A COMPARATIVE STUDY OF FUND MOBILIZATION OF NEPALESE JOINTVENTURE COMMERCIAL BANKS

(With Reference to HBL, EBL and NIBL Bank Limited)

A THESIS

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VIVA- VOCE SHEET

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and found the Thesis to be the original work of the student written in accordance with the prescribed format. We recommend the Thesis to be accepted as partial fulfillment of the requirements for Master's Degree of Business Studies.

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RECOMMENDATION

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A Comparative Study of Fund Mobilization of Nepalese Joint Venture Commercial Banks
(With Reference to HBL, EBL and NIBL Bank Limited)

has been prepared as approved by this department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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DECLARATION

I hereby, declare that the work reported in this thesis entitled "A Comparative Study of Fund Mobilization of Commercial Bank in Nepal (With Reference to HBL, EBL and NIBL Bank Limited)." **submitted to Research Department of Shanker Dev Campus, is my original work done in the form of partial fulfillment of the requirements for the Masters of Business Studies (MBS) under the supervision of Shree Bhadra Neupane and Kiran Thapa of Shanker Dev Campus.**

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At first, I would like to pay thanks to my father and mother as well as my brother who headed me towards the light of education and path of truth. Due to their non-stopping effort for guidance, today I come in this position. So I would like to share the credit of my success with them. I'm really indebted by them.

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Keshav Panta

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ABBREVIATIONS

A.D. = Anno Domini (in the year of lord, cristian era)
A.G.M. = Annual General Meeting
ATM = Automatic Teller Machine
B.S. = Bikram Sambat
CRR = Cash Reserve Ratio
Debn. = Debenture

d.f.	=	Degree of Freedom
EBL	=	Everest Bank Limited
e.g.	=	For example
Etc.	=	et cetera
FC	=	Foreign Currency
FY	=	Fiscal Year
Govt.	=	Government
HBL	=	Himalayan Bank Limited
i.e.	=	That is
Invt.	=	Investment
JVBs.	=	Joint Venture Banks
L.C.	=	Letter of Credit
Ltd.	=	Limited
Misc.	=	Miscellaneous
NBL	=	Nepal Bank Limited
NBBL	=	Nepal Bangladesh Bank Limited
NEPSE	=	Nepal Stock Exchange
NIBL	=	Nepal Investment Bank Limited
NIDC	=	Nepal Industrial Development Corporation
NRB	=	Nepal Rastra Bank
P.F.	=	Provident Fund
PNB	=	Punjab National Bank
SCBNL	=	Standard Chartered Bank Limited
SMS	=	Short Message Service
T.T.	=	Telegraphy transfer
T.U.	=	Tribhuvan University
TWF	=	Total Working Fund
Viz.	=	Such as

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CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Overall national development of any country depends upon the economic development of that country and economic development largely depends upon the financial infrastructure of the country. Therefore, the primary goal of any nation including Nepal is rapid economic development to promote the welfare of the people and the nation as well. Nepal being one of the least developed countries has been trying to embark upon the path of economic development by economic growth rate and developing all sectors of economy.

The proper mobilization and utilization of domestic resources is one of the key factors in the economic development of a country. Similarly, integrated and speedy development of the country is only possible when competitive and reliable banking services are reached and operated to every corner of the country. It has been well established that the economic activities of any country can hardly be carried without the assistance and support of financial institutions. Financial institutions have catalytic role in the process of economic development. The investment policy of financial institutions, especially banks has long term impact not only on their growth and sustainability but also on the economic development of the country. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of banks and other financial institutions. Good investment policy has a positive impact on economic development of the country and vice-versa.

Generally the organization that transacts money is called bank. Bank and banking has always played a significant role for the financial activities in the business. So bank is the major need for various developments. Bank collects fund as a saving from the community and invest them into most desirable and highly yielding sector as a full to a process of economic development. It develops saving habits of people. "The importance of the banking as the nerve center of economic development can not be over emphasized and it is said that bank which are the need of and great wealth of country have get to be kept very scared. Just as water for irrigation, good banks are for the country's industry and trade."*(Desai, 1967:120)*

The main objectives of the bank are collection of amount from public in a form of saving and providing short-term loan (for the development of industry, trade, and business) to the ones in need. The development of country's economy is impossible without expansion of banking function in both rural and urban area of the country. Development of trade and industry is dependent upon the development of banking facilities. Therefore, it is said that the bank is backbone of economic development in modern society. Banking institutions are inevitable for mobilizing resources, for finance and social economic development of a country and which is important to all parties i.e. generally public, business, organization, government and other small financial institution. The development of a country is always measured by its economic development through economic indices. That's why every country has given emphasis on boost up its economy. At present, the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country.

Bank is resource for economic development that maintains economic confidence of various segments and expands credit to people. Bank means "A financial establishment for the deposit, loans exchange or issue of money and for the transmission of funds," *(Bhandari; 2002:201).*

The bank draws surplus money from the public, who cannot use the money at the time and lends to those who give attention to use for productive purposes. Bank lends the loan to the customers; gain interest amount, the bank draw the money from institution or individual or people pay the interest amount by certain interest rate. Banking institutions collect scattered financial resources from the mass and invest them among those who are associated with the economic, commercial, and social activities of the country.

“Bank assists both the flow of goods and services from the products to the consumers and the financial activities of the government. Banking provides the country with a monetary system of making payment and is an important part of financial system, which makes loans to maintain and increase the level of consumption and production in the economy,” *(Bhandari; 2001:211).*

A new organized financial institution companies, commercial banks and other financial intermediaries play an important role for the development of a country.

1.2 Development of Banks

1.2.1 In Worldwide Context

The concept of banking developed from the very beginning of the economic activities. First of all, the effort was made by the ancient gold and valuables. Under such arrangements, the depositors would have their gold for safekeeping and in turn were given a receipt. Whenever receipt was presented, the depositors would return back their gold and valuable after receiving a small payment as fee. *(Paul; 1998:201).*

The word **“Bank”** is orient in medieval age in 1171 AD from an Italian word “**Banko**.**”** That means the place where people come together for different transaction. The **“Bank of Vanice”** was the first bank, which established in Italy in 1157 AD as a first modern bank. Then after in 1401 AD **“Bank of Barcelona”** is established in Spain, Bank of Geneva established in 1407 AD, Bank of Amsterdam established in 1609 AD. But the credit of the development of modern banks goes to **“The Bank of England”** which was established in 1694 AD in London. The growth of banking accelerated only after the introduction of the banking Act 1883 in United Kingdom as it allowed opening joint stock company banks.

1.2.2 In Nepalese Context

The growth of banking in Nepal is not so old. In the 14th century, Jayasthiti Malla - a king of Kantipur classified people in 64 groups according to their occupations, **"Tanka Dhari"** was one among them who used to lend money at a fixed rate of interest. During the period of Ranodip Singh, the Prime minister, a government institution called **"Tejarath Adda"** was established around 1887 AD for providing easy and cheap credit at 5% interest to the public on securing of gold and silver.

"In the overall development of banking system in Nepal, the **"Tejarath Adda"** may be regarded as the father of modern banking institution and for quite a long time it tendered a good servants as well as to the general public." *(Shrestha; 1995:4).*

The development of modern bank started from the establishment of **"Nepal Bank Limited"** in 1937 AD with put forth effort of government and public, as a commercial bank with 10 million authorized capital. The authorized capital was contributed by the government 51% and remaining by public 49%. It started to provide depositing and borrowing facilities to commercial as well as agricultural sectors. The government felt the requirement of a central bank and established **"Nepal Rastra Bank"** in 2013 BS. It played leading role in development of banking in Nepal and also controlled the monetary culture in the country. NRB was established with the objective of supervising, protecting and directing the functions of commercial banks. Likewise, raising of banking function get popular and more complicated, thus NRB suggested for the establishment of another commercial bank and in 2022 BS(1966 AD) **"Rastriya Banijya Bank"** was established as a fully government owned commercial bank. Now its branches are diversified all over the country. It made another milestone in the history of growth of banking.

A part from this, NIDC was established in 1959 AD & Agricultural Development Bank established in 1976 AD and other development bank and financial institutions were established & continue to establish and are contributing to the economy and banking tradition in Nepal. In 1990 AD, after reestablished of democracy, the government took the liberal policy in banking sector. As an open policy of HMG's to get permission to invest in banking sector from private and foreign investor under Commercial Bank Act 2031 BS, different private bank are getting permission to establish with the joint venture of other countries.

1.3 Introduction of Commercial Bank

Commercial bank is a financial institution which transfers monetary sources to users. In the process of such intermediation, commercial bank deploys funds raised from different sources into different assets with a prime objective of profit generation an administrative assistance. **According to Commercial Bank Act 2031,** "Commercial banks are those banks which are established under this act to perform commercial function." The commercial banks pool together the savings of the community and arrange for their productive uses. They supply financial needs of modern business.

"The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development; it maintains economic confidence of various segments and extends credit to people."*(Ronald; 1991:87).*

"Commercial bank is a corporation which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services" *(Thapa and Neupane;2008:16).*

The main purpose of establishing RBB was to contribute to the development of banking system, particularly in the remote and hilly regions, providing more banking facilities to the public.

1.3.1 Commercial Banking Scenario in Nepal

Nepal Arab Bank Ltd. (NABIL Bank Ltd.) was the 1st joint venture bank established in 1984 AD, joint ventured with United Arab Emirates Bank. Then two other banks, Nepal Indosuez Bank Ltd. (Nepal Investment Bank Ltd.) with Indosuez Bank of Finance and Nepal Grindlays Bank of London were established in 1986 AD. Himalayan Bank Ltd. joint ventured with Habib Bank of Pakistan and SBI Bank Ltd. with State Bank of India was established in 1993 AD. Everest Bank Ltd. joint ventured with Punjab National Bank, India (early it was joint ventured with United Bank of India, Calcutta) and Nepal Bangladesh Bank Ltd. with IFIC

Bank of Bangladesh were established in 1991 AD., Bank of Kathmandu joint ventured with SIAM commercial Bank Public Co., Thailand was established in 1995 AD. And Nepal Bank of Ceylon joint ventured with Ceylon Bank of Sri-Lanka was established in 1997 AD. Besides this, Lumbini Bank Ltd., and NIC Bank Ltd. are also operating from 1997 AD and Kumari Bank Ltd. & Siddhartha Bank Ltd. served as a new commercial bank of Nepali financial market.

All of these banks barely follow the directive and policies of Nepal Rastra Bank (NRB). NRB functions as the central Bank of Nepal. NRB formulates financial and monetary policies under which commercial banks, financial institutions are functioning.

Nowadays there are 25 commercial banks operating in Nepali financial market along with 9 joint venture with foreign investors. Lists of licensed commercial banks are presented below:

Table 1.1
List of Licensed commercial Banks in Nepal

S.N	Name of Commercial Banks	Establishment Year
1.	Nepal Bank Limited	1937
2.	Rastriya Banijya Bank	1965
3.	Agriculture Development Bank Limited	1968
4.	NABIL (Nepal Arab Bank)	1984
5.	Nepal Investment Bank (Nepal Indosuez Bank)	1985
6.	Standard Chartered Bank (Grindlays Bank)	1986
7.	Himalayan Bank Limited	1992
8.	Nepal SBI Limited	1993
9.	Nepal Bangladesh Bank Limited	1993
10.	Everest Bank Limited	1994
11.	Bank of Kathmandu Limited	1994
12.	Nepal Credit and Commerce Bank (Nepal Bank of Ceylon)	1996
13.	Lumbini Bank Limited	1998
14.	Nepal Industrial and Commercial Bank	1998
15.	Machhapuchchhre Bank Limited	2000

16.	Kumari Bank Limited	2000
17.	Laxmi Bank Limited	2001
18.	Siddartha Bank Limited	2001
19.	Global Bank Limited	2006
20.	Citizen Bank International Limited	2007
21.	Prime Bank Limited	2007
22.	Sunrise Bank Limited	2007
23.	Bank of Asia Nepal Limited	2007
24	NMB Bank	2008
25	Development Credit Bank	2008
26.	Kist Commercial Bank	2009

(Source: NRB)

1.4. Role of Joint Venture Bank in Nepal

In global prospective, joint venture bank is the mode of trading through partnership among the nations and also a form of negotiations between two or more enterprise for the purpose of carrying out a specific operation. So, the main purpose of joint venture is to join economic forces in order to achieve desired end. Under joint venture basis, to operate a business organization, there should be at least two partners from the different countries. The primary objective of joint venture bank is to earn profit by investing or granting the loan and advances to the people associate with trade, business, industry etc. that means they are required to mobilize their resources properly to acquire profit.

"A joint venture is forming of two forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial investment, production trade)," *(Gupta, 1984:25).*

The HMG/N budget for the FY 1984/85 provided the following justification for allowing the setting up of joint venture banks in the following words:

“At present, the financial institutions of the country have been effortful to mobilize resources. On one hand, the major part of the few individual where as the small traders and entrepreneurs are facing difficulties to receive loans on the other. The only solution to this problem is to encourage competition in the banking sector. Therefore, a policy of allowing new commercial banks under joint venture with foreign collaboration has been adopted; this will promote competition among banks whereby the clients will get improved facility. Addition, the share of these new banks will also be sold to the general public and while distributing the shares, it will be ensured that the ownership is spread out to the maximum extent possible.”

In such manner, joint venture banks are successful to bring healthy competition among banks, increase in foreign investment, promoted and expand export-import trade, introduce new techniques and technologies. The various roles plays by the joint venture banks in Nepal can be classified into three categories:

a. **Introducing Advanced Banking Techniques**

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

b. **Introducing Foreign Investment in Nepal**

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

c. **Bringing in Healthy Competition**

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

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

1.5 Profile of the Sample Companies

As there has been number of commercial banks established, the research has been taken into consideration of EBL, NIBL and HBL. Therefore, short glimpse of these commercial banks are given as:

1.5.1 Himalayan Bank Limited

Himalayan bank limited is a joint venture bank with Habib Bank of Pakistan, was established in 1992 under the company act 1964 as a fourth joint venture bank of Nepal. This is the first joint venture bank managed by Nepali Chief Executive. The operation of the bank started from 1993 February. HBL does not include government ownership. It has been established to maintain the economic welfare of the general people to facilitate loan for agriculture, industry and commerce to provide the banking services to the country and people.

It is the first commercial bank of Nepal with maximum share holding by the Nepalese private sector. Besides commercial activities, the Bank also offers industrial and merchant banking. Its ownership is composed of founder shareholders 51%, Habib bank of Pakistan 20%, Karmachari Sanchaya Kosh 14% and public 15%. It is the first bank having domestic ownership more than 50%.HBL has been operating in high profit for the establishment’s period till now. It accepts deposit through current deposit, saving deposit, fixed deposit and call deposit.

At present HBL has five branches in Kathmandu valley namelyThamel, New road, Maharajgunj, Pulchowk (Patan) and Suryavinayak (moved from Nagarkot). Besides, it has nine branches outside Kathmandu valley namely Banepa, Tandi, Bharatpur, Birgunj, Hetauda, Bhairawa, Biratnagar, Pokhara and Dharan. The bank is also operating a counter in the premise of the Royal Palace. The Bank has a very aggressive plan of establishing more branches in different parts of the kingdom in near future. HBL was access to the worldwide correspondent network of Habib bank for fund transfer, letter of credit or any other banking business any where in the world. Himalayan Bank has adopting innovative and latest banking technology. The bank provides various facilities such as:

- Tele- Banking
- 24 hours banking
- Credit card facilities
- Automatic Teller Machine(ATM)
- Visa card
- L.C. service
- Safe deposit locker
- Himalayan SMS(Short Message Service)
- Foreign currency transaction etc.

Table: 1.2

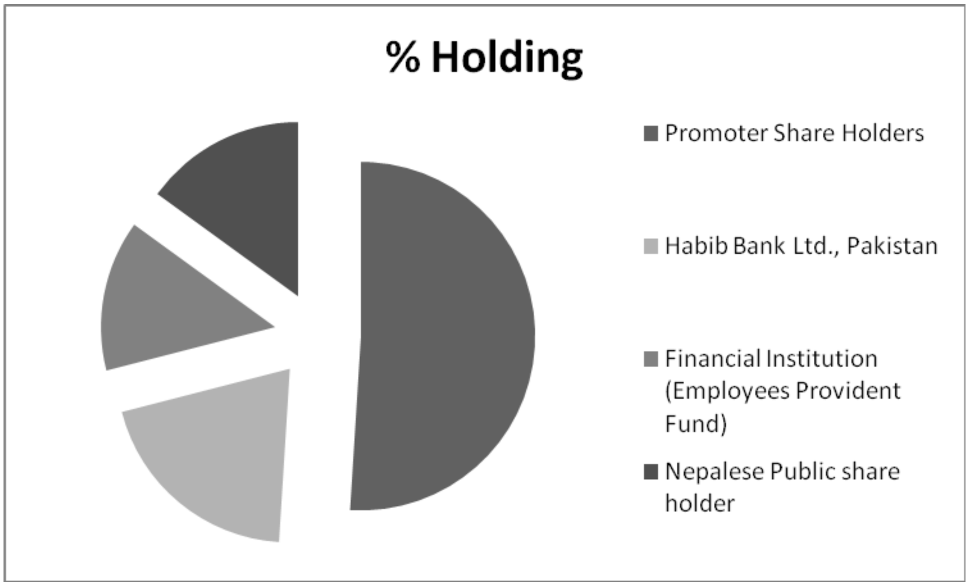
The ownership Pattern of HBL

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

Source: Report of HBL

Figure 1.1

The ownership Pattern of HBL



The present capital structure of HBL is shown below:

Share Structure	Amount (Rs.)
Authorized Capital	1,000,000,000
Issued Capital	650,000,000
Paid- Up Capital(5,362,500 equity shares of NRS 100.00 each, fully paid)	536,250,000

Source: Report of HBL

1.5.2 Everest Bank Limited

Everest Bank Ltd. was registered under the Company Act 1964 in 19th November 1993 (2049/09/03) and started banking transaction in 16th October 1994 (2051/07/01). The promoter of the bank decided to join hands with an Indian bank and entered into joint venture agreement in January 1997 AD with Punjab National Bank (PNB), which is one of the leading commercial bank of India, having over 100 years of successful banking experience and known for its strong system and procedure. A team of professionals deputed by PNB under this arrangement. Now, the bank 14 branches including main branch (i.e. head office) in Nepal.

On equity holding PNB has 20% equity participation in its total shareholding and also has undertaken management responsibility under a technical service agreement and other balance is maintain by Nepali investor. Nepalese promoter holding 50% and rest 30% held by General Public. The main purpose of EBL is to extend professional banking services to various sectors of the society in the kingdom of Nepal and thereby contributing in the economic development of the country. It provides following facilities and services to their customers:

- Cumulative Deposit Scheme
- Unfix Fixed Deposit
- Remittance
- ATM Facilities
- FC Deposit/ Lending
- Facilities of NRN
- Required Deposit Plan
- Telegraphy transfer (T.T)
- Letter of Credit
- Drawing Arrangement
- SWIFT Transfer
- Foreign Exchange
- International Trade and Bank Guarantees
- Merchant Banking

Table 1.3

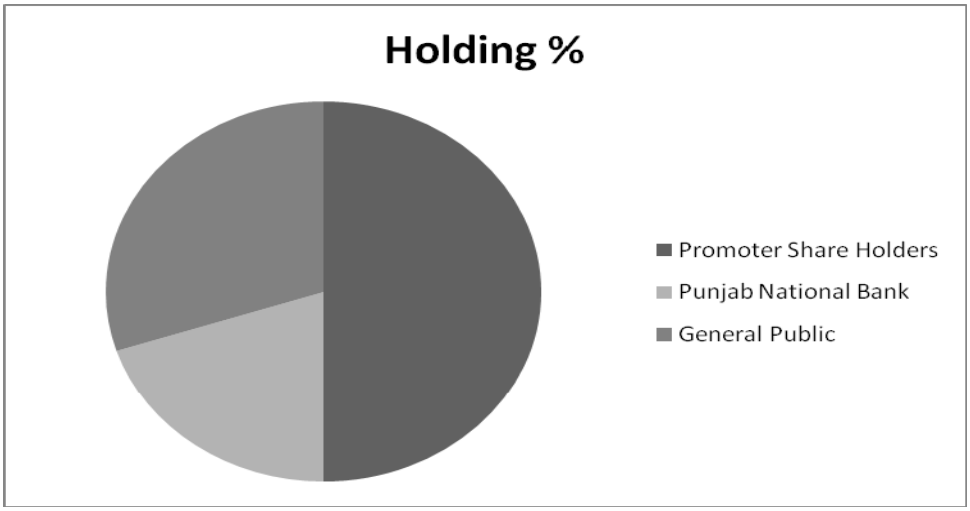
The ownership Pattern of EBL

Subscription	Holding %
Promoter Share Holders	50%
Punjab National Bank	20%
General Public	30%
Total	**100%**

Source: Report of EBL

Figure 1.2

The ownership Pattern of EBL



The authorized capital of the bank has been Rs. 240 million, issued Rs. 120 million and paid capital Rs.117.5645 million in the beginning of 2051/052. The present capital structure of EBL is shown below:

Table 1.4

The ownership Pattern of EBL

Share Structure	Amount (Rs.)
Authorized Capital	75,00,00,000
Issued Capital	46,68,00,000
Paid- Up Capital	45,50,00,000

Source: Report of EBL

1.5.3 Nepal Investment Bank Limited

Nepal Investment Bank Ltd(NIBL), previously Nepal Indosuez Bank Ltd. was established as a third joint venture bank between Nepalese and French partners in 21st January 1986 under the Company Act 1964. The French partner (hold capital of NIBL) was credit Agricole Indosuez, a subsidiary of one of the largest banking world, 50% of the shares of Nepal Indosuez Bank Ltd. held by credit Agricole. Indosuez was sold to the Nepalese promoters on

April 25, 2002 as per the transaction report of NEPSE. After the divestment of shares by Nepalese owners, the name of the company was changed to Nepal Investment Bank Limited its 15th Annual General Meeting (A.G.M.) held on May 31, 2002.

Out of total equity shares of NIBL, 15% shares hold by a group of company, 50% shares by commercial banks, another 15% by financial institutions and remaining 20% hold by general public. It provides following facilities and services to their customers:

- Trade Finance
- Remittance
- Export Credit
- Tele Banking
- ATM with any Branch Banking
- Vehicle Loan
- E-Banking Service
- Locker Facilities
- Any Branch Banking
- Ezee Saving Scheme
- 365 Days Banking

Table 1.5

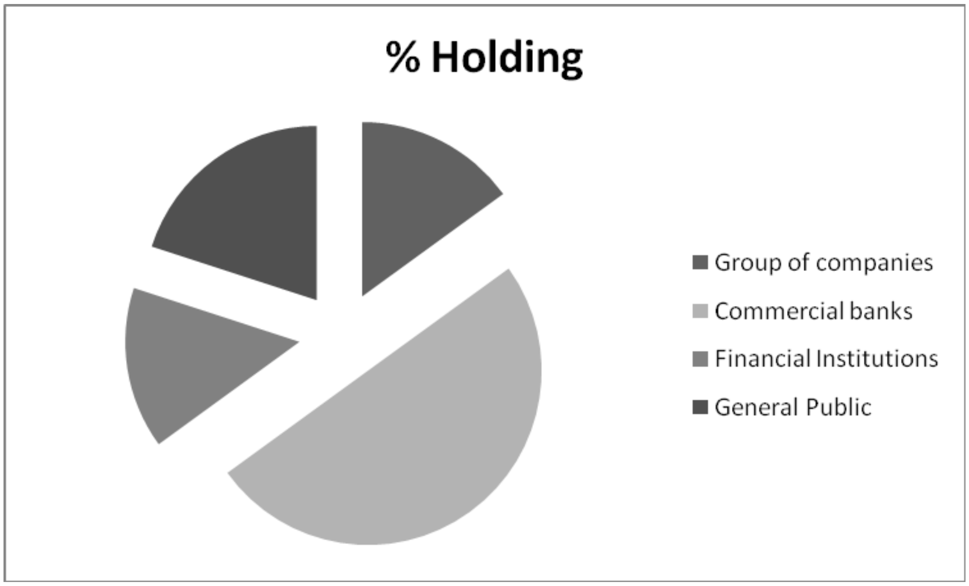
The ownership Pattern of NIBL

Subscription	**Holding %**
Group of companies	15%
Commercial banks	50%
Financial Institutions	15%
General Public	20%
Total	**100%**

Source: Report of NIBL

Figure 1.3

The ownership Pattern of EBL



The present capital structure of NIBL is presented below:

Share Structure	Amount (Rs.)
Authorized Capital	59,00,00,000
Issued Capital	29,52,93,000
Paid- Up Capital	29,52,93,000

Source: Report of NIBL

1.6 Focus of the Study

Bank is an institution, which helps in collection and mobilization of savings. The role of commercial banks in uplifting the economic growth of the country is very important. The uplifting of the development of a nation largely depends upon the development of its economic growth. The development of the economy is greatly influenced due to the internal management of the bank.

"General fund mobilizing means to flow the cash in different sectors at profit motive. Investment in its broadest sense means the sacrifice of certain present value for (possibly uncertain) future value. In pure financial sense, the subsequent use of the term investment will be in the prevalent financial sense of the placing of money in the hands of other for their use, in return for a proper instrument entitling the holders to fixed income payment or the participation in expected profits. It can define the terms of investment at manufacturing and trading forms those long term expenditures that aim at increasing plant capacity of efficiency or at building up goodwill, there by producing an increased return over a period. Experts define the terms of investment from economic view point that investment as a productive process by means of which additional are made to capital equipment's. It is finding to clear the terms of investment at different points of view. But it needs to clear the terms of investment in financial point of view as related to this study."

This research focuses on the comparative study of fund mobilization of three joint venture banks; Himalayan Bank Ltd., Nepal Investment Bank Ltd. and Everest Bank Ltd. These three banks are compared as per their fund mobilization procedure by taking 7 years data from the year 2007 to2008.

1.7 Statement of the Problems

After introducing the liberalization policy of the government, many banks and institutions are established rapidly. These days many commercial banks, developments bank and financial institutions are operating their work to assist in the process of economic development in the country. Due to the high competition between the financial institutions the collected huge amount from public is comparatively lower than fund mobilization and investment practice of collected funds. Therefore, it raised the problems of investment and proper mobilization of collected funds. Strong fund mobilization activities play a vital role in utilization of collected funds and overall development of the economy of the nation.

If the funds are wrongly invested without thinking any financial risk, business risk and other related facts, the bank cannot obtain profitable return as well as it should sometimes lose its principle. Fund mobilization policy may differ from one joint venture banks to another but there is no optimum utilization of shareholders fund to have greater return in any bank. Nepal Rastra Bank has also played significant role to make commercial bank mobilize their fund in good sector. For this purpose, NRB imposed many rules and regulation so that commercial bank can have sufficient liquidity and security. Though most of the joint-venture banks have been successful to earn profit from fund mobilization, none of them seem to be capable to invest their entire fund in more profitable sectors.

To meet the requirement of NRB, joint venture banks must have 6% deposits of total current account and fixed deposit account of local currency with NRB. They should have 3% minimum cash balance in their own vault of total currency of all types of accounts. Except this, they have fund from current, saving and fixed deposits borrowing, from other banks, cash margin for different purpose, amount of bills payable and retained earning, reserves share capital and other liabilities.

Commercial banks are reported to be criticized by customer due to implementation of wrong investment policies. They are said to be investing less risky and highly liquid sector, they keep high liquid position and flow less funds in productive sectors, so these types of function prove less investment opportunity of the fund. Sometimes they seem to be ready to invest the idle fund even in those investment, which have lower risk and comparatively greater profit the another problem is diversification of investment. The bank cannot achieve profitable return from their resources as well as they sometimes may lose their principle resulting in decreasing of national economy.

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

a) Is there any stability in fund mobilization between HBL, EBL and NIBL?
b) What is the relationship between deposit and total capital raised, deposit with total investment and loan and advances with total deposits?
c) Does the investment decision affect the total earning capacity of the bank?
d) Do the three joint ventures successful to utilize their available fund?
e) Are they maintaining sufficient liquidity position?
f) Which joint ventures have more effective investment policy among HBL, EBL and NIBL?

1.8 Objectives of the Study

For any kind of research work or study, first of all the objectives should be determined. It shows the way to achieve desired goals. Likewise, the main objectives of this research work is to examine, interpret and analysis the fund mobilization procedures adopted by three joint ventures; Himalayan Bank Ltd., Everest Bank Ltd. and Nepal Investment Bank Ltd. This study is concerned with whether HBL, EBL and NIBL are adopting efficient fund mobilizing policy or not. The main objectives related to this study are presented below:

- To evaluate the growth and risk ratio of loan and advances and total investment with respective to growth rate of total deposit and net profit of HBL, EBL and NIBL.
- To evaluate comparatively operating, financial and investment efficiency of three joint venture banks.
- To carryout the relationship between deposits and total investment, deposits and loan and advance and net profits of HBL, EBL and NIBL.
- To evaluate and forecast the trend of deposit utilization for the next five years.
- To analyze the sources and uses of funds and analysis of cash flow of these three joint venture banks.

1.9 Significance of the Study

Fund mobilization activities of joint venture banks greatly effects the growth and earning of banks. Effective, stable, appropriate fund mobilizing policy may cause the earning of sufficient return to the banks. Most of the joint- venture banks have been successful to earn profit from effective fund mobilization. Fund mobilizing policy may differ from one joint-venture banks to another but there is no optimum utilization of shareholders fund to have sufficient return in any bank.

Optimum utilization of fund makes better impact on the economy of the nation. Fund mobilization activities must consider customer, national and government as well as its shareholders interest. Significance of the fund mobilization can be written as the following manner:

- The depositor's general public can make decision to deposit their money in the bank after analyzing the fund mobilization of joint ventures.

- By the help of this study, general public can know the funds mobilizing activities of banks.
- It is also beneficial for the government while formulating policies and rules regarding joint venture bank.
- From the study of fund mobilizing policy about bank, shareholders and companies would get information related to the fund mobilizing scheme of the bank and they may know how banks are mobilizing their fund and resources. And it is fruitful to make investment on shares of various joint venture banks.
- The study of fund mobilizing policy would provide information to the management of the bank that would be helpful to take corrective action in the bank activities.
- Effective fund mobilization activities are the cause to increase earnings of the banks.
- This study will serve to be a guide to the management of banks, financial institutions, related parties, shareholders, general public (customer, depositors and creditors).

1.10 Limitations of the Study

For the completion of the study, some facts are to be considered as limitation of this research work:

- This study is based on secondary data and accuracy depends upon the data collected and provided by the organization.
- The whole study is based on the data of 7 years period (i.e. from F.Y. 2001/02 to 2007/08).
- This study has been only of three joint venture banks as sample i.e. HBL, EBL and NIBL.
- Non availability of the various references of sources acts as constraints for the study.
- Only the fund mobilization aspects are analyzed. Other performance of the organizations is fully neglected, while providing suggestions.

1.11 Organization of the Study

The study has been organized into five chapters. They are as follows:

Chapter I: Introduction

This is the introductory chapter, which has covered background of the study, focus of the study, statement of the problem, objectives of the study, significance of the study etc.

Chapter II: Review of Literature

This chapter has included conceptual framework i.e. theoretical analysis and review of related different studies. In this chapter has been also considered that how this present studies are different from previous studies.

Chapter III: Research Methodology

This chapter has dealt with the research design, population and sample, sources of data, data collection techniques and data analysis tools (financial tools and statistical tools) and methods of analysis and presentations.

Chapter IV: Presentation and Analysis of Data

This chapter describes the research methodology employed in the study. It will include secondary data and primary data presentation, data analysis, interpretation, testing of hypothesis and major finding.

Chapter V: Summary, Conclusion and Recommendations

The last chapter states the summaries, conclusions of the whole study and recommendations. It also offers several avenues for future research. The exhibits and bibliography are incorporated at the end of the study.

CHAPTER-II

REVIEW OF LITERATURE

This chapter deals with the theoretical aspect of the topic on investment policy in more detail and descriptive manner. It provides the foundation for developing a comprehensive theoretical framework and knowledge of the status relevant to the field of research in order to explore the relevant and true facts for the reporting purpose. Hence, in this chapter, the focus has been made on the review of literature relevant to the investment policy of commercial banks. For this study, different books, journals, articles, annual reports and some research paper related with this topic has been reviewed. Therefore, this chapter is arranged in the following order

2.1 Conceptual Framework

Basically, theoretical framework describes the following terms which are closely related to the research work.

Banks are that kind of institutions, which deals with money and substitutions for money. They deal with credit and credit instrument. Effective circulation of credit is more significant for the banks. Unsteady and unevenly flow of credit harms the economic situation of the nation. Because of this, collected fund should be invested and mobilized into the right sector. An investment of fund decides the life and death of the banks.

"An investment is a commitment of money that is expected to generate additional money that is expected to generate additional money. Every investment entails sacrifice for a future uncertain benefit," *(Francis, 1991:212).*

"The investment objective is to increase systematically the individual's wealth, defined as assets minus liabilities. The higher the level of the desired wealth, the higher must be received. An investor seeking higher return must be willing to face higher level of risk," *(Cheney and Moses; 1996:12).*

"Investment is the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor's wealth, which is the sum of current income and present value of all future income," *(Charles; 1999:2).*

"Investment in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all and the magnitude is uncertain. In some cases the element of time predominates (e.g. government bond). In other cases, risk is the dominant attribute (e.g. call option on common stock). In yet both time and risk are important." *(Charles; 1999, 220).*

"Investment policy fixed responsibilities for the investment disposition of the banks assets in term of allocating funds for investment and loan and establishing responsibility for day to day management of those assets," *(Baxley; 1987:511).*

"Investment is the employment of funds with the aim of achieving additional income of growth in value," *(Singh; 2001:87).*

"Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns," *(Gittman and Jochnk; 1990:18).*

"Investment" which beseeches of sound investment policy and covers wider aspects. He writes, "A sound investment policy of bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to the depositors and banks on the other hand. Moreover, risk in banking sector tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually springs from significant amount of loans that have become uncollectible due to mismanagement, illegal economic downturn. Therefore, the banks investment policy must be such that it ensures sound and prudent in order to protect public funds.*(Baidya;2004:201)*

“Further in details he deals with what type of loan do banks make? And, how much of loan is to be invested? The banks make a variety of loans to a wide variety of customers from many different purposes from purchasing automobile to construct of homes and making trade with foreign countries. There, no uniform rules can be laid down to determine the portfolio of bank. The environment in which the bank operates influences its investment policy. The nature and availability of funds and assets also differ widely from region to region within a country or country to country. For example, the scope of operating a bank in Jumla will be different from the scope of a bank operating in Kathmandu. The investment policy to be applied in Kathmandu may not be applicable to the customer of Jumla because the demand for loans is less in rural areas whereas it is higher in urban areas,” *(Baidya; 1997:47).*

V.K. Bhalla has derived a three- pointed basic concept of investment. His view on investment cover:

- Economic investment that is an economics definition of investment.
- Investment in a more general or extended sense which is used by the man of street or ordinary people
- The sense in which we are going to be very much interested namely financial investment.

“Banks are those institutions which accepts deposits from the public and in return provide credit to trade, business and industry that directly makes a remarkable impact on the economic development of a country. To collect fund and collect as a good investment is a very risky job. Ad-hoc investment decision leads the bank out of the business thereby drawn the economic growth of a country. Hence sound investment policy is another secret of a successful bank.”(Bhalla; 2007:208)

“The commercial banks fulfill the credit needs of various economic sectors including policy of commercial banks is based on the profit maximization of the institute as well as the economic enhancement of the country.”*(Shresth; 2004:208)*

“Commercial banks still remain the heart of our financial system holding the deposits of millions of persons, governments and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and governments. Commercial banks are the most important type of financial institutions in the nation in terms of aggregate assets."*(Reed, Cotter, Gill; 2007:218)*

The primary function of commercial banks is the extension of credit to worthy borrowers. In making credit available, commercial banks are rendering a great social service. Through their action, production is increased, capital investments are expanded, and a higher standard of living is realized. Although the investment activities of commercial banks are usually considered separately from lending, the economic effects and social results are the same.

"Lending is the essence of commercial banking, and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit," *(Crosse; 1963:38).*

2.1.1 Features of Sound Lending and Fund Mobilization Policy

Income and profit of the financial institutions like commercial banks and financial institutions depend upon its lending procedure, lending policy and mobilizing collected fund through investing in different securities. The greater the credit created by the bank the higher will be the profitability. Some required features of sound lending policy and fund mobilization is explained as under:

a) Safety and Security

Financial institutions should inlets their deposit in profitable and secured sectors. They should not invest their fund in securities of those companies whose securities are too much depreciated and fluctuated because of risk of loss factors. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable. In this case MAST should be applied for the investment.

Where,

M = Marketability

A = Ascertain ability

S = Stability

T = Transferability

b) Legality

Each and every financial institution follow the rules and regulation of the company, government and various directions supplied by Nepal Rastra Bank, Ministry of Finance and on while issuing securities and mobilizing their fund. Illegal securities will bring out any problems to the investors. Lastly, the reputation and goodwill of the firm may be lost.

c) Liquidity

Liquidity is the position of the firm to meet current or short-term obligations. General public or customers deposit their savings at the banks in different accounts having full confidence of repayment by the banks whenever they require. To show a good current position and maintain the confidence, every firm must keep proper cash balance with them while investing in different securities and granting loan for excess fund.

d) Profitability

To maximize the return on investment and lending position, financial institutions must invest their collected fund in proper sectors. Finally they can maximize their volume of wealth. Their return depends upon the interest rate, volume of loan its time period and nature of investment on different securities and sectors.

e) Tangibility

A commercial bank should prefer tangible security to an intangible one. Though it may be considered that tangible properly doesn't yield an income a part from intangible securities, which have lost their value due to price level inflation.

f) Purpose of loan

Banks and other financial institutions must examine why loan is required to the customer. If customers do not use their borrowings, they can never repay and the financial institutions will have heavy bad debts. So, they should collect detailed information about the plan and scheme of the borrowing.

g) Diversification

A firm can invest its deposit collection in various securities to minimize the risk. So, all the firms must diversify their fund or make portfolio investment. Diversification helps to earn a good return and minimize the risks and uncertainty. So, the firms are making portfolio investment with different securities of different companies.

2.1.2 Meaning of Some Important Terminologies

The study in this section comprises of some important banking terminology for which efforts have been made to clarify the meaning, which are frequently used in this research work. Their brief summary is presented below:

a) Loan and Advances

Loan, advances and overdrafts have occupied a huge portion for the mobilization of funds of the commercial banks. Bank deposits can be crossed beyond a desired level but the level of loans and advances and overdrafts will never cross it. Commercial Banks and other financial institution may take more preferential collateral while granting loan and advances. Some portion of loan and advances and overdrafts includes that amount which is given to staffs of the banks as home loan, vehicle loan, personal loan and others.

b) Investment on Government Securities, Shares and Debentures

Commercial bank can earn some interest and dividend from the investment on government securities, shares and debentures. It is not the major portion of income but it is treated as a second source of banking business. A commercial bank may extent credit by purchasing government securities, bond and shares for several reasons. Some of them are given as:

- It may want to space it's maturating so that the inflow of cash coincides with expected withdrawals by depositors of large loan demands of its customers.
- It may wish to have high-grade marketable securities to liquidate if its primary reserve becomes inadequate.

- It may also be forced to invest because the demand for loans has decreased or it is not sufficient to absorb its excess reserves.

However, investment portfolio of commercial bank is established and maintained primarily with a view of nature of banks liabilities since depositors may demand funds in great volume without previous notice to banks. The investment must be of a type that can be marketed quickly with little or no shrinkage in value.

c) Investment on other Company's Shares and Debentures

Due to excess funds and least opportunity to invest these funds in much more profitable sector and to meet the requirement of NRB directives many commercial banks have to utilize their funds to purchase shares and debentures of many other financial and non-financial companies. These days most of the commercial banks have purchased regional development banks, NIDC and other development bank's shares.

d) Off- Balance Sheet Activities

Off-balance sheet activities involve contracts for future purchase and sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities on balance sheet. Some good example of these items are letter of credit(L/C), letter of guarantee, bills of collections etc. nowadays, such activities are stressfully highlighted by some economist and finance specialists to expand the modern transaction of a bank.

e) Other use of Fund

A commercial bank must maintain the minimum bank balance with NRB i.e.6% for fixed deposits and 8% for each of current and saving deposit account in local currency. Likewise, 3% cash balance of local cash balance, in local currency, accounts must be maintained in the vault of the bank. Again a part of the fund should be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computers, stationery etc.

f) Deposits

Deposit is the most important source of the liquidity for each and every commercial bank. For financial strength of banks, it is treated as a barometer. In the word of Eugene, "a bank's deposits are the amount that it owes to its customers." A deposit is the lifeblood of the commercial banks. Even though, they constitute the great bulk of bank liabilities, the success of a bank greatly depends upon the extent to which it may attract more and more deposits, for accounting and analyzing purpose, deposits are categorized in three headings. They are:

- Current Deposits
- Saving Deposits
- Fixed Deposits

2.2 Review of Legislative Provisions

Legislative environment has significant impact on the commercial bank's establishment, their mobilization and utilization of resources. All the commercial banks have to confirm to the legislative provisions specified in the Commercial Bank Act 2031 and the rules and regulation formulated to facilitate the smooth running of commercial banks.

Compulsory Cash Reserve Ratio (CRR) and Refinancing

In order to improve the sluggish economy, continuity has been given to flexible monetary policy. NRB has revised the compulsory CRR effective from 22nd July 2002 with a view to reduce the cost of fund of banks which will facilitate the banks to reduce their lending rates without changing in deposit rates. As per this revision, in respect to balance with NRB requirements of commercial banks, the present level of 7 % of the domestic current and saving deposit liabilities and 4.5% of time deposit liability remain unchanged. The requirement of cash reserve in their own vault, however, has been brought down to 2% from 3%. In respect of refinancing rates, the present rate of 2% for export credit in foreign currency; 3% rehabilitation of sick industries, 4.5% for Grameen Bikas Banks(Rural Development Banks) and export credits in Nepalese currency; and 5.5% for all other types of refinancing remains unchanged. An additional amount of Rs. 1500 million has been set aside to provide refinancing facilities for such industries.

Table 2.1

Revised Compulsory Cash Reserve Ratio (in Percentage)

S.N	Description	20 December 2008	22 July 2008	Difference in % points
1	Cash deposit requirement in NRB by the commercial banks:			
	Total domestic current and savings deposit liabilities	7.0	7.0	
	Total domestic time deposit liabilities	4.5	4.5	
2	Cash-in-Vault requirement of the commercial banks(of total deposit liabilities)	3.0	2.0	1.0

Source: Nepal Rastra Bank

Receiving applications for the establishment of commercial banks has been stopped since 1995. Visualizing that such an administrative restriction is not in conformity with the liberal financial policy, the following new policy guidelines have been made public on 16th May 2003.

1) Paid up Capital

To establish a commercial bank of national level having its office in Kathmandu, joint investment with foreign bank and financial institution or a management contract at least for 3 years with such institutions is required. The paid up capital of such bank must be at Rs. 1000 million. To establish the commercial banks in all the places in the Kingdom other than in the Kathmandu Valley, the paid up capital must be Rs. 250 million.

2) Share Capital

In general, the share of commercial banks will be available for the promoters (70 percent) and general public (30 percent). The foreign banks and financial institutions could have a maximum of 67 % share in investment on the commercial banks of national level. In order to provide adequate opportunity for investment to the Nepali promoters in national level banks, only 20 % of total share capital will be made available to general public on the condition that the foreign bank and financial institutions are going to acquire 50% of the total share. In case of commercial banks to be established outside Kathmandu Valley, share investment of promoters and general public should stand at 70% and 30% respectively.

3) Legal Procedure

Banks to be established with foreign promoters, participation have also to be registered fulfilling all the legal processes prescribed by the prevalent Nepal laws.

4) Banks Already in Operation

Banks that is already in operation and those who have already acquired letter of intent before the enforcement of these provisions have to bring their capital level within seven years, i.e. by 16 July 2009, as per the recently declared provision. Such increase in the capital should be at a rate of 10 percent should be at the minimum.

5) Concerning up gradation

Banks to be established outside Kathmandu Valley could be allowed to operate throughout the Kingdom including Kathmandu Valley only on the condition that they have brought their paid up capital level to Rs. 1000 million and also fulfilled other prescribed conditions. Until and unless such banks do not get license to operate throughout the kingdom, they will not be allowed to open any office in Kathmandu Valley.

6) Promoters Share Payment Procedure

Of the total committed share capital, the promoters has to deposit in NRB an amount equal to 20% along with the application and another 30% at the time of receiving the letter of intent on a interest free basis. The bank should put into operation within one year of receiving the letter of intent. The promoters have to pay fully the remaining balance of committed total share capital before the bank comes into operation. Normally, within 4 months from the date of filling the application, NRB should give its decision for the establishment of the bank whether it is in favor or against it. If it declines to issue license, it has to inform in writing with reasons to the concerned body.

7) Promoters Qualification and Experience

Action on the application from promoters will not be initiated if it is proved that their collateral has been put on auction by the bank and financial institutions as a result of non-payment of loans in the past, who have not cleared such loans or those in the black list of the Credit Information Bureau and 5 years have not elapsed from the date of the removal of their name from such list. The application will be deemed automatically cancelled irrespective of it being on any stage of process for license issuance if the above events are proved. Of the total promoters, one-third should be its chartered accountant or at least a graduate of Tribhuvan University or recognized institutions with major in economics or accountancy, finance, law, banking or statistics. Likewise, one-fourth promoters should have the work experience of bank or financial institution or similar nature.

8) Promoters Share

Promoter Group's share can be disposed or transferred only on the condition that the bank has been brought in operation; the share allotted to the general public has been floated in the market and after completion of 3 years from the date it has been registered in the Stock Exchange. But before the disposal of such shares it is mandatory to get approval from NRB. The share allotted to general public has to be issued and sold within 3 years from the date the bank cannot issue bonus shares or declare and distribute dividends, shareholders of the promoters group and their family members cannot have access to loans or facilities from the same institution.

9) Branch Expansion

The commercial banks established in national level will initially be authorized to open a main branch office in Kathmandu Valley. They will be authorized to open one more branch in Kathmandu Valley only after they have opened two branches outside the Kathmandu Valley.

10) Disqualify from Becoming Director

An individual who is already serving as a director in one of the bank or financial institutions licensed by NRB cannot be considered eligible to become the director in other banks or financial institutions. Also, stock brokers, market makers and also an individual and institution involved as an auditor of the bank and institutions carrying on financial transactions cannot be a director, (Economic Survey 2002/03).

2.2.1 Fund Mobilizing Procedure of Joint Venture Banks

All the banks of entire world were applied their own fund mobilizing procedure. In practice, straightforward and effective fund mobilization procedure has adopted by the bank. Effective fund mobilization is the indicator of banks prosperity and its growth. Banks have some fund mobilizing procedure they are summarized below:

1. Sources of Fund

In the economic activities there are so many sources of fund. In these sources, issuing share and borrowing loan from different sector. The sources of funds can be categorized in two ways.

A. Owned Funds/ Equity Capital of Bank

Following are the sources of owned funds:

a) Ordinary Share

Ordinary sources are the bank's strong and reliable sources of funds. Banks promoters issue ordinary shares to the public in fixed number. Banks collects the fund by selling fixed ordinary shares to the public by adopting fixed rules and regulation. These public mke shareholders after purchasing the issued share.

b) Preference Share

It is that kind of share which receive dividend and after liquidation money before ordinary share. But in Nepal, bank can not issue preference share. But some situation it can issue preference share by taking permission from Nepal Rastra Bank.

c) Bonus Share

Company issue the extra share to the shareholder from the saving from profit and reserve fund by capitalizing these funds is known as bonus share. Bank issue shares to shareholders instead of banks amount. From this share, bank collects some share of funds.

d) Retained Earning

Banks earns profit by investing the funds in different sector through the principle of profit earning. Banks invests its fund in productive or profitable industries and business. Bank earns some amount from these investments.

e) Reserve Fund

Bank separates some share of capital in reserve funds in the time of banking activities. The reserve funds size based on banks earning and rules and regulation. Banks must separate some share of amount from profit in reserve fund. Banks have been earning by investing the reserve funds in liquid sector.

f) Undistributed Dividend

Bank does not distribute all profit to the shareholders. Banks invest some amount from profit by not distributing to shareholders. By this, the invested profit makes sources of funds to the banks.

B. Borrowed Fund of Bank

Bank collects the funds from another source except owned funds. Another source is borrowing from different sector. These types of funds collect borrow and debt capital. Following are the sources of the borrowed fund:

a) Selling of Debenture

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

b) Deposits

The bank performs two-fold functions, i.e. the receipt of the deposits and granting the loans. The bank borrows money by accepting different types of deposits. The bank attracts the deposits from the public. The bank not only undertakes to take care of the deposits but also agrees to honors the demands of the depositor for withdraw of money from the deposits. Deposits accepted by the bank are of different types. They are:

- **Current Deposit**

  It is also known as demand deposit. A customer can open a current account with a bank by making an initial of Rs. 100. Any amount may be deposited in this account. The bank makes a small charge on the customer having current deposit account.

- **Saving Deposit**

  In this deposit, there are restriction on the maximum amount that can be deposited and also withdrawals from the account. The bank may not permit more than one or two withdrawals during a week.

- **Fixed Deposit**

  A fixed deposit is one where a customer is required to keep a fixed amount with the bank for specific periods. He is not allowed to withdraw amount before expiry of the period. The rate of interest is higher than on other deposit account during this period the bank is free to make use this money for granting loans and advances.

c) Loan from the Central Bank

NRB is the central bank of Nepal. All banks should operate their banking activities by maintaining the rules and regulations directed by the NRB. In the time of necessity, NRB provides the loans for the banks. The loan granted by the central bank is a bank capital.

d) Loan from the Financial Institutions

Financial institutions also provide loan for the banks. Bank can receive loans from financial institutions in the form of borrowing. The loan granted by the financial institutions is also a bank capital.

e) Loan from Commercial Banks

If banks need money, it receives money from other commercial bank also in the form of borrowing. Banks fulfill the need of cash by taking loan from other banks. It is also the types of bank capital.

2. Mobilization of Funds

Banks utilize its funds in suitable area and right sector. Banks can not achieve its goals until and unless it mobilizes its funds in right sectors and by performing different activities. Many kind of activities and other thing can origin for the purpose of receiving invest from the bank. But bank should separate the useful and profitable sector for mobilization its funds. Banker being only a financial intermediary, we will not be able to make any profit unless he has to pay interest on deposits, meet establishment expenses, meet liquidity of cash balance, and yet allow him some balance from out of which he can build reserve and pay dividend to the shareholder.

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

Therefore, banks should mobilize its funds in suitable and profitable banking activities and right sector. Generally bank has mobilized its funds in the following activities.

a. Liquid Funds

A bank has kept a volume of amount in liquid funds. The funds have so many responsibilities in banking activities liquid funds has covered following transactions.

- Cash in hand

- Balance with NRB
- Balance with domestic bank
- Call money

b. Investment

Bank invests its fund in different banking activities and different fields. Many types of fields are shown in market for investment. But banks invest its funds in profitable and safety activities. Bank invests its fund in the following titles:

- Share and debenture
- Government securities
- NRB bond
- Joint-venture

c. Loan and Advances

Banks mobilize its funds by providing different types of loan and advances to customers, by charging fixed interest. Different types of loan and advances are

- To government enterprises
- To provide enterprises

Bank manages the different types of loans i.e. providing loan, business loan, and traditional loan to priority area.

d. Fixed Assets

Land and buildings are essential for the establishment of bank. Bank's funds are used in buying of furniture, vehicle, computer, and other concerned instrument, which are related to banking activities. Bank cannot take direct gain from these assets, but bank should buy it. A bank has a need of fund to purchase fixed assets for the new branches of the bank.

e. Administrative and Miscellaneous Expenses

Bank should manage funds for administrative and other miscellaneous expenses. The administrative expenses are:

- Salary of Employee
- Allowances
- Pension
- Advertisement
- Stationery

- Provident Fund
- Rent
- Income tax
- Donation
- Insurance
- Tour expenses
- Commission

The miscellaneous expenses are

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

In this way, bank mobilizes its fund by performing different activities to achieve its desired goals i.e. earning profit. Banks are able to earn sufficient profit by mobilizing its funds in proper way into the different profitable sector. It can utilize its collected fund as well as own funds in all banking activities by performing effective fund mobilization procedure.

2.3 Review of Related Studies

2.3.1 Review of Journals and Articles

In this subject, effort has been made to examine and review some of the related articles published in different economic journals, Bulletin of World Bank, dissertation papers, newspapers, researchers view and findings towards fund mobilization and other related books.

Sunil Chopra (1998) in his article, "*Role of Foreign Banks in Nepal*" had conducted that the joint venture banks playing an increasingly dynamic and vital role in the economic development of the country that will undoubtedly increase with time.

Sunity Shrestha(2002) has analyzed in her article, "*Financial Performance of Commercial Banks Using both Descriptive and Diagnostic Approach*.**"** In her studies she has concluded the following points:

a. The structural ratio of commercial banks show that banks invest on the average 75% of their total deposit on the government securities and the shares.

b. The analysis of resources position of commercial banks should quit high percentage of deposit as cash reserve.
c. Return ratio of all the banks show that most of the time foreign banks have higher return as well as higher risk than Nepalese banks.
d. The debt-equity ratios of commercial banks are more than 100% in most of the time period under study period. It led to conclude that the commercial banks are highly leveraged and highly risk. Joint venture banks had higher capital adequacy ratio but has been dealing every day.
e. In case of the analysis of the management achievement foreign banks have comparatively higher total management achievement index.

Ramesh Lal Shrestha (2003) in his article, "*A Study on Deposit and Credit of Commercial Banks in Nepal*" concluded that the credit deposit ratio would be 51.30%, other things remaining the same in Nepal, which was the lowest under the period of review. Therefore, he had strongly recommended that the joint venture banks should try to give more credit entering new field as far as possible, otherwise, they might not be able to absorb even the total expenses.

Shiva Raj Shrestha (2004) has presented a short scenario of investment management from his article "*Portfolio Management in Commercial Bank, Theory and Practice*." He has stressed in the following issues, in case of investors having lower income, portfolio management may be limited to small saving incomes. But, on the other hank, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore, portfolio management becomes very important both for an individuals as well as institutional investors. Large investors would like to select a best mix of investment assets and subject to the following aspects:

a. Higher return which is comparable with alternative opportunities available according to the risk class of investor.
b. Good liquidity with adequate safety on investment.
c. Certain capital gains
d. Maximum tax concession

e. Flexible investment

f. Economic and efficient investment

In the view of these aspects, investors are expected to develop the following strategy:

a) Do not hold any single security; try to have a portfolio of different securities.

b) Do not pull all the eggs in one basket i.e. to have a diversified investment.

c) Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower return with added objectives wealth maximization.

In order to prepare structure and modus operandi of effective portfolio management, Mr. Shrestha has presented the following approaches to be adopted.

1. To find out the investing assets (generally securities) having scope for better returns depending upon individual characteristics like age, health, need deposition, liquidity and tax liquidity etc.
2. To find out the risk of securities depending upon the attitude of investor towards risks.
3. To develop alternative investment strategies for selecting a better portfolio this will ensure a trade-off between risk and return so as to attain the primary objective of wealth maximization at lowest risk.
4. To identify variety of securities for investment to refuse volatility of returns and risk.

Bodi B. Bajracharya (2005) in his article "*Monetary Policy and Deposit Mobilization in Nepal*" that the mobilization of domestic saving is one of the prime objectives of monetary policy in Nepal. For this purpose, commercial banks stood as the active and vital financial intermediary for generating resources in form of deposit of the investors in different aspects of the economy."

He has explained that commercial banks only can play an important role to mobilize the national savings. Now days other financial institutions like finance companies, cooperative societies have been established actively to mobilize deposits in the proper sectors so that return can be ensured from the investment.

Bhaskar Sharma (2005) has found same results that all the commercial banks are establishing and operating in urban areas, in this study, "*Banking the Future on Competition*." His achievements are:

Commercial banks are establishing and providing their services in urban areas only. They do not have interest to establish in rural areas. Only the branch of Nepal Bank Ltd. and Rastriya Banijya Bank Ltd. are running in those sectors.

- Commercial banks are charging higher interest rate on lending
- They have maximum tax concession
- They do not properly analyze the system

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

Shekhar Bahadur Pradhan, (2001) in his articles, "*Deposit Mobilization, its Problem and Prospects"* He has presented the following problems in the context of Nepal:

- People do not have knowledge and proper education for saving in institutional manner. They so now know financial organizational process, withdrawal system, depositing system etc.
- Financial institutions do not want to operate and provide their services in rural areas.
- He has also recommended about how to mobilize the deposit collection by the financial institutions by rendering their services in rural areas, by adding various services.
- By operating rural banking programmes and unit
- Nepal Rastra Bank must organize training programmes to develop the skilled human resources

- By spreading a numbers of co-operative societies to develop mini banking services and improves the habits of public on deposit collection to the rural areas.

Radhe Shyam Pradhan (2001) has done a research for which he carried out a survey of 78 enterprises. Through his research entitled, "*Financial Management Practices in Nepal*." He found some of the major features of the Nepalese financial management. According to him "the most important one appeared to be maintaining good relation with stockholder. The finding reveals that banks and retained earning are most widely used financing sources. Most enterprises do not borrow from one bank only and they do switch between banks to banks whichever offers best interest rates. Most enterprises find that banks are faxable in interest rate. Among the banks loan, bank loan of less than one year are more popular in public sector where as banks loan of 1-5 years are more popular in private sector. In period of light money, the majority of private sector enterprises fell that bank will treat all firms equally while public sector does not feel so. Similarly, he concluded that the majority of enterprises in traded sector find that bank's interest rate is just right while the majority of non-traded sector find that the some is one higher side."

2.3.2 Review of Theses

Before this study, various studies regarding the various aspects of commercial banks such as fund mobilizing policy, financial performance, and investment policy, lending policy, interest rate structure, resource mobilization and capital structure have conducted several thesis works. Some of them, which are relevant for this study, are presented below:

Uttam Raj Panta, (1978) in his thesis *"A Study of Commercial Bank Deposits and Utilizations"* has tried to examine the resources collection and utilization. He has concluded that commercial banks have failed to utilize their resources due to lending for short term only. So that he has suggested that all commercial banks should give preference on long term lending sectors for the better utilization of the deposits and improvement of their existing situation.

He has tried to show the deposit position and utilization. He has not also explained the risk factors. His main focus is deposit collection, which can not show and analyze the financial position and proper investment policy. His study period is up to FY 1975/76 which can not show deposit position and its utilization for succeeding years.

Bhoj Raj Bohara (1992) in his thesis "*A Comparative Study of the Financial Performance of Nepal Arab Bank Ltd. and Nepal Indosuez Bank Ltd."* has studied mainly financial performance of two joint venture banks. His main objective is to examine the comparative financial performance (during FY 1986/87 to 1990/91) of NABIL and SCBNL in terms of their liquidity, activity and profitability. He has summarized and concluded that the increasing trend of SCBNL's earning per share, cash dividend per share, tax per share, net profit, total loans, total deposits and advances and market value per share in the last deposits, total loans and advances and market value per share in the last three years of the study period had shown improvement than that of NABIL.

He has also shown the comparative performance appraisal of only two joint venture banks. Although he has tried to analyze and explain the liquidity and explain the liquidity, activity and profitability position of two JVBs, he has not explained the investment policy and various types of risks. His study can not show the performance of the selected firms for the succeeding years because of time limitation i.e. up to 1990/91.

Uddab Prasad Sapkota (1998**)** in his thesis "*A Study on Fund Mobilizing Policy of Standard Chartered Bank Ltd in Comparison to Nepal Bangladesh Bank Ltd and Himalayan Bank Ltd"* having main objectives to examine the fund mobilizing policy adopted by three joint venture banks viz. SCBNL, NBBL and HBL and the way these banks mobilized their funds during five year study period i.e. from 1996/97 to 1999/2000.

He found the overall condition of SCBNL seems in satisfactory position in comparison to NBBL and HBL. In other words, he recommends that banks are strongly recommended to provide information about its services, facilities and extension of their services towards rural areas. These three banks are recommended to increase cash and bank balance to meet the need of investment and demand of loan and advances. And banks are to be investing its funds in the purchase of shares and debentures of other financial, non-financial companies, hotels and government companies.

Sapkota has not explained about the risk ratios which have to be faced by these joint venture banks. His study can not show the fund mobilizing policy of the selected banks for the succeeding years because of time limitation i.e. up to 1999/2000.

While reviewing the books and articles and previous studies, it is found that banks are not just the storehouse of the country's wealth but are the reservoirs of resources necessary for economic development and employment generation. There are still different obstacles in the effective operation of the commercial banks in Nepal. Therefore these obstacles should be eradicated for the economic development of Nepal.

Samiksha Thapa(2003) in his thesis *"A Comparative Study on Investment Policy of Nepal Bangladesh Bank Ltd. and other Joint Venture Bank of Nepal"* she has compared the investment activities of NBBL with only two joint venture bank i.e. Nepal Arab Bank Ltd. and Nepal Grindlays Bank Ltd. by taking five years data. She has recommended in two ways:

a. **Statement Recommendation:** She has suggested about investment in government securities, OBS operation loan recover act, sound credit collection policy, and project oriented approach, effective portfolio management, and innovative approach to bank marketing and banking facilities.

b. **Theoretical Recommendation:** She has suggested about liberal policy and coat management strategy.(2002)

Mahendra Mandala, (2004) in his thesis *"A Comparative Financial Performance Appraisal of Joint Venture Banks."* has studied primarily three joint venture banks i.e. NABIL, NGBL and Nepal Indosuez Bank Ltd. His main objectives is to find out the both banks, NGBL and NABIL have mobilized the debt funds in proper way for generating more return but Nepal Indosuez Bank (NIBL) could not mobilize as NABIL and NGBL. He has recommended that all the banks should provide their facilities in rural areas and encourage the small entrepreneur's development programmes, play merchant role, mobilize the deposit funds in productive sectors and grant priority to the local manpower.

He has not attempted to show the investment policy and concentrated only on financial performance of JVBs, therefore if can not represent the performance appraisal of JVBs. His study is comparative study of only three JVBs. His study period is up to FY 1997/98 and it can not analyze the investment policy after this fiscal year.

Udaya Bahadur Silwal (2004) in his thesis*"Lending Policy of Commercial Banks in Nepal"* having following objectives:

- To analyze the role of commercial banks in its historical perspective
- To show the relationship between deposits and loan and advances
- To identify major weakness of lending policy of the commercial banks

The research was conducted mainly on the basis of secondary data. Findings of this research are summarized below:

- Effectiveness of lending policy is directly based upon a sound banking system. But due to geographical variation, transportation and other regional disparities, it is very difficult to expand branches in different rural areas. So, it can be said that commercial banks in Nepal are not playing an active role to utilize their sources collected from different sectors.

- By paying higher interest rate, the banks are increasing deposits, which in turn increase saving habits of the general people. Then the banks will be able to utilize these idle funds in productive channels. This type of business of commercial bank is really a necessary one in an agricultural country like Nepal, where public investment has limited capacity.

M.N. Karmacharya (2006) in his thesis *"A Study on the Deposit Mobilization by the Joint Venture Banks"* has mentioned that the bank has successfully maintained its liquid asset position but could not mobilize its resources efficiently. He has concluded that Nepal Bank's utilization side is weak as compare to the collection of resources. He suggested for extending its branches, so NBL's deposit collection and also long-term as well as short-term credit may increase. He has recommended not to consider security factor only but to provide loan to genuine projects without securing.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Research Design

Research methodology is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives. This chapter refers to the overall research method from the theoretical aspects to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspects and logical aspect. This research tries to perform a well-designed quantities and qualitative research in a very clear and direct way using both financial and statistical tools.

3.2 Sources of Data

The study is mainly based on secondary data. The secondary sources of data collections are those that have been used from published on used by someone previously. The secondary sources of data are Balance Sheet, Profit & Loss account and literature publication of the concerned banks. The NEPSE report of the concerned bank has furnished some important data to this research work. Some supplementary data and information have been collected from the authoritative sources like Nepal Rastra Bank, Central Library of T.U., Shankar Dev Campus library, Nepal Commerce Campus library, Nepal Stock Exchange Limited, Security Exchange Board, Economic Survey, National Planning Commission, different journals, magazines and other published and unpublished reports documented by the authorities.

In order to fulfill the objectives of this research work, all the secondary data are compiled, processed and tabulated in time series. And to judge the reliability of data provided by the banks and other sources, they were compiled with the annual reports of auditors. Formal and informal talks to the concerned head of the department of the bank were also helpful to obtain the additional information of the related problem.

3.3 Population and Sample

There are altogether 26 commercial banks functioning all over the country and most of their stocks are traded actively in the stock market. Among them, nine are JVBs and eight are domestic commercial banks. In this study three joint venture banks are to be taken for research work. These banks are compared as sample for the study.

Among all the banks which are presented above only three banks are taken as a sample for comparative study. They are:

1. Everest Bank Ltd.
2. Himalayan Bank Ltd.
3. Nepal Investment Bank Ltd.

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

3.4 Data Analysis Tools

Analysis and presentation of the data is the core of each and every research work. This study requires some financial and statistical tools to accomplish the objective of the study. The financial and statistical tools are most reliable. In this study various financial, statistical and accounting tools have been used. These tools make the analysis more effective, convenience, reliable and authentic.

The various results obtained with the help of financial, accounting and statistical tools are tabulated under different headings. Then they are compared with each other to interpret the results. Two kinds of tools have been used to achieve the certain goals.

1. Financial Tools
2. Statistical Tools

3.4.1. Financial Tools

Financial tools basically help to identify the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. Financial tools are categorized into two parts. They are

- Ratio Analysis
- Sources and Uses of Funds
- Cash flow Analysis

Ratio Analysis

Ratio analysis is the powerful tool of financial analysis. A ratio is defined as “the indicated quotient of two mathematical expressions “the relationship between two or more things.” In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The relationship between two accounting figure expressed mathematically, is known as a financial ratio or simply a ratio. An accounting figure conveys meaning when it is related to some relevant information.

“A ratio is a mathematical relationship between two variables. It is significant for financial analysis. It also helps us to predict the future performance of a company based on study of ratios of earlier years.”

Thus, ratio analysis is the part of whole process of analysis of financial statements of any business or industrial concerned especially to take output and credit decision. Ratio indicates a quantitative relationship, which can be, in turn, used to make a qualitative judgment. Even though there are various types of ratios to analyze and interpret the financial statement, only six types of ratios have been taken in this study, which are related to fund mobilization of the banks. They are presented below:

A. Liquidity Ratios

i) Cash and bank balance to total deposit ratio
ii) Cash and bank balance to current assets ratio
iii) Investment on government securities to current assets ratio

B. Assets Management Ratios

i) Loan and advances to total deposit ratio
ii) Total investment to total deposit ratio
iii) Loan and advances total working fund ratio
iv) Investment on government securities to total working fund ratio
v) Investment on shares and debenture to total working fund ratio

C. Profitability Ratios

i) Return on loan and advances ratio
ii) Return on total working fund ratio
iii) Total interest earned to total working fund ratio

D. Risk Ratios

i) Liquidity risk ratio
ii) Credit risk ratio

E. Growth Ratios

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

A. Liquidity Ratios

Liquidity ratios are applied to measure the ability of the firms to meet short term obligations. It measures the speed of firms to convert the firms asset into cash to meet deposit withdraws and other current obligations. This is quick measure of the liquidity and financial strength of the firm.

"Liquidity ratios examine the adequacy of funds, the solvency of the firms ability to pay its obligation when due." Various types of liquidity ratios are applied in these studies, which are explained below:

i) Cash and Bank Balance to Total Deposit

Cash and bank balance are the most liquid current assets of a firm, cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositors immediately. This ratio is computed dividing the amount of cash and bank balance by the total deposits. It can be presented as,

$$\textbf{Cash and Bank Balance to Total Deposit Ratio} = \frac{\textbf{Cash and Bank Balance}}{\textbf{Total Deposits}}$$

Where, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance held abroad. Total deposits consist of deposits on current account, saving account, fixed account, money at call and short notice and other deposits.

ii) Cash and Bank Balance to Current Assets Ratio

This ratio measures the percentage of liquid assets i.e. cash and bank balance among the current assets of a firm. Higher ratio shows the higher capacity of firms to meet the cash demand. This ratio is calculated dividing cash and bank balance by total current assets and can be calculated as,

$$\textbf{Cash and Bank Balance to Current Assets Ratio} = \frac{\textbf{Cash and Bank Balance}}{\textbf{Current Assets}}$$

Hence, cash and bank balance includes cash in hand, foreign cash and foreign banks.

iii) Investment on Government Securities to Current Assets Ratio

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

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

Where, Investment on government securities involves treasury bills and development bonds etc.

B. Assets Management Ratios (Activity Ratio)

The asset management ratios, measures how effectively the firm is managing its assets. These ratios are designed to answer this question: does the total amount of each type of asset as reported on the balance sheet seem reasonable or not. If a firm has excessive investments in assets then its capital costs will be unduly high and its stock price will suffer.

In this study this ratio is used to indicate how efficiently the selected banks have arranged and invested their limited resources. The following financial ratios related to fund mobilization are calculated under asset management ratio and interpretation is made by these calculations.

i) Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out how successfully the selected banks are utilizing their total collections or deposits on loan and advances for the purpose of earning profit. Greater ratio shows the better utilization of total deposits. This ratio can be obtained dividing loan and advances by total deposits, which can be shown as,

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

ii) Total Investment to Total Deposit Ratio

Investment is one of the major sources of earning of profit. This ratio indicates how properly firm's deposits have been invested on government securities and shares and debentures of other companies. This ratio is computed by using following formula:

$$\textbf{Total Investment to Total Deposit Ratio} = \frac{\textbf{Total Investment}}{\textbf{Total Deposit}}$$

Where, total investment includes investment on government securities, investment on debentures and bonds, share in subsidiary companies, shares in other companies and other investments.

iii) Loan and Advances to Total Working Fund Ratio

The main element of total working fund is loan and advances. This ratio indicates the ability of selected banks in terms of earning high profit from loan and advances. Loan and advances to working fund ratio can be obtained dividing loan and advances amount by total working fund. That is formulized as,

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

Where, total working fund includes 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 items i.e. letter of credit, letter of guarantee etc.

iv)Investment on Government Securities to Total Working Fund Ratio

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

$$\textbf{Invt. on Govt. Sect. to Total Working Fund Ratio} = \frac{\textbf{Invt. on Government Securities}}{\textbf{Total Working Fund}}$$

Where, investment on government securities includes investment on debentures, bonds and shares of other companies.

v) Investment on Shares and Debentures to Total Working Fund Ratio

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

$$\textbf{Invt. on Shares and Debn. to TWF Ratio} = \frac{\textbf{Invt. on Shares and Debn.}}{\textbf{Total Working Fund}}$$

Where, total investment includes investment on government securities, investment on debenture and bonds, shares of other companies.

C. Profitability Ratios

Profit is only appeared when there is positive difference between total revenues and total cost over a certain period of time. Profitability ratios show the combined effects of liquidity, assets management, and debt on operating results. Profitability ratios are very helpful to measure the overall efficiency of operations of a firm. It is a true indication of the financial performance of each and every business organization. Here profitability ratios are calculated and evaluated in terms of the relationship between net profit and assets. Profitability of the firms can be presented through the following different ways:

i) Return on Loan and Advances Ratio

Return on loan and advances ratio shows how efficiently the banks have utilized their resources to earn good return from provided loan and advances. This ratio is computed dividing net profit (loss) by the total amount of loan and advances and can be mentioned as,

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

ii) Return on Total Working Fund Ratio

Return on total working fund ratio measures the profit earning capacity of the banks by utilizing available resources i.e. total assets. If the bank's well managed and efficiently utilized its working fund, it will get higher return. Maximizing taxes, this in the legal options available will also improve the return. It is computed as:

$$\textbf{Return on Total Working Fund Ratio} = \frac{\textbf{Net Profit}}{\textbf{Total Working Fund}}$$

iii) Total Interest Earned to Total Working Fund Ratio

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

$$\textbf{Total Interest Earned to TWF Ratio} = \frac{\textbf{Total Interest Earned}}{\textbf{Total Working Fund}}$$

iii) 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:

$$\textbf{Total Interest paid to Total Working fund Ratio} = \frac{\textbf{Total Interest paid}}{\textbf{Total Working fund}}$$

D. Risk Ratios

Generally, 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 is increased. This ratio checks the degree of risk involved in the various financial operations. For this study, following risk ratios are used to analyze and interprets the financial data and investment policy.

i) Liquidity Risk Ratio

The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit, as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need.

This ratio is low if funds are kept idle as cash and bank balance but this reduces profitability. When the bank makes loan, its profitability increases and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated by dividing cash and bank balance to total deposit.

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

ii) Credit Risk Ratio

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

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

E. Growth Ratios

The growth ratios represent how well the commercial banks are maintaining their economic and financial position. The higher ratios represent the better performance of the selected firms to calculate, check and analyze the expansion and growths of the selected banks the following growth ratios are calculated. Growth ratios are directly related to the fund mobilization and investment of those firms.

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

II. Sources and Uses of Funds

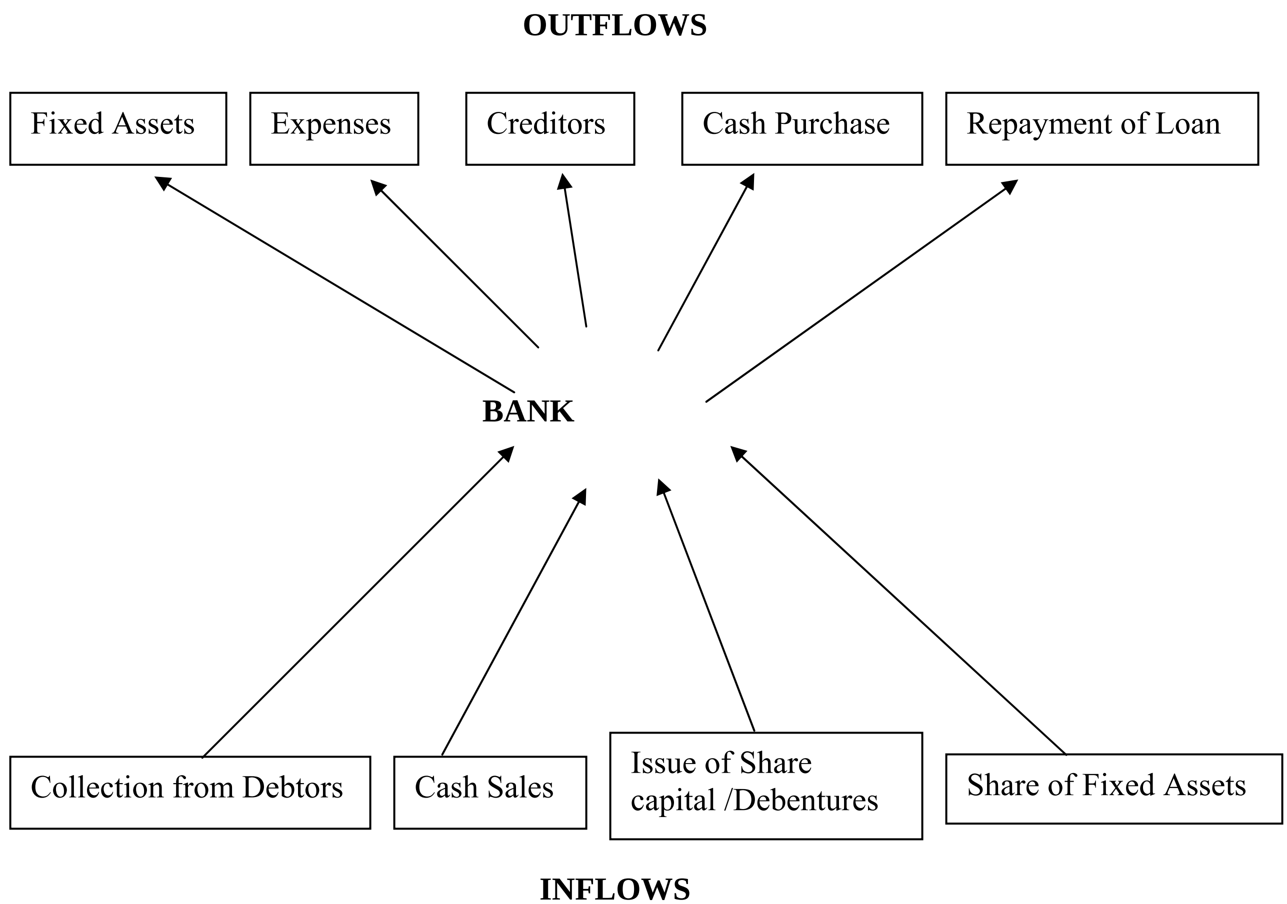
Management of funds is the important part of the banking business. The problem of managing funds is great for banks than it is for almost any other enterprise. The sources and uses analysis took out proportion of each source and each use to the total funds of the bank and it was expressed in percentage.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

III. Cash Flow Analysis

Cash is the lifeblood of an organization. No business can be satisfactorily managed unless careful attention is paid to its requirements of cash. Without it a business will cease to operate. Therefore, an analysis of cash flows is useful for short-run planning. A firm needs sufficient cash to pay debts maturing in the near future, to pay interest and other expenses and to pay dividends to shareholders.

The analysis of events and transactions that affects the cash position of company is termed as cash flow analysis. Cash flow analysis is done through statement of cash flows. A cash flow statement is a statement of company's ability to generate cash from various activities such as **operating, investing, and financing** and their need of cash. It is a statement which shows the inflows and outflows of cash and cash equivalents during the year. *(Wagle and Dahal, 2003; 11.2)*

This statement is prepared to know clearly the various items of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis relates to the movement of cash rather than the inflow and outflow of working capital. It summarized the causes of change in cash position between dates of two balance sheets. While preparing cash flow statement, only cash receipts from debtor against credit dates are recognized as the source of cash. Similarly, cash purchases and cash payment to supply for credit purpose is regarded as the use of cash. The projection of cash flow for near future can be made to determine the availability of cash. This cash balance can be matched with the firm's need for cash during the period and accordingly, arrangements can be made to meet the deficit or invest the surplus cash temporarily. A historical analysis of cash flows provides insight to prepare reliable cash flow projections for the immediate future.



3.6.2 Statistical Tools

In this study, some important statistical tools have been used to present and analyze the data for achieving the objectives. Such as coefficient of correlation between different variables, trend analysis of important variables as well as hypothesis test (t-statistic) has been used, which are presented below:

i) Karl Pearson's of Coefficient of Correlation Analysis
ii) Coefficient of Variation (C.V)
iii) Standard Deviation (S.D)
iv) Probable Error (P.E)
v) Trend Analysis
vi) Testing of Hypothesis
vii) T-test

i) Karl Pearson's Coefficient of Correlation Analysis

This statistical tool has been used to analyze, identify and interpret the relationship between two or more variables. It interprets whether two or more variables are correlated positively or negatively. Statistical tool analyses the relationship between those variables and helps the selected banks to make appropriate investment policy regarding to profit maximization and deposit collection; fund mobilization through providing loan and advances.

For the purpose of decision-making, interpretation is based on following term:

- When r = 1, there is perfect positive correlation.
- When r = -1, there is perfect negative correlation.
- When r = 0, there is no correlation.
- When ‘r’ lies between 0.7 to 0.999 (-0.7 to 0.999), there is a high degree of positive (or negative) correlation.
- When ‘r’ lies between 0.5 to 0.699, there is moderate degree of correlation.
- When ‘r’ is less than 0.5, there is low degree of correlation.

Karl Pearson's correlation coefficient has been used to find out the relationship between the following variables:

a) Coefficient of correlation between deposit and loan and advances

Correlation coefficient between deposits and loan and advances measures the degree of relationship between two variables i.e. X and Y. In this analysis, deposit is independent variables (X) and loan and advances is dependent variables (Y). The main purpose of calculating correlation coefficient is to justify whether the deposits are significantly used in proper way or not and whether there is any relationship between these two variables.

b) Coefficient of correlation between deposit and total investment

Correlation coefficient between deposit and investment is to measure the degree of relationship between deposit and total investment. In this analysis, deposit is independent variables (X) and total investment is dependent variables (Y).

Karl Pearson's Correlation coefficient(r) can be obtained as:

$$R = \frac{N\sum XY - \sum X \sum Y}{\{\sum X^2 - (\sum X^2)\}\ \{N\sum Y^2 - (\sum Y^2)\}}$$

Where,
n = number of observations in series X and Y
$\sum X$ = sum of observations in series X
$\sum Y$ = sum of observations in series Y
$\sum X^2$ =sum of squared observations in series X
$\sum Y^2$ = sum of squared observations in series Y
$\sum XY$ = sum of the product of observations in series X and Y

ii) Coefficient of Variation (C.V)

The coefficient of variation is the most commonly used measure of relative variation. It is used in such problems where the researcher wants to compare the variability of more than two years. Greater the C.V, the variable or conversely less consistent, less uniform, more consistent, more uniform, more stable and homogeneous.

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

iii) Standard Deviation (S.D)

The standard deviation is an important and widely used measure of dispersion. The measurement of the scatter ness of the mass of figure in a series about an average is known as dispersion. The greater the amount of dispersion, greater the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposites it is denoted by the letter σ.

$$\text{S.D } (\sigma) = \sqrt{\frac{1}{N}\sum(X - \overline{X})^2}$$

Where,

N = Number of observations

X = Expected return of the historical data

iv) Probable Error (P.E)

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

$$P.E = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

Where,

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

r = Correlation coefficient

n = Number of observations

v) Trend Analysis

The easiest way to evaluate the performance of a firm is to compare its current ratios with past ratios. When financial ratios over a period of time are compared it is known as the trend analysis. It gives an indication of the direction of change and reflects whether the firm's financial performance has improved, deteriorated or remain constant over time. This type of statistical analysis interprets the trend of deposits, loan and advances, investments and net profit of EBL, HBL, and NIBL from 2001/2002 to 2007/2008. It is necessary to calculate the forecasting for next five years till 20012/13.

The projections are based on the following assumptions:

i) Other things will remain unchanged.
ii) The bank will run in present position.
iii) The economy will remain in the present stage.
iv) NRB will not change its guidelines to commercial banks.

The trend values used in this study are presented below:

a) Trend Analysis of total investment to total deposits ratio
b) Trend Analysis of loan and advances to deposit ratio

vi)Test of Hypothesis

Under this analysis the effort has been made to test the significance level regarding the parameter of the population on the basis of sample drawn from the population. The following steps have been followed for the test of hypothesis:

a) Formulating hypothesis
   i) Null Hypothesis (H_0)
   ii) Alternative Hypothesis (H_1)
b) Computing the t- statistic
c) Fixing the significance level
d) Finding critical region
e) Deciding two-tailed or one-tailed test
f) Decision making

In the following lines, some of main hypothesis tests are calculated and decision is made according to findings.

Null Hypothesis (H_0): $\mu_1 = \mu_2 = \mu_3$ i.e., there is no significant difference between mean ratios of loan and advances to total deposit of HBL, EBL and NIBL.

Alternative Hypothesis (H_1): $\mu_1 \neq \mu_2 \neq \mu_3$ i.e., there is significant difference between mean ratios of loans and advances to total deposits of HBL, EBL and NIBL.

vii) t- test

If we draw a large number of small samples i.e. (n< 30) and compute the mean for each sample and then plot the frequency distribution of these means, the resulting sampling distribution would be t-test. On these study sample are taken only for seven years i.e. (7< 30).

Assumptions:

a) The present population from which the sample is drawn is normal or approximately normal.
b) The given sample is drawn by random sampling method.
c) The population standard deviation (σ) is not known.

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