

CHAPTER- I

INTRODUCTION

1.1 Background of the Study:

Development of the nation largely depends upon its economic development. The process of economic development depends upon various factors. Economic development demands transformation of saving or resources into actual investment. Capital formation is one of the important factors in economic development. The capital formation leads to increase in income, output, and employment. A key factor of the economic development is the mobilization of the domestic resources. Financial Institutions help to mobilize the resources in productive sectors. It occupies the crux role in development of the nation. It mobilizes the funds scattered in the economy and mobilizes them to the productive sector like agriculture, industry, trade and commerce etc. Integrated and speedy development of a country is possible only when competitive banking services reach nooks and corners of the country.

Banks and financial institutions work as a medium for transmitting resources from one place (the surplus sector) to the other place (deficit sector). They mobilize the resources to the productive sectors of economy. Considering the large investment saving gap and low growth rate, role of banking sector cannot be undermined in the economic development process. Huge amount of capital is required for investment in productive industrial and infrastructure sector. Banks with adequate capital base can only cater the financial need. In order to arrange larger amount of fund and encourage investment in development-oriented sector, Nepal Rastra Bank has also widened the obligor limit and financial institutions are allowed to lend upto 50 percent of their core capital in the hydropower or other infrastructure sectors.

More importantly, since more than a decade long insurgency formally come to an end and new legislation is in the process of formation through Constitutional Assembly people's needs are raising day by day. As a result, both political parties and private sector have realized the need for concentrating on economic development issues and make economic agenda a top priority. To materialize the development goal, there is a demand of innovative role of the banking sector in the promotion of agriculture, industry, infrastructure, hydropower, tourism, education and other productive sectors. This is possible with the help of banks and financial institutions with large capital base. After all, it is expected that Nepalese economy will take off and a major break-through will take place to continuously on-go economic development activity.

Bank is the king of the business world and the promoter of economic activities. It is the institution, which deals with the money and other resources in which the person who has spare money, deposit and who need the fund borrow from it. Most people like to save money when they have chance. They may save some money when they have no urgent need for money at that time. People who have additional money they save or deposit that money in banks and who need money for some purpose they borrow from the banks. Banks are the creator of the money. In fact, they are the backbone of the economic development. The role of bank in economic is immense. Development banks represent the large group of depository institution. They collect deposit by offering various deposit schemes with attractive interest rates and they mobilize that collected money in different area of financing like buying government securities, providing loans to the business firms or persons, investing in other financial institutions etc. Such activities are done to generate profit because their motive is to maximization of wealth and giving more benefits to the stakeholders. One of the major mean of mobilizing resources is lending. It comprises both business lending and personnel lending. A development bank encourages people to save their unused and scattered money in

banks by promising them to provide more money in future. Banks earn more benefits through the better utilization of their resources in different investment portfolios and they give certain percentage of profit to the shareholders and give reasonable interest to the depositors.

The two essential functions of development banks may best be summarized as the borrowing and lending of money. They borrow money by taking all kinds of deposits. Then they provide this money to those who are in need of money by granting overdraft to fix loan or by discounting bill of exchange or promissory notes. Thus, the primary function of bank is that of broker and dealer in money. By discharging this function efficiently, a banker render a valuable service to the community by increasing the productive capacity of the country and thereby accelerating the pace of economic development. (Shekhar and Shekhar,2000:4).

The efficiency of the bank lies in how it multiplies the deposits of depositors. Development banks supply financial need of modern business. They grant loans in the form of credit and overdraft. Similarly, it renders a numbers of subsidiary services such as collection of bills, cheques, safe keeping of valuables of their customers etc In the absence of banks it is impossible that the saving will not be safely and profitably utilized within the economy. It will be diverted aboard or channelled into unproductive conspicuous consumption including real estate speculation.

History shows that moneylender, goldsmiths and the merchants as the pioneers of modern banking system. Customers used to deposit gold and silver with the goldsmiths for safekeeping and were given deposit receipts verifying their ownership of the gold deposited with the goldsmith. Those receipts could be used as money because they were backed by gold. But the goldsmiths soon discovered that they could take a chance and issue additional receipts against the gold to other people who need to borrow money. This work has long as the original depositors didn't withdraw all their gold and silver at one time. Hence, the amount of receipts or claims on the gold frequently

exceeded the actual amount of the gold and the idea that bankers could create money was born.

The first public banking institution “The Bank of Venice” was established in 1157 AD. Originally it wasn't a banking modern sense being simply an office for the transfer of public debt. Then after, Bank of Barcelona and Bank of Geneva were established in 1402 AD and 1407 AD respectively. Bank of Barcelona in Spain was known as the first bank, which offered most of banking function used today. The famous bank ‘Bank of Amsterdam’ opened in 1609 AD has occupied a very important place in the 17th century. This bank was the foundation for modern bank of deposit and transaction. The most of the European banks now in existence were found on the model of the Bank of Amsterdam. A well-organized bank was developed on England on 27th July 1694 called ‘The Bank of England’ as a private joint stock association with a capital of 1.2 million. The banking act of 1833 provided freedom for the establishment of joint stock bank. Then the leading countries of the world develop the modern joint stock banking system. The 20th century observed development of various banking institutions highly specialized countries like UK, USA and other.

In Nepal, the origin of banking activities can be traced to ancient Nepal. The first recorded borrowings were in 723 AD when King Guna Kam Dev borrowed money to rebuild Kathmandu. Then in 14th Century, in the prosperous age of Mall King Jayasthiti Malla, people were classified into 64 categories according to their occupations. One of them was ‘Tanka Dhari’ whose main occupation was the lending of money. The King used to borrow money for financing the wars, but the interest rate had not yet been fixed. Several Kings and Prime Ministers tried to solve that problem by trying to regulate commercial transaction and fixed property, but all were in vain. However, the institutional form of commercial banking activities has been performed at first instance by ‘Tejarath Adda’ during the reign of Rannodip Rana, Prime Minister of Nepal. The Adda was initiated to provide credit to the public at lower rate of interest of 5% against

gold and silver. The areas of its functioning were further extended to some urban areas of Terai region. Later with the growing necessity of the commercial bank in the world, the Nepal Bank Limited, the first commercial bank of Nepal was established in 1937 AD. To help government in the formulation of monetary policy and for the institutional development of banking sector, Nepal Rastra Bank was established in 1956 AD. Similarly Rastriya Banijya Bank was established in the year 1965 AD with 100% government ownership as the second commercial bank of Nepal. Then, in 1956 AD Nepal Rastra Bank was established as a central bank as a regulatory body. Likewise government established Nepal Industrial Development Corporation (NIDC) to facilitate the industrial sector. Later on, other banks were established to promote financial transactions. Agriculture Development Bank of Nepal was established in 1967 AD in Government sector for providing financial assistance in agriculture sector. Then in 1984 AD, Nepal Arab Bank Ltd. (Currently NABIL) was established as the first joint venture bank and started its operation. Now there are several commercial banks, finance companies, development banks, co-operatives etc are operated in Nepalese market.

The main focus of the study will be on the deposit collection and lending of collected resources. Lending of the collected deposit is the major task of any bank because without mobilization of resources, banks can't fulfil their aim of providing well banking services to the people, obviously country as a whole.

A **deposit account** is a [current account](#), [savings account](#), or other type of bank account, at a [banking](#) institution that allows [money](#) to be deposited and withdrawn by the account holder. These transactions are recorded on the bank's books, and the resulting balance is recorded as a [liability](#) for the bank, and represent the amount owed by the bank to the customer. Banks pay the customer [interest](#) on the funds deposited.

The verb loan is well established in American usage and cannot be considered incorrect. The frequent objections to the form by American grammarians may have

originated from a provincial deference to British critics, who long ago labeled the usage a typical Americanism. Loan is, however, used to describe only physical transactions, as of money or goods; for figurative transactions, lend is correct: Distance lends enchantment. The allusions lend the work a classical tone.

Himchuli Bikas Bank Limited was established in 2062(B.S) Himchuli Bikas Bank Limited was duly registered on 24/11/2061 with Office of company register as per Bank and Financial Ordinance - 2061. It has been in operation from 7th November 2005 after obtaining the license from Nepal Rastra Bank. Bank was established as B-category district level financial institution with head office in Kaski, Pokhara. It has paid up capital of Rs. 477.93 million and has mobilized total deposits of Rs. 2,267 million as on Ashar end 2067. There are 107 employees including security personnel working in different positions in this bank. It has 9 branches (including head office) in different locations of the adjoining districts of the country.

The Bank is promoted by renowned and established businessmen, industrialists, bankers and retired civil servant of Pokhara valley and around this area etc. The company is headed by a team of professionals having extensive banking exposure.

The main objectives for the establishment of this bank is to support socio-economic development of the country by extending credits to productive sectors on a systematic way through saving deposit mobilization of individuals for their financial benefits.

The study mainly focuses on Deposit and Lending status of Himchuli Bikas Bank Limited and aim at evaluating and analysis of the deposit collection trend and investment trend too. Since there is sprouting number of banks, development banks, finance companies and saving cooperatives across the country day by day. Nepal Rastra Bank makes the policy to monitor the financial institution in overall. This study will be specially design to explore the situation on deposit and Lending of Himchuli Bikas Bank Limited.

1.2 Statement of the problem

The major problem in almost all underdeveloped countries and Nepal is no exception in that of capital formation and proper utilization. In such countries, the development banks have to shoulder more responsibilities and act as development banks, due to lack of other specialized institutions. In this context the study will try to ascertain the deposit collection and investment pattern of Himchuli Bikas Bank Limited.

This study will try to solve the following specific problems:

-) What is the trend of Deposit Collection & Investment Composition of the bank?
-) What is the Liquidity Position, Assets Management Efficiency, Profitability and its effect on lending practices?
-) What are the trends of cost of deposits?
-) What is the Risk and return of the Bank ?
-) What is the growth position of the Bank?

1.3 Objectives of the study

The main objective of the study is to analyze about the deposit collection and investment patterns of Himchuli Bikas Bank Limited. Other specified objectives of the study are as follows:

-) To analyze the general deposit collection and investment composition of Himchuli Bikas Bank Limited.
-) To assess the liquidity position, assets management efficiency, profitability and lending status of the Himchuli Bikas Bank Limited.
-) To analysis the cost of deposit of the bank.
-) To assess the risk and return of the bank.
-) To analyze the growth ratio of total deposit, loan and advance, total investment and net profit.

1.4 Significance of the study

Research itself has its own importance because it aims to gain knowledge and to add the new literature in existing field. The significance of this study lies mainly in filling a research gap on the study of deposit collection and investment pattern of development bank with the respect to Himchuli Bikas Bank Limited.

This study helps to reveal the financial position of the bank and it occupies an important role in the series of the studies of regional level development bank. It also helps to shareholder and management committee of bank to know the actual clear vision of policy adopted by the bank for better deposit collection and effective utilization of the fund.

This study is important for researchers, scholars, investors, banking sector, students, government and other parties. So, it is helpful to those who want to study in further detail and widely in this field. Similarly, the study encourages the general public where to invest further or not and depositors can take decision to deposit on their money.

1.5 Limitations of the study

There are some limitations in this study. This study is not be able to expose every aspects of the topic. The study has following limitations:

-) This study basically depends on secondary data collection from the banks, financial statements, publications and journals.
-) Data of last five years only has been taken into consideration to conduct the study.
-) Mainly the study deals with deposit collection and investment composition of Himchuli Bikas Bank Limited. As the subject matter concentrate on the given topic, other subject matter has not been touched.
-) This thesis has been prepared as per requirement for partial fulfilment for degree of master of Business studies (M.B.S.).
-) This is only case study and finding of study cannot be generalized.

1.6 Organization of the study

The whole study has been divided into five chapter introductions, review of literature, research methodology, data analysis & presentation and summary, conclusion & recommendations.

-) Introduction is presented in the first chapter. It is divided into eight sub topics. They are background of study, statement of problem, objectives of study, significance of the study, delimitation of the study and organization of the study.
-) Second chapter deals with the Review of Literature. It contained conceptual framework and review of related study, Journals, books, Articles and unpublished dissertations related to the study have been reviewed under this topic.
-) The third chapter is related to the research methodology, which presents research design, population and sample, nature and source of data, data collection procedures and techniques, data analysis tools and limitations of the methodology.
-) Chapter fourth deals with presentation and analysis of data through a definite course of research methodology. This chapter is to analysis different financial ratios and statistical analysis related to study.
-) The final chapter is giving summary, conclusions and recommendation that explain the major findings and some solid suggestions for improvement to the concerned institution.

CHAPTER-II

LITERATURE REVIEW

Literature review is the review of some related literature on the specific topic or the review of previous studies and conceptual framework for the related studies. To present the real framework of the research, only analysis of data is not enough, review of some related materials are also essential to give the research a clear vision. It covers those studies, which are conducted within or outside the country. Literature review is basically a, “stock taking of available literature in ones field of research.”(Wolf & Pant, 2000)

The review of literature basically highlights the existing literature and research work related to the present research being conducted with the view of finding out what had been already explained by the authors and researchers and how the current research adds further benefits to the field of research. Many researchers have conducted on the field of development bank especially on their deposit and lending policy compliance with Nepal Rastra Bank directive ect. Beside this, there are some books, articles, dissertation and other relevant study conducted with the lending and investment. This section provides the current stage of the research work and guideline for the future study and reduces the probability of duplication. It highlights upon the literature that are available in the area of deposit and lending status of development banks. This chapter is divided into two different sub chapters.

2.1 Conceptual Framework

2.2 Review of related studies

2.1 Conceptual Framework:

Financial institutions generally known as the mediator, who collect the idle money scattered in the country and society providing different services and facilities

and invest those fund in the productive sector to generate profit. There are many thinkers who have defined the meaning of financial institutions in their own way. According to the dictionary of modern economics, “A financial intermediary, not a bank which may obtain fund from its own capital resources by accepting deposit (usually from fixed deposit) or even by borrowing from others institutions and which it on lends for a variety of purpose especially to finance hire purchase contracts, but also leasing. (Khadka & Singh, 2000:270)

In developing countries like Nepal there is always shortage of capital for the development activities, there is need of development in all sectors. It is not possible to handle and develop all the sectors by the government alone at a time. Private sector or general public also can't undertake large business because the per capita income of the people is very low while their propensity to consume is high and capital formation is very low. Therefore their saving isn't sufficient for carrying on development al work. (Johnson, 1965:11).

There are different kinds of financial intermediaries; banks are also the major ones. Integrated and speedy development of the country is possible only when banks occupy quite an important role in the framework of every economy because it provides certainty to the industry, business and capital for the development of industry, trade and business investing the fund collected as deposit.

2.1.1 Concept of Banks

The number of development banks has increased rapidly since the 1950s; they have been encouraged by the [International Bank](#) for Reconstruction and Development and its affiliates. The large regional development banks include the [Inter-American Development Bank](#), established in 1959; the [Asian Development Bank](#), which began operations in 1966; and the [African Development Bank](#), established in 1964. They may make loans for specific national or regional projects to private or public bodies or may operate in conjunction with other financial institutions. One of the main activities of development banks has

been the recognition and promotion of private investment opportunities. Although the efforts of the majority of development banks are directed toward the industrial sector, some are also concerned with agriculture.

Development banks may be publicly or privately owned and operated, although governments frequently make substantial contributions to the capital of private banks. The form (share equity or loans) and cost of financing offered by development banks depend on their cost of obtaining capital and their need to show a profit and pay dividends.

Development practices have provoked some controversy. Because development banks tend to be government-run and are not accountable to the taxpayers who fund them, there are few [checks and balances](#) preventing the banks from making bad investments. Some international development banks have been blamed for imposing policies that ultimately destabilize the economies of recipient countries. Yet another concern centres on “[moral hazard](#)”—that is, the possibility that fiscally irresponsible policies by recipient countries will be effectively rewarded and thereby encouraged by bailout loans. While theoretically a serious concern, the existence of such moral hazard has not been proved.

An example of a successful private development bank is the [Grameen Bank](#), founded in 1976 to serve small borrowers in Bangladesh. The bank’s approach is based on [microcredit](#)—small loans amounting to as little as a few dollars. Loan repayment rates are very high, because borrowers are required to join “lending circles.” The fellow members of a circle, which typically contains fewer than 10 people, are other borrowers whose credit rating is at risk if one of their members defaults. Therefore, each member drives other members to pay on time. The Grameen approach has spurred the creation of similar banks in numerous [developing countries](#).

Development banks are the institution, which deals with the money and credit. It accepts the deposit from the public, makes the fund available to those who need them

and help in the remittance of money from one place to another. Banks are the most important source of institutional credit in the money market. A bank is the profit seeking business firm, dealing in money or rather dealing in claims to money. It is a financial institution that creates demand deposit, that is, deposit account, which is subject to withdrawal by the owner on demand as subject to transfer to a third party by means of a cheque or exchange for bills of exchange, government bonds, the secured or unsecured promise of businessman to repay etc.

<http://www.britannica.com/EBchecked/topic/160098/development-bank>

Development banks are those financial institutions engaged in the promotion and development of industry, agriculture and other key sectors.

In the words of A.G. Kheradjou “A development bank is like a living organism that reacts to the social-economic environment and its success depends on reacting most aptly to that environment”. Kheradjou assigns an important task to the development banks. He feels that these banks should react to the socio-economic needs. They should satisfy the developmental needs of the economy and their success is linked to the satisfactory growth of the economy.

In the views of William Diamond “A development bank has the opportunity to promote enterprises i.e. to conceive investment proposals and to stimulate others to pursue them or itself to carry them through, from ‘conception’ to ‘realization’. In principle, a development bank is well suited to assume this kind of role. Yet, enterprise creation is fraught with costs and risks which development bank cannot neglect. Development banks can prudently undertake them only when they have the requisite financial strength, technical expertise and the managerial skill to bank”. In his views, a development bank is an institution which takes up the job of developing industrial enterprises from its inception to completion. This process involves costs as well as risks. The bank should have sufficient financial sources and expertise to promote a new unit.

D.M. Mithani states that. “A development bank may be defined as a financial institution concerned with providing all types of financial assistance (medium as well as long-term) to business units in the form of loans, underwriting, investment and guarantee operations and development in general and industrial.”

The role of a development bank has been emphasized in this definition. In this view a development bank aims to provide financial and promotional facilities for the overall development of a country.

Features of a development bank.

A development bank has the following features or characteristics:

1. A development bank accept deposits from the public like commercial banks and other financial institutions who entirely depend upon saving mobilization.
2. It is a specialized financial institution which provides medium term and long-term lending facilities.
3. It is a multipurpose financial institution. Besides providing financial help it undertakes promotional activities also. It helps an enterprises from planning to operational level.
4. It provides financial assistance to both private as well as public sector institutions.
5. The role of a development bank is of gap filler. When assistance from other sources is not sufficient then this channel helps. It does not compete with normal channels of finance.
6. Development banks primarily aim to accelerate the rate of growth. It helps industrialization specific and economic development in general
7. The objective of these banks is to serve public interest rather than earning profits.
8. Development banks react to the socio-economic needs of development.

Summarizing the above definition, development bank are those financial institutions that offer the widest range of financial service specially credit, saving and payment service and perform the widest range of financial functions of any business firm in the economy. This multiplicity of bank service and functions has led to bank being labelled “financial supermarket” In another way, banks are those financial institutions whose goal is to collect the small scattered resources in one bulk and utilizing them in the further productive sector and rendering other valuable services to the community at profit. There are several development banks in Nepal that aims at contributing to trade and commerce of nation. The development banks operating in Nepal are altogether in numbers, which are presents in appendix 1.

2.1.2 Functions of development banks:

Development bank performs different functions such as core functions and supportive functions to the business world as well as general people. Core functions included the two types of functions; fund based and non fund based. Similarly, supportive functions are those functions carried out to fulfil core functions.

American Institute of Banking (1972), has fixed out four major functions of banks, Receiving payment, handling payment, making loans and investment and creating money by extension of credit.

Similarly, Upadhya & Tiwari (2037) have argued that there are three major functions of banks. They are primary functions (accept deposit and provide loan and advance), agency functions (sales and purchase of securities, working as an agent and trustee of customer, transfer of funds and provide financial information) and general functions (safe custody of valuable assets, issue of credit instruments, dealing with foreign exchange and compilation of trade information and statistic.

The modern banking transaction starts from the deposit made by the general public and other organization. The amount received by the bank as deposit will be invested in

profit making sectors like advancing loans, agency functions, purchase and sale of foreign exchange and creation of credit. However the major functions of development bank are as follows:

1. Accepting Deposit:

This is the oldest function of the bank and bankers used to charge commission for keeping the money in its custody when banking was developing as an institution development bank accept deposit from the public under various accounts namely saving account, current account, fixed account, call account and other accounts. They are fully authorized to collect the fund from various sources. In addition, the accumulated money is disbursed in the productive sector by providing credit that helps the banks to raise their fund more effectively.

2. Agency Function:

Development bank performs numerous of agency functions. A bank act as an agent of its customers in collecting and paying cheques, bills of exchange, drafts, dividends etc. It also buys and sells securities, shares and debentures etc. for its customers. Further it pays subscriptions, insurance premium, rent, electricity bills, water bills and other similar charges on behalf of its customers. It also acts as trustee and executor of the property and will of its customers. Moreover, the bank act as consultants to its clients. It also remits money from one place to another place by the means of cheques, drafts, wire transfer etc. For some of these services, the bank charges a normal fee while it renders others free of charges.

3. Disbursement of loans:

The primary function of the development bank is providing credit facility to borrow. Bank lending contributes a lot to the economy in terms of financing, agriculture, industrial and commercial activities of the nation. There are various types of loan and advance

) Cash credit

-) Call loans
-) Overdraft
-) Demand / term loans.

4. Remittance:

Banks provide the facilities of remittance to customers and take some service charge. Generally, banks provide such facilities by using letter of credit, cheques, bank overdraft etc. Remittance plays a vital role in the modern national as well as international trade.

5. Consultancy:

Banks are those institutions, which deals with money and credit. They are large business organizations. They can expand their function to consultancy business. In this function bank hire financial, legal, and market expert to provide advices to customers in regarding investment, industry, income tax, trade etc.

7. Bank Guarantee:

Customers are provided the facility of bank guarantee by modern banks. When customers had to deposit certain amount of fund in government al courts for some specific purpose such as legal case, bank can present itself as the guarantee for the customers instead off depositing fund by customers. Banks provide such facility only when the customers had sufficient amount in their accounts.

2.1.3 Objectives and Importance of Development Bank

Development bank represents the largest group of depository institutions. Such banks are channelled to collect scattered amount and invest them in productive sectors. Bank brings most important ingredient of the money supply and Demand deposit through the

creation of credit in the form of loan and investment. Some specific objectives and importance of development bank are pointed below:

1. Capital formation:

One of the most important objectives of the development bank is to increase the rate of capital formation. Bank collect the fund which is idle and scattered in the society and distributed it in different productive sectors or by providing loans to that person who need money for the trade and business purpose. It also provides loans to the government. This process of distributing fund increases the expected investment and increases the rate of capital formation.

2. Mobilizing Savings:

Depositors are inspired to save their hard working money as deposit in banks because of interest provided by bank and in the hope of generating more money in the future safely. Depositors increase the deposit if the banks provide higher or attractive interest rate on their deposit fund and vice versa. Banks mobilize their collected deposit in different productive and profitable area because of that banks can give reasonable interest to their depositors. So the main objective of the development bank should be collection of higher level of deposits and utilize/mobilize such fund in productive sectors of the economy.

3. Foreign investment:

In the present context, development banks play a vital role in attracting foreign investments by familiarizing the investors with relevant Nepalese financial rules and regulations and practice through their publications. Different international business organizations, multinational companies, joint venture banks are operated in Nepal. This is because of the modern bank's operation.

4. Freedom from exploitation of economy:

Before starting the banking system in Nepal, merchant traders, goldsmith and money lenders used to provide the loans to the money borrowers by keeping gold, silver, land and other valuable goods as mortgage and charge high interest rate. Due to high interest rate money borrowers have to sell their assets in very low price to repay the loan. This causes the high distance between the poor and rich people. Therefore, the objective of development bank is to establish organized banking system to make public free from the exploitation of economy.

5. Banking techniques:

The development bank in Nepal takes the credit of introduction of new banking techniques, such as hypothecation and syndicating under the guidance of Nepal Rastra Bank. Other areas of expertise are forward cover for foreign exchange transaction by important and exporters merchant banking, inter bank market for money and securities, arranging foreign currency loan etc. these and other innovation techniques in the international banking system have been introduced to NRB by financial institutions, and other banks.

2.1.4 Concept of Deposit

Deposit is the primary source of fund or the main source of fund. By providing certain rate of interest, development bank calls for the deposit from the customers. There are different types of deposit accepted by banks but current, fixed, and saving are the mainly three types of deposits. These three types of deposits are used for lending the money to different sector such as agriculture, productive work, trade, irrigation and industry. These deposits will be lead to increase the working capital of the bank. So, in Nepal, deposits have played a significant role for the development of the country

An increase in deposit may raise in two ways (i) when a bank makes a loan, it may transfer the sum to a current account, thus directly creating a new deposit; or it may arrange a line of credit for the borrower upon which he will be permitted to draw cheques, which, when deposited by third parties, likewise create new deposit. (ii) An enlargement of government expenditure financed by central bank may occasion a growth in deposits, since claims on the government that are equivalent to cash will be paid into the banks as deposit. In the first instance, with the increase in bank deposits goes a related increase in the potential liability to payout cash. In the second case, the increase in the deposit in the bank is accompanied by corresponding increase in bank holdings of money claims that are equivalent to cash.

The deposit function of the bank is important because it has to aggregate small of money lying scattered here and there. Signally, these sums have no economic efficiency what so ever. But they can accomplish Herculean task when they are aggregated and employed by the bankers. (Harish, 1965)

Bank deposits are the largest part of money supply. The depositors of a bank are affected by various factors. They are shown below:

-) Types of customers.
-) Physical facilities of customers.
-) Types and range of services offered by the bank.
-) Interest rate paid to the depositors, and
-) Management accessibility of customers.

2.1.5 Types of Deposit:

Basically, deposits are categorized in three headings for the accounting and financial analysis purpose.

1. Current Deposit:

Current deposit is also known as the demand deposit. It is the deposit that can be withdrawal in demand at any time and in any amount up to the full amount of the

deposit. These accounts are operated through the cheques and there is no restriction on the number of transaction in a demand deposit account. Normally, businessman who stands in need of money regularly opens these types of account. Such deposit doesn't earn any interest but the holders of such accounts pay service charge to the bank. Under this account, the customer is allowed to make frequent use of his/her account i.e. to deposit or withdraw money when a person need or want. It is the interest free deposit.

Features of current deposit:

-) No interest is given to the depositors.
-) Bank should keep enough balance of fund because the bank should be able to pay the amount at demand of the account holders.
-) Under this account, customers can get payment until there is balance in their accounts as many times as cheques are sent to the bank.
-) There can be special contract between the bankers and depositor, under which a customer / depositor may get such facility in excess balance in his account and the bank give him payment.

2. Saving Deposit:

These kinds of deposit are normally meant for the individual and non-profit making organization. Such deposit earns some profit of interest although the holders of such accounts enjoy tremendous flexibility in terms of depositing and withdrawal. These accounts are opened to promote the saving of middle class and lower class peoples. Under this account the depositors can withdraw money once or twice a week only, the amount of money that can be withdraw by customer at a time shall be limited. This idea is to impose restriction or the dissipation of such saving or the part of smaller depositors by too frequent withdraw, any withdraw of beyond the prescribed limit requires a perior notice. The interest allowed on saving account is less than that of fixed account but higher than that of current account. These are operated through cheques and no service charge is taken from the account holders. The bank supply "pass book" to the account holders, which must be presented while customer, withdraw

amount from his account but now a days most of the banks provide cheques to their customers to withdraw the money. However, one has to maintain a stipulated minimum balance to avoid the cheque book facility.

Features of saving deposit:

-) Generally, banks provide 8% to 11% interest rate in this deposit but percentage may change.
-) Usually, interest is paid quarterly.
-) The bank can submit only one cheque in a day or twice or three times in a week.
-) In the absence of pre information, the bank may refuse to give payment. If it is not refused, it may take some charge as fine to give the deposit.
-) If the bank goes to liquidation more priority is given to those depositors who have opened the saving account in their bank, then current and fixed deposit account in the payment liability.

3. Fixed Deposit:

“Fixed deposit is known as the time deposit. Banks offer fixed interest rate on this deposit and repayment of principal together with interest at fixed maturity or pays interest on regular interval but principal only at the maturity.” (Dahal and Dahal, 1999:26).

Fixed account is non-transaction account, which is closed at the maturity. This kind of deposit are payable after the expiry of a certain period. In the case of fixed deposit, period of deposit is usually at time of depositing the money. The fixing of the period enable the bankers to invest money or employ it in business without keeping a reserve and this is one of the reason why fixed deposits are so popular with banks. Under this account, the deposit are received for fix period which varies from 3 months, 6 months, 9 months, 1 year, 3 years, 5 years etc. The rate of interest rate is in this type of deposit is very high than other accounts. Customers usually keep their money as fixed deposit to earn more interest as well as withdraw the sum on expiry of the stipulated period in

case they need it either for meeting certain expenses or employing it in more profitable manner.

Features of fixed deposit:

-) The amount cannot be withdrawn by cheques in this account like other accounts.
-) The interest is distributed in every three months.
-) The customer can renew the fixed period deposit after the expiry of the fixed period.
-) The bank can use the amount of fixed deposit account in long term of short-term investment in profitable sector.
-) The fixed period deposit is opened for a certain time. Such duration of time can from 7 days to 5 years or more.
-) In fixed deposit, the interest is providing minimum 8 % to maximum 14.5 % according to the duration of time.
-) The rate of interest is higher than that of other deposit accounts.

4. Call Deposit:

Call deposit is the hybrid of current deposit or demand deposit and saving deposit. Big depository customers normally open it. Interest is paid on call deposits. Withdraw restriction is not in this account such accounts are opened by those organizations or companies which aren't entitled to open saving account. Interest rate on call deposit is negotiable between the bank and the depositors and hence, is normally not announced in public.

5. Margin Deposit:

This deposit is non-interest bearing deposit. Banks open such deposits accounts. Banks open such deposit accounts in various forms like guaranteed margin, employee guarantee etc.

Banks deposit account can be held individually or jointly. The holder of the account also enjoys the facility of nomination. The interest income by the bank from the deposit is taxable under income tax act. The prevailing tax provision on interest earn from bank is 5% on the interest income for individual and 15% on the interest income for others. However, the tax exemption is provided to the units specially, exemplified by the government. Deposits received from the depositors as well as the interest payable thereon shall be credited to account of depositors.

2.1.6 Concept of Investment:

The term investment means the sacrifice of current rupee and resources for the sake of future rupee and resources. In pure financial sense the subsequent use of the term investment will be in the prevalent financial sense of the placing of money in the hand of other for their use, in return for a proper instrument entitling the holders to fixed income payment or the participation in expected profit. But manufacturing and trading firms, the term investment will be those long-term expenditure that aim at increasing plant capacity of efficiency or at building up goodwill, thereby producing an increased return over a period. Where as an economic view, investment as productive process by means of which additions is made to capital equipment.

Financial institution operates for profit. They seek to earn maximum profit through the suitable investment of its resources. Development bank is the financial intermediary a sort of middleman between the people with surplus fund and the people in need of funds. It accept deposit for the purpose of lending or investment and thereby hopes to earn profit which are adequate enough to enable the bank to pay interest at the prescribed rates to its depositors, meet establishment expenses, build reserve, pay dividend to the stakeholders.

“Investment in its simplest form means employing money to generate more money in future, it is the sacrifice of current rupee for future rupee, return is the primary motive of investment, but it always entails some degree of risk.” (Shrestha , Poudel and Bhandari,2003:2)

“An investment may be defined, the current commitment of funds for a period of time to drive future flow of fund that will compensate the investment unit for the time. The funds are committed or the expected rate of inflation and also for the uncertainty involve in the future flow of funds.” (Frank & Reill)

Investment of development banks can be in the form of government securities (treasury bills, development bonds and national saving bond), NRB bonds, foreign bonds, shares, debenture and bonds and other investment.(like certificate of deposit, mutual fund, local banks and foreign banks)

2.1.7 Guiding Principles of Sound Lending and Investment Policy:

The successfulness of the bank largely depends upon its income or profit generated by lending procedure, lending policy and investment of its fund or resources in different securities and different sectors of economy. The profitability of the bank will be higher if the credit created by the bank is higher. A sound lending and investment policy is not only pre requisite for bank profitability, but also crucially significant for the promotion of commercial saving of a backward country like Nepal.

Investment business is very risky in nature. Therefore, development banks adopt some sound policy regarding investment and lending. The loans which are provided by development bank and their investment involves several consideration such as length of the time, types of borrowing, kinds of security etc. Generally, sound lending and investment policy of the c development bank is guided by the major principles. They are as following:

- a) Safety or Security
- b) Liquidity
- c) Profitability

a. Safety or Security:

The first principle of the investment and lending policy is safe and security. When bank is going to lend some money to the borrower and invest fund in different securities, direct attention must be given towards them for the security of fund. For the safety or security of loans, bank examines the economic condition and capability of the party. Moreover, banks demands for the collaterals. Gold and silver are readily acceptable as collaterals. However, other goods are also taken as collaterals by the banks. Banks should invest their fund in those securities, which are easily sellable in the market. Very small mistake in investment procedure may harm their business very badly. So, banks must not invest their funds into speculative businessman who may be bankrupt at once and who may earn million in a minute also. Bank should accept these types of securities, which are durable marketable and high market prices. In this case, 'MAST' should be applied for the investment, where

M- Marketability

A- Ascertain ability

S- Stability

T- Transferability

b) Liquidity:

Liquidity means to the capacity to produce cash on demand for depositors. Generally liquidity refers to the state of position of bank that provides its capacity to meet its entire obligation. In another word liquidity means the capacity of banks to play cashes against deposits. People deposit their money in banks with the confidence that the bank will repay their money when they need. So, the bank has to maintain capability for payment as the demand of depositors. Over liquidity causes the lack of proper investment and lending opportunities. On the contrary, under liquidity causes the less faith by depositors and shareholders upon the bank. So, the bank should maintain proper degree of liquidity. Generally, liquidity of the bank is measured by the ratio of investment to total deposit of the bank. The higher is the ratio, the lower is the liquidity and vice versa.

c) Profitability:

Only safety and liquidity is not sufficient for the sound investment policy of a bank. Profitability is equally important for it. Therefore, the bank should give attention on profitability too. The profit of the bank is partially depends upon the volume of investment; the greater the volume of investment the greater will be the rate of profit. The bank earns profit from the difference of interest rates between lending and deposits. Profit is necessary to sustain the bank. Bank can maximize its value of wealth only through maximization of return or their investment and lending. In some cases of NRB directive banks must invest their money in non-profitable sectors.

Beside these principles, bank also should consider other principles of investment / lending policy.

- Principle of Diversification
- Principle of Marketability
- Principle of Price Stability
- Principle of Tax facility
- Principle of National Interest.

2.1.8 Investment process:

Investment is the current commitment of money and resources for a period of time to derive a future flow of money that will compensate the investing unit for the time the fund are committed, for the expected rate of inflation and also for the uncertainty involved in the future flow of the fund.

Investors should follow the set of investment procedures to arrive at correct investment decision. This set of procedures is known as investment process. The investment process helps the investors to decide what to invest in, how much to invest, and when to invest.

The investment process includes an analysis of the following five steps:

- 1) Set investment policy
- 2) Perform security analysis
- 3) Construct portfolio
- 4) Portfolio revision
- 5) Portfolio performance evaluation

2.2 Review of Related Studies

This sub section presents the review of books, articles, journals and dissertations. Some researchers have conducted the research on financial performance, lending policy and investment policy compliance with NRB directive. Beside this there are some books, articles, dissertations and other relevant study concerned with the lending and investment. Some of relevant studies their objectives, findings and conclusion and other literature relating to the topic are reviewed.

2.2.1 Review of Journals and Articles

In this sub section, different relevant studies and research articles published in magazine, newspaper and other electro media are presented.

Pradhan (1996), in his article entitles “Deposit Mobilization, it’s Problem and Prospects.” Tells that the deposit is the lifeblood of any financial institution, be it commercial bank, finance companies, co-operative, or non-government organization. He further adds in consideration of most of the commercial banks and some finance companies, the latest figure does produce a strong feeling that a serious review must be made problems and prospects of deposit sector.

Through this research, he has pointed out following problems of deposit mobilization in Nepalese context.

-) Unavailability of financial service in rural areas.

- J Due to lack of proper education, most of Nepalese don't go for saving in institutional manner. However, they are very much used of saving, be it in the form of cash, ornaments or kind. Their reluctance to deal with institutional system are governed by their lower level of understanding about financial organizations, process requirement, office hours withdrawal system, availability of depositing facilities and so on.
- J Due to lesser office hours of banking system people prefer for holding the cash in the personal possession.
- J No more mobilization and improvement of the employment of deposits in the loan sector.

Dr. Sunity Shrestha (2001), in her articles, "Lending Operation of Commercial Banks of Nepal and Its Impact on GDP", has presented with the objectives to make an analysis of contribution of commercial banks lending to the gross domestic product (GDP) of Nepal. She has set hypothesis that there have been positive impact of lending of commercial bank to the GDP. In her research methodology she has considered GDP as the development variable and various sectors of lending viz agriculture, individual, commercial service, general and social sector as independent variables. Multiple regression technique has been used to analyse the contribution. This analysis showed that all variables except service sector lending have positive impact on GDP. Her hypothesis is there has been positive impact by the lending of commercial banks in various sectors of economy except service sector investment." (Shrestha, 2001:23-27)

Bajracharya (1990), in his article, "Monetary Policy and Deposit Mobilization in Nepal" has stated that mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal, commercial banks are the active financial intermediary for generating resources in the form of deposit of private sector and providing credits to investor in different sector of the economy.

Thapa (1994) in his article, “ Financial System in Nepal “, has explained the view that the commercial banks including foreign joint venture banks seems to be doing pretty well in mobilizing deposits. Likewise loans and advances of these banks are also increasing. But compared to high credit needs particularly by the new emerging industries, the banks still seem to lack of adequate funds. The banks are increasing their lending to non-traditional sectors along with traditional sectors.

Shrestha (1988) in his article, “ A Study on Deposit and Credit of Commercial Banks in Nepal. ” has conducted that the credit deposit ratio of commercial banks would be 51.30 % other things remaining the same in 2004 AD. Which was the lowest under the period of review. So, he had strongly recommended that the commercial banks should try to give more entering new field as far as possible. Otherwise, they might not be able to absorb even its total expenses.

2.2.2 Review of Related Books:

“A sound investment policy of the bank is such that its fund ate distributed on the different types of assets with good profitability on the other hand and provide maximum safety and security to the depositors and banks on the other hand. Moreover risk in banking sector tends to be connected in the loan portfolio. When a bank gets into series of financial trouble its problem usually spring from significant amount of loan that have become un collected due to mis-management, illegal manipulation of loan, misguided lending policy or unexpected economic downturn. Therefore, the bank’s investment policy must be such that it ensures that it is sound and prudent in order to protect public fund.” (Baidhya, 1997:46-47)

According to Bhalla, The term investment has rather precise meaning in the literature of economic thereby. Typically, it includes net addition to the capital stock of society. By capital stock of society it meant those goods, which are used in the production of other goods. He says it is good, societal or aggregate point of view. (Bhalla, 1983)

“ A bank is a government regulated, profit making business that operates in competition with other banks and financial institutions to serve the saving and credit needs of its customers. The primary business of banks is accepting deposit and lending money. Banks accept deposit from customers who need the safety and convenience of deposit service and the opportunity to earn interest on their excess fund. Banks put their depositor’s fund to other individuals, to business person and to federal, state and local government.” (Halter, 1992:2)

“Of course one of the primary function of development in banking is deposit mobilization. Without deposits coming as they do from the public and the saver, banks will not have the resources to lend. With adequate resources lending can have wider average to meet the credit need of all the sectors of the economy. Deposits and credit operation always go together and each is interrelated unless there are advance, deposits can’t rise.” (Robinson, 1962:7)

“Commercial banks will remain the heart of our financial system holding the deposits of millions of persons, government and business units. They make fund available through their lending and investing activities to borrowers, individuals, business firm and governments. Commercial banks are the most important type of financial institutions in the nation in terms of aggregate assets.” (Edward & Richard, 1980:1)

“Investment is the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor’s wealth, which is the sum of certain income and present value of all future income.” (Charles, 1998:40)

“Investment in its broadest sense means the sacrifice of the current dollar for future dollars. Two attributes are generally involves time and risk. The sacrifice takes place in present and it is certain. The reward comes later, if at all and the magnitude is generally uncertain.”

In some cases the element of time predominates (for example government). In other case risk is the dominant attribute (for example call option on common stock). In both time and risk are important. (Sharpe and Gorden, 1999)

Every commercial bank has its own investment policy whether it is recognized or not. Even though the written statement of investment policy is desirable, few banks have them and few may not have them. The main objective to a written investment policy are those who feel that the economic environment of banking changes so rapidly that a formal written investment would become dated within a short time. It is true that banks operate in changing environment but changes don't occurs so rapidly that they can't be incorporated into written policy. The basic factor that will determine the objectives of the bank investment policy are its income opportunities and vice versa, which means accepting greater or lesser degree of risk formulation of an investment policy must give cognisance to the entire risk exposure that bank management is willing to assume as well as the risk carried by securities that comprise the investment account. One of the acceptable methods of reducing risk in the investment portfolio of commercial banks is by diversification, a basic and important rule of any investment policy. Risk can't be avoided completely by diversification but they can be reduced. A commercial bank must be concerned with quality and maturity diversification so as to minimize the risk. A statement of investment policy should designate the person responsible for handling the investment program. This is fundamental to the efficient cooks may spoil the stew" since the board of director is responsible for the proper investment of banks available funds, periodic report regarding the investment portfolio should be prepared for the board's use in evaluating investment management and establishing investment policy. The investment policy of a bank should be reviewed occasionally and modified as economic condition change. (Edward and Richard, 1980:378-380)

2.2.3. Review of Dissertations:

Different scholars have done many research works in the field of deposit collection and the financial performance of the commercial banks. This chapter is confined to the review of dissertations submitted by the researchers, which has relevance in this research and has supported as well.

Khadka (2001), A comparative study on investment policy of commercial banks has made the following conclusion with comparison the performance of Nepal Bank Limited with Nepal Bangladesh Bank Limited and Himalayan Bank Limited. It has been found out that there is no much difference between the mean ratio of loans and advance to current assets of Nepal Bank Limited and other commercial banks. The mean of ratio of Nepal Bank Limited is slightly higher than other commercial banks however Nepal Bank Limited's ratio is found to be less uniform in comparison to other commercial banks. She has further concluded "Nepal Bank Limited is comparatively less successful in balance sheet as well as off balance sheet operation than of other commercial banks. It predicts that in the coming days if it could not mobilize and utilize its resources as efficiently as other commercial banks to maximize the return it would lag behind competition market of banking."

Bhandari (2006) performed a study on financial performance analysis of Himalayan Bank Ltd. in the framework of CAMEL. The basic objectives of the study were to analyze the financial performance of Himalayan Bank Ltd. through CAMEL framework. He has used secondary data for the period of six year from 1999 to 2004. The study revealed that adequate capital of the bank. The non performing loan through in bank is still with better return on equity (ROE) however it is in decreasing trends. The decreasing trends of net interest margin shows that the management slack monitoring over the bank's earning assets. The liquid fund to total deposit ratio is above the industrial average ratio. Nepal Ratra Bank balance and cash in vault to total deposit ratio are below the industrial average ratio during the study period.

Mr. Pun (2009), performed a study on Lending Service Provided by Joint Venture Bank in Nepal, A case study of Nabil, Himalayan and Everest Bank Ltd. The basic objective of this study was to analyze the different lending service provided by Nabil Bank Ltd., Himalayan Bank Ltd. and Everest Bank Ltd. and measure performance in terms of Lending. He also analyzes volume of loan and advance of these banks and

trend of lending. The study revealed that main sources of banks are come from the lending. Nepal Ratra Bank make strong rule for public bank for lending. The heights income among the banks is Himalayan bank Limited, has been distributed by the high volume of total expenses at the same time. The Nabil Bank Limited has the second position and Everest Bank Limited has the least in the earning. Nabil Bank Limited has success in managing the cost factor of the bank since it has lowest mean. Value with moderate degree of variance, loan loss provision of Everest Bank Limited was Highest. Trend analysis revealed the outstanding performance of Himalayan Bank Limited in all the cases experimented in Earning Per Share (EPS), The slope of the trend line is the highest of Himalayan Bank Limited in all variable measured especially in recent year. Himalayan Bank Limited increase efficiency in deposit collection and loan and advance has placed this bank in the super position.

Shrestha (2009), performed a study on Performance Evaluation and Customer Satisfaction of Himalayan Bank Limited; A case study of Pokhara Baranch. The main objective of this study was to find out the various type of services and products offer by Himalayan Bank Limited, Pokhara Branch and evaluate the level of customer satisfaction. This study also to aimed to assess the overall performance of Himalayan Bank Limited, Pokhara Branch as a whole. Main findings of this study found that majority of the customers are satisfied with the overall service provided by the Branch. Pokhara Branch of the Himalayan Bank Limited provide full fledge banking services which has given lesser space for customer for complain.

Gurung (2009), perform a study on financial performance analysis of domestic private commercial banks in Nepal in the framework of CAMEL. Main objective of this study was to analyze capital adequacy and to know the status of the asset quality. It also aimed to evaluated the sampled banks performance on managing their expenses with respect their revenues. It also evaluated trends of earning and liquidity position of the sample banks. She had chosen Machhapuchhre Bank Limited, Bank of Kathmandu

Limited and Nepal Industries and Commerce Bank Limited as a sample study. Main finding of this study was that the risk base adequacy ratio, core capital adequacy ratio and supplementary capital adequacy ratio of the sample banks shows that these banks under study were well capitalized and they are complying with Nepal Rastra Bank directives on capital adequacy ratio. The ratio of nonperforming loan to total loans of the sample banks are in decreasing trends with some fluctuation over the year and return on equity was in increasing trends. Total loan and advance to deposit ratio of the banks through fluctuation over the years were above the industrial average in all years under study.

Baral (2009), performed a study on analysis of financial performance in the framework of CAMEL of Om Finance Limited. A main objective of this study was to analyse capital adequacy of the finance and to assess the quality of assets. It also aimed to evaluate income and expenses from earning per employee. It also analyses the trend of earning performance and liquidity position of this finance. Main finding of this study was that core capital adequacy ratio, total capital adequacy ratio and supplementary capital ratio of Om Finance Limited was above the Nepal Rastra Bank standard. The earning per employee was increasing trends which indicate the quality of management.

Poudel (2009), performed a study on financial performance analysis of Pokhara Finance in the framework of CAMEL. Main objective of this study was to analyse capital adequacy ratio, quality of assets, efficiency of management, earning performance and liquidity position of the finance company. Main finding of this study was that capital adequacy ratio was above than NRB standard. Non Performing Loans of this financial institution are below the NRB standard which means that the loan and advance is save side which indicate the quality of assets. Earning per employee is in decreasing trends which indicate the quality of management which is not so much qualified on the view to manage their manpower to increase the profit. Mainly liquidity

position of the bank is below the average standard. This is positive for the earning but it will be danger if they are not able to pay back the depositor money.

Thapa (2009), perform a study on investment portfolio of Annapurna Finance Company Limited, Pokhara. Main objective of this study were to find out the investment portfolio, analyse the deposit and investment trends, measure the profitability position and analyse the risk and return of this financial institution. Main finding of this study was that mainly this company invest their fund on loans and advance, little bit on government securities and very few on share and debenture of other company. This financial institution has credit management and efficiency so that this company can maintain the quality of assets. During the study period, it was found that return on investment is fluctuating and was not satisfactory level in term of profitability.

2.2.4 Review of Related NRB directives:

NRB is the apex institution in the capital market as well as money market. Being the central bank of the nation it directs, supervises and controls the function of the banks and other financial institutions. NRB has issued various directives in order to develop a healthy, competitive and secured banking and economic system to ensure national development. In this study, some of the relevant NRB directives that are circulated to the commercial banks are studied.

2.2.4.1 Regulation Related to Investing in Share and Securities by Banks.

1. Arrangement as to implementation of investment policy under approval of the board of directors.

Banks should prepare written investment policy relating to investment in the share and securities of other organized institutions. Such policies should be implemented only under the approval of the board of directors.

2. There should no restriction as to investment by the banks in the securities of organized HMG and securities issued by NRB.

3. Arrangement relating to investing in share and securities of organized institutions.

a) Banks should invest in the share and securities of organized institutions, which are already listed in the stock exchange by issuing the share publicly or where arrangement exists for listing within one year.

Where the share and securities aren't listed within the period prescribed, provisioning equivalent to the whole amount of such investment be provided and credited to the Investment Adjustment Reserve. The outstanding amount in such reserve should not be utilized for any other purpose till the said share and securities of the organized institution is listed. The outstanding amount in investment adjustment reserve should be included under supplementary capital.

b) Banks may invest in shares and securities of any one organized institution no exceeding 10% of the paid up capital of such organized institution. The total amount of investment should be restricted to 30% of the paid up capital of the bank. Any amount of investment made in excess of 30% of paid up capital of the bank for the purpose of calculation of capital fund, should be deducted from the core capital fund.

The amount of investment in shares and securities of any organized institution in which the banks has financial interest should be limited to 10% of paid up capital of such company and the cumulative amount of such investment in all the companies in which the banks has financial interest should be limited to 20% of paid up capital of the bank. For the purpose of calculation of capital fund, the amount such investment in shares and securities should be deducted from the core capital fund.

Where the share and securities are not listed within the period of prescribed, provisioning equivalent to the whole amount of such investment be provided and created to the Investment Adjustment Reserve. The outstanding amount on such reserve should be utilized for any other purpose till the said share and securities of the organized institution is listed. The outstanding amount in investment-adjusted reserve should be included under the supplementary capital

4) Banks should not invest in any shares, securities and hybrid capital instruments issued by any banks and financial institutions licensed by NRB.

2.3 Research Gap

All the researches reviewed above have focused on same common major points of financial indicator. All of the previous researchers have pointed out the comparison with other banks. This study so would be of different value as it focuses only on specific area of deposit and its lending status with the total industrial average. Until this time, this is the new research on this development bank. Until now, nobody did the research about this development bank.

CHAPTER III

RESEARCH METHODOLOGY

This chapter is concerned with the procedures that are adopted in this research work. It includes research design, justification of selection of the study unit, nature and sources of data collection, data analysis tools and limitation of methodology. To accomplish the objectives mention above chapter one, the study has adopted the following research procedure.

3.1 Research design:

“Research design is the plan, structure and strategy of investigation conceived so as to answer of research questions and to control variance.” (Kerlinger, 1986:275)

It is the arrangement of condition for collection and analysis of data. The study is designed within the framework of descriptive and analytical research design to achieve the objective of the study.

3.2 Nature and Sources of Data:

This research work is mainly based on secondary data. So, secondary sources of data are the major sources of this research. Data used in this study is mainly taken from the annual report of subjected bank. Besides these the following sources of data are also considered.

-) NRB reports and Directives
-) Various publications related to the subject matter of the study
-) Various articles published in the newspaper and magazines.
-) Unpublished dissertations of the previous years.

) Official web side of Himchuli Bikas Bank Limited and Different web sides related to the study etc.

3.3 Population and Sample

In general, the population refers to the whole industries of the same nature and its services and products. Thus the total number of Development banks operated in Nepal is the population of the study. Among them only Himchuli Bikas Bank limited is taken as sample.

3.4 Data Collection Procedure:

This study is mainly based on secondary data and such required data are gathered from the secondary sources mention above. The annual reports of the bank have been obtained from the field visiting of Head Office of Himchuli Bikas Bank Limited and website of the bank. NRB publications such as Quarterly Economic Bulletins, Banking and Financial Statistic, Economic Report, Directives etc have been collected from the website of NRB. And other related data and information are taken from the official website of Himchuli Bikas Bank Limited and NRB. Existing literature related to subject matter have been collected from various research papers, articles, books placed in Western Regional Library, Prithvi Narayan Campus, Bagar, Pokhara.

3.5 Data Analysis tools

Data collected from various sources have bee managed, analysed, and presented in proper tables and formats. To analyse the collected data various tools like financial and statistical have been used in this study.

3.5.1 Financial tools:

Financial analysis is the tool use for financial statement to analyse the company's financial position and performance to assess future financial performance. (Wild, Subramanyam and Halsey, 2003:13) While adopting financial tools, a ratio analysis is used as benchmark for evaluating the financial position and performance of any firm. Those tools can be used to get the precise knowledge of a business, which in turn are fruitful to explore the strengths and the weakness of the financial policies and strategies. Ratio is simply one number expressed in terms of another and it expressed the quantitative relationship between any two numbers. "The technique of the ratio analysis is the whole process of business of analysis of financial statement of any business of industrial concern especially to take output and credit decisions. Through this technique, a comparative study is made between different statistics concerning varied facts of a business unit. Just as a blood pressure, pulse and temperature are the measure the economics of financial health of the business concerns. Thus the technique of ratio analysis is of considerable significance in studying the financial stability, liquidity, profitability and quality of the management of the business and industrial concerns." (Kothari, 1994:487).

There are different ratios to analyse and interpret the financial statement of the bank however financial ratios related to the subject matter of the research work are given in detail below:

A. Liquidity Ratios:

Liquidity ratio measures the liquating position of the firm and the speed with which a bank asset can be converted into cash to meet deposit with drawl and other current obligation. It reflects the firm's ability to meet its short-term obligation. Liquidity ratio reflects the short-term financial strength of the business those ratios are used to know the capacity of the concern and find out the ability of bank to meet and to repay its short-term liability. There are various ratios under liquidity ratio, which are calculated as follows.

1) Total Liquid Fund to Total Deposit Ratio:

This ratio measures the proportion of liquid fund in the total deposit of the bank and it shows the overall short-term liquidity position of the bank. The higher ratio implies the better liquidity position and presents the inefficient liquidity position of the bank. It is calculated by using following model:

$$\text{Total Liquid Fund to Total deposit Ratio} = \frac{\text{Total liquid Fund}}{\text{Total Deposit}}$$

Where,

Total liquid fund = cash in hand + foreign currency in hand + balance with NRB + balance with banks + calls deposit.

2) NRB Balance to Total Deposit Ratio:

NRB Balance to total deposit ratio presents the numerical relationship between NRB balance and total deposit of the banks. It measures the proportion of NRB balance in total deposits. The given model is used to obtain this ratio.

$$\text{NRB balance to Total Deposit Ratio} = \frac{\text{NRB balance}}{\text{Total Deposit}}$$

3) Cash at Vault to Total Deposit Ratio:

Cash at vault to total deposit ratio reveals the numerical relationship between cash in vault and total deposits. It shows the percentage of total deposit maintained as vault. It is obtained by using this model.

$$\text{Cash at Vault to Total Deposit Ratio} = \frac{\text{Cash at Vault}}{\text{Total deposit}}$$

Where,

Cash at vault = cash in hand + foreign currency in hand.

B. Assets Management Ratio:

This ratio measures the management efficiency of the bank in managing its resources at its command. The following financial ratios related to investment policy are calculated under asset management ratios.

1) Loan and Advance to Total Deposit Ratio:

This ratio is calculated to find out how successfully the banks are utilizing their total deposit as loan and advance. . This ratio can be stated as:

$$\text{Loan and Advance To total Deposit Ratio} = \frac{\text{Loan and advance}}{\text{Total deposit}}$$

2) Non-performing Loans to Total Loan and Advance

The non-performing loan ratio indicates the relationship between non-performing loans in total loan and advances. This ratio can be state as:

$$\frac{\text{Non-performing loans to}}{\text{Total Loans and Advance}} =$$

Where,

NPL= Those loans which have been seen past due either in the form of interest servicing or principal repayment and graded as possible default.

3) Loan and Advance to Total Working Fund Ratio:

This ratio indicates the ability of selected banks in term of earning high profit from loan and advance. It is calculated as below:

$$\text{Loan and Advance to Total working Fund} = \frac{\text{Total loan and advance}}{\text{Total working funds}}$$

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

C. Profitability ratio:

Profit is the key element for any business organizations. The bank should earn profit to survival and growth over a long period. It is a fact that sufficient profit must be carried to sustain the operation of the business, to be able to obtain funds from investors to expand and grow and to contribute towards the social overhead for the welfare of society.

Profitability ratio is useful to measure the overall efficiency or operations of the firm; it is a true indicator of the financial performance of any institution. Higher the profitability ratio betters the financial performances of the bank and vice versa, profitability ratio can be computed as:

1) Return on Total Assets:

It measures the profitability of fund invested in the banks assets. It is computed by dividing the net profit by total asset. It is expressed as:

$$\text{Net profit to total asset ratio} = \frac{\text{Net profit}}{\text{Total assets}}$$

2) Return on Loan and Advance Ratio:

Return on loan and advance ratio shows how efficiency of the banks have utilized their resources to earn good return from provided loan and advances. It can be mentioned as:

$$\text{Return on loan and advance ratio} = \frac{\text{Net profit or loss}}{\text{Total loan \& advance}}$$

This ratio is calculated by dividing total interest earned by total outside assets.

3) Total Interest Earned to Total outside Assets:

It can be stated as:

$$\text{Total interest earned to total outside assets ratio} = \frac{\text{Total interest earned}}{\text{Total Outside assets}}$$

Total interest earned is that amount which is earned by investing in different sectors by bank in an accounting year. Where as, total outsiders assets include loans (short term as well as long term) borrowing and bond amounts.

4) Total Interest Earned to Total Working Fund Ratio:

This ratio can be calculated by dividing total interest earned by total working fund. This can be stated as:

$$\text{Total interest earned to total working fund ratio} = \frac{\text{Total interest earned}}{\text{Total working fund}}$$

5) Total Interest Paid to Total Working Fund Ratio:

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

$$\text{Total interest paid to total working fund} = \frac{\text{Total interest paid}}{\text{Total working fund}}$$

D. Risk Ratios:

Risk means uncertainty, which lies in the business transaction of investment management. When a firm wants to bear risk and uncertainty, profitability and effectiveness of the firm will increase. These ratios check the degree of risk involved in the various financial operations. For this study, credit risk and capital risk ratio are used to analyse and interpret the financial data on investment policy.

1) Credit Risk Ratio:

Credit risk helps to check the probability of loan non-repayment or the possibility of loan to go into default. It can be expressed as:

$$\text{Credit risks ratio} = \frac{\text{Total loan and advance}}{\text{Total Assets}}$$

2) Capital Risk Ratio:

Capital risk ratio measures banks ability to attract deposits and inter bank funds. It is also determine the level of profit. It can be stated as:

$$\text{Capital risk Ratio} = \frac{\text{Share capital}}{\text{Risk weight assets}}$$

E. Grown Ratios:

Growth ratios are directly related to the fund mobilization and investment management of a development bank. Growth ratios represent how the development bank is maintaining its economic and financial position. The higher ratios represent the better performance of the bank to calculate, check and analyze the expansion and growths of the banks. The following growth ratios are calculated in this study.

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

3.5.2 Statistical Tools

Some important statistical tools have been used to present and analyse the data for achieving the objective of this study. Mean (average), Standard deviation, co-efficient of variance; co-efficient correlation analysis, least square, linear trend analysis etc have been used for the purpose. The basic statistical analysis is related to this study are discussed below:

A. Arithmetic Mean (Average)

Average is statistical constants which enables us to comprehend in a single effort the significance of the whole. A mean is the average value or the sum of all the observation divided by the number of observation and it is denoted and gives by the formula.

$$\bar{X} = \frac{\sum X}{N}$$

Where,

\bar{X} = mean of the values

N = Number of pairs of observation

$\sum X$ = Sum of observation

B. Standard Deviation:

The standard deviation measures the absolute dispersion. It is said that higher the value of standard deviation the higher the variability and vice versa. It is defined as the

positive square root of the mean of the square of the deviations taken from the arithmetic mean. Karl Pearson introduced the concept of standard deviation in 1823 and this is denoted by the small Greek letter σ (sigma). It is calculated as:

Symbolically,

$$\sigma = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

Where,

σ Standard Deviation

X Variant Values

\bar{X} = Arithmetic Mean

N = No. of observation (Time period)

C) Coefficient of variation (C.V.)

The standard deviation in the above form was given as an absolute measure of dispersion. Hence, where the mean value of the variables is not equal, it is not appropriate to compare two pairs of variables based on standard deviation only. The relative measure of dispersion based on the standard deviation is shown as the coefficient of standard deviation.

Symbolically,

$$\text{Coefficient of S.D} = \frac{S.D}{\text{Mean}} = \frac{\sigma}{\bar{X}}$$

The coefficient of variation based on standard deviation multiplied by 100 is known symbolically.

$$C.V. = \frac{\sigma}{\bar{X}} \times 100$$

Where,

C.V. = Coefficient of Variation

† = Standard Deviation

\bar{X} = Arithmetic Mean

It is independent of unit. So, two distributions can be compared with the help of C.V. for their variability. Less the C.V., more will be the uniformity, consist etc. and vice versa.

D) Correlation Coefficient (r)

Another statistical tool, correlation coefficient (r) measures the relation between two variables. Two variables said to have correlation, when they are closely related that the change in any value of variable is accompanied by the change in the value of other. For example; increase in advertisement expenditure is accompanied by increase in sales. The measure of correlation called the correlation coefficient.

One of the widely used mathematical methods of calculating the correlation coefficient between two variables is Karl Pearson's correlation coefficient. It is denoted by (r) and is defined.

The value of r lies between (-1) to (+1)

$$\text{Correlation coefficient (r)} = \frac{N\phi XY Z\phi X.\phi Y}{\sqrt{N\phi X^2 Z(\phi X)^2} \cdot \sqrt{N\phi Y^2 Z(\phi Y)^2}}$$

Probable error,

$$\text{P. Er.} = 0.6745 \times \frac{1 Z r^2}{\sqrt{N}}$$

When $r = 1$, there is perfectly positive correlation an when $r = -1$, there is perfectly negative correlation. This kind of correlation is same now impossible to find. As the value of correlation coefficient reaches near to zero, it is said that there is no significant relationship between the variables.

The correlation coefficient has been interpreted based on probable error (P.Er.). If the value of correlation of coefficient is greater than 6 times the value of probable error,

the correlation coefficient is deemed as significant and reliable. If the value of correlation is less than the value of probable error, the correlation coefficient is said to be insignificant and there is no evidence of correlation.

E) Time Series:

When a series of data are pertaining to a series of continuing period should be studied, its characteristics and its future direction is based estimated by the time series. Time series analysis a series of data keeping in minds the various short term and long term fluctuations. The following trend value analysis has been used in this study.

- i) Trend analysis of total deposit.
- ii) Trend analysis of loan and advance.
- iii) Trend analysis of net profit.

The straight-line trend of a series of data is represented by the following formula.

$$y = a + bx$$

Where,

y = dependent variable.

x= Independent variable.

a = y intercept.

b = slope of the trend line.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

This chapter deals with the presentation, analysis and interpretation of data collected from different sources. This is an analytical chapter, where an attempt has been made to analyse and evaluate major financial items, which have an impact on deposit collection and lending status of Himchuli Bikas Bank limited.

4.1 Presentations and Analysis of Data:

4.1.1 Analysing Deposit collection of Himchuli Bikas Bank Limited:

Deposit collection is one of the major functions of banks. It is the primary source of fund. Banks collect deposit from individuals and organizations in different forms of deposit like saving deposit, fixed deposit, current deposit and others. Collected deposits are to be well managed since it is the liquidity of the bank and there is involvement of the cost in the form of interest earned which is to be paid to the depositors. Generally, deposit is used or mobilized as loan and advance to generate profit. Therefore the efficiency of the banks depends on the ability to attract deposits. The capacity of the bank to earn profit depends on the volume and the deposit mix the bank.

Table: 4.1
Deposit Position of Himchuli Bikas Bank (NRS In Millions)

Bank	Fiscal Year					Mean
	2005/06	2006/07	2007/08	2008/09	2009/10	
Himchuli	163.08	419.09	876.30	1,300.79	2,266.87	1,005.23

Source: Annual reports

As shown in the table 4.1 the total deposit collection of the bank under 5 year study period starting from fiscal year 2005/2006 to 2009/10. has seemed to be in fluctuating in trend i.e. 163.08, 419.09, 876.30, 1,300.79 and 2,266.87 respectively. The highest deposit volume seems with Rs. 2,266.87 in F.Y. 2009/10 and lowest deposit volume with Rs. 163.08 in F.Y. 2005/06. The average deposit volume of the bank is Rs. 1,005.23 millions, which seems to be satisfactory. The deposit volume of the bank is almost seems to be constant on previous two years due to introduction phase of the bank. But from the fiscal year 2007/08 the bank rose up its deposit collection dramatically by Lanching new branches and cover the service are with new deposit schemes with comparatively higher rate of interest and other facilities. The above table shows that the Himchuli Bikas Bank Limited has been successful in capturing the deposit from the market during the study period.

Figure No: 4.2

Total Deposit Composition of Himchuli Bikas Bank Limited (NRS In Millions)

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10
Interest Free Deposit	13.56	21.91	40.69	5.42	48.20
Current Deposit	12.58	18.71	33.88	0.00	40.61
Margin Deposit	0.82	1.77	3.12	4.72	7.59
Other Deposit	0.16	1.43	3.69	0.70	0.00
Interest Bearing Deposit	149.52	397.18	835.61	1,295.37	2,218.67
Saving Deposit	72.98	148.82	255.38	652.80	962.79

Fixed Deposit	37.78	143.96	183.59	162.01	495.11
Call Deposit	38.76	104.40	396.64	480.56	760.77
Total Deposit	163.08	419.09	876.30	1,300.79	2,266.87

Source: Annual Reports.

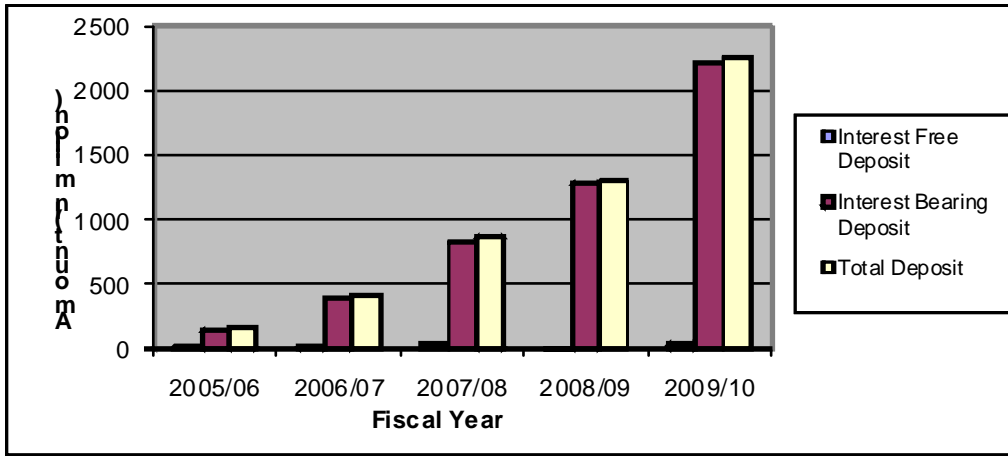
The table shows that the different types of deposits available in the Himchuli Bikas Bank Limited. They are also called the deposit collection composition of the bank. There are mainly two types of deposits i.e. interest free deposit and interest bearing deposit. This table presents both types of deposit's position during the study period. During the study period amount of interest bearing deposit was greater than that of interest free deposits.

Interest free deposit consists of current deposit, margin deposit and other deposits. The amount of current deposit is high among them. Amount of interest free deposit during study period are 13.56, 21.91, 40.69, 5.42 and 48.20 respectively. This shows that the deposit collection in interest free deposit is increasing in 2nd and 3rd year but in 4th year bank has not maintain current deposit to reduce the cash reserve ratio. So it has been decreased 4th year's amount of interest free.

Interest bearing deposit means the deposit in which banks have to pay certain percentage of interest according to the rules and regulation of the bank or NRB directive. These types of deposit cover the major part of the deposit collection of the bank. It includes the saving deposit, fixed deposit, call deposit, and certificate of deposit. Above table shows that the trend of this type of deposit has been increasing rapidly in last three years. The amount of deposit collected through this type of deposit are 149.52, 397.18, 835.61, 1,295.37 and 2,218.67 respectively during the study period. In total, minimum deposits has been seen in F.Y. 2005/06 is lowest i.e. Rs. 163.08 millions and maximum amount of deposit is seen in F.Y.2009/10 i.e. Rs.2,266.87 millions. This table shows that the bank has increased its power to collect deposit from the local market and Himchuli Bikas Bank Limited is successful in collection of deposit.

Figure 4.1

Deposit Composition of Himchuli Bikas Bank Limited (in millions)



Above figure exhibits the total deposit composition of Himchuli Bikas Bank Limited for the period of last five years. In the chart, the interest bearing deposit covers the major portion of the total deposit volume. In other word, there is nominal amount of deposit cover by interest free. The bar diagram of total deposit volume covers the five year period starting from F.Y. 2005/06 to F.Y. 2009/10. The deposit in over the study year increases dramatically. At the introduction phase of the bank, it has collected deposit in multiple ratios. Overall, this figure indicates the bank’s capacity to collect maximum volume of deposit from the public.

4.1.2 Analysing the Investment compositions of Himchuli Bikas Bank Limited

Development banks have not invested more amounts in government securities and other public limited company. Most of the fund they use for loan and advance to the public and other corporate sector. In earlier time, development banks are interested to invest their fund only in loan and advance but now a days they also pay their little attention to invest their fund in government securities like treasury bills national saving bonds and development bonds and non government securities like shares debentures, bonds etc. of different companies.

Investment activities are classified into two different categories, investment in government securities and share, bonds, and debenture of other non-government companies. Government securities are secured but they don't give more return to the investors. Government securities are considered as the liquid as cash balance of the banks, which can be easily converted into cash or can be sold easily in the market. From the risk point of view, government securities are less risky as compare to investment in other securities of different companies and loan and advance. So, they are known as the safe locker. Banks are the profit making organization; their target is to generate more profit by making investment in different sector of the economy. So, they invest excess fund on government securities for diversification of investment. They don't prefer to invest their fund on government securities due to their objective of profit maximization. As per directives of NRB, the total amount of investment of a development bank in share and securities of organized institution should be limited by capital adequacy ratio.

The following table shows the investment composition of Himchuli Bikas Bank Limited.

Table No: 4.3
Investment Composition (%)

S. N.	Investment	Fiscal Years				
		2005/06	2006/07	2007/08	2008/09	2009/10
1.	<i>Nepal Govt. Securities</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>
	-Treasury Bills	0.00	0.00	0.00	0.00	0.00
	-Development Bonds	0.00	0.00	0.00	0.00	0.00
	-National Saving Bonds	0.00	0.00	0.00	0.00	0.00
2.	<i>Company's Shares</i>	<i>0.00</i>	<i>0.00</i>	<i>12.90</i>	<i>46.32</i>	<i>100.00</i>
	-Nepal Telecom Limited	0.00	0.00	7.17	16.80	36.27
	-Asian Life Insurance company Limited	0.00	0.00	5.73	13.42	28.97
	-Growmore Merchant Banker Limited	0.00	0.00	0.00	16.10	34.76
3.	<i>Debentures and Bonds</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>
4.	<i>Other Investments</i>	<i>0.00</i>	<i>0.00</i>	<i>87.10</i>	<i>53.68</i>	<i>0.00</i>
	-Fixed deposit in Financial Institution	0.00	0.00	87.10	53.68	0.00
	<i>Net Investment</i>	<i>00.00</i>	<i>00.00</i>	<i>100.00</i>	<i>100.00</i>	<i>100.00</i>

Source: Annual Reports.

Above table shows the investment composition of Himchuli Bikas Bank Limited for five years period. Himchuli Bikas has invested its collected fund in different investment alternatives like shares of different companies and other investment such fixed deposit in financial institution.

As observed in above table, bank had not made any investment on Nepal Government Securities and debenture and bonds.

Himchuli Bikas has invested its available fund on shares issued by different financial companies, banks & agencies. Bank invested its resources on development banks and insurance company. The investment percentage of Himchuli Bikas Bank on company's shares on total investment is in increasing trend till F/Y 2007/08 i.e. 12.90%, 46.32% and 100% respectively. Bank has not made any investment on F/Y 2005/06 and 2006/07. Likewise, Himchuli Bikas Bank Limited has made investment on the topic of other investment. This topic include of fixed deposit on other financial institution. Investment on such title is in fluctuating trend. Investment percentage on other investment from F/Y 2007/08 and F/Y 2008/09 are 87.10%, 53.68% respectively.

4.1.3 Financial Ratio Analysis:

4.1.3.1 Analysing the liquidity position of the bank:

Banks are the business firm where liquidity is of prime importance. Liquidity ratios measure the bank ability to meet current obligation. Development banks collect fund from general public with a commitment to return depositor's fund, facilitate withdrawal on demand. Development banks must maintain satisfactory liquidity position to satisfy the credit need of the community, to meet demand of the depositor's withdrawal, to meet short-term obligation and convert non-cash items into cash to satisfy the immediate needs without loss to the bank and without consequent impact on long-run profitability of the bank. The following measures of liquidity ratios are used to find out the short-term solvency of the bank or measure the liquidity position of the bank.

1) Liquid Assets to Total Deposit Ratio:

The ratio of liquid assets to total deposit measures the level of availability of liquid assets with banks to meet current or short-term obligation. It measures the liquidity position of the bank. Cash in hand, foreign currency in hand, balance with domestic bank, balance with NRB and money at call are included in total liquid fund. This ratio is computed by dividing total liquid fund by total deposits. The higher ratio implies the better liquidity position and lower ratio indicates the inefficient liquidity position of the bank. As per NRB direction, only investment in government securities is considered as the liquid.

Table No: 4.4

Liquid assets to total Deposit Ratio (in million)

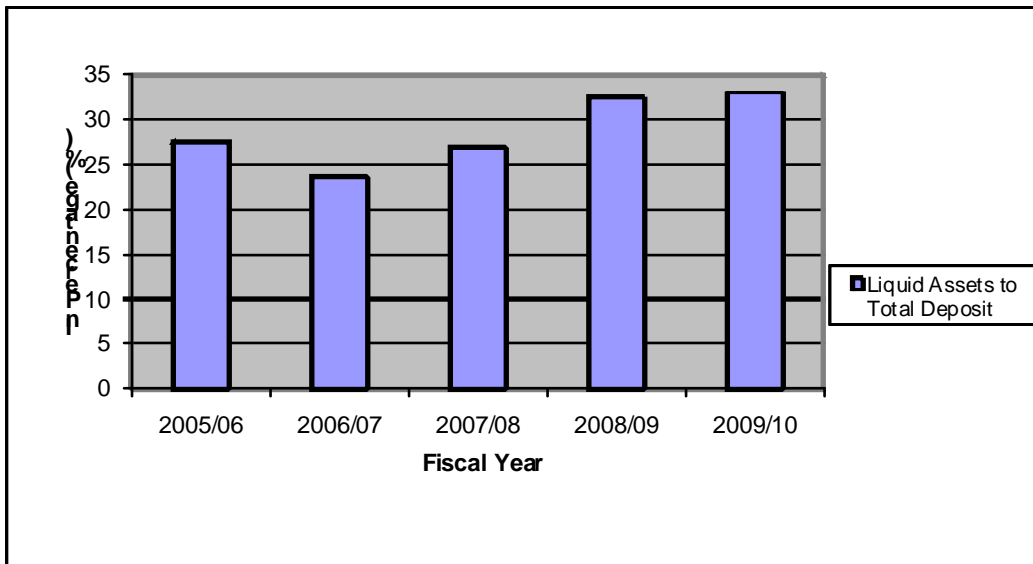
F/Y	Total Liquid Assets	Total Deposit	Ratio (%)
2005/06	44.88	163.08	27.52
2006/07	99.07	419.09	23.64
2007/08	235.05	876.30	26.82
2008/09	422.36	1300.79	32.47
2009/10	748.16	2266.87	33.00
		Mean	28.69%
		S.D.	3.56
		C.V.	12.41%

Source: Annual Reports

Table 4.4 shows that the liquid funds to total deposit ratio of Himchuli Bikas Bank Limited during the period of five years starting from F.Y. 2005/06 to 2009/10. The ratios are in decreasing trend from last four fiscal years but during the F.Y. 2006/07 ratio have decrease slightly than last year. The liquid assets to total deposit ratio of Himchuli Bikas Bank Limited has been observed as 27.52%, 23.64%, 26.82%, 32.47% and 33.00% respectively. The extreme levels of ratio are inversely proportionate to the total deposit level, in absolute terms. The ratio is in fluctuating trend. The ratio is found 28.69% on an average. It shows that the ration in last three years is lower than that of average or mean ratio. It means the bank has not been able to maintain its liquidity position well.

The standard deviation and coefficient of variation of the ratio are 3.56 and 12.41% respectively.

Figure No: 4.2
Liquid Assets to Total Deposit Ratio



Above figure exhibits the total liquid funds to total deposit ratio of Himchuli Bikas Bank Limited during the five years study period. It is observed that the highest ratio of the bank is 33.00% in F.Y. 2009/10 and lowest ratio is 23.64% in F.Y. 2006/07. The average ratio is 28.69% which indicates that the bank good liquidity position in terms of liquid assets to total deposits.

2) NRB Balance to Total Deposit Ratio:

This ratio shows whether the bank is holding the balance as per the requirement to NRB. To ensure liquidity in development banks to meet the depositors demand for cash at any time, to inject the confidence in the depositors regarding the safety of their funds, NRB have put directives to maintain the certain percentage of total deposit in NRB by the banks. The bank should strictly follow the NRB directives. Total deposit means the saving deposit, current deposit; fixed deposit, call deposit as well as certificates of deposits. For this purpose, deposits held in convertible foreign currency, employee guarantee amount and margin account would not be included (NRB Directive Manual, 2009/10). The following table shows the NRB Balance to Total Deposit Ratio.

Table no.4.5

NRB Balance to Total Deposit Ratio (In million)

F/Y	NRB Balance	Total Deposit	Ratio (%)
2005/06	7.78	163.08	4.77
2006/07	20.88	419.09	4.98
2007/08	55.11	876.30	6.29
2008/09	62.88	1300.79	4.83
2009/10	123.23	2266.87	5.44
		Mean	5.26%
		S.D.	0.57
		C.V.	10.84%

Source: Annual Reports.

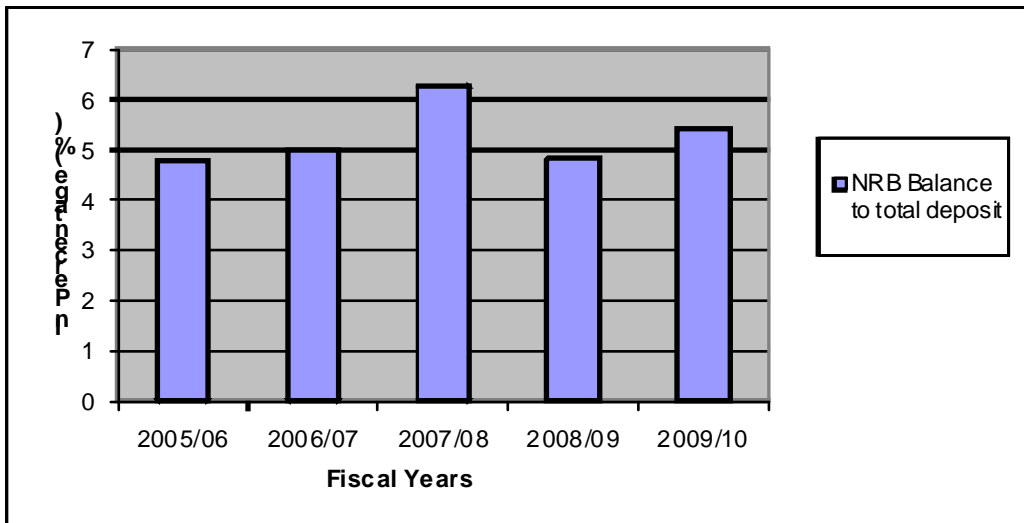
Above table presents the NRB balance to total deposit ratio of Himchuli Bikas Bank Limited for five years study period starting from F.Y. 2005/06 to F.Y. 2009/10. The ratios have been observed as 4.77%, 4.98%, 6.29%, 4.83% and 5.44% respectively.

Liquidity position of the bank in terms of NRB balance to total deposit is found highest in F.Y. 2007/08 and lowest in F.Y. 2005/06. The average NRB balance to total deposit ratio of the bank is 4.77%.

The standard deviation is 0.57 and from the consistency stand point Himchuli Bikas Bank Limited has coefficient of variation is only 10.84%.

Figure No: 4.3

NRB Balance to Total Deposit Ratio



Above figure shows the NRB balance to total deposit ratio of Himchuli Bikas Bank Limited during the study period of five years. The ratio has observed high in third fiscal year and lowest in first fiscal year.

3) Cash at Vault to Total Deposit Ratio:

This ratio shows the cash at vault to total deposits held as cash in hand at vault. This ratio measures the percentage of most liquid fund with the bank to immediate payment to the depositors. This ratio is calculated by dividing cash at vault by total deposit. Cash in hand and foreign currency in hand is included as cash at vault. So, sufficient and appropriate cash reserve in the vault should be maintained. Total deposits mean the current, saving, and fixed deposit as well as call account deposit and certificate of deposits.

Table No: 4.6

Cash at Vault to Total Deposit Ratio (in million)

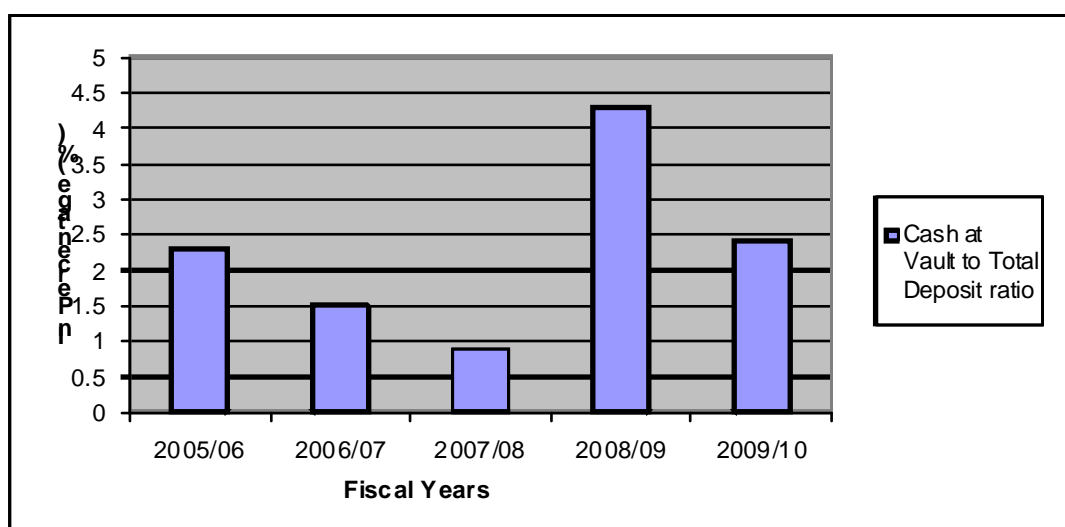
F/Y	Cash at Vault	Total Deposit	Ratio (%)
-----	---------------	---------------	-----------

2005/06	4.89	163.08	2.30
2006/07	6.28	419.09	1.50
2007/08	7.80	876.30	0.89
2008/09	55.79	1300.79	4.29
2009/10	54.64	2266.87	2.41
		Mean	2.28%
		S.D.	1.15
		C.V.	50.44%

Source: Annual Reports.

Table no 4.6 shows the Cash at vault to total deposit ratio of Himchuli Bikas Bank Limited. The ratio has in fluctuating trend during the study period. The highest ratio has observed in F.Y. 2008/09 i.e. 4.29% and lowest ratio in F/Y 2007/08 i.e. 0.89%. The average ratio of the bank is 2.28%. In first three fiscal years the ratio is below the average ratio this means the bank is not much able to maintain this ratio. The standard deviation and coefficient of variation are 1.15 and 50.44% respectively.

Figure No: 4.4
Cash at vault to Total Deposit Ratio



Above figure reflects the cash at vault to total deposit ratio. This shows that the ratio is highly fluctuating every year. The highest ratio is observed in fourth year of the study. Himchuli Bikas Bank Limited is trying to maintain this ratio for the good liquidity position of the bank. At beginning of its starting year, it had not more branches. When it opened its branches, vault cash also have to increase for the smooth operation.

4.1.3.2 Assets Management Ratio:

An asset management ratio measures the efficiency of the development banks to manage its assets in profitable and satisfactory direction. This ratio measures the degree of effectiveness in using the resources. It is also called an efficiency ratio. Every bank must be able to manage its assets properly to earn high profit by maintaining appropriate level of liquidity. Proper assets management of the bank is to manage its assets in profitable way by mobilizing its fund in the best possible way. To measure the assets management position of the bank, following ratios are calculated.

1) Loan and Advance to Total Deposit Ratio:

Development banks collect deposit from the society to grant or to lend loans to others. This ratio measures how well deposits have been mobilized in different sectors of the economy. Loan and advance to total deposit ratio measures the extent to which bank is successful to mobilize its total deposits on loan and advance for the purpose of income generation. This ratio is known as the credit deposit ratio (CD Ratio). Loan and advance to total deposit ratio shows that how much fund of total deposit is provided as loan and advance. Higher ratio indicates better mobilization of deposits and better earning. On the contrary, a higher ratio should not be perceived as a better state of affairs from the point of view of liquidity, as loan and advance aren't as liquid as cash and bank balance and other investment and vice versa. It also reflects that banks having higher loan and advance to total deposit ratio may expose to the insolvency or bankruptcy risk in case of NPLs are generated.

Table No: 4.7

Loan and Advance to Total Deposit Ratio (in million)

F/Y	Loan and Advance	Total Deposit	Ratio (%)
-----	------------------	---------------	-----------

2005/06	128.81	163.08	78.99
2006/07	349.74	419.09	83.45
2007/08	701.89	876.30	80.10
2008/09	1073.02	1300.79	82.49
2009/10	1998.91	2266.87	88.18
		Mean	82.64%
		S.D.	3.40
		C.V.	4.11%

Source: Annual Reports.

Table exhibits that the loan and advance to total deposit ratio of Himchuli Bikas Bank Limited for last five years. The ratios are 78.99%, 83.45%, 80.10%, 82.49% and 88.18% respectively. The ratio is fluctuating every year. Likewise in average 82.64 % of total fund of Himchuli Bikas Bank Limited is converting into loan and advance for generating income. So, calculation shows that the bank is being more successful in mobilizing its deposit as loan and advance. The standard deviation of the ratio is 3.40 with the coefficient of variation of 4.11%. This indicates 95.89% consistency in loan and advance to total deposit ratio.

Figure No: 4.5

Loan and Advance to Total Deposit Ratio

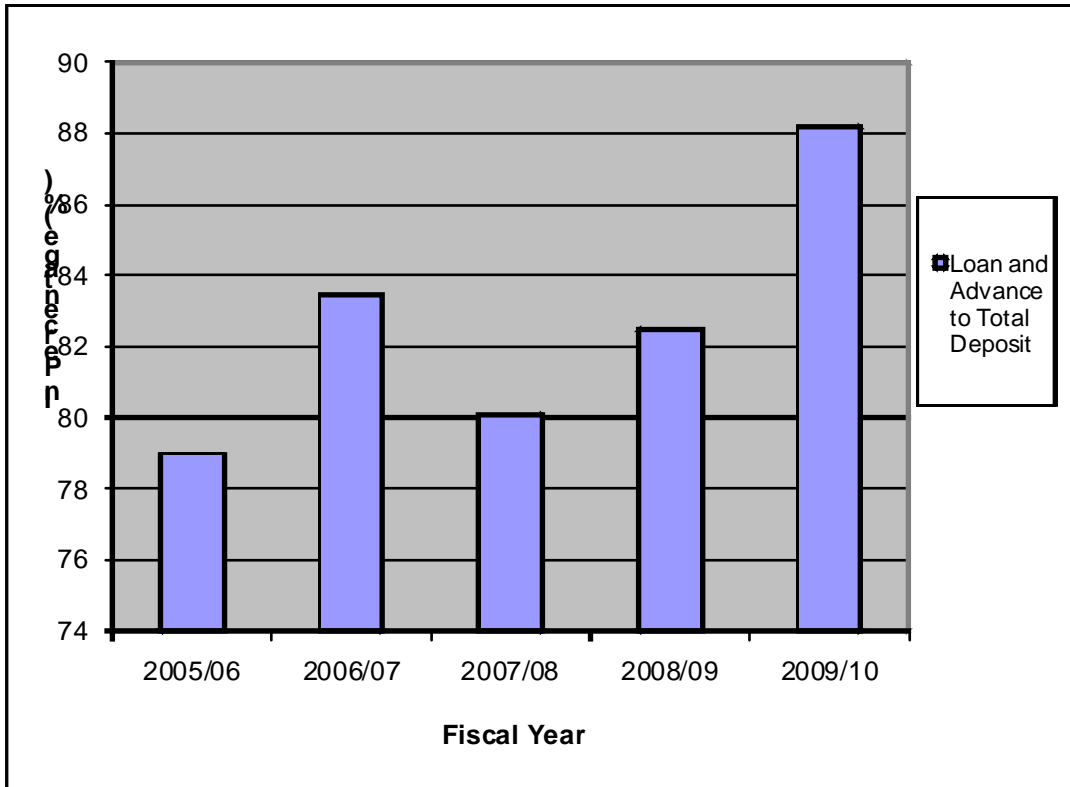


Figure 4.5 exhibits that the loan and advance to total deposit ratio has been in increasing trend after third year. The maximum ratio is seen in F.Y. 2009/10 i.e. 88.18%. This shows that the bank is efficiently mobilizing its collected deposit for lending purpose.

2) Non-performing Loans to Total Loans and Advance Ratio.

The loan not recovered within the given time frame either in the form of invests servicing or principal repayment is called non-performing loan. Non-performing loan to total loan and advance ratio helps to know the actual position of the non-performing assets in the commercial banks. This ratio determines the proportion of non-performing loans in the loan and advance. The higher ratio implies the bad quality of the loan or assets of the bank where lower ratio implies the better assessment and robust credit management system in the bank. Hence the lower ratio is preferable. As per international standard 5% NPLs is allowed but in Nepalese context 10% of NPLs is acceptable.

Table No: 4.8

Non-Performing Loans to Total Loan and Advance Ratio (in million)

F/Y	NPL	Loan and Advance	Ratio(%)
2005/06	0.00	128.81	0.00
2006/07	0.46	349.74	0.13
2007/08	0.02	701.89	0.01
2008/09	0.17	1073.02	0.02
2009/10	1.97	1998.91	0.10
		Mean	0.05%
		S.D.	0.05
		C.V.	100%

Source: Annual Reports.

Table no 4.8 shows the non-performing loans to total loan and advance ratio of Himchuli Bikas Bank Limited during the study period starting from F/Y 2005/06 to F/Y 2009/10. This ratio is found 0.00%, 0.13%, 0.01%, 0.02% and 0.10% respectively. From this, it is clear that the highest ratio is 5.80% in F.Y. 2002/03. NPL and profit have negative relation, if NPL increase, the profit automatically decrease and vice-versa. NPL to total loan and advance ratio has decreasing trend from F.Y. 2002/03 to F.Y.2006/07 respectively. From point of view of NPA, Bank is very safe side on the loan and advance. The bank is trying to searching effective areas of fund mobilization and using proper credit policy.

Figure No: 4.6

Non-Performing Loans to Total Loan and Advance Ratio

Fig. 4.6 Exhibits the non performing loans to total loan and advance of the Himchuli Bikas Bank Limited during the five years study period. NPL in the F/Y 2006/07 regarded as the highest of the last five years trend although it is very low on acceptable level.

4) Loan and Advance to Total working Fund Ratio:

Loan and advance of commercial banks represents the major portion in the volume of total assets. Loan and total assets ratio measures the extent in which the bank is successful in mobilizing their assets on. The higher degree of this ratio indicates the high contribution made by lending activities and vice versa. Granting loans and advance always carries certain degree of risk. The loan and advance may or may not be recovered within the stated period of time with interest. Higher ratio indicates the better mobilization of fund on loan and advance and vice versa. This ratio also measures the management attitude towards the risky assets. The high ratio is the representative of the high degree of liquidity risk. The low ratio indicates low productivity but high degree of safety in liquidity. It is calculated by dividing loan and advance by total working fund.

Table No: 4.9

Loan and advance to Total Working Fund Ratio (In million)

F/Y	Loan and Advance	Total Working Fund	Ratio (%)
2005/06	128.81	182.29	70.66
2006/07	349.74	459.74	76.07
2007/08	701.89	990.50	70.86
2008/09	1073.02	1541.29	69.62
2009/10	1998.91	2818.33	70.93
		Mean	71.63%
		S.D.	2.27
		C.V.	3.17%

Source: Annual Report.

The above table shows the loan and advance to total working fund ratio under five-year study period. The loan and advance to total assets ratio is 70.66% in initial fiscal year. After that the ratio has increases up to 76.07% in F.Y.2006/07. It declines up to 69.62% in F.Y. 2008/09. The mean ratio of loan and advance to total working fund is 71.63%. This ratio also reveals that the Himchuli Bikas Bank Limited is capable in mobilizing its total working fund in the form of loan and advance. Loans and advances are the major element for survival of the bank. So, Himchuli Bikas Bank Limited shouldn't reduce its lending activities for safety purpose. The standard deviation of the ratio is 2.27 with the coefficient variation of 3.17%. This indicates 96.83% consistency in loans & advances to total assets ratio. This happened due to decrease in non-performing loan and advance.

Table 4.9 is presented in figure 4.7

Figure No: 4.7

Loan and Advance to Total Assets Ratio

The figure 4.7 displays the loan and advance to total assets/ total working fund ratios of Himchuli Bikas Bank Limited during the five fiscal years of the study. The observed values of the ratios are not fluctuating that much; the ratio has slightly increased in second year.

4.1.3.3 Profitability Ratio:

Profit is the key factor for the firm's expansion and development. Profit making is the main objective of the organizations. Thus it is regarded as the engine of diversification of the firm. Without generating profit organization can't survive in the society. Mainly profitability ratios are calculated to measure the economic efficiency of the organization. Sufficient amount of profit is to be earned or generated by every bank for the successful day-to-day operation and long run survival in the present competitive environment. The operating efficiency and its ability to adequate return to its shareholders ultimately depend upon the profit earned by the company. Profitability denotes the value created by the use of available resources. It is more than the total of the input resources. A high profitability ratio refers as the symbol of good management capability of the banks. Some profitability ratios are calculated below.

1) Return on Total Assets Ratio:

This ratio is used to measure the profit earning capacity of the bank by utilizing is available resources i.e. total assets. This ratio is also called 'Profit to total assets ratio.' Return will be higher if the bank's available fund is well managed and efficiently utilized. This ratio shows the capacity of profit earning through the efficient utilization of total assets. This ratio is calculated by dividing net profit/loss by total assets.

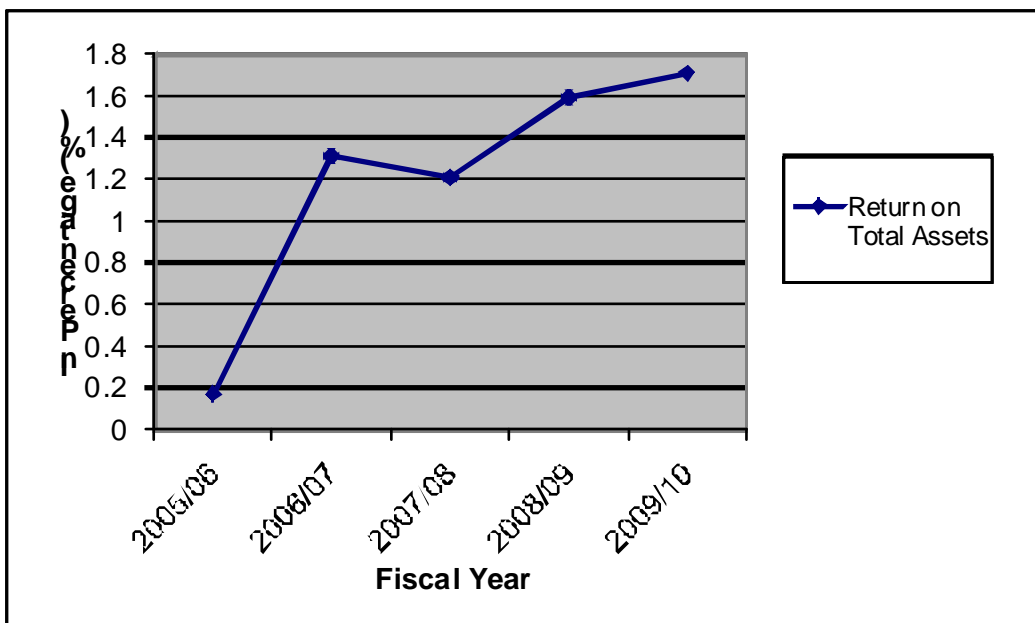
Table No: 4.10
Return on Total Assets Ratio (in million)

F/Y	Net profit	Total Assets	Ratio(%)
2005/06	0.30	182.29	0.17
2006/07	6.01	459.74	1.31
2007/08	12.01	990.50	1.21
2008/09	24.44	1541.29	1.59
2009/10	48.31	2818.33	1.71
		Mean	1.20%
		S.D.	0.55
		C.V.	45.83%

Source: Annual Reports

Table 4.10 shows the return on total assets ratio during the study period started from F.Y. 2005/06 to F.Y. 2009/10. This ratios are 0.17%, 1.31%, 1.21%, 1.59% and 1.71% respectively. The trend of this ratio is increasing followed by decreasing. The ratio has seen highest in F.Y.2009/10 i.e. 1.71% and the lowest in F.Y. 2005/06 i.e. 0.17%. The bank has been able to mobilize its total assets properly to gain more profit in F.Y 2009/10 with respect to its total assets. The average ratio of the bank is 1.20%. The ratio has mix trend during the study period. The bank is successful to generate profit in this competitive environment. Every year bank is being able to gain profit there is no loss occurs even in first year of its operation due to its efficiency in utilizing available resources or the management efficiency. The standard deviation and coefficient of variation are 0.55 and 45.83%. From the consistency stand point Himchuli Bikas Bank Limited has 54.17% consistency in this ratio.

Figure No: 4.8
Return on Total Assets Ratio



This figure 4.8 presents the return on total assets ratio of the bank during the study period. Return on total assets is fluctuating in trend. The ratio highly increased in second year. and it has decreasing trends after third year.

2) Return on Loan and Advance Ratio:

Return on loan and advance ratio measures the earning capacity of the bank on loan and advance. Most loan and advance includes cash credit, overdraft, bills purchased and discounted. Here higher the return on loan and advance ratio greater will be the return and lower the ratio lower will be the return or loss. This ratio is calculated to identify the efficiency of loan and advance to earn profit or the return.

Table No: 4.11

Return on Loan and Advance Ratio (in million)

F/Y	Net profit	Loan and Advance	Ratio
2005/06	0.30	128.81	0.23
2006/07	6.01	349.74	1.72
2007/08	12.01	701.89	1.71
2008/09	24.44	1073.02	2.28
2009/10	48.31	1998.91	2.42
		Mean	1.67%
		S.D.	0.78
		C.V.	46.71%

Source: Annual Reports.

Table 4.11 exhibits the return on loan and advance ratio of Himchuli Bikas Bank Limited. It is in fluctuating trend. The ratios are 0.23%, %, 1.72%, 1.71%, 2.28% and 2.42% respectively during the five years study period. The ratio is high in F.Y. 2009/10 i.e. 2.42%, which indicates that the bank has been able to earn more return on its loan and advance. The ratio is lowest in F.Y. 2005/06 i.e.0.23%. The mean ratio of the bank is 1.67%. As a whole, observed ratio reflects the bank has been able to earn satisfactory return on its loan and advance due to decrease in non-performing loans. Standard deviation of variation of Himchuli Bikas Bank Limited is 0.78 with C.V. 46.71%. From the consistency stand point; Himchuli Bikas Bank Limited has 53.29% consistency in this ratio.

Figure No: 4.9

Return on Loan and Advance Ratio

Above figure shows that the return on loan and advance ratio of Himchuli Bikas Bank Limited has in increasing. The ratio has highly increased in F.Y.2006/07 . Thereafter the ratio has constant. After third year the ratio slightly increased.This indicates that the bank has to perform varieties of activities related to loan and advance properly to increase this ratio. The ratio has seen lowest in first year of the bank operation.

3) Total Interest Earned To Total Working Fund Ratio:

This ratio reflects extend of the bank being successful in utilizing the total assets for generating high income as interest. It shows the earning capacity of a bank by mobilizing its working fund or total assets. Higher the ratio higher will be the earning power of the bank on its total assets and vice versa. This ratio is calculated by dividing total interest earned by total assets.

Table No: 4.12

Total Interest Earned to Total Working Fund Ratio (In million)

F/Y	Total Interest Earned	Total Working Fund	Ratio
2005/06	4.83	182.29	2.65
2006/07	25.78	459.74	5.61
2007/08	66.18	990.50	6.68
2008/09	117.35	1541.29	7.61
2009/10	255.80	2818.33	9.08
		Mean	6.33%
		S.D.	2.16
		C.V.	34.12%

Source: Annual Reports.

Table 4.12 presents the total interest earned to total assets ratio during the five years study period starting from 2005/06 to 2009/10. The ratio is 2.65%, 5.61%, 6.68%, 7.61% and 9.08% respectively. The ratio has highly increasing trend for the period. The mean ratio of the Himchuli Bikas Bank Limited is 6.33%. This reveals that the bank has high earning power and interest earning to total assets has seen satisfactory during the study period. Standard deviation of the ratio is found 2.16 with C.V. 34.12%. From the consistency stand point the Himchuli Bikas Bank Limited has 65.88% consistency in this ratio. It can be concluded that the Himchuli Bikas Bank Limited is highly efficient in mobilizing its assets in income generating areas.

Figure No: 4.10

Total Interest Earned to Total Working Fund Ratio

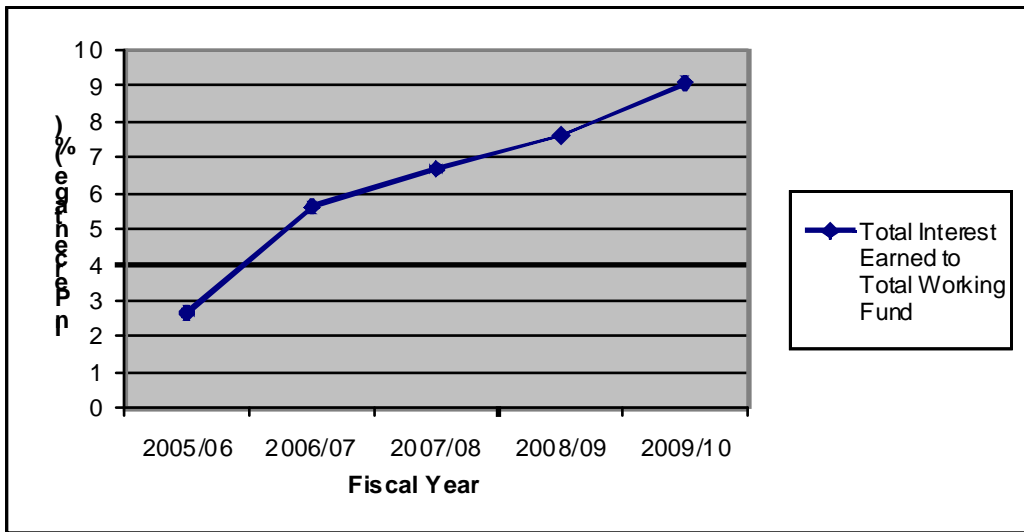


Figure 4.10 exhibits the total interest earned to total assets ratio of the Himchuli Bikas Bank Limited during five years study period. Above figure clearly reflects the earning power of the bank with respect to total assets which is in highly increasing trends. The ratio has seen highest in F.Y. 20091/0 i.e. 9.08% and lowest in F.Y. 2005/06 i.e. 2.65%. That means ratio is in increasing trend.

4) Total Interest Paid to Total Working Fund Ratio:

This ratio reflects the percentage of interest paid against total working fund or total assets. Interest is paid to the depositors as well as bondholders of the bank. Higher the ratio higher will be the expenses on total assets or total working fund and vice versa. This ratio is obtained through the total interest paid divided by total working fund that is shown below:

Table No: 4.13

Total Interest Paid to Total Working Fund Ratio (In million)

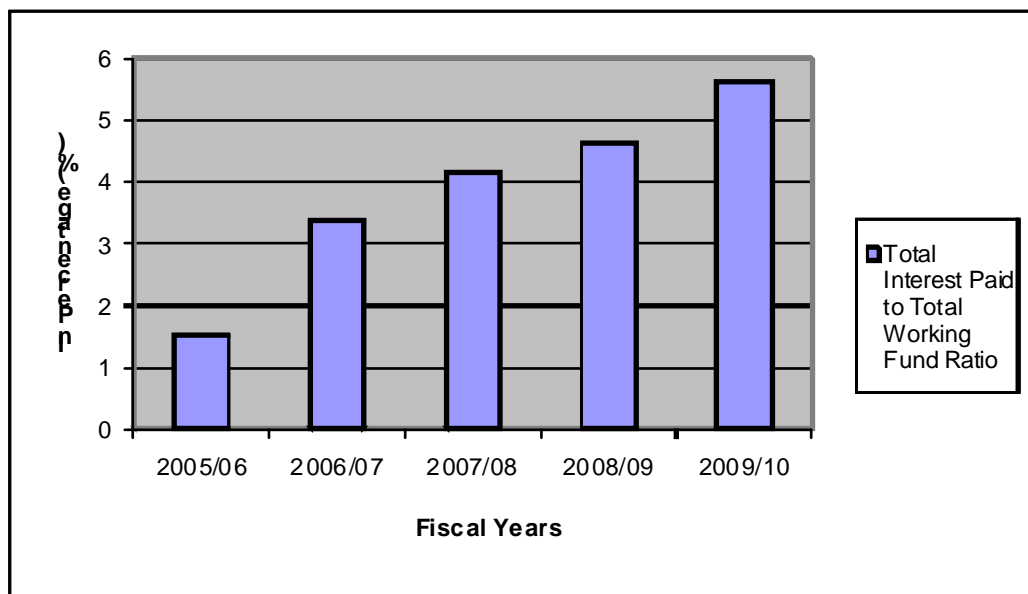
F/Y	Total Interest Paid	Total Working Fund	Ratio
2005/06	2.78	182.29	1.53
2006/07	15.50	459.74	3.37
2007/08	41.10	990.50	4.15
2008/09	71.37	1541.29	4.63
2009/10	158.98	2818.33	5.64
		Mean	3.86%
		S.D.	1.38
		C.V.	35.75%

Source: Annual Reports.

This table 4.13 presents the total interest paid to working fund ratio of the Himchuli Bikas Bank Limited during the five years study period. The ratio has seen in increasing trends. It is highest in F.Y. 2009/10 i.e.5.64% and lowest in F.Y. 2005/06 i.e. 1.53%. This reveals that the bank has paid maximum amount as interest on working fund in F.Y. 2009/10. The average ratio is 3.86%, which indicates the Himchuli Bikas Bank Limited paid highest amount of interest on total working fund during the study period. And the ratio is increasing every year, it is not constant. Standard deviation and coefficient of variation are 1.38 and 35.75% respectively.

Figure No: 4.11

Total Interest Paid to Total Working Fund Ratio



The above figure exhibits the total interest paid to total working fund ratio. The ratio is highest in final year 2009/10 which indicates that the Himchuli Bikas Bank Limited has paid high amount of interest on total working fund. In overall, Himchuli Bikas Bank Limited has paid reasonable amount of interest.

4.1.3.4 Risk ratio:

The term risk is the chance that actual outcome from the investment will differ from the expected outcomes. Investment always carries some degree of risk. The possibility of risk makes bank's investment a challenging task. Higher the risk, higher will be the return. This statement clarifies the risk involves investment. The bank will get highest return if it being able to accept high risk on its investment. So, bank has to accept and manage high risk to get higher profit from its investment. Some ratios related to risk are calculated below:

1) Credit Risk Ratio:

The credit risk ratio measures the risk behind the investment on loan and advance. Actually, the proportion of non-performing loans or assets shows the credit risk ratio in total loan and advance. While making investment decision banks should examine the credit risk ratio involve in the project. Credit risk ratio is calculated buy dividing total loan and advance by total assets.

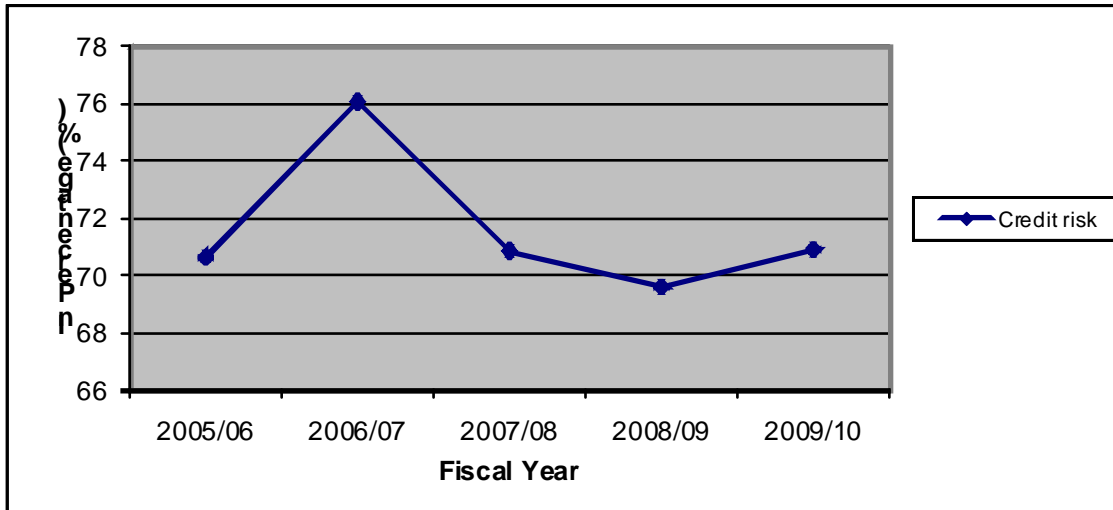
Table No: 4.14
Credit Risk Ratio **(In million)**

F/Y	Loan and Advance	Total Assets	Ratio (%)
2005/06	128.81	182.29	70.66
2006/07	349.74	459.74	76.07
2007/08	701.89	990.50	70.86
2008/09	1073.02	1541.29	69.62
2009/10	1998.91	2818.33	70.93
		Mean	71.63%
		S.D.	2.27
		C.V.	3.17%

Source: Annual Reports.

Table 4.14 presents the credit risk ratio of Himchuli Bikas Bank Limited, which has fluctuating trend through the study period i.e. 70.66%, 76.07%, 70.86%, 69.62% and 70.93% respectively. Himchuli Bikas Bank Limited has maintained the highest credit ratio of 76.07%, in F.Y. 2006/07 and lowest ratio of 69.62% in F.Y. 2008/09. In average Himchuli Bikas Bank Limited has the ratio of 71.63%. This table reflect that the Himchuli Bikas Bank Limited has been able to mobilized its total assets as loan and advance and the risk of that investment is in fluctuating trend that risk was highest in F.Y. 2006/07 but that has high return too. Coefficient of variation is 3.17% that indicates the Himchuli Bikas Bank Limited credit policy is stable and consistent.

Figure No: 4.12
Credit Risk Ratio



Above figure 4.12 exhibits the credit risk ratio of Himchuli Bikas Bank Limited during the five years study period. The ratio has increased in second year and reached up to 76.07%.

2) Capital Risk Ratio:

Capital risk determines the level of profit. High ratio reflects high return and high risk and vice versa. If bank choose to make high capital risk, its return on equity will be higher. This ratio is obtained by dividing share capital by risk-weighted assets.

Table No: 4.15
Capital Risk Ratio **(In million)**

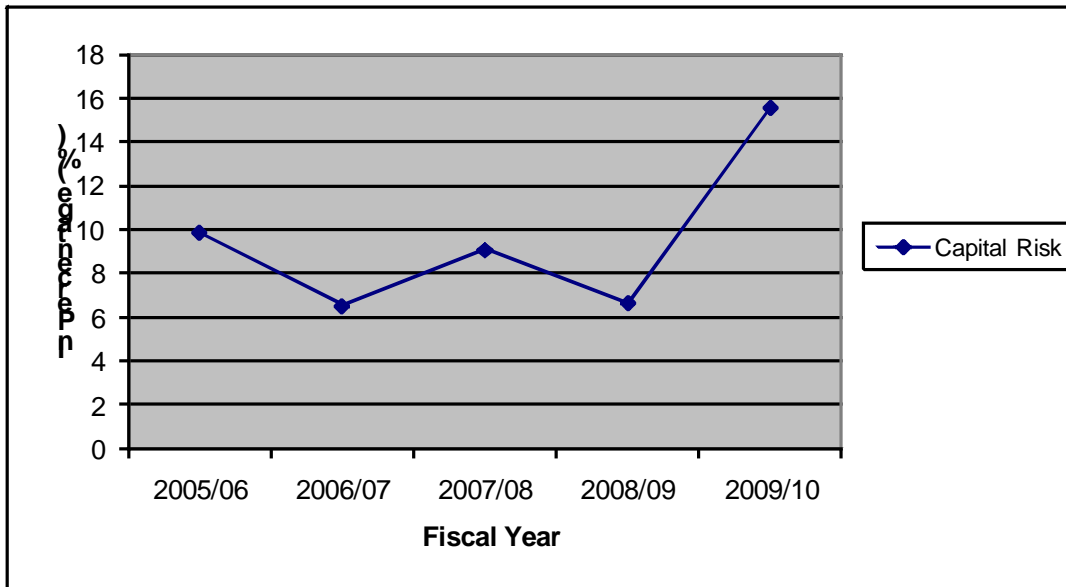
F/Y	Share Capital	Risk Weighted Assets	Ratio (%)
2005/06	18.00	182.29	9.87
2006/07	30.00	459.74	6.53
2007/08	90.00	990.50	9.09
2008/09	102.60	1541.29	6.66
2009/10	438.47	2818.33	15.56
		Mean	9.54%
		S.D.	3.28
		C.V.	34.38%

Source: Annual Reports.

The above table shows the capital risk ratio of Himchuli Bikas Bank Limited for the five years of the study period. The ratio of the bank is in decreasing trend every year, which indicates the risk of the bank is decreasing as well as the profit of the bank is also in decreasing trend. The highest ratio has seen in F.Y. 2009/10 i.e. 15.56%, which indicates that the bank has earned more return on its assets in this fiscal year and lowest ratio has seen in F.Y. 2006/07 i.e. 6.53%. The average ratio of the bank is 9.54%. The bank has maintained 9.54% of capital risk every year. Standard deviation of Himchuli Bikas Bank Limited 3.28 with C.V. of 34.38% . From the analysis, it is concluded that there is low degree of capital risk of Himchuli Bikas Bank Limited during the study period.

The table 4.15 has shown in figure 4.13

Figure No 4.13
Capital Risk Ratio



Above figure 4.13 exhibits the capital risk ratio of Himchuli Bikas Bank Limited during the study period of five years. This ratio of Himchuli Bikas Bank Limited has fluctuating trends. The highest capital risk ration is 15.56 in FY 2009/10.

4.1.3.5 Growth Ratio:

Growth ratio directly related to the fund mobilization or the utilization of the bank as loan and advance and other investment alternatives. Growth ratio measures the increasing and decreasing condition of related variables of the bank. This ratio represents that how the banks are maintaining their economic and financial position. Higher ratio indicates the better performance of the bank and lower ratio indicates the bad or average performance of the bank. This topic includes mainly three growth ratios, which are discussed below:

Table No 4.16
Growth Ratio of Total Deposit (In million)

Banks	Fiscal Years					Growth rate
	2005/06	2006/07	2007/08	2008/09	2009/10	
Himchuli Bikas Bank Limited	163.08	419.09	876.30	1300.79	2266.87	93.09%

Source: Annual Reports

Figure No: 4.14
Growth Ratio of Total Deposit

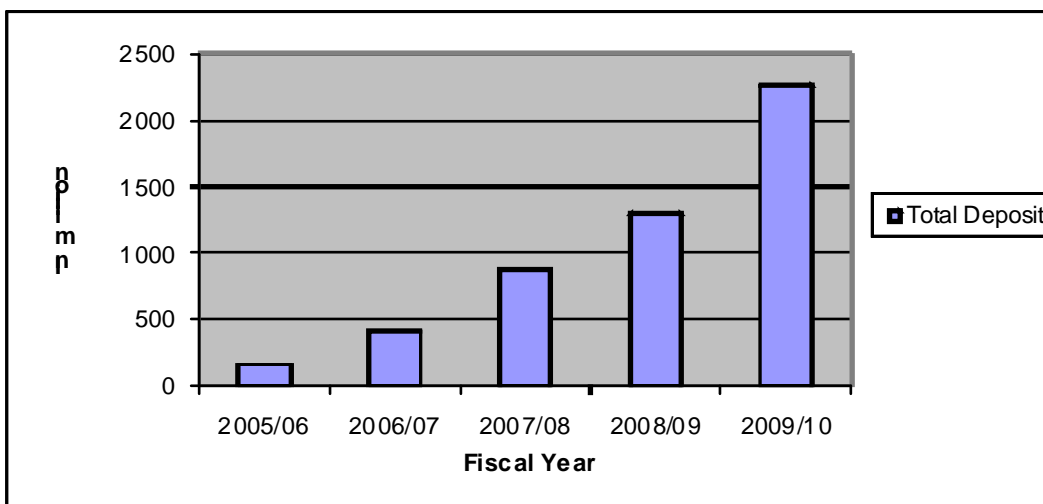


Table No: 4.17
Growth Ratio of Loan and Advance (In million)

Banks	Fiscal Years					Growth rate
	2005/06	2006/07	2007/08	2008/09	2009/10	
Himchuli Bikas Bank Limited	128.81	349.74	701.89	1073.02	1998.91	98.48%

Source: Annual Reports

Figure No: 4.15
Growth Ratio of Loan and Advance

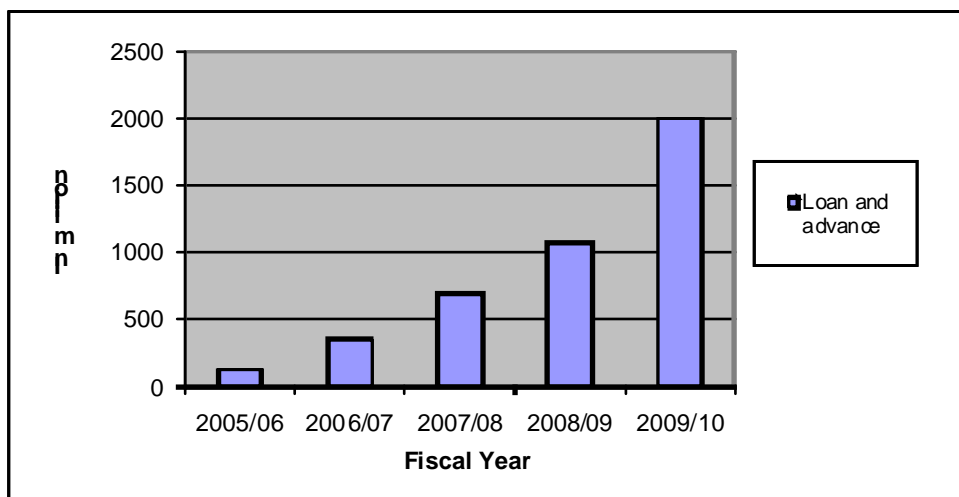


Table No: 4.18
Growth Ratio of Net Profit (In million)

Banks	Fiscal Years	Growth rate

	2005/06	2006/07	2007/08	2008/09	2009/10	256.23 %
	6					
Himchuli Bikas Bank Limited	0.30	6.01	12.01	24.44	48.31	

Source: Annual Reports

Figure No: 4.16
Growth rate of Net Profit

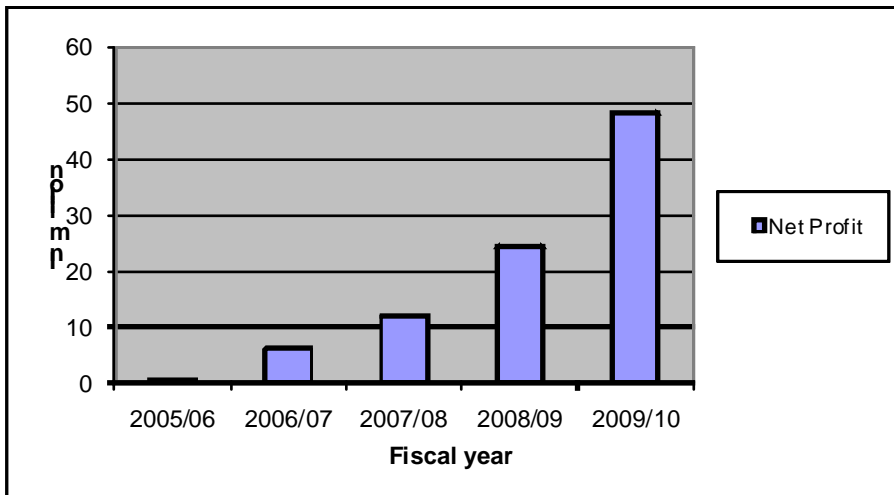


Table No 4.16 exhibits the growth ratio of total deposit during the five ears study period of Himchuli Bikas Bank Limited bank limited. This analysis reflects that the growth rate of total deposit is highly increasing over the years having net growth rate of 93.09%. This growth rate of total deposit is considered as the excellence growth rate of total deposit of Himchuli Bikas Bank Limited Bank Ltd. The main cause of increase in deposit collection amount in previous years is good awareness to banking transaction in public, increase of its branches, uses of aggressive marketing strategy as well as lack of alternative investment opportunities.

Likewise, the table no: 4.17 exhibit the growth rate of total loan and advance of Himchuli Bikas Bank Limited. The growth rate of total loan and advance of the bank is 98.48%, which indicated that he bank is successful to utilize its total fund as loan and advance in different sectors.

Finally, the table no: 4.18 show the growth rate of net profit of the Himchuli Bikas Bank Limited bank ltd. Over the five years study period. This figure shows that the bank has earn profit every year and the amount of profit is increasing every year. In average, net profit rate of the bank is 256.23%. This indicates that the bank is being successful to earn profit as well as goodwill in this competitive banking environment. Growth percentage of net profit of the bank has highly decreased in the final year of the study as compare to previous year.

4.1.4. Statistical Analysis

Under this chapter some statistical tools like correlation coefficient between different variables and trend analysis of variables related to investment are used to obtain the objectives of the study.

4.1.4.1. Analysis of Correlation Coefficient between Different Variables

This study has analysed the correlation coefficient between Deposit and Loan and Advance, Investment and Loan and Advance, Deposit and Investment and Investment and Net profit. The correlation coefficient measures the relationship between two or more variables. It also measures the extent to which one variable affect the other one. The correlation coefficient always lies in between +1 to -1. The +1 coefficient indicates that the variables are perfectly positively correlated and -1 coefficient indicates that the variables are perfectly negatively correlated. And if the correlation coefficient is 0 it means the variables are not related to each other. The positive correlation coefficient indicates the increase in value of one variable leads to increase in value of other variables and negative correlation indicates the increase in value of one variable leads to decrease in value of other variable. The numbers indicates the degree of correlation between the variables.

1) Coefficient of Correlation between Deposit and Loan and Advance:

In order to find out whether the loan and advance disbursement has been significantly related with deposit collection or not, the correlation between these two variables, Deposit and Loan and Advance are calculated. In this analysis here, the deposit is considered as the independent variable (x) and Loan and Advance is dependent variable (y). The table shows the relationship between X and Y variables. (Apeンドix-4)

Table No: 4.19

Correlation coefficient between Deposit and Loan and Advance

Correlation coefficient (r)	P.E.	6*PE	Remarks
0.9991	0.0005427	0.003871	$r > 6*PE.r.$

As shown in the table, the correlation coefficient (r) between deposit and loan and advance of Himchuli Bikas Bank Limited is 0.99893 and probable error times 6 is found 0.00387105As $r > 6*P.E.r$ and r is positive. It clarifies that there is positive relationship between the total deposit and loan and advance during the study period.

2) Coefficient of correlation between Loan & Advance and Net profit

The correlation between loan and advance and net profit measures the degree of relationship between these two variables. Here the loan and advance is considered as the dependent variable (X) and net profit is considered as the independent variable (Y). In this analysis, it is justify that how the increase in loan and advance impact the net profit.

Table No: 4.20

Correlation coefficient between Loan & Advance and Net profit

Correlation Coefficient (r)	P.E.	6*P.E.r.	Remarks
0.99742	0.00155	0.009327	$r > 6P.E.r.$

Source: Annual Reports.

The table no. 4.20 shows the correlation coefficient between loan and advance and net profit of Himchuli Bikas Bank Limited is 0.99742. Probable E error and 6*P.E. are 00.00155 and 0.009327 respectively. As $r > 6P.E.r.$ this reflects that the coefficient of correlation between loan and advance and net profit is significant and r is positive so there is positive correlation between loan & advance and net profit of the company.

3) Coefficient of Correlation between Deposit and Net Profit.

The coefficient of correlation between deposit and net profit measures the degree of relationship between two variable i.e. independent variables X (deposit) and dependent variable Y (net profit). This calculation shows the significance of the relationship between deposit and net profit.

Table No: 4.21

Correlation coefficient between Deposit and Net Profit

Correlation Coefficient (r)	P.E.	6*P.E.r.	Remarks
0.9943	0.00343	0.02057	r >6*PE.r.

Source: Annual Reports.

As shown in table no. 4.21, the correlation coefficient (r) between deposit and net profit of Himchuli Bikas Bank Limited Bank Limited is 0.9943, P.E. is 0.00343 and probable error 6 times is found 0.02057. As $r > 6*PE.r.$ and r is positive which clarifies that there is positive correlation between deposit and net profit during the study period. The coefficient deposit and net profit is significant.

4.1.4.2. Least Square Trend (Regression) Analysis:

Regression is the statistical tool, which is used to determine the statistical relationship between two or more variables and to make prediction of one variable on the basis of other variables. The trend analysis exhibits the behaviour of given variables in series of time. Development banks don't carry consistency over all the period and several factors cause the increase or decrease in the volume of various items of banks operation. Under this study we shall measure the trend analysis of deposit, loan and advance and net profit of Himchuli Bikas Bank Limited.

1) Trend Analysis of Total Deposit

Deposit is one of the very sensitive liabilities of development banks. The following table shows the trend values of total deposit and projection of total deposit of Himchuli Bikas Bank Limited up to the F.Y. 2014/15. The calculation of trend forecasted has been presented in appendix- 4.

Table No: 4.22

Trend Analysis of Total Deposit (in million)

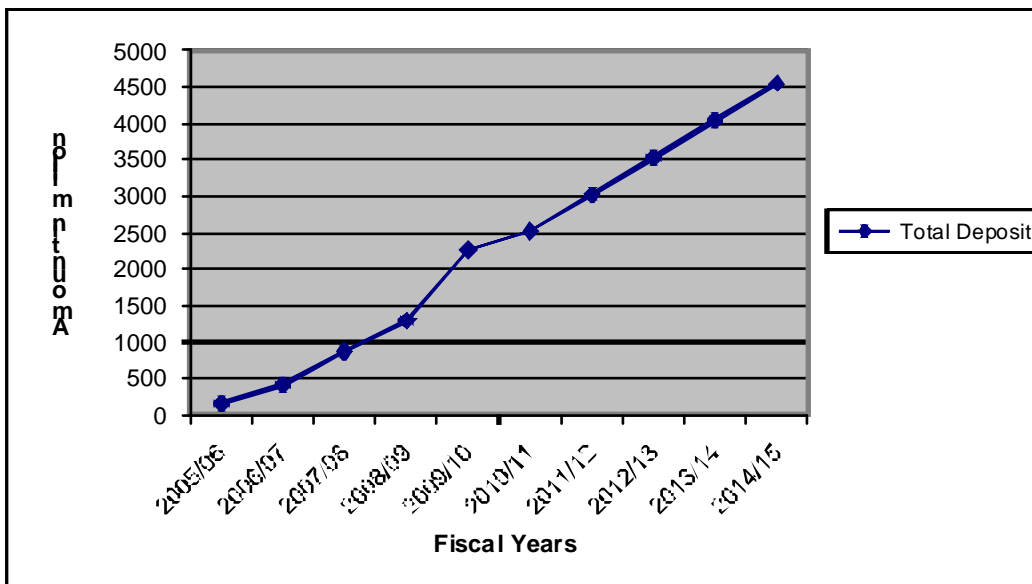
F/Y	Trend Value of Total Deposit
2005/06	163.08

2006/07	419.09
2007/08	876.30
2008/09	1,300.79
2009/10	2,266.87
2010/11	2,523.01
2011/12	3,028.94
2012/13	3,534.87
2013/14	4,040.79
2014/15	4,546.72

The above table shows that the deposit collection by the bank is in increasing trend.

The trend values of total deposit of the bank are fitted in the trend lines given in diagram 4.17 below.

Figure No: 4.17
Trend of Total Deposit



The figure illustrates that the deposit amount of Himchuli Bikas Bank Limited for coming five years based on previous data. The trend of total deposit of the bank is increasing. If other things remain same, the deposit of Himchuli Bikas Bank Limited is predicted to be Rs.4,546.72 millions by the end of F.Y. 2014/15. The reason of increasing trend of total deposit is rise in remittances as well as the lack of alternative opportunities created by the current political scenario.

2) Trend Analysis of Loan and Advance

The following table shows the projection of total loan and advance of Himchuli Bikas Bank Limited up to 2014/15. The calculation of trend forecasted has been presented in the following table.

Table No: 4.23

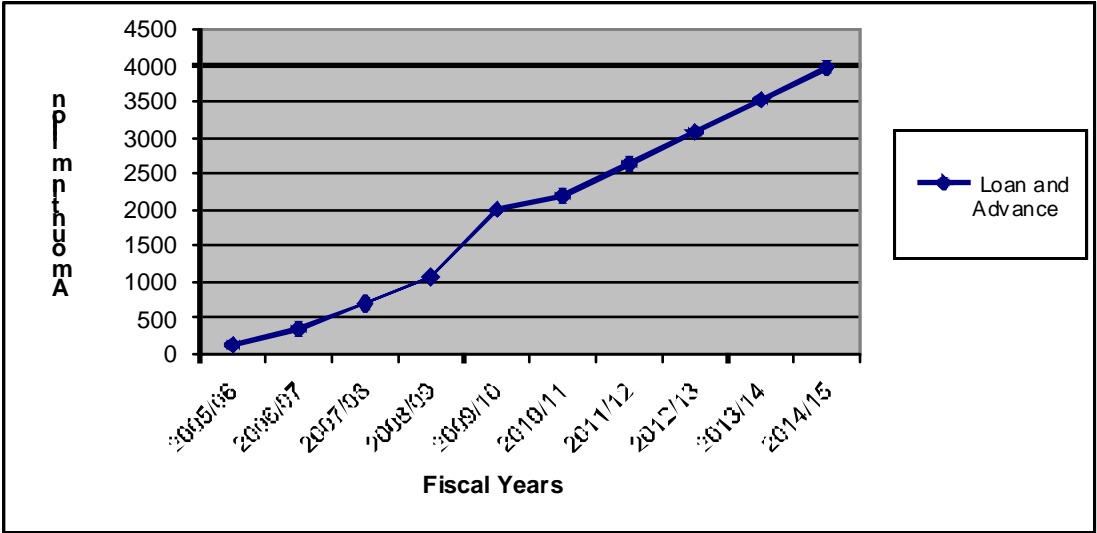
Trend Analysis of Total Loan and Advance (in million)

F/Y	Trend Value of Loan and Advance
2005/06	128.81
2006/07	349.74
2007/08	701.89
2008/09	1,073.02
2009/10	1,998.91
2010/11	2,189.52
2011/12	2,635.87
2012/13	3,082.21
2013/14	3,528.56

2014/15	3,974.91
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As presented in table no. 4.23, it is found clear that the loan and advance of Himchuli Bikas Bank Limited which is in increasing trend. If other things remain unchanged the loan and advance of Himchuli Bikas Bank Limited will reach up to Rs. 3,974.91 millions in F.Y.2014/15. The calculated trend values of total loan and advance of Himchuli Bikas Bank Limited are plotted in the trend line that is shown in the following figure.

Figure No: 4.18
Trend of Total Loan and Advance



The figure no: 4.18 illustrates that the trend of loan and advance of Himchuli Bikas Bank Limited for upcoming five years. Based on past data, it is seen from the figure that loan and advance of the bank will increase in five years. Assuming the other things will remain constant, the loan and advance of Himchuli Bikas Bank Limited at the end of F.Y. 2014/15 is predicted to be Rs. 3,974.91 millions. This means the bank has used its deposit as secured loan and advance. This also reflects that the bank is being able to earn more profit by granting loan and advance to its customers.

4) Trend Analysis of Net Profit

The following table shows the trend values of net profit of Himchuli Bikas Bank Limited has been calculated for five years from F.Y. 2005/06 to 2009/10 and the forecast for next five years i.e. from F.Y. 2010/11 to 2014/15 has been made. The calculation of trend forecast has been presented in appendix- 5

Table No: 4.24

Trend Analysis of Net Profit (in million)

F/Y	Trend Value of Net Profit
2005/06	0.30
2006/07	6.01
2007/08	12.01
2008/09	24.44
2009/10	48.31
2010/11	52.55
2011/12	63.99
2012/13	75.44
2013/14	86.88
2014/15	98.33

The above table shows the net profit of Himchuli Bikas Bank Limited is in increasing trend. If other things remain same, the net profit of the bank will reach up to Rs.98.33 millions in F.Y. 2014/15. The trend values of net profit of the bank are plotted in the trend lines given in diagram 4.19 below.

Figure No: 4.19
Trend of Net Profit

The trend line of net profit shows that the net profit of the Himchuli Bikas Bank Limited is in increasing trend for the coming years.

4.2 Major Findings

The major findings of the study Deposit and Lending Status of Himchuli Bikas Bank Limited are as follows:

- J The trend of total deposit collection is increasing during the study period of five years starting from F/Y 2005/06 to F/Y 2009/10. The highest amount of deposit collection during the fiscal year is Rs. in F/Y 2009/10 is 2,266.87 millions and the lowest amount has seen in F/Y 2005/06 i.e. Rs. 163.08 millions. The mean amount of deposit collection of the study period is Rs.1005.23 millions.
- J Deposit composition of Himchuli Bikas Bank Limited consist interest free deposit (current deposit, margin deposit and other deposit) and interest bearing deposits (saving deposit, fixed deposit and call deposit). Interest bearing deposit of Himchuli Bikas Bank Limited has covered major portion of total deposit except FY 2007/08. The interest free deposit contributes less to the total deposit volume.
- J The contribution of saving deposit has observed higher than other deposit during the study period, which reflects the better symbol of the bank's survival in the competitive market.
- J The total investment composition of Himchuli Bikas Bank Limited from F.Y. 2005/06 to F.Y 2009/10 has been made on company's shares, and other

investment. The analysis data indicates that percentage it has been invested its mostly on companies share. This bank has not invested its fund on government securities.

- J Liquidity position of the bank is satisfactory during the study period. The liquidity position of the bank is measured by analysing total liquid assets to total deposit, NRB balance to total deposit and Cash at vault to total deposit ratios. All these ratios are in fluctuating trend. As a whole, Himchuli Bikas Bank Limited has been able to maintain its liquidity position well. These ratios of the bank show Himchuli Bikas Bank Limited's readiness to meet its customer's daily cash requirement. On the contrary, a high liquidity also indicates the high cost of the bank to mobilize its assets.
- J Loan and advance to total deposit ratio is fluctuating. This ratio reflects that the bank is successful in mobilizing its collected deposit as loan and advance to costumers.
- J There is a very low non-performing loan of the banks which indicate that bank is very safe side regarding the bad loan which is the great success of the bank. Other hand bank is operating only 5 years, this portion will be increase when the bank invest more amount on loans and advance.
- J Similarly loan and advance to total assets ratio shows the bank is able to mobilize its fund through the lending activities.
- J Profit is the key factor of any organization. Without profit organization can't perform their work well. Return on total assets ratio of the bank has fluctuated & are in increasing trends.
- J The analysis showed that Himchuli Bikas Bank Limited has achieved good result during the research period. Through the analysis it is found that the bank has been able to earn higher profit by using its total assets with lower degree of risk.

-) Return on loan and advance ratio of the bank is in increasing trend from last three years, which reflects that Himchuli Bikas Bank Limited has to use effective lending policy for further income generation. But the average ratio shows that return on loan and advance is maintained well by the bank.
-) Total interest earned to total working fund ratio has increased on study period. Himchuli Bikas Bank Limited is being more successful in utilizing resources for earning interest on investment. The standard deviation and coefficient of variation presents that there is satisfactory consistent between this ratio.
-) Total interest earned to total assets ratio measures the bank's ability to earn interest from the effective utilization of its working fund. The analysis reveals that the ratio is not fluctuating and is in increasing trends. The standard deviation and C.V. indicates that the result is satisfactory.
-) Interest paid to total working fund ratio of Himchuli Bikas Bank Limited is also in increasing trend. This indicates that Himchuli Bikas Bank Limited has paid more interest to their customers or depositors due to increasing trends of interest rate on deposit.
-) The credit risk between behind making investment or granting loan and advance is measured by credit risk ratio. The mean credit risk ratio of Himchuli Bikas Bank Limited is 71.63% which is higher ratio. From this analysis it can be concluded that Himchuli Bikas Bank Limited has in higher side of credit risk.
-) The capital risk of the bank is in lower side, in average it maintain 9.54% capital risk.
-) The analysis of growth ratio of total deposit, loan and advance and net profit of Himchuli Bikas Bank Limited during the study period from F/Y 2005/06 to 2009/10 shows that the total deposit of the bank is in increasing trend over the year having growth rate of 91.09% which is very high growth rate. It shows that bank is in developing phase. Similarly, total loan and advance and of the bank is

also in increasing trend over the study period with growth rate of 94.48%. And the net profit of the bank is also in increasing trend over the study period having net profit growth rate of 256.23% which is highly appreciate.

- J The co-efficient of correlation (r) analysis between deposit and loan and advance is positive. Thus there is very strong positive correlation between deposit and loan and advance during the study period. There exists significant relationship between two variables.
- J The correlation analysis shows that the correlation coefficient (r) between loan and advance and net profit is positive. There is significant relationship between these two variables.
- J The correlation analysis shows that the correlation coefficient (r) between deposit and net profit of Himchuli Bikas Bank Limited is found perfectly positive. So, the coefficient of correlation between deposit and net profit is significant. As per 'r' is positive and near to 1 and so it can be concluded that there is high degree of association between deposit and net profit and both of them are directly related.
- J Trend value of total deposit is in increasing trend. The total deposit of the bank is predicted to be Rs. 4,546.72 millions in the F/Y 2014/15.
- J The projection for next five years of loan and advance of the bank is in increasing trend. The total loan and advance of Himchuli Bikas Bank Limited will come up to 3,974.91 millions in F/Y 2014/15. This means the bank will successfully utilize its fund as loan and advance in fore coming years.
- J The net profit of Himchuli Bikas Bank Limited is in increasing trend. The net profit of the bank is predicted to be or increased up to Rs.98.33 millions in F/Y 2014/15

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter includes the three aspects of the study i.e. summary, conclusion and recommendations. The first part reflects the summery of the whole study, second part makes concluding remarks upon them and lastly, it draws some useful suggestions and recommendations based on findings.

5.1 Summary

Economic development of the country largely depends upon the development of financial sectors. Without development of financial sectors it is impossible to develop the country well. Development of trade and commerce is the foundation of economic development. Economic development changes the life style of the people live within the country by providing employment, utilizing skill for generating income, mobilizing resources in productive sectors etc. Thus, development of banking sectors is considered as the backbone of the economic development.

The study was conducted with general objectives to evaluate the deposit and lending status of Himchuli Bikas Bank Limited over the five years period starting from F/Y 2005/06 to F/Y 2009/10 designed within the frame work of case study, descriptive research design and analysis has been made on the same way. For the analysis purpose, Himchuli Bikas Bank Limited has taken as study unit with applying convenience-sampling techniques out of 83 development banks. The required data for the analysis are collected from the primary and secondary sources. The data mainly obtained from the annual reports, financial statements, web sites etc. To analyse and interpret the data and information, financial and statistical tools have been employed. Under financial tools liquidity ratios, assets management ratios, profitability ratios, risk ratios, growth ratios are calculated and under statistical tools mean, standard deviation, covariance and correlation coefficient and regression analysis or trend analysis have been done to get result.

Deposit is the lifeblood of the every bank. Banks collect deposit from public through different accounts i.e. saving account, current account, and fixed account, call deposit and margin account. Deposit is the amount that customers have put on the banks to get security against possible loss and to generate more money from the certain amount of money. This fund helps the banks to grow up. The utilization of the bank's collected deposit indicates the effectiveness of the management. From analyse, the deposit and investment pattern of bank has observed that there is slightly fluctuating trend over the study period. In addition, the investment composition of Himchuli Bikas Bank Limited reveals that it has mainly focused on investment on shares of other companies. Likewise total amount of loan disbursement has been made for different purpose.

In the analysis of financial ratios, the liquidity ratios which included liquid assets to total deposit ratio, cash at vault to total deposit ratio and NRB balance to total deposit ratio showed that the bank has good liquidity position it has strictly followed the NRB directives. Liquidity position of the bank may effect by external as well as internal factors. Such factors may be supply and demand position of loan and advance, internal rates, NRB directives, saving, investment, lending policies, capability of management, strategic planning and fund flow situation etc. Likewise assets management ratios basically loan and advance to total deposit ratio, total investment to total deposit ratio, NPL to total loan and advance ratio and loan and advance to total assets ratio were calculated; loan and advance to total deposit ratio showed that the bank's ability to mobilized its deposits to earn profit by giving funds to outsiders in the form of loan and advances. The non-performing loan and advance ratio has very low than minimum standard. And profitability ratios of the bank is also calculated like; return on total assets, return on loan and advance, total interest earned to total investment, total interest earned to total assets and total interest paid to total working fund ratio. Return on total assets ratio and return on loan and advance ratios are in fluctuating trend and that presents that the Himchuli Bikas Bank Limited hasn't mobilize its resources effectively as it can but it is at satisfactory level. Similarly, total interest earned to total working fund ratio of Himchuli Bikas Bank Limited has well earning power of its total working fund (total assets) total interest paid to total working fund ratio of the bank is in increasing trend that means the bank has paid more amount as interest during the final year of the study but in other year of this ratio is in fluctuating trend. Due to increasing trend of interest on deposit increase the interest paid amount.

To evaluate risk position of the bank risk ratios are calculated. In risk ratios, the highest risk of Himchuli Bikas Bank Limited is in credit risk. From the viewpoint of growth ratio, Himchuli Bikas Bank Limited has highest growth ratio of total loan and advance as compare to other growth ratios of total deposit and net profit. There exhibits a strong positive correlation between deposit and loan and advance And there is positive correlation between deposit and loan and advance, deposit and net profit and loan and advance and net profit. Lastly, the calculating trend values of total deposit, loan and advance and net profit, if other things remain same, the projection for next five years is in increasing trend.

5.2 Conclusion:

Based on findings of the study following conclusion have been drawn.

5.2.1 The total deposit collection of the bank is increasing during the study period of five years.

5.2.2 The deposit volume of the Himchuli Bikas Bank Limited during the study period has been in increased at higher rate in the study period. This shows that the bank is putting additional effort and in aggressively caught up in deposit collection. It can also be observed that the deposit composition of Himchuli Bikas Bank Limited consists interest bearing and interest free deposit and interest bearing s deposit takes more portion of the total deposit which consists saving deposit, fixed deposit and call deposit.

5.2.3 The investment compositions of the bank during the study period are companies' shares and other investment. Himchuli Bikas Bank Limited has not invested its collected funds in Nepal Government Securities, debenture and bonds.

5.2.4 The liquidity ratios of the bank show that the liquidity position of the bank is satisfactory.

5.2.5 From the analysis of assets management ratio, nearly 83% of its total deposit has converted into loan and advance which shows that the banks effectiveness in mobilizing its total for income generating purpose. Similarly, total investment to total deposit ratio of the bank is maintained well. The capacity to mobilize its total deposit as investment of the bank is satisfactory level. The NPL to total loan and advance ratio is very low which is the show that management of the bank had made appropriate lending / credit policies to manage this NPL and increase the quality of assets. Loan and advance to total working fund ratio of the bank is higher which indicates the bank's success to utilize its total working fund as loan and advance.

5.2.6 Through the analysis of profitability ratio, return on total assets and return on loan and advance ratios is in fluctuating trend that shows the ability of the management to utilize bank's assets to generate profit. The bank has earn more interest during the study period with the effective utilization of its outside assets and total working fund but it has paid maximum amount of interest to total working fund/total assets.

5.2.7 From the analysis of risk ratio, it can be concluded that the credit risk of the bank is higher because the bank hasn't maintained sound lending/credit policy. Higher the credit risk means higher the possibility of loan and advance to go into default.

5.2.8 The growth ratio of total deposit, loan and advance and net profit has increased.

5.2.9 The correlation analysis shows that the there is positive correlation between deposit and loan and advance, loan and advance and net profit, deposit and Net profit. Whereas the correlation between deposit and loan and advance and deposit and net profit and loans and advance and net profit is significant.

5.2.10 The trend /regression analysis finds that the projection of deposit, loan and advance and net profit for next five years is increasing continuously that means there is good possibility to be in lighted in the field of banking.

5.3 Recommendations

The following recommendations are made based on the conclusion regarding deposit collection and investment pattern of the Himchuli Bikas Bank Limited.

5.3.1 The total deposit volume consists of interest bearing deposit and interest free deposits, which is in increasing trend. This means the bank has been able to lure the customers of competitive market for deposit. the bank need to update customer's demand and arrange for special schemes, facilities and services in order to increase the volume of deposit collection considerably by synchronizing the NRB directives as well.

5.3.1 While analysing deposit pattern of the bank, it is found that the maximum amount of deposit is collected from the saving account and it is in increasing trend which is good for the bank as well as personnel. So, the bank is suggested to increase the weight of saving deposit without ignoring the other types of deposits.

5.3.2 The volume of fixed deposit is also in increasing order So, the bank is suggested to increase in the percentage of fixed deposit, as it helps the bank to invest its fund for long-term purpose to generate more income.

5.3.3 The deposit volume of current deposit is decreased. Therefore, the bank should apply the attractive policy in order to increase more fund through current deposit.

5.3.5 The volume of other deposit has seen increased every year. So, the bank is also suggested to apply new and attractive policies to raise the deposit volume through the other deposit.

5.3.6 To get the stated/ targeted objectives of the bank, bank should make and use the better investment policy. Investment on those securities issued by government i.e. treasury bills, govt. bonds and national saving bonds which are free of risk and highly liquid in nature but such securities yield lower rate of interest at stated maturity due to lower risk. So, the bank is advised to give importance to invest on govt. securities for safety and diversification of investment. But if bank has to earn more return by the investment portfolio, it should invest its fund on other investment alternatives like invested on co. shares, bonds and debentures etc. but bank should consider the risk.

5.3.7 To maintain the good liquidity position of the bank it has to flow some rules of NRB as well as try to keep fund as liquid assets to met the current obligation.

5.3.8 As liquidity position of the bank, liquidity ratio is found to be high in liquids assets to total deposit; the bank is suggested to look after new areas of investment and lending that helps in minimizing the idle fund of the bank which helps in profitability.

5.3.9 The assets management ratio i.e. loan and advance to total deposit is in decreasing trend and investment to total deposit is increasing trend from the last three years. The bank is advised to examine carefully the portfolio management strategies to maintain the equilibrium in the portfolio of loan and advance and investment and make continuous effort to grab new, competitive and profitable opportunity to maximize profit.

5.3.10 Bank has utilized the major portion of its collected deposit as loan and advance as compare to investment. As bank is diverting major portion of its total deposit in loan and advance during the study period, there is high probability of loan default in future. So, bank is advice to maintain up to international standards and increase the quality of assets. Beside bank management also has to form loan and advance recovery committee for credit appraisals and follow up measures.

5.3.11 The proportion of non-performing loan to total loan and advance has been decreased very low level which is good for the bank. The bank is advised to give continuous attention in decreasing such types of loans.

5.3.12 Loan and advances to the total working fund ratio of the bank is higher. So, the bank is suggested to maintain the ratio stable and consistent.

5.3.13 The main objective of every bank is to earn high profit. A bank earns maximum profit, if it mobilizes its fund properly. Therefore, the bank is suggested to use its total assets in productive sector effectively in order to increase the profit.

5.3.14 Interest income from total outside assets and working fund ratio of the bank is in increasing order. So, the bank is suggested to continue mobilize its total assets in such sectors where earning will be high with lower level of risk.

5.3.15 Total interest paid to total working fund ratio of the bank reveals that the bank interest-paying ratio is fluctuating trend. Therefore, the bank should take off their

hands in utilizing their total assets towards non-productive sector and select the productive sector only.

5.3.16 A bank has to have an idea of the level of risk that one needs to bear while investing its funds. The highest risk of Himchuli Bikas Bank Limited is in credit risk. Thus, it is recommended that bank should minimize the credit risk to achieve the high profit.

5.3.17 Growth rate of the total deposit, loan and advances and net profit are higher level but growth rate of net profit has highly fluctuated. For strengthening the financial position and economic condition, the bank is suggested to keep stable and consistency growth ratio of net profit.

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Appendix No:2
Combined Balance Sheet

Himchuli Bikas Bank Limited, Head office: Pokhara-9, Mahendrapool, Kaski

Balance Sheet		Fiscal Year			
		2005-06	2006-07	2007-08	2008-09
		2062/63	2063/64	2064/65	2065/66
	Authorized Capital	50,000,000.00	50,000,000.00	200,000,000.00	500,000,000.00
	Issued capital	30,000,000.00	30,000,000.00	90,000,000.00	420,000,000.00
	Capital and Liabilities				
S.no	Particulars	Amt	Amt	Amt	Amt
1	Paid up capital	18,000,000.00	30,000,000.00	90,000,000.00	102,600,000.00
2	Reserve and surplus	296,645.11	6,308,750.64	4,583,180.76	31,780,000.00
3	Bond and debenture	0.00	0.00	0.00	
4	Borrowings	0.00	0.00	0.00	21,920,000.00
5	Deposit	163,079,502.19	419,090,667.31	876,297,111.33	1,300,780,000.00
6	Bills payable	0.00	0.00	0.00	
7	Dividend payable	0.00	0.00	13,263,157.89	97,000,000.00
8	Tax payable	0.00	0.00	952,417.69	2,510,000.00
9	Other liabilities	908,952.54	4,342,842.11	5,400,093.72	80,700,000.00
	Total	182,285,099.84	459,742,260.06	990,495,961.39	1,541,290,000.00
	Assets				
1	Cash Balance	4,894,423.25	6,281,645.50	7,797,109.30	55,780,000.00
2	Balance at NRB	7,771,829.02	20,876,623.94	55,106,848.26	62,870,000.00
3	Balance at other banks	32,212,026.88	71,913,261.57	172,149,481.65	303,650,000.00
4	Money at call	0.00	0.00	0.00	
5	Investment	0.00	0.00	43,630,000.00	18,630,000.00
6	Loan	128,806,637.65	349,739,770.14	701,890,187.16	1,073,020,000.00
7	Fixed assets	4,407,358.89	4,215,292.45	7,027,144.64	16,160,000.00
8	Non-banking assets	0.00	0.00	0.00	
9	Other assets	4,192,824.15	6,715,666.46	2,895,190.38	11,110,000.00
	Total	182,285,099.84	459,742,260.06	990,495,961.39	1,541,290,000.00
	Profit and loss account				
1	Interest Income	4,833,295.12	25,775,534.21	66,181,261.93	117,340,000.00
2	Interest Expenses	2,776,680.61	15,500,529.36	41,101,885.86	71,370,000.00
	Net Interest Income	2,056,614.51	10,275,004.85	25,079,376.07	45,970,000.00
1	Commission and discount	2,672,640.77	6,810,796.85	10,559,459.08	16,150,000.00
2	Other operating income	13,800.00	33,600.00	37,800.00	9,000.00
3	Foreign Exchange Gain/Loss (Net)	29,853.84	8,762.97	28,941.71	7,000.00
	Total Operating Income	4,772,909.12	17,128,164.67	35,705,576.86	62,290,000.00
1	Staff expenses	1,284,463.50	2,501,825.66	3,412,833.74	7,920,000.00
2	Other operating expenses	1,857,621.71	3,575,247.25	5,833,000.43	11,900,000.00
	Operating Profit before loan loss provision	1,630,823.91	11,051,091.76	26,459,742.69	42,470,000.00

1	Provision for Possible Losses	1,304,513.80	2,339,600.49	3,798,609.68	4,2
	Operating profit	326,310.11	8,711,491.27	22,661,133.01	38,23
1	Non operating income	0.00	442,124.55	(3,325,849.00)	11
2	Write Back of Provision for Possible Loss	0.00	0.00	0.00	
	Profit from regular activities	326,310.11	9,153,615.82	19,335,284.01	38,34
1	Extraordinary Income/Expenses (Net)	0.00	0.00	0.00	
	Profit before bonus and taxes	326,310.11	9,153,615.82	19,335,284.01	38,34
1	Provision for staff bonus	29,665.00	832,146.89	1,757,753.00	3,48
2	provision for tax		2,309,363.40	5,564,097.00	10,42
	Net profit	296,645.11	6,012,105.53	12,013,434.01	24,44

Appendix No:1
List of licensed Development Banks in Nepal
(As of Mid-October 2010)

S.No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. In Millions)
1	Nepal Industrial Development Corporation	1959/06/15	Durbar Marg, Kathmandu	415.8
2	Nepal Development Bank Ltd.	1999/01/31	Kamaladi, Kathmandu	320.0
3	Uddyam Development Bank Ltd.	1999/11/11	Tandi, Chitawan	50.0
4	Malika Development Bank Ltd.	1998/12/19	Dhangadhi, Kailali	204.2
5	Siddhartha Development Bank Ltd.	1998/08/20	Tinkune, Kathmandu	645.0
6	United Development Bank Ltd.	2002/03/16	Jeetpur, Bara	80.2
7	Manakamana Development Bank Ltd.	2001/06/19	Durbar Marg, Kathmandu	1000.0
8	Narayani Development Bank Ltd.	2001/10/17	Ratna Nagar, Chitawan	43.7
9	Pashimanchal Development Bank Ltd.	2003/3/2	Butawal, Rupandehi	336.5
10	Sahayogi Bikas Bank Ltd.	2003/10/21	Janakpur, Dhanusha	45.0
11	Pashupati Development Bank Ltd.	2004/01/01	Banepa, Kavre	200.0
12	Karnali Bikash Bank Ltd.	2004/02/14	Nepalgunj, Banke	80.0
13	Triveni Development Bank Limited	2004/07/26	Bharatpur, Chitawan	115.0
14	Annapurna Development Bank Limited	2004/08/23	Banepa, Kavre	672.0
15	Bhrikuti Bikas Bank Limited	2004/08/19	Butawal, Rupandehi	232.6
16	Shubhechchha Bikas Bank Limited	2004/09/14	Narayangadh, Chitawan	48.0
17	Bageshowri Development Bank Limited	2004/10/19	Nepalgunj, Banke	49.5
18	Sanima Bikas Bank Limited	2004/11/26	Nagpokhari, Kathmandu	806.4
19	Gaurishankar Development Bank Ltd.	2004/11/29	Kawasoti, Nawalparasi	200.0
20	Gorkha Bikas Bank Limited	2004/12/01	Putalisadak,	660.8

			Kathmandu	
21	Gandaki Bikas Bank Ltd.	2005/01/19	Pokhara, Kaski	100.0
22	Infrastructure Development Bank Ltd.	2005/04/29	Banepa, Kavre	649.9
23	Business Development Bank Ltd.	2005/05/10	Pokhara, Kaski	210.0
24	Biratnaxmi Bikas Bank Limited	2005/05/11	Biratnagar, Morang	60.5
25	Excel Development Bank Ltd.	2005/07/21	Anarmani, Jhapa	80.0
26	Western Development Bank Ltd.	2005/09/15	Ghorahi, Dang	50.0
27	Himchuli Bikas Bank Limited	2005/11/07	Pokhara, Kaski	438.5
28	Arniko Development Bank Ltd.	2006/07/06	Dhulekhel, Kavre	200.0
29	NDEP Development Bank Ltd.	2006/07/17	Kamaladi, Kathmandu	512.0
30	Clean Energy Development Bank Ltd.	2006/09/06	Sitapaila, Kathmandu	320.0
31	Miteri Development Bank Ltd.	2006/10/13	Dharan, Sunsari	45.1
32	Tinau Bikas Bank Ltd.	2006/10/13	Butwal, Rupandehi	62.6
33	Rising Development Bank Ltd.	2006/12/18	Narayangadh, Chitawan	54.2
34	Muktinath Bikas Bank Ltd.	2006/12/18	Pokhara, Kaski	65.0
35	Sewa Bikas Bank Ltd.	2007/02/25	Butawal, Rupandehi	100.0
36	Kankai Bikas Bank Ltd.	2007/05/04	Damak, Jhapa	40.0
37	Public Development Bank Ltd.	2007/06/07	Birjunj, Parsa	150.0
38	Ace Development Bank Ltd.	2007/08/15	Narayanchaur, Kathmandu	750.5
39	Mahakali Bikas Bank Ltd.	2007/08/18	Mahendranagar, Kanchanpur	20.0
40	Sangrila Bikas Bank Ltd.	2007/08/26	Pokhara, Kaski	79.8
41	Bhargab Bikas Bank Ltd.	2007/08/30	Nepalgunj, Banke	37.5
42	Vibor Bikas Bank Ltd.	2007/10/4	Tripureshwor, Kathmadu	680.0
43	Resunga Bikas Bank Ltd.	2007/09/26	Tamghas, Gulmi	30.6
44	Rara Bikas Bank Ltd.	2007/09/30	Birendranagar, Surkhet	23.3
45	Diyalo Bikas Bank Ltd.	2007/10/01	Banepa, Kavre	100.0
46	Country Development Bank Ltd.	2007/10/04	Banepa, Kavre	224.0
47	Kasthamandap Development Bank Ltd.	2007/10/25	New Road, Kathmandu	320.0

48	Alpine Development Bank Ltd.	2007/10/05	Hetauda, Makawanpur	100.0
49	Nilgiri Bikas Bank Ltd.	2007/10/12	Beni, Myagdi	50.0
50	Corporate Development Bank Ltd.	2007/10/25	Birjung, Parsa	140.0
51	Kamana Bikas Bank Ltd.	2007/9/29	Lekhnath, Kaski	130.0
52	City Development Bank Ltd.	2007/10/19	Pokhara, Kaski	200.0
53	Garima Bikas Bank Ltd.	2007/11/23	Waling, Sangja	200.0
54	Biswo Bikas Bank Ltd.	2007/11/21	Pokhara, Kaski	240.0
55	Pathibhara Bikas Bank Ltd.	2007/11/21	Urlabari, Morang	50.0
56	Professional Bikas Bank Ltd.	2007/10/17	Banepa, Kavre	70.0
57	Kabeli Bikas Bank Ltd.	2007/11/15	Dhankuta	20.0
58	Purnima Bikas Bank Ltd.	2008/05/20	Sidhardhanagar, Rupandehi	70.0
59	Jyoti Development Bank Ltd.	2008/08/25	Kamalpokhari, Kathmandu	740.0
60	Shine Development Bank Ltd.	2009/02/22	Butawal, Rupandehi	60.0
61	Bagmati Development Bank Ltd.	2009/03/23	Hariwon, Sarlahi	14.0
62	Hamro Bikas Bank Ltd.	2009/04/19	Nuwakot	21.0
63	Kakre Bihar Bikas Bank Ltd.	2009/05/15	Surkhet	12.0
64	Pacific Development Bank Ltd.	2009/07/26	Beshishahar, Lamjung	19.5
55	Civic Development Bank Ltd.	2009/08/13	Dhadingbesi, Dhading	14.0
66	International Development Bank Ltd.	2009/09/4	Taku, Kathmandu	448.0
67	Kanchan Development Bank Ltd.	2009/09/19	Mahendranagar, Kanchanpur	70.0
68	Gulmi Bikas Bank Ltd.	2009/09/24	Tamghas, Gulmi	14.0
69	Bright Development Bank Ltd.	2009/10/08	Panouti, Kavre	98.0
70	Matribhumi Bikas Bank Ltd.	2009/10/09	Sindhulimadi, Sindhuli	15.4
71	Innovative Development Bank Ltd.	2009/11/13	Sidhardhanagar, Rupandehi	66.4
72	Jhimruk Bikas Bank Ltd.	2009/12/14	Pyuthan	12.0
73	Metro Development Bank Ltd.	2009/12/16	Pokhara, Kaski	70.0
74	Raptibheri Bikas Bank Ltd.	2010/01/15	Nepalgunj, Banke	60.0
75	Gaumukhi Bikas Bank Ltd.	2010/01/25	Bijuwar, Pyuthan	14.0

76	Nepal Consumer Development Bank Ltd	2010/02/5	Pokhara, Kaski	140.0
77	Khandbari Development Bank Ltd.	2010/03/5	Khandbari, Sankhuwasava	17.5
78	Tourism Development Bank Ltd.	2010/03/18	Thamel, Kathmandu	400.0
79	Mission Development Bank Ltd.	2010/06/15	Butwal, Rupandehi	70.0
80	Surya Development Bank Ltd.	2010/07/18	Bhimeshwor, Dolkha	14.0
81	Mount Makalu Development Bank Ltd.	2010/07/21	Basantapur, Terathum	14.0
82	Sindhu Bikas Bank Ltd.	2010/09/09	Barhabise, Sindhupalchowk	51.0
83	Social Development Bank Ltd.	2010/10/13	Naxal, Kathmandu	382.7

Source: Nepal Ratra Bank

Appendix No: 3
Calculation of growth ratio Bank
1. Total Deposit of Himchuli Bikas Bank Limited.

D_n = Total Deposits in the n^{th} year (2009/10) =Rs. 2,266.87 (millions)

D_0 = Total Deposit in the initial year (2005/06) = Rs. 163.08 (Millions)

g = growth rate

n = Total number of years.

We have,

$$D_n = D_0 (1 + g)^{n-1}$$

$$\text{Or } 2,266.87 = 163.08 (1 + g)^{5-1}$$

$$\text{Or } (1+g)^4 = \frac{2,266.87}{163.08}$$

$$\text{Or } 1+g = \frac{2,266.87}{163.08}^{1/4}$$

$$\text{Or } g = (13.90036)^{0.25} - 1$$

$$\text{Or } g = 1.9309 - 1$$

$$\text{Or } g = 0.9309$$

$$g = 93.09\%$$

Other growth ratios are calculated accordingly.

Appendix No: 4

Calculation of Correlation Coefficient

1. Between Deposit and Loan and Advances: (000,000,000)

Year	Deposit(X)	Loan and Advance(Y)	(X ²)	(Y ²)	XY
	1.63	1.29	2.66	1.66	2.10
	4.19	3.50	17.56	12.23	14.66
	8.76	7.02	76.79	49.26	61.51
	13.01	10.73	169.21	115.14	139.58
	22.67	19.99	513.87	399.56	453.13
	50.26	42.52	780.09	577.86	670.97
	dX	dY	dX²	dY²	dXY

Here, d X = 50.26

dY = 42.52

dX² = 780.09

dY² = 577.86

dXY = 670.97 N = 5

r = ?

By using Karl Pearson's correlation coefficient:

$$r = \frac{N\phi XY Z\phi X.\phi Y}{\sqrt{N\phi X^2 Z(\phi X)^2} \cdot \sqrt{N\phi Y^2 Z(\phi Y)^2}}$$

$$r = \frac{5 \times 670.97 Z 50.26 | 42.52}{\sqrt{5 | 780.09 Z (50.26)^2} | \sqrt{5 | 577.86 Z (42.52)^2}}$$

$$r = \frac{3354.85 Z 2137.06}{37.07 | 32.88}$$

$$r = \frac{1217.79}{1218.86}$$

$$r = \mathbf{0.9991}$$

**Therefore correlation between deposit and loan and advances (r)
=0.9991**

**Calculation of probable Error for correlation coefficient between
deposit and loan and advance:**

$$P. Er. = 0.6745 \times \frac{1Zr^2}{\sqrt{N}},$$

Where N = Number of pairs of observation = 5

r = correlation coefficient = 0.9991

$$\begin{aligned} \text{or } P.Er. &= 0.6745 \times \frac{1Z(0.9991)^2}{\sqrt{5}} \\ &= 0.0005427 \end{aligned}$$

$$6P.Er. = 6 \times 0.0005427$$

$$= 0.003256$$

$r > 6^* P.Er$ (it shows that there is significant relationship between
deposit and loan and advance)

Similarly, correlation coefficient and probable error for other variable are
also calculated accordingly.

Appendix No: 5

Calculation of Trend Values/ Regression Analysis

1. Trend values analysis of total deposit. (in million)

F/Y (x)	Total deposit (Y)	X = x-2007	(X) ²	XY
2005/06	163.08	-2	4	-326.16
2006/07	419.08	-1	1	-419.09
2007/08	876.30	0	0	0
2008/09	1300.79	1	1	1300.79
2009/10	2266.87	2	4	4533.74
	$\phi Y = 5026.13$	$\phi X = 0$	$\phi X^2 = 10$	$\phi XY = 5089.28$

Here the actual trend equation of the linear trend or Regression equation of Y on X is given by,

$$Y = a + bx$$

To, determine the values of 'a' and 'b' the following two normal equations are to be solved.

$$\phi Y = N a + b \phi X \dots\dots\dots(i)$$

$$\phi XY = a \phi X + b \phi X^2 \dots\dots\dots(ii)$$

Putting the values of above table in normal equation (i) shown above.

$$\phi Y = N a + b \phi X$$

$$5026.13 = 5a + b.0$$

$$a = \frac{5026.13}{5}$$

Therefore, a = 1005.23

Putting the values of 'a' in equation (ii), we get the value of 'b' i.e.

$$\phi XY = a \phi X + b \phi X^2$$

$$5089.28 = 1005.23 \times 0 + b \times 10$$

$$b = \frac{5089.28}{10}$$

$$b = 508.93$$

Therefore the value of 'b' is 508.93.

Trend values of total deposit for next five years are as follows:

F/Y (x)	X=x-2004	Y= a+bX
2010/11	3	2523.01
2011/12	4	3028.94
2012/13	5	3534.87
2013/14	6	4040.79
2013/15	7	4546.72

Likewise, trend values of other variables like Loan and advance and Net profit are also calculated.