CHAPTER-I

INTRODUCTION

1.1 Background of the Study

The return of any banks basically depends upon its sound lending policy, lending procedure and investing its fund in different securities and different sectors of market. A sound fund mobilizing policy is not only prerequisite for bank profitability but also crucially significant for the promotion of commercial saving of backward country like Nepal (Joshi, 2004:2).

Finance is the life blood of the economic development of any country. Development of trade, commerce and industry are the prime requisite or the attainment of the economic, political and social goals. To fulfill the propose of planning, finance functions more often dominate the other function. There is always lack of finance in underdeveloped sectors or even either purpose (Deweet, 1995:618).

Banking industry has acquired a key position in mobilization resources for financial and social economic development of a country. No function is more important to the economies and its constituent part than financing. Bank assists both the flow of goods and service from the product to the consumer and the financial activities of the government. Banking provides the country with a monetary system of making payment and is in important part of the financial system, which makes loan to maintain and increase the level of consumption and production in the economy.

Liquidity refers to that state of position of a bank that pronounces its capacity to meet its entire obligation. It refers to the capacity of bank to pay cash against deposits. People deposit money at the bank in different accounts with the confidence that the bank will repay their money when they need. To maintain such confidence of the depositors, the bank must keep this point in mind while investing its excess fund in different securities at the time of lending. So that it can meet current or short - term obligation when they become due for payment (Baxley, 1987:38)

Bank should always know the purpose of loan demanded by a customer because if the borrower misuse the loan granted by the bank he will never able to repay interest and principal. In order to avoid such circumstances, loans should be allowed to the selected borrowers and it should demand all the essential detailed information about the scheme of project in which the bank is lending for. Bank must keep in mind the overall development plans of the nation and the credit policy of the concerned authority i.e. Central Bank (Joshi, 2004:35-37).

The development of a country is always measured by its economic development through economic indices. Therefore every country has given emphasis on up liftmen of its economy. Now days the financial instantiation are viewed as catalyst in the process of the economy growth the mobilization of the domestic resources is of the key factors in the economic development of a country.

Banking plays a significant role in the development of nations. Bank is a financial institution which primary classes in borrowing and lending. Modern bank prefers varieties of functions. Therefore, it is difficult to decide the function of a modern bank because of their complexity and versatility in operation. Various authors have defined the word 'Bank' in different ways. "A commercial bank is dealer in money and it substitutes for money such a cheque or bills of exchange, it also provides a variety of financial service" (Britannica, 1985:600).

Commercial banks are major financial institutional, which occupy quite important place in the framework in every economy because they provide capital for the development of industry. Commercial banks formulate sound investment policies to make it more effective, which eventually contribute to the economic growth of country. The bound policies help commercial banks maximizing quality and quantity of investment and hereby achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and co-ordinate and planned efforts pushed forward the forces of economic growth.

The fund mobilization policy cannot be sound unless it is based on a clear knowledge of the cost of credit. The cost is determined by the quantity of credit sales, the average collection period and the opportunity cost of capital. Whilst a marginal costing approach should be used which takes only incremental cost into account, the full opportunity cost has to be considered. The overall cost of credit will also be affected by the expected rate of inflation. Foreign accurate assessment of the cost of capital, a discounting approach should be used. A credit package can be differentiated in various ways; by duration, by interest charge, and by the interaction with the rest of the pricing mix.

Credit is regarded as the most income generating assets especially in commercial banks. Credit is regarded as the heart of the commercial banks in the sense that; it occupies large volume of transactions; it covers the main part of investment; the most of the investment activities based on credit; it is the main factor for crating profitability; it is the main source of creating profitability; it determines the profitability. It affects the overall economy of the country. In today's context, it also affects on national economy to some extent. If the bank provides credit to retailer, it will make the customer status. Similarly, it provides to trader & industry, the government will get tax from them and help to increase national economy. It is the security against depositors. It is proved from very beginning that credit is the shareholder's wealth maximization derivative. However, other factors can also affect profitability and wealth maximization but the most effective factor is regarded as credit. It is the most challenging job because it is backbone in commercial banks. Thus, effective management of credit should seriously be considered.

Generally fund mobilizing means cash flow in the different sectors at profit motive. In the broadest sense it means, the sacrifice of certain current value for future value or possibly uncertain value. This research focuses on the comparative study of fund mobilization of two JVBs; NCC and NABIL Bank Limited. The study focuses whether it is backward or forward in investing its fund efficiently in the business, industry and commerce. In this study NCC is compared with the Nabil Bank Limited on their future fund mobilizing activities by collecting seven years data from the year 2000/01 to 2006/07. Both banks have strong position in the market with new banking system and their activities.

Fund mobilizing is always related with risks and returns. It is appropriate to state that the objective is to make a lot of money by recognizing the possible losses. Fund mobilizing policy also involves the identification of the potential categories of financial assets for consideration in the ultimate portfolio (Joshi, 2004:4-7).

NCC Bank Limited

Nepal Credit & Commerce Bank Ltd. was established on 14th October 1996 as Nepal - Bank of Ceylon Ltd. (NBOC), a Joint Venture Commercial Bank between Bank of Ceylon, Sri

Lanka, the Pioneer Bank in Sri Lanka and Nepalese Promoters, NB Group (Nepal) Pvt. Ltd. and Nepal Insurance Company Ltd. It enjoys the reputation of the first Bank with largest authorized capital of NRS. 500 Million. It also ventured to establish its Head Office outside the capital of the country at Siddharthanagar, Rupandehi, the birthplace of LORD BUDDHA, The Light of Asia for the first time in the Nepalese context.

NBOC started its operations from Siddharthanagar on October 14, 1996. Within nine months of its operation NBOC expanded its business through four branches, Siddharthanagar and Lumbini in Rupandehi, Bag Bazaar in Kathmandu and Barahbise in Sindhupalchowk. The Name of the Bank has been changed to Nepal Credit & Commerce Bank Limited on 10th September 2002. This change was effected due to the transfer of shares and management from Sri Lankan co-venture to Nepalese Promoters. At present NCCB provides its financial facilities and services to rural and urban areas of the Kingdom through its 17 branches. The bank has developed corresponding agency relationship with more than 180 international banks having worldwide network.

Bankers with the quality service strive for expansion with profitability, professionalism and personalized Banking Services is the mission statement of the bank.

The main goal of NCCB is to provide a wide range of banking services and products in the emerging socio-economic environment within and outside the country maintaining high standards of integrity and efficiency with excellence.

Nabil Bank Limited

Nabil Bank Limited commenced its operation on 12 July 1984 as the first joint venture bank in Nepal. Dubai Bank Limited, Dubai (later acquired by Emirates Bank International, Dubai) was the first joint venture partner of Nabil. Currently, NB (International) Limited, Ireland is the foreign partner. Nabil Bank Limited had the official name Nepal Arab Bank Limited till 31st December 2001. Nabil is pioneer in introducing many innovative products and marketing concept in banking sector of Nepal. Now days Nabil bank has different cards like visa electronic debit card, local currency visa and master card, USA dollar Master Card and foreign currency travel Master Card. The ownership of Nabil is composed as:

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

1.2 Statement of the Problem

Fund mobilizing is most important factor for promoters, shareholders and managements. After 1984, several joint venture banks have been established in the country in a short period. Mushrooming of joint venture banks is the present situation of Nepalese financial system. There is high flow of money in the market but less viable and investible project. Most of the commercial banks are continuously benefiting to shareholders and returning them adequate profit. There are few sectors to make a profitable investment and the investors are always reluctant to risk. Several JVBs have been established in our country with in short period of time. Fund mobilizing policy of JVBs may differ from each other but there is no optimum utilization of shareholder's fund to have greater return in any bank. Nepal Rastra Bank played important role to make commercial bank mobilize their fund in good sector. For this purpose, NRB has imposed many rules and regulations so the bank can have sufficient liquidity and security.

The insufficient information on financial risk, interest rate risk, management risk, business risk, liquidity risk, default risk and purchasing risk, granting loan against insufficient deposit, overvalued of goods pledged, land and building mortgaged, risk averting decision regarding loan recovery and negligence in recovery of overdue loan are some of the basic lapses and the result of unsound investment policy sighted in the banks. Currently there are nine JVBs banks operating in Nepal. NABIL and NCC have been collecting comparatively enough deposit from the beginning. They make profit by making proper investment in the form of loan and advance and mobilize the funds on government securities and bond or others.

Fund mobilizing is always related with risks and returns. It is appropriate to state that the objective is to make a lot of money by recognizing the possible losses. Fund mobilizing policy also involves the identification of the potential categories of financial assets for consideration in the ultimate portfolio. In this ground the study deals with the following issues:

a) Is there any relationship between investment and loan and advances with total deposits and total net profit?
b) What is the effect of the invesptment decision to the total earning of the bank?
c) Is there appropriate utilization of available funds?
d) Is there any stability in fund mobilization between NCC and NABIL?
e) Are they maintaining sufficient liquidity position?

1.3 Objectives of the Study

The main objective of the study is to analyze the fund mobilizing policy adopted by NABIL and NCC Bank Limited. The specific objectives of the study are as follows:

a) To measure the relationship of total deposits with total investment, loan and advances and net profit.
b) To evaluate the growth ratio on total investment, loans and advances, total deposits and net profit of NCC and NABIL Bank Limited.
c) To evaluate financial efficiency of NCC and NABIL Bank on the basis of Assets management and leverage position.
d) To observe the trend of deposit, loan and advance and net profit.
e) To provide suggestions on the basis of major findings.

1.4 Significance of the Study

Good and optimum fund mobilizing policy of a bank depicts the sound health of the bank and successfully formulation of fund mobilizing policy and its effective implementation is a most in banking business. This study will be helpful to all banking sectors in mobilization of collected funds from public in following manner:

i. The study of fund mobilizing policy would provide information to the management of the bank that would help there to take corrective action in the field of banking activities.
ii. The study would provide information to the shareholders about investment on shares of various banks.
iii. The study would help the depositors to make proper decision about making deposit on their money in the concerned bank.
iv. General public can also get information about mobilizing activities of a bank with the help of the study.
v. Government gets help while formulating policy from this study.
vi. The study would help the student to get knowledge about the banking activities.

1.5 Limitation of the Study

This study has been limited by following factors:

a) The whole study is based on secondary data from the bank and accuracy depends upon the information provided by the organization.
b) The study concerns only a period of seven years from2000/01 to 2006/07 and conclusion drawn confines only the above period.
c) The study lacks in time and other resources as well.
d) Only two joint ventures banks NCC Bank Limited and Nabil Bank Limited are considered as pioneer in the banking business of Nepal to compare each other.
e) There are many factors that affect fund mobilizing decision and valuation of the firm. However, only those factors that are related with fund mobilization will be considered in this study.

1.6 Organization of the Study

The study has been divided into following five chapters:

Chapter- One: Introduction
Chapter- Two: Review of Literature
Chapter- Three: Research Methodology
Chapter- Four: Data Presentation and Analysis
Chapter- Five: Summary, Conclusion and Recommendations.

The first chapter deals with the introduction consisting, background of the study, statement of the problem, objective of the study, significance of study, limitations of the study and organization of the study.

The second chapter is mainly focused with literature review that includes a discussion on the conceptual framework on fund mobilization and review of previous studies i.e. books, journals, articles, dissertation etc.

The third chapter describes the research methodology used to conduct the present research. It deals with research design, sources of data, data processing procedures, population and sample, period of the study, method of analysis and financial and statistical tools. The fourth chapter deals with presentation, analysis and interpretation of relevant data through definite courses of research methodology using various financial and statistical tools and at the end of chapter major findings of the study have been presented.

The fifth chapter is the last part of study, which is related to summary, conclusion and recommendations of the study and at the end of the study bibliography and appendices have been included.

CHAPTER -II

REVIEW OF LITERATURE

Review of literature is basically a stock taking of available literature in the field of research. Every possible effort has been made to grasp knowledge and information that is available from libraries, document collection centre, other information managing bureaus and concerned commercial banks. This chapter helps to take adequate feedback to broaden the information to the study. The first part of the chapter includes the conceptual framework and the second part includes the review of various related studies.

2.1 Conceptual Framework

This chapter focuses to discuss briefly about the theoretical concept of the investment and its relation with other subject matter in relation to the banks. Bank plays an important role in the economic development of a country. Banking when properly organized, aids and facilitates the growth of trade and industry and hence of national economy. In the modern economy, banks are considered not as a dealer in money but as the leaders of development. Banks are not just the storehouses of the country's wealth but are the reservoirs of resources necessary for economic development.

Commercial banks deal with others people money. They have to find ways of keeping their assets liquid so that they could meet the demand of their customers. In their anxiety to make profit, the bank cannot afford to lock up their funds in assets, which are not easily releasable. The depositors must be made to understand that the bank is fully solvent. The depositor's confidence could be secured only if the bank is able to meet the demand for cash promptly and fully. The banker has to keep adequate cash for this purpose. Cash is an ideal assets and the banker cannot afford to keep a large possession of his assets in the form of cash. Therefore the banker has to distribute his assets in such a way that he can have adequate profits without sacrificing liquidity. (Radheswamy and Vasudevan.1979)

Commercial Bank Act 2031 B.S. of Nepal has defined that "A commercial bank is one which exchanges money, deposits money, accepts deposits ,grant loans and performs commercial banking functions which is not a bank meant for co-operative, agriculture, industries or such specific purpose."

Investment can be defined as the sacrifice of present consumption with expectation of return in future. Investment takes place at present but return can be expected in future and it is uncertain too. Uncertainty is measured by risk. Since there is always involvement of risk in investment, investment operation of commercial banks is very risky one. Bank came into existence mainly with the objectives of collecting the idle funds mobilizing them into productive sector and causing an overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society as a whole they are serving. So, banking sector is exposed to a number of risks.

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

The development of the country is always measured by its economic development through economic indices. Therefore, every country has given emphasis on enlistment of its economy. Now a day the financial institution is viewed as catalyst in the process of the economic development through mobilization of domestic resources. The financial institutions act as intermediaries by transferring the resources from the point of surplus to the deficit. A new organized financial institution including financial companies, commercial banks and other financial intermediaries play an important role for the development of a country. They collect scattered financial resources from the mass and invest them among those who are associated with the social, commercial and economic activities of a country. The most dominant financial institution in the economy of Nepal is non-other than the commercial bank itself. This institution offers the public both deposit and credit services. Commercial Bank plays an important part for economic development of a country as they provide capital for the development of industry, trade and business by investing the saving collected as deposits from the public. They render various services to their customer facilitating their economic and social life. Therefore, a competitive and reliable banking system is essential in every country for their growth and development.

A joint venture is forming of two forces between two or more enterprises for the purpose of carrying out a specific operation (Gupta, 1984:15-25). Joint venture banks are the commercial banks formed by joining the two or more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industry as well as in the form of negotiation between various group of industries and traders to advice mutual exchange of goods and services. "Joint venture banks are the mode of trading to advice mutual exchange of goods and services for sharing competitive advantage by performing joint investment scheme between Nepalese investors, financial and non-financial institutions as well as private investors and their parent banks each supplying fifty percent of the investment. The parent banks, which have experiences in highly merchandised and efficient modern banking services in many parts of the world have come to Nepal with higher technology, advance management skills. Joint venture banks are established by joining difference forces and with ability to achieve a common goal with each of the partners. They are more efficient and effective monetary institution in modern banking fields than other old types of bank in Nepalese context (Udas, 2001:55). The primary objective of the joint venture banks is always to earn profit by investing or granting the loan and advances to the people associate with trade, business and industry etc. that means they are required to mobilize their resources properly to acquire profit. How well a bank manages in investment, has a great deal to do with the economic health of the country because the bank loans support the growth of economic activities of the country (Udas, 2001:56)..Nowadays there is very much competition in banking market but less opportunity to make investment. In this condition, joint venture bank can take initiation in search of new opportunities, so that they can survive in the competitive market and earn profit. But investment is a very risky job. For a purposeful, safe, profitable investment bank most follows sound investment and fund mobilizing policy. Nepal entered in the world of banking with the establishment of Nepal Bank Limited in 1937 A.D. In 1955 A.D. the first central bank named as the "Nepal Rastra Bank" was established with the objective of supervising, protecting and directing the functions of Commercial Banks. Just ten years later in 1966 A.D., another commercial bank fully owned by government named Rastriya Banijya Bank was established under the 'Banijya Bank Act' 1964 A.D.

With the purpose of enhancing agriculture development, Agriculture Development Bank (ADB/N) was established under ADB/N Act 1967 A.D. ADB/N provides banking services in some urban area of Nepal as that of other commercial banks. Long after the establishment of above-mentioned commercial banks, in 1980s government of Nepal introduced financial sector reforms, which facilitated the establishment of joint venture banks and pointed a new horizon to the financial sector of Nepal. The number of commercial banks increased dramatically after the democratically elected government adopted the liberal and market oriented economic policy.

Generally Bank is an institution, the essential operation of which is to make the monetary transaction possible in a sound and effective way. Bank accepts deposits of money from those who save and lend to those who need credit for some purpose. Bank accumulates idle money from general public by offering attractive or sound interest and lends it to the fund seekers in the economy Investment in fixed assets would be possible where by productivity could grow, employment could be generated and finally national economy could be enhanced. Banks are also found to be involved in a number of agency services of remitting and collecting cash on be half of its clients by opening bank drafts and letter of credit facility etc.

Besides, the main task of bank is to mobilize idle resources into productive sector by collecting it from scattered sources and generating profit. Banks also facilitates people to carry out their financial transaction in every sector such as organization, industries, agriculture trade and needy people as well. Bank accepts deposits in numerous forms depending upon the nature of savers and banks own product offering strategy .Some of the common deposits are saving, fixed and call deposits etc. the cost of deposits to the banks varied as central bank has freed up the commercial bank to offer the interest rate on their own. However, it's said that the average cost of deposits for the bank is 4%.Development of nation banking sector of that country is responsible and must be strong.

The commercial banks are operating and providing their services to different sector of Nepal. Among them nine banks are joint venture banks. Joint venture banks have been contributed a lot towards the promotion and expansion of both export and import trade. They provide both pre-shipment and post-shipment finance to exporters. Since, these banks are new, urban based and managed by foreign management they started their operation with automated system which could easily attract the elite group of business community due to their prompt service modern management. In this way joint venture banks, increase in foreign investment promoted and expand export and import trade, introduce new techniques and technologies. All these reveals vital role and needs of joint venture in Nepalese Banking sector on financial service industry. This study focuses on fund mobilizing policy of a NCC Bank Limited in comparison to Nabil Bank Limited.

2.1.1 Commercial Banking Scenario in Nepal

The history of modern financial and monetary development in Nepal is not very old. It was in 1937 that the first commercial bank (Nepal Bank Ltd.) was established in Nepal with 51% Government equity. With increased banking needs of the economy, the second commercial bank, Rastriya Banijya Bank came into existence in 1966 with 100% Government ownership in early 1980s to meet the need for healthy competition in the financial system.

Nepal allowed the entry of joint venture banks with a maximum of 50% equity participation; Nepal Arab Bank Ltd. was the first bank to be set up under such arrangement in 1984. Commercial banks are considered second types of banks. These banks have been playing a great role for the economic development of the country directly or indirectly. During mid 1980s they adopted the policy of liberalization, which attract the foreign banks to come to Nepal. In 1984, Nabil Bank Ltd. was established as the first joint venture bank. After the restoration of democracy in 1990, Nepal adopted democratic constitution that was lauded as the best social – legal document in the world (Business law Journal, 2003:10).

There should be the establishment and extension of banks for the economic growth because it provides loan to the different sector of the country. In actual sense, the banks are centralized in urban area in developing country because they are inspired with the purpose of earning profit and also the security problem. Commercial banks invest against the guarantee of Nepal government or any foreign government or against the security of movable or immovable property. They provide loans on the basis of co- financing according to the agreement concluded among the banks and financial institution so on as to divide the collateral. The number of extensions of the above mentioned banks are Nepal Bank Ltd.- 117, Rastriya Banijya Bank - 116, Nabil Bank Ltd.- 18, Nepal Investment Bank Ltd.- 16, Standard Chartered Bank Nepal Ltd.- 14, Himalayan Bank Ltd.- 14, Nepal SBI Bank Ltd.- 11, Nepal Bangladesh Bank Ltd.- 07, Everest Bank Ltd.-20, Bank of Kathmandu Ltd.- 08, Nepal Credit and Commerce Bank Ltd.- 12, Lumbini Bank Ltd.- 06, Nepal Industrial and Commercial Bank Ltd.- 04, Machhapuchhre Bank Ltd.- 05, Kumari Bank Ltd.- 04, Laxmi Bank Ltd.- 07, Siddhartha Bank Ltd.- 04, total 381 branches are held in all over the country (Banking and Financial Statistics, 2006:35).

Conceptual framework describes the following terms that are closely related with the topic of this study.

2.1.2 Fund Mobilization Policy

The return of any banks basically depends upon its sound lending policy, lending procedure and investing its fund in different securities and different sectors of market. A sound fund mobilizing policy is not only prerequisite for bank profitability but also crucially significant for the promotion of commercial saving of backward country like Nepal (Joshi, 2004:35).

Features of Sound Lending Policy

There are basically five principles for the sound lending policy:

1) Liquidity: - Liquidity refers to that state of position of a bank that pronounces its capacity to meet its entire obligation. In other words, it refers to the capacity of bank to pay cash against deposits. People deposit money at the bank in different accounts with the confidence that the bank will repay their money when they need. To maintain such confidence of the depositors, the bank must keep this point in mind while investing its excess fund in different securities at the time of lending. So that it can meet current or short - term obligation when they become due for payment.

2) Safety and Security: - Bank must take care while investing its fund. It should never invest its fund in those securities, which are too volatile since a small change causes a great loss. The

bank should accept that type of securities, which are commercial, durable, marketable and of high market value. For this purpose, MAST should be followed:

M= Marketability
A= Ascertain ability
S= Stability
T= Transferability

3) Profitability: - Commercial banks invest on those sectors that derive the maximum income. Hence the investment or granting of loan and advances by them are highly influenced by profit margin. Generally the profit of commercial banks depends upon the interest rate of the bank, volume of loan provided, time period of loan and nature of investment on different securities.

4) Suitability: - Bank should always know the purpose of loan demanded by a customer because if the borrower misuse the loan granted by the bank he will never able to repay interest and principal. In order to avoid such circumstances, loans should be allowed to the selected borrowers and it should demand all the essential detailed information about the scheme of project in which the bank is lending for. Bank must keep in mind the overall development plans of the nation and the credit policy of the concerned authority i.e. Central Bank.

5) Diversification: - Diversification reduces the risk of recovery. The bank must not invest the funds in specific sector but to the various sectors so that when something goes wrong in one particular sector other will recover (Joshi, 2004:37-42).

2.1.3 Some Important Terms

In this section of the study, efforts have been made to clarify the meaning of some important terms frequently used in this study. They are presented below:

1) Deposits: - Basically deposits mean the amount deposited in a current saving or fixed account of a bank or a financial institutions. Deposit is the main sources of a fund that bank usually uses for the generation of profit. Therefore, the efficiency of the banks depends on its ability to attract deposits. Deposit being the borrowed amount from the depositors or from

general public, it constitutes the liability of bank. The deposits of a bank are affected by the various factors. They are as follows:

a) Types of customers.

b) Physical facilities of Bank.

c) Management accessibility of customers.

d) Interest rate paid on deposits.

e) Types and ranges of services offered by the Bank.

f) The prevailing economic condition of the country.

2) Loan and Advances: - This is the primary sources of income and most profitable assets of a bank. A bank is always willing to lend as more as possible since they constitute the larger part of revenue. But bank has to be more careful while providing loans and advances since they may not be realized at short period of time. Sometimes they may turn into bad debts. Fund borrowed from banks are much cheaper than borrowed from unorganized moneylenders. Loans and advances are provided against the personal security of the borrower or against the security of the immovable and moveable properties. Banks provide loans in various forms: overdraft, cash credit, direct loans and discounting bills of exchange. In addition to this, some portion of loan and advances and overdraft includes that amount which is given to the staff of the bank as house loan, vehicle loan, personal loan and other (Joshi, 2004:65).

3) Investment on Government Securities, Shares and Debentures: - Though a commercial bank can earn 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 secondary source of banking business.

4) Investment on Other Company's Shares and Debentures: - Commercial banks invest their excess funds to the shares and debentures of the other company. They generally do so when there is excess of funds than required and there is no alternative opportunity to make investment in the profitable sector. Now days the commercial banks of Nepal have purchased shares and debenture of Regional Development Bank, NIDC and other Development Banks etc.

5) Other Uses of Funds: - Commercial banks must maintain the minimum balance with a NRB i.e. 6 % for fixed deposits and 8 % for each of current and saving deposit account in local currency. Similarly 3 % cash balance of local cash balance of all local currency accounts must be maintained in the vault of the bank. Again a part of the funds should be used for bank balance in foreign bank and to purchase fixed assets like land, buildings, furniture, computers, stationery etc.

6) Off - Balance Sheet Activities: - Off-balance sheet activities cover the contingent liabilities. These activities are not recognized as assets and liabilities in balance sheet. They are LC, Guarantee, Commission, and Bills for collection etc. These activities are very important, as they are the good source of profit to the bank though they have risk (Joshi, 2004:67).

2.1.4 New Policy Conducted by Nepal Rastra Bank for the Establishment of Commercial Banks

1. **About Paid up Capital**
   a) It requires Rs.2000 million paid up capital for national level new commercial banks to be operated.
   b) To establish the commercial banks in the entire kingdom except the Kathmandu Valley, the paid up capital should be Rs.250 million.
   c) Usually founders can take 70% of the share capital of commercial banks and should sell 30% share capital to the public. Foreign bank can invest 67% amount in the share capital for national level opening bank. If foreign bank takes fifty percent share of a bank, should sell only 20% of share to the general public to provide investment opportunity to Nepalese Founder.
   d) In case of commercial banks to be established out of valley, share investment of promoters and general public should stand 70% and 30% respectively.
   e) The operating bank or the agreement letter receiver bank should manage the capital up to 2066 B.S. Ashad as the rule and paid up capital should increase by minimum 10% per year.
   f) Banks, which are established in the participation of foreign founder, have also to be registered fulfilling all the legal process of Act under current Nepalese Act.

g) Those banks which are established out of valley, they can operate their banking activities in Kathmandu by increasing to Rs.1000 million paid up capital when they complete the minimum three years banking activities with satisfactory. Bank cannot open any kind of office inside the valley, which have not taken permission to operate banking activities in all over Kingdom.

h) 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 same time of receiving the letter of intent on a interest free basis. The bank should be operation with in one year of receiving letter of intent. Founder should paid remaining amount of share capital before operation of the bank. Usually NRB should give decision in 'YES' or 'NO' form to establish the bank and if No, NRB should give the written information to the concern party with reason (Rastra Bank Samachar, 2006).

2. About the Qualification of Founder

i) NRB does not take any action over the application of those founders, who fails to pay the loan of financial organization, who has not cleared such loans or those in the black list of the Credit Information Bureau and 05 years have not elapsed from the date of removal of their name from such list.

ii) Out of total founders, one-third founders should be minimum graduate from Tribhuwan University or other teaching organization which are affiliated from Tribhuwan University on major subject like economics, law, account, finance, banking and statistics or who have the certificate of Chartered Account and minimum twenty-five percent founders should have an experience on bank or finance companies or business experience.

iii) The person cannot be a director of the license holder banks or finance company from NRB and who is a director in any bank or finance company.

iv) The person cannot be a director of a bank or finance company who is working being an auditor of security broker, market maker and bank or the organization who operates financial activities (Rastra Bank Samachar, 2006).

3. About the Sell of Founder-Share

a) The share of founder group can be transferred and sold after three years of bank operation by listing at stock exchange and by selling the public share. It should require taking permission from Nepal Rastra Bank to sell the founder share.

b) The share allotted to the 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 to the shareholders of the promoters group and their family members cannot have access to loans or facilities from the same institution. A family members means husband, wife, son, daughter, adopted-son, adopted-daughter, father, mother, stepmother, stepfather.

4. Policy of Branch Expansion

The bank which has central office in Kathmandu valley can open a main branch in the valley and it can open another branch in the valley after establishing two branches out of the valley (Economic Survey, 2003).

2.1.5 Fund Mobilizing Procedure of Joint Venture Banks

Every bank has its own fund mobilizing procedure. Generally, the bank adopts such procedures which are easy, quick and effective in practice. The different types of fund mobilizing procedure adopted by banks have been presented as following:

1. Sources of Fund

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

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

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

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

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

IV) Retained Earning: - Bank earns profit by investing the funds in different sector through the principle of profit earning. Banks invest its fund in productive or profitable industries and business. Bank earns some amount from these investments. These earnings called bank's funds.

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

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

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

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

- **Current Deposits**

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

- **Saving Deposits**

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

- **Fixed Deposits**

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

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

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

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

V) Loan From Commercial Bank: - Bank receives loans from other bank in the form of borrowing when needed. Bank solves the money problem of other banks by providing loan. That is also a type of bank capital (Baxley, 1987:43-45).

2. Mobilization of Funds

Banks mobilize their funds into suitable and profitable sector. Bank cannot get its aim of profit earning without mobilizing its fund in right sectors and different activities. Banker being financial intermediary, we will not able to make any profit unless he has to pay interest on deposits, meet establishment expenses, meet liquidity of cash balance, and yet allow him some balance from out of which he can build reserve and pay dividend to the shareholder.

Commercial banks expect to make a profit. If there is no profit, there will be unfavorable criticism against public sector banking, both in and outside the parliament when these banks are asked to open new branches in areas which do not allow profits for years, or asked to grant loan to the priority sectors such as small industries and agriculture with a high incidence of bad debts, there is need for counter balancing profit from elsewhere. Therefore, these banks will have to show an ascending order of profit in order to ensure growth with stability. For this purpose the bank will have to allocate land able resources to different segments in such a manner these banks can ensure adequate profitability while at the same time responding to the policy laid down in accordance with national purpose. Bank should separate the useful and profitable sector for mobilizing their funds (Adhikari, 2002:54).

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

1) Liquid Funds: - A bank has kept a volume of amount in liquid funds. These funds have so many responsibilities in banking activities. Liquid funds has covered the following transactions(Adhikari, 2002:55):
    - Cash in hand
    - Balance with Nepal Rastra Bank
    - Balance with domestic bank
    - Call Money

2) Investment: - Bank invests its fund in different banking activities and different fields. Bank invest its funds in following titles:
   - Government Securities
   - Share Debenture
   - NRB Bond
   - Joint Venture
3) Loan and advances: - Bank mobilizes 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 private enterprises

Bank provides different types of loan as business loan and traditional loan to the priority area.

4) Fixed Assets: - Land and Buildings are essential for the establishment of bank. Bank's funds are used in buying of furniture, vehicles, computer and other concerned instrument, which are related to banking activities. A bank has need of fund to purchase fixed assets for the expansion of the bank.
5) Administrative and Miscellaneous Expenses: - Bank should manage a fund for administrative and other miscellaneous expenses. Different types of administrative expenses are as follows (Adhikari, 2002:56):

   - Salary of Employees
   - Allowances
   - Pension
   - Provident Fund
   - Advertisement
   - Stationary
   - Rent
   - Income Tax
   - Donation or Charity
   - Insurance
   - Commission

- Tour Expenses

Different types of miscellaneous expenses

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

In this way, bank mobilizes its funds in different activities to achieve its goal of earning profit.

2.2 Review of Related Studies

2.2.1 Review of Journal/Article

Under this heading some related articles published in different books, economic journals, World Bank Bulletin, magazines, newspaper has been examined and reviewed.

Shiba Raj Shrestha in his article "Portfolio Management in commercial Bank, Theory and practice" (Shrestha; 2006) has emphasized that portfolio management is essential for individual and institutional investors. Though in the case of small investor as they are not left with much of an option it may be limited to small savings, but for large investors, diversification through investment in mutual funds, shares, debentures should be practiced as any rational investor would seek to derive the maximum return on investment although assuming some risk at the same time. A best mix of investment assets fulfilling the under mentioned aspects are preferred by prudent (large) investors. They are:

a) Higher return which is comparable with alternative opportunities available not undermining the risk taking capability of the investor.

b) Adequate liquidity with sufficient safety and profitability of investment.

With these in view, the following strategies needs to be adopted:

1) To have a portfolio of different securities and not just holding a single security.

2) Don't put all the eggs in the same basket. (For instance don't invest in a single company or single sector). Diversification of investment should be practiced for adequate safety, liquidity and profitability.

3) Choose such a portfolio of securities, which ensures maximum return with low degree of risk and uncertainty.

Shrestha has put forward the following approach to be adopted for designing & managing good portfolio.

a) Search investment assets (generally securities), which have scope for better returns, depending upon individual characteristics like age, health, need deposition, liquidity and tax liability etc.

b) To identify variety of securities for investment to reduce volatility of returns and risk.

Shrestha has also recommended that banks in order to succeed in portfolio management should have skilled manpower, research and analysis team, and proper management information system. He has suggested that the banks having international network can also offer access to global financial markets.

He has also stressed that:

1) The survival of every bank depends upon its own financial health and various activities.

2) In order to develop and expand the portfolio management activities successfully the investment management methodology of a portfolio manager should reflect high standard and give their clients the benefits of global strength, local insights and prudent philosophy.

Dr. Sunity Shrestha in her article " Lending operation of commercial banks of Nepal and its impact on G.D.P." (Shrestha;2005:23) has presented an objective to make an analysis of contribution of commercial banks lending to the G.D.P. of Nepal. She has set hypothesis that there has been positive impact of commercial bank lending to the G.D.P. in research methodology she has considered G.D.P as the dependent variable and various sectors of

2.2.3 Review of Thesis

Prior to this, several thesis works has been attempted by previous students regarding various aspects of commercial banks like financial performance, lending policy, investment policy, resource mobilization, capital structure etc. Among them some research those that were found relevant for this study are presented below:

Thapa (2004) has conducted a research entitled "Investment Policy of Commercial banks in Nepal.

The objectives of the study were:

a) To discuss fund mobilization and investment policy of EBL in respect to its fee based off-balance sheet transaction and fund based on balance sheet transaction of NABIL and BOKL.

b) To evaluate the liquidity, efficiency, profitability and risk position.

c) To evaluate the growth ratios of loans and advances and total investment with other financial variables.

His major findings are enumerated below:

a) EBL is comparatively better than NABIL and BOKL in terms of liquidity.

b) EBL has been less successful than NABIL and BOKL in its on balance sheet operation as well as off balance sheet activities

Shrestha (2004) has conducted a research entitled "Investment Analysis of Commercial Banks" (A Comparative Study of Nepal Bank Limited and Nepal State Bank of India Limited).

The objectives of the study were:

a) To analyze percentage of investment made by HBL and NSBIL in total investment made by commercial banks.

b) To analyze investment trend, deposits trend and total income and their projection for next five years of HBL and compare then with that of NSBIL.

c) To identify investment sector of HBL and NSBIL.

d) To evaluate the liquidity, assets management efficiency, profitability and risk position of HBL in comparison to that of NSBIL.

e) To study the relationship between investment and deposits of bank.

The major findings of the study were as follows:

a) Percentage of HBL's investment to total commercial banks investment in extremely higher than NSBIL.

b) Both HBL and NSBIL have invested mostly on government securities but HBL has invested in NRB bonds also as well as in other productive sectors.

c) NSBIL is better than HBL from liquidity point of view.

Roy (2005) has conducted a research entitled "An Investment Analysis of RBB in comparison with NBL".

The specific objectives of the study were.

a) To evaluate liquidity, activity and profitability ratios of RBB in comparison with NBL and industry average.

b) To analyze relationship of loan and advance and total investments with total deposit and net profit of RBB and to compare it with that of NBL and industry average.

The major findings of the study were:

a) RBB has good deposit collection, enough loan and advance and investment in government securities. It has comparatively better liquidity position than NBL.

b) RBB is in comparatively better position regarding issue of loan and advance but it does not have good position regarding investment in shares and debentures of other companies, off balance sheet operation. Loan Loss ratio shows low quality of loan and advance.

Khaniya (Banjade) (2006) has conducted a thesis research entitled "Investment portfolio Analysis of JVB's".

The specific objectives of the study were:

a) To analyze the risk and return ratios of commercial banks.

b) To evaluate the financial performance of JVB's.

f) Preference given by NABIL for investment between,

- Loan Investment.
- Investment in real fixed assets.
- Investment in financial assets.

The main findings of the study were:

a) SCBNL has the highest return on shareholders fund and total assets. It has also been successful in mobilizing its deposits as investments. NABIL and EBL have invested high amounts of deposits as loan and advances in comparison to SCBNL, NABIL and HBL.

b) Among the JVB's, looking at the investment portfolio, EBL has investment highest amount of funds in government securities, NBB has invested highest amount of funds on shares and debentures and NABIL has invested highest amount of funds in NRB bonds in comparison to other JVB's.

c) SCBNL has the highest EPS and EBL the lowest EPS among the JVB's.

Joshi (2006) in his thesis entitled "A comparative study of Investment policy of SCBNL & EBL" has made an endeavor to examine and interpret the Investment policy adopted by SCBNL in comparison to EBL.

The objectives of the research were:

1) To compare the investment policy of concerned banks and discuss the fund mobilization of the sample banks.

2) To find out empirical relationship between total investment, deposit & loan & advance and net profit and outside assets and compare them.

The main findings of the study were as follows:

1) Both the banks have good deposit collection. EBL has higher but fluctuating liquidity position. It is in a good position to meet daily cash requirement and current obligation.

2) SCBNL has successfully maintained and managed its assets towards different income generating activities. SCBNL has invested high portion of total working fund in government securities and share and debentures of other companies.

3) The profitability position of SCBNL is comparatively better than EBL.

Kumar Raya (2006) has conducted a thesis research entitled "Investment Policy and Analysis of commercial Banks in Nepal (A comparative study of SCBNL with NIBL & NBBL)

The following objectives were considered in the study:

a) To discuss fund mobilization and investment policy of SCBNL in respect to its fee based off balance sheet transaction with NIBL & NBBL.

b) To evaluate the liquidity, efficiency, profitability and risk position of the sample banks.

c) To evaluate the growth ratios of loan and advances, total investment with other financial variables.

d) To analyze the trends of deposit utilization towards total investment and loan and advances and its projection for next five year

The findings of the study were:

a) SCBNL has good deposit collection, has made enough investment in government securities, but has provided less advances and loans to total deposits ratio.

b) SCBNL has been successful in its on balance sheet operations but NIBL and NBBL have been more successful in off balance sheet operations.

c) The profitability position of SCBNL is higher than the other JVB's in the sample.

Dhital has conducted a thesis research on "A comparative study on Investment policy of SCBNL and BOKL".

The major objectives of the research were:

a) To find out relationship between total investment, deposits, loan and advances, net profit and outside asset and compare them.

b) To compare investment policies of concerned banks and discuss the fund mobilization of sample banks.

c) To analyze the risk position of SCBNL & BOKL.

d) To analyze the deposit utilization trend and its projection for fiv

The major findings of the study were:

a) SCBNL has better liquidity position than BOKL, but BOKL is in a better position to meet daily cash requirement. SCBNL has invested more in government securities than BOKL. SCBNL has utilized lesser portion of deposits and current assets as loans & advances.

b) SCBNL has invested a high portion of total working fund in government securities and shares & debentures of other companies.

c) The profitability position of SCBNL is better than BOKL.

Pandit (2006) has conducted a research entitled "Investment policy Analysis of Joint Venture Bank (with special reference to NSBIL & EBL)"

The objectives of the study were as follows:

a) To evaluate the liquidity management, assets management efficiency, profitability position, risk position and investment practices of NSBIL, BOKL & EBL)

b) To find out the relationship between deposit and total investment, deposit and loan and advance, and net profit and outside asset.

His major findings are enumerated below:

a) NSBIL has better liquidity position. It is in a good position to meet its daily cash requirement and current obligation. Liquidity position of EBL & BOKL have not been satisfactory.

b) NSBIL's loan and advance to total deposit ratio is lower than EBL & BOKL. It does not seem to follow any definite policy regarding the management of its assets.

c) The profitability position of all the banks is not satisfactory. The banks have not adopted sound investment policy in utilizing their surplus funds.

2.4 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make study meaningful and purposive.

There has been lots of article published related to financial performance and fund mobilization of commercial banks. There are various researches conducted on financial performance and fund mobilization of commercial banks, but there is few research available on “fund mobilization” with NCC Bank Limited and Nabil Bank Limited. Therefore the researcher attempts to study in this area. The study of the fund mobilization of these two banks will probably be the first study in the subject matter. So, this study will be fruitful to those interested person, parties, scholars, professor, students, businessman and government for academically as well as policy perspective.

CHAPTER - III

RESEARCH METHODOLOGY

This chapter deals with the research methodology employed in the entire aspect of the study. Research methodology is the process of arriving at solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of facts and figures (Kothari, 1989:8). In other words, research methodology refers to the various methods of practices applied by the researcher in the entire aspect of the study. This chapter includes the research design, population and sample, nature and sources of data and analysis of data.

3.1 Research Design

A Research Design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. (Kothari, 1992:25). Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to the research question and to control variances. To achieve the objectives of the study, descriptive an analytical research design has been used. Some statistical and financial tools have also been applied to examine facts and descriptive techniques have been adopted to evaluate funds mobilizing performance of NCC and compare it with NABIL Bank Limited. The study is based on secondary data. So the descriptive and analytical research designs have been used.

3.2 Population and Sample

The method of selecting for study a small portion of the population to draw conclusion about characteristics of the population is known as sampling. Sampling may be defined as the selection of part of the population on the basis of which a judgment or inference about the universe is made. There are nine joint venture banks and eleven other commercial banks listed in Nepal Stock Exchange which are regarded as a population of the study. But it is not possible to cover all the JVs banks under the study. So, only two joint venture banks have been taken as sample i.e. NCC Bank and Nabil Bank Ltd.

3.2 Nature and Sources of Data

The research is based on primary as well as secondary source of data. The study is conducted on the basis of secondary data. The data relating to the investment, deposit, loan and advances, assets and profit are directly obtained from the balance sheet and Profit and Loss A/C of the concerned bank's annual reports. Supplementary data and information are collected from number of institution and authoritative sources like Nepal Rastra Bank, Security Exchange Board, Nepal Stock Exchange Ltd., Ministry of Finance, Budget speech of different fiscal years, economic survey and National Planning Commission etc.

Carefully designed research questionnaire were used for primary data analysis. The researcher has carefully designed questionnaire by considering various influencing factor of customer’s views regarding the adopted fund mobilizing policy of concerned banks. Basic sources of primary information were employees and customers of concerned banks. The data provided by the banks and other sources are complied with the annual reports of auditors in order to judge the reliability of the data. For the additional information, informal-formal talks to the concerned head of the department of the bank were also done. Similarly, various data and information are collected from the periodicals economic journals, managerial magazines and other published and unpublished reports and documents from the various sources.

3.4 Analysis of Data

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

3.4.1 Financial Tools

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

I) Ratio Analysis

II) Sources and Uses of Funds

I) Ratio Analysis

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

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

i) Cash and Bank Balance to Total Deposits Ratio: - Cash and bank balance are the most current liquid assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. This ratio is computed by dividing cash and bank balance by the total deposit. It is presented as,

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

Where**,**

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

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

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

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

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

Where**,**

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

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

i) Loan and Advances to Total Deposits Ratio: - Investment is one of the major credits created to earn income. This implies the utilization of firm’s deposits on investment in government securities and shares and debentures of other companies and banks.

The total investment consists of investment on government securities, investment on debentures and bonds, shares in other companies and other investment. It can be computed as follows.

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

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

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

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

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

iv) Investment on Government Securities to Total Working Fund Ratio: - Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage, it is calculated for this purpose by following formula:

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

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

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

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

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

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

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

$$\textit{Return on Total Working Fund Ratio} = \frac{Net\,\mathrm{Pr}\,ofit}{TotalWorkingFund}$$

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

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

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

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

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

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

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

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

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

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

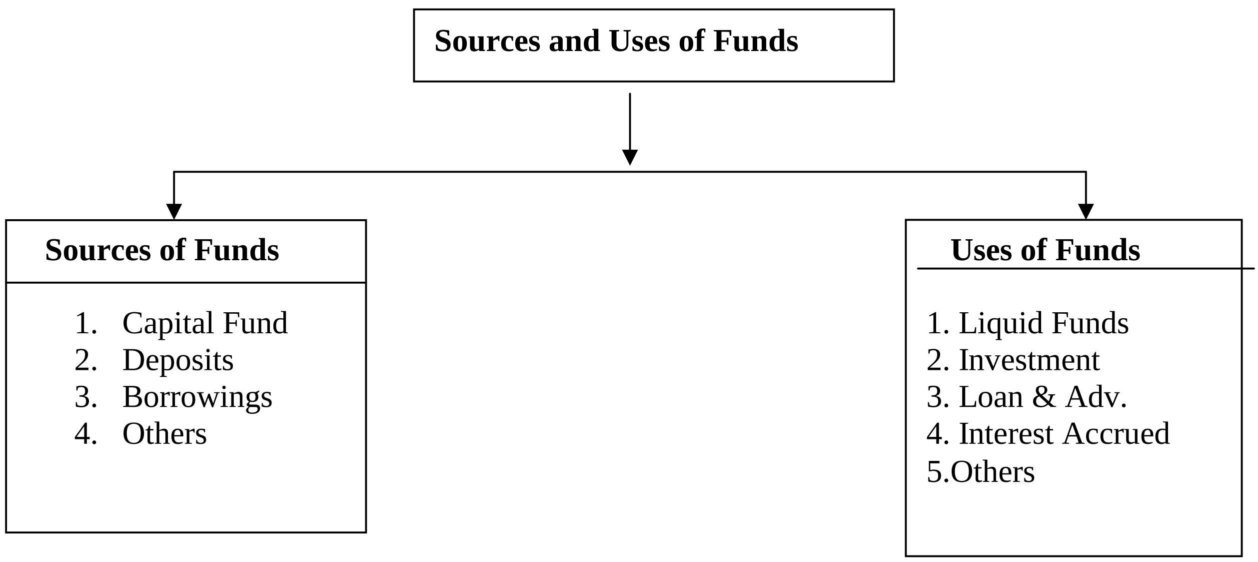
i) Growth ratio of total deposits
ii) Growth ratio of total investment
iii) Growth ratio of loans and advances
iv) Growth ratio of net profit

II) Sources and Uses of Funds

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

Figure: 3.1

Sources and Uses of Funds



3.4.2 Statistical Tools

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

i) Coefficient of Correlation Analysis

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

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

Where,

N= Number of observation

$\sum X$= Sum of observation in series X

$\sum Y$= Sum of observation in series Y

$\sum X^2$= Sum of squared observation in series X

$\sum Y^2$= Sum of squared observation in series Y

$\sum XY$= Sum of the product of observation in series X and Y

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

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

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

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

1. When, r = 1, there is perfect positive correlation.
2. When, r = -1, there is perfect negative correlation.
3. When, r = 0, there is no correlation.
4. When 'r' lies between 0.7 to 0.999(-0.7 to 0.999) there is a high degree of positive (or negative) correlation.

5. When 'r' lies between 0.5 to 0.699 there is a moderate degree of correlation.
6. When 'r' is less than 0.5, there is a low degree of correlation.

ii) Probable Error (P.E)

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

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

Where,

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

r = Correlation coefficient

n = Number of observations

iii) Standard Deviation (S.D)

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

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

Where,

N = Number of observations

X = Expected return of the historical data

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

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

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

v) Trend Analysis

The easiest way to evaluate the performance of a firm is to compare its current ratios with past ratios. When financial ratios over a period of time are compared it is known as the trend analysis. It gives an indication of the direction of change and reflects whether the firm's financial performance has improved, deteriorated or remain constant over time. This type of statistical analysis interprets the trend of deposits, loan and advances, investments and net profit of NCC and NABIL from 2004/05 to 2008/2009. It is necessary to calculate the forecasting for next five years till 2013/14.

The projections are based on the following assumptions:

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

The trend values used in this study are presented below:

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

CHAPTER –IV

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation and Analysis

This is an analytical chapter, where an attempt has been made to analyze and evaluate major financial items, which have an impact on investment management and fund mobilization of NABIL and NCC. There are many types of financial ratios. In this study those ratios are calculated and analyzed that are crucial in evaluating fund mobilization of commercial banks.

4.1.1 Financial Tools

Financial analysis involves identifying the financial strength and weakness of the organization by presenting the relationship between items of the balance sheet. For the purpose of this study, ratio analysis has been mainly used for the analysis of data.

Various financial ratios related to investment management and fund mobilization, have been presented and discussed in order to evaluate and analyze the performance of two joint venture banks, namely NABIL and NCC. The ratios are designed and calculated to highlight the relationship between financial items and figures.

A) Liquidity Ratios

Liquidity ratios measure the firm's ability to meet its current obligation. The following ratios which measure the liquidity position of banks are calculated

i.Cash and Bank Balance to Total Deposit Ratio

This ratio is calculated by dividing cash and bank balance by total deposits. The cash and bank balance to total deposits ratio of NABIL and NCC are given below:

Table 4. 1

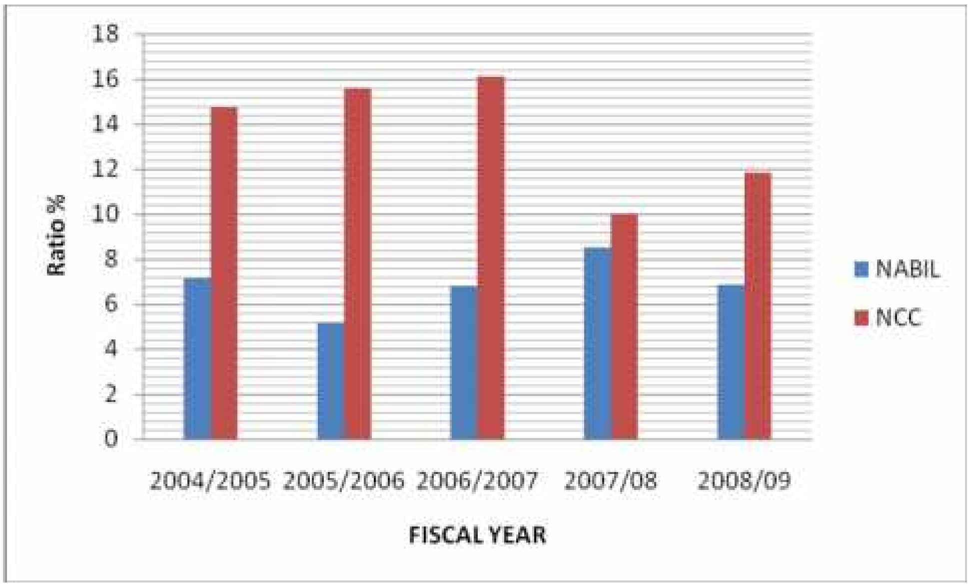
Cash and Bank Balance to Total deposit ratio (%)

F/Y	NABIL	NCC
2004/2005	7.12	14.72
2005/2006	5.13	15.61
2006/2007	6.78	16.12
2007/2008	8.5	10.00
2008/2009	6.87	11.84
Mean	**6.88**	**13.68**
S.D.	**1.0728**	**2.37**
C.V.	**15.59%**	**17.32%**

Source: Appendix -1

Figure: 4.1

Cash and Bank Balance to Total Deposits Ratio



The above table shows that the cash and bank balance to total deposit of both NABIL and NCC are in fluctuating trend. NABIL had a high ratio of 8.50% in F/Y 2007/2008 and a low ratio of 5.13% in F/Y 2005/2007. Similarly, NCC has a high of 16.21% in F/Y 2006/2007 and a low of 10% in F/Y 2007/2008. The averages mean ratio of NCC is slightly higher than NABIL i.e., 13.68%>6.88%. This shows, NCC readiness to meet customer requirement better than NABIL. The C.V. of NABIL of is slightly lower than that of NCC i.e., 15.59%<17.37%. On its basis, it can be concluded that NABIL's ratios are more consistent than that of NCC.

Although the above ratios implies a slightly better liquidity position of NCC, a high ratio of non-earning cash and bank balance indicates the banks unavailability to invest its fund in income generation areas that might have helped it to improve its profitability.

ii) Cash and Bank Balance to Current Assets Ratio

This ratio is calculated by dividing cash and bank balance by current assets . It can be calculated as follows:

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

Table No. 4.2

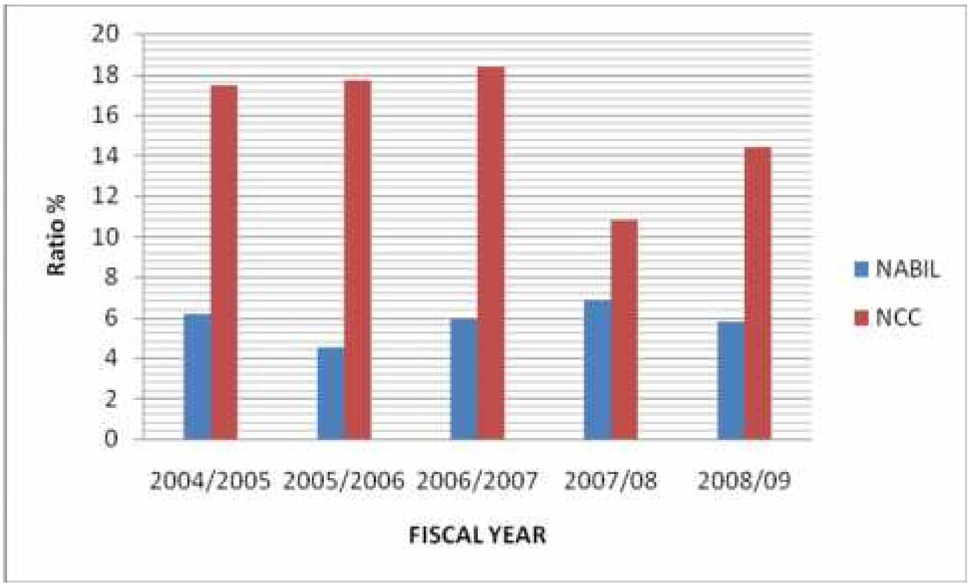
Cash and Bank Balance to current asset ratio (%)

F/Y	NABIL	NCC
2004/2005	6.16	17.45
2005/2006	4.49	17.73
2006/2007	5.93	18.32
2007/2008	6.88	10.81
2008/2009	5.8	14.39
Mean	**5.85**	**15.74**
S.D.	**0.7698**	**2.82**
C.V.	**13.16%**	**17.92%**

Source: Appendix -1

Table: 4.2

Cash and Bank Balance to Current Assets Ratio



There above table shows that the cash and bank balance to current assets of both NABIL & NCC are in a fluctuating trend. NABIL has maintained a high ratio of 6.88% in F/Y 2007/08, and a low ratio of 4.49% in 2005/06. Similarly, NCC has a high of 18.32 in F/Y 2006/07 anticipating higher cash requirement depositors in this F/Y. It has a low ratio of 10.81% in F/Y 2007/2008.

The average mean ratio of NCC is higher than NABIL. The C.V. of NCC is greater than that of NABIL i.e., 17.92%>13.16%. It shows NCC ratios are less consistent than that of NABIL. The above table does not show any significant difference between the JVB's with regards to meeting customer's daily cash requirement. Both have fared well in meeting their depositor's daily cash requirement and investing the surplus fund in other productive areas.

iii) Investment on Government Securities to Current Assets Ratio

This ratio is calculated by dividing investment on government securities by current assets. . This ratio is calculated by dividing the amount invested on government securities by current assets.

$$\text{Investment on Govt. Securities to Current Assets} = \frac{\text{InvestmentonGov.Securities}}{\text{CurrentAssets}}$$

Table 4.3

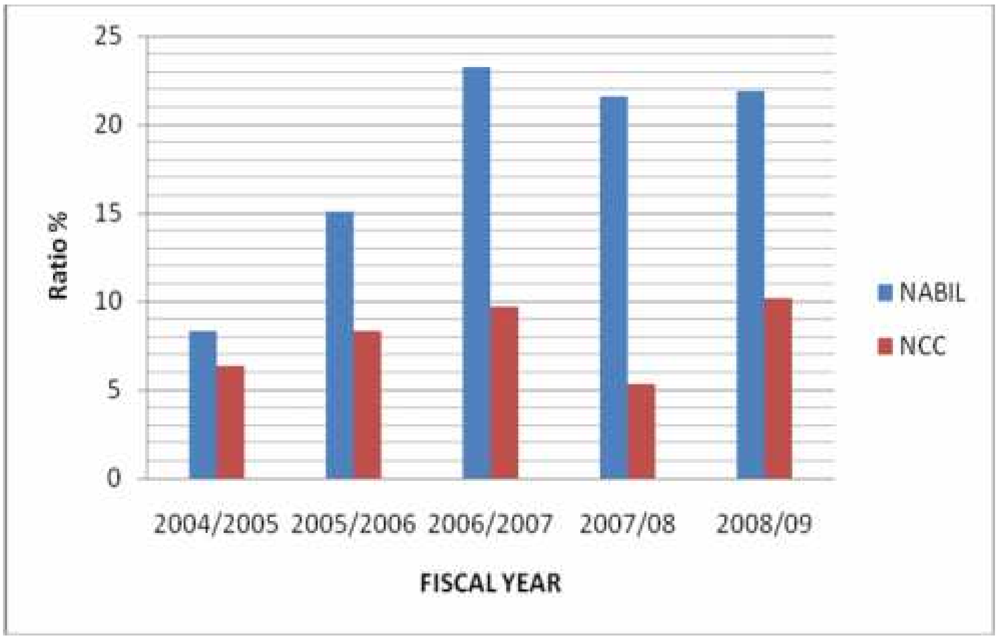
Investment on Government Securities to Current Assets Ratio (%)

F/Y	NABIL	NCC
2004/2005	8.35	6.38
2005/2006	15.1	8.34
2006/2007	23.24	9.67
2007/2008	21.56	5.30
2008/2009	21.94	10.12
Mean	**18.04**	**7.96**
S.D.	**5.606**	**1.86**
C.V.	**31.08%**	**23.37%**

Source: Appendix -1

Figure: 4.3

Investment on Government Securities to Current Assets Ratio



The above table clearly depicts that the investment on Government securities to current assets of both the sample banks have a fluctuating trend.

From the above five year picture, it is evident that the average mean ratio of NCC is less than that of NABIL i.e. 7.96<18.04%. This shows that a greater portion of current assets of NABIL comprises of government securities. Also, NCC's investments in government securities to current assets have an increasing trend over the years. From the point of view of C.V. NCC's ratios have been more consistent. NABIL has been more consistent in its ratio post F/Y 2003/04. From the above analysis it is clear that NCC has made lesser investment in government securities as it has injected more funds on other productive sectors. The reason behind NABIL higher ratio could be attributed to more deposit collection and unavailability of other secured and profitable investment sectors.

B) Asset Management Ratios

The following ratios measure the asset management ability of NABIL and NCC.

i) Loan and Advances to Total Deposit Ratio

$$\textit{Loan and Advances to Total Deposits Ratio} = \frac{LoananddAdvances}{TotalDeposit}$$

Table 4.4

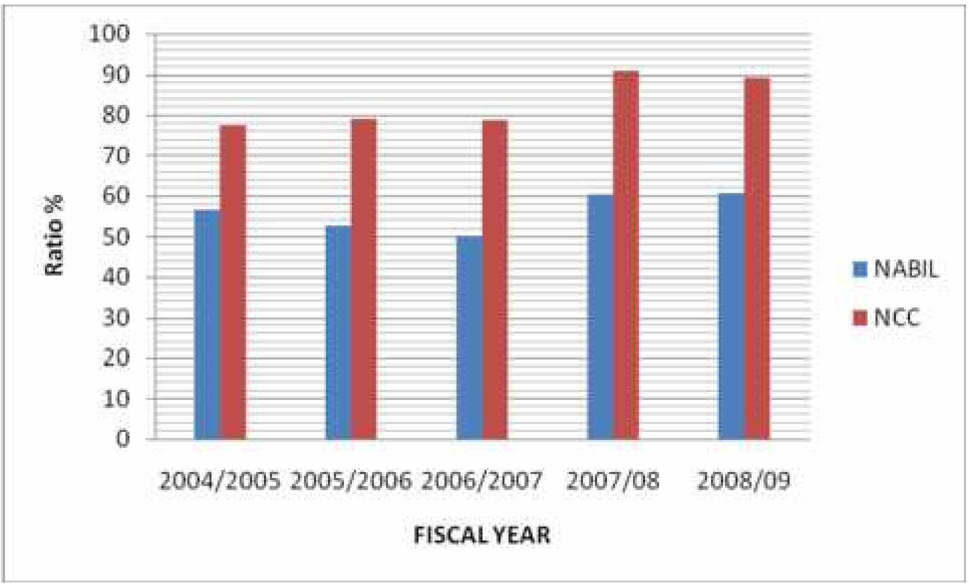
Loan and Advances to Total Deposit Ratio (%)

F/Y	NABIL	NCC
2004/2005	56.43	77.6
2005/2006	52.56	79.09
2006/2007	50.31	78.78
2007/2008	60.34	90.66
2008/2009	60.55	89.12
Mean	**56.03**	**83.05**
S.D.	**4.096**	**5.63**
C.V.	**7.31%**	**6.78%**

Source: Appendix -2

Figure: 4.4

Loan and Advances to Total Deposits Ratio



The above table shows that the loan and advances to total deposit of both the banks have a fluctuating trend. NABIL had a high ratio of 60.55% in F/Y 2008/09and a low ratio of 50.31% in F/Y 2006/07. Accordingly, NCC had a high of 90% and a low of 77.60%. The mean ratio of NABIL is less that of NCC i.e. 83.05<56.03.

In terms of C.V., both seem to be equally consistent.It can be concluded that, NABIL has been more successful in mobilizing its total deposits as loan and advances than NCC. On the contrary, a high ratio should not be perceived as a better state of affairs from the point of view of liquidity, as loan and advance are not as liquid as cash and bank balance and other investment. In portfolio management of bank various factors such as availability of funds, liquidity requirements, central bank norms etc. needs to be taken into account.

ii) Total Investment to Total Deposit Ratio

Total investment to total deposit ratio indicates how properly firm's deposits have been invested on government securities and shares and debentures of the other companies. This ratio can be computed by dividing the total investment by total amount of deposit collections

Total Investments to Total Deposits Ratio= $\frac{TotalInvestment}{TotalDeposit}$

Table 4.5

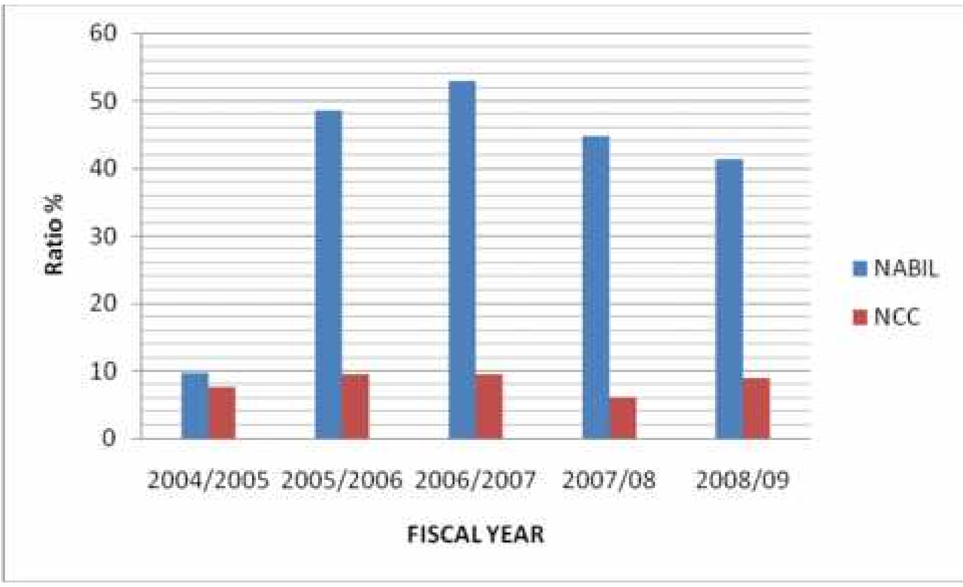
Total Investment to Total Deposit Ratios (%)

F/Y	NABIL	NCC
2004/2005	9.79	7.64
2005/2006	48.64	9.59
2006/2007	52.88	9.59
2007/2008	44.85	6.04
2008/2009	41.33	8.94
Mean	**39.5**	**8.36**
S.D.	**15.34**	**1.36**
C.V.	**38.84%**	**16.27%**

Source: Appendix -2

Figure: 4.5

Total Investment to Total Deposits Ratio



The above table shows a highly fluctuating trend in total Investment to total deposit of NABIL and NCC. NABIL has a high ratio of 52.88% and a low ratio of 9.79%. NCC, on the other hand had a high ratio of 9.59% and a low ratio of 7.64% in F/Y2006/2005 and2004/2005 respectively.

NABIL has a high mean ratio than NCC i.e., 39.5%>8.36%. From mean ratio perspective, NABIL has been more successful in mobilization of deposits on various forms of investment.

From C.V.'s viewpoint, both the sample banks have been inconsistent, with NCC being little better in terms of consistency than NABIL.

In conclusion, the above analysis reveals that NABIL has been more successful in mobilizing its resources on various forms of investment. What is worth mentioning is that Interest on Treasury Bills, Inter bank lending and placements are at an all time low level, so NABIL has not done itself justice by investing in low yield less risky and risk free assets.

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iii) Loan and Advances to Total Working Fund Ratio

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

$$Loan\ and\ Advances\ to\ TWF\ Ratio = \frac{TotalLoanandAdvances}{TotalWorkingFund}$$

Table: 4.6

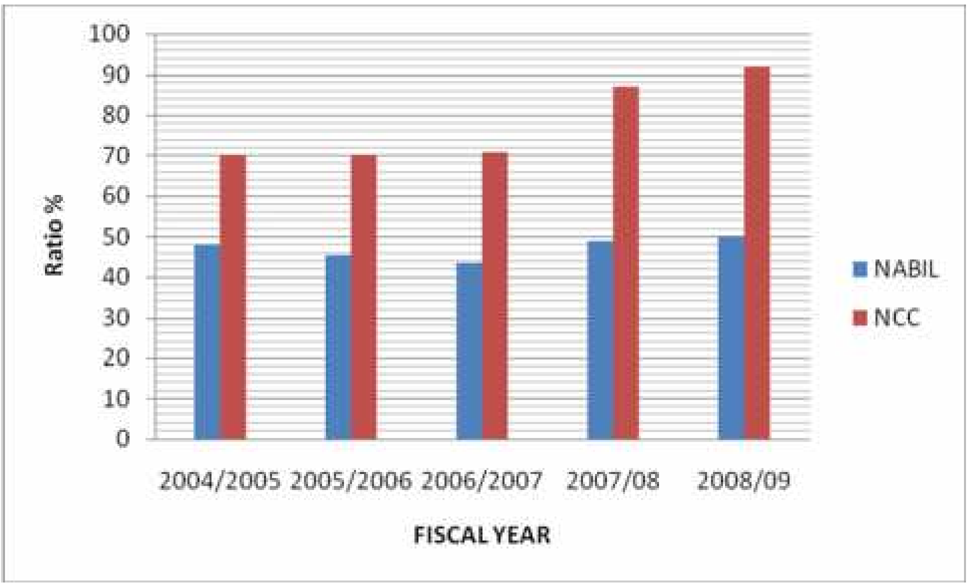
Loan and Advances to Total Working Fund Ratio

F/Y	NABIL	NCC
2004/2005	48.00	70.28
2005/2006	45.32	70.28
2006/2007	43.36	70.82
2007/2008	49.00	86.9
2008/2009	50.00	91.78
Mean	**47.14**	**78.01**
S.D.	**2.449**	**9.38**
C.V.	**5.20%**	**12.0%**

Source: Appendix -2

Figure: 4.6

Loan and Advances to Total Working Fund Ratio



The above table shows a fluctuating trend of loan and advances total working fund of NABIL and NCC. NABIL has maintained highest ratio of 50% in F/Y 2008/09and a low ratio of 43.36% in F/Y 2006/07. Similarly, NCC has maintained a high ratio of 91.78% in F/Y 2008/09 and a low ratio of 7.28% in F/Y 2004/05.

NCC also has a high average ratio of loan and advances to total working fund than NABIL i.e. 78.01%>47.14%. It reveals the strength of NCC in mobilizing its total assets as loan and advances.

iv)Investment in Government Securities to Total Working Fund Ratio

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

$$\text{Invt. on Govt. Securities to Total Working Fund} = \frac{TotalInvestmentonGovt.Securities}{TotalWorkingFund}$$

Table: 4.7

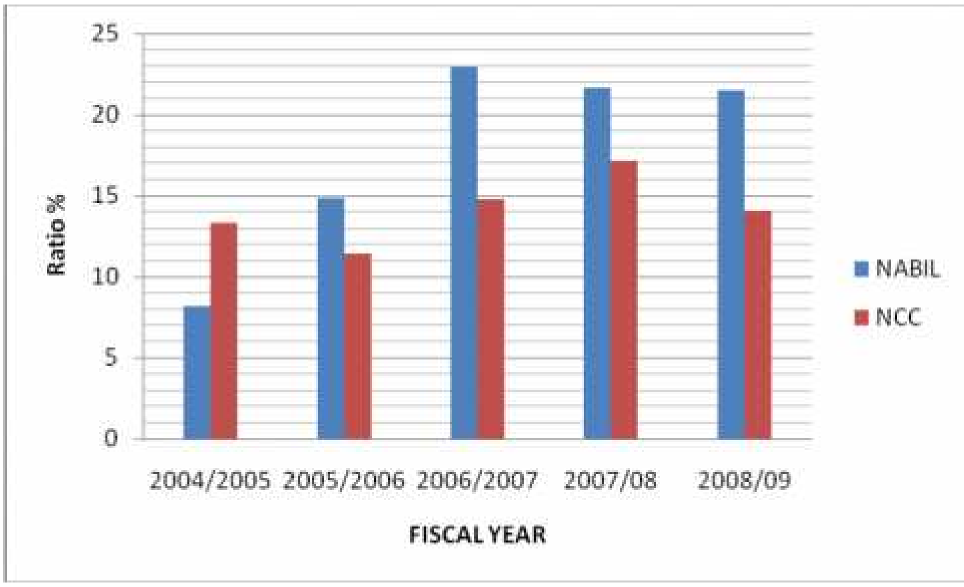
Investment on Govt. Securities to Total Working Fund Ratio

F/Y	NABIL	NCC
2004/2005	8.2	13.32
2005/2006	14.88	11.41
2006/2007	22.9	14.74
2007/2008	21.67	17.12
2008/2009	21.47	14.02
Mean	**17.82**	**12.26**
S.D.	**5.57**	**3.83**
C.V.	**31.26%**	**31.2%**

Source: Appendix -2

Figure: 4.7

Investment on Government Securities to Total Working Fund Ratio



Above analysis shows the investment on government securities to total working fund ratio in flucating trend. NABIL has 21.67, the highest ratio in the year 2007/08 and the lowest ratio in the year 2004/05 NABIL has higher mean ratio than that of NCC.

v) Investment on Share and Debentures to Total Working Fund Ratio.

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

$$\textit{Investment on Shares and Debenture to TWF Ratio} = \frac{Inv.onSharesandDebentures}{TotalWorkingFund}$$

Table: 4.8

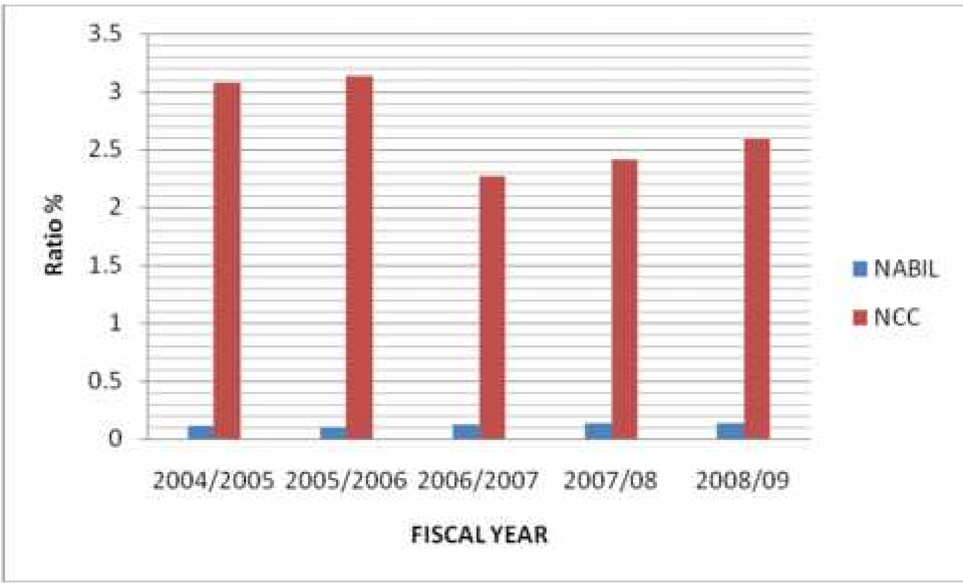
Investment on Shares and Debentures to Total Working Fund Ratio

F/Y	NABIL	NCC
2004/2005	0.107	3.08
2005/2006	0.103	3.13
2006/2007	0.124	2.27
2007/2008	0.134	2.41
2008/2009	0.13	2.59
Mean	**0.12**	**2.7**
S.D.	**0.0124**	**0.35**
C.V.	**10.33%**	**12.96%**

Source: Appendix -2

Figure: 4.8

Investment on Shares and Debentures to Total Working Fund Ratio



Comparatively, NABIL has the greater volume of investment than that of NCC in average (i.e. 0.12%>2.7%). Both banks followed a fluctuating trend in investing shares and debentures from total working funds. NABIL has lower standard deviation and coefficient of variation than that of NCC.

C) Profitability Ratio

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

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

Table: 4.9

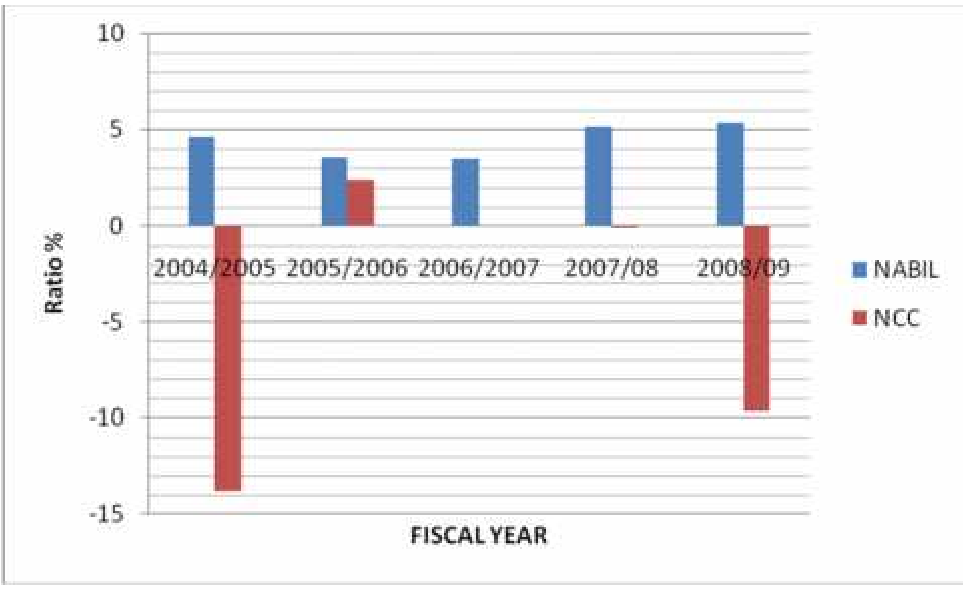
Return on Loan and Advances Ratio

F\Y	NABIL	NCC
2004/2005	4.56	-13.8
2005/2006	3.5	2.41
2006/2007	3.48	0.07
2007/2008	5.13	-0.09
2008/2009	5.33	-9.66
Mean	**4.4**	**-4.12**
S.D.	**0.7848**	**6.34**
C.V.	**17.84%**	**-150.59%**

Source: Appendix -3

Figure: 4.9

Return on Loan and Advances Ratio



The above table shows that the ratio of return on loan and advances of NABIL are better than NCC in all F/Y, through they have a fluctuating trend. NABIL's ratios have witnessed a decreasing trend upto F/Y 2004/05, thereafter they have an increasing trend. NABIL hasrecorded a high ratio of 5.33% in F/Y 2008/09, and a low ratio of 3.48% in F/Y 2006/07.

Similarly, NCC recorded a high of 2.41% in F/Y 2005/06 and a low of -9.66% in F/Y 2008/09.

The comparison of mean ratio reveals that NABIL has a higher ratio than NCC i.e., 4.40%>-4.21. This shows that NABIL has been more successful in maintaining its higher return on loan and advances than NCC.

C.V. of NABIL is significantly lower than NCC i.e. 17.84% >-150.59. It proves that NABIL has higher variability of ratio than NCC.

ii) Return on Total Working Fund Ratio

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

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

Table: 4.10

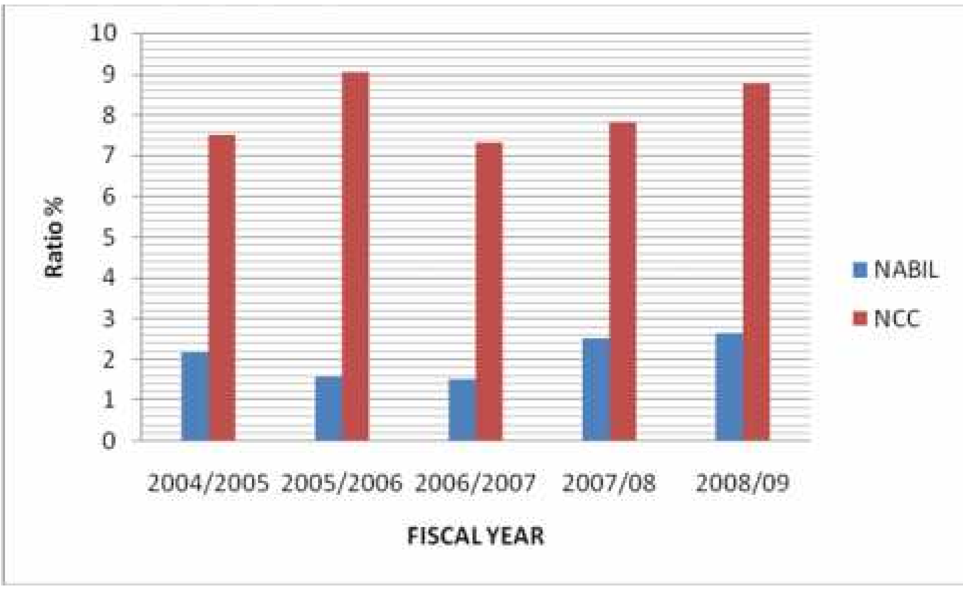
Total Interest Earned to Total Working Fund Ratio

F/Y	NABIL	NCC
2004/2005	2.19	7.51
2005/2006	1.59	9.05
2006/2007	1.51	7.31
2007/2008	2.51	7.83
2008/2009	2.66	8.76
Mean	**2.09**	**8.09**
S.D.	**0.4686**	**0.69**
C.V.	**22.42%**	**8.53%**

Source: Appendix -3

Figure: 4.10

Total Interest Earned to Total Working Fund Ratio



The above table reveals that the ratio of return on total working fund is in decreasing trend in case of NABIL upto F/Y 2006/07. From F/Y 2006/07 the ratio has an increasing trend. It has surpassed NCC in F/Y 2002/03, 2006/07. NABIL has had a high ratio of 2.66% in F/Y 2008/09 and a low ratio of 1.51% in F/Y 2006/07. Similarly, NCC has had a high of 9.05% and a low of 7.31% in F/Y 2005/06 and 2006/07 respectively.

NCC has a slightly high mean ratio than NABIL i.e., 8.09>2.09. It reveals that NCC has been able to earn high profit on total working fund in comparison to NABIL. One point worth making here is that NABIL has managed and utilized it assets more efficiently than NCC from F/Y 2007/08 onwards and its return on assets have also been higher. NCC has not managed its assets well post F/Y 2006/2007. Its return on total assets has also been lower in comparison to NABIL in F/Y 2007/08 and 2008/09.

From the viewpoint of C.V., NCC's ratios are more consistent than NABIL i.e. 8.53 < 22.42%. Both banks need to exert more effort in mobilizing its working assets more efficiently.

D) Risk Ratio

The following risk ratios have been used to measure the risk involved in financial operation of NABIL and NCC.

i) Liquidity Risk Ratio

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

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

Table: 4.11

Liquidity Risk Ratio

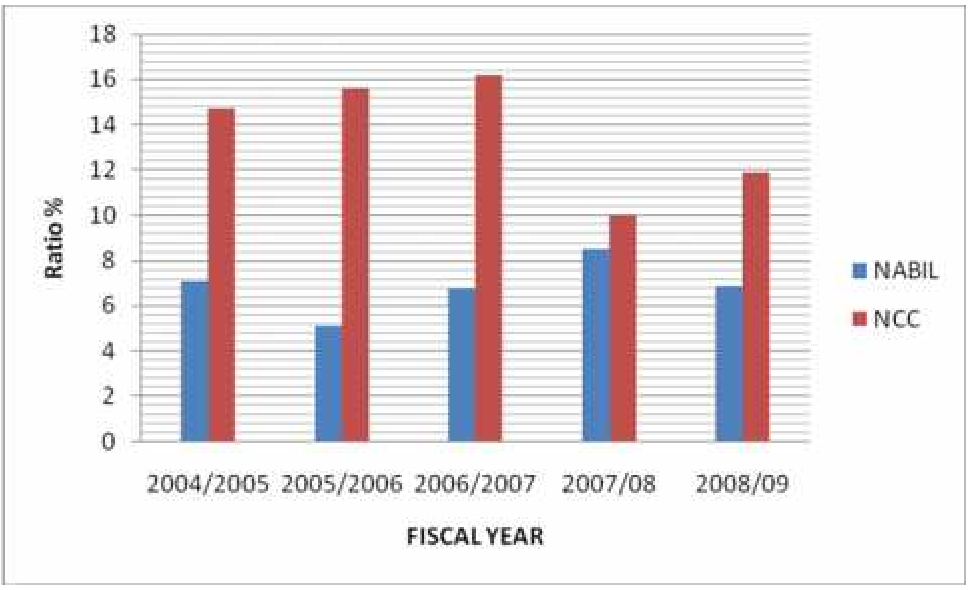
F/Y	NABIL	NCC
2004/2005	7.12	14.72
2005/2006	5.13	15.61
2006/2007	6.78	16.21
2007/2008	8.5	9.99
2008/2009	6.87	11.84

Source: Appendix -4

The above analysis shows that NCC has the highest cash and bank balance to total deposits ratio of 13.34% in the year 2004/05 and lowest ratio of 6.42% in the year 2003/04, whereas NABIL has highest ratio of 13.20% in the year 2004/05 and lowest ratio of 5.13% in the year 2007/08.

Figure: 4.11

Liquidity Risk Ratio



ii) Credit Risk Ratio

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

$$\text{Credit Risk Ratio} = \frac{TotalInvestment + TotalloanandAdvances}{TotalAssets}$$

Table: 4.12

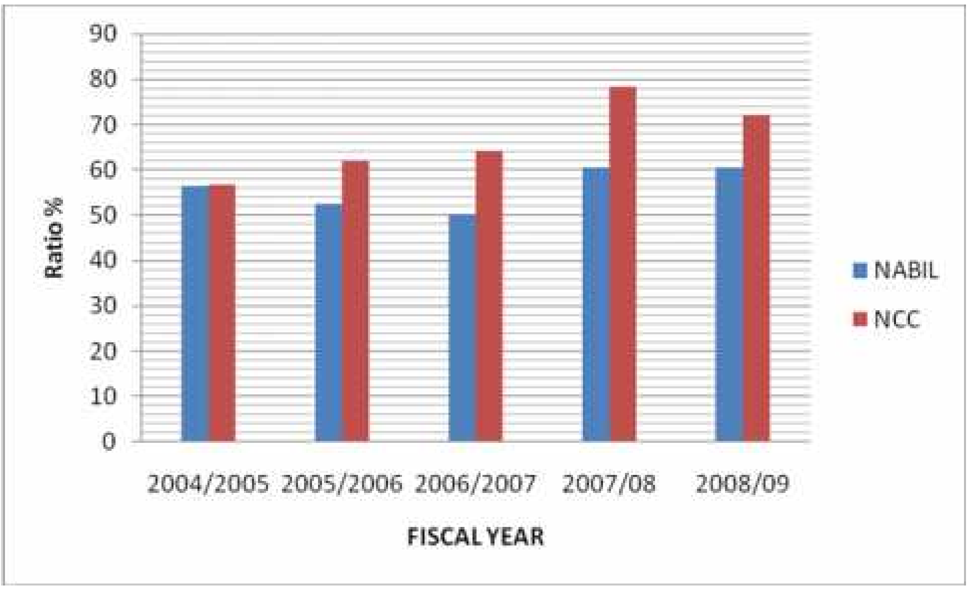
Credit Risk Ratio

F/Y	NABIL	NCC
2004/2005	56.43	56.67
2005/2006	52.56	62.02
2006/2007	50.31	64.13
2007/2008	60.34	78.34
2008/2009	60.55	72.24
Mean	**56.04**	**66.68**
S.D.	**4.097**	**7.68**
C.V.	**7.31%**	**11.52%**

Source: Appendix -4

Figure: 4.12

Credit Risk Ratio



The above analysis shows that NCC and NABIL have the credit risk ratio in fluctuating trend. NCC has highest and lowest ratio of 87.41% and 51.76% in the year 2007/08 and 2004/05 and NABIL has the highest and lowest ratio of 88.70% and 60.55% in the year 2008/09 and 2006/07 respectively. The mean ratio of NCC is lower than that of NABIL (i.e.71.15%<73.64%). NABIL has the higher coefficient of variation than that of NCC (i.e. 19.66%>19.15%).

E) Growth Ratio

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

(a) Growth Ratio of Total Deposits

To measure such growth percentage and analysis the following formula are used:

$$\text{Growth Percentage} = \frac{\text{Ending Value - Beginning Values}}{\text{Beginning Value}} \times 100$$

Table: 4.13

Growth Ratio of Total Deposits

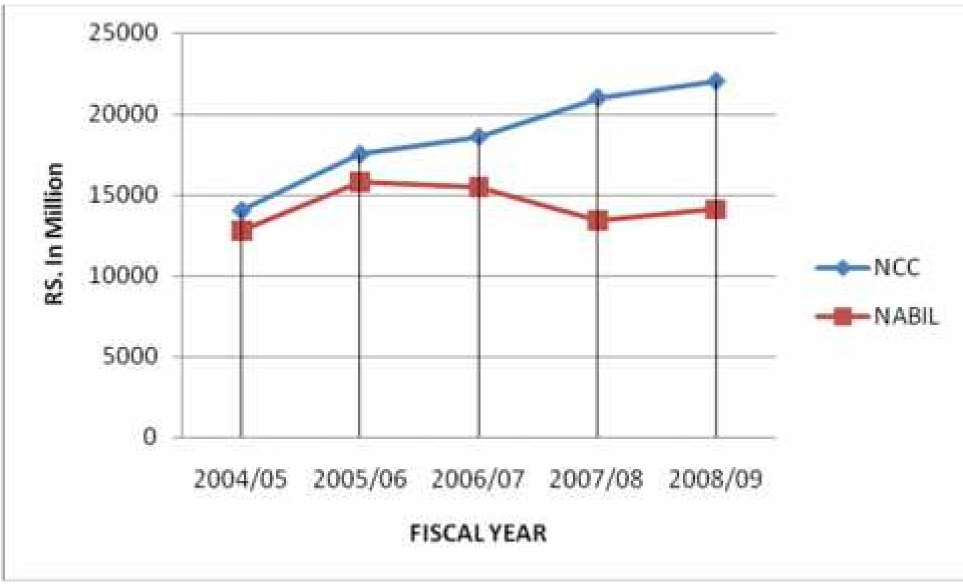
(Rs. in million)

Bank	Year (Total Deposits)						Growth Rate %
		2004/05	2005/06	2006/07	2007/08	2008/09	
NCC		14043.10	17532.40	18619.3	21007.3	22010.3	**19.09**
NABIL		12779.51	15839.01	15506.44	13447.65	14119.03	**8.50**

Source: Appendix -5

Figure: 4.13

Growth Ratio of Total Deposits



The above analysis shows that NCC has increasing trend and NABIL has fluctuating trend of total deposits. The growth ratio of NCC and NABIL are 19.09% and 8.50% respectively. The growth ratio of NABIL seems to be lower than that of NCC.

(b) Growth Ratio of Loan and Advances

To measure such growth percentage and analysis the following formula are used:

$$\text{Growth Percentage} = \frac{\text{Ending Value - Beginning Values}}{\text{Beginning Value}} \times 100$$

Table: 4.14

Growth Ratio of Loan and Advances

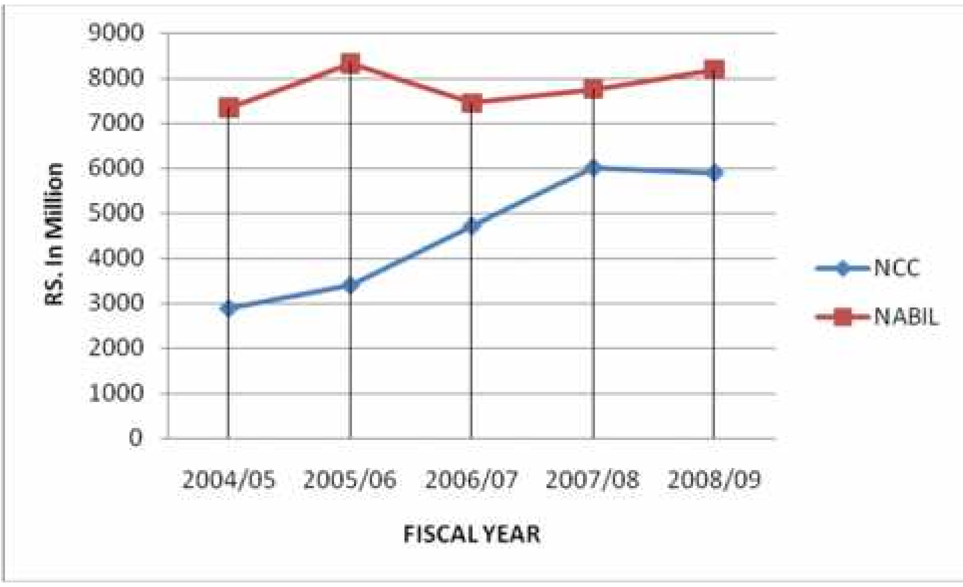
(Rs. in million)

Bank	Year (Loan and Advances)					Growth Rate %
	2004/05	2005/06	2006/07	2007/08	2008/09	
NCC	2878.29	3396.41	4717.30	6011.90	5899.16	19.65
NABIL	7334.76	8324.44	7437.90	7755.95	8189.99	**7.94**

Source: Appendix -5

Figure: 4.14

Growth Ratio of Loan and Advances



has higher growth rate than that of NABIL (i.e. 18.93%>7.94%). NCC has increasing trend and NABIL has fluctuating trend of growth rate of loans and advances.

(c) Growth Ratio of Total Investment

To measure such growth percentage and analysis the following formula are used:

$$\text{Growth Percentage} = \frac{\text{Ending Value - Beginning Values}}{\text{Beginning Value}} \times 100$$

Table: 4.15

Growth Ratio of Total Investment

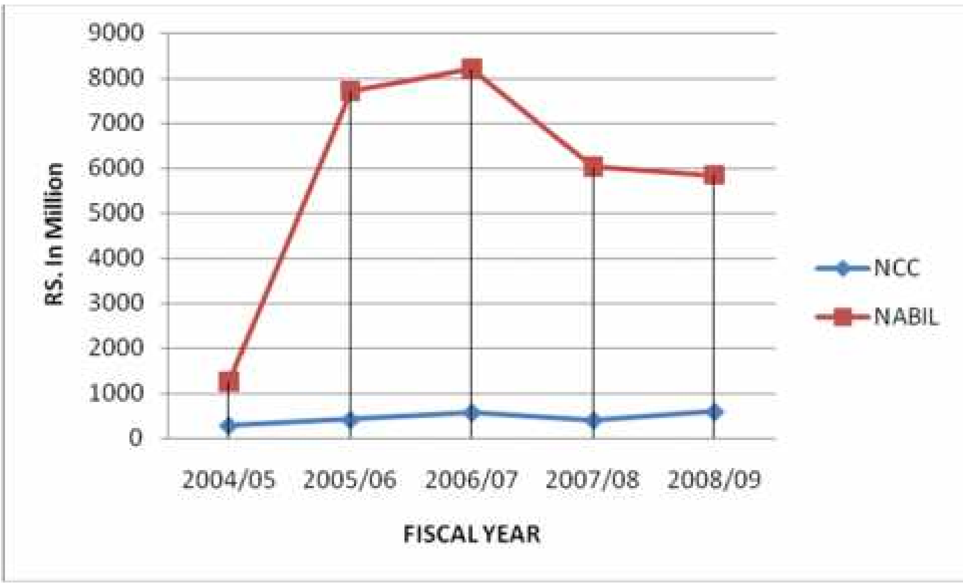
(Rs. in million)

Bank	Year (Total Investment)						Growth Rate %
		2004/05	2005/06	2006/07	2007/08	2008/09	
NCC		283.23	411.83	573.98	400.34	591.64	20.22
NABIL		1249.94	7703.31	8198.51	6031.17	5836.07	**36.05**

Source: Appendix -5

Figure: 4.15

Growth Ratio of Total Investment



The growth rate of total investment of NABIL seems to be lower than that of NCC i.e. 46.83%>36.05%. NABIL has fluctuating trend but NCC has increasing trend of growth ratio of investment.

(d) Growth Ratio of Net Profit

To measure such growth percentage and analysis the following formula are used:

$$\text{Growth Percentage} = \frac{\text{Ending Value - Beginning Values}}{\text{Beginning Value}} \times 100$$

Table: 4.16

Growth Ratio of Net Profit

(Rs. in million)

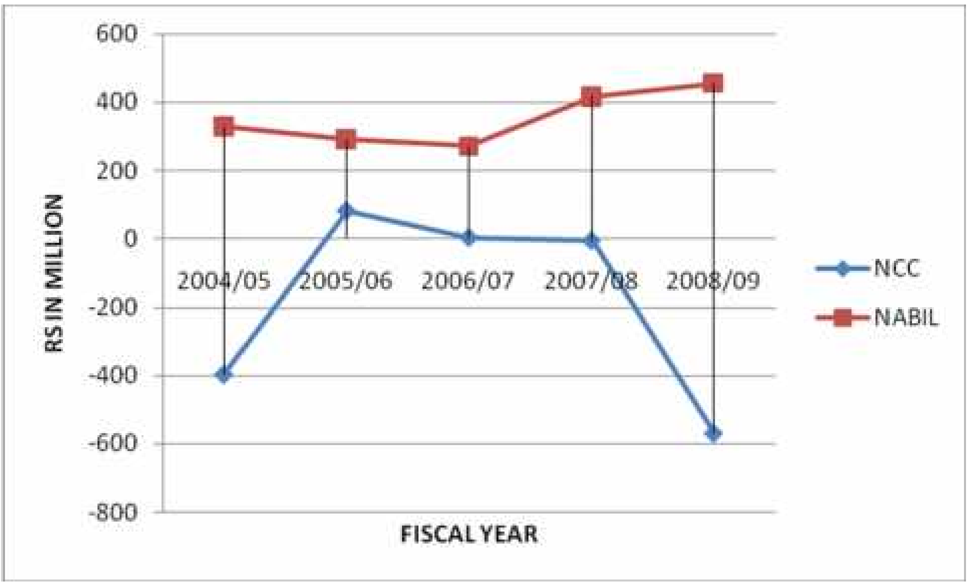
Bank	Year (Net Profit)						Growth Rate %
		2004/05	2005/06	2006/07	2007/08	2008/09	
NCC		(397.17)	81.80	3.41	(5.16)	(569.74)	(9.44)
NABIL		329.12	291.37	271.63	416.25	455.31	**17.67**

Source: Appendix -5

From above table we can conclude that NABIL has growth rate of 17.67% and NCC has the growth rate of (9.44)%. It seems that NABIL has higher growth rate than that of NCC. Both banks followed a fluctuating trend on the growth ratio of net profit.

Figure: 4.16

Growth Ratio of Net Profit



4.2 Statistical tools

Under this topic, some statistical tools such as coefficient of correlation analysis between different variables, trend analysis of deposits, loan and advances, Investment and net profit as well as hypothesis test (t- statistic) are used to achieve the objectives of the study. These statistical tools are as follows:

A) Coefficient of Correlation Analysis

Under this topic, Karl Pearson's coefficient of correlation is used to find out the relationship between deposit and loan and advances, deposit and total investment, outside assets and net profit, deposits and net profit, deposits and interest earned, loan and advances and interest paid, total working fund and net profit.

i)Coefficient of Correlation Between Deposits and Loan and Advances

The coefficient of correlation between deposits and loan and advances measures the degree of relationship between them. In our study, we have taken deposit as an independent variable denoted by (x) and loan and advance as dependent variable (y). The main objective of calculating 'r' between these two variables is to justify whether deposits are significantly used as loan and advances or not.

The following table shows the value of 'r' r^2, PEr and 6PEr between total deposits and loan and advances of NABIL and NCC during the study period (for detail see Appendix A_1 and A_2).

Table 4.17

Correlation between Deposit and Loan and Advances

Name of Bank	Base of Evaluation				**Remarks**
	r	**R^2**	**P.E.**	**6 x P.E.**	
NABIL	0.4630	0.2144	0.2366	1.4190	Significant
NCC	0.9740	0.9487	0.0154	0.0924	Significant

Source: Appendix -6

In the above table the coefficient of correlation between deposit and loan and advances in case of NABIL is 0.463. This indicates that there is a positive relationship between deposit and loan and advances. The calculated value of (r^2) or coefficient of determination is 0.2144. This means 21.44% of variation of the dependent variable (loan and advances) has been explained by the independent variable (deposit). When the value of 'r' i.e., 0.4630 is compared with six times the probably error or 6PEr. i.e., 1.419, we can say that there is no significant relationship between deposits and loan advances because 'r' is lower than six times PE.r i.e. 0.4630<1.419. The coefficient of correlation 'r' between deposits and loan and advances incase of NCC is 0.974, which gives us an indication of higher positive correlation between them. Similarly, the value of coefficient of determination (r^2) is found to be 0.9487. This shows that

94.87% variation of dependent variable (loan and advances) has been explained by the independent variable (deposits). The value of 'r' is greater than six times PE.r. i.e. 0.974>0.0924. This further shows that the value of 'r' is significant. In other words, there is significant relationship between deposit and loan and advances.

From the above analysis, we can conclude that both the banks show positive relationship between deposits and loan and advance. The relationship is highly significant in case of NCC and the value of (r^2) shows higher percentage of dependency. In case of NABIL the relationship is less significant and (r^2) shows lower percentage of dependency. It indicates NCC has been more successful in utilizing its deposits in a proper manner than NABIL. Further, the increase in loan and advance is due to effective mobilization of deposits, and other factors have marginal role in increase in loan and advances.

ii) Coefficient of Correlation between Deposit and Total Investment.

Coefficient of correlation between deposit and total investment measures the degree of relationship between these two variables. Here deposit is taken as independent variable (x) and the variable dependent on deposits is total investment, which is denoted by (y). The purpose of calculating 'r' is to judge whether deposits are significantly mobilized as Investments or not.

The following table shows the value of 'r' (r^2) PEr & 6PEr of NABIL and NCC during the study period.

Table 4. 18

Correlation between Deposit and Total Investment

Name of Bank	Base of Evaluation				**Remarks**
	r	**R^2**	**P.E.**	**6 x P.E.**	
NABIL	0.8703	0.2144	0.0730	0.4383	Significant
NCC	0.9740	0.52	0.15	0.0924	Significant

Source: Appendix -6

The coefficient of correlation 'r' between deposits and total investment in case of NABIL is 0.8703, which indicates a positive correlation between deposits and total investment. Coefficient of determination (r^2) is 0.7574. This means 75.74% of variation of the dependent variable has been explained by independent variable. The value of 'r' i.e. 0.8703 is also greater than six times PEr. This states that there exists a significant relationship between deposits and total investment.

The coefficient of correlation 'r' between deposits and total investment in case of NCC is 0.72, which indicates a positive relationship between the two variables. The coefficient of determination (r^2) is 0.52 This indicates that 52% of the variation of the dependent variable has been explained by independent variable. Moreover 'r' is greater than six times P.E.r, which further states that there is a significant relationship between deposits and total investment.

In conclusion, it can be said that both the banks show significant relationship between total deposits and total investment.

iii) Coefficient of Correlation between Deposit and Net Profit.

The coefficient of correlation between deposit and net profit measures the degree of relationship between these two variables. Here, deposit is independent variable (x) and net profit is dependent variable (y). The main purpose of calculating between these two variables is to justify whether net profit is significantly correlated with deposits or not.

The following table shows the value of r, r^2, PEr & 6Er of NABIL and NCC during the study period (for detail see Appendix A_7 and A_8).

Table 4. 19

Correlation between Deposit and Net Profit

Name of Bank	Base of Evaluation				**Remarks**
	r	**R²**	**P.E.**	**6 x P.E.**	
NABIL	-0.547	0.299	0.211	1.266	Significant
NCC	0.8303	0.6894	0.0935	0.5612	Significant

Source: Appendix -6

The coefficient of correlation between deposits and net profit in case of NABIL is –0.547, which indicates a negative relationship between deposits and net profit. It has been able to increase its net profit despite shedding of RS. 2 billion in deposits. The coefficient of determination (r^2) is 0.299, which indicates 29.9% of the variation of the dependent variable (net profit) has been explained by the independent variable (deposits). The value of 6PEr is greater than 'r' i.e. 1.266>-0.547. This states that there exists an insignificant relationship between deposits and net profit.

The coefficient of correlation between deposits and net profit in case of NCC is 0.8303, which indicates a positive relationship between these variables. The value of (r2) is 0.6894 indicates that 68.94% of the variation of the dependent variable has been explained by the independent variable. The value of 'r' is greater than 6PEr i.e. 0.8303>0.5612, which further states that these exists a significant relationship between deposit and net profit.

From the above analysis, we can conclude that NABIL shows negative relationship or insignificant relationship and NCC shows positive relationship between deposit and net profit. The value of (r^2) in case of NABIL shows lower percentage of dependency and the same in case of NCC shows higher percentage of dependency. The increase in net profit in case of NCC is due to effective mobilization of deposits and other factors have a lesser role to play in increase in net profits. NCC has been more successful in mobilization of its deposits to yield higher profits year after year.

vi) Coefficient of Correlation between Total Assets and Net Profit

The coefficient of correlation between these variables measures the degree of relationship between them. In our analysis, total working fund is taken as independent variable (x) and net profit is taken as dependent variable (y). The main objective of calculating 'r' is to justify whether total working fund is significantly used to generate earnings or in other words whether total working fund and net profit are significantly correlated or not.

The following table shows the value of r, r^2, PEr, and 6PEr between these two variables of NABIL and NCC.

Table 4.20

Correlation between Total Assets and Net Profit

Name of Bank	Base of Evaluation				**Remarks**
	r	**R^2**	**P.E.**	**6 x P.E.**	
NABIL	-0.3191	0.1018	0.2705	1.6228	Significant
NCC	0.8303	0.6894	0.0935	0.5612	Significant

Source: Appendix -7

B. Trend Analysis

The heading analyze the trend of total investment to total deposits ratio of NCC and NABIL with comparatively under five years study period and projects the trend of coming five years. The following table describes the trend values of total investment to total deposits ratio of NCC in comparison to NABIL for twelve years.

a. Trend Values of Total Deposit of NABIL and NCC

The heading analyze the trend of total investment to total deposits ratio of NCC and NABIL with comparatively under five years study period and projects the trend of coming five years. The following table describes the trend values of total deposits of NCC in comparison to NABIL for twelve years.

Table 4.21

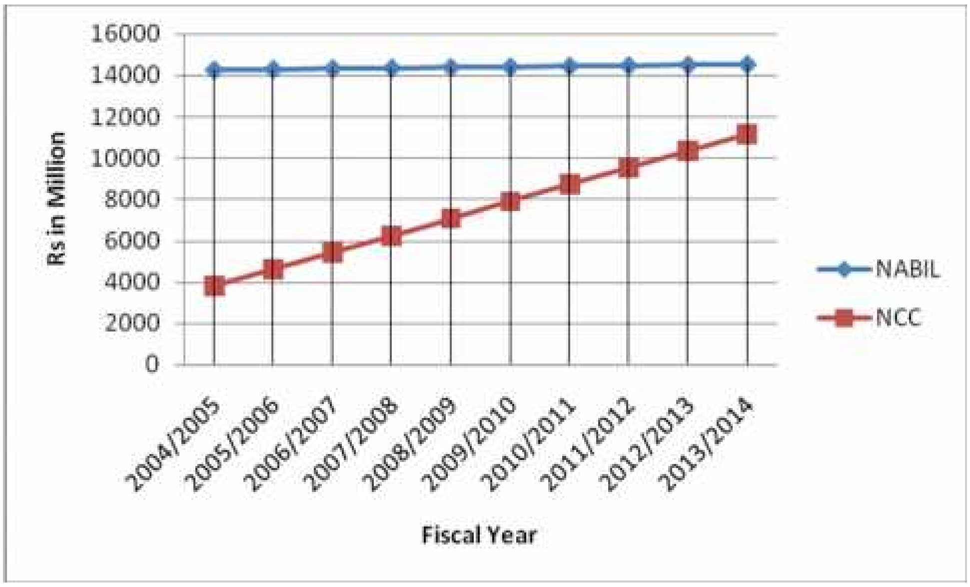
Trend Values of Total Deposit of NABIL and NCC

Rs. in Million

F/Y	NABIL	NCC
2004/2005	14,280.79	3,816.64
2005/2006	14,309.56	4,632.45
2006/2007	14,338.33	5,448.26
2007/2008	14,367.10	6,264.07
2008/2009	14,395.87	7,079.88
2009/2010	14,424.64	7,895.69
2010/2011	14,453.41	8,711.50
2011/2012	14,482.18	9,527.31
2012/2013	14,510.95	10,343.12
2013/2014	14,539.72	11,158.93

Figure: 4.16

Trend Values of Total Deposit of NABIL and NCC



From the above comparative table of trend value, it seems that the of total deposits of both banks is in increasing trend. Other thing remaining the same, the ratio of total investment to total deposits of NCC and NABIL will be 10343.12 and 14539.72 respectively in the year ended 2013.

b. Trend Values of Trend Analysis of Loan & Advances of NABIL and NCC

In this topic an effort has been made to analyze the trend of loan and advances to total deposits ratio of NCC and NABIL with comparatively of seven years study period and projection of next five years. The following table describes the trend values of loan and advances to total deposits ratio of NCC and NABIL.

Table 4.22

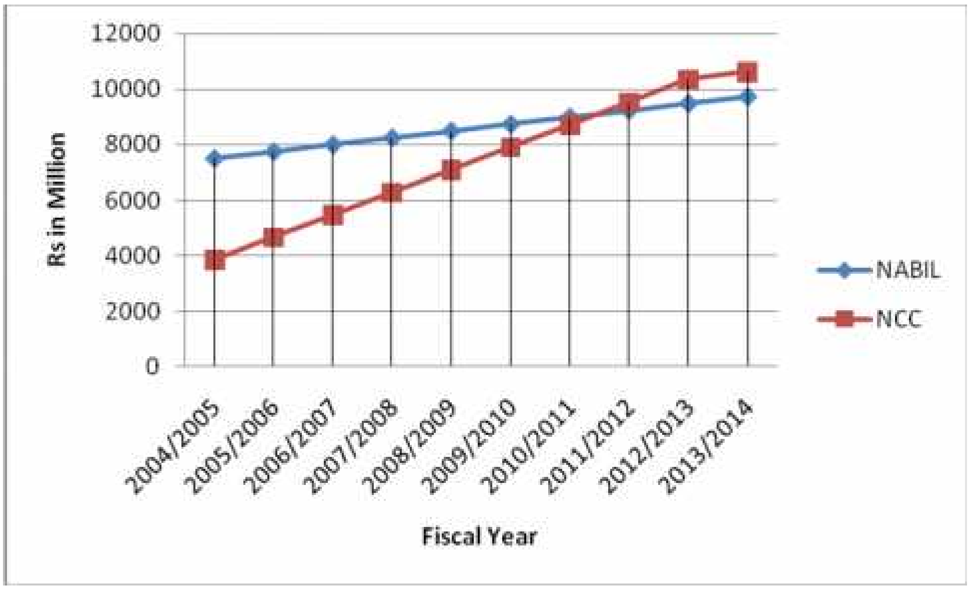
Trend Values of Trend Analysis of Loan & Advances of NABIL and NCC

Rs. in Million

F/Y	NABIL	NCC
2004/2005	7,507.23	2849.28
2005/2006	7,753.62	3715.00
2006/2007	8,000.01	4580.72
2007/2008	8,246.40	5446.44
2008/2009	8,492.79	6312.16
2009/2010	8,739.18	7177.88
2010/2011	8,989.57	8043.60
2011/2012	9,231.96	8909.32
2012/2013	9,478.35	9775.04
2013/2014	9,724.74	10640.76

Figure: 4.17

Trend Values of** Loan and Advances **of NABIL and NCC



The above table clearly shows that the loan and advance of both the banks are in an From above table it has been found that the loan and advances to total deposits ratio of NCC and NABIL are in decreasing trend. Other things remaining constant, the loan

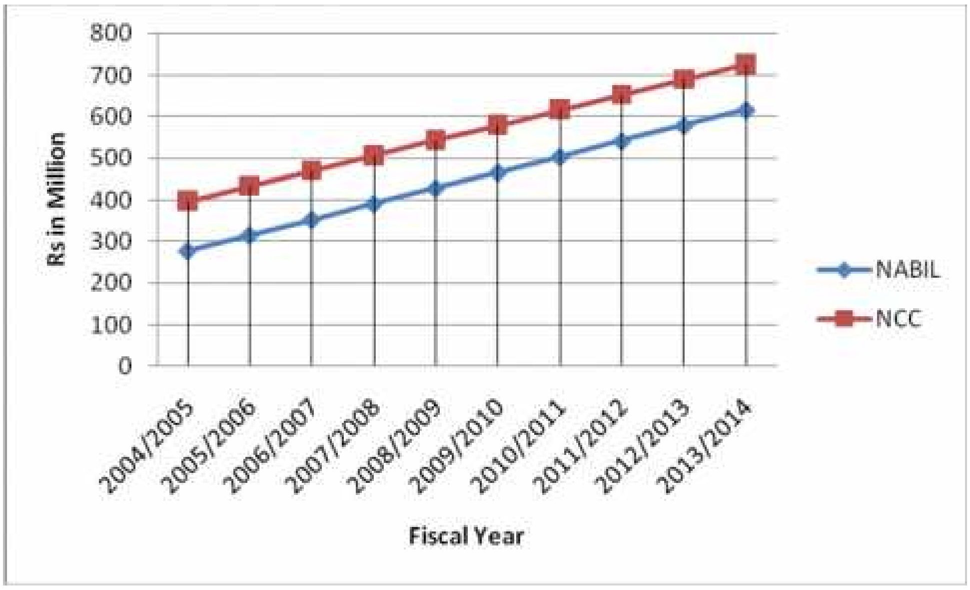
c. Trend Values of Trend Analysis of Net Profit of NABIL and NCC

Table 4. 23
Trend value of Net Profit of NABIL AND NCC

F/Y	NABIL	NCC
2004/2005	277.28	396.17
2005/2006	315.01	432.82
2006/2007	352.74	469.47
2007/2008	390.47	506.12
2008/2009	428.2	542.77
2009/2010	465.93	579.42
2010/2011	503.66	616.07
2011/2012	541.39	652.72
2012/2013	579.12	689.37
2013/2014	616.85	726.02

Figure: 4.18

Trend value of Net Profit of NABIL AND NCC



From the above comparative table it is clear that the trend value of both the banks are in increasing trend. Other things remaining the same the trend value of both the banks are in increasing trend. The trend value of NABIL will be highest in F/Y 2013/2014 i.e. Rs.616.85 million. In case of NCC net profit will be Rs 726.02 million in F/Y 2013/2014, which is the highest under the review period.

4.4. Analysis of Primary Data

To evaluate the management view relating to the fund mobilization, a set of questionnaire was used which contains seven questions relating to fund mobilization aspect of the banks. The responds are regarded as the representative of the management among majority who hold higher position in their firm. The qualitative aspects are examined by distributing questionnaires to 25 financial executives, employees and investors. The number of representative for the queries has differed due to the differentiation regarding the formation of the executive. The result of the questionnaire survey is presented in bellow:

Knowledge with investors about fund mobilization policy

In context to the knowledge of investment about the fund mobilization policy adopted by commercial banks, most of the respondents opined that they have not adequate knowledge about fund mobilization policy adopted by commercial banks.

Table: 4.24

Knowledge with investors about fund mobilization policy adopted by commercial banks

Responses	No. of respondents	Percentage
Yes	-	-
No	25	100
Total	25	100

Source: Field Survey, 2009

Reason for not interest of investors in fund mobilization policy

In relation to the reasons for not so interested in fund mobilization policy by the investors. Most of the respondent felt that investors are not interested to fund mobilization policy because of passive investment strategy and mismanagement. Majority of the respondents

(84%) told ‘passive investment strategy’ and the minority of the respondents (16%) told ‘mismanagement’. Through the classification of the views of respondents, the result generated as shown in above table.

Table: 4.25

Reason for not interest of investors in fund mobilization policy

Responses	No. of respondents	Percentage
Passive investment strategy	21	84
Mismanagement	4	16
Total	25	100

Source: Field Survey, 20009

Indication the level of risk in investing in current situation

With respect to the indication to find out the level of risk in investing in current situation. The options were: high, moderate, less, and no risk. Most of the executives indicated that the level of risk is moderate but investors indicate the level of risk is high. There are few respondents who said that there is less risk. Regarding this query, the results drown from the respondents’ views were as shown in above table. The majority of the respondents (64%) gave the first important to moderate; the second (20%) is to indicate high and remaining (16%) told less risk.

Table: 4.26

Indication the level of risk in investing in current situation

Responses	No. of respondents	Percentage
High	5	20
Moderate	16	64
Less	4	16
Total	25	100

Source: Field Survey, 2009

Sectors of investment that commercial banks invest their fund

In context to the about the sectors of investment that commercial banks should invest the fund collected through deposits. Regarding this query, the results from the respondents' views were as shown in above table. The majority of the respondents (64%) gave large scale industry; the second (20%) is to indicate manufacturing companies and remaining (16%) told trade and commerce.

Table: 4.27

Sectors of investment that commercial banks invest the fund collected through deposits

Responses	No. of respondents	Percentage
Large scale industry	16	64
Manufacturing companies	5	20
Trade and commerce	4	16
Total	25	100

Source: Field Survey, 2009

Priority to give investment to the rural area of the country

With respect to necessary to give investment priority to the rural area of the country, 60% of the respondents felt that it is necessary and 40% of the respondents stated that it is not to give investment priority to the rural area of the country. Most of financial executive and investors said that it is necessary to give investment priority in rural area of country.

Table: 4.28

Priority to give investment to the rural area of the country

Responses	No. of respondents	Percentage
Yes	15	60
No	10	40
Total	25	100

Source: Field Survey, 2009

Reason for increasing minimum threshold balance and reduction of interest rate on the client's deposits

In respect to the reason for increasing the minimum threshold balance and in the other hand reduction of interest rate on the client's deposits. 56% of the respondents have told that they don’t have enough investment opportunities and 44% of the respondents told that they already have enough deposits or collections. In response to question 'Reason for increasing minimum threshold balance and reducing the interest rate on the client's deposits' most of respondent said that they do not have enough investment opportunity.

Table: 4.29

Reason for increasing the minimum threshold balance and reduction of interest rate on the client’s deposits

Responses	No. of respondents	Percentage
Don’t have enough investment opportunities	14	56
Already have enough deposits or collections	11	44
Total	25	100

Source: Field Survey, 2009

Reasons behind for not providing banking facilities to the rural areas

With respect to reasons behind for not providing banking facilities to the rural areas, 60% of the respondents felt that they don’t want to take risks and 40% of the respondents stated that they are profit oriented. Most of the respondents thought that the reason behind for not providing banking facilities to the rural areas was they don't want to take risk. Some investors thought that banks are profit oriented only and in rural areas profit generating is less in comparison to urban areas.

Table: 4.30

Reasons behind for not providing banking facilities to the rural areas

Responses	No. of respondents	Percentage
Don’t want to take risks	11	44

They are profit oriented only	14	56
Total	25	100

Source: Field Survey, 2009

4.7 Major Findings of the Study

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

1) The mean ratio of cash and bank balance to total deposits of NABIL is lower than NCC. It means the liquidity position of NABIL is lower than NCC. It shows the lower position regarding the meeting of demand of its customer on their deposit at any time than NCC. The ratio of NCC is more consistent and that of NABIL is less consistent.
2) The average study of cash and bank balance to current assets ratio of NCC is higher than NABIL. It shows that NABIL has taken more risk to meet the daily requirement of its customer's deposit than NCC. The ratio of NCC is more consistent and NABIL has less consistent ratio.
3) NABIL has invested more portions of current assets on government securities than NCC according to average study. It means NABIL is more sensitive in investment in productive sector than NCC. Analysis shows that investment on government securities of NCC is more consistent and NABIL has less consistent ratio.
4) The mean ratio of loan and advances to total deposits of NCC is lower than that of NABIL. The ratio of NCC is more consistent and NABIL has less consistent ratio.
5) NABIL has mobilized its collected deposits on investment better than that of NCC The ratio of NCC is less consistent NABIL has more consistent ratio.
6) The loan and advances to total working fund ratio describes that NABIL position is better than NCC. The variability in ratio of NCC is slightly higher than that of NABIL.
7) The mean ratio of investment on government securities to total working fund of NABIL is higher than that of NCC. NABIL seems more successful to invest its working fund in government securities than NCC. The variability in the ratio of NCC is more consistent than that of NABIL.

8) The mean ratio of investment on shares and debentures to total working fund of NCC seems slightly weaker than that of NABIL NABIL has more consistent ratio than that of NCC.
9) From the average study of return on loan and advances, NABIL seems more successful to earn profit on loan and advances than NCC. The mean ratio of NABIL is higher than NCC. The variability in the ratio of NABIL is less consistent and NCC is more consistent.
10) Due to higher mean ratio of return on working funds of NABIL, it seems more successful in earning profit on total assets than NCC. The variability in the ratio of NABIL is less consistent and NCC is more consistent.
11) NABIL has slightly higher mean ratio than NCC to earn interest on total working fund. The variability in the ratio of NABIL is more consistent and NCC is less consistent.
12) The mean ratio of total interest paid to total working fund of NCC is higher than NABIL. So, we can say that NABIL is in better condition from interest expenses payment point of view. The variability in the ratio of NABIL is more consistent and NCC is less consistent.
13) The mean ratio of liquidity risk of NCC is higher than NABIL. Degree of risk and variability of risk is lower in NCC in comparison to NABIL. It seems liquidity risk ratio of NCC is more consistent than that of NABIL.
14) In case of credit risk ratio, NCC has the lower risk than NABIL. The variability in the ratio of NABIL is slightly lower than NCC.
15) The growth ratio of deposit of NABIL seems too lower than that of NCC. The growth rate of NABIL is only 8.50% but NCC has 19.09% growth rate.
16) From the analysis of growth ratio of loan and advances, NABIL seems too weak in increasing loan and advances than that of NCC. The growth rate of loan and advances of NABIL is only 7.94%, which is lower than that of NCC.
17) NABIL seems weak in increasing total investment in comparison to NCC. The growth rate of NABIL is 36.05% but NCC is 46.83%.
18) The yearly growth rate of net profit of NABIL is better in comparison to NCC. NCC has the growth rate of 11.87% and NABIL has 17.67%.
19) Capital fund of NABIL has been found significantly higher than NCC. NCC has higher amount of deposit than that of NABIL. NCC has been borrowing low

proportion in comparison to NABIL. NABIL seems to be more successful in generating funds from other sources.

20) NCC has maintained high liquid funds than that of NABIL. NCC seems to be more successful to make investment in different sectors in comparison to NABIL. NCC provides more funds as loan and advances than that of NABIL NABIL is comparatively able to realize higher amount of interest accrued than that of NCC. NABIL seems to have allocating more funds in other assets. Findings from the Coefficient of Correlation Analysis.

21) Correlation coefficient between deposit and total investment of NCC is higher than NABIL. It indicates that NCC is successfully mobilizing its deposits as investment. There is significant relationship between correlation coefficient of deposits and total investment of NABIL.

22) NCC has the higher degree of correlation coefficient between deposit and loan and advances than NABIL. It states that NCC is in better position in the mobilization of deposits as loan and advances in comparison to NABIL. There is significant relationship between correlation of coefficient of deposit and loan and advances of NCC and NABIL.

23) The total deposits to total investment ratio of NCC and NABIL are in increasing trend. The trend value of NABIL is higher than NCC in the year 20011. After the year 20011, NABIL has slightly lower trend value. It indicates that NABIL is more successful to utilize its deposit in investment.

24) The trend values of the both banks are in decreasing trend but NCC has higher trend value than NABIL. Loan and advances to total deposits ratio of NCC is comparatively better than NABIL although both has decreasing trend.

25) There is significant difference between mean ratios of loan and advances to total deposits of NCC and NABIL.

26) There is no significant difference between mean ratios of total investment to total deposit of NCC and NABIL.

27) Empirical study of the customer's views regarding the adopted fund mobilization policy of concerned banks has been carried out. Most of joint venture banks have focused their banking service especially to huge clients such as multinational companies, large scale industries, manufactured companies and exporter of garments and carpets.

28) Most of the financial executives and investors felt that Nepalese investors do not have knowledge about fund mobilization policy. Most of the respondent felt that investors are not interested to fund mobilization policy because of passive investment strategy and not proper management. Most of the executives indicated that the level of risk is moderate but investors indicate the level of risk is high. There are few respondents who said that there is less risk. In response to questionnaire, most of respondent highlighted on shares, debentures and bond and government securities. Few of them suggested on loan and advances and other companies securities.

29) Most of financial executive and investors said that it is necessary to give investment priority in rural area of country. In response to question 'Reason for increasing minimum threshold balance and reducing the interest rate on the client's deposits' most of respondent said that they do not have enough investment opportunity. Most of the respondents thought that the reason behind for not providing banking facilities to the rural areas was they don't want to take risk.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nowadays there is very much competition in banking market but less opportunity to make investment. In this condition, joint venture bank can take initiation in search of new opportunities, so that they can survive in the competitive market and earn profit. But investment is a very risky job. For a purposeful, safe, profitable investment bank most follows sound investment and fund mobilizing policy.

Generally fund mobilizing means cash flow in the different sectors at profit motive. In the broadest sense it means, the sacrifice of certain current value for future value or possibly uncertain value. This research focuses on the comparative study of fund mobilization of two joint venture banks; NCC and NABIL Bank Limited. The study focuses whether it is backward or forward in investing its fund efficiently in the business, industry and commerce. In this study NCC is compared with the Nabil Bank Limited on their future fund mobilizing activities by collecting seven years data from the year 2004/05 to 2008/09. Both banks have strong position in the market with new banking system and their activities.

Fund mobilizing is always related with risks and returns. It is appropriate to state that the objective is to make a lot of money by recognizing the possible losses. Fund mobilizing policy also involves the identification of the potential categories of financial assets for consideration in the ultimate portfolio.

The main objective of the study is to analyze the fund mobilizing policy adopted by NABIL and NCC Bank Limited. The specific objectives of the study are: a) To measure the relationship of total deposits with total investment, loan and advances and net profit, b) To evaluate the comparative growth ratio on total investment, loans and advances, total deposits and net profit of NCC and NABIL Bank Limited, c) To evaluate financial and investment efficiency, profitability and liquidity position of NCC and NABIL Bank Limited and d) To analyze the sources and uses of funds of these two banks.

To achieve the objectives of the study, descriptive an analytical research design has been used. Some statistical and financial tools have also been applied to examine facts and descriptive techniques have been adopted to evaluate funds mobilizing performance of NCC and compare it with NABIL Bank Limited. The study is based on secondary data. So the descriptive and analytical research designs have been used. In this study only two joint venture banks have been taken as sample. All the commercial banks in Nepal are the population of the study. The sample taken from the commercial banks are Himalayan Bank Limited and Nabil Bank Ltd.

The research is based on secondary source of data. The data relating to the investment, deposit, loan and advances, assets and profit are directly obtained from the balance sheet and Profit and Loss A/C of the concerned bank's annual reports. Supplementary data and information are collected from number of institution and authoritative sources like Nepal Rastra Bank, Security Exchange Board, Nepal Stock Exchange Ltd., Ministry of Finance, Budget speech of different fiscal years, economic survey and National Planning Commission etc. To achieve the objectives of the study various financial and statistical tools have been used. After collecting the data from the different sources, it is analyzed by using financial tools and statistical tools. Findings are drawn by applying various financial tools namely liquidity ratio, assets management ratio, profitability ratio, growth ratio, risk ratio and sources and uses of funds. In the same way, statistical tools have been used namely mean, standard deviation, coefficient of variation, coefficient of correlation and least square method trend.

5.2 Conclusion

From the analysis of the liquidity position of NCC and NABIL, it can be concluded that the liquidity position of NABIL was not satisfactory whereas NCC is comparatively better than that of NABIL. NABIL has made enough investment in government securities than NCC. Liquidity ratio of NCC is more consistent than that of NABIL. In view of assets management side of two banks, it can be concluded that NCC is in weak position in mobilizing the collected deposits as loan and advances. NABIL is successful in mobilizing its collected deposits on investment better than that of NCC. NABIL has invested its funds efficiently on government securities and shares and debentures better than that of NCC. Assets management ratio of NCC is more consistent than that of NABIL.

NABIL profit earning capacity on loan and advances and working fund is better than that of NCC. The return ratio of NCC is more consistent than that of NABIL. NABIL seems stronger in earning interest from working fund than NCC and it has also been successful to collect its working fund from less expensive sources. Liquidity risk of NCC is higher than NABIL whereas it has maintained lower credit risk than that of NABIL.

From the growth ratio of total deposits, it can be concluded that NCC has more collection capacity than NABIL. Growth rate of NABIL on loan and advances is too weak in comparison to NCC. Growth rate of total investment of NABIL seems too weak than NCC whereas it has better position than that of NCC with respect to growth rate of net profit. NCC has been more successful to collect deposits than that of NABIL. NCC borrowing is an indication that the internal fund management of NCC is in satisfactory position towards meeting liquidity needs. NCC has more fund as liquid and is also been successful in making investment in different sectors better than that of NABIL. It also provides more fund as loan and advances.

Correlation coefficient between deposits and total investment and deposits and loan and advances of NCC and NABIL indicates the positive relationship or there is high degree of positive correlation. In most of the cases it has been found that loan and advances and investment decision depends upon other variables. From the calculation of probable error it can be concluded that the relationship between deposits and investment and loan and advances and deposits of both banks is significant.

By considering the trend values, NCC seem to be more successful to utilize its total collected deposits in investment than NCC. Deposit utilization trend in relation to loan and advances of NCC is proportionately better than NABIL. In case of testing of hypothesis it can be concluded that there is significant difference between mean ratio of loan and advances to total deposits of NCC and NABIL and there is no significant difference between mean ratio of total investment to total deposits of NCC and NABIL.

5.3 Recommendations

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

1) The ratio of cash and bank balance to total deposits and current assets of NCC is higher than NABIL. It means NCC has idle cash and bank balance. It may decrease over all profit of bank. So NCC is recommended to activate its idle cash and bank balance in productive sector. The affecting factors of liquidity position may be interest rates, supply and demand position of loan and advances as well as savings, investment situations, Central Bank directives, capability of management, lending policies, strategic planning and funds flow situations.
2) Banks are suggested not to be surrounded and limited within the interest and status of big clients like multinational companies, manufacturer and exporter. The banks have to preserve the banking and saving habits of the low-income people of the kingdom. Because the main source of the collecting deposits of commercial banks are from public sector. It is also recommended to collect more funds as deposits through different schemes from different level of public, through assortment of deposit schemes and facilities like housing schemes, education loan, vehicle loan, and deposit for house wife etc.
3) From the analysis, NCC has not invested more funds in government securities in comparison to NABIL. The bank has higher cash and bank balance than NABIL. Therefore, it is recommended to invest in government securities instead of keeping idle and is not considered good from profitability point of view. Investment on those securities issued by government is free of risk, highly liquid and highly saleable in the marketplace.
4) The recovery of the loan is most challenging job for banks. Increasing in non-performing assets leads to failure of commercial bank in recovery of loan. Therefore it has been recommended that NCC and NABIL should follow liberal lending policy when sanction of loan and advances have been done with adequate guarantee and should implement sound collection policy with proper identification of creditworthiness of customers, continual follow up and legal procedure if required. Therefore, the bank must be very careful while formulating credit policy. The credit policy is also associated with some legal procedure.

5) NCC is recommended to increase their investment on shares and debentures on different sectors to earn more interest and to increase their net profit.
6) Growth of commercial banks helps to develop the economic growth of the country. So the service of the commercial banks should be expanded all over the country through collection of idle saving from every territory of the country and should be utilized for income generation purpose. Government should encourage the commercial banks to expand banking service in rural areas and communities without making unfavorable impact in their profit.
7) Both banks should be careful in increasing profit of the bank to maintain the confidence of shareholders, depositors and all its customers. NCC profitability position is not better than that of NABIL. So, NCC is strongly recommended to utilize risky assets and shareholders fund to gain high amount of profit.
8) NRB has given directives to commercial banks to invest their certain percentage of investment in deprive and priority sector. Both banks have earned profit from profitable and private sector. So, they are recommended to strictly follow up the directives issued by NRB and should make investment on public utilities sector like health, sanitation, education, drinking water, agriculture etc.
9) Portfolio management is important for every investor. In each investment, risk is involved. The greater the variability of returns of those projects, the more will be riskier. So, it should be kept in mind while making investment, that project should be selected which will be low riskier and highly profitable. So, portfolio management helps the investors in making investment in different areas by considering their risk factor. Portfolio management of bank assets means allocation of funds into different components of banking assets in such a way that the conflicting goal of maximum yield and minimum risk can be achieved. So, portfolio condition of NCC and NABIL should be examined carefully from time to time. Banks should make continuous efforts to explore innovative, competitive and high yielding investment opportunities to optimize their investment portfolio.
10) The minimum bank balance and the amount needed to open an account in the banks are very high. So, lower level people and small depositors are very far from banking facilities providing by joint ventures banks. So, all the banks should open its doors to small depositors for promoting and mobilizing small depositors’ funds

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Appendex-1

Cash and bank balance to current assets ratio

NCC BANK LTD.

Fiscal years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Cash &bank balance	546.09	670.26	970.39	662.70	783.96
Current assets	3130.09	3780.54	5296.47	6130.38	5448.32
Ratio(%)	17.45%	17.73%	18.32%	10.81%	14.39%

NABIL BANK

	Cash & Bank Balance	Current Asset	
2004/2005	910.07	14773.77	
2005/2006	812.91	18098.96	
2006/2007	1051.82	17732.35	
2007/2008	1144.77	16644.97	
2008/2009	970.49	16742.67	

Cash and bank balance to total deposit ratio

NCC

Fiscal years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Cash &bank balance	546.09	670.26	970.39	662.70	783.96
Total deposit	3708.97	4294.10	5987.70	6630.94	6619.58
Ratio(%)	14.72%	15.61%	16.21%	10%	11.84%

NABIL BANK

	Cash & Bank Balance	Total Deposi	

		t	
2004/2005	1020.46	125668.49	
2005/2006	961.05	154300.05	
2006/2007	825.26	158355.75	
2007/2008	1512.30	187555.63	

2008/2009	2023.13	21161.44	

Investment on government securities to current assets ratio

NCC

Fiscal years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Government securities	199.66	315.24	511.94	324.73	551.59
Current assets	3130.09	3780.54	5296.47	6130.38	5448.32
Ratio(%)	6.38%	8.34%	9.67%	5.30%	10.12%

NABIL BANK Ltd.

	Investment in Government Securities	Current Ass	

		et	
2004/2005	1233.82	14773.77	
2005/2006	2732.96	18098.96	
2006/2007	4120.30	17732.35	
2007/2008	3588.77	16644.9	

		7	
2008/2009	3672.63	16742.67	

Appendex-2

Loan and advances to current assets ratio

NCC BANK

Fiscal years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Loan and advances	2878.29	3396.41	4717.30	6011.90	5899.16
Current assets	3130.09	3780.54	5296.47	6130.38	5448.32
Ratio(%)	91.96%	89.84%	89.06%	98.07%	108.27%

NABIL BANK Ltd

Loan and Advances to Current Asset Ratio

	Loan and Advance	Current Asset	
2004/2005	7211.42	14773.77	
2005/2006	8324.44	18098.96	

2006/2007	7801.85	17732.35	
2007/2008	8113.68	16644.97	
2008/2009	8548.66	16742.67	

Loan and advances to total deposit ratio

NCC BANK

Fiscal years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Loan and advances	2878.29	3396.41	4717.30	6011.90	5899.16
Total deposit	3708.97	4294.10	5987.70	6630.94	6619.58
Ratio (%)	77.60%	79.09%	78.78%	90.66%	89.12%

NABIL BANK LTD

Loan and Advances to Total Deposit Ratio

	Loanand Advance	Total Depos	

		it		[illegible]
2004/2005	7211.42	12779.51		[illegible]
2005/2006	8324.44	15839.00		[illegible]
2006/2007	7801.85	15506.43		[illegible]
2007/2008	8113.68	13447.66		[illegible]
2008/2009	8548.66	14119.03		[illegible]

Total investment to total deposit ratio

NCC BANK Ltd

Fiscal years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Total investment	283.23	411.83	573.98	400.34	591.64
Total deposit	3708.97	4294.10	5987.70	6630.94	6619.58
Ratio(%)	7.64%	9.59%	9.59%	6.04%	8.94%

NABIL BANK LTD

Total Investment to Total Deposit Ratio

	Total Investment	Total Deposit	
2004/2005	1250.94	12779.51	
2005/2006	7704.31	15839	
2006/2007	8199.5	15506.	

	1	43		
2007/2008	603 1.1 8	13447. 66		
2008/2009	583 5.9 5	14119. 03		

Loan and advances to total working fund ratio

NCC BANK

Fiscal years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Loan and advances	2878.29	3396.41	4717.30	6011.90	5899.16
Total working fund	4095.18	4832.60	6660.78	6918.08	6427.70
Ratio (%)	70.28%	70.28%	70.82%	86.90%	91.78%

NABIL BANK LTD

	Loan and advan ce	Tot al Wo rkin g Fun		

		d	
2004/2005	7211. 42	150 24. 20	
2005/2006	8324. 44	183 67. 15	
2006/2007	7801. 85	179 93. 20	
2007/2008	8113. 68	166 68. 44	
2008/2009	8548. 66	171 04. 27	

Investment on government securities to total working fund ratio

NCC BANK

Fiscal years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Government securities	199.66	315.24	511.94	324.73	551.59
Total working fund	4095.18	4832.60	6660.78	6918.08	6427.70
Ratio (%)	13.32	11.41	14.74	17.12	14.02

NABIL BANK

	Investment in Government Securities	Total Working Fund	Percentage
2004/2005	1233.82	15.24.20	

2005/2006	2732.96	183677.15	
2006/2007	4120.30	179993.20	
2007/2008	3588.77	166668.44	
2008/2009	3672.63	171104.27	

Investment on shares and debenture to total working fund ratio

NCC BANK

Fiscal years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Shares and debentures	126.07	151.07	151.07	166.42	166.42
Total working fund	4095.18	4832.60	6660.78	6918.08	6427.70
Ratio (%)	3.08%	3.13%	2.27%	2.41%	2.59%

NABIL BANK

	Investment in Share & Debenture	Total Working Fund	
2004/2005	16.12	15024.20	
2005/2006	18.82	18367.15	
2006/2007	22.22	179	

		93. 20	
2007/2008	22.22	166 68. 44	
2008/2009	22.22	171 04. 27	

Appendix-III

Return on total working fund ratio

NABIL BANK LTD

	Net profit	Total Working Fund	
2004/2005	329.10	15024.20	

2005/2006	2911.38	18367.15	
2006/2007	2711.64	17993.20	
2007/2008	4166.24	16668.44	
2008/2009	4555.32	17104.27	

Return on loan and advances ratio

NCC

Fiscal years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Net Profit	(397.17)	81.80	3.41	(5.16)	(569.74)
Loan and	2878.29	3396.41	4717.30	6011.90	5899.16

advances					
Ratio (%)	(13.80%)	2.41%	0.07%	(0.09%)	(9.66%)

NABIL BANK

Return on Loan and Advances Ratio

	Net Profit	Loan and Advances	
2004/2005	329.10	7211.42	
2005/2006	291.38	8324.44	
2006/2007	271.	7801.85	

	64		
2007/2008	4166.24	8113.68	
2008/2009	4555.32	8548.66	

Total interest earned on total working fund ratio

NCC BANK

Fiscal years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Total interest earned	307.71	437.18	486.83	541.85	562.78
Total working fund	4095.18	4832.60	6660.78	6918.08	6427.70
Ratio (%)	7.51%	9.05%	7.31%	7.83%	8.76%

NABIL BANK

	Total Interest Paid	Total Work	

		ing Fund	
2004/2005	432.96	150224.20	
2005/2006	578.36	183667.15	
2006/2007	462.08	179993.20	
2007/2008	317.35	166668.44	
2008/2009	282.95	171104.27	

Appendix-IV

Liquidity risk ratio

NCC BANK

Fiscal years	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Cash and bank balance	546.09	670.26	970.39	662.70	783.96
Total deposit	3708.97	4294.10	5987.70	6630.94	6619.58
Ratio (%)	14.72%	15.61%	16.21%	9.99%	11.84%

Appendix-V

Growth Ratios

Growth Ratios of loan and advances

Bank/FY	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Growth Rate(%)
NCCB	2878.29	3396.41	4717.30	6011.90	5899.16	19.65
NABIL	7334.76	8324.44	7437.90	7755.95	8189.99	7.94

Growth rate can be calculated as follows:

Here,

Dn = total loans & advances in nth year

D_0 = total loans & advances in initial year

g= growth rate

We have,

$$Dn = D_0 (1+g)^n$$

NCC

Nabil

$D_{2008/09} = D_{2004/05}(1+g)^{5-1}$ $D_{2008/09} = D_{2004/05}(1+g)^{5-1}$

$5899.16 = 2878.29(1+g)^4$ 8189.99=7334.76

$1+g=$ 1.1965 g=7.94

$g = 19.65$

Growth Ratios of total investment

Bank/FY	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Growth Rate
NCCB	283.23	411.83	573.98	400.34	591.64	20.22%
NABIL	1249.94	7703.31	8198.51	6031.17	5836.07	36.05

Growth rate can be calculated as follows:

Here,

Dn = total investment in nth year

D_0 = total investment in initial year

g= growth rate

We have,

$Dn = D_0 (1+g)^n$

NCC

$D_{2008/09} = D_{2004/05}(1+g)^{5-1}$

$591.64 = 283.23(1+g)^4$

$1+g=$ 1.2022

$g = 20.22$ %

NABIL

$D_{2008/09} = D_{2004/05}(1+g)^{5-1}$

$5836.07=1249.94 (1+g)^4$

g=36.05%

Growth Ratios of net profit

Bank/FY	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Growth Rate
NCCB	(397.17)	81.80	3.41	(5.16)	(569.74)	(9.44%)
NABIL	329.12	291.37	271.63	416.25	455.31	17.67%

Here,

Dn = Net profit in nth year

D_0 = Net profit in initial year

g= growth rate

We have,

$$Dn = D_0 (1+g)^n$$

$$D_{2004/05} = D_{2008/09}(1+g)^{5-1}$$

NCC

$$(397.17) = (569.74)(1+g)^4$$

1+g= 1.0944

g = (9.44 %)

NABIL

$$329.12=455.31(1+g)^4$$

g=17.67%

Appendix-VII

Trend Analysis

Trend Analysis of Total Deposit (Rs. In million)

Year (t)	Total deposit(y)	x=t-2006/07	x^2	xy	Yc =a+bx
2004/2005	3708.97	-2	4	-7417.94	3816.64
2005/2006	4294.10	-1	1	-4294.10	4632.45
2006/2007	5987.70	0	0	0	5448.26
2007/2008	6630.94	1	1	6630.94	6264.07
2008/2009	6619.58	2	4	13239.16	7079.88
N=5	$\sum y$=27241.29	$\sum x$ =0	$\sum x^2$=10	$\sum xy$=8158.06	

We have,

N=5 $\sum x = 0$, $\sum x^2 = 10$, $\sum y = 27241.29$, $\sum xy = 8158.06$

Since, $\sum x = 0$, so $a = \frac{\sum Y}{N} = \frac{27241.29}{5} = 5448.26$ $b = \frac{\sum XY}{\sum X^2} = \frac{8158.06}{10} = 815.81$

$\therefore$ Y= a + bx

=5448.26+815.81x

Trend values of total deposit of NCC BANK

Year(t)	x	$y_{c\ =\ a+bx}$
2009/10	3	7895.69
2010/11	4	8711.50
2011/12	5	9527.31
2012/13	6	10343.12
2013/14	7	11158.93

The equation of the trend line is $Y_c = a + bx$

. Trend Analysis of loan and advances (Rs. In million)

Year (t)	Loan and advances(y)	X=t-2006/07	X^2	xy	Yc =a+bx
2004/2005	2878.29	-2	4	-5756.58	2849.28
2005/2006	3396.41	1-	1	-3396.41	3715.00
2006/2007	4717.30	0	0	0	4580.72
2007/2008	6011.90	1	1	6011.90	5446.44
2008/2009	5899.16	2	4	11798.32	6312.16
	∑y=22903.60	∑x =0	$\sum x^2=10$	∑xy=8657.23	

We have,

N=5 ∑x =0, $\sum x^2=10$, ∑y=22903.60, ∑xy=8657.23

Since, ∑x =0, so $a = \frac{\sum Y}{N} = \frac{22903.60}{5} = 4580.72$ $b = \frac{\sum XY}{\sum X^2} = \frac{8657.23}{10} =865.72$

∴ Y= a + bx

=4580.72+865.72x

Trend values of loan and advances of NCC BANK

Year(t)	x	$y_{c = a+bx}$
2009/10	3	7177.88
2010/11	4	8043.60
2011/12	5	8909.32
2012/13	6	9775.04
2013/14	7	10640.76

The equation of the trend line is $y_{c = a+bx}$

NABIL

The Trend value of Total Deposits of NABIL

(Rs. in million)

F/Y	Total Deposits (y)	x=T- 2006/2007	x^2	xy	y = a + bx Trend Values
2004/2005	12779.51	-2	4	-25559.02	14280.79
2005/2006	15839.00	-1	1	-15839.00	14309.56
2006/2007	15506.43	0	0	0	14338.33
2007/2008	13447.66	1	1	13447.66	14367.10
2008/2009	14119.03	2	4	28238.06	14395.87
	Σy = 71691.63	Σx=0	Σx^2=10	Σxy=287.70	

Here, N = 5

$$a = \frac{\sum y}{N} = \frac{71691.63}{5} = 14338.33 \qquad \text{or, } a = 14338.33$$

$$y = \frac{\sum xy}{\sum x^2} = \frac{287.70}{10} = 28.77 \qquad \text{or, } b = 28.77$$

Let the trend line be,

$y = a + bx$ .... (i)

The two normal equation are

$\Sigma y = na + b\,\Sigma x$ .... (ii)

$\Sigma xy = a\,\Sigma x + b\,\Sigma x^2$ .... (iii)

$\therefore$ From (ii) $a = \frac{\sum y}{N}$ .... (iv)

From (iii) $b = \frac{\sum xy}{\sum x^2}$ .... (v)

$\therefore$ The straight line trend for total deposits is,

$y = a + bx \rightarrow 14338.33 + 28.77\,x$

For year 2004/2005, $y = a + bx \rightarrow 14338.33 + 28.77 \times 3$

$x = 3$ $y =$ Rs. 14424.64 million

Other trend values have been calculated accordingly.

(Rs. in Million)

Year (t)	x = t – 2006/2007	y (Projected deposit) = a+bx
2009/10	3	14424.64
2010/11	4	14453.41
2011/12	5	14482.18
2012/13	6	14510.95
2013/14	7	14539.72

The Trend value of Loan and Advances of NABIL

(Rs. in million)

F/Y	Loan and Advances (y)	x=t- 2006/2007	x^2	xy	y = a + bx Trend Values
2004/2005	7211.42	-2	4	-14422.84	7507.23
2005/2006	8324.44	-1	1	-8324.44	7753.62
2006/2007	7801.85	0	0	0	8000.01
2007/2008	8113.68	1	1	8113.68	8246.40
2008/2009	8548.66	2	4	17097.32	8492.79
	Σy = 40000.05	Σx=0	Σx^2=10	Σxy=2463.72	

Let the trend line be,

y = a + bx .... (i)

The two normal equation are

Σ y = na + b Σx .... (ii)

Σxy = a Σx + b Σ x^2 .... (iii)

$\therefore$ From (ii) a = $\frac{\sum y}{N}$ .... (iv)

From (iii) b = $\frac{\sum xy}{\sum x^2}$ .... (v)

Here, N = 5

$$a = \frac{\sum y}{N} = \frac{40000.05}{5} = 8000.01 \qquad \text{or, a = 8000.01}$$

$$y = \frac{\sum xy}{\sum x^2} = \frac{2463.92}{10} = 246.39 \qquad \text{or, b = 246.39}$$

$\therefore$ The straight line trend for total deposits is,

y = a + bx $\rightarrow$ 8000.01+ 246.39 $\times$ 3

For year 2004/2005, y = a + bx $\rightarrow$ 8000.01+ 246.39 $\times$ 3

x = 3 y = Rs. 8739.18 million

Other trend values have been calculated accordingly.

(Rs. in million)

Year (t)	x	y (Projected deposit) = a+bx
2009/10	3	8739.18
2010/11	4	8985.57
2011/12	5	9231.96
2012/13	6	9478.35
2013/14	7	9724.74

The Trend value of Net Profit of NABIL

(Rs. in million)

F/Y	Net profit	x=t- 2006/2007	x^2	xy	y = a + bx

	(y)				Trend Values
2004/2005	329.10	-2	4	-658.20	277.28
2005/2006	291.38	-1	1	-291.38	315.01
2006/2007	271.64	0	0	0	352.74
2007/2008	416.24	1	1	416.24	390.47
2008/2009	455.32	2	4	910.64	428.20
	$\Sigma y = 1763.68$	$\Sigma x = 0$	$\Sigma x^2 = 10$	$\Sigma xy = 377.30$	

Let the trend line be,

$y = a + bx$ .... (i)

The two normal equation are

$\Sigma y = na + b\Sigma x$ .... (ii)

$\Sigma xy = a\Sigma x + b\Sigma x^2$ .... (iii)

$\therefore$ From (ii) $a = \frac{\sum y}{N}$ .... (iv)

From (iii) $b = \frac{\sum xy}{\sum x^2}$ .... (v)

Here, N = 5

$$a = \frac{\sum y}{N} = \frac{1763.68}{5} = 352.74 \qquad \text{or, } a = 352.74$$

$$y = \frac{\sum xy}{\sum x^2} = \frac{377.30}{10} = 37.73 \qquad \text{or, } b = 37.73$$

$\therefore$ The straight line trend for total deposits is,

$y = a + bx \rightarrow 352.74+37.73X$

For year 2004/2005, $y = a + bx \rightarrow 352.74+37.73 \times 3$

$x = 3$ $y =$ Rs.465.93 million

Other trend values have been calculated accordingly.

(Rs. in million)

Year (t)	x	y (Projected deposit) = a+bx
2009/10	3	465.93
2010/11	4	503.66
2011/12	5	541.39
2012/13	6	579.12
2013/14	7	616.85

Appendix-VI

Coefficient of correlation analysis

NCC BANK

Coefficient of correlation between total deposit and loan and advances

Fy	Deposit (X)	Loan and advances(Y)	$x = X - \overline{X}$	$y = Y - \overline{Y}$	xy
2004/2005	3708.97	2878.29	-1739.29	-1702.32	2960828.153
2005/2006	4294.10	3396.41	-1154.16	-1184.20	1366756.272
2006/2007	5987.70	4717.30	539.44	136.69	73736.0536
2007/2008	6630.94	6011.90	1182.68	1431.29	1692758.057
2008/2009	6619.58	5899.16	1171.32	1318.55	1544443.986
	Σx=27241.29	Σy=22903.06			Σxy=7638522.522

$$\overline{X} = \frac{\sum X}{N} = \frac{27241.29}{5} = 5448.26 \qquad \pm x = \sqrt{\frac{\sum\left(X - \overline{X}\right)}{N}} = 1218.11$$

$\bar{Y} = \frac{\sum Y}{N} = \frac{22903.06}{5} = 4580.61$

$\pm y = \sqrt{\frac{\sum (Y - \bar{Y})}{N}} = 1273.27$

$r = \frac{\sum xy}{n \pm x . \pm y}$

P.Er. = 0.6745* $\frac{1-r^2}{\sqrt{N}}$

$= \frac{7368522.522}{5*1218.11*1273.27}$

$= 0.6745 \quad x \quad \frac{0.0396}{2.236068}$

r = 0.974

∴ P. Er. = 0.0154

6.P.E.r = 6*0.0154

= 0.0924

NABIL BANK

Coefficient of correlation between total deposit and loan and advances

F/Y	Deposit (X)	Loan and Advance (Y)	X=(x- $\bar{x}$) (x-14338 .33)	x^2	y = (y- $\bar{y}$) (y-8000)	Y^2	XY
2004/2005	12779.51	7211.42	-1558.82	2429919.79	-788.58	621858.42	1229254.28
2005/2006	15839	8324.44	1500.67	2252010.45	324.44	105261.31	486877.37
2006/2007	15506.43	7801.85	1168.1	1364457.61	-198.15	39262.43	-231459.02
2007/2008	13447.66	8113.68	-890.67	793293.05	113.68	12923.14	-101251.37
2008/2009	14119.03	8548.66	-219.3	48092.49	548.66	301027.80	-120321.14
	Σx= 71691.63	Σy=40000		Σx^2=6887773.39		Σy2= 1080344.10	Σxy= 1263100.13

Here, N = 5

$$\bar{x} = \frac{\sum x}{N} = \frac{71691.63}{5} = 14338.33$$

$$y = \frac{\sum y}{N} = \frac{40000}{5} = 8000$$

We have,

$\Sigma x^2 = 6887773.39$

$\Sigma y^2 = 1080344.10$

$\Sigma xy = 1263100.13$

Calculation of correlation coefficient (r) :

$$r = \frac{\sum xy}{\sqrt{\sum x^2}\sqrt{\sum y^2}} \qquad r = \frac{1263100.13}{\sqrt{6887773.39}\ \sqrt{1080344.10}}$$

$$r = \frac{1263100.13}{2727849.95} \qquad = 0.4630$$

or r = 0.4630 $\qquad$ $r^2 = 0.2144$

Calculation of Probable error,

$$\text{P. Er.} = 0.745\ \frac{1-r^2}{\sqrt{N}} \quad = \ 0.6745 \quad \times \quad \frac{1-0.2144}{\sqrt{5}}$$

$$= 0.6745 \times \frac{1-r^2}{\sqrt{N}} \quad = 0.6745 \quad \times \quad \frac{1-0.2144}{\sqrt{5}}$$

Or P. Er. 0.2366 $\qquad$ 6. P. Er. = 1.419

Coefficient of correlation between total deposit and total investment

NCC BANK

Fy	Deposit (x)	Total investment(y)	$x = X - \overline{X}$	$y = Y - \overline{Y}$	xy
2004/2005	3708.97	283.23	-1739.29	-168.97	293887.83
2005/2006	4294.10	411.83	-1154.16	-40.37	46593.44
2006/2007	5987.70	573.98	539.44	121.78	65693.00
2007/2008	6630.94	400.34	1182.68	-51.86	-61333.78
2008/2009	6619.58	591.64	1171.32	139.44	163328.86
	Σx=27241.29	Σy=2261.02			Σxy=508169.35

We have,

$$\overline{X} = \frac{\sum X}{N} = \frac{27241.29}{5} = 5448.26 \qquad \pm x = \sqrt{\frac{\sum \left(X - \overline{X}\right)}{N}} = 1218.11$$

$$\overline{Y} = \frac{\sum Y}{N} = \frac{2261.02}{5} = 452.20 \qquad \pm y = \sqrt{\frac{\sum \left(Y - \overline{Y}\right)}{N}} = 115.88$$

$$r = \frac{\sum xy}{n \pm x . \pm y}$$

P.Er. = 0.6745* $\frac{1-r^2}{\sqrt{N}}$

= $\frac{508169.35}{5*1218.11*115.88}$

= 0.6745 x $\frac{0.4816}{2.236068}$

r = 0.72

$\therefore$ P. Er. = 0.15

6.P.E.r = 6*0.15

= 0.90

NABIL BANK

F/Y	Deposit (X)	Loan and Advance (Y)	X=(x-$\bar{x}$) (x-14338 .33)	x^2	y = (y-$\bar{y}$) (y-5804 .38)	Y^2	XY
2004/2005	12779.51	1250.94	-1558.82	2429919.79	-4553.44	20733815.83	+7097993.34
2005/2006	15839.00	7704.31	1500.67	2252010.45	1899.93	3609734.05	2851167.95
2006/2007	15506.43	8199.51	1168.10	1364457.61	2395.13	5736647.72	2797751.35
2007/2008	13447.66	6031.18	-890.67	793293.05	+226.8	51438.24	-202003.96
2008/2009	14119.03	5831.95	-219.3	48092.49	31.57	996.665	-6923.30
	Σx= 71691.63	ΣY= 29021.89		Σx^2=6887773 .39		Σy^2= 30132632 .46	Σxy= 12537985 .38

Here, N = 5

$$\bar{x} = \frac{\sum x}{N} = \frac{71691.63}{5} = 14338.33$$

$$y = \frac{\sum y}{N} = \frac{29021.89}{5} = 5804.38$$

We have,

$\Sigma x^2 = 6887773.39$

$\Sigma y^2 = 30132632.46$

$\Sigma xy = 12537985.38$

Calculation of correlation coefficient (r) :

$$r = \frac{\sum xy}{\sqrt{\sum x^2}\sqrt{\sum y^2}} \qquad r = \frac{12537985.38}{\sqrt{6887773.39}\ \sqrt{30132632.46}}$$

$$r = \frac{12537985.38}{14406482.71} \qquad \text{or, } r = 0.8703 \qquad r^2 = 0.7574$$

Calculation of Probable error,

$$\text{P. Er.} = 0.6745 \quad \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.7574}{\sqrt{5}}$$

Or, P. Er. = 0.073

6 P. Er. = 0.4383

QUESTIONNAIRE

A Survey on Fund Mobilization of Commercial Banks

To valued Respondents

Thanks you for accepting to complete questionnaire. Your opinion and suggestions are precious to my research. I would like to ensure that all your answer and suggestions would be kept confidential.

Sunita Devkota

MBS Shanker Dev Campus

Putali Sadak, Kathmandu

1. Do you think that Nepalese investor have adequate knowledge about fund mobilization policy adopted by commercial banks?

   a. Yes

   b. No

   c. Don't know

   If 'Yes' indicate the level

Minimum				Maximum
1	2	3	4	5

2. If you think that the investors are not so interested in fund mobilization policy, please specify the reasons.
   a. Passive investment strategy
   b. Higher interest rate.
   c. Mismanagement.
   d. Other (Please specify)
3. Indicate the level of risk in investing in current situation.
   a. High
   b. Moderate
   c. Less
   d. No Risk

4. What are the sectors of investment that commercial banks should invest the fund collected through deposits?
   a.
   b.
   c.
   d.
5. Do you think it is necessary to give investment priority to the rural area of the country?
   a. Yes (Please explain)
   b. No (Please explain)
6. Nowadays it can be seen the commercial bank have increased the minimum threshold balance and in the other hand they have reduced the interest rate on the client's deposits, whey is it so?
   a. Already have enough deposits or collections
   b. To discourage lower level deposits indirectly.
   c. Don't have enough investment opportunities
   d. Other (Please specify)
7. In your opinion, what may be the reasons behind for not providing banking facilities to the rural areas?
   a. Don't want to take risks
   b. They are profit oriented only
   c. Lack of communication facilities
   d. They don't have my network among these areas
   e. Others (Please Specify)

Thanks you