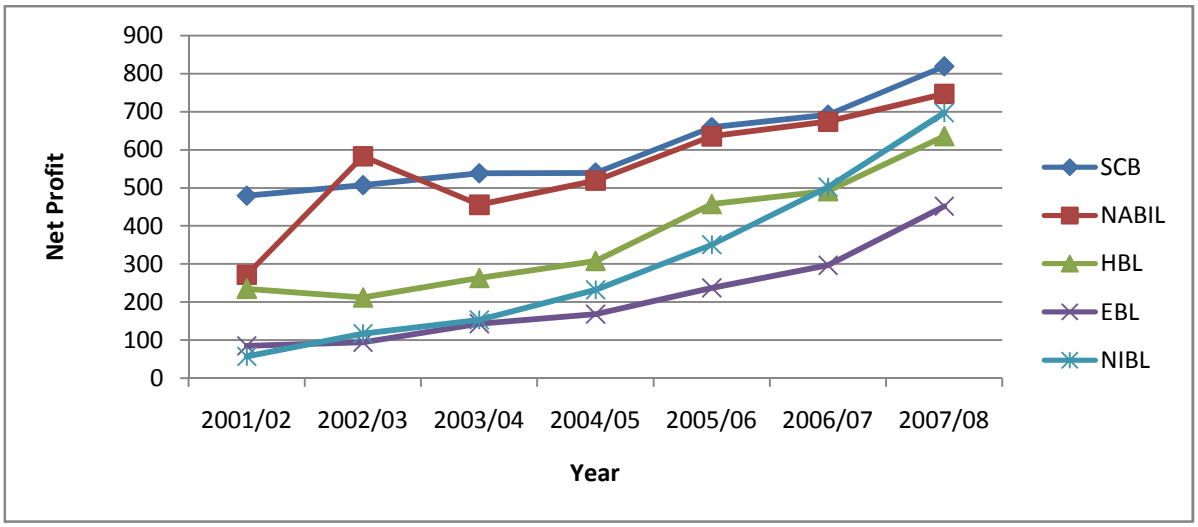


Table 4.18 shows that there is overall increasing trends in net profits of the banks and the growth rate of NIBL 51.73% is the highest followed by EBL 31.98%, NABIL 18.35%, HBL 18.04% and 9.34% of that of SCB is the lowest.

4.2 Results of Regression Analysis

Simple Regression

A regression is a statistical analysis assessing the association between two variables. It is used to find the relationship between two variables.

Table 4.19
Regression results of Investment in Earning Assets and Deposits
(l_n Investment in Earning Assets is dependent Variable and l_n Deposits is independent variable)

Name of bank	Constant	Slope	P -Value
SCB	1.87	0.748	0.005**
NABIL	1.98	0.698	0.050*
HBL	2.69	0.653	0.003**
EBL	0.068	0.850	0.001**
NIBL	1.05	0.756	0.002**
All Five Banks in Total	-2.29	1.131	0.000**

Source: Appendix -27

** Significance at 1% level
* Significance at 5% level

Table 4.19 indicates that in the case of SCB one percent change in deposit will produce 0.748 percentage change in investment in earning assets. Similarly for NABIL, HBL, EBL and NIBL; one percent change in deposit will produce 0.698, 0.653, 0.850 and 0.756 percentage changes in investment in earning assets respectively.

4.3 Major Findings

From the analysis of the data collected from various sources following findings have been made.

1. The mean ratio of cash and bank balance to total deposit of SCB is highest followed by EBL, NIBL, HBL and NABIL is lowest. It means liquidity position of NABIL is lower than other four banks in comparison. It shows that lower positioning regarding the meeting of demand of its customers on their deposit at any time than other four banks. SCB has the highest and NABIL has the lowest standard deviation. The variability in ratio of SCB is lowest while that of NABIL is the highest.
2. The average study of cash and bank balances to current asset ratio of SCB is the highest followed by NIBL, HBL, EBL and lastly by NABIL. It shows that NABIL has taken more risk to meet the daily requirement of its customer's deposit than other banks in comparison. NBAIL has the highest and SCB has the lowest standard deviation. The variability in ratio of SCB is lowest while that of NABIL is the highest.

3. On an average SCB has invested more portions of current assets on government securities followed by HBL, NABIL, EBL and lastly NIBL. Invested in government securities are considered as safe investment. SCB is most sensitive in investment in productive sector than other banks. NABIL has the highest and HBL has the lowest standard deviation. The variability in ratio of HBL is lowest while that of NIBL is the highest.

4. The mean ratio of loan and advances to total deposits of EBL is the highest followed by NIBL, NABIL, HBL and least by SCB. A high ratio of loan and advances indicates better mobilization of deposits collected and vice versa but high ratio is not regarded good from liquidity point of view. NABIL has the highest and SCB has the lowest standard deviation. The variability in ratio of NIBL is lowest while that of SCB is the highest.

5. SCB has mobilised its collected deposit on investment better than that of other four banks followed by HBL, NABIL, NIBL and lastly by EBL. More than 50% of its collected deposits are invested. NABIL has the highest and HBL has the lowest standard deviation. The variability in ratio of SCB is lowest while that of NIBL is the highest.

6. The loan and advances to total working fund ratio describes that EBL position is better than other four banks the lowest being that of SCB. Coefficient of variation of HBL is lowest whereas of SCB is the highest. NABIL has the highest and HBL has the lowest standard deviation. The variability in ratio of HBL is lowest while that of SCB is the highest.

7. The mean ratio of investment on government securities to total working fund of SCB is the highest and lowest is of NIBL. SCB seems more successful to invest its working fund in government securities followed by EBL, HBL & NABIL. Standard deviation of 2.37 of HBL is the lowest and 4.78 of NABIL is the highest. The variability ratio of NIBL is substantially high as compared to that of NIBL.

8. The mean ratio of investment on shares and debentures to total working fund of SCB is substantially higher than compared to other four banks. Standard deviation of 0.04 of HBL is the highest while 8.81% of SCB is the highest. The variability ratio of NIBL is substantially low as compared to that of SCB which is highest among five commercial banks in study.

9. From the average study of return on loan and advances, SCB seems well placed than remaining four banks in question and SCB seems more successful to earn profit on loan and advances as compared to other banks. Standard deviation and variability ratio of NIBL is the lowest and NABIL is the highest.
10. Due to higher mean ratio of return on working funds of NABIL, it seems more successful in earning profit on total assets than SCB. NABIL is marginally ahead of SCB leaving others way behind. Standard deviation and variability ratio of SCB is the lowest and NABIL is the highest.
11. NABIL has highest mean ratio to earn interest on total working fund followed by NIBL. The variability in the ratio of SCB is more consistent than that of other banks. Standard deviation and variability ratio of SCB is the lowest and NIBL is the highest.
12. The mean ratio of total interest paid to total working fund of NIBL is highest followed by HBL, EBL, NABIL and then SCB. So we can say SCB is in better condition from interest expenses payment point of view. Standard deviation and variability ratio of SCB is the lowest and HBL is the highest.
13. The mean ratio of liquidity risk of SCB is highest followed by EBL, NIBL, HBL and NABIL. SCB is the most liquid bank whereas NABIL has the highest liquidity risk.
14. In case of credit risk ratio, SCB has the lowest mean risk followed EBL, NIBL, NABIL and HBL has the highest average credit risk.
15. The overall growth rate of deposit of NIBL is the highest, followed by EBL, NABIL, SCB and then HBL. The growth of deposit of HBL is only 9.36% but that of NIBL is 42.46%. The overall growth rate of deposits in the case of all banks is in the increasing trends.
16. The overall growth rate of loans & advances of all the banks is in the increasing trends. The overall growth rate of loans & advances of NIBL is the highest, followed by EBL, NABIL, SCB and then HBL. The growth of loans & advances of HBL is only 13.93% but that of NIBL is 48.04%.
17. The overall growth rate of Investment portfolio of the all banks is in the increasing trends. The growth rate of NIBL 24.77% is the highest followed by EBL 19.03%, SCB 6.98%, HBL 6.47% and 3.26% of that of NABIL is the lowest.

18. There are overall increasing trends in net profits of the banks and the growth rate of NIBL 51.73% is the highest followed by EBL 31.98%, NABIL 18.35%, HBL 18.04% and 9.34% of that of SCB is the lowest.
19. Regression results of investment in earning assets and deposit of sample banks indicates that one percent change in deposit results in 1.131 percentage change in investment in earning assets.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Banking sector have played a very pivotal role in the economic development of some developed economies as well as emerging economies. Banking sector provides financial stability to the nation. Mostly in emerging economies, banks plays three vital roles. One, they take a leading role in developing other financial intermediaries and markets. Second, due to the absence of well-developed equity and bond markets, the corporate sector depends heavily on banks to meet its financing needs. Finally, in emerging markets such as Nepal, banks cater to the needs of a vast number of savers from the household sector, which prefer assured income and liquidity and safety of funds, because of their inadequate capacity to manage financial risks.

Banking collects deposits from publics and mobilises them in the form of loans or investment. They also facilitate international trade and also earn a non interest based income (commission & charges). The return of any banks basically depends upon its sound lending policy, lending procedure and investing its fund in different securities and different sectors of the markets

The main objective of the study is to analyse the fund mobilisation policy of commercial banks with the comparative study of the five major commercial banks. The specific objectives of studies are as follows:

a) To analyse the investment policy and practices of commercial banks of Nepal.
b) To examine the relationship of total deposits with total investment, loans and advances and net profit.
c) To evaluate the relationship of investment, loans and advances with total earnings commercial banks.
d) To indicate the trend in fund mobilisation of commercial banks

e) To assess the existing liquidity position of sample banks.
f) To evaluate the relationship of earning assets and net profit of sample banks.

To achieve the objectives of the study, descriptive analysis research design has been used. Some statistical and financial tools have also been applied to examine facts and descriptive techniques have been adopted to evaluate funds mobilising performance of five commercial banks out of 31 commercial banks "A Class". The study is based on the secondary data so the descriptive and analytical research designs have been used. In this study only five commercial banks have been taken as sample. All the five banks are private bank and are considered to be old banks. All the commercial banks in Nepal are the population of the study. SCB is the subsidiary company of Standard Chartered Group. EBL, NABIL, HBL are the joint venture banks.

The financial data relating to investment, deposit, loans and advances, assets and profits are directly obtained from the balance sheet and profit and loss account of the concerned banks annual reports. Supplementary data and information are collected from number of institutions and authoritative sources like Nepal Rastra Bank, Security Exchange Ltd, Ministry of Finance, Budget speech of different fiscal years, economic surveys, websites and National Planning Commission etc. To achieve the objectives of the study various financial and statistical tools have been used. Financial tools namely liquidity ratio, asset management ratio, profitability ratio, growth ratio, risk ratio and sources and uses of funds and statistical tools like mean, standard deviation, coefficient of variation, coefficient of correlation, regression analysis etc are used.

5.2 Conclusion

From the analysis of liquidity position of five banks, it can be concluded that liquidity position of SCB is the best followed by EBL, NIBL, HBL and NABIL. Also mean ratio of cash and bank balance to total deposit of SCB is highest followed by EBL, NIBL, HBL and NABIL is lowest. It means liquidity position of NABIL is lower than other four banks in comparison and implies that lower positioning regarding the meeting of demand of its customers on their deposit at any time than other four banks. Credit risk ratio, of SCB is lowest followed EBL, NIBL, NABIL and HBL has the highest average credit risk. This indicates that the possibility of low being defaulted in case of SCB is lowest.

On an average SCB has invested more portions of current assets on government securities followed by HBL, NABIL, EBL and lastly NIBL. Invested in government securities are free of risk, highly liquid and highly saleable in marketplace. Also, SCB has mobilised its collected deposit on investment better than that of other four banks followed by HBL, NABIL, NIBL and lastly by EBL. EBL is most efficient in the mobilisation of collected deposits as loans and advances followed by NIBL, NABIL, HBL and least by SCB. A high ratio of loan and advances indicates better mobilization of deposits collected and vice versa but high ratio is not regarded good from liquidity point of view. SCB's position seems to be far better as it has made safest investment in government securities and liquidity position is also very high indicating that it values not only greater return but also quality investment and lending.

The average study of cash and bank balances to current asset ratio of SCB is the highest followed by NIBL, HBL, EBL and lastly by NABIL. This implies that NABIL has taken more risk to meet the daily requirement of its customer's deposit than other banks in comparison. The loan and advances to total working fund ratio describes that EBL position is better than other four banks the lowest being that of SCB. The ratio of investment on government securities to total working fund of SCB is the highest and lowest is of NIBL. SCB seems more successful to invest its working fund in government securities followed by EBL, HBL & NABIL. The mean ratio of investment on shares and debentures to total working fund of SCB is substantially higher than compared to other four banks. Not only the return on assets but the quality of assets also matters in the long run.

Banks accepts deposits and converts it in loans and investments so as to earn profit and facilitate the growth of the economy. The overall growth rate of deposit and loans & advances of NIBL is the highest, followed by EBL, NABIL, SCB and then HBL. The overall growth rate of deposits and loans & advances of all the banks is in the increasing trends. NIBL has been the market leader in deposit collection and mobilisation of collected deposits into loans & advances.

Considering return on loan and advances, SCB seems well placed than remaining four banks in question and SCB seems more successful to earn profit on loan and advances as compared to other banks. Due to higher ratio of return on working funds of NABIL, it seems more successful in earning profit on total assets than SCB. NABIL is marginally ahead of SCB leaving others way behind. NABIL has highest mean ratio to earn interest on total working

fund followed by NIBL. The mean ratio of total interest paid to total working fund of NIBL is highest followed by HBL, EBL, NABIL and then SCB. So we can say SCB is in better condition from interest expenses payment point of view.

Though the overall growth rate of deposits, loans & advances, investment, and net profit of all the banks is in the increasing trends, growth rate of NIBL in all the parameters is the highest. Whereas the growth rate of deposits, loans & advances, investment, and net profit of HBL, HBL, NABIL & NABIL respectively is lowest and that of NIBL is highest. NIBL seems to be banking aggressively. Investment in earnings assets is in high proportion dependent on deposit generated by banks. This has resulted in cut-throat competition among commercial banks in order to obtain more deposits.

5.3 Recommendation

Based on the above findings and conclusion the following recommendations have been made.

1. The ratio of cash and bank balance to total deposit of SCB is highest and NABIL is lowest. On an average SCB has invested more portions of current assets on government securities followed by HBL, NABIL, EBL and lastly NIBL. The ratio of loan and advances to total deposits of EBL is the highest followed by NIBL, NABIL, HBL and least by SCB. The average study of cash and bank balances to current asset ratio of SCB is the highest followed by NIBL, HBL, EBL and lastly by NABIL. The ratio of investment on shares and debentures to total working fund of SCB is substantially higher than compared to other four banks. So banks are recommended to activate its idle cash and bank balance in productive sector maintaining the required liquidity cushion and quality of assets. Though high ratio of loan and advances and investment indicates better mobilization of deposits collected and vice versa but high ratio is not regarded good from liquidity point of view. Also care must be taken to maintain the quality assets though return is one of the major factors. The long run strength of the financial assets is the retention of the quality assets vis-a-vis return. The affecting factors of the liquidity position may be interest rates, supply and demand position of the loan and advances as well as savings, investment situations, Central Banks directives, capability of management, lending policies, strategic planning and fund flow situations.

2. Banks are suggested not to be surrounded and limited within the interest and status of big clients like multinational companies, traders, manufactures and exporters. The banks have to preserve the banking and saving habits of low-income people of the kingdom. Because the main source of collecting deposits of commercial banks are from public sector. It is also recommended to collect more funds as deposits through different schemes for different level of public. Also financial sector being the major back bone for the sustained upliftment of economy banks are required to invest more in infrastructural and other kinds of project loans then entering into retail sectors.

3. The recovery of loan is the most challenging job for banks. Increasing in non-performing assets leads to failure in commercial banks. Therefore banks are advised to strictly adhere to NRB guidelines, its internal policies, guidelines and process note, creditworthiness procedure and ensure that the repayment capacity of borrower is sound and assets are properly collateralised. The banks must be very careful while formulating credit policy. The credit policy is also associated with some legal procedure. Also banks are advised to strictly adhere the NRB regulation so as to maintain a proper balance of economy and proper knowhow of customer should be in place so as to avoid antimony laundering. Know your customer is very important as bank may face into legal problems relating to capital flight, assets bubble and foreign currency regulation in case the bank is unaware of customer business and customer resorts into any of the above barred activity.

4. The growth of commercial banks helps to develop the economic growth of the country. So the service of the commercial banks should be expanded all over the country though collection of idle saving from every territory of the country and should be utilized for income generation purpose. Commercial banks should be extended in rural areas and communities without making unfavourable impact in their profitability.

5. NIBL seems to be banking aggressively as the growth parameters of deposits, loans & advances, investment and net profit is significantly high but proper mix of return and risk is to be assured. Concentration of lending in unproductive sectors like real state, capital markets and concentration of deposits in few customers should be avoided. All commercial banks should be careful in increasing profits of the bank to maintain the confidence of shareholders, depositors and all its customers. The assets quality should be

maintained, only return shouldn't be considered. NRB's directive as to investment in deprived and priority sector should be met. Banks have social and economy building responsibility in addition to earning of profits. Portfolio management of banks assets means allocation of funds into different components of banking assets in such a way that the conflicting goal of maximum yield and minimum risk can be achieved. So banks should make continuous efforts to explore innovative, competitive and highly yielding investment opportunities to optimize the investment portfolio.

APPENDIX -1

Comparative Balance Sheet of SCB

for FY (2001/02-2007/08)

Rs in million

Particulars	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
ASSETS							

Fixed Assets	101	192	136	71	101	126	117
Investment on Shares	11	11	11	2,499	4,203	6,448	5,765
Other investment	3,480	3,624	3,401	0	0	0	0
Current Assets	14,851	17,174	20,094	19,211	21,472	22,023	27,453
Cash and Bank Balance	825	1,512	2,023	1,111	1,276	2,021	2,050
Money at call and short notice	2,062	1,658	2,219	2,260	1,977	1,761	2,198
Loan & advances	5,364	5,696	6,410	8,143	8,935	10,503	13,719
Interest Receivable	111	53	144	133	189	202	178
Invt. on Govt.securities	5,785	6,723	7,948	7,203	8,645	7,105	8,138
Miscellaneous Current Assets	704	1,532	1,349	361	450	431	1,171
Total Assets)	**18,443**	**21,001**	**23,642**	**21,782**	**25,776**	**28,597**	**33,336**
LIABILITIES							
Net Worth	**1,235**	**1,369**	**1,496**	**1,582**	**1,754**	**2,116**	**2,493**
Share Capital	340	340	375	375	375	413	621
Shareholder's Reserves	896	1,029	1,121	1,208	1,380	1,703	1,872
Debentures and Bonds			0	0	0	0	0
Loans	685	79	78	28	0	400	0
Current Liabilities	**16,523**	**19,552**	22,068	**20,172**	**24,022**	**26,080**	**30,843**
Deposits and other a/c's	15,836	18,756	21,161	19,364	23,061	24,647	29,744
Tax Provision	-85	-112	-18	0	0	6	2
Bills Payable	51	55	59	56	56	36	87
Staff Bonus	72	76	86	89	94	102	147
Dividend Payables	8	9	423	461	500	342	506
Misc. current liabilities	640	768	356	202	311	948	357
Total liabilities	**18,443**	**21,001**	**23,642**	**21,782**	**25,776**	**28,597**	**33,336**

Source :Annual report of SCB

APPENDIX -2

Comparative Balance Sheet of NABIL

for FY (2001/02-2007/08)

Rs in million

Particulars	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
ASSETS							
Fixed Assets	238	252	338	361	319	287	598
Investment on Shares	22	22	133	440	104	287	323
Other investment	4,057	2,420	2,030	1,413	3,773	3,850	4,970
Current Assets	13,312	13,868	14,244	14,971	18,134	22,830	31,242
Cash and Bank Balance	1,052	1,145	970	559	630	1,400	2,671
Money at call and short notice	31	670	919	868	1,735	564	1,952
Loan & advances	7,438	7,756	8,190	10,586	12,923	15,546	21,365
Interest Receivable	101	178	174	169	189	0	0
Invt. on Govt.securities	4,120	3,589	3,673	2,414	2,301	4,808	4,647
Miscellaneous Current Assets	570	531	318	375	356	512	606
Total Assets	**17,629**	**16,563**	**16,746**	**17,186**	**22,330**	**27,253**	**37,133**
LIABILITIES							

Net Worth	1,146	1,314	1,482	1,658	1,875	2,057	2,437
Share Capital	492	492	492	492	492	492	689
Shareholder's Reserves	655	823	990	1,166	1,383	1,565	1,748
Loans	417	961	230	17	173	883	1,600
Current Liabilities	**15,998**	**14,178**	**14,861**	**15,392**	**20,189**	**24,230**	**32,857**
Bills Payable	68	109	174	120	93	84	238
Deposits and other a/c's	15,506	13,448	14,119	14,587	19,347	23,342	31,915
Tax Provision	-31	-7	-3	15	35	0	39
Staff Bonus	44	66	72	84	90	100	109
Dividend Payables	12	94	37	17	435	509	437
Misc. current liabilities	467	577	636	689	282	279	357
Total liabilities	**17,629**	**16,563**	**16,746**	**17,186**	**22,330**	**27,253**	**37,133**

Source :Annual report of NABIL

APPENDIX -3

Comparative Balance Sheet of HBL

for FY (2001/02-2007/08)

Rs in million

Particulars	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
ASSETS							
Fixed Assets	319	230	300	296	541	574	726
Investment on Shares	34	34	34	40	40	73	90
Other investment	6,075	6,142	5,826	6,183	5,705	5,295	5,779
Current Assets	**14,244**	**16,949**	**18,602**	**20,900**	**23,175**	**27,577**	**29,581**
Cash and Bank Balance	1,265	1,979	2,001	2,014	1,717	1,757	1,448
Money at call and short notice	352	150	369	441	1,005	1,710	519
Loan & advances	8,914	10,002	11,952	12,425	14,643	16,998	19,498
Invt. On govt. securities	3,048	3,999	3,432	5,470	5,144	6,455	7,472
Non Banking Assets	41	36	36	32	22	13	10
Interest Receivable	330	418	527	85	62	0	0
Miscellaneous Current Assets	294	364	285	433	581	644	635
Total Assets	**20,672**	**23,355**	**24,762**	**27,418**	**29,460**	**33,519**	**36,176**
LIABILITIES							
Net Worth	**858**	**1,063**	**1,324**	**1,542**	**1,766**	**2,147**	**2,513**
Share Capital	390	429	536	644	772	811	1,014
Shareholder's Reserves	468	634	788	898	994	1,336	1,499
Debenture and bonds	**360**	**360**	**360**	**360**	360	360	860

Current Liabilites	**19,454**	**21,932**	**23,078**	**25,516**	**27,334**	**31,013**	**32,803**
Deposits	18,619	21,007	22,010	24,814	26,491	30,048	31,843
Borrowings	174	286	299	146	145	236	83
Bills Payable	56	47	64	68	74	91	103
Tax Provision	0	0	-55	3	0	12	19
Staff Bonus	39	40	47	67	67	72	95
Dividend Payables	6	8	6	80	238	131	263
Misc. current liabilities	560	544	706	337	320	422	397
Total Liabilities	**20,672**	**23,355**	**24,762**	**27,418**	**29,460**	**33,519**	**36,176**

Source: Annual Report of HBL

APPENDIX -4

Comparative Balance Sheet of EBL

for FY (2001/02-2007/08)

Rs in million

Particulars	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
ASSETS							
Fixed Assets	106	110	118	134	152	170	361
Non banking assets	0	0	0	25	7	0	0
Investment on Shares	17	17	17	29	652	280	238
Other investment	0	38	52	0	0	0	0
Current Assets	6,988.73	7,888	9,421	11,545	15,148	20,983	26,551
Cash and Bank Balance	593	1,140	632	1,050	1,553	2,391	2,668
Money at call	121	0	187	570	67	0	346
Loan & advances	4,044	4,908	5,884	7,619	9,801	13,664	18,339
Invt. on Govt.securities	1245	1,599	2,466	2,100	3,549	4,705	4,822
Interest Receivable	36	20	36	21	21	26	35
Miscellaneous Current Assets	518	221	215	185	157	197	341
Total Assets	**7112**	**8,052**	**9,609**	**11,733**	**15,959**	**21,433**	**27,149**
LIABILITIES							
Net Worth	587	613	680	833	963	1,202	1,921
Share Capital	455	455	455	518	518	518	831
Shareholder's Reserves	132	158	225	315	445	684	1,090
Debetures and Bonds	0	0	0	300	300	300	300
Current Liabilities	6525	7,439	8,928	10,600	14,696	19,931	24,928

Deposits and other a/c's	5,467	6,695	8,064	10,098	13,802	18,186	23,976
Short term loan	0	0	0	0	0	0	0
Bills Payable	22	22	22	18	16	27	49
Tax Provision	0	0	11	3	0	15	41
Staff Bonus	12	15	23	28	35	45	66
Dividend Payables	2	1	7	24	115	68	141
Misc. current liabilities	1022	706	800	430	729	1,589	655
Total Liabilities	**7112**	**8,052**	**9,609**	**11,733**	**15,959**	**21,433**	**27,149**

Source :Annual report of EBL

APPENDIX -5

Comparative Balance Sheet of NIBL

for FY (2001/02-2007/08)

Rs in million

Particulars	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
ASSETS							
Fixed Assets	36	191	250	321	343	759	970
Investment on Shares	14	14	14	18	3,061	3,230	3,719
Other investment	1,584	1,291	1,847	1,968	20	20	0
Current Assets	3,340	7,518	11,144	13,968	17,906	23,582	34,184
Cash and Bank Balance	339	927	1,227	1,340	2,337	2,442	3,755
Money at call and short notice	0	40	310	140	70	363	0
Loan & advances	2,564	5,772	7,130	10,126	12,776	17,286	26,997
Interest Receivable	60	85	81	95	37	34	25
Invt. on Govt.securities	224	400	2,001	1,949	2,522	3,256	3,155
Miscellaneous Current Assets	153	294	395	318	164	201	253
Total Assets	**4,974**	**9,014**	**13,256**	**16,274**	**21,330**	**27,591**	**38,873**
LIABILITIES							
Net Worth	523	639	729	1,180	1,415	1,878	2,687
Share Capital	170	295	295	588	591	801	1,204
Shareholder's Reserves	353	343	434	592	825	1,077	1,483
Debentures and Bonds	0	0	0	0	550	0	0
Current Liabilities	4,450	8,376	12,526	15,094	19,365	25,713	36,187
Loans	99	7	362	350	0	800	1,050
Bills Payable	7	32	58	15	19	32	79

Deposits and other a/c's	4,175	7,923	11,525	14,255	18,927	24,489	34,452
Tax Provision	-28	-2	1	-4	9	0	24
Staff Bonus	9	19	26	37	50	102	102
Dividend Payables	2	61	50	79	122	44	93
Misc. current liabilities	187	337	506	362	237	246	386
Total liabilities	**4,974**	**9,014**	**13,256**	**16,274**	**21,330**	**27,591**	**38,873**

Source :Annual report of NIBL

APPENDIX -6

Comparative Profit and Loss account of SCB

for FY (2001/02-2007/08)

Rs. in millio

Particulars	Fiscal Year						
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/
A. Operating Income	1,447	1,505	1,584	1,513	1,721	1,971	2,2
1.Interest Earned	1,014	1,001	1,042	1,059	1,190	1,412	1,5
2. Commission & Discount	163	215	199	185	223	221	2
3. Exchange Income	228	233	273	267	283	309	3
4. Other	42	55	70	3	25	29	
B. Cost of Services	643	719	721	748	767	925	1,0
1. Interest Paid	300	255	276	254	303	413	4
2. Salaries, Allowances & P.F.	127	128	135	149	168	200	2
3. Provision for Bonus	72	76	86	89	94	102	1
4. Other General Expenses	144	260	224	257	202	210	2
C. Gross Profit (A-B)	**804**	**785**	**863**	**765**	**954**	**1,046**	**1,2**
D. Depreciation	65	68	66	66	19	18	
E. Operating Profit (C-D)	**739**	**717**	**797**	**699**	**935**	**1,028**	**1,1**
F. Income from other sources	0	0	0	63	1	9	
G. Pre- tax Profit (E+F)	**739**	**717**	**797**	**762**	**936**	**1,038**	**1,2**
H. Provision for Loan Loss	76	2	24	30	0	0	-
I. Provision for Taxes	184	208	236	259	281	324	3
J. Provision for Non Banking Assets	0	0	0	0	0	0	

K. Provision for possible loss	0	0	0	0	-5	17	
L. Bad debts written off	0	0	0	0	0	0	
M. Income extraordinary activities	0	0	0	0	-2	-5	-
N. Net Profit (G-H-I-J-K-L-M))	**479**	**506**	**537.80**	**473**	**658**	**691**	**8**

Source: Annual Report SCB

APPENDIX -7

Comparative Profit and Loss account of NABIL

for FY (2001/02-2007/08)

Rs. in mill

Particulars	Fiscal Year						
	2001/02	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/**
A. Operating Income	1,389	1,393	1,390	1,455	1,717	2,036	2,4
1.Interest Earned	1,120	1,018	1,002	1,069	1,310	1,588	1,9
2. Commission & Discount	114	144	139	129	138	151	1
3. Exchange Income	154	144	157	185	185	210	1
4. Other	0	87	93	72	83	88	
B. Cost of Services	748	594	643	659	792	1,031	1,2
1. Interest Paid	462	317	283	244	357	556	7
2. Salaries, Allowances & P.F.	145	211	181	200	220	240	2
3. Provision for Bonus	44	66	72	84	90	100	1
4. Other General Expenses	97	0	107	132	125	135	1
C. Gross Profit (A-B)	**641**	**799**	**747**	**796**	**925**	**1,005**	**1,1**
D. Depreciation	40	0	46	59	58	53	
E. Operating Profit (C-D)	**601**	**799**	**701**	**737**	**867**	**952**	**1,0**
F. Income from other sources	250	34	39	56	1	5	
G. Pre- tax Profit (E+F)	**851**	**833**	**740**	**793**	**868**	**958**	**1,1**
H. Provision for Loan Loss	442	0	0	0	0	0	
I. Provision for Taxes	138	199	202	239	263	321	3

J. Provision for Non Banking Assets	0	0	0	0	0	0	
K. Provision for possible loss	0	0	1	4	-4	3	
L. Bad debts written off	0	52	82	31	0	0	
M. Income extraordinary activities	0	0	0	0	26	41	
N. Net Profit (G-H-I-J-K-L-M))	**272**	**582**	**455**	**519**	**635**	**674**	

Source: Annual Report of NABIL

APPENDIX -8

Comparative Profit and Loss account of HBL

for FY (2001/02-2007/08)

Rs. in mill

Particulars	Fiscal Year						
	2001/02	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/**
A. Operating Income	1,358	1,424	1,486	1,719	1,992	2,124	2,3
1.Interest Earned	1,149	1,201	1,246	1,446	1,626	1,776	1,9
2. Commission & Discount	102	103	124	133	165	193	2
3. Exchange Income	105	110	112	137	198	152	1
4. Other	2	11	3	3	2	3	
B. Cost of Services	851	868	867	1,039	1,235	1,401	1,5
1. Interest Paid	578	554	492	562	649	767	8
2. Salaries, Allowances & P.F.	102	120	153	179	235	291	3
3. Provision for Bonus	39	40	47	58	67	72	
4. Other General Expenses	132	154	176	240	285	271	2
C. Gross Profit (A-B)	**507**	**556**	**618**	**681**	**756**	**723**	**8**
D. Depreciation	24	23	35	37	45	52	
E. Operating Profit (C-D)	**484**	**533**	**584**	**643**	**712**	**671**	**8**
F. Income from other sources	32	30	34	41	52	40	
G. Pre- tax Profit (E+F)	**516**	**563**	**618**	**685**	**764**	**711**	**8**
H. Provision for Loan Loss	167	203	186	59	-57	-413	-1
I. Provision for Taxes	114	148	158	214	215	226	3

J. Provision for Non Banking Assets	0	0	11	15	0	0	
K. Provision for possible loss	0	0	0	0	145	91	
L. Bad debts written off	0	0	0	88	0	0	
M. Income extraordinary activities	0	0	0	0	3	316	
N. Net Profit (G-H-I-J-K-L-M))	**235**	**212**	**263**	**308**	**457**	**492**	**6**

Source: Annual Report HBL

APPENDIX -9

Comparative Profit and Loss account of EBL

for FY (2001/02-2007/08)

Rs. in mill

Particulars	Fiscal Year						
	2001/02	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/**
A. Operating Income	651	634	783	856	1,064	1,359	1,8
1.Interest Earned	541	520	657	719	903	1,144	1,5
2. Commission & Discount	62	62	74	78	97	118	1
3. Exchange Income	28	32	28	27	14	28	
4. Other	19	20	24	31	49	68	
B. Cost of Services	374	434	472	492	629	799	1,0
1. Interest Paid	277	308	316	300	401	517	6
2. Salaries, Allowances & P.F.	32	37	49	61	71	86	1
3. Provision for Bonus	14	15	23	28	35	45	
4. Other General Expenses	51	74	84	104	122	150	1
C. Gross Profit (A-B)	**201**	**200**	**311**	**364**	**434**	**560**	**7**
D. Depreciation	24	20	20	25	21	27	
E. Operating Profit (C-D)	**176**	**180**	**291**	**339**	**413**	**532**	**7**
F. Income from other sources	0	1	2	3	3	1	
G. Pre- tax Profit (E+F)	**176**	**182**	**293**	**342**	**416**	**534**	**7**
H. Provision for Loan Loss	35	46	82	-5	0	-12	-
I. Provision for Taxes	42	42	68	85	108	158	2

J. Provision for Non Banking Assets	0	0	0	0	0	0	
K. Provision for possible loss	0	0		89	70	90	
L. Bad debts written off	0	0	0	0	0	0	
M. Income extraordinary activities	14	0	0	-5	0	-1	-
N. Net Profit (G-H-I-J-K-L-M))	**85**	**94**	**144**	**168**	**237**	**296**	**4**

Source :Annual report of EBL

APPENDIX -10

Comparative Profit and Loss account of NIBL

for FY (2001/02-2007/08)

Rs. in mill

Particulars	Fiscal Year						
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/
A. Operating Income	416	577	912	1,108	1,450	1,932	2,6
1.Interest Earned	326	460	731	887	1,173	1,585	2,1
2. Commission & Discount	16	41	56	94	116	164	2
3. Exchange Income	43	51	88	103	126	135	1
4. Other	30	26	37	26	36	47	
B. Cost of Services	257	366	568	639	813	1,094	1,5
1. Interest Paid	130	189	326	355	491	686	9
2. Salaries, Allowances & P.F.	42	61	90	97	111	145	1
3. Provision for Bonus	9	19	26	37	50	72	1
4. Other General Expenses	76	97	126	151	161	191	2
C. Gross Profit (A-B)	**159**	**211**	**344**	**469**	**637**	**838**	**1,1**
D. Depreciation	9	12	23	33	40	53	
E. Operating Profit (C-D)	**150**	**200**	**321**	**436**	**598**	**785**	**1,0**
F. Income from other sources	3	1	2	7	0	1	
G. Pre- tax Profit (E+F)	**153**	**200**	**323**	**443**	**598**	**786**	**1,0**
H. Provision for Loan Loss	0	0	0	-31	-11	-67	-1
I. Provision for Taxes	21	53	79	102	154	222	3

J. Provision for Non Banking Assets	0	0	0	0	0	0	
K. Provision for possible loss	75	30	91	140	104	130	1
L. Bad debts written off	0	0	0	0	0	0	
M. Income extraordinary activities	0	0	0	0	0	0	
N. Net Profit (G-H-I-J-K-L-M))	**57**	**117**	**153**	**232**	**351**	**501**	**6**

Source: Annual Report NIBL Bank ltd.

APPENDIX -11

Cash and Bank Balance to Total Deposit Ratio

For SCB Nepal Ltd.

Year 2001/02,

Cash and Bank Balance to Total Deposit ratio

$$X\frac{CashandBankBalance}{TotalDeposits} = \frac{2887.25}{15835.75} = 18.23\% \text{ So on,}$$

For NABIL Bank Ltd.

Year 2001/02,

Cash and Bank Balance to Total Deposit ratio

$$X\frac{CashandBankBalance}{TotalDeposits} = \frac{1083.19}{15506.43} = 6.99\% \text{ So on,}$$

For HBL

Year 2001/02,

Cash and Bank Balance to Total Deposits ratio

$$X\frac{CashandBankBalance}{TotalDeposits} = \frac{1617.02}{18619.38} = 8.68\% \text{ So on,}$$

For EBL

Year 2001/02,

Cash and Bank Balance to Total Deposits ratio

$$X\frac{CashandBankBalance}{TotalDeposits}=\frac{712.85}{5467}=13.04\%$$ So on,

For NIBL

Year 2001/02,

Cash and Bank Balance to Total Deposits ratio

$$X\frac{CashandBankBalance}{TotalDeposits}=\frac{338.92}{4174.76}=8.12\%$$ So on,

APPENDIX -12

Cash and Bank Balance to Current Assets

For SCBN Ltd.

Year 2001/02,

Cash and Bank Balance to Current Assets

$$=\frac{CashandBankBalance}{CurrentAssets}=\frac{2887.25}{14850.88}=19.44\%$$ So on,

For NABIL Bank Ltd.

Year 2001/02,

Cash and Bank Balance to Current Assets

$$= \frac{CashandBankBalance}{CurrentAssets} = \frac{1083.19}{13312.39} = 8.14\%$$ So on,

For HBL

Year 2001/02,

Cash and Bank Balance to Current Assets

$$= \frac{CashandBankBalance}{CurrentAssets} = \frac{1617.02}{14244.23} = 11.35\%$$ So on,

For EBL

Year 2001/02,

Cash and Bank Balance to Current Assets

$$= \frac{CashandBankBalance}{CurrentAssets} = \frac{712.85}{6988.73} = 10.20\%$$ So on,

For NIBL

Year 2001/02,

Cash and Bank Balance to Current Assets

$$= \frac{CashandBankBalance}{CurrentAssets} = \frac{338.92}{3340.24} = 10.15$$ So on,

APPENDIX -13

Investment on Government Securities to Current Assets

For SCBN Ltd.

Year 2001/02,

Investment on Government Securities to Current Assets

$$= \frac{InvestmentonGov.Securities}{CurrentAssets} = \frac{5784.72}{14850.88} = 38.95\%$$ So on,

For NABIL Bank Ltd.

Year 2001/02,

Investment on Government Securities to Current Assets

$$= \frac{InvestmentonGov.Securities}{CurrentAssets} = \frac{4120.29}{13312.39} = 30.95\%$$ So on,

For HBL

Year 2001/02,

Investment on Government Securities to Current Assets

$$= \frac{InvestmentonGov.Securities}{CurrentAssets} = \frac{3047.76}{14244.23} = 21.40\%$$ So on,

For EBL

Year 2001/02,

Investment on Government Securities to Current Assets

$$= \frac{Investmenton Gov. Securities}{Current Assets} = \frac{1244.69}{6988.73} = 17.81\% \text{ So on,}$$

For NIBL

Year 2001/02,

Investment on Government Securities to Current Assets

$$= \frac{Investmenton Gov. Securities}{Current Assets} = \frac{224.40}{3340.24} = 6.72\% \text{ So on,}$$

APPENDIX -14

Loans and Advances to Total Deposit Ratio

For SCBN Ltd.

Year 2001/02,

Loan and Advances to Total Deposits Ratio

$$= \frac{Totalloananndd Advances}{Total Deposit} = \frac{5364.01}{15835.75} = 33.87\% \text{ So on,}$$

For NABIL Bank Ltd.

Year 2001/02,

Loan and Advances to Total Deposits Ratio

$$= \frac{Totalloananndd Advances}{Total Deposit} = \frac{7437.89}{15506.43} = 47.97\% \text{ So on,}$$

For HBL

Year 2001/02,

Loan and Advances to Total Deposits Ratio

$$= \frac{Totalloananndd Advances}{Total Deposit} = \frac{8913.72}{18619.38} = 47.87\% \text{ So on,}$$

For EBL

Year 2001/02,

Loan and Advances to Total Deposits Ratio

$$= \frac{Totalloananndd Advances}{Total Deposit} = \frac{4044.20}{5466.60} = 73.98\% \text{ So on,}$$

For NIBL

Year 2001/02,

Loan and Advances to Total Deposits Ratio

$$= \frac{Totalloananndd Advances}{Total Deposit} = \frac{2564.42}{4174.76} = 61.43\% \text{ So on,}$$

APPENDIX -15

Total Investment to Total Deposit Ratio

For SCBN Ltd.

Year 2001/02,

Total Investment to Total Deposits Ratio

$$= \frac{TotalInvestment}{TotalDeposit} = \frac{9275.88}{15835.75} = 58.58\%$$ So on,

For NABIL Bank Ltd.

Year 2001/02,

Total Investment to Total Deposits Ratio

$$= \frac{TotalInvestment}{TotalDeposit} = \frac{8199.51}{15506.43} = 52.88\%$$ So on,

For HBL Bank Ltd.

Year 2001/02,

Total Investment to Total Deposits Ratio

$$= \frac{TotalInvestment}{TotalDeposit} = \frac{9157.12}{18619.38} = 49.18\% \text{ So on,}$$

For EBL

Year 2001/02,

Total Investment to Total Deposits Ratio

$$= \frac{TotalInvestment}{TotalDeposit} = \frac{1261.69}{5466.60} = 23.08\% \text{ So on,}$$

For NIBL

Year 2001/02,

Total Investment to Total Deposits Ratio

$$= \frac{TotalInvestment}{TotalDeposit} = \frac{1822.17}{4174.76} = 43.65\% \text{ So on,}$$

APPENDIX -16

Loans and Advances to Total Working Fund

For SCBN Ltd.

Year 2001/02

Loan and Advances to Total Working Fund

$$= \frac{Total Loan and Advances}{Total Working Fund} = \frac{5364.01}{18443.11} = 29.08\% \text{ So on}$$

For NABIL Bank Ltd.

Year 2001/02

Loan and Advances to Total Working Fund

$$= \frac{Total Loan and Advances}{Total Working Fund} = \frac{7437.89}{17629.25} = 42.19\% \text{ So on}$$

For HBL.

Year 2001/02

Loan and Advances to Total Working Fund

$$= \frac{Total Loan and Advances}{Total Working Fund} = \frac{8913.72}{20672.43} = 43.12\% \text{ So on}$$

For EBL

Year 2001/02

Loan and Advances to Total Working Fund

$$= \frac{Total Loan and Advances}{Total Working Fund} = \frac{4044.20}{7111.73} = 56.87\% \text{ So on}$$

For NIBL

Year 2001/02

Loan and Advances to Total Working Fund

$$= \frac{TotalLoanandAdvances}{TotalWorkingFund} = \frac{2564.42}{4973.89} = 51.56\% \text{ So on}$$

APPENDIX -17

Investment on Government Securities to Total Working Fund

For SCB.

Year 2001/02,

Investment on Govt. Securities to Total Working Fund

$$= \frac{TotalInvestmentonGovt.Securities}{TotalWorkingFund} = \frac{5784.72}{18443.11} = 31.37\ \% \text{ So on,}$$

For NABIL

Year 2001/02,

Investment on Govt. Securities to Total Working Fund

$$= \frac{TotalInvestmentonGovt.Securities}{TotalWorkingFund} = \frac{4120.29}{17629.25} = 23.37\% \text{ So on,}$$

For HBL

Year 2001/02,

Investment on Govt. Securities to Total Working Fund

$$= \frac{Total Investment on Govt. Securities}{Total Working Fund} = \frac{3047.76}{20672.43} = 14.74\%$$ So on,

For EBL

Year 2001/02,

Investment on Govt. Securities to Total Working Fund

$$= \frac{Total Investment on Govt. Securities}{Total Working Fund} = \frac{1244.69}{7111.73} = 17.50\%$$ So on,

For NIBL

Year 2001/02,

Investment on Govt. Securities to Total Working Fund

$$= \frac{Total Investment on Govt. Securities}{Total Working Fund} = \frac{224.40}{4973.89} = 4.51\%$$ So on,

APPENDIX -18

Investment on Shares and Debentures to Total Working Fund

For SCB

Year 2001/02,

Investment on Shares and Debenture to Total Working Fund Ratio =

$$\frac{Inv.onSharesandDebentures}{TotalWorkingFund} = \frac{11.20}{18443.11} = 0.06\%$$ So on,

For NABIL

Year 2001/02,

Investment on Shares and Debenture to Total Working Fund Ratio

$$= \frac{Inv.onSharesandDebentures}{TotalWorkingFund} = \frac{22.22}{17629.25} = 0.13\%$$ So on,

For HBL

Year 2001/02,

Investment on Shares and Debenture to Total Working Fund Ratio

$$= \frac{Inv.onSharesandDebentures}{TotalWorkingFund} = \frac{34.27}{20672.43} = 0.17\%$$ So on,

For EBL

Year 2001/02,

Investment on Govt. Securities to Total Working Fund

$$= \frac{Inv.onSharesandDebentures}{TotalWorkingFund} = \frac{17}{7111.73} = 0.24\%$$ So on,

For NIBL

Year 2001/02,

Investment on Govt. Securities to Total Working Fund

$$= \frac{Inv.onSharesandDebentures}{TotalWorkingFund} = \frac{13.90}{4973.89} = 0.28\%$$ So on,

APPENDIX -19

Return on Loans and Advances Ratio

For SCB

Year 2001/02,

Return on Loan and Advances Ratio

$$= \frac{Net\ Profit/Loss}{LoanandAdvances} = \frac{479.21}{5364.01} = 8.93\%$$ So on,

For NABIL

Year 2001/02,

Return on Loan and Advances Ratio

$$= \frac{Net\ \Pr ofit / Loss}{LoanandAdvances} = \frac{271.68}{7437.89} = 3.65\%$$ So on,

For HBL

Year 2001/02,

Return on Loan and Advances Ratio

$$= \frac{Net\ \Pr ofit / Loss}{LoanandAdvances} = \frac{235.02}{8913.72} = 2.64\%$$ So on,

For EBL

Year 2001/02,

Return on Loan and Advances Ratio

$$= \frac{Net\ \Pr ofit / Loss}{LoanandAdvances} = \frac{85.35}{4044.20} = 2.11\%$$ So on,

For NIBL

Year 2001/02,

Return on Loan and Advances Ratio

$$= \frac{Net\ \Pr ofit / Loss}{LoanandAdvances} = \frac{57.11}{2564.42} = 2.23\%$$ So on,

APPENDIX -20

Return on Total Working Funds Ratio

For SCB

Year 1999/00,

Return on Total Working Funds Ratio

$$= \frac{Net\ Profit\ /\ Loss}{TotalWorkingFund} = \frac{479.21}{18443.11} = 2.60\%$$ So on,

For NABIL

Year 1999/00,

Return on Total Working Funds Ratio

$$= \frac{Net\ Profit\ /\ Loss}{TotalWorkingFund} = \frac{271.68}{17629.25} = 1.54\%$$ So on,

For HBL

Year 2001,

Return on Total Working Funds Ratio

$$= \frac{Net\ Profit\ /\ Loss}{TotalWorkingFund} = \frac{235.02}{20672.43} = 1.14\%$$ So on,

For EBL

Year 2001,

Return on Total Working Funds Ratio

$$= \frac{Net\ \Pr ofit / Loss}{TotalWorkingFund} = \frac{85.35}{7111.73} = 1.20\%$$ So on,

For NIBL

Year 2001,

Return on Total Working Funds Ratio

$$= \frac{Net\ \Pr ofit / Loss}{TotalWorkingFund} = \frac{57.11}{4973.89} = 1.15\%$$ So on,

APPENDIX -21

Total Interest Earned to Total Working Fund

For SCB

Year 2001/02,

Total Interest Earned to Total Working Funds Ratio

$$= \frac{TotalInterestEarned}{TotalWorkingFund} = \frac{1013.64}{18443.11} = 5.50\%$$ So on,

For NABIL

Year 2001/02,

Total Interest Earned to Total Working Funds Ratio

$$= \frac{TotalInterestEarned}{TotalWorkingFund} = \frac{1120.18}{17629.25} = 6.35\%$$ So on,

For HBL

Year 2001/02,

Total Interest Earned to Total Working Funds Ratio

$$= \frac{TotalInterestEarned}{TotalWorkingFund} = \frac{1149}{20672.43} = 5.56\%$$ So on,

For EBL

Year 2001/02,

Total Interest Earned to Total Working Funds Ratio

$$= \frac{TotalInterestEarned}{TotalWorkingFund} = \frac{540.90}{7111.73} = 7.81\%$$ So on,

For NIBL

Year 2001/02,

Total Interest Earned to Total Working Funds Ratio

$$= \frac{TotalInterestEarned}{TotalWorkingFund} = \frac{326.22}{4973.89} = 6.56\%$$ So on,

APPENDIX -22

Total Interest Paid to Total Working Fund Ratio

For SCB

Year 2001/02,

Total Interest Paid to Total Working Fund Ratio

$$= \frac{TotalInterestPaid}{TotalWorkingFund} = \frac{299.86}{18443.11} = 1.63\%$$ So on,

For NABIL

Year 2001/02,

Total Interest Paid to Total Working Funds Ratio

$$= \frac{TotalInterestPaid}{TotalWorkingFund} = \frac{462.08}{17629.25} = 2.62\%$$ So on,

For HBL

Year 2001/02,

Total Interest Paid to Total Working Funds Ratio

$$= \frac{TotalInterestPaid}{TotalWorkingFund} = \frac{578.13}{20672.43} = 2.80\%$$ So on,

For EBL

Year 2001/02,

Total Interest Paid to Total Working Funds Ratio

$$= \frac{TotalInterestPaid}{TotalWorkingFund} = \frac{277.05}{7111.73} = 3.90\%$$ So on,

For NIBL

Year 2001/02,

Total Interest Paid to Total Working Funds Ratio

$$= \frac{TotalInterestPaid}{TotalWorkingFund} = \frac{130.44}{4973.89} = 2.62\%$$ So on,

APPENDIX -23

Liquidity Risk Ratio

For SCB

Year 2001/02,

Liquidity Risk Ratio

$$= \frac{CashandBankBalance}{TotalDeposit} = \frac{2887.25}{15835.75} = 18.23\% \text{ So on,}$$

For NABIL Bank Ltd.

Year 2001/02,

Liquidity Risk Ratio

$$= \frac{CashandBankBalance}{TotalDeposit} = \frac{1083.19}{15506.43} = 6.99\% \text{ So on,}$$

For HBL Bank Ltd.

Year 2001/02,

Liquidity Risk Ratio

$$= \frac{CashandBankBalance}{TotalDeposit} = \frac{1617.02}{18619.38} = 8.68\% \text{ So on,}$$

For EBL

Year 2001/02,

Liquidity Risk Ratio

$$= \frac{CashandBankBalance}{TotalDeposit} = \frac{713.85}{5466.60} = 13.04\% \text{ So on,}$$

For NIBL

Year 2001/02,

Liquidity Risk Ratio $= \frac{CashandBankBalance}{TotalDeposit} = \frac{338.92}{4174.76} = 8.12\%$ So on,

APPENDIX -24

Credit Risk Ratio

For SCB

Year 2001/02,

Credit Risk Ratio

$$= \frac{TotalInvestment \Gamma TotalloanandAdvances}{TotalAssets} = \frac{9275.88 \Gamma 5364.01}{18443.11} = 79.38\%$$ So on,

For NABIL

Year 2001/02,

Credit Risk Ratio

$$= \frac{TotalInvestment \Gamma TotalloanandAdvances}{TotalAssets} = \frac{8199.51 \Gamma 7437.89}{17629.25} = 88.70\%$$ So on,

For HBL

Year 2001/02,

Credit Risk Ratio

$$= \frac{TotalInvestment \Gamma TotalloanandAdvances}{TotalAssets} = \frac{9157.12 \Gamma 8913.72}{20672.43} = 87.42\% \text{ So on,}$$

For EBL

Year 2001/02,

Credit Risk Ratio

$$= \frac{TotalInvestment \Gamma TotalloanandAdvances}{TotalAssets} = \frac{1261.69 \Gamma 4044.20}{7111.73} = 74.62\% \text{ So on,}$$

For NIBL

Year 2001/02,

Credit Risk Ratio

$$= \frac{TotalInvestment \Gamma TotalloanandAdvances}{TotalAssets} = \frac{1822.17 \Gamma 2564.42}{4973.89} = 88.19\% \text{ So on,}$$

APPENDIX -25

Calculation of Growth Ratio of Total Deposits

We have,

$D_n = Do\ (1+g)^{n-1}$

Where, D_n = Total Deposits in the nth Year

D_o = Total Deposit in the initial Year

g = Growth Rate

n = Total number of Year

For SCB

$D_{2007/08}$ = 29744.00

$D_{2001/02}$ = 15835.75

n = 7 years

$D_n = Do\ (1+g)^{n-1}$

$29744 = 15835.75(1+g)^{7-1}$

Or, $(1+g)^6 = 29744/15835.75$

Or, $(1+g) = (1.8782)^{1/6}$

Or, g = 1.1107-1

g = 0.1107 i.e. 11.08%

For NABIL

$D_{2007/08}$ = 31915.09

$D_{2001/02}$ = 15506.43

n = 7 years

$D_n = Do\ (1+g)^{n-1}$

$31915.09 = 15506.43(1+g)^{7-1}$

Or, $(1+g)^6 = 31915.09/15506.43$

Or, $(1+g) = (2.0582)^{1/6}$

Or, g = 1.1278-1

g = 0.1278 i.e. 12.78%

For HBL Bank Ltd

$D_{2007/08}$ **=** 31842.79

$D_{2001/02}$ = 18619.38

n = 7 years

$D_n = Do\ (1+g)^{n-1}$

$31842.79 = 18619.38(1+g)^{7-1}$

Or, $(1+g)^6 = 31842.79/18619.38$

Or, $(1+g) = (1.7102)^{1/6}$

Or, g = 1.0936-1

g = 0.0936 i.e. 9.36%

For EBL

$D_{2007/08}$ **=** 23976.30

$D_{2001/02}$ = 5466.61

n = 7 years

Now,

$D_n = Do\ (1+g)^{n-1}$

$23976.30 = 5466.61(1+g)^{7-1}$

Or, $(1+g)^6 = 23976.30/5466.61$

Or, $(1+g) = (4.3859)^{1/6}$

Or, g = 1.2794-1

g = 0.2794 i.e. 27.94%

For NIBL

$D_{2007/08}$ **=** 34451.73

$D_{2001/02}$ = 4174.76

n = 7 years

$D_n = Do\ (1+g)^{n-1}$

$34451.73 = 4174.76(1+g)^{7-1}$

Or, $(1+g)^6 = 34451.73/4174.76$

Or, $(1+g) = (8.2526)^{1/6}$

Or, g = 1.4216-1

g = 0.4216 i.e. 42.16%

Similarly other calculation of growth ratio to investments, loans & advances and net profit can be calculated in same manner using the above formula.

APPENDIX -26

Sample Calculation of Expected Return ($\overline{X}$), Standard Deviation ($\pm$) and Coefficient of Variation (C.V.)

Expected Return **(** $\overline{X}$ **)** = $\frac{X}{N}$ = $\frac{60.68}{7}$ = 8.67

Where,

N = Number of observations

$\overline{X}$ = Expected return of the historical data

X = Return of the historical data

Return (*X*)	**Expected Return (** $\overline{X}$ **)**	*X*- $\overline{X}$	(*X*- $\overline{X}$)^2
13.34	8.67	4.67	21.80
7.43	8.67	-1.24	1.54
6.42	8.67	-2.25	5.06
8.19	8.67	-0.48	0.23
6.79	8.67	-1.88	3.53
9.42	8.67	0.75	0.56
9.09	8.67	0.42	0.18
(*X*- $\overline{X}$)^2			**32.90**

S.D **(±)** $= \sqrt{\frac{1}{N} \quad (X \; Z\overline{X})^2}$

$= \sqrt{\frac{1}{7} \mid 32.90}$

$= \sqrt{4.7}$

= 2.17

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

$$= \frac{2.17}{8.67}$$

= 0.2502 0r 25.02%

APPENDIX -27

Calculation of Simple Regression

y= a+bx

Where,

y= Dependent variable, I_n Investment in Earning Assets

x= Independent variable, I_n Deposit

a= Constant

b= Slope

SCB

Year	IEA	DEPOT	I_n IEA (Y)	I_n DEPOT (X)	XY	(I_n DEPOT) ^2
2001/02	9,276	15,836	9.14	9.67	88.38	93.51
2002/03	10,358	18,756	9.25	9.84	91.02	96.83
2003/04	10,135	21,161	9.22	9.96	91.83	99.20
2004/05	9,703	19,364	9.18	9.87	90.61	97.42
2005/06	12,848	23,061	9.46	10.05	95.07	101.00
2006/07	13,553	24,647	9.51	10.11	96.15	102.21
2007/08	13,903	29,744	9.54	10.30	98.26	106.09
N=7			**∑Y=65.30**	**∑X =69.80**	**∑XY=651.32**	**$\sum X^2$=696.26**

Slope(b) = $(N\Sigma XY - (\Sigma X)(\Sigma Y)) / (N\Sigma X^2 - (\Sigma X)^2)$

$$= \frac{651 - (69.80 \times 65.30)}{(7 \times 696.26 - (69.80)^2)}$$

$$= 0.73$$

Intercept(a) = $(\Sigma Y - b(\Sigma X)) / N$

$$= \frac{(65.30 - 0.73 \times 69.80)}{7}$$

$$= 2.05$$

Thus

y= 2.05+0.73x

Similarly, Simple regression for other banks is calculated likewise.

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