CHAPTER – I
INTRODUCTION

1.1 Background of the Study

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

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

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

This research focuses on the comparative study of fund mobilization of two commercial banks; Nepal Arab Bank Limited and Nepal Investment Bank Limited. These two banks are compared as per their fund mobilization procedure by taking 5 years data from the year 2004/05 to 2008/09.

1.1.1 Profile of Banks

a) NABIL Bank Limited

The arrival of NABIL Bank in Nepal on the 12th of July 1984 through a joint venture with Dubai Bank Ltd. under a Technical Service Agreement (TSA), marks a new dawn in the Nepalese banking industry. What is more admirable is with the opening of then Nepal Arab Bank Ltd, Customer Service or marketing took a U-turn. That in substance accelerated the evolution in banking products and services thereafter in Nepal. The bank commenced with a team of about 50 staff members and Rs. 28 million as capital. From the very inception in 1984 as the first joint venture bank to commence operations in Nepal, NABIL has been a leader in terms of bringing the very best international standard banking practices, products and services to the nation.

Today the bank's mission is to be the Bank of 1^{st} Choice to all stakeholders. For the customer, the bank craves to be the first choice in meeting all financial requirements. For shareholders the bank wants to be the investment of choice, for regulators to be an example of a model bank, and wants to be an outstanding corporate citizen in all the Communities and finally to be the first choice as an employer with whom to build a career.

Today NABIL Bank is a leader in the financial sector in Nepal with a network that has 36 points of representation spread across the nation; complimented by a network of ATMs and now NABIL Net and NABIL Tele the ease of access of accounts and information for our customers has never been more convenient. NABIL is a full service bank providing an entire range of products and services, starting with deposit accounts in local and foreign currency, Visa and MasterCard denominated in rupees and dollars, Visa Electron debit cards, Personal Lending products for Auto, Home and Personal loans, Trade Finance products, Treasury services and Corporate Financing. NABIL aims to be "**First Choice of Complete Financial Solution"** that is why the bank prides itself in being **'Your Bank at Your Service'**.

b) Nepal Investment Bank Limited

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

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

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

- A group of companies holding 50% of the capital
- Rastriya Banijya Bank holding 15% of the Capital.
- Rastriya Beema Sansthan holding 15% of the Capital.
- The remaining 20% being held by the General Public.

NIBL, which is managed by a team of experienced bankers and professionals having proven track record, offers what one is looking for. The bank ensures that one's choice of a bank will be guided among other things by its reliability and professionalism. The vision of the bank is to be 'the most preferred provider of Financial Services in Nepal.'

1.2 Statement of the Problem

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

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

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

a. Is there any stability in fund mobilization between NABIL and NIBL?
b. What is the relationship between net profit and total fund, and net profit with total deposit and loan & advances?
c. What is the major source and use of funds of NABIL and NIBL?
d. Do the two commercial banks are successful to utilize their available fund in terms of profit?
e. Are they maintaining sufficient liquidity position?
f. Between NABIL and NIBL, which commercial banks have more effective mobilizing fund in loan and advances?

1.3 Objectives of the Study

For any kind of research work or study, first of all the objectives should be determined. It shows the way to achieve desired goals. Likewise, the main objectives of this research work is to examine, interpret and analysis the fund mobilization procedures adopted by two commercial banks; Nepal Arab Bank Limited and Nepal Investment Bank Limited. This study is concerned with whether NABIL and NIBL are adopting efficient fund mobilizing policy or not. The specific objectives related to this study are presented below:

a. To recognize the main sources and mobilization of fund of NABIL and NIBL.
b. To evaluate the liquidity position of the banks.
c. To analyze the relationship between net profit and total fund, and net profit with total deposits and loan and advance of NABIL and NIBL.
d. To analyze the efficiency of NABIL and NIBL in mobilizing fund in terms of profit.
e. To predict the total fund and net profit in the forthcoming two fiscal years.

1.4 Significance of the Study

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

Optimum utilization of fund makes better impact on the economy of the nation. Fund mobilization activities must consider customer, national and government as well as its shareholders interest. Thus, this study will be mainly significant to the management of the sampled banks to review their fund mobilization. Besides them, the study will also be equally important to the investors, depositors and others who are related to the sampled banks. Further the study will be significant for the future researcher.

1.5 Limitations of the Study

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

a. This study is based on secondary data and accuracy depends upon the data collected and provided by the organization.
b. The whole study is based on the data of 5 years period only (i.e. from F.Y. 2004/05 to 2008/09).
c. This study has been only of two commercial banks as sample i.e. NABIL and NIBL.
d. Non-availability of the various references of sources acts as constraints for the study.
e. Only the fund mobilization aspect is analyzed. Other performance of the organizations is fully neglected.

1.6 Organization of the Study

The entire study carried out to different stages and procedures as it needed. The study organized in the following chapters in order to make the study easy to understand.

The **first chapter** is an introductory chapter which contains background of the study, statement of the problem, objectives of the study, significance of the study and limitations of the study.

The **second chapter** is concerned with review of literature. This contains conceptual framework, review of directives, review of related studies, review of thesis, and research gap.

The **third chapter** deals with the research methodology, which is applied to collect the data and analyze them in this study. It contains research design, sources of data, population and sample, financial analysis and statistical analysis to be adopted.

The **fourth chapter** is analyzing chapter, which deals with presentation and analysis of relevant data through definite courses of research methodology with financial and statistical analysis related to investment and fund mobilization of NABIL and NIBL. Major findings of the study are presented at the end of this chapter.

The **fifth chapter** is the last part of the study, which provides summary and conclusion, suggestions and recommendations for improving the future performance of the sample banks.

Besides these, **bibliography** and **appendices** are also presented at the end of the thesis work.

CHAPTER - II
REVIEW OF LITERATURE

In this part of the study, the conceptual review, review of NRB directives, review of related studies and review of past thesis have been done.

2.1 Conceptual Review

2.1.1 Fund Collection Techniques

Bank collects the fund that is essential for it to operate the business from various sources. The major sources of fund of banks are listed below;

2.1.1.1 Common Stock Financing

"Common equity in a corporation or partnership or proprietorship interests in unincorporated firm constitutes the first source of funds to a new business and the base of support for borrowing by existing firms. The nature of equity ownership depends on the form of the business of organization. The central problem of such ownership revolves around an apportionment of certain rights and responsibilities among those who have provided the funds necessary for the operation of the business." *(Ezra; 1996: 51)*

"Two important positive constitutions are involved in equity ownership; income and control. The right to income carries the risk of loss. Control also involves responsibility and liability. In an individual proprietorship that uses funds supplied only by the owner, the owner has a 100% right to income and control and loss and responsibility. As soon as the proprietor incurs debt, however, he or she has entered into contracts that limit the freedom to control the firm and to apportion the firms income. In a partnership, these rights are apportioned among the partners in on agreed-upon manner. In the absence of a formal agreement, state law makes division." *(Ronald; 1951: 27)*

2.1.1.2 Debt Financing

"Bonds are not only long duration but also, usually, of substantial size before the rise of large aggregation of saving through insurance companies or pension funds, no single buyer was able to buy an issue of such size. Bonds therefore, were issued in denomination of $1000 each and were sold to a large number of purchasers." *(Myers & Majluf; 1984: 43)* There are two types of debt in the market, which are as below:

a) Secured Debt

Secured long term debt can be classified according to (1) the priority to claims. (2) the right to issue additional securities and (3) the scope of the lien.

i) Priority to claims

"A senior mortgage has period claims on assets and earnings. Senior mortgages, implying that they have the first claim on the land and assets of the corporations. A junior mortgages is a subordinate lien, such as a second or third mortgage. It is a lien or claim junior to others." *(Singh & Hamid; 1992: 67)*

ii) Right to Issue Additional Securities

"Mortgage bonds can also be classified with respect to the right to issue additional obligations pledging already encumbered property. In the case of closed end mortgage, a company cannot sell additional bond (beyond those already issued) secured by property specified in the mortgage. If the bond indenture is silent on this point, it is called on open end mortgage." *(Singh & Hamid; 1992: 68)*

iii) Scope of the Lien

"Bonds can also classify with respect to the scope the lien. A lien is granted on certain specified property. When a specific lien exists, the security for a first or second mortgage is specifically designated property. On the other hand, a blanket mortgage pledges all real property currently owned by the company. Real property includes only land, thus a blanket mortgage gives more protection to the bondholder than does a specific mortgage because it provides a claim on all real property owned by the company." *(Booth, Aivazian, Demirguc & Maksimovic; 2001: 103)*

b) Unsecured Debt

Unsecured long term debt can be classified into three types, which are as follows:

i) Debentures

"A debenture is an unsecured bond and as such, providers no lien on specific property as security for the obligation. Debenture holder, therefore, are creditors whose claims is protected by property not otherwise pledged. The advantage of debentures from the issuer's stand point is that the property is left unencumbered for subsequent financing.

However, in practice, the use of debenture depends on the nature of the firm's assets and its general credit strength. A firm whose credit position is exceptionally strong can issue debentures; it simply does not need specific security. However, the credit position of company may be so week that it has no alternative to the use of debentures; all its property may already be encumbered. Companies also issue debentures where it is not practical to provide a lien through a mortgage on fixed assets." *(Wiwattanakantang; 2001; 23)*

ii) Subordinate Debentures

"The term subordinate means below or inferior. Thus, subordinated debt has claims on assets after unsubordinated debt in the event of liquidation. Debentures can be subordinated to designate notes payable usually banks loans or to any or all other debt. In the event of liquidation or reorganization, the debentures cannot be paid until debt as named in the indenture has been paid. Senior debt, typically, does not include trade accounts payable." *(Suto; 2003: 49)*

In comparison to subordinated debt, preferred stock suffers from the disadvantage that its dividends are not deductible as an expense for tax purpose. "Subordinated debentures have referred to as being like a special kind of preferred stocks dividends of which are deductible as an expense for tax purposes. Subordinated debt has, therefore, become an increasingly important source of corporate capital." *(Fazzari, Hubbard & Petersen; 1988: 82).*

iii) Income bonds

"Income band provide that interest must be paid only if the earnings of the firm are sufficient to meet the interest obligations. The principal however, must be paid which due. Thus, the interest itself is not a fixed charge. Income bonds, historically, have been issued because a firm has been in financial difficulties and its history suggests that it may be unable to meet a substantial level of fixed charges in the future. More generally, however, income bond simply provide flexibility to the firm in the event that earnings do not cover the amount of interest that would otherwise have to be paid. Income bond are like preferred stock in that the firm will not be in default of current payments on the obligations are not made." *(Benerjee; 1989: 50)*

2.1.1.3 Preferred Stock Financing

"Preferred stock has claims and rights ahead of common stock but behind of all bond and debt. The preference share may be a prior claim on earning, a prior claim on assets in the event of liquidations and/or a preferential position with regard a both earning and assets. The hybrid nature of preferred stock becomes apparent when we try to classify it in relation to bonds and common stock. The priority features and the fixed dividend indicate that preferred stock is similar to bonds. Payments to preferred stockholders are limited in amount, so that common stockholders receive the advantages (or disadvantages) of leverage. However, if the preferred dividends are not earned, the company can forego paying then without danger if bankrupted. In this characteristic, preferred stock is similar to common stock." *(Desai; 1987: 31)*

2.1.1.4 Deposit Accounts

Besides aforementioned sources of fund, deposit account is considered the main outside fund of banks. Mainly, the deposits are collected in the form of current accounts, savings accounts and fixed accounts.

A) Current Accounts

"A current account is a running account with amount being paid into and drawn out from the account continuously. These accounts are also called demand deposits or demand liabilities. Since the banker is under an obligation to pay the money in such deposits on demand. The account never becomes time barred, because the limitation does not run until the customer on the bank for the payment of deposit makes a demand. These accounts are generally opened by business houses, public institutions, corporate bodies and other organizations whose banking transactions are numerous and frequent." *(Grywinski; 1991: 72)*

B) Saving Accounts

"Saving accounts are mainly meant for non trading customers who have some potential for saving and who do not have numerous transactions entering their account. Salaried class of the lower and middle- income group, small traders and farmers mainly open such accounts." *(Grywinski; 1991: 73)*

C) Fixed Deposit Account

"Fixed deposits constitute a very important resource for banks, as banks need not keep greater reserves of such deposits. Reserve bank is regulating the interest rates by giving directives from time to time. Reserve bank is following a differential interest rate policy having regard to size of deposits held by the banks. Slightly, higher rates of interest are permitted in the case of smaller banks. Even before reserve bank felt the need to regulate, lending banks themselves regulated the interest rates on voluntary basis, familiarly referred to as Inter Bank Agreement on Deposit rates." *(Grywinski; 1991: 74)*

2.1.2 Mobilization of Funds

"Bank utilizes its funds in suitable area and right sector. Banks cannot achieve its goals until and unless it mobilizes its funds in right sectors and by performing different activities, many kinds of activities and other thing can origin for the purpose of receiving invest from the bank. But bank should separate the useful and profitable sector for mobilization its funds. Bankers being only a financial intermediary, we will not be able to make any profit 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 shareholders." *(Crosse; 1993: 33-34)*

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

A) Liquid funds

"A bank has kept a volume of amount in liquid funds. The funds have so many responsibilities in banking activities. Liquid funds have covered following transaction:" *(Bhalla; 1997: 51)*

- Cash in hand
- Balance with NRB
- Balance with domestic bank
- Call money

B) Investment

"Bank invests its fund in different banking activities and different fields. Many types of fields are shown in market for investment. But banks invest its funds in profitable and safety activities. Bank invests its fund in the following title:" *(Bhalla; 1997: 53)*

- Share and debenture
- Government securities
- NRB bond

C) 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 manages the different types of loans; i.e. providing loan, business loan and traditional loan to priority area." *(Charles; 1999: 81)*

D) Fixed assets

"Land and buildings are essential for the establishment of bank. Banks funds are used in buying of furniture, vehicle, computer and other commercial instruments which are related to banking activities. Bank cannot take direct gain from these assets, but bank should buy it. A bank has a need of fund to purchase fixed assets for the new branches of the bank." *(Charles; 1999: 85)*

E) Administrative and miscellaneous expenses

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

- Salary to employee
- Pensions

- Allowances
- Advertisement
- Stationary
- Provident fund
- Rent
- Income tax
- Donation
- Insurance
- Tour expenses
- Commission

The miscellaneous expenses are:

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

In this way, bank mobilizes its fund by performing different activities to achieve its desired goals i.e. earning profit. It can utilize its collective fund as well as own funds in all banking activities by performing effective fund mobilization procedure.” *(Ferson & Warther; 1996: 41)*

2.1.3 Features of Sound Fund Mobilization Policy

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

a) Safety and Security

"Financial institutions should inlets their deposit in profitable and secured sectors. They should not invest their fund in securities of those companies whose securities are too much depreciated and fluctuated because of risk of loss factors. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable. In this case MAST should be applied for the investment." *(Ling & Naranjo; 2003: 58)*

Where,

M = Marketability

A = Ascertain ability

S = Stability

T = Transferability

b) Legality

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

c) Liquidity

"Liquidity is the position of the firm to meet current or short-term obligations. General public or customers deposit their savings at the banks in different accounts having full confidence of repayment by the banks whenever they require. To show a good current position and maintain the confidence, every firm must keep proper cash balance with them while investing in different securities and granting loan for excess fund." *(Ling & Naranjo; 2003: 59)*

d) Profitability

"To maximize the return on investment and lending position, financial institutions must invest their collected fund in proper sectors. Finally they can maximize their volume of wealth. Their return depends upon the interest rate, volume of loan its time period and nature of investment on different securities and sectors.” *(Ling & Naranjo; 2003: 59)*

e) Tangibility

“A commercial bank should prefer tangible security to an intangible one. Though it may be considered that tangible properly doesn’t yield an income a part from intangible securities, which have lost their value due to price level inflation.” *(Ling & Naranjo; 2003: 60)*

f) Purpose of loan

“Banks and other financial institutions must examine why loan is required to the customer. If customers do not use their borrowings, they can never repay and the financial institutions will have heavy bad debts. So, they should collect detailed information about the plan and scheme of the borrowing.” *(Ling & Naranjo; 2003: 60)*

g) Diversification

“A firm can invest its deposit collection in various securities to minimize the risk. So, all the firms must diversify their fund or make portfolio investment. Diversification helps to earn a good return and minimize the risks and uncertainty. So, the firms are making portfolio investment with different securities of different companies.” *(Ling & Naranjo; 2003: 61)*

2.2 Review of NRB Directives

NRB is the central bank of Nepal. It issues directives under which the financial institutions of Nepal have to perform. The directives that are related to the study are reviewed in this part of the study.

1. NRB Directives Relating to Capital Adequacy

Capital Adequacy Ratio: The sum of core capital and supplementary capital is called total capital fund. Capital adequacy ratio is calculated on the basis of core capital, supplementary capital and risk weighted assets. The provision of minimum capital fund to be maintained by the commercial banks as per directed by NRB since fiscal year 2061/62 is as follows:

Table 2.1

Capital Fund to be Maintained

FY	Capital fund in % on the basis of Total risk weighted assets	
	Core capital	Total capital fund
2061/62	6.00	12.00
2066/67	6.00	10.00

(Source: Unified directives 2061/62 & 2066/67)

2. NRB Directives Relating to Loan Classification and Loan Loss Provision

A) Classifications of Loan and Advances: Effective from FY 2058/59 (2001/02) banks shall classify outstanding principal amount of loan and advances on the basis of aging. As per the directives issued by NRB, all loans and advances shall be classified into the following four categories:

a. **Pass Loan: -** Loans and advances whose principal amount are not past due and past due for a period up to 3 months shall be included in this category. These are classified and defined as performing loans.

b. **Sub-Standard Loan: -** All loans and advances that are past due for a period of 3 months to 6 months shall be included in this category.

c. **Doubtful Loan: -** All loans and advances which are past due for a period of 6 months to 1 year shall be included in this category.

d. **Loss: -** All loans and advances which are past due for a period of more than 1 year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be included in this category.

B) Loan Loss Provisioning: The loan loss provisioning, on the basis of the outstanding loans and advances and bills purchases classified as per this directives, shall be provided as follows:

Classification of Loan	Loan Loss Provision
Pass loan	1%
Sub-standard loan	25%
Doubtful loan	50%
Loss	100%

3. NRB Directives Relating to Cash Reserve Ratio (CRR)

"Till 2002/03 commercial banks were required to maintain compulsory reserve at 7 percent of their current and saving deposits and 4.5 percent balance of their fixed deposits with the NRB as well as vault compulsory ratio at 2 percent of total domestic deposits. In the light of the undergoing management reforms in the RBB and the NBL as well as the increasing efficiency of the commercial banks to manage their financial resources themselves, the provision of maintaining 2 percent balance in commercial banks' vault as a part compulsory reserve has been withdrawn. Effective from FY 2003/04, commercial banks were required to maintain 6 percent of their total domestic deposit liabilities at the NRB as compulsory reserve. A single, uniform compulsory ratio has been introduced so as to bring about uniformity and simplicity in the previously differentiated compulsory rates with respect to the different domestic deposit liabilities." *(Monetary Policy; 2003/04: 12)* In contrast, "the CRR had been reduced from 6.0 percent to 5.0 percent for FY 2004/05." *(Monetary Policy; 2004/05: 11)* Likewise, "the cash reserve ratio (CRR) had been raised to 5.5 percent from the 5 percent of the total domestic deposits effective from October 17, 2008." *(Monetary Policy; 2008/09: 4)* However, "the cash reserve ratio (CRR) has been kept unchanged at 5.5 percent for the fiscal year 2009/10." *(Monetary Policy; 2009/10: 5)*

2.3 Review of Related Studies

Pradhan (1996), in his article, *"Deposit Mobilization, its Problem and Prospects"*, has presented a short glimpse on investment in different sectors, its problem and prospects. He has expressed that deposit is the life blood of any financial institution, be it commercial bank, finance company, cooperative or non-government organization. He also added, in consideration of 10 commercial banks and nearly three dozens finance companies, the latest figure does produce a strong feeling that a serious review must be made of problems and prospects of deposit sector. Except few joint venture banks, other organizations rely heavily on the business receiving and credit disbursement. In the light of this, Mr. Pradhan has pointed out following problems of deposit mobilization in Nepalese perspective:

a. Due to the lesser office hours of banking system people prefers for holding the cash in the personal possession.

b. No more mobilization and improvement of the employment of deposits in the loan sectors.

c. Due to lack of education most of Nepalese people do not go for saving in institutional manner. However, they are much used of saving, be it in the form of cash, ornaments of kind. Their reluctance to deal with institutional system are governed by their lower level of understanding about financial organizations, process requirements, office hours withdrawal system, availability of depositing facilities and so on.

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

Shrestha (1997), in her article *"Lending Operation Of Commercial Banks of*

Nepal and it impact on gross domestic product (GDP)" has presented with the objectives to make an analysis of contribution of commercial banks lending to the gross domestic product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP a the dependent variable and various sectors of lending viz., agriculture, industrial, commercial service, general and social sector as independent variable. A multiple regression technique has been analyzed in the contribution.

The multiple analyses have shown that all the variables except service sector lending have positive impact on GDP. Thus, in conclusion she has accepted the hypothesis i.e., there has been positive impact by lending of commercial banks in various sectors of economy except services sector investment.

Bajracharya (1999), in his article *"Monetary Policy and Deposit Mobilization in Nepal"*, has mentioned the mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal. For this purpose Commercial Banks stood as the active and vital financial intermediary for generating resource in form of deposit of the private sector. So far providing credit to the investor's in different aspects of the economy.

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

Donohue and Hendershott (2004), in their article, *"Fund Flows and Commercial Real Estate Investment: Evidence from the Commercial Mortgage Market"*, have stated that the Federal Reserve's flow of funds accounts is a marvelous ''closed loop'' system with incredible detail on financial flows. For each sector, total sources and uses of funds are equal (up to a discrepancy item), and for each market, issues and purchases of the security are equal. Thus all investment is financed and all securities issued are purchased.

This study has analyzed commercial mortgage sectoral issues and purchases to determine if there were periods where unusual sectoral purchases seemed to generate unusual sectoral issues (i.e., where purchases were driving issues rather than the other way around). Two periods were noted. The first period is when thrifts were encouraged to grow out of their negative-net-worth problem in the early 1980s and were given authority to invest in commercial mortgages. During 1983–1985, savings institutions added to commercial mortgage holdings at the annual rate of $16 billion versus a modest $4 billion a year during the previous six years.

The second period is 1991–1994, when higher risk-based capital requirements were imposed on commercial mortgage holdings of banks and life insurance company losses on junk bonds and commercial mortgages induced them to shift out of risky corporate and commercial real estate debt. Seemingly in response, non corporate businesses paid down commercial mortgage debt at a faster rate than other debt, in spite of the fact that the latter had grown much faster the former in earlier years, and nonfinancial corporations liquidated substantial commercial mortgage debt while continued to issue corporate bonds at the rate of earlier years.

Mieno (2006), in his article, *"Fund Mobilization and Investment Behavior in Thai Manufacturing Firms in the Early 1990s"*, has examined the capital structure and investment behavior of firms in Thailand in the early 1990s. Five important results are obtained. First, there are serious information problems between manufacturing firms and financial institutions. Second, the debt ratio depends upon whether firms are listed on the securities exchange. The debt ratios of listed firms are higher than those of non-listed firms. Third, the low debt ratios of listed firms are simply a reflection of increased capital accounts generated by initial public offerings in the form of stock premiums or capital surpluses.

Fourth, in contrast to the a priori expectation, firms in the financial conglomerates groups depend more on informal finance and less on bank loans, particularly on short-term loans. They are also relatively inactive investors. Lastly, a clear relationship between capital structure and investment is found for bank loans and long-term loans, but not for the debt ratio. Bank loans, particularly long-term loans, weaken credit restrictions, and lower capital costs promote investment.

Lu (2008), in his article, "*What is the Wind Behind this Sail? Can Fund Managers Successfully Time Their Investment Styles?*" stated that over the ten-year period of this study (June 1992 to July 2002), the average mutual fund manager demonstrates little ability to time the market in aggregate. In fact, using empirical factor timing model, only 8.3 percent of my funds had significant positive alphas. There is even some weak evidence that supports the assertion that mutual fund managers attempt to implement market timing strategies at the expense of poor stock selection performance.

Most funds are restricted from taking substantial positions in small-cap stocks and there are relatively higher transaction costs associated with size (big cap/small cap) and momentum (winner/loser) timing strategies when compared to book-to-market (value/growth) timing strategies. There may also be a behavioral explanation which is related to the trading behavior and preferences of fund managers. Fund managers prefer big-cap stocks to small-cap stocks as safer investments. Also, they tend to sell winners too soon and to hold on to losers too long.

Cumming, Eddine & Schwienbacher (2009), in their article, *"An Empirical Analysis of Fund Regulation and Scope of Distribution of European Investment Funds"*, have stated that consistent with limitations to the UCITS III regulations that hampered international distributions as implied by the changes proposed in 2009 with UCITS IV, strong evidence that UCITS III promoted international distributions for larger funds was found. Further, the nontrivial costs of international notification under UCITS III imply that smaller countries would have disproportionately more interest in notification internationally.

Promoters that are commercial banks do not seem to set up funds with a broader scope of distribution. However, non-European promoters have funds with greater scope, irrespective of the measure of scope of distribution used. Non-European promoters included in analysis originate by far from the US. Further there has been an increase in the number of fund promoters that distribute UCITS funds outside the European Union, notably in Asia.

2.4 Review of Thesis

Khanal (2003), in his thesis, *"A Study on Deposit mobilization of Nepal Bank Limited."* has the main objective of to examine the role of the NBL in the deposit mobilization and to see how far the bank is able to utilize the collected deposits.

The major findings of the study are;

a. The more attention was been given for the expansion of bank branches for more collection of scattered savings.
b. With the expansion of bank branches, NBL has been providing more and more banking facility to the general people of the country. So the bank with more branches able to mobilize more financial resources.
c. The bank should not only consider the security against which the loans are be granted, it should much more alternative pay due concern to the genuineness of the party so that the resources could be properly

utilized.

Tuladhar (2004), in his thesis, *“Fund Mobilization of Commercial Banks”*, has the main objective to analyze the fund mobilization technique adopted by the commercial banks. The specific objectives of this study are to find out the ratio of investment to total deposit, ratio of loan and advances to total deposit and relationship between net profit to investment and loans and advances granted.

The major findings of the study are;

a. The structural ratio of commercial banks show that banks invest on the average 75% of their total deposit on the government securities and the shares.
b. Return ratio of all the banks show that most of the time foreign banks have higher return as well as higher risk than Nepalese banks.
c. The debt equity ratios of commercial banks are more than 100% in most of the time period under studies period. It led to conclude that the commercial banks are highly leverage and highly risk. JVBs had higher capital adequacy ratio but has been dealing everyday.
d. In case of the analysis of the management achievement foreign banks have comparatively higher total management achievement index.

Karki (2006), in his thesis, *“A study on the Investment Policy of NABIL Bank Limited in Comparison to Other Joint Venture Banks of Nepal”*, has the main objectives:

a. To evaluate the liquidity, asset management efficiency and profitability position in relation to fund mobilization of NABIL Bank Limited in comparison to other JVBs.
b. To discuss fund mobilization and investment policy of NABIL Bank limited in respect to its fee based off balance sheet transaction in comparison to other JVBs.
c. To evaluate the growth ratio of loan an advances and total

investment with respective growth rate of total deposits and net profit of NABIL Bank limited in comparison to other JVBs.

d. To find out the relationship between deposits and other investment deposit and loan and advances, and net profit and outsides assets of NABIL Bank limited in comparison to other JVBs.

The major findings of the study were;

a. The liquidity position of NABIL Bank Ltd is comparatively worse than that of other JVBs. NABIL Bank has more portions of current assets as loans and advances but less portion as investment on government securities.

b. NABIL Bank Limited is comparatively less successful in on – balance sheet operation as well as off- balance sheet operations then that of other JVBs.

c. Profitability of position of NABIL Bank is comparatively not better then that of other JVBs. The main ratio of return on loan and advances of NABIL bank has been found slightly lower than that of other JVBs and the return has been found less homogeneous than that of other JVBs. Similarly the main ratio of total interest earned to total outside assets of NABIL Bank limited has been found slightly lower than that of other JVBs.

d. Though NABIL Bank seems to be more successful to increase its sources of funds as well as mobilization of it by increasing loan and advances and total investment. It seems to be failure to maintain its high growth rate of profit in comparison to that of other JVBs.

e. There is significant relationship between deposit and loan and advances as well as outside assets and net profit but not between deposit and total investment incase of both NABIL Bank limited and other JVBs.

Adhikari (2007), in his thesis, *"Fund Mobilization and Investment Policy of Everest Bank Limited"*, has the main objective to evaluate the current position of fund mobilization in EBL. The other specific objectives are;

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

The major findings of the study are;

a. Mean Value of Total Deposit, Loan & Advances and Total Investment is 113690, 86528 and 31010 lakh respectively. Simultaneously Coefficient of Variation is 7.32%, 7.43% and 8.2185% respectively.
b. In analyzing of Fund Mobilization, Loan, Advances & Bills has contributed more than 70% and Investment covered not more than 29%.
c. In classification of Deposit Saving A/C and Fixed A/C covered a huge space in Total Deposit. And Total Deposit is in increasing trend. The average growth ratio is 28.38%.
d. Loan and Advances is also in increasing trend. The average growth ratio is 29.23%.
e. In analysis of classification of loan, Non- performing loan is less than 2.2%. And it is in decreasing rate in following year of study period.
f. Average growth ratio of Total Investment is 31.76%. In classification of investment sector, share of Govt. Treasury Bills is up to 94%.

Subedi (2008), in his thesis, *"Fund Collection and Mobilization of Joint Venture Banks of Nepal"*, has the main objective on reviewing the fund collection and its mobilization in the joint venture banks, especially in NABIL, SCBNL, HBL and EBL. Some of the main objectives of the study are as follows:

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

The major objectives of the study are;

a. Average ratio of cash and bank balance to total deposit reveals that EBL had higher the ratio and NABIL had lower the ratio in comparison to other banks which shows that the liquidity position of EBL is quit well than other banks.
b. The average ratio of credit and advances to total deposit of EBL is higher than other three joint venture commercial banks and SCBNL has the lower ratio which means EBL has mobilized its collected deposit in credit and advance more than other banks but SCBNL seems weak to mobilize its collected deposit in credit and advances. But EBL seems more stable in providing credit and advances.
c. The average debt to equity ratio shows that HBL has the highest average ratio than other banks that means the financial risk of this bank is also high. All the JVBs have used excessive amount of debt.
d. The average ratio of return on assets of NABIL is higher than other banks. That means NABIL is more successful to earn profit on total working fund than other banks. On the other hand, NABIL seems more stable in earning profit.
e. The average ratio of total interest income to total credit and advances of SCBNL is higher than other banks. SCBNL is more successful to earn interest than other banks.
f. The average ratio of EPS of SCBNL is greater than other banks. It reveals that shareholders funds are mobilized very well. EBL has

lowest ratio as compared to other banks. The C.V. of SCBNL is lower than other banks. Which seems more uniform in earning per share.

g. The average borrowing of HBL is lower in comparison to other banks. And EBL has higher funds from borrowing. It can be said that the internal fund management of HBL in better than other banks.

Rai (2009), in his thesis, *"A Comparative Study on Fund Mobilization of Himalayan Bank Limited and Everest Bank Limited"*, has the main objectives of examining, interpreting and analyzing the fund mobilization procedures adopted by two joint ventures; Himalayan Bank Ltd. and Everest Bank Ltd. The other specific objectives related to this study are presented below:

a. To evaluate the growth and risk ratio of loan and advances and total investment with respective to growth rate of total deposit and net profit of HBL and EBL.
b. To evaluate comparatively operating, financial and investment efficiency of two joint venture banks.
c. To analyze the relationship between deposits and total investment, deposits and loan and advance and net profits of HBL and EBL.
d. To analyze the sources and uses of funds and analysis of cash flow of these two joint venture banks.

The major findings of the study are;

a. The mean ratio of cash and bank balance to total deposit of EBL is higher than HBL. It states that the Liquidity position of EBL is better in this regard. The ratio of EBL is less consistent and HBL has more consistent ratio. It shows HBL has taken more risk to meet the daily cash requirements.
b. The mean ratio of loan advances to total deposit of EBL is greater than HBL. The variability ratio of EBL is lower than HBL. It seems more consistent than HBL.

c. The average ratio of total investment to total deposit ratio of HBL is higher than that of EBL. The variability ratio of EBL lowers than HBL.

d. The mean ratio of return of on total working fund of EBL is greater than HBL. Whereas the variability ratio of EBL is lower than HBL. It indicates that the return on total working fund of EBL is stable.

e. In case of mean ratio of total interest earned to total working fund of EBL is higher ratio than HBL. The variability ratio of HBL is lower than EBL. It reveals that EBL is mobilizing its working fund successfully so that is has high earning capacity.

f. In case of credit risk ratio. HBL has the lower risk than EBL. The variability ratio of EBL is lower than HBL. It indicates that the credit risk ratio is consistent.

g. HBL has maintained the lower Liquidity risk and lower credit risk. And lower Liquidity risk means higher risk for higher profit.

2.6 Research Gap

All of the above research made in this topic are mainly concentrated in presenting the financial status of the company by using ratio analysis and thus seem gloomy in the context of fund mobilization. To transparent such baffle and fulfill the research gap, the present study delineates the each source of fund of the selected banks and the mobilization of fund in each investment sector. Further, the study measures the effectiveness in fund mobilization as well.

CHAPTER – III
RESEARCH METHODOLOGY

3.1 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control variance. It is arrangement for collection and analysis of data. To achieve the objective of this study, descriptive and analytical research design has been used. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to analyze the fund mobilization of commercial banks.

3.2 Population and Sample

Currently there are 28 commercial banks operating in Nepal. The study of all these banks in this study is almost impossible. So 2 commercial banks, namely Nepal Arab Bank Limited and Nepal Investment Bank Limited, have been selected randomly as sample of the study.

3.3 Nature and Sources of Data

The study is based on secondary data. To analyze the fund mobilization of the commercial banks, sources of fund collection, mobilization of fund in various sector, and the efficiency of fund mobilization have been measured. The data have been extracted from the annual reports of NABIL and NIBL. Besides annual reports, the official website of sampled banks, NEPSE, SEBON and NRB have also been reviewed.

3.4 Periods covered

For the convenience, the study covers only five fiscal years period, i.e. from the fiscal year 2004/05 to 2008/09.

3.5 Data Analysis Tools

The collected data have no meaning if such data are not analyzed. To analyze the data in this research, the researcher has used some statistical and financial tools which are explained here.

3.5.1 Financial Tools

The major financial tools used in this research are as follows;

A) Sources of Fund

Under this section the various sources of fund that the bank uses to collect the fund and their representation in the total fund have been analyzed.

a) Shareholders' Equity to Total fund

Shareholders are the real owners of any business. Shareholders'' equity includes the share capital and the other general reserves kept. So determine the contribution of shareholders' in fund collection, this ratio has been determined.

$$\text{Shareholders' Equity to Total Fund} = \frac{\text{Total Shareholders' Equity}}{\text{Total Fund}}$$

b) Long-term Debt to Total Fund

This ratio measures the capability of the firm in collecting funds through outside financing. The long-term debt includes long-term borrowing and debenture capital. Higher the ratio indicates, higher risk taker and vice-versa.

$$\text{Long} - \text{term Debt to Total Fund} = \frac{\text{Total Long term debt}}{\text{Total Fund}}$$

c) Current Liabilities to Total Fund

The current liabilities of the bank include deposit liabilities, bills payable, dividend and income tax payable and others. This ratio measures the collection of fund through short-term financing in relation with long term debt. Higher the ratio requires the bank to be in high liquidity position.

$$\text{Current Liabilites to Total Fund} = \frac{\text{Total Current Liabilites}}{\text{Total Fund}}$$

d) Source of Deposit

Deposit is considered as the major source of fund in banks. To examine the deposit collection from various sources, the deposit collection amount has been analyzed.

$$\text{Total Deposit} = \text{Non Interest Bearing Depsoit} + \text{Interest Bearing Deposit}$$

B) Mobilization of Fund

After collecting fund from various sources as mentioned above, the bank mobilizes the fund to gain net profit. The various uses of fund and their representation of total fund have been calculated by using the following financial ratios.

a) Cash and Bank Balance to Total Fund

The bank has to keep adequate cash and bank balance to meet its obligation. The cash and bank balance of bank includes cash in hand, cash at NRB and cash in other financial institutions. This ratio measures the mobilization rate of total fund in maintaining cash and bank balance to have sound liquidity.

$$\text{Cash and Bank Balance to Total Fund} = \frac{\text{Total Cash} \,\&\, Bank\ Balance}{\text{Total Fund}}$$

b) Money at Short Call and Notice to Total Fund

To increase the interest income, the bank mobilizes certain percentage of its fund in money at short call and notice. The money and short call and notice total fund measures whether the money at short call and notice increases with the increase in total fund.

$$\text{MSCN to Total Fund} = \frac{\text{Total MSCN}}{\text{Total Fund}}$$

c) Investment to Total Fund

This ratio explains the relationship between investment and the total fund collected. The investment of bank includes investment in government securities, corporate shares and debentures, mutual fund, SWIFT, local and foreign licensed institutions and others.

$$\text{Investment to Total Fund} = \frac{\text{Total Investment}}{\text{Total Fund}}$$

d) Loan & Advances to Total Fund

To achieve the financial success, effective mobilization of fund is crucial. The bank mobilizes the fund mainly in loan and advances to gain interest income, which is the major source of income in bank.

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

e) Fixed Assets to Total Fund

The bank acquires fixed assets to operate its daily transactions. Thus, the ratio of fixed assets to total fund measures, what percentage of the total fund have been mobilized by bank in purchasing the fixed assets.

$$\text{Fixed Assets to Total Fund} = \frac{\text{Net Fixed Assets}}{\text{Total Fund}}$$

C) Efficiency in Fund Mobilization

After recognizing the major source of fund and the major uses of fund mobilization, the efficiency of the bank in fund mobilization has been measured.

a) Net Profit to Total Fund

The sole objective of the bank is to gain profit. The bank collects and mobilizes fund only to gain net profit. So to what extent the bank efficiently mobilized the collected fund, the net profit to total fund has been determined. Higher the ratio indicates higher efficiency in fund mobilization.

$$\text{Net Profit to Total Fund} = \frac{\text{Net Profit After Tax}}{\text{Total Fund}}$$

3.5.2 Statistical Tools

To achieve the objectives of the study set out in first chapter, the following statistical tools have been efficiently utilized in fourth chapter to analyze the data.

A) Mean

The arithmetic mean (or simply the mean) of a list of numbers is the sum of the list divided by the number of items in the list. The mean is the most commonly-used type of average and is often referred to simply as the average.

$$\text{Mean}(\bar{X}) = \frac{x_1 + x_2 + \ldots\ldots\ldots\ldots\ldots\ldots + x_n}{N}$$

B) Standard Deviation

Standard deviation is a widely used measure of the variability or dispersion, being algebraically more tractable though practically less robust than the expected deviation or average absolute deviation. It may be thought of as the average difference of the scores from the mean of distribution, how far they are away from the mean. A low standard deviation indicates that the data points tend to be very close to the mean, whereas high standard deviation indicates that the data are spread out over a large range of values.

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\Sigma(X - \bar{X})^2}{N - 1}}$$

C) Coefficient of Variation

The coefficient of variation represents the ratio of the standard deviation to the mean, and it is a useful statistic for comparing the degree of variation from one data series to another, even if the means are drastically different from each other.

$$C.V. = \frac{\text{Standard Deviation x 100}}{\text{Mean}}$$

D) Correlation Coefficient

Two variables are said to have correlation, when they are so related that the change in the value of one variable is accompanies by the change in the value of the other. One of the widely used mathematical methods of calculating the correlation coefficient between two variables is Karl Pearson's correlation coefficient (r), which is defined by;

$$r = \frac{\Sigma(X-\bar{X})(Y-\bar{Y})}{\sqrt{(X-\bar{X})^2}\ \sqrt{(Y-\bar{Y})^2}}$$

E) Probable Error

The probable error denoted by P.E. is used to measure the reliability and test of significance of correlation coefficient. Significance of relationship has been tested by using the probable error (P.E.) and it is denoted by the following model:

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

Where, r = the value of correlation coefficient

n = number of pairs of observations

if r < P.E., it is insignificant, i.e. there is no evidence of correlation

if r > 6 P.E., it is significant

F) Regression

Regression refers to any approach to modeling the relationship between one or more variables denoted *Y* and one or more variables denoted *X*, such that the model depends linearly on the unknown parameters to be estimated from the data. The simple regression line of *Y* on *X* is given by;

$$Y = a + bX \dots\dots\dots\dots\dots\dots\dots\dots\dots \text{(i)}$$

Where, Y = Dependent Variable

a = Constant

b = Regression Coefficient

X = Independent Variable

G) T- Test

T-test, commonly known as Student's T-Distribution, is used when sample size is equal to or less than 30, the parent population from which the sample is drawn is normal, the population standard deviation is unknown. In order to test the significance of an observed sample correlation coefficient, the following procedure has been applied:

The following formula is used to test an observed sample correlation coefficient:

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{(n-2)}$$

Where, r = simple correlation coefficient

N = number of observation

H) Trend Analysis

Trend analysis is an analysis of financial ratio over time used to determine the improvement of deterioration of financial situation. Using the least square method, the projection for two years is done. For the estimation of linear trend line, following formula has been used.

Y = a + bx

Where,

Y = dependent variable

a = y-intercept

b = slope of the trend line

x = independent variable

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1Sources of Fund

Under this part of the study, the detailed sources of fund of NABIL and NIBL and the ratio of each source of fund to the total fund collection have been analyzed.

4.1.1 Total Fund Collection

Bank collects fund from various sources to finance its total assets. The collection of fund by NABIL and NIBL within the five year periods and the percentage increment/decrement within these periods is presented in the Table 4.1.

Table 4.1

Total Fund Collection

FY	NABIL		NIBL	
	Amount	**% Change**	**Amount**	**% Change**
2004/05	17064.08	1.90	16063.54	21.18
2005/06	22329.97	30.86	21330.14	32.79
2006/07	27253.39	22.05	27590.84	29.35
2007/08	37132.76	36.25	38873.31	40.89
2008/09	43867.39	18.14	53010.80	36.37
Mean	**29529.52**	**21.84**	**31373.73**	**32.12**
S.D.	**10906.25**	**13.23**	**14781.68**	**7.46**
C.V.%	**36.93**	**60.59**	**47.11**	**23.24**

(Source: Appendix I)

The table 4.1 showed the amount of fund collection by NABIL and NIBL and the percentage increase/decrease in fund collection in each fiscal year compared to that in the previous fiscal year. The table showed that the fund collection amount of each bank increased in each year. The fund collected by

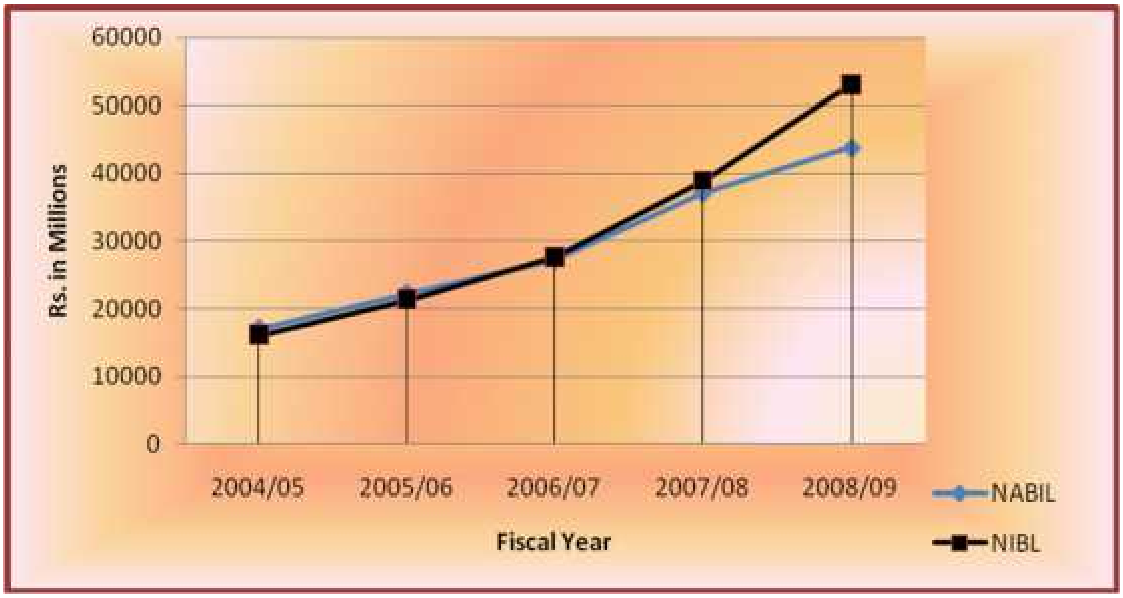
NABIL in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 was Rs. 17064.08 millions, Rs. 22329.97 millions, Rs. 27253.39 millions, Rs. 37132.76 millions and Rs. 43867.39 millions respectively. In average, NABIL collected Rs. 29529.52 millions in the five years period. Compared to the previous year, NABIL collected highest amount in the fiscal year 2007/08, since the percentage change in the fund collection was 36.25%, highest, in that year.

Similarly, NIBL collected Rs. 16063.54 millions, Rs. 21330.14 millions, Rs. 27590.84 millions, Rs. 38873.31 millions, Rs. 53010.80 millions in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. NIBL collected Rs. 31373.73 millions in average. The percentage change in the fund collection compared to that of the previous year was highest, 40.89%, in the fiscal year 2007/08 and lowest, 21.18%, in the fiscal year 2004/05.

Comparing two banks it can be concluded that in first two years NABIL collected more funds than NIBL, however after the fiscal year 2005/06 NIBL collected more funds than NABIL. In average, NIBL was more successful to collect more funds than NABIL.

Figure 4.1

Total Fund Collection



4.1.2 Shareholders' Equity to Total Fund

The shareholders are the main owners of the bank. Thus, to examine the contribution of shareholders in fund collection, the shareholders' equity to total fund have been analyzed.

Table 4.2

Shareholders' Equity to Total Fund

FY	NABIL			NIBL		
	SE	**TF**	**Ratio**	**SE**	**TF**	**Ratio**
2004/05	1657.63	17064.08	9.71	1180.17	16063.54	7.35
2005/06	1874.99	22329.97	8.40	1415.44	21330.14	6.64
2006/07	2057.05	27253.39	7.55	1878.12	27590.84	6.81
2007/08	2437.20	37132.76	6.56	2686.79	38873.31	6.91
2008/09	3130.24	43867.39	7.14	3907.84	53010.80	7.37
Mean			**7.87**			**7.01**
S.D.			**1.23**			**0.33**
C.V.%			**15.60**			**4.70**

(Source: Appendix I)

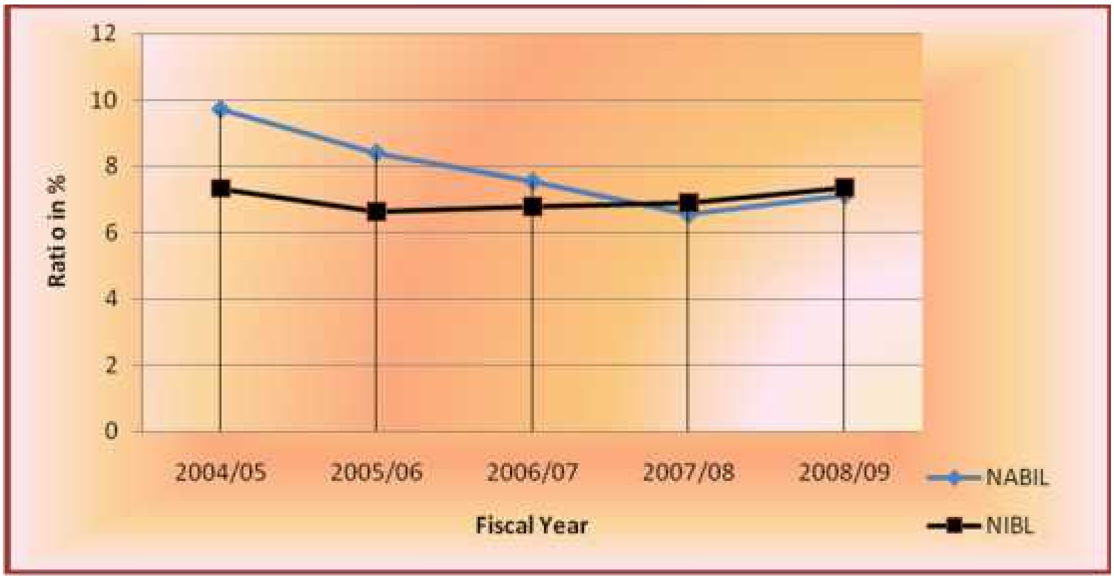
The above table showed the collection of fund from shareholders' equity, i.e. share capital and reserves, and the contribution of shareholders' equity in total fund. The table showed that in each fiscal year, the shareholders' equity had been raised in NABIL. The shareholders' equity ranged from Rs. 1657.63 millions in the fiscal year 2004/05 to 3130.24 millions in the fiscal year 2008/09. However, the contribution of shareholders' fund did not increase in the same proportion as the total fund increases, as a result the ratio of shareholders' equity to total fund considerably declined in the first four year, i.e. from 9.71% in the fiscal year 2004/05 to 6.56% in the fiscal year 2008/09, and slightly increased to 7.14% in the fiscal year 2008/09. This indicated that the bank remained more dependent in outside funding within the periods taken for study. In average, only 7.87% of the total fund had been collected from internal financing.

Similarly in NIBL, the collection of fund from shareholders' equity had followed increasing trend within the five years period. The shareholders' equity was Rs. 1180.17 millions in the fiscal year 2004/05 and reached to Rs. 3907.84 millions, more than triple, in the fiscal year 2008/09. The ratio of shareholders' equity to total fund was 7.35% in the fiscal year 2004/05, which decreased to 6.64% in the fiscal year 2005/06 and then followed increasing trend in the remaining fiscal years. The ratio reached to 7.37% in the fiscal year 2008/09. In average, 7.01% of the total fund came from internal financing, i.e. shareholders' equity.

Comparing two banks, it can be concluded that NABIL collected total fund from internal financing more than NIBL did, since the average shareholders' equity to total fund of NABIL (7.87%) was higher than that of NIBL (7.01%). However, the collection of total fund from shareholders' equity was in decreasing trend in NABIL and in increasing trend in NIBL.

Figure 4.2

Shareholders' Equity to Total Fund



4.1.3 Long term Debt to Total Fund

The outside financing is the other source of fund of the bank. The long term debt includes long term borrowing and debt capital in bank. Hence, to examine the contribution of long term debt in fund collection, the ratio of long term debt to total debt have been analyzed.

Table 4.3

Long term Debt to Total Fund

FY	NABIL			NIBL		
	LTD	**TF**	**Ratio**	**LTD**	**TF**	**Ratio**
2004/05	17.06	17064.08	0.10	350.00	16063.54	2.18
2005/06	173.20	22329.97	0.78	550.00	21330.14	2.58
2006/07	882.57	27253.39	3.24	800.00	27590.84	2.90
2007/08	1600.00	37132.76	4.31	1050.00	38873.31	2.70
2008/09	1981.31	43867.39	4.52	1088.80	53010.80	2.05
Mean			**2.59**			**2.48**
S.D.			**2.04**			**0.36**
C.V.%			**78.67**			**14.34**

(Source: Appendix I)

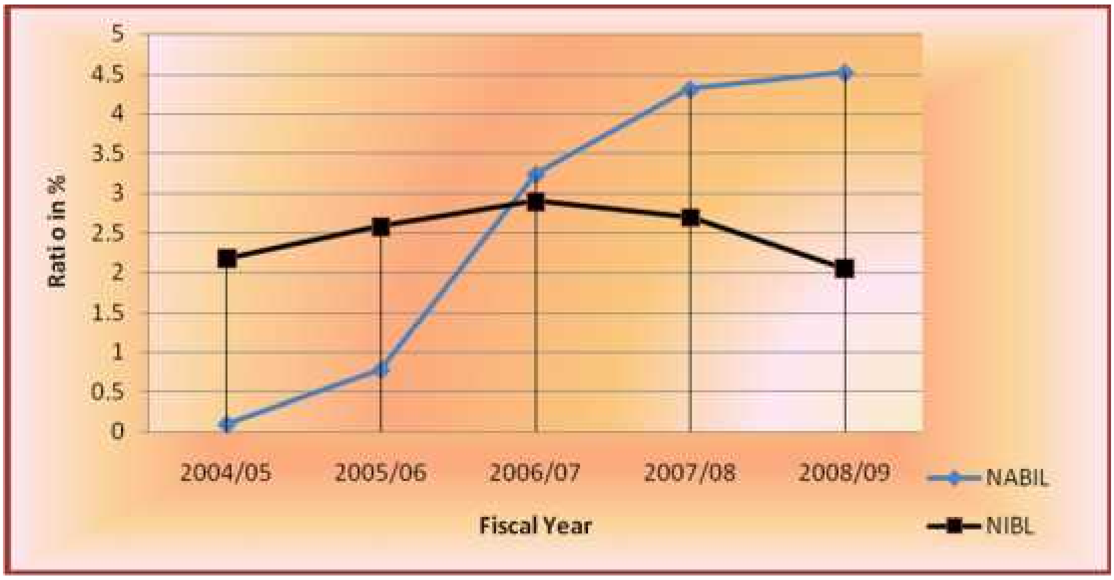
The above table depicted the ratio of collection of fund from long term debt, i.e. debentures and long term borrowing, to total fund. The table showed that the long term debt of NABIL was in increasing trend. The long-term debt, debentures and borrowing, of NABIL in the fiscal year 2004/05 was Rs. 17.06 millions, which increased to Rs. 1981.31 millions in the fiscal year 2008/09. Also, the ratio of long term debt to total fund of NABIL was in increasing trend. The ratio was 0.10%, 0.78%, 3.24%, 4.31% and 4.52% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. NABIL bank started to collect fund from debenture from the fiscal year 2007/08 as a result the amount of long term debt had almost doubled in the fiscal year 2007/08 compared to that in the fiscal year 2006/07. In average, the long term debt to total fund was 2.59% within the five year periods, and the coefficient of variation in the ratio was 78.67%, indicating high inconsistency.

Similarly, the long term debt collection, as a part of total fund, also followed increasing trend in NIBL. The table showed that the long-term debt of NIBL was Rs. 350 millions in the fiscal year 2004/05 and increased to Rs. 1088.80 millions in the fiscal year 2008/09. NIBL started to collect fund from debenture capital from the base year 2004/05, when the debenture capital was Rs. 300 millions and long term borrowing was Rs. 50 millions. Also, the long-term debt to total fund followed increasing trend for the first three years, i.e. from 2.18% in the fiscal year 2004/05 to 2.90% in the fiscal year 2008/09, and then followed decreasing trend in the last two years, i.e. 2.70% in the fiscal year 2007/08 and 2.05% in the fiscal year 2008/09. In average, 2.48% of the total fund was collected through long term debt capital.

Comparing two banks on the basis of fund collection from long term debt, it can be concluded that NABIL utilized long term debt capital more than NIBL did in total fund collection. However, in long term debt capital, NABIL focused collection of fund through long term borrowing, while NIBL focused on debenture capital.

Figure 4.3

Long term Debt to Total Fund



4.1.4 Current Liabilities to Total Fund

Besides shareholders' equity and long term debt, current liabilities, which includes bills payable, deposit, dividend and income tax payable, is the other source of fund in bank. The contribution of current liabilities in collection total fund has been measured in the Table 4.4.

Table 4.4

Current Liabilities to Total Fund

FY	NABIL			NIBL		
	CL	**TF**	**Ratio**	**CL**	**TF**	**Ratio**
2004/05	15389.39	17064.08	90.19	14533.37	16063.54	90.47
2005/06	20281.78	22329.97	90.83	19364.70	21330.14	90.79
2006/07	24313.77	27253.39	89.21	24912.72	27590.84	90.29
2007/08	33095.56	37132.76	89.13	35136.52	38873.31	90.39
2008/09	38755.84	43867.39	88.35	48014.16	53010.80	90.57
Mean			**89.54**			**90.50**
S.D.			**0.97**			**0.19**
C.V.%			**1.08**			**0.21**

(Source: Appendix I)

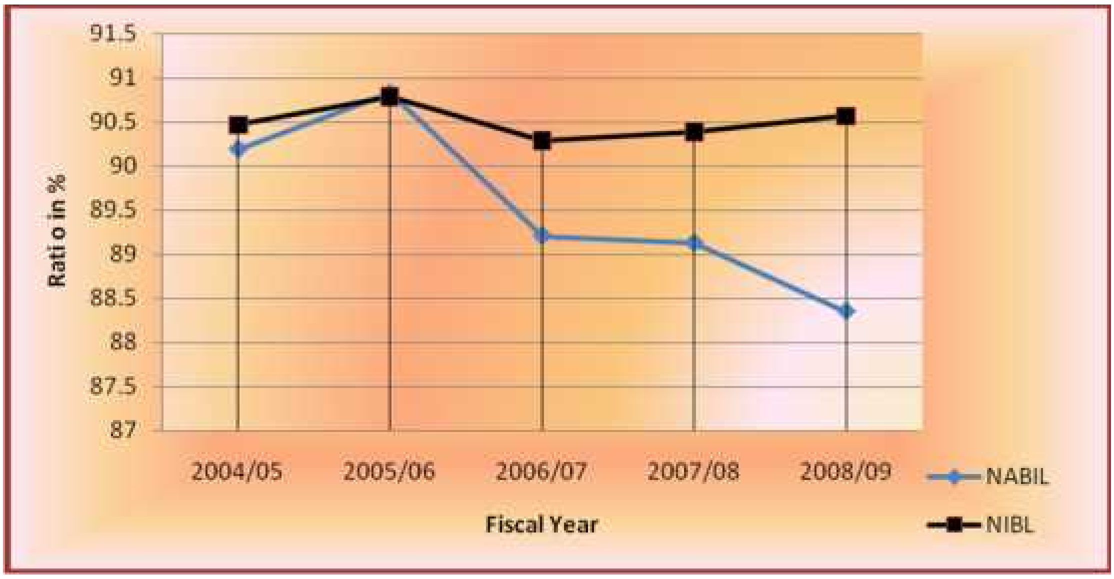
The table showed the proportion of current liabilities to total fund. The table depicted that the current liabilities, along with the total fund, of NABIL followed increasing trend. The current liabilities increased from Rs. 15389.39 millions in the fiscal year 2004/05 to Rs. 38755.84 millions in the fiscal year 2008/09. However, the ratio of current liabilities to total fund of NABIL was in fluctuating trend. The ratio was 90.19% in the fiscal year 2004/05, and increased to 90.83% in the fiscal year 90.83%, and then decreased to 89.21% in the fiscal year 2006/07, 89.13% in the fiscal year 2007/08 and 88.35% in the fiscal year 2008/09. In average, 89.54% of the total fund had been collected from current liabilities. This indicated that the main source of fund collection of NABIL banks was current liabilities, mainly the deposit collection. Further, the coefficient of variation of 1.08% revealed that there existed high uniformity in the collection fund through short-term debt.

Similarly, the collection of fund from current liabilities also followed increasing trend in NIBL. The current liabilities ranged from Rs. 14533.37 millions in the fiscal year 2004/05 to Rs. 48014.16 millions in the fiscal year 2008/09. However, the ratio of current liabilities to total fund followed fluctuating trend. The ratio was 90.47%, 90.79%, 90.29%, 90.39% and 90.57% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. In average, NIBL collected 90.50% of the total fund through current liabilities, especially deposit. And the coefficient of variation in the ratio was 0.21%, which indicated high consistency in the ratio.

On the basis of current liabilities to total fund, it can be collected that the main source of fund of both the sampled banks was current liabilities, especially deposit. The contribution of shareholders' equity and long term debt jointly was lower than 11% in NABIL and 10% in NIBL. This indicated that NIBL used more current liabilities to collect fund than NABIL did.

Figure 4.4

Current Liabilities to Total Fund



4.1.5 Collection of Deposit

Deposit is the main source of fund in bank. The bank collects deposit mainly in two categories, viz interest bearing deposit and non-interest bearing deposit. The interest bearing deposit includes savings deposit, fixed deposits and call deposits, while non-interest bearing deposits includes current, mutual and other deposit. The collection of deposit from various sources has been presented in the Table 4.5.

Table 4.5

Collection of Deposit

Deposits	**FY**					**Mean**	
	2004/05	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**Rs.**	**%**
NABIL							
Current	2799.18	2910.59	3395.24	5284.37	5480.53	3973.98	15.70
Margin	296.98	322.9	312.06	361.78	463.02	351.35	1.39
Other	44.25	42.9	50.81	81.4	35.32	50.94	0.20
Non-Interest Bearing	**3140.41**	**3276.39**	**3758.11**	**5727.55**	**5978.87**	**4376.27**	**17.29**
Savings	7026.33	8770.76	10187.35	12159.97	14620.41	10552.96	41.70
Fixed	2078.54	3449.09	5435.19	8464.09	8310.71	5547.52	21.92
Call	2341.33	3851.16	3961.64	5563.44	8438.26	4831.17	19.09
Interest Bearing	**11446.20**	**16071.01**	**19584.18**	**26187.5**	**31369.38**	**20931.65**	**82.71**
Total Deposit	**14586.61**	**19347.4**	**23342.29**	**31915.05**	**37348.25**	**25307.92**	**100.00**
NIBL							
Current	1583.03	1705.67	2175.03	3138.67	3756.57	2471.79	8.90
Margin	286.03	278.48	371.66	607.06	727.99	454.24	1.64
Other	-------	-------	-------	-------	-------	-------	-------
Non-Interest Bearing	**1869.06**	**1984.15**	**2546.69**	**3745.73**	**4484.56**	**2926.04**	**10.54**
Savings	6703.51	8081.98	10742.33	13688.77	17066.25	11256.57	40.54
Fixed	3212.27	5412.97	7516.69	7944.24	11633.38	7143.91	25.73
Call	2469.73	3448.21	3683.15	9072.99	13513.91	6437.60	23.19
Interest Bearing	**12385.51**	**16943.16**	**21942.17**	**30706.00**	**42213.54**	**24838.08**	**89.46**
Total Deposit	**14254.57**	**18927.31**	**24488.86**	**34451.73**	**46698.10**	**27764.11**	**100.00**

(Source: Appendix II)

The above table showed the collection of deposit under various account, i.e. interest bearing account, which included savings deposit, fixed deposits and call deposits, and non-interest bearing deposit, which included current deposits, margin deposits and other deposits. The table revealed that both the interest bearing deposit and non-interest bearing deposit of NABIL were in increasing trend. The non-interest bearing deposit ranged from Rs. 3140.41 millions in the fiscal year 2004/05 to Rs. 5978.87 millions in the fiscal year 2008/09. In average, NABIL collected Rs. 4376.27 millions, which represented 17.29% of the total deposit, from non-interest bearing deposit source.

Similarly, the interest-bearing deposit of NABIL ranged from Rs. 11446.20 millions in the fiscal year 2004/05 to Rs. 31369.38 millions in the fiscal year 2008/09. In average, NABIL collected Rs. 20931.65 millions, which represented 82.71% of the total deposit collection, from interest-bearing deposit source. Clearly, the interest bearing deposit dominated the total deposit of NABIL than non-interest bearing deposit. In interest bearing deposit, current deposit, which alone represented 15.70% out of 17.29% of the total deposit, was the main source of deposit than margin and other deposits. And in non-interest bearing deposit, savings deposit, which represented 41.70% out of 82.71% of the total deposit, was the main source of fund than fixed and call deposits. In overall, savings deposit was the main source of deposit fund.

Also in NIBL, both the non-interest bearing deposit and interest bearing deposit were found to be in increasing trend. The non-interest bearing deposit ranged from Rs. 1869.06 millions in the fiscal year 2004/05 to Rs. 4484.56 millions in the fiscal year 2008/09. While the interest bearing deposit ranged from Rs. 12385.51 millions in the fiscal year 2004/05 to Rs. 42213.54 millions in the fiscal year 2008/09. In average, NIBL collected Rs. 2926.04 millions, which represented 10.54% of the total deposit, from non-interest bearing account and Rs. 24838.08 millions, which represented 89.46% of the total deposit, from interest bearing account. Alike NABIL, the non-interest bearing deposit of

NIBL was dominated by current deposit, which represented 8.90% out of 10.54% representation of non-interest bearing deposit on total deposit, and the interest bearing deposit was dominated by savings deposit, which represented 40.54% out of 89.46% representation of interest bearing deposit in total deposit. In overall, the deposit of NIBL was dominated by savings deposit, interest bearing deposit.

On the basis of sources of total deposit collection, it can be concluded that the deposit of both the banks was highly dominated from savings account. Also, the deposit was the major source of fund in each bank. However, the average deposit collection of NABIL was Rs. 25307.92 and that of NIBL was Rs. 27764.11 millions, which indicated that NIBL remained more successful to collect high deposit amount than NABIL. It would be worthwhile, if both the banks focus on collecting deposit more from non-interest bearing deposit and enjoy high net profit.

4.1.6 Major Source of Fund

Finally, to recognize the major source of fund in each bank, the average amount of various sources of fund and their contribution to total fund have been calculated, which has been presented in the Table 4.6.

Table 4.6

Major Source of Fund

Source	**NABIL**		**NIBL**	
	Amount	**%**	**Amount**	**%**
Shareholders' Equity	2231.42	7.56	2213.67	7.06
Long term Borrowing	930.83	3.15	767.76	2.45
Current Liabilities:	26367.27	89.29	28392.29	90.50
a) Deposit	25307.92	85.70	27764.11	88.49
b) Other	1059.35	3.59	628.18	2.00
Total Fund	**29529.52**	100.00	**31373.73**	100.00

(Source: Appendix I)

The above table depicted that the both in NABIL and NIBL, the current liabilities, which indicated 89.29% of the average total fund in NABIL and 90.50% of the average total fund in NIBL, was the main source of fund. After current liabilities, shareholders' equity was the other source of fund and only then long term borrowing was the other source of fund.

Certainly, it can be concluded that the total deposit, which alone represented 85.70% of the average total fund in NABIL and 88.49% of the average total fund in NIBL, was the main source of fund under current liabilities.

4.2 Fund Mobilization

The bank collects fund to mobilize in various assets in order to gain profit. It would be worthless to collect fund, if the firm does not mobilize it. So, effective mobilization of fund is crucial.

4.2.1 Current Assets to Total Fund

The bank mobilizes the fund in current assets mainly to earn income and have sound liquidity position. To examine what percentage of the total fund has been mobilized in current assets, the ratio of current assets to total fund has been computed.

Table 4.7

Current Assets to Total Fund

FY	NABIL			NIBL		
	CA	TF	Ratio	CA	TF	Ratio
2004/05	16702.84	17064.08	97.88	15742.95	16063.54	98.00
2005/06	22010.88	22329.97	98.57	20986.69	21330.14	98.39
2006/07	26966.50	27253.39	98.95	26831.38	27590.84	97.25
2007/08	36534.72	37132.76	98.39	37903.22	38873.31	97.50
2008/09	43206.40	43867.39	98.49	51950.05	53010.80	98.00
Mean			**98.46**			**97.83**
S.D.			**0.38**			**0.45**
C.V.%			**0.39**			**0.46**

(Source: Appendix I)

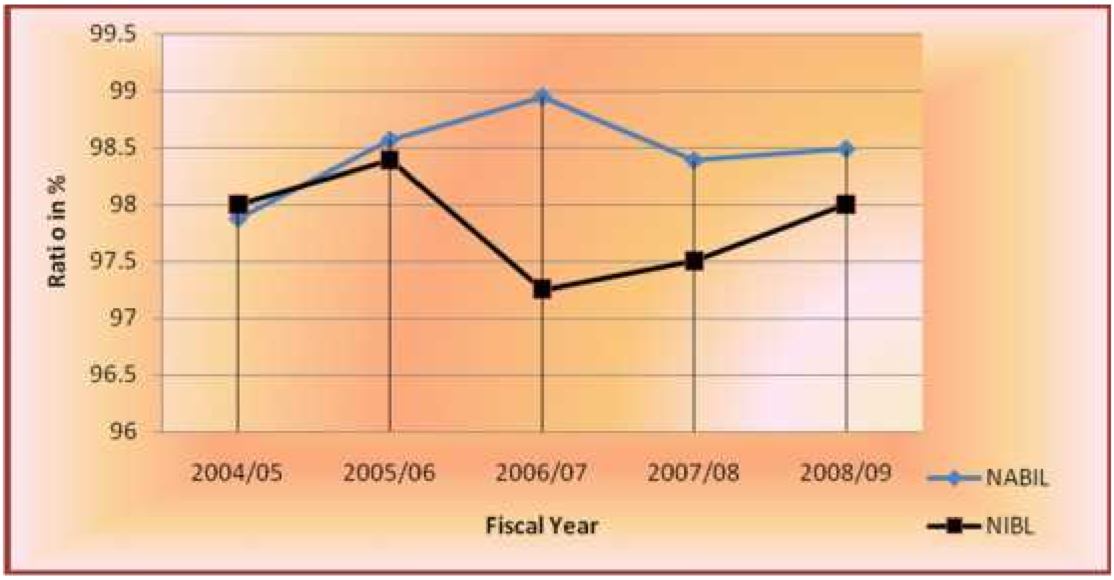
The above table revealed the mobilization of total fund collected in current assets. The table showed that the mobilization of total fund in current assets of NABIL followed increasing trend. The current assets of NABIL ranged from Rs. 16702.84 millions in the fiscal year 2004/05 to Rs. 43206.40 millions in the fiscal year 2008/09. However, the mobilization rate of total fund collected to current assets followed fluctuating trend. The mobilization of total fund in current assets of NABIL was 97.88%, 98.57%, 98.95%, 98.39% and 98.49% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. In average, 98.46% of the total fund collected was mobilized in current assets. The coefficient of variation, which was 0.39%, indicated high consistency in the ratio.

Similarly, the mobilization amount of total assets in current assets of NIBL was also found to be in increasing trend. NIBL mobilized Rs. 15742.95 millions in current assets in the fiscal year 2004/05 and in the fiscal year 2008/09 the mobilization amount in current assets was Rs. 51950.05 millions. Alike in NABIL, the mobilization rate of total fund in current assets of NIBL was found to be fluctuating trend. The current assets to total fund of NIBL was 98.00% in the fiscal year 2004/05, 98.39% in the fiscal year 2005/06, 97.25% in the fiscal year 2006/07, 97.50% in the fiscal year 2007/08 and 98.00% in the fiscal year 2008/09. In average, NIBL mobilized 97.83% of the total deposit collection in current assets. The coefficient of variation on the ratio was only 0.46%, indicating high uniformity in the ratio.

On the basis of current assets to total fund, it can be concluded that both of the banks had extremely mobilized their fund in current assets to maximize the net profit. However, the mobilization rate of NABIL was higher and more consistent than that of NIBL.

Figure 4.5

Current Assets to Total Fund



4.2.2 Fixed Assets to Total Fund

The bank needs fixed assets to operate its daily transactions. So, mobilization of total fund in fixed assets is also essential to earn income. The fixed asset to total fund of NABIL and NIBL is presented in the Table 4.8.

Table 4.8

Fixed Assets to Total Fund

FY	NABIL			NIBL		
	FA	TF	Ratio	FA	TF	Ratio
2004/05	361.24	17064.08	2.12	320.59	16063.54	2.00
2005/06	319.09	22329.97	1.43	343.45	21330.14	1.61
2006/07	286.89	27253.39	1.05	759.46	27590.84	2.75
2007/08	598.04	37132.76	1.61	970.09	38873.31	2.50
2008/09	660.99	43867.39	1.51	1060.75	53010.80	2.00
Mean			**1.54**			**2.17**
S.D.			**0.38**			**0.45**
C.V.%			**24.86**			**20.83**

(Source: Appendix I)

The table showed the mobilization rate of total fund collected in fixed assets. The table revealed that the investment in fixed assets of NABIL remarkably followed decreasing trend for the first three years. i.e. from Rs. 361.24 millions in the fiscal year 2004/05 to Rs. 286.89 millions in the fiscal year 2006/07, and increased to Rs. 589.04 millions in the fiscal year 2007/08 and Rs. 660.99 million in the fiscal year 2008/09.

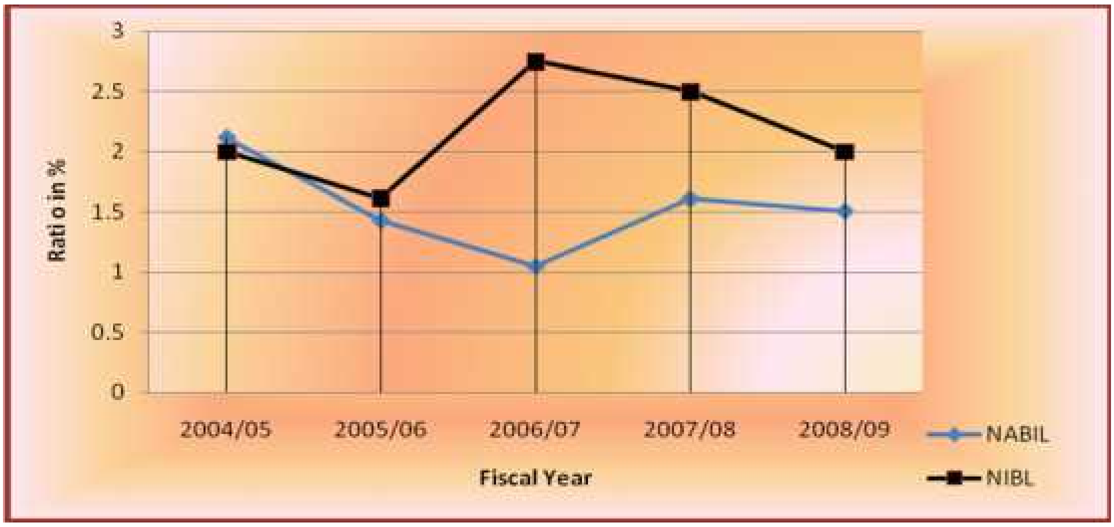
Also, the mobilization rate of total fund in fixed assets of NABIL declined for the first three years, i.e. from 2.12% in the fiscal year 2003/04 to 1.05% in the fiscal year 2006/07, and then increased to 1.61% in the fiscal year 2007/08 and again decreased to 1.51% in the fiscal year 2008/09. The acquirement of additional fixed assets caused to increase the ratio in fiscal year 2007/08. In average, NABIL mobilized 1.54% of the total fund in fixed assets and the coefficient of variation in the ratio was 24.86%.

However, the investment in fixed assets of NIBL continuously inclined in the periods taken for study. The fixed assets amount ranged from Rs. 320.59 millions in the fiscal year 2004/05 to Rs. 1060.75 millions in the fiscal year 2008/09. However, the mobilization rate of total fund in fixed assets followed fluctuating trend, which indicated that the investment in fixed assets did not increase with the same speed that the increment in total fund followed. The mobilization rate of total fund in fixed assets was 2.00%, 1.61%, 2.75%, 2.50% and 2.00% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. In average, the mobilization rate of total fund in fixed assets was 2.17% and the coefficient of variation was 20.83%.

On the basis of fixed assets to total fund, it can be concluded that both the banks mobilized very low portion of the total fund collected in fixed assets than ratio mobilized in current assets. However, NIBL mobilized high portion of total fund in fixed assets than NABIL did.

Figure 4.6

Fixed Assets to Total Fund



4.2.3 Cash and Bank Balance to Total Deposit

To have sound liquidity position the bank needs sufficient cash and bank balance. The cash and bank balance includes cash in hand, cash at NRB and cash at other financial institutions. Thus, the effective mobilization of total fund in cash and bank balance is crucial, since keeping both high cash balance and low cash balance jeopardizes the bank's sustainability.

Table 4.9

Cash and Bank Balance to Total Deposit

FY	NABIL			NIBL		
	CBB	TF	Ratio	CBB	TF	Ratio
2004/05	559.38	17064.08	3.28	1340.48	16063.54	8.34
2005/06	630.24	22329.97	2.82	2336.52	21330.14	10.95
2006/07	1399.83	27253.39	5.14	2441.51	27590.84	8.85
2007/08	2671.14	37132.76	7.19	3754.94	38873.31	9.66
2008/09	3372.51	43867.39	7.69	7918.00	53010.80	14.94
Mean			**5.22**			**10.55**
S.D.			**2.21**			**2.64**
C.V.%			**42.28**			**25.06**

(Source: Appendix I)

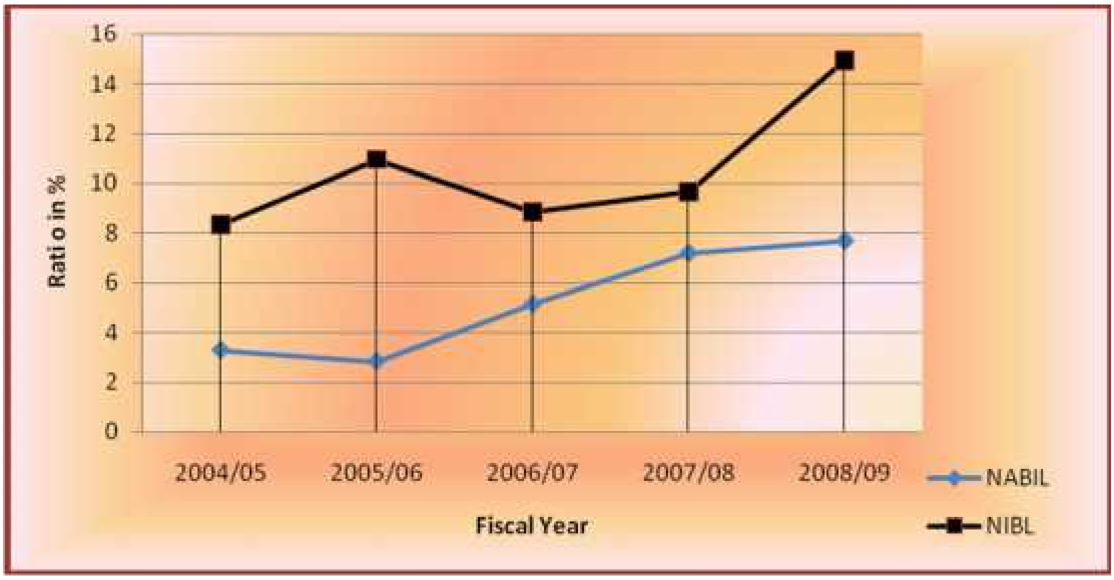
The table evaluated the mobilization of total fund in the most liquid assets, i.e. in cash and bank balance. The table showed that the cash reserve of NABIL considerably followed increasing trend in the five consecutive fiscal years. The cash and bank balance ranged from Rs. 559.38 millions in the fiscal year 2004/05 to Rs. 3372.51 millions in the fiscal year 2008/09. However, the mobilization rate of total fund in cash and bank balance decreased to 2.82% in the fiscal year 2005/06 from 3.28% in the fiscal year 2004/05, and from then followed increasing trend and finally reached to 7.69%. In average, NABIL mobilized 5.22% of the average total fund in cash and bank balance to have adequate liquidity position. While the coefficient of variation, 42.28%, indicated high inconsistency in the ratio.

Similarly, the mobilization amount of total fund in cash and bank balance of NIBL also followed increasing trend. The cash and bank balance amounted to Rs. 1340.48 millions in the fiscal year 2004/05 and increased to Rs. 7918.00 millions in the fiscal year 2008/09. However, the ratio of cash and bank balance to total fund fluctuated during the periods, and was 8.34%, 10.95%, 8.85%, 9.66% and 14.94% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. In average, NIBL mobilized 10.55% of the total fund in maintaining cash and bank balance to have sound liquidity position. And the coefficient of variation in the ratio was 25.06%, indicating inconsistency.

Comparing two banks on the basis of mobilization rate of total fund in cash and bank balance, it can be concluded that the liquidity position of NIBL was better than that of NABIL; since the average cash and bank balance to total fund of NIBL (10.55%) was higher than that of NABIL (5.22%).

Figure 4.7

Cash and Bank Balance to Total Deposit



4.2.4 Money at Short Call and Notice to Total Fund

The bank mobilizes the fund in money at short call to gain interest income. Higher the money at short call, higher will be the interest amount. The mobilization rate of total fund in money at short call and notice of NABIL and NIBL are presented in the table below.

Table 4.10

Money at Short Call and Notice to Total Fund

FY	NABIL			NIBL		
	MSCN	**TF**	**Ratio**	**MSCN**	**TF**	**Ratio**
2004/05	868.43	17064.08	5.09	140.00	16063.54	0.87
2005/06	1734.90	22329.97	7.77	70.00	21330.14	0.33
2006/07	563.53	27253.39	2.07	362.97	27590.84	1.32
2007/08	1952.36	37132.76	5.26	0.00	38873.31	0.00
2008/09	552.89	43867.39	1.26	0.00	53010.80	0.00
Mean			**4.29**			**0.50**
S.D.			**2.64**			**0.58**
C.V.%			**61.47**			**114.74**

(Source: Appendix I)

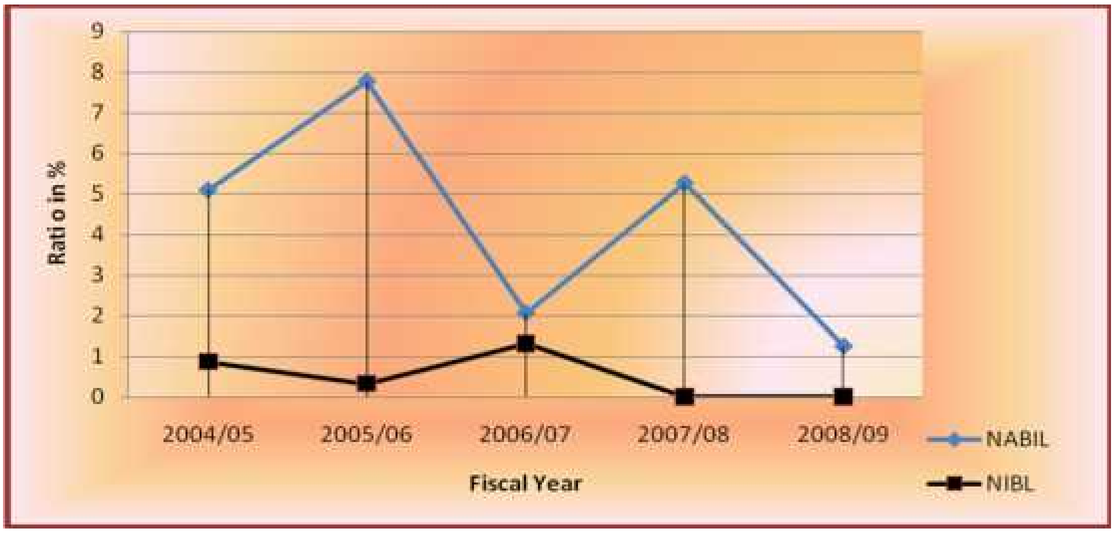
The table showed that the mobilization amount in money at short call and notice of NABIL fluctuated during the periods taken for study, and thus was highest (Rs. 1952.36 millions) in the fiscal year 2007/08 and lowest (Rs. 563.53 millions) in the fiscal year 2006/07. Also, the mobilization rate of total fund in money at short call and notice fluctuated during the periods. The ratio was 5.09% in the fiscal year 2004/05, and then increased to 7.77% in the fiscal year 2005/06, decreased to 2.07% in the fiscal year 2006/07, again increased to 5.26% in the fiscal year 2007/08 and finally decreased to 1.26% in the fiscal year 2008/09. This seemed that NABIL has no fixed policy to mobilize the total fund in money at short call and notice, which was also verified by the high coefficient of variation (61.47%). In average, 4.29% of the total fund had been mobilized in money at short call and notice.

Also, the money at short call and notice in NABIL ranged from Rs. 0 in the fiscal year 2007/08 and 2008/09 to Rs. 362.97 millions in the fiscal year 2006/07. The mobilization rate of total fund in money at short call and notice was 0.87% in the fiscal year 2004/05, 0.33% in the fiscal year 2005/06 and 1.32% in the fiscal year 2006/07. In average, NIBL mobilized only 0.50% of the total fund in money at short call and notice. The coefficient of variation in the ratio was 114.74%, which indicated inconsistency in the ratio.

On the basis of the mobilization rate of total fund in money at short call and notice, it can be concluded that the money at short call got low priority while mobilizing fund in both the banks. Only paltry sum was invested in such assets. However, NABIL’s mobilization rate was higher than that of NIBL.

Figure 4.8

Money at Short Call and Notice to Total Fund



4.2.5 Loan and Advances to Total Fund

Granting loan and advances falls on the major function of the bank. The bank grants loan and advances to get interest income, which is the major source of bank's income. The mobilization amount of loan and advances and the mobilization rate of total fund in the loan and advances are presented in the table below.

Table 4.11

Loan and Advances to Total Fund

FY	NABIL			NIBL		
	LA	TF	Ratio	LA	TF	Ratio
2004/05	10586.17	17064.08	62.04	10126.06	16063.54	63.04
2005/06	12922.54	22329.97	57.87	12776.21	21330.14	59.90
2006/07	15545.78	27253.39	57.04	17286.43	27590.84	62.65
2007/08	21365.05	37132.76	57.54	26996.65	38873.31	69.45
2008/09	27589.93	43867.39	62.89	36241.21	53010.80	68.37
Mean			**59.48**			**64.68**
S.D.			**2.76**			**4.06**
C.V.%			**4.64**			**6.28**

(Source: Appendix I)

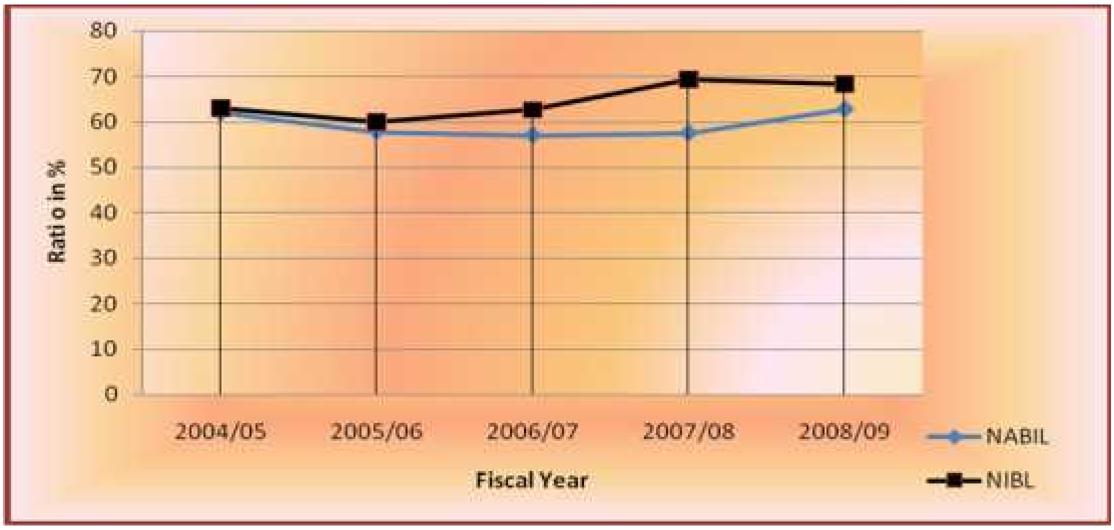
The table showed that the mobilization amount of total fund in loan and advances was in increasing trend over the past five years. With the hope of increasing interest income, the loan and advances amount was raised from Rs. 10586.17 millions in the fiscal year 2004/05 to Rs. 27589.93 millions in the fiscal year 2008/09. However, the mobilization rate of total fund in loan and advances decreased over the first three fiscal years, i.e. from 62.04% in the fiscal year 2004/05 to 57.04% in the fiscal year 2006/07, and then increased in the last two years, i.e. from 57.54% in the fiscal year 2007/08 to 62.89% in the fiscal year 2008/09. In average, 59.48% (almost ¾) of the total fund available was mobilized in granting loan and advances. The coefficient of variation on such mobilization rate was only 4.64%, indicating high uniformity in the ratio.

Alike in NABIL, the loan and advances in NIBL increased in each fiscal year compared to that in previous year. The loan and advances was Rs. 10126.06 millions in the fiscal year 2004/05, which increased almost by 3.5 fold, Rs. 36241.21 millions, in the fiscal year 2008/09 compared to that in the fiscal year 2004/05. However, the mobilization rate fluctuated during the periods. The mobilization rate of total fund in loan and advances was 63.04%, 59.90%, 62.65%, 69.45% and 68.37% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. In average, NIBL mobilized 64.68% of the total fund in loan and advances, and the coefficient of variation in the ratio was 6.28%.

Comparing two banks, it can be concluded that the mobilization rate of total fund in loan and advances was higher in NIBL than in NABIL in each year and certainly in average. However, the loan and advancement granted amount was higher in NABIL than in NIBL in the first two fiscal years. Since 2006/07, both the mobilization amount and rate in loan and advances of NIBL was higher than those in NABIL.

Figure 4.9

Loan and Advances to Total Fund



4.2.6 Investment to Total Fund

Investment is the other source of income of bank. The bank earns interest income from government securities, bond and other investment, and dividend & capital gain from corporate shares. The mobilization rate of total fund in short term investment of NABIL and NIBL has been presented in the table below.

Table 4.12

Investment to Total Fund

FY	NABIL			NIBL		
	Inv.	**TF**	**Ratio**	**Inv.**	**TF**	**Ratio**
2004/05	4275.53	17064.08	25.06	3934.19	16063.54	24.49
2005/06	6178.53	22329.97	27.67	5602.87	21330.14	26.27
2006/07	8945.31	27253.39	32.82	6505.68	27590.84	23.58
2007/08	9939.77	37132.76	26.77	6874.03	38873.31	17.68
2008/09	10826.38	43867.39	24.68	7399.81	53010.80	13.96
Mean			**27.40**			**21.20**
S.D.			**3.27**			**5.17**
C.V.%			**11.93**			**24.40**

(Source: Appendix I)

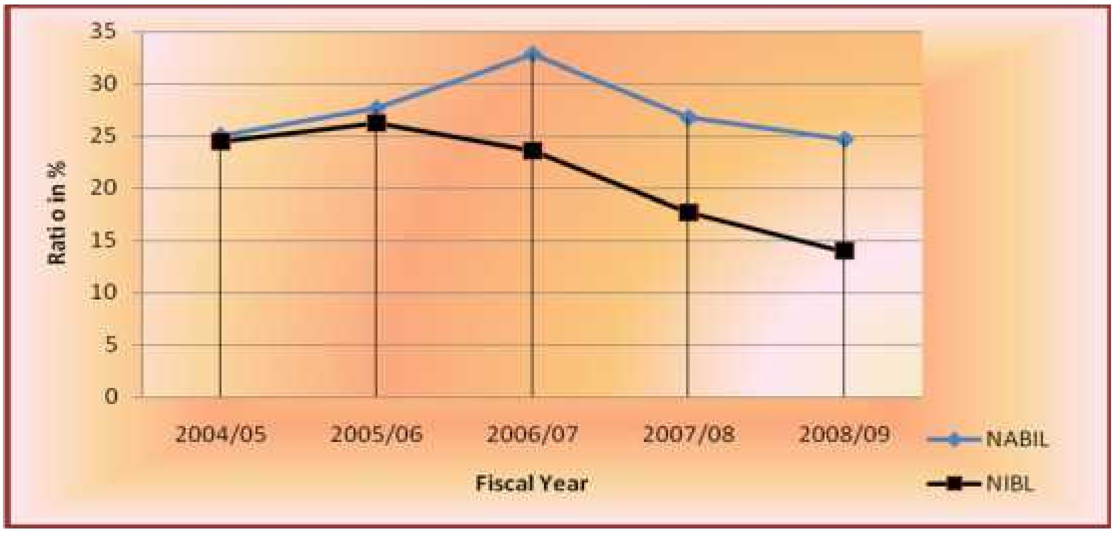
The table showed that the mobilization of total fund in investment assets of NABIL bank increased in each year. The investment amount ranged from Rs. 4275.53 millions in the fiscal year 2004/05 to Rs. 10826.38 millions in the fiscal year 2008/09. However, the mobilization rate of total fund in investment increased for the first three years, and then decreased in the last two years. The ratio was 25.06%, 27.67%, 32.82%, 26.77% and 24.68% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. In average, NABIL mobilized 27.40% of the total fund in investment to gain interest income, dividend and capital gain. The coefficient of variation in the ratio was 11.93%.

Similarly, the mobilization amount in investment of NIBL also followed increasing trend in the five consecutive years. The investment amount was Rs. 3934.19 millions in the fiscal year 2004/05 and Rs. 7399.81 millions in the fiscal year 2008/09. However, the ratio of investment to total fund increased only in the first two years and then followed decreasing trend from the fiscal year 2006/07. The ratio was highest (26.27%) in the fiscal year 2005/06 and lowest (13.96%) in the fiscal year 2008/09. The significant declining trend indicated that NIBL diverted more fund in other assets, especially in loan and advances. In average, NIBL mobilized 21.20% of the total fund in investment and the coefficient of variation in the mobilization rate was 24.40%.

Comparing two banks, it can be concluded that the mobilization rate of total fund collected in investment was higher in NABIL than in NIBL in each fiscal year, and in average, i.e. in NABIL (27.40%) and in NIBL (21.20%).

Figure 4.10

Investment to Total Fund



4.2.7 Major Use of Fund

To recognize the major assets in which the bank mobilizes the collected fund most, the average amount of each asset has been compared.

Table 4.13

Major Use of Fund

Mobilization	NABIL		NIBL	
	Amount	%	Amount	%
Cash and Bank Balance	1726.62	5.85	3558.29	11.34
Money at Short Call & Notice	1134.42	3.84	114.59	0.37
Investment	8033.10	27.20	6063.32	19.33
Loan and Advances	17601.89	59.61	20685.31	65.93
Fixed Assets	445.25	1.51	690.87	2.20
Other Assets	588.23	1.99	261.35	0.83
Total Fund	**29529.52**	**100**	**31373.73**	**100**

(Source: Appendix I)

The above table depicted that in both the NABIL and NIBL, the loan and advances which represented 59.61% of the total fund in NABIL and 65.93% of the total fund in NIBL, was the main uses of fund. After loan and advances, the short term investment, which occupied 27.20% of total fund in NABIL and

19.33% of total fund in NIBL, was the other main uses of collected fund. Besides them, the maintenance of cash and bank balance was the third uses of fund in both the banks, and then money at short call and notice was the fourth uses of fund, while fixed was the fifth main uses of fund in NIBL but last main uses of fund in NABIL. Also, the other assets got last priority in NABIL and second last priority in NIBL, while mobilizing fund within the five year periods.

4.3 Efficiency in Fund Mobilization

The bank collects and mobilizes fund to gain net profit. Thus, to measure the efficiency of the bank in fund mobilization, the net profit to total fund has been analyzed.

4.3.1 Net Profit to Total Fund

The net profit to total fund measures the efficiency of the bank in effectively mobilizing the fund available to get net profit. The net profit to total fund also measures the sustainability of the bank in the long run. The net profit to total fund of NABIL and NIBL are presented in the Table 4.14.

Table 4.14

Net Profit to Total Fund

FY	NABIL			NIBL		
	NPAT	TF	Ratio	NPAT	TF	Ratio
2004/05	520.11	17064.08	3.05	232.15	16063.54	1.45
2005/06	635.26	22329.97	2.84	350.54	21330.14	1.64
2006/07	673.96	27253.39	2.47	501.40	27590.84	1.82
2007/08	746.47	37132.76	2.01	696.73	38873.31	1.79
2008/09	1031.05	43867.39	2.35	900.62	53010.80	1.70
Mean			**2.55**			**1.68**
S.D.			**0.41**			**0.15**
C.V.%			**16.10**			**8.85**

(Source: Appendix I)

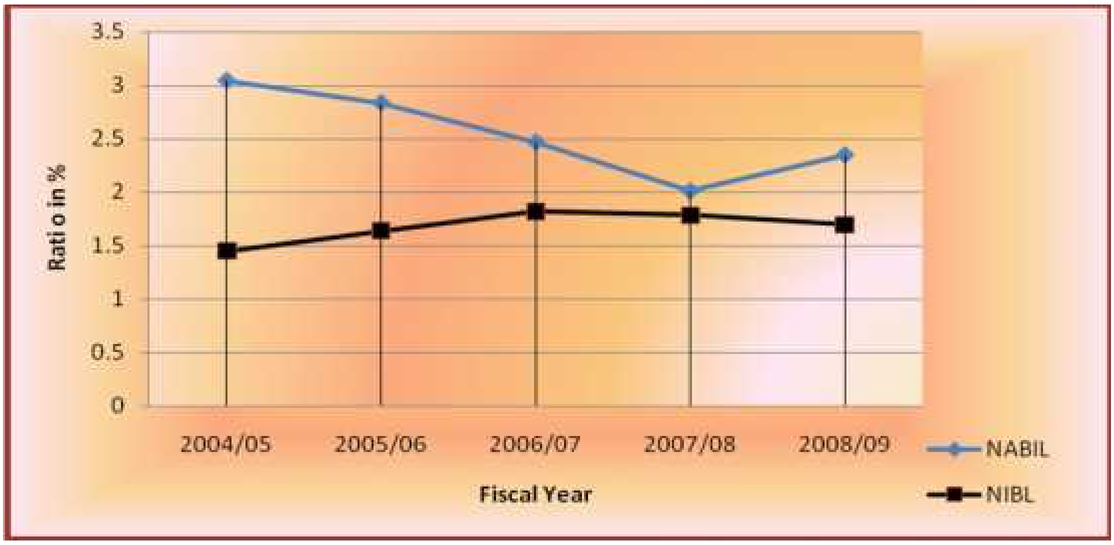
The above table depicted that the net profit of NABIL was in increasing trend. The net profit of NABIL was Rs. 520.11 millions in the base year 2004/05, which was dramatically increased by almost two fold within the five years period and reached to Rs. 1031.05 millions in the fiscal year 2008/09. However, the ratio followed decreasing trend for the first four fiscal years, and slightly increased in the last fiscal years. The net profit to total fund was 3.05%, 2.84%, 2.47%, 2.01% and 2.35% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, and 2008/09 respectively. In average, the ratio of net profit to total fund was 2.55%, which indicated that NABIL generated Rs. 2.55 net profit from Rs. 100 mobilization of fund. The coefficient of variation in the ratio was 16.10%.

Similarly, the net profit amount of NIBL was also in increasing trend and thus ranged from Rs. 232.15 millions in the fiscal year 2004/05 to Rs. 900.62 millions in the fiscal year 2008/09. Further, the net profit to total fund was found to be in increasing trend for the first three years, i.e. from 1.45% in the fiscal year 2004/05 to 1.82% in the fiscal year 2006/07, and to be in decreasing trend in the last fiscal years, i.e. from 1.79% in the fiscal year 2007/08 to 1.70% in the fiscal year 2008/09. In average, the net profit to total fund of NIBL was 1.68%, which indicated that NIBL generated Rs. 1.68 net profit from Rs. 100 mobilization of fund. And the coefficient of variation in the ratio was 8.85%.

Comparing two banks, it can be concluded that NABIL was more success in fund mobilization than NIBL, since the average net profit to total fund of NABIL (2.55%) was higher than that of NIBL (1.68%). However, the ratio was more consistent in NIBL than in NABIL, since the coefficient of variation in the ratio was lower in NIBL (8.85%) than in NABIL (16.10%).

Figure 4.11

Net Profit to Total Fund



4.4 Statistical Analysis

Under this part of the study, the relationship between net profit and total fund, net profit, total deposit and loan and advances has been measured using correlation coefficient and regression analysis. Further the trend value of total fund and net profit has also been estimated.

4.4.1 Simple Correlation and Regression Analysis

To find the relationship of net profit with total fund, the Karl Pearson's correlation coefficient and simple regression lines have been analyzed.

4.4.1.1 Correlation between Net Profit and Total Fund

The correlation coefficient between net profit after tax (NPAT) and total fund (TF) as calculated in *Appendix III* is summarized below.

Table 4.15

Correlation Coefficient between Net Profit and Total Fund

Banks	r	Relationship	r^2	P.E.	6 P.E.	Remarks
NABIL	0.9417	+ve	0.8868	0.0341	0.2048	Significant
NIBL	0.9944	+ve	0.9888	0.0034	0.0203	Significant

(Source: Appendix III)

The table helps to depict the relationship between net profit after tax (NPAT) and total fund (TF) of NABIL and NIBL.

The correlation coefficient (r) between NPAT and total fund of NABIL was 0.9417 which indicated the perfect positive relationship between NPAT and total fund. It meant that the net profit after tax increases with the increase in of total fund of NABIL. Likewise, the relationship between NPAT and total fund of NIBL was also perfectly positive, 0.9944, and the degree of correlation coefficient is high. The value of r^2 of NABIL was 0.8868, which indicated that 88.68% of variation was explained in the dependent variable NPAT due to the change in the value of independent variable total fund.

Similarly, in case of NIBL, the coefficient of determination between NPAT and total fund was 0.9888, which indicated that 98.88% variations in the NPAT was explained due to change in the value of total fund.

Likewise, the probable error indicated that the relationship between NPAT and total fund of NABIL was statistically significant (r > 6 x P.E.) and also the relationship between NPAT and total fund of NIBL was statistically significant (r > 6 x P.E.).

4.4.1.2 Regression Analysis: Net Profit after Tax on Total Fund

The simple regression equation of NPAT on total fund (TF) calculated in the *Appendix III* is:

$$Y = a + b X$$

$$NPAT_{NABIL} = 233.07 + 0.02 \times TF_{NABIL}$$

$$NPAT_{NIBL} = -28.74 + 0.02 \times TF_{NIBL}$$

The regression variable and t-value obtained is summarized in the following table 4.16.

Table 4.16

Regression Analysis of NPAT on Total Fund

Banks	no. of observation (n)	Constant (a)	regression coefficient (b)	T value
NABIL	5	233.07	0.02	4.85
NIBL	5	-28.74	0.02	16.25

(Source: Appendix III)

The table depicted the output of simple regression analysis of NPAT on total fund of the two banks viz. NABIL and NIBL. In case of NABIL, beta coefficient was 0.02, which indicated that one rupee increase in total fund leads to an average Rs. 0.02 increase in dependent variable NPAT, holding the variable, 233.07, constant. Also, the calculated value of t (4.85) was higher than the tabulated value of t (2.78) at 5% level of significance and 4 Degree of freedom, which indicated that the result was statistically significant.

In the case of NIBL, the beta coefficient was also 0.02, which indicated one-rupee increase in total fund leads to an average Rs. 0.02 increase in NPAT, if the constant (a), -28.74, remains constant. Since, calculated t-value (16.52) of NIBL was higher than the tabulated value of t (2.78) at 5% level of significance, the result was statistically significant.

Thus, it can be concluded that the net profit after tax had direct relationship with the total fund in both the banks. Also, there was same rupee increment/decrement in the net profit after tax while increasing/decreasing per rupee in total fund in both the banks.

4.4.2 Multiple Correlation and Regression Analysis

To find out the relationship of net profit with the total deposit (major source of fund) and loan and advances (major uses of fund), the multiple correlation coefficient and regression analysis have been evaluated.

4.4.2.1 Multiple Correlation among Net Profit (NPAT), Total Deposit (TD) and Loan & Advances (LA)

Let correlation between NPAT and TD be denoted by r_{12}, TD and LA be denoted by r_{23} and NPAT and LA be denoted by r_{13}. Then the multiple correlation coefficient of NPAT on TD and LA is given by; *(Appendix IV)*

$$R_{1.23} = \sqrt{\frac{r^2_{12} + r^2_{13} - 2\, r_{12}\, r_{23}\, r_{13}}{1-r^2_{23}}}$$

$R_{MPS.DPS\ EPS}$ (NABIL) = 0.6950

$R_{MPS.DPS\ EPS}$ (NIBL) = 0.7044

Table 4.17

Multiple Correlations between NPAT, TD and LA

Banks	R	Relationship	R^2	P.E.	6 P.E.	Remarks
NABIL	0.6950	+ve	0.4830	0.2313	1.3877	Insignificant
NIBL	0.7044	+ ve	0.4961	0.2274	1.3644	Insignificant

(Source: Appendix IV)

The above table showed the multiple correlation among net profit after tax (NPAT) and total deposit (TD) and loan and advances (LA) of two concerned banks during the year covered for study. The multiple correlation coefficients (R) between NPAT, TD and LA of NABIL and NIBL were 0.6950 and 0.7044 respectively, which showed the positive relationship in positive correlation in both banks among these variables**.**

The coefficient of multiple determination (R^2) of NABIL was 0.4830, which was slightly lower than that of NIBL (0.4961). It showed that, in case of NABIL, 48.30% of variation in dependent variable (NAPT) was explained by the variation in independent variables (TD and LA). Similarly, 49.61% variation in dependent variable (NPAT) of NIBL was explained by the variation in independent variables (TD and LA).

To measure the significance of the relationship among NPAT, TD and LA of the two concerned banks, it would be more preferable to calculate the probable error of correlation coefficient. The same table depicted that R (0.6950) of NABIL was lower than 6 P.E (1.3877) of the corresponding bank, also R (0.7044) of NIBL was lower than 6 P.E. (1.3644). So, it can be concluded that the relationship among net profit after tax, total deposit and loan and advances was statistically insignificant in both the banks.

4.4.2.2 Multiple Regression Equation: NPAT on TD and LA

Let NPAT, TD and LA be denoted by X_1, X_2 and X_3 respectively. Then the multiple regression equation of NPAT on TD and LA is given by;

$$X_1 = a + b_1 X_2 + b_2 X_3$$

$$NPAT_{NABIL} = 285.35 – 0.02\ TD_{NABIL} + 0.05\ LA_{NABIL}$$

$$NPAT_{NIBL} = -53.47 + 0.03\ TD_{NIBL} – 0.01\ LA_{NIBL}$$

Table 4.18

Multiple Regression Line of NPAT on TD and LA

Banks	No. of year	Constant (a)	Regression Coefficient (b)	
			b_1	b_2
NABIL	5	285.35	-0.02	0.05
NIBL	5	-53.47	0.03	-0.01

(Source: Appendix V)

The above table represented the linear relationship between NPAT, TD and LA of two concerned banks. The constant (a) was 285.35 in NABIL and -53.47 in NIBL. In case of NABIL, the beta coefficient of total deposit and loan and advances were -0.02 and 0.05 respectively. It indicated that one-rupee increase in total deposit leads to Rs. 0.02 decrease in NPAT and one rupee increase in loan and advances leads to an average about Rs. 0.05 increase in NPAT.

On the other hand, in case of NIBL, the regression coefficients of total deposit and loan and advances were 0.03 and -0.01 respectively, which indicated that one rupee increase in total deposit caused Rs. 0.03 increase in NPAT and one rupee increase in loan and advances leads to an average about Rs. 0.01 decrease in NPAT.

4.4.3 Trend Analysis

To estimate the value of total fund collection and net profit after tax in the forthcoming two years, i.e. in the fiscal year 2009/10 and 2010/11, the trend analysis has been done.

4.4.3.1 Trend Analysis of Total Fund

Let the total fund collection be the dependent variable on the time period, then the estimated value of total fund and the regression line of total fund on year calculated in Appendix VI have been presented in the Table 4.19.

Table 4.19

Trend Analysis of Total Fund

FY	NABIL		NIBL	
	Actual	**Trend**	**Actual**	**Trend**
2004/05	17064.08	15847.64	16063.54	13086.19
2005/06	22329.97	22688.58	21330.14	22229.96
2006/07	27253.39	29529.52	27590.84	31373.73
2007/08	37132.76	36370.46	38873.31	40517.50
2008/09	43867.39	43211.40	53010.80	49661.26
2009/10		50052.34		58805.03
2010/11		56893.28		67948.80
Regression Equation		$TF_{NABIL} = 9006.70 + 6840.94\ X_{Yr.}$		
		$TF_{NIBL} = 3942.42 + 9143.77\ X_{Yr.}$		

(Source: Appendix VI)

The above table depicted the trend value of total fund of NABIL and NIBL. The estimated value of total fund of NABIL in the fiscal year 2009/10 and 2010/11 will be Rs. 50052.34 millions and Rs. 56893.28 millions respectively.

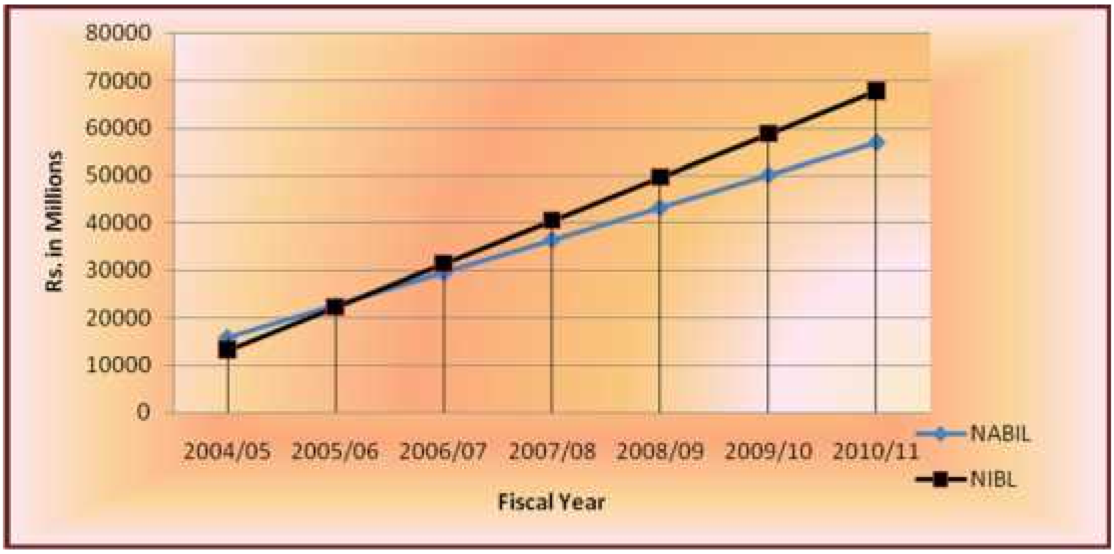
Similarly, the estimated value of total fund of NIBL in the same period will be Rs. 58805.03 millions and Rs. 67948.80 millions.

Also, the regression line of total fund on time period indicated that the total fund had positive relationship with the year. And thus in each year, the total fund of NABIL would increase by Rs. 6840.94 millions, if the variable 9006.70 remains constant, and that of NIBL would increase by Rs. 9143.77 millions, if the variable 3942.42 remains constant.

Comparing two banks, it can be concluded that in the forthcoming years as well, NIBL would be more successful to collect fund than NABIL, and also the pace of growth of fund in NIBL would be greater than that in NABIL.

Figure 4.12

Trend value of Total Fund



4.4.3.2 Trend Analysis of Net Profit

The estimated value of net profit of NABIL and NIBL in the fiscal year 2009/10 and 2010/11 and the regression line of net profit on time have been presented in the table below.

Table 4.20

Trend Analysis of Net Profit

FY	NABIL		NIBL	
	Actual	**Trend**	**Actual**	**Trend**
2004/05	520.11	494.75	232.15	199.66
2005/06	635.26	608.06	350.54	367.98
2006/07	673.96	721.37	501.40	536.29
2007/08	746.47	834.68	696.73	704.60
2008/09	1031.05	947.99	900.62	872.91
2009/10		1061.30		1041.23
2010/11		1174.61		1209.54
Regression Equation		$NPAT_{NABIL} = 381.44 + 113.31\ X_{Yr.}$		
		$NPAT_{NIBL} = 31.35 + 168.31\ X_{Yr.}$		

(Source: Appendix VI)

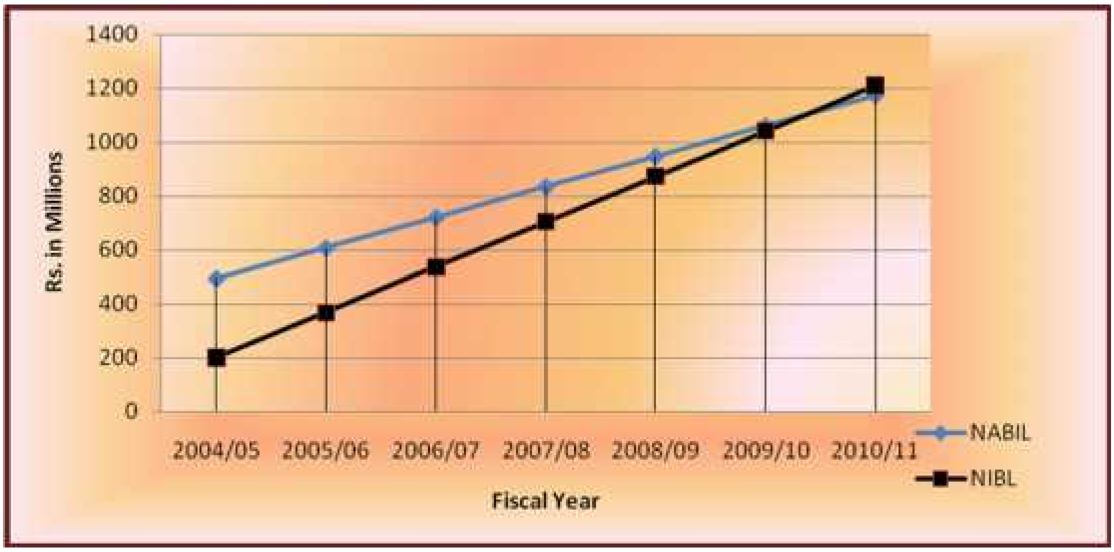
The above depicted that the estimated value of net profit after tax of NABIL in the fiscal year 2009/10 and 2010/11 will be Rs. 1061.30 millions and Rs. 1174.61 millions respectively. And the estimated value of net profit after tax of NIBL will be Rs. 1041.23 millions in the fiscal year 2009/10 and Rs. 1209.54 millions in the fiscal year 2010/11.

Similarly, the regression line of net profit after tax on time indicated that in each year the net profit of NABIL will increase by Rs. 113.31 millions in NABIL, if the variable 381.44 remains constant, and by Rs. 168.31 millions in NIBL, if the variable 31.35 remains constant.

Comparing two banks, it can be concluded that NABIL will higher profit than NIBL till 2009/10, after then due the higher pace of growth in NPAT of NIBL (Rs. 168.31 millions per year) than in NABIL (Rs. 113.31 millions per year), the net profit of NIBL will be greater than NABIL.

Figure 4.13

Trend Value of Net Profit after Tax



CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Generally fund mobilization 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 possible uncertain value. Fund mobilizing is always related with risks and returns. It is appropriate to state that the objective of fund mobilization 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.

Banks, especially commercial banks, stand for collection and mobilization of funds. The success in operation of CBs lies in the extent to which the funds are mobilized banks act as the intermediary of short term, medium term and long term funds. The CBs have to face in several problems from fund collection process to its effective mobilization. As far as possible, wider range of data and information were tried to include in analysis sector. However, there were certain limitations regarding occupying of information and analysis as stated in the objective. In this study two commercial banks namely Nepal Arab Bank Limited and Nepal Investment Bank Limited are chosen for their fund collection and mobilization activities by taking five year date from 2004/05 to 2008/09.

The data obtained through secondary sources were represented in suitable table and graphs, analyzed through using financing as well as stabilized tools, interpreted and finally deduced to conclusions. Moreover, certain recommendations were also put forwarded on behalf of the studied organizations as regard to inferences drawn from analysis.

This study was also bounded by many limitations, such as secondary data, unreliability of time and resources are the constraints of the study. In this study the focus is given to the quantities aspect of four CBs. Qualitative factors are not studied. Therefore the study may not be generated in all cases and accuracy depends upon the data collected and provided by the concerned organization.

5.2 Major Findings of the Study

From the above data analysis, the following major findings have been drawn;

- NABIL collected Rs. 25529.52 millions as total fund in average, whereas NIBL collected Rs. 31373.73 millions as total fund in average. Hence, NIBL was more successful to collect higher amount of fund than NABIL.
- In average, 7.87% of the total fund was collected from shareholders' equity in NABIL, while in NIBL 7.01% of the total fund was collected from shareholders' equity. The average collection of total fund through shareholders' equity was higher in NABIL than in NIBL.
- NABIL collected 2.59% of the total fund through long term debt, while NIBL collected 2.48% of the total fund through long term debt. The long term debt of NABIL was dominated by long-term borrowing, while that of NIBL was dominated by debenture.
- The current liabilities covered 89.54% of the total fund in NABIL, while that covered 90.50% of the total fund in NIBL. In current liabilities, deposit was the main source of fund in both the banks.
- The major source of deposit was savings account in both the banks, which covered 41.70% in NABIL and 40.54% in NIBL. The interest-bearing deposit was comparatively very higher than non-interest bearing deposit. Current deposit was the main source of fund in non-interest bearing deposit in both the banks.
- Among all the sources of fund, deposit was the major source of total fund in both the banks. The deposit represented 85.70% and 88.49% of the total fund in NABIL and NIBL respectively.

- Both the banks heavily mobilized their collected fund in current assets. The average current assets to total fund was 98.46% in NABIL and 97.83% in NIBL. As a result, the average fixed assets to total fund was 1.54% in NABIL and 2.17% in NIBL.
- NABIL maintained 5.22% of the total fund and NIBL maintained 10.55% of the total fund in cash and bank balance to have sufficient liquidity. Similarly, money at short call represented 4.29% in NABIL and 0.50% in NIBL of the total fund.
- The total fund of both the banks had been mainly mobilized in granting loan and advances. The mobilization rate of total fund in loan and advances was 59.48% in NABIL and 64.68% in NIBL. Likewise, the average investment to total fund of NABIL was 27.40% and that of NIBL was 21.20%.
- Among all the assets, both the banks mobilized the total fund collected mainly in loan and advances and then in investment. Fixed assets get lowest priority in NABIL and the other assets got lowest priority in NIBL while mobilizing fund.
- NABIL was more successful in fund mobilization in term of net profit. The net profit to total fund of NABIL (2.55%) was higher than that of NIBL (1.68%).
- There existed significant relationship between net profit and total fund. The correlation between these two variables was 0.9417 in NABIL and 0.9944 in NIBL. Also, the multiple correlation of net profit after tax on total deposit and loan and advances was 0.6950 in NABIL and 0.7044 in NIBL, however, the relationship was statistically insignificant.
- The estimated value of total fund of NABIL and NIBL for the fiscal year 2009/10 will be Rs. 50052.34 millions and Rs. 58805.03 millions respectively and for the fiscal year 20010/11 will be Rs. 56893.28 millions and Rs. 67948.80 millions respectively.
- Finally, the estimated value of net profit of NABIL and NIBL for the fiscal year 2009/10 will be Rs. 1061.30 millions and Rs. 1041.23

millions respectively and for the fiscal year 2010/11 will be Rs. 1174.61 millions and Rs. 1209.54 millions respectively.

5.3 Conclusion

On the basis of analysis of sources of fund, it can be concluded that in average NIBL was more successful to collect fund than NABIL, however in the initial period, NABIL was stronger to collect greater amount of fund. Also the percentage change indicated that NIBL made more progress in fund collection than NABIL. However, the mobilization rate of internal financing, shareholders' fund, in fund collection was greater in NABIL than in NIBL. Also, NABIL remained more aggressive than NIBL in collecting fund through long term borrowing and debenture capital. However, NIBL had more stable policy than NABIL had in collecting funds through shareholder's equity and long term debt capital. Gazing the sources of funds, it can be concluded that the current liabilities, especially deposit, was the main source of fund in both the banks. Comparing two banks, the current assets covered greater percentage of the total fund in NIBL than in NABIL. Also within deposits, the interest bearing deposit, including savings, fixed and call deposits, was the main source of fund than non-interest bearing deposit, including current deposit, margin deposit and others. In overall, it can be concluded that savings deposit was the main source of fund in both the banks. Consequently, NIBL remained more successful than NABIL to collect higher amount of deposit.

Similarly, the mobilization of fund aid to conclude that the investment in fixed assets covers only the paltry percentage of the total fund collected and thus high percentage of the total fund is invested in current assets. Comparing two banks, the mobilization rate of total fund in current assets was higher in NABIL than in NIBL and also the ratio was more stable in NABIL than in NIBL. Further, the analysis indicated that the liquidity position of NIBL was higher than that of NABIL, since higher ratio of collected fund was utilized by NABIL than by NIBL to maintain cash and bank balance requirement. Further, the mobilization rate of total fund in money at short call and notice to earn interest income and in investment to get dividend and interest income was higher in NABIL than in NIBL. In contrast, the mobilization rate of total fund collection in loan and advances to gain interest income was higher in NIBL than in NABIL. Ubiquitously, loan and advances was the main uses of fund in both the banks. Eventually, it can be concluded that NABIL was more efficient in fund mobilization than NIBL, despite collecting lower amount of fund, the return on total fund, i.e. net profit to total fund, was higher in NABIL than in NIBL.

Eventually, the statistical analysis aids to conclude that the net profit had significant relationship with the fund collection, and thus the net profit increases/decreases with the increase/decrease in fund. Also the increment amount in net profit was same in both the banks, with the same rupee increment in total fund. However, the multiple correlations indicated that there was no significant joint effect of total deposit and total assets on the net profit of both the banks. Finally with the aid of trend analysis, it can be concluded that NIBL will continue to collect more fund than NABIL in the future as well and the net profit of NIBL will be more than that of NABIL only from the fiscal year 2010/11, since the pace of growth on net profit and total fund was greater in NIBL than in NABIL. Eventually, on the overall analysis it can be concluded that till present NABIL was more efficient than NIBL in fund mobilization, however in the future it can be predicted that NIBL will succeed NABIL in terms of both gaining higher profit and higher fund collection.

5.4 Recommendations

On the basis of the major findings drawn in the previous chapter and the conclusion derived, the following recommendations have been presented for the enhancement of the fund mobilization and collection in the commercial banks in Nepal, especially in NABIL and NIBL;

- Both the banks, NABIL and NIBL, had followed the conservative policy of fund collection, which meant that the internal financing was comparatively very lower than debt financing, so it would be better if both the banks adopt moderate policy.
- In long term debt, NABIL collected fund through debenture capital mostly and NIBL collected fund through long term borrowing mostly. It would be better if both the banks implement portfolio while collecting fund through long term debt.
- The deposit collection of NABIL and NIBL was mainly concentrated on savings deposit only. Thus, it would be better if both the banks promote non-interest bearing deposit and thus increase profit.
- Both the banks should be careful in increasing profit of the banks to maintain the confidence of shareholders', depositors and others. NIBL had lower ratio of net profit to total fund than NABIL had, thus to compete in the market, NIBL should optimize its uses of fund.
- Major portion of fund had been mobilized in loan and advances in both the banks. It would be better if the banks grants loan and advances only after careful evaluation of the loan proposal and the measurement of credit risk.
- In investment, the investment in foreign banks and local licensed institutions was dominant. Thus, the bank should have sound portfolio in investment and investment more money in corporate shares and debentures and in government securities as well. Also, the bank should quest for new sector of investment.
- There is no credit rating agency in Nepal. Banks have to rely heavily on information given by central bank for analyzing credit worthiness. So in order to separate good loans from bad loans and to ultimately reduce the level of non performing assets, NABIL and NIBL should take some initiative by themselves to use some kind of internal credit scoring system that would evaluate the loan applications.

- Growth of the commercial banks helps to develop the economic growth of the country. So the service of the commercial banks should be expanded in the country through collection of idle saving from each nook 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.

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