

CHAPTER I

INTRODUCTION

1.1 Background of the Study

An agrarian country surrounded by the two economic superpowers of the world, China and India, Nepal is still in the list of least developed countries. The agro –dominated economy is further worsening because of complex geographical situation. Various factors like landlocked situation, poor resource mobilization, lack of entrepreneurship, lack of institutional commitment, lack of sound government policies, internal conflict, political instability, etc are responsible for the slow pace of economic development in Nepal. The business world is entirely different from the one in the past. The changing life style has always been challenging to the business community and has given opportunity to produce thousands of goods and services to satisfy the changing needs of people. The societal needs have increased tremendously in quality as well as quantity. The major concern of many countries of the world has been to accelerate their development process and thereby increase the welfare of their people. These all can be done only through sound investment. The economy requires gearing up savings, creating conducive and enabling investment atmosphere and developing efficient investment structural surroundings to facilitate mobilization of both ownership and debt capital through appropriate instruments and financial discipline.

With the world moving towards open and market oriented economic system, it has to increase and expand banking and financial system too. As a matter of fact, under this phenomenon increasing development of new financial instruments and improved and diversified financial services are taking place. One of the concrete financial services is commercial banking function. The commercial banking services help to increase economics activities through capital market, which is crucial for the country's economy development.

The English word “bank” is said to be originated from the Italian word “Banco”. Some historians claim that the early Italian goldsmiths used to exchange the money sitting on benches. Due to this activity, it was denoted by the word “Banco”. The French followed the word using “Banke” and the English conversion took the shape as “bank”. Another school of thinker claim that the Govt. of Venice collected a huge sum of public borrowings and it was represented by the word “Monte”. The Genius, French and English used bank and bank respectively to present the same i.e. a huge sum of public borrowings. So it is said that the bank was representing word for the collection and circulation of money.

1.1.2 Types of Deposits

At the outset it is necessary to know what a deposit is. Commercial Bank Act 2031, defines deposit is the amount deposited in current, saving or fixed a/c of a bank or financial institution. People in general, the businessmen the industrialist and other individuals deposit money in a bank. Bank flows such amount as loan and invest in different sectors to earn profit. Usually, a bank accepts three types of deposits. They are current, saving and fixed deposits. But in other countries we find more than three deposits. In Nepal, banks grant permission to their customers to open three types of a/c under various terms and conditions. This classification is made on different theoretical and financial basis. Therefore, deposits of bank are classified on the following basis:

- i.Demand Deposits
- ii.Saving Deposits
- iii.Fixed deposits

I. Demand Deposits

The deposit in which an amount is immediately paid at the time of any a/c holder’s demand is called demand deposits. In another words we can say this type of demand deposit as current a/c. Current a/c means an a/c of amount deposited in a bank, which may be drawn at any time on demand. Its transaction is continual and such deposit can’t

be invested in the productive sector, so such type of amount remains as stock in the bank. Though the bank can't gain profit by investing it in new sector after taking from the customers, this facility is given to the customer. Therefore, the bank doesn't provide give interest on this account. From such deposit, the merchant and traders are benefited more than the individual. The bank should pay as many times as the cheque is sent until there is deposit in his a/c. The bank can't impose any condition and restrictions on demand deposit. An institution or an individual, who usually needs money daily, precedes their acts and transaction through such deposit. The current a/c is very important for the customers of bank.

In any institution, which carries out cash transaction, there is possibility of corruption; misuse and fraud. There should be a provision of separate department of employees for the recovery of the cash and for the payment of the cash. The current a/c is necessary to collect and buy the bills, to use the facility of over-draft, letter of credit, remittance etc. Current deposit on the one hand, saves time and labor and so it is a great facility for the customers. Therefore, it has a great importance.

II. Saving Deposits

The bank can collect capital through the saving deposit as well. This deposit is also important and its necessity and scope is not negligible. According to the Commercial Bank Act 2031, saving account means an a/c of amount deposited in a bank for saving purpose. This account is suitable and appropriate for the people of middle class, farmers and the labors who have low income, officials and small businessmen. This saving deposit bears the features of both the current and fixed period deposits. Generally, most accounts opened are saving accounts.

Therefore, this type deposit is popular in people in general. According to internal rules or banks some banks demand a small amount and some banks demand a great deal of money to open saving account. Different banks have made different rules. So, there is divergence as to how much amount of money can be withdrawn. Banks provide interest on this kind of deposit.

III. Fixed Deposits

Under the Commercial Bank Act 2031: Fixed Account means an account of amount deposited in a bank for certain period of time. The customers opening such account deposit their money in this account, for a fixed period. In the other words, it is called time deposit because this account is deposited for a certain period.

Usually, only the person or institution who wants to gain more interest opens such type of account. The period of time can be 3 months, 6 months, 9 months, 1 year, 2 years, 3 years, 4 years, 5 years etc. More interest rate is payable in this type of deposit than other deposit. Both parties the bank and the customers can take benefit from this deposit. The banks invest this money on the productive sector and gains profit and the customers too can make his financial transaction stronger by getting more interest from this deposit. The amount in the fixed deposit must be returned to the customers after the date expires. The amount can't be withdrawn before the fixed time.

1.1.3 Deposits Mobilization

“Collecting scattered small amount of capital through different medias and investing the deposited fund in productive sector with a view to increase the income of the depositor is meant deposit mobilization. In the other words, investing the collected fund in the productive sectors and increasing the income of the depositor, it also supports to increase the saving through the investment of increased extra amount” (*NRB, 1984 no.24, 10-12*).

When we discuss about Deposit Mobilization, “we are concerned with increasing the income of the low income group of people and to make them able to save more and to invest again the collected amount in the development activities.

The main objective of Deposit Mobilization is to convert idle saving into active saving” (*NBL, 2037 NO.4, p: 7*).

Saving refers to that part of the total income which is more than the expenditure of the individual. In other words, $\text{saving} = \text{Total income} - \text{Total expenditure}$. Basically saving

can be divided into two parts: Voluntary saving and Compulsory Savings. Amount deposited in different accounts of Commercial Bank, investment in government securities are some examples of voluntary saving. A commercial bank collects deposit through different accounts like fixed, saving and current account.

In developing countries there is always shortage of the capital for the development activities. There is need of development in all sectors. It is not possible to handle and develop all the sectors by the government alone at a time. Private people also can not undertake large business because the per capita income of the people is very low while their propensity consumes is very high. Due to the low income their saving is very low and capital formation is also very low. So their saving is not sufficient for carrying on development work.

To achieve the higher rate of growth and per capita income, economic development should be accelerated. "Economic development may be defined in a very broad sense as a process of raising income per head through the accumulation of capital (*Johnson, 1965,11*) but how capital can be accumulated in the developing countries, there are two ways; one from the external and other from the internal sources. In the first gap, foreign aid, loans and grants are the main, while in the later, financial institution operating within the country, play dominant role. In the context of Nepal, commercial bank is the main financial institution which can play very important role in the resource mobilization for the economic development in the country. Trade, industry, agriculture and commerce should be developed for the economic development.

Economic development so defined is necessary and sufficient to generate higher rate of saving and investment. The generation of high rates of saving and there by investment is possible only through the commercial banks. Commercial banks occupies greater role in economic development by generating the saving towards the desired sectors from one place to another, communicating with its branches and agencies in different part of the country and the world and advising to the commercial people." Increasing the income of

the low income group of people and making them able to save more, deposit mobilization helps to invest the collected deposit in desired sector" (*NRB, 1984, no.24, 25*).

The saving growth rate depends among others, on the level of country's per capita income and its growth rate, population growth rate, interest rate in saving or, on bank account, banking and financial facilities and net factor income etc. The national income is the measure of the nation from the economic activities. Saving is the excess of income over consumption. Investment is the expenditure made for the formation of fixed capital. Mobilization of saving implies transfer of resources from surplus spending unit to deficit units. In this connection, financial intermediaries play an important role in mobilizing of voluntary saving.

The amount of saving of a typical household in Nepal is small because the people have limited opportunities for investment. They prefer "to spend saving on commodities rather than on financial assets. These restrict the process of financial intermediation, which might otherwise bring such as reduction of investment risk and increase in liquidity when capital is highly mobile internally, saving from abroad can also finance the investment needed at home. When capital is not mobile internally, saving from abroad will limit investment at home.

Insurance of bank deposits, creation of proper atmosphere can increase deposits and the development of severity of capital markets with the help of banks will prove effective in mobilizing the available floating resources in the country (*Ghosal and Sharma, 1965, 92*). Capital formation is possible through collecting scattered unproductive and small saving from the people. This collected fund can be utilized in productive sector to increase employment and national productivity. Deposit mobilization is the most dependable and important sources of capital formation (*RBB, 2055 No.4,: 14*). Banking transaction refers to the acceptance of deposits from the people and granting loan and advances, and returning the accepted deposit at demand or after the expiry of a certain period.

According to banking rules and regulations, this definition clearly states that Deposit mobilization is the starting point of banking transactions. Banking activities can be increased as much as we can mobilize the accumulated deposit effectively.

Deposit, such as current, saving and fixed are the main part of the working capital. It is due to this reason that banks keep their deposit mobilization campaign always in full swing taking resort every possible means laying at their disposal. "A Commercial bank changes the scattered unproductive small saving into loan able and active savings. The bank not only collect saving, but also it provides incentives to the saver and inspires them to save more" (*RBB, 2054 No.3, 15*). Commercial banks are set up with a view to mobilize national resources. The first condition of National Economic Development is to be able to collect more and more deposit. In this context, the yearly increasing rate of commercial banks deposit clearly shows the satisfactory progress of deposit mobilization.

1.1.4 Need for Deposits Mobilization

The following are some reasons for why Deposit Mobilization is needed in a developing country like Nepal. Workshop report "Deposit Mobilization why and how" Group "A" states the following points as the need for deposit mobilization (*NRB, 1984, No.24, 10-12*).

Capital is needed for the development of any sector of the country. The objective of Deposit Mobilization is to collect the scattered capital in different forms within the country.

It is much more important to canalize the collected deposit in the priority sector of a country. In our developing country, we have to promote our business and other sectors by investing the accumulated capital towards productive sectors.

The need of deposit mobilization is felt to control unnecessary expenditure. If there is no saving, the extra money that the people have, can flow forward buying unnecessary and luxury goods. So, the government also should help to collect more deposit, steeping legal procedures to control unnecessary expenditures.

Commercial banks are playing a vital role for National Development. Deposit mobilization is necessary to increase their activities. Commercial banks are granting loan not only in productive sectors, but also in other sectors like food grains, gold and silver etc. Though these loans are traditional in nature and are not helpful to increase productivity, but it helps, to some extent, to mobilize bank deposit.

To increase saving is to mobilize deposit. It is because if the production of agricultural and industrial products increases, it gives additional income, which helps to save more, and ultimately it plays a good role in deposit mobilization. Deposit mobilization plays a vital role for the economic development of an under developed and developing country, rather than developed one. It is because, a developed country does not feel the need of deposit mobilization as compared to Under Developed Country (UDC) and developing country.

Deposit mobilization plays a great role in such countries. Low National Income, Low per Capita Income, lack of technical know how, vicious cycle of poverty, lack of irrigation and fertilizer, pressure of population increase, geographical condition etc. are the main problems of Economic Development of an UDC like Nepal. So far the development of these sectors are concerned, there is need of more capital. Again, instead of the development of a particular sector, the development of every sector should go side by side. So, the development process of these sectors on one side and to accumulate the scattered and unproductive sectors deposit on the other is the felt need of an UDC. We can take this in our country's present context.

'Bank is an institution that works for making the monetary transactions sound and effective. Bank collects deposits from the depositors and lends it to the people who are seeking credit for their own purposes. Bank accumulates the idle money from the scattered sources and lends it to the various productive sectors in an economy that certainly yields positive results in an economy, employment opportunities, economic activities and finally developing the whole economy.

Main objective of the bank is to mobilize idle resources into productive sectors by collecting the funds from scattered sources. Bank accepts the deposit in numerous forms depending upon the nature of savers and the strategy of the bank itself. Some of the common type of deposits are current deposit, fixed deposit and call deposit. The interest rate of the deposit varies to the different banks as the central bank has freed up the commercial banks to determine the interest rate of their own.

Improvement has been seen in the global economic and financial scenario.

"A Bank is a business organization that receives and holds deposit of funds from others make loans or extends credits and transfer funds by written order of depositors" (*Encyclopedia America 1984-85, vol.13, 302*).

"A Commercial Banker is a dealer in money and substitutes for money, such as cheque or bill of exchange. It also provides a variety of financial services" (*The New Encyclopedia Britannica, 1985 vol. 14, 605*).

"Commercial Bank" a bank dealing with the general public, accepting deposit from and making loans to large numbers of households and small firms. Such banks are known in UK as retail or high street banks. They also provide various services for depositors, including provision of cash and credit cards, storage facilities for valuables and documents, foreign exchange, stock broker, mortgage finance and executor services. Commercial banks are contrasted with central banks, and with investment, merchant and other specialist banks which deal little with the general public "(*Oxford dictionary of economics 2004, p:65*)

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The main objective of Deposit Mobilization is to convert idle saving into active saving” (*NBL, 2037 NO.4, : 7*). Capital formation, considered to be one of the important factors in economic development leads to increase in the size of national output, income and employment, solving the problem of inflation, balance of payments and making the economy free from any burden of foreign debts. Domestic capital formation helps in making a country self-sustainable

“Capital formation is the accumulation of capital. Profit made by the business community constituted the major part of saving of the community and that savings was assumed to be invested. They thought capital formation indeed plays a decisive role in determining the level and growth of national income and economic development” (*American institute of banking, 1972, p: 162*).

It seems unquestionable that the insufficient capital accumulation is the more serious limiting factors in developing countries. In the view of many economists, capital occupies the central and strategic position in the process of economic development. .It seems unquestionable that the insufficient capital accumulation is the more serious limiting factor in undeveloped countries.

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

of remitting and collecting cash on behalf of its clients by opening bank drafts and letter of credit facility etc.

Besides, the main task of bank is to mobilize idle resources into productive sector by collecting it from scattered sources and generating profit. Banks also facilitate people to carry out their financial transaction in every sector, such as organization, industries, agriculture trade and needy people as well. Bank accepts deposits in numerous forms depending upon the nature of savers and banks own product offering strategy .Some of the common deposits are saving, fixed and call deposits etc. The cost of deposits to the banks varies as Central Bank has freed up the commercial bank to offer the interest rate on their own.

For the development of nation banking sector of that country is responsible and must be strong. The financial sector like bank is a vast field, which helps in reducing poverty, increase in life style of people, increase employment opportunities and there by developing the society of a country as the whole development of a country depends upon adequate saving and investment in productive sector which is inspired by banking activities. Due to the low income there is fewer saving. People spend all the money in consumption of necessary items. People who have a lot of money also consume precious goods; people have no idea of the investment in productive line. Banks are the main sources which motivate people to save their earnings. Banks collect the saving of people in the form of deposits collection and investment in the productive area. They give the loan to the people; banks mobilize deposit collected from people.

The importance of the banking as the nerve centre of economic development cannot be over emphasized and it is said that which are the need of and great wealth of country has got to be kept very scared. Just as water of irrigation good banks are for the country and trade. The development of a country is always measured by its economic development through indices. Therefore every country has given emphasis on uplifting of a country which can hardly be carried forward without the assistance of financial institution. They are the indispensable part of the development process It is the fact that the unorganized

financial system leads the country towards recession. Therefore, central bank plays a major role and keeping the financial system of a country organized by providing those guidelines and directions.

Recognizing the true fact of developing country, Nepal cannot ignore the importance of commercial banks. Realizing it, HMG of Nepal has adopted the Economy Liberalization Policy, 1984. Due to liberalization policy made by government, the number of banks has increased and there has emerged the tough competition among them” (*Banking and financial statistics, 1997, 37*).

1.2 Focus of the Study

This study focuses on the history of the deposit mobilization of two sampled banks NBL and SCBNL. This study is made with the especial aim of observing the deposit mobilization position of Nepal through the deposit mobilization position of NBL, representing the government owned commercial bank and SCBNL, representing the private sector commercial bank. Therefore the study certainly focuses on the elements related to deposit mobilization. The study focuses on the comparative analysis of efficiency of deposit mobilization of the two sampled banks.

1.3 Statement of the Problem

Within the sphere of the proposed study, there exist a considerable number of problems regarding the commercial banks, services they offer such as different deposit types, their features etc., and their relationship with customers. For example: It's said that banks are not being able to fully utilize their deposits fund in to productive sectors. In other words, they are said to be more focused on retail banking rather than in corporate banking. Similarly, banks are holding major portion of their deposits liabilities as the cost bearing deposits. Likewise, it can be generalized that banks are not being able to manage their liquid assets efficiently.

Precisely, these problems could be numerically categorized into the four broad groups, and they are being explained as well. The recent trend observed in banking industry is

that they have not been able to fully utilize their deposit fund by mobilizing it into productive sectors. Due to the deteriorating economic scenario, management of the banks, and the attitude of the board of directors, they have been able to lend about 70 percent of total deposits only. Referring to the Banks' composition of deposit liabilities, it can be said that they are holding too much of cost bearing deposits.

Similarly, out of the two sampled banks, the government owned NBL had cost bearing deposits rate more in comparison to SCBNL in the past. But, after the new management policy adopted by NBL, the rate is gradually slowing down. There are some rules and regulations prescribed by the central bank such as the recent one which compels the banks to issue their capital equal to a billion rupees. However, banks' loan investments, capital structures, existing management slacks etc. do not represent that the public funds deposited at the banks are safe.

Commercial banks deserve the power to create money and credit because the public readily accept claims on bank deposits, particularly checks, credit and debit cards, and computer entries, in payment for goods and services. In addition, the law requires individual banks to hold only a fraction of the amount of deposits received from the public as cash reserves, thus freeing up a majority of incoming funds for making loans and other investments.

This capacity of banks to create money and deposits has a number of important influences on the financial system and the economy as a whole. Banks can invest up to their money or deposit multiplier and money created by banks is also instantly available for spending. Therefore, unless carefully controlled by the central bank, it can fuel inflation.

1.4 Objectives of the Study

Banks provide both the deposit and credit services to the public. They accept the funds from the savers as deposits and lend the funds to the fund seekers in the economy. Therefore, banks can run effectively and efficiently only if they can mobilize their

deposits fund at their prescribed area and realize those disbursed amount timely. In totality, the proposed study aims to analyze how far the banks have been able to achieve these objectives.

The basic purposes of this study are:

- To analyze the financial factors like efficiency and profitability position in relation to deposit mobilization of commercial banks.
- To observe the deposit mobilization position of Nepal Bank Ltd and Standard Chartered Bank Nepal Ltd.
- To observe the trend of deposit loan and investment of selected banks.
- To provide necessary suggestions and recommendations for further improvement.

1.5 Significance of the Study

The quality and coverage of a bank's fund mobilizing policy reflects the degree of healthiness of the bank and eventually the national economy. In order to accomplish the optimum utilization of the scarce economic resource, the capital, banks must successfully formulate their fund mobilizing policy and effectively implement it as well. So, the role of commercial banks in supplying the credit in the economy is vital.

The proposed study is believed to be beneficial for a number of individuals, groups, and organizations directly or indirectly. Some of the direct beneficiaries of the study could be named as lenders, creditors, investors, and depositors of the banks. However, borrowers can also achieve some sort of advantages from the study. These beneficiaries and the kind of benefits they receive from the proposed study are being explained as follows:

- Investors
- Depositors
- Borrowers
- Policy Makers
- Future Researchers

1.6 Limitations of the Study

The study has focused on its objective to observe the deposit mobilization position of commercial banks. As the study is more objective and is made for the fulfillment of academic requirement, it possesses numbers of limitations. Some specific limitations are as follows:

- The research work will be made on the basis of latest five year's data from fiscal year 2008/09 to 2012/13.
- Simple statistical and financial tools are used for the analysis.
- Study is made on the basis of secondary data only.

1.7 Organization of the Study

This unit considers the total considerations of the research report. This report is organized on five chapters. These five chapters consider:

1. Introduction

The first chapter includes the introduction of the study that considers the background of the study, historical development of commercial banks in Nepal, statement of problem, significance of the study, objective of the study, focus of the study, limitation of the study, and the organization of the study.

2. Review of Literature

This is the second chapter of the report. It includes the conceptual review and review of related studies. Conceptual review considers the study of books and other publications related to the concept of commercial bank, concept of deposit and concept of deposit mobilization. And the review of related studies includes the study of past studies made on the deposit related topics especially the studies related to the deposit mobilization of commercial banks.

3. Research Methodology

This chapter contains the tools and techniques which are applied on the study. The financial and statistical tools which are used for the analysis and presentation of data are described in this chapter.

4. Presentation and analysis of data

This is the major chapter of the study. It contains the presentation of data and analysis of the data that specify the findings of the study. Data are presented on the basis of objective of the study. This chapter contains the major findings of the study too. It helps the searcher to find out what is going on about the deposit mobilization in Nepal and selected commercial banks.

5. Summaries, Conclusion and Recommendation

This is the last chapter of the study that contains summary of the study, conclusion of the study and some recommendations to the related banks and policy makers for making the deposit mobilization position of related banks.

CHAPTER-II

REVIEW OF LITERATURE

2 Conceptual Frame Work

To develop the concept and ideas about the selected topic, the review of relevant material is very important and crucial. In fact, review of literature begins with a search for a suitable topic and continuous throughout the duration of the research, either a dissertation or a thesis. Review of literature means reviewing research studies or other relevant propositions in the related areas of the study so that all the past studies, their conclusion and deficiencies may be known and further search can be conducted.

It is an integral and mandatory process in research works. It deals with a literature survey of existing volumes of similar or related subjects and a careful check should be made that the purposed study has not been carried out previously. Completely new and original problems are very rare, however a previous study should not exactly replicable unless the techniques used facilitate to trace out the doubtful conclusions or some new sources of information identified.

So, in this chapter, the emphasis is given to review of major relevant literature on the deposit liabilities and their analyses. Different definitions or opinions expressed by experts in respect of deposit mobilization are considered to be relevant for the proposed study.

Similarly, this chapter also sheds light on some of the rules and regulations prescribed by the central bank regarding the commercial banks' deposit liabilities and their mobilization aspects.

This chapter is basically concerned with review of literature relevant to the topic “Deposit Mobilization of SCBNL and NBL”. Every study is very much based on past knowledge. The previous studies cannot be ignored because they provide the foundation

to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past studies.

Conceptual Review

An attempt has been made to look in to a number of related books and the bank publications, especially of those related to the deposits collection and mobilization aspects, and central bank's rules and regulations that abide the commercial banks on this regard. In addition, some sort of personal intuition has also been made.

2.1 History of Commercial Banks in Nepal

Commercial Bank Act, 2031 BS of Nepal has defined commercial bank as an organization which exchanges money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or for such specific purpose.

As per Banking and Financial Institution Act (BAFIA) commercial bank is defined as any financial institution that is operated under section 47(1) of BAFIA-2063.

It is fact that financial sector plays a vital role for the economic development of a country. Even before the establishment of a banking system in Nepal, financial transaction was in practice as undertaken by some moneylenders like sahu-mahajans, jamindars, relatives, friends, and few informal organization limited to ethnic group such as guthi. The borrowing from the other people and the informal organization was limited and based on personal understanding. At that time, people deposit their gold, silver, and valuable goods for the sake of security. Thus, the private moneylender can be taken as forerunner of the concept of financial institution.

Nepal has been ruled over by many rulers like Kirati, Lichchhavi, Malla, Ranas and Shahs. Mostly Kirati, Lichhavi, and Mall regimes were concerned with the construction of temples, pati, pouwa, chautari etc. At that period neither the people nor the government were interested to think about the economic development of the country.

According to ancient "Vanshawali" in fourteenth century, the ruler of the then Kathmandu Jaysthiti Malla segregated the local domiciles into 64 different classes according to profession they had undertaken. Tankadhari was one of those classes who used to deal in coins and precious metals such as gold. These Tankadharis were said to have carried out the borrowings and lending on money (coins). Hence, Tankadharis can be regarded as the traditional bankers of Nepal (Singh and Khadka, 2056: 142).

After long time, during the Rana regime, only handful prime minister thought about the economic development of the country. They established some offices in 1993 B.S. (1887 AD). "Tejarath Adda" was established during the tenure of Prime Minister Ranodip Singh Rana as a the first institutionalized credit house. Tejarath Adda provided loan under the security of gold and silver to the government employees and public. The government established its various branches and sub-branches at different places of the country for the sake of benefits of people. In the overall development of the banking system in Nepal, the Tejarath Adda may be regarded as the Father of modern banking institutions and for a quite long time it rendered a good service to government employee as well as to the general public (Shrestha, 1995). The government also implemented the rules against the vast interest rate taken by moneylenders. Thus, the government financial institution occupies an important role in the banking history of Nepal.

No financial institutions were established over a long period due to political reasons. To fulfill the growing need of economy on Nepal, banking activities were performed only after the establishment of Nepal Bank Ltd in 1994 B.S. as the first commercial bank of Nepal. This bank was established under Nepal Bank Act 1994 B.S. (1983 A.D.)

Nepal Rastra Bank was established in Baisakh 14, 2013 B.S. (1956 A.D.) under Nepal Rastra Bank Act 2012 B.S. (1955 A.D.) as the central bank of Nepal. It is totally owned by government, NRB is heavily assisting for the development of whole economy. It is giving timely directives to all financial institutions operated and conducted all over the country.

The government introduced Commercial Bank Act in Nepal in 2033 B.S. to cover the vast field of financial sector. This act has helped to emerge number of commercial banks with a view to maintain the economic interest in comfort of the public in general which facilitated to provide loan for agriculture, industry, and trade and make available banking services to the country and people.

Along vacuum in the banking sector got some rays of hope only when the government forwarded the economic liberalization policy in 2039 B.S. and decided to allow foreign banks to operate their activities in Nepal in "joint-venture model". "Joint venture banks can be defined as an association of two or more parties having common objectives and goals so as to get maximum satisfaction. Basically at that time, it was envisioned that joint-venture banks (JVBS) would support the country in various ways" (Singh and Khadka, 1999: 25).

The Nabil Bank Ltd is the first joint-venture bank established in 2041 B.S. and started its operation with modern banking services. In the same way, Nepal Indosuez Bank (at present Nepal Investment Bank), the second joint-venture bank established in 2042 B.S. with an objective to encourage efficient banking services and facilities. Likewise Standard Chartered Bank is operated under the direction of Indian management.

With the satisfactory result of joint-venture banks, Nepalese promoters are highly encouraged and as a result, commercial banks are introduced with cent percent domestic investment. At present Nepal Industrial and Commercial Bank (NIC), Lumbini Bank Ltd, Machhapurchhre Bank Ltd, Kumari Bank Ltd, Laxmi Bank Ltd, and Siddhartha Bank Ltd came into operation with cent percent domestic investment by Nepalese promoters which is the plus point of development of banking history of Nepal. Now, there is a strong competition between commercial banks for their existence so that the growing needs of the customers can easily be achieved.

Standard Chartered Bank Nepal Ltd.

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint-venture operation. Today this Bank is an integral part of Standard Chartered Group having an ownership of 75% of the company and 25% shares owned by the Nepalese public. The Bank enjoys the status of the largest international bank currently operating in Nepal.

Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest-growing markets with an extensive global network of over 1750 branches (including subsidiaries, associates and joint ventures) in over 70 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. As one of the world's most international banks, Standard Chartered employs almost 75,000 people, representing over 115 nationalities, worldwide. This diversity lies at the heart of the Bank's values and supports the Bank's growth as the world increasingly becomes one market.

With 17 points of representation, 18 ATMs across the country and with more than 350 local staffs, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal.

Standard Chartered Bank Nepal Limited offers a full range of banking products and services in Consumer banking, Wholesale and SME Banking catering to a wide range of customers encompassing individuals, mid-market local corporates, multinationals, large public sector companies, government corporations, airlines, hotels as well as the DO segment comprising of embassies, aid agencies, NGOs and INGOs.

The Bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. It is the first Bank in Nepal that has implemented the Anti-

Money Laundering policy and applied the 'Know Your Customer' procedure on all the customer accounts.

Corporate Social Responsibility is an integral part of Standard Chartered's ambition to become the world's best international bank and is the mainstay of the Bank's values. The Bank believes in delivering shareholder value in a socially, ethically and environmentally responsible manner. Standard Chartered throughout its long history has played an active role in supporting those communities in which its customers and staff live. It concentrates on projects that assist children, particularly in the areas of health and education. Environmental projects are also occasionally considered. It supports non-governmental organizations involving charitable community activities. The Group launched two major initiatives in 2003 under its 'Believing in Life' campaign- 'Living with HIV/AIDS' and 'Seeing is Believing'.

Nepal Bank Ltd.

Nepal Bank Limited, The first bank of Nepal was established in November 15, 1937 A.D (Kartik, 30, 1994). It was formed under the principle of Public Ltd Co. (govt. & general public.) with authorized capital of Rs. 10 million issued capital of Rs. 2.5 million and paid-up capital of Rs. 842 thousands. The bank has been providing banking services through its branch offices in different geographical locations of the country.

Vision Statement:

"To remain the leading financial institution of the country."

Mission Statement:

Nepal Bank Limited seeks to provide an environment within which the bank can bring unique financial value and services to all customers. It will be a sound institution where depositors continue to have faith in the security of their funds and receive reasonable returns; borrowers are assured of appropriate credit facilities at reasonable prices; other service-seekers receive prompt and attentive service at reasonable cost; employees are

paid adequate compensation with professional career growth opportunities and stockholders receive satisfactory return for their investment.

Values Statement:

At Nepal Bank Limited, we believe that our banking should be based on:

- . Respect, service and safety for the customers we serve
- . Respect, reward and opportunity for the people with whom we work
- . Respect, cooperation and support for the economic community of Nepal

Objectives:

Nepal Bank Limited has the following objectives

- Continue to maintain leading share of banking sector with a significant presence in all major geographical areas in the country.
- Provide competitive and customer oriented banking services to all customers through Competent and professional staffs.
- Reclaim leadership within the national financial community.

2.1.1 Concept of Commercial Bank

"A Bank is a business organization that receives and holds deposits of funds from others make loans or extends credits and transfer funds by written order of depositors" (*Encyclopedia America 1984-85, vol.13, 302*).

"A Commercial banker is a dealer in money and substitutes for money, such as cheque or bill of exchange. It also provides a variety of financial services" (*The New Encyclopedia Britannica, 1985 vol. 14, 605*).

"Commercial bank" a bank dealing with the general public, accepting deposit from and making loans to large numbers of household and small firms. Such banks are known in the UK as retail or high street banks. They also provide various services for depositors, including provision of cash and credit cards, storage facilities for valuables and documents, foreign exchange, stock rocking, mortgage finance and executor services.

Commercial banks are contrasted with central banks, and with investment, merchant and other specialist banks which deal little with the general public "(*Oxford Dictionary of Economics 2004*,: 65).

“The American institute of Banking has laid down for functions of the commercial banks i.e. Receiving and handling deposits, handling payment for its clients, granting loans and investment and creating money by extension of credit” (*Encyclopedia America 1984-85, vol.14, 605*). Principally, commercial bank accepts deposits and provides loans, primarily to business firms thereby facilitating the transfer of funds on the economy. In the Nepalese context, *Commercial Bank Act, 1974* defines “a commercial bank as one which exchanges money, deposits money, accepts deposits, grants loans, and performs commercial banking functions”.

The term commercial bank is also misleading because the fact that commercial bank performs not only one but many type of functions. Today the commercial banks not only issue the transfer of deposits through cheques but they also operate underwriters to new equity issue deal facilities, handle tax matters on behalf of their clients etc" (*Vaish, 1993, 245*).

A commercial bank can be defined as an institution which deals in money. In words of Crowther, “Banks collect money from those who have it to spare or who are saving it out of their income and lend this money out against goods, security to those who requires it” (*Crowther, 1985, 58*).

"Commercial banks are those who pool together the savings of the community and arrange for their productive use. They supply the financial need of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand or on short notice. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant loans in the form of cash, credits and overdrafts. "Accepting the

financing, the Bank also renders services like collection of bills and cheques, safe keeping of valuables, financial advising etc. to their customers" (Vaidya, 2001, 38).

Theoretical Framework of the Study

The theoretical framework of this study consists of the Introduction of commercial banks along with their role, needs and functions. The research as has been done with an aim to analyze the deposit mobilization of commercial banks deals mainly with the sources and uses of funds by the sample commercial banks. This research has been done with a focus of certain weaknesses of the commercial banks regarding their sources and uses of funds. Precisely, these problems could be numerically categorized into the following three broad groups, and they are being explained as well.

I. Banks Have Not Been Able to Utilize Their Deposits Efficiently:

The recent trend observed in banking industry is that they have not been able to fully utilize their deposit fund by mobilizing it into productive sectors. Due to the deteriorating economic scenario, management of the banks, and the attitude of the board of directors, they have been able to lend about 60 percent of total deposits only.

II. Portion of Cost Bearing Deposits to Total Deposits is high

Referring to the Banks' composition of deposit liabilities, it can be said that they are holding too much of cost bearing deposits.

III. Safety of the Public Funds

Banks are merely the financial intermediaries that accept the deposits from the savers and invest or lend the funds to the funds seekers in the economy. Therefore, issues related to the banks' investments, and lending certainly affect the Protection of funds deposited by the savers. Definitely, there are some rules and regulations prescribed by the central bank such as the recent one which compels the banks to issue their capital equal to a billion rupees. However, banks' loan investments, capital structures, existing management slacks etc. do not represent that the public funds deposited at the banks are safe.

2.1.2 Role of Commercial Banks in Nepal

For all countries of the world and more so far the developing countries like Nepal, fast Economic Development is one of the most important aspects of developmental activities. However, it is obvious that unless the development of the important sector like agriculture, industry, trade, and commerce are achieved, even development is impossible. For all the development, the regular supply of financial resources is a prerequisite.

Finance is thus like fuel for providing energy to move tempo of economic development and institutions naturally, serve as reservoir for supplying and controlling the stream of that fuel i.e. finance the commercial banks which are the financial institutions dealing with activities of agriculture, industry, trade and commerce, play the most important role for the business activities of the world. The objectives of the commercial banks are to mobilize the idle resources in productive uses collecting them from scattered and various sources. Its role in economic development is thus immense in order to bring out mobility of resources to meet the ever increasing needs of financing or the various economic activities.

These institutions are now trying best to contribute more and more services and facilities for the uplifting of national economy. They have become the core of financial system by holding the deposits; they make fund available through their lending and investing activities to different borrowers like individuals, business firms and even to the government. They ultimately facilitate the flow of goods and services from producer to consumers and to the financial activities of the government. It is quite clear that commercial banks are the most important institutions of capital formation that imply mainly saving, investment and production which ultimately lead to the economic development of a country.

The role of commercial banking in the economy is obviously a prime prerequisite for the formulation of the bank policy as the role shapes the nature and character of the bank. The deposit minded bankers may overstress conservation liquidity while the loan minded

banker may under emphasize safety. Often Commercial Bank performs a number of interrelated functions. There are not only the custodians of the community's money but the suppliers of its liquidity. For these banks, customers who seldom borrow money from the bank, an important function may be the acceptance and safe keeping of deposits.

But those customers who often take loans from the bank, the credits creation function may be the most important. "The commercial bank is different from the other banks especially from central bank. In appearance the main distinction between Central Bank and a Commercial Bank is that now-a-days the Central bank does not much banking, but the more fundamental difference is one of aim.

The main objective of the Commercial Bank is to make profit whereas the Central Bank thinks of the effects of its operations on the working of the economic system. The Commercial Bank has the shareholders and is expected to do the best it can for them but the Central Bank by contrast is usually owned by the government. The Commercial Bank may be few or many and they are to be found business with the general public all over the country. But, there is only one central bank in each country. Its market operations are mainly impersonal and are confided to what is necessary for influencing the country's financial business in the directions citrated by economic policy" (*Sayers, 1972, 17-18*).

Commercial Banks are those banks that are engaged in commercial banking transactions and exclude from this description such banks are established for achieving certain specific goals such as co-operatives, agricultural and industrial banks, much wider activities in relation to the Economic Development of the country have been empowered to the banks. Apart from strictly performing commercial functions, Commercial Banks so described in the act are empowered to perform such functions as undertaking of agency business. In the issue of Shares and Debentures for public corporations guaranteeing and underwriting foreign exchange business under the restriction imposed by Foreign Exchange Act, Rules, Orders and Notifications; advancing loans for period not exceeding one year against the security of the jewelers, gold and silver ornaments the mortgage of land and buildings, for acquiring plant and machinery and receiving

deposits of government money according to the order of HMG in those places where there are no branches of the NRB or RBB or where the NRB gives its consent to remit through bills of exchange and checks in Nepal and foreign countries and so on.

Nepal being an underdeveloped country, its industries, agriculture sectors has been expanding. It provides the credit facilities for the development of agriculture in cases where Agricultural Development Banks and Cooperative Societies do not enter into the field. The agriculture sector needs more and more capital for the improved methods of farming viz. the fertilizers, equipment, irrigation facilities etc. require obviously more investment. Thus the role of commercial bank in promoting agriculture sector is increasing in many of other countries, especially in developing countries like Nepal.

The economy of our country is dominated by agricultural sector. This could be exemplified about 76 % of the total population engaged in agriculture and about 40 % of the national income comes from the agriculture. Similarly, about 51% of the export trade is in agricultural product. Also if we take into account of the major industries of Nepal, they are mainly based on agriculture. This is very clear that in such a country the financial help to the agriculture sector is most urgent and indispensable for strengthening the base of national economic structure.

Nepal being an under developed country, majority of the farmers in the villages are very poor. They do not have the sufficient capital to invest in this sector. The commercial bank has an important role to play here by helping the agriculture sector through two channels:

1. By providing fixed capital to Agricultural Development Bank by purchasing its shares of debentures
2. By giving direct credit facility to the farmers on the mortgage of their land, house, food grains and other cash crops like jute, tobacco etc.

As the agricultural development needs capital, the commercial banks are helping by providing financial help to the farmers and they are able to invest or utilize the fund in

different ways that make them increase agricultural product. Thus in order to accelerate the tempo of economic development of Nepal, the government and the commercial banks should play crucial role in the agriculture sector of the economy. Thus the sound development and wide geographical coverage of commercial banks particularly in agriculture is a prerequisite for accelerated and sustained economic growth. In recent years even though the commercial banks have made rapid progress in mobilizing financial resources they are still to improve in their lending policies.

The lending policies of Nepalese banks resemble more closely to those of the 19th century London Banks than 21st century developing institutions. In a way, it would seem apparent that accelerated private sector investment is dependent on the commercial banks giving more emphasis in medium and long term credit for equipment and construction and more liberal policy on the requests of collateral. In these respects, in recent years the NRB has been doing some useful services with its development oriented approach but it goes without saying that there is a long way to go to this particular field.

Thus Role of Commercial Banks in Nepal has been helping farmers by providing different facilities in Nepal. These helps are in the fields of cultivation, exporting rice, jute, paddy etc. and providing facilities regarding better market for their product, helping to start livestock, poultry firm, rice mills, animal husbandry, bee firm etc. and also provide the guidance for them.

The role of Commercial Banks is indispensable for industrial development of Nepal. Due to insufficiency of capital, industries are depending more and more upon the supply of capital by the banks. It would not be exaggeration to state that commercial banks are mainly responsible for whatever the financial institutions like ABD/N, NIDC have already been established for the development of agricultural and industrial sector of the country. The commercial banks are also continuously participating in these activities.

Being a mountainous country many places are very remote and sometimes it requires many weeks to approach some of the places. Due to lack of transport and communication

facilities and other geographical causes, the country has been still facing the problem of imbalance economic growth. The scattered capital of the country is unable to solve the problem of imbalance of the economy growth. Commercial Banks have their appropriate role to play here by expanding their branches in the hilly and Terai regions availing loan to the local people. In industrial sector, Commercial Banks are providing the necessary financial help for the industrial establishment in the country. They provide short and medium term loan to purchase machineries, tools, raw materials etc. and introduce new and developed techniques of production.

Without the development of foreign trade, Economic Development of a country will not be possible. Nepal has focused its trade with India and Tibet only few years ago. Today, Nepal has extended relations with different countries of the world. Commercial Banks has promoted the domestic and foreign trade of Nepal by spreading their braches all over the country and extending close relations with many renowned institutions by providing those facilities of BD, LC, Bank overdraft, TT etc.

Commercial Banks are also helping for the development of transport by providing funds for transport Industry. Similarly, Banks are playing important role in tourism industries by helping to expand Hotel facilities, dealing with foreign exchange and accepting traveler cheques from the tourists.

So, the role of Commercial Banks is extremely important for the development of industries, trade, commerce, agriculture etc. of the country. In fact, no nation can develop itself without the development of the banks. It is not only true in the capitalist countries but also true in the socialist countries and the mixed economy countries like Nepal as well.

2.1.3 Functions of Commercial Bank

Commercial Banks are directly related with the people. Commercial Bank is an important bank. Its functions are very attractive for people. Although these banks are truly inspired with the objectives of gaining profit, here Commercial Banks are also established to

accelerate common people's economic welfare and facility, to make available loan to Agriculture, Industry and Commerce and to provide the banking services to the public and the state. Along with other functions, the main functions of commercial banks are to accept deposits from the people and to lend to those who demand it. Numerically, these functions could be categorized into the following functions:

- Liquidity Function
- Savings Function
- Wealth Function
- Payment Function
- Credit Function
- Policy Function

2.1.4 Credit Creation by Commercial Banks

The creation of credit or deposit is one of the most important functions of commercial banks. Bankers are dealer of money who deal other people's money. Banks generate profits by accepting cash through demand deposits and advance loan on credit to customers. When a bank advances a loan, it does not pay the amount in cash. But it opens a current account in his name and allows him to withdraw the required sum by checks. But very often, the customer retains certain amount with the bank in a deposit. In this way, the bank creates credit on deposits. The process is explained how the credit is created by the help of deposits.

In the modern banking industry, actual cash withdraw from the deposit are very negligible. The bank usually synchronizes the withdrawals and deposits from their past experiences. Thus a bank lends a large part of the money he receives in deposits. If the bank has more primary deposit, he can lend more keeping small cash in reserve for day to day transactions. The bank knows the customers will withdraw money by cheques which will be deposited by his creditors in the same bank or some other bank where they have their accounts. Such cheques which are deposited in others bank are settled through clearing houses. The same procedure is followed in other banks. In this way, the bank is

able to create credit or deposit by keeping small cash in reserves and lending the remaining amount. Therefore, the loan make an increase in the total amount of deposits. These deposits are called derived deposits.

On the other hand, when a bank advances money by discounting a bill of exchange, the proceeds of the bill are credited to the customer's account. The deposits of the customers will then increase. More deposit can make more lending by banks. This is also one of the ways of creating credit.

We know that the bank provides overdraft facility to a customer on the basis of some security. The bank enters the amount of the overdraft in the existing account of the customers and the customer is allowed to overdraw his account up to the fixed limit subject to the condition that the amount overdrawn from time to time is more than fully covered by the market value of the securities lodged with the bank. The amount may be used to buy goods and services. He can make payment by issuing cheques in settlement of his transactions. This process gives the bank an additional supply of money which did not exist before.

"A bank also creates a deposit by making investments by buying government bonds and securities. The bank pays for the bond through a cheque on itself to the central bank. If it buys security from others, it creates the amount in the account of the seller, provided he is the bank's customer. Otherwise it pays by cheque which is deposited in some other bank. In all such cases, liabilities and assets in the banking system on the whole are increased." *(Vidya, 2001, 42-44).*

When funds are plentiful, market rate generally tend to decline, banks seek loan aggressively and therefore lower their rates induce marginal borrower to come into the market. When funds are scarce banks arise their rates and potential borrower may differ the use of credit or seek it elsewhere.

Some writers stress on the fulfillment of credit needs of various sectors which insure investment. The investment lending policy of commercial bank is based on the profit maximization as well as the enhancement of the country.

2.1.5 Resources of Nepalese Commercial Banks

Commercial banks may have various resources but the most important three sources for their daily operation and further advancing are as follows:

I. Capital

So far as the capital funds are concerned, it is only a nominal source. Therefore it cannot be used for investment purpose. This capital fund consists of two elements; paid capital and general reserve.

II. Deposits

Deposits are the main resources of commercial banks for issuing loans. Deposits are received from various forms and on the name of different accounts. There are mainly three types of deposits: current, saving and fixed. In a developing country like Nepal, where the majority of the people are still poor, saving deposits have played a significant role for the development of the country. Therefore the main source of raising capital is that of deposits. “The deposit function of the banker is important because it has to aggregate small sum of money lying scattered here and there twenties, fifties and hundred. Singly these sums have no economic efficiency what so ever but they can accomplish Herculean tasks when they are aggregate and employed by the banker” (*Roland, 1962, 20*).

III. Internal and External Borrowing

Internal and external borrowings are very important for a developing country like Nepal being underdeveloped country; commercial bank cannot fulfill the necessities of the society. Therefore commercial banks are allowed to borrow from both two sources external and internal. Generally external borrowing means the borrowing from foreign banks, foreign government, international banks for reconstruction and development

(IBRD). Monetary fund (IMF) etc. Internally commercial banks can borrow from only one source that is from NRB.

Concept of Deposits

Deposit is one of the most important sources of the commercial bank." Deposit "an account with a bank or other financial institution such as a building society in the UK. Deposit may be on current account UK or checking account or sight deposit US, which bear no interest and can be withdrawn on demand, or deposit accounts UK or saving account or time deposits US which bear interest but require notice of withdrawal. In recent years new types of account have blurred (*Oxford dictionary of economics, 2004, 116*).

It is important that the commercial banks deposit policy is the most essential policy for its existence. The growth of banks depends primarily upon the growth of its deposit. The volume of funds that management will use for creating income, through loans and investment is determined largely by the bank policy governing deposits. When the policy is restrictive, the growth of bank is restarted or accelerated with the liberalization in the deposit policy. In banking business the volume of credit extension much depends upon the deposit base of a bank." The deposit creating power of commercial banks forces to raise the assets along with the liabilities side of the balance sheet. In other words, assets give raise to liabilities. Traditionally, the deposit structure of a commercial bank was thought to be determined by the depositors and not by bank management. There are regular changes in this view in the modern banking industry "(*Vidya; 1999, 68*).

Thus, banks have evolved from relatively passive acceptors of deposits to active bidder for funds. Deposits are one of the aspects of the bank liabilities that management has been influencing through deliberate action.

"Bank deposits arise in two ways the first when the banker receives cash and credits a customer's a/c, it is known as a primary or a simple deposit. Such primary deposits are made from the initiative of depositors. The second, when banks advance loans, discount

bills, provide overdraft facilities; make investments through bonds and securities. This is called derived deposits or derivative deposits. They add to the supply of money. Banks actively create such deposits "(The Encyclopedia Britannica, 1981, 700).

2.2. Review of the Related Studies

This part consists of a review of past studies conducted by other researchers which are relevant to the topic.

2.2.1 Review of Article

Joshi; the chief officer of NRB (1994), in the topic "Rural Saving Mobilization in Nepal" states that: The ability to save and the incentive to save are the two major determinants of saving. The incentive to save as reflected in NRB real interest rate policy can be stretched for with profit. It is highly probable that the further increase in the growth rate of financial saving can materialize if a flexible policy is pursued to keep real interest rate at a positive level (*Joshi, 1994, 65-66*).

Eventually the deposit expansion is to be bounded constrained by the low saving ability of the people as indicated by stagnant per capita GDP over the past decade. For a sustained growth of deposits or of overall saving rate what is needed more is to increase the income level of the people in order therefore to make saving mobilization strategy effective and successful policy measures should be taken considering two aspects of the strategy. In short run, policy should focus on the appropriate steps to tap saving within the existing banking framework while the long run measures should be adopted with a review to raising the investment rate and making it more productive.

The researchers suggest the following points to increase and to extend volume of credit;

- Effective publicity and attractive prizes.
- Branch expansion policy.
- Extend the house saving account.
- Revision in interest rate policy.
- Credit planning.

- Win the confidence of local people.
- Investment in priority sector.

Bajracharya (2057), through his article, “Monetary Policy and Deposit Mobilization in Nepal” has concluded that the mobilization of domestic savings is one of the monetary policies in Nepal. For this purposes commercial banks stood as the vital and active financial intermediary for generating resources in the form of deposit of the private sector so for proving credit to the investor’s in different aspects of economy (*Bajracharya, 2057 BS, 93-97*).

Pradhan (2058), in his article, “Deposit Mobilization, its Problems and Prospects” has presented that deposit is the life-blood of every financial institutions, like commercial bank, finance company, and co-operative or non-government organization. He further adds in consideration of most of banks and finance companies, the latest figure dopes produce a strong feeling that serious review must be made of problems and prospects of deposit sector. Leaving few joint venture banks, other organizations rely heavily, on the business deposit and credit disbursement (*Pradhan, 2058 BS, 9-10*).

The writer has highlighted following problems of deposit mobilization in Nepalese context.

- Most of the Nepalese do not go for saving in institutional manner, due to the lack of good knowledge. However, they are very much used of saving be it in the form of cash or ornaments. Their reluctance to deal with institutional system is governed by the lower level of understanding about financial organization process, withdraw system, and availability of deposit facilities and so on.
- Unavailability of the institutional services in rural areas.
- Due to lesser office hours of banking systems people prefer holding cash in the personal possession.
- No more mobilization and improvement of the employment of deposits and loan sectors.

The writer has also recommended for the prosperity of deposit mobilization which are as follows;

- By providing sufficient institutional services in the rural areas.
- By cultivating the habit of using rural banking unit.
- By adding services hour system to bank.
- NRB could also organize training programs to develop skilled man power.
- By spreading co- operative to the rural areas for development of mini-branch services to these backward areas.

Bhatta (2061), In his article, “Financial policies to prevent financial crisis” has given more emphasis on Nepalese financial market sector. He has mention the financial crisis occurred in China, Mexico, South Asia, Russian Federation Ecuador, Brazil and Argentina. This crisis affected all this economy by posing negative effect in their real output. He has also focused on Nepalese financial market, which is directly affected by the national and international events. The most effected event was September 11 incident in the U.S.A., have added more to the fragility in the global financial market. In present context in many part of the world, the move towards liberalization is getting its momentum on one hand and process of economic development is being threatened due to various anticipated incidents on the other. He has defined financial crisis is a description to financial markets in which adverse selection and moral hazard problems become much worse, so that financial markets are unable to efficiently channel funds to those who have the most productive investment opportunities.

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

- Prudential supervision.
- Accounting standards and disclosure requirements.
- Legal and judicial system.
- Monetary policy and price stability.
- Exchange rate regimes and foreign exchange reserves.

- Capital controls.
- Restrictions on foreign denominated debt.
- Reduction of the role of the state owned financial institution.
- Encouraging market based discipline.
- Entry of foreign banks.
- Limitation of too-big –to fail in the corporate sector.
- Sequencing financial liberalization etc.

Lastly he has conducted that there is no doubt that the key to preventing future financial crisis is to implement sound domestic economic policies and build robust financial institutions. The experiences of the crisis hit countries, especially during the decade of nineties, has proved that a country opening to liberalized economic policy should adopt sequencing policies constraining the pace of participation on the global market place until a sound domestic infrastructure can be put into place (*Bhatta,2061 B.S.*).

2.3 Review of Dissertations

In time of research of secondary sources it found that some student from T.U. and other management campus have conducted several thesis works. Some of them are supposed to be relevant for this study is presented below.

Karmacharya (2000), in this thesis paper, “A study on the deposit mobilization by the Nepal Bank Ltd.” during eight years study period has concluded that the utilization side of Nepal Bank Ltd. has been weak as compared to the collection of resources. He has suggested to set-up more banking branches to increase the deposit collection and long-term as well as short-term credit. The main findings:

- To find out whether commercial banks have been able to collect deposit from different sector.
- To find out whether banks are to satisfy financial need of economy.
- To find out relationship between deposits and loan

Pradhan (2003) in his study “*A study on Investment Policy of NBL*” has tried to find out to what extent NBL has been able to utilize deposits. Between the deposit and loan and advances, ratio analysis is used to compare different factors like loan and advances and deposit, bank's liquidity position, profitability condition etc. “A study of deposit collection and utilization of commercial banks in Nepal” with the main objectives are:

- To find out whether commercial banks have been able to collect deposit from different sector.
- To find out relationship between deposits and loan

Main Findings

- Entry of foreign banks.
- Limitation of too-big –to fail in the corporate sector.

The writer also found that it could invest only 2.98% on the priority sector in 2034B.S. The bank could not mobilize its resources. In this thesis, the writer recommended that the bank should invest more on agriculture sector and further says the bank should make clear policy to provide the loan. The bank should invest on risky sector to earn more profit and increase the rate of interest in deposit side and decrease in loan and advances.

(*Pradhan, 2003*) “A study of deposit collection and utilization of commercial banks in Nepal” with the main objectives:

- To find out whether commercial banks have been able to collect deposit from different sector.
- To find out whether banks are to satisfy financial need of economy.
- To find out relationship between deposits and loan.

Main Findings

- To find out whether banks are to satisfy financial need of economy.
- To find out relationship between deposits and loan.

Tandukar (2005), in the thesis entitled “Role of NRB in deposit mobilization of commercial banks” has tried to examine role of NRB in deposit collection by the commercial banks and to analyze the trend, of deposits mobilization towards total investment and loan and advances. The data used in those studies is both secondary and primary nature. The researcher used different financial tools such as liquidity ratio, profitability ratio, risk ratio and coefficient of correlation, trend analysis as statistical tools. The researcher took 17 commercial banks as population and two banks as samples i.e. “A study of deposit collection and utilization of commercial banks in Nepal” with the main objectives:

- To find out whether commercial banks have been able to collect deposit from different sector.
- To find out whether banks are to satisfy financial need of economy.
- To find out relationship between deposits and loan.

Main Findings

- Restrictions on foreign denominated debt.
- Reduction of the role of the state owned financial institution.

The researcher has recommended to NBBL that diversification of loan and investment is highly suggested to the bank. As NBBL has given priority in investment in treasury bills which is risk free but it yields very low return to the bank and recommended to EBL to collect the deposit by initiating various new program to attract the customer .For this it can pay a higher interest rate than other banks recently providing (*Tandukar, 2005*).

K.C. (2006), in her thesis paper, “A comparative study on investment policy of Nepal Bangladesh Bank Ltd. and other joint venture banks of Nepal” has compared the investment activities of NBBL with only two of the joint venture banks. By taking five years data, she has recommended in two ways, first statement recommendation and second theoretical recommendation. In theoretical recommendation she has suggested about liberal lending policy and cost management strategy.

This study conducted by Pant entitled, "A study of deposit collection and utilization of commercial banks in Nepal" with the main objectives:

- To find out whether commercial banks have been able to collect deposit from different sector.
- To find out whether banks are able satisfy financial need of economy.
- To find out relationship between deposits and loan

Main Findings

- To find out whether commercial banks have been able to collect deposit from different sector.
- To find out whether banks are to satisfy financial need of economy.
- To find out relationship between deposits and loan.

The writer recommended that commercial banks should not limit their lending activities in only business sectors. Commercial banks also offer long term loans, not only short term loans. At last, he suggest that the interest rates should be changed by making it more suitable to expand the services of commercial banks in all sectors (K.C., 2006). "A study of deposit collection and utilization of commercial banks in Nepal" with the main objectives

- To find out whether commercial banks have been able to collect deposit from different sector.
- To find out whether banks are to satisfy financial need of economy.
- To find out relationship between deposits and loan.

Main Findings:

- To find out whether banks are to satisfy financial need of economy.
- To find out relationship between deposits and loan

Khadka (2007), in his thesis paper, "A study on the Investment Policy of Nepal Arab Bank Ltd." in comparison to other joint venture banks in Nepal, he has compared investment policy of NAB Ltd. with Nepal Grind lays Bank Limited (NGB) and Nepal

Indosuez Bank Ltd. his study is based on five years period from 2002 to 2007. He has taken only two banks to compare the investment policy of NABIL among thirteen commercial banks in Nepal. "A study of deposit collection and utilization of commercial banks in Nepal" with the main objectives:

- To find out whether commercial banks have been able to collect deposit from different sector.
- To find out whether banks are to satisfy financial need of economy.
- To find out relationship between deposits and loan

Main Findings

- To find out whether banks are to satisfy financial need of economy.
- To find out relationship between deposits and loan.

Mr. Khadka has suggested to the joint venture banks to be careful in increasing profit in real sense to maintain the confidence of shareholders, depositors and customers. He has strongly recommended NABIL in utilizing risk assets and shareholders' funds to gain highest profit margin, reduce its expenses, and cheaper fund for more profitability. He has recommended investing its fund in different sector of investment and administering various deposit schemes, house building deposit scheme etc (*Khadka, 2007*).

Bajagain (2008), in the thesis entitled, "A study on deposit and investment position of Yeti Finance Company Ltd." has tried to examine the trend of deposit position and investment position of the Yeti finance company. That study was conducted on the basis of secondary data and used various financial tools to analyze the data. Study just covered only period of five years i.e. 2003 to 2008. (*Bajagain, 2008*). "A study of deposit collection and utilization of commercial banks in Nepal" with the main objectives

- To find out whether commercial banks have been able to collect deposit from different sector.
- To find out whether banks are to satisfy financial need of economy.
- To find out relationship between deposits and loan

Main Findings:

- To find out whether commercial banks have been able to collect deposit from different sector.
- To find out whether banks are to satisfy financial need of economy.
- To find out relationship between deposits and loan

Agriculture is the paramount of Nepalese economy so that any finance company should not forget to invest in this sector. In order to do so, they must open their branches in remote area with an objective of providing cheaper financing services. "A study of deposit collection and utilization of commercial banks in Nepal" with the main objectives and main Findings:

- To find out whether commercial banks have been able to collect deposit from different sector.
- To find out whether banks are to satisfy financial need of economy.
- To find out relationship between deposits and loan.

Bhusal (2009) carried out a study entitled "*An Analysis of Causes of deposits lending in Nepal*". He has shown the relationship of inflation with various factors like growth rate, Indian Inflation and price level, income level, cost of holding money, deficit financing. But all of these, he didn't mention any relationship of inflation with secured Lending interest rate. The correlation coefficient between interest rate on Secured Lending and amount of Secured Lending collected by all sample organizations were highly negative. It means that, Secured Lending amount of all sample banks are found to increase even if the interest rate of Secured Lending, the attracting factors for Secured Lending, is decreasing. This is against the theory. According to theory, there must be positive relationship. The Objective of the Study is given below:

- To identify the different methods used by Nepalese financial institutions to calculate interest on lending.
- Most of the banks are having similar interest rate structure, which lessens the importance of linearization of secured lending.

Main Findings:

- Not only interest rate is responsible to shape the profitability of banks but also the operating efficiency also has major influence on it.
- Most of the commercial banks contradict the general financial theories.

Bhusal carried out a study entitled “*An Analysis of Causes of deposits lending in Nepal*”. The financial and statistical tools are most reliable to achieve the objective of the study. In this study, various mathematical and statistical tools have been used to achieve the objective of the study.

Poudel (2011) conducted a study on “*The current deposit lending structure of commercial Banks in Nepal*”. The objective of the study was to show the relation of interest rate with saving and fixed Secured Lending; with loan and advances; and interest earning (i.e. interest received on loan minus In same manner, the researcher explored that the relation between interest rate on Secured Lending and inflation rate is little positive. Theoretically there should be positive correlation between these two variables. Due to little positive correlation, it is concluded that the interest rate in Nepalese Financial market is affected by inflation rate to some extent. The Objective Of The Study Is Given Below:

- It means that interest rate on lending in Nepalese Financial Markets is not affected by risk-free rate of interest.
- Similarly the same result is obtained when it is tried to explore the relationship between lending rate and inflation rate.

Main Findings:

- Loan and advance of commercial banks have been found to be continuously increasing with the decline in interest rates.
- Effective interest rate structure helps in proper utilization of resources as measured by loan to Secured Lending ratio.

Poudel conducted a study on “*The Current Deposits Structure of Commercial Banks in Nepal*”. Liquidity Ratio are applied to measure the ability of the firms to meet short-term obligations and current ratio. This study needs some financial and statistical tools. Financial and statistical tools are most reliable.

Bhandari (2012) conducted his master’s thesis on “*The impact of fixed deposit lending Commercial Banks in Nepal*”.

The Objective of the Study is given below:

- To cast a glance at the historical background of interest rate structure of commercial banks, policies, decision and strategies regarding it and their impact.
- To present and analyze interest rate structure of commercial banks in different time period.
- To assess the impact of secured lending structure of commercial banks of their investment portfolio by analyzing their Secured Lending, loans, advances, interest spread, investment and bills purchased and discounted.

Main Findings:

- Rates of commercial banks have been fluctuating. Secured lending were increased immediately after linearization of the interest rate on August 31, 1989, but however started to decline which have helped in increasing the credit flow.
- Interest rate structure has direct influence on profitability of commercial banks. Decreasing lending rates helps to increase the profitability through increasing the credit.
- Secured Lending is more secured lending conscious and positively co-related.

Bhandari has conducted his master’s thesis on “*The impact of fixed deposits Commercial Banks in Nepal*”. The financial and statistical tools are most reliable, deposit lending cash and bank Blanca to current Assets ratio have been used .To achieve the objective of the study, and various financial, statistical and accounting tools have been used in this study.

2.4 Research Gap

Efficient banking is not only the output of interaction of institutions involved and mechanism and process of investment of the shareholders. However it is also the thing that is influenced by the rationality in mobilizing the deposits along with proper decision making by the management. In this connection, this study contributes something new toward the deposit mobilization procedure of the Nepalese commercial banks that is not sought yet by surveying the psychology and awareness of the management. This sort of study which aims to analyze the deposit mobilization aspect of the private sector and government sector commercial bank is new and challenging in itself but is also an opportunity to learn and identify the deposit mobilization mechanism of both public owned and government owned commercial banks. More specific studies as to the deposit mobilization have been done in the past too but this study is quite different from the other studies as this study is done with samples as a government owned bank (Nepal Bank Ltd.) and another one as a public owned commercial bank (Standard Chartered Bank) which is also a joint venture commercial bank. So this research is new in the recent scenario also.

CHAPTER III

RESEARCH METHODOLOGY

Introductions

Research methodology describes the method and process applied in the study. This chapter describes the methodology employed in the study. Research methodology refers to various sequential steps which are adopted by a researcher in studying a problem with certain objectives. In other words, research methodology describes the method and process applied in the entire aspect of the study. It is the process of arriving at a solution of the problem through planned and systematic dealing with the collection, analysis, and interpretation of facts and figures. Research is a systematic method of finding right solutions for the problem where as research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology refers to the various methods of practices applied by the researcher in the entire aspect of the study.

The basic objectives of this study is to evaluate the fund mobilizing policy of Standard Chartered Bank which represent the JVBS of Nepal and to recommend the useful and meaningful points, so that all concerned can achieve something from this study. To accomplish this goal, the study follows the research methodology described in this chapter.

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation conceived, so as to obtain answers to research questions and to control variances. To achieve the objective of the study, descriptive and analytical research design has been used.

Basically, the proposed study is mainly based on two types of research design namely descriptive and analytical. Descriptive research design describes the general attitude of the Nepalese depositors, business environment, problems regarding the deposits mobilization aspects etc. Similarly, the analytical research design makes a thorough analysis of gathered facts and information and critically evaluates it as well.

Some statistical and financial tools have also been applied to examine facts and descriptive techniques have been adopted to evaluate funds mobilizing performance of Standard Chartered Bank and Nepal Bank Limited and a comparison is done to identify their strengths and weaknesses.

3.2 Sources of Data

This study is conducted on the basis of secondary data. The data relating to the investment, deposit, loan and advances, assets, and profit are directly obtained from the balance sheet and profit and loss a/c of concerned bank's annual reports. Supplementary data and information are collected from number of institutions and regulating authorities like NRB, Security Exchange Board, Nepal Stock Exchange Ltd, Ministry Of Finance budget speech of different fiscal years, economic survey and National Planning Commission etc.

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

Similarly, various data and information are collected from the periodic economic journals, managerial magazines and other published and unpublished reports and documents from various sources. This research study would be based on the secondary data that are available in the published form.

Specifically, the required data for the study has been collected from the concerned organizations and a number of publishers. In other words, it has been gathered from a number of books, journals, articles, reports, etc. Some of the major types and sources of data are as follows:

- Banking and financial statistics of Nepal Rastra Bank.
- Annual report of Nepal bank ltd.
- Annual Reports of Standard Chartered Bank Nepal Ltd.
- Central Bank's directives to Commercial Banks:
- Statistics Nirdesika 2063
- NRB Directive I to II
- Consortium Financial Directive
- Main Economic Indicators

3.3 Population and Samples of the Study

There are 31 commercial banks operating in Nepal which accept about 81 percent of the total deposits and sanction 71 percent of total loans and advances out of the total depository institutions. Out of these 31 banks operating in the nation, two commercial banks representing the government sector and private sector -Nepal bank limited and Standard Chartered Bank limited respectively are selected as the base for the study. The deposit mobilization positions of these two banks are studied comparatively with the deposit mobilization of aggregate commercial banks within the country.

3.4 Method of Analysis

To achieve the objectives of the study, various financial, statistical and accounting tools have been used in this study. The analysis of data will be done according to pattern of data available. Because of limited time and resources, simple analytical statistical tools such as graph, percentage, Karl Pearson's coefficient of correlation, and the method of least square, are adopted in this study. Especially descriptive analysis method is used for the study.

The various calculated results obtained through financial, accounting and statistical tools are tabulated under different heading and these are compared with each other. Major tools used for the analysis of collected data are:

3.5 Necessary Tools and Techniques for the study

This thesis work is based on financial as well as statistical analysis. Some major tools and techniques applied for making the thesis work more presentable are briefly considered below:

3.5.1 Financial Analysis (Ratio Analysis)

In this unit the financial position of the banks are observed. Especially the ratio analysis technique is applied for financial analysis of sampled banks in this unit. An arithmetical relationship between two figures is known as ratio. It is computed by dividing one item of relationship with the other. Ratio simply means one number expressed in terms of another.

Ratio analysis is a technique of analysis and interpretation of financial statement. To evaluate the performances of an organization by creating the ratios from the figure of different accounts consisting in balance sheet and income statement is known as Ratio Analysis. Ratio analysis is also very helpful for decision making. From the information provided by ratio analysis with the help of financial statement are very useful for making decision on any financial activity. Due to inter-firm comparison ratio analysis also serves as a stepping stone to remedial measures. It helps management in evolving future market strategies’.

Growth Ratios

- Growth of loan and advances
- Growth of investment
- Growth of return

3.5.2 Statistical Tools

3.5.2.1 Coefficient of Correlation Analysis (r)

“Correlation is the statistical tools that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of data. Among the various methods of finding out coefficient of correlation, Karl Pearson’s method is applied in the study. The result of coefficient of correlation is always between +1 and -1. When $r = +1$, it means there is perfect relationship between two variables and vice versa. When $r = 0$, it means there is no relationship between two variables. The Pearson’s formula is:

$$r = \frac{n\sum xy - \sum x \cdot \sum y}{\sqrt{N\sum x^2 - (\sum x)^2} \sqrt{N\sum y^2 - (\sum y)^2}}$$

Where,

N = Number of observations

X and Y are variables.

The decision criteria:

When,

$r = 0$, there is no relationship between the variables.

$r = 1$, the variables are perfectly positive correlated.

$r = -1$, the variables are perfectly negative correlated

T- Test for observable simple correlation coefficient

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2} \approx t_{n-2}$$

Follows t-distribution with (n-2) degree of freedom

Where, r = sample correlation coefficient

n = sample size (pairs)

- **Trend Analysis**

Trend analysis is useful in predicting the future events on the basis of past tendencies. Trend analysis is based on assumption that the past tendency continues in future. The future trend of any variable is forecasted by using following equation.

$$\mathbf{Y_c = a + bx}$$

Where,

Y_c = the dependent variable

a. = Y intercept

b = slope of the tendencies

x = year (with regard to data used in the study)

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

In this segment, a thorough analysis and interpretation of available data are made in order to find major finding of the study. While analyzing data various statistical and financial tools have been applied. Data presentation and analysis is the most important part of this thesis or say it is the heart of whole study. All Findings, Conclusion and Recommendation are based on the result of analysis.

4.1 Financial Analysis

Financial analysis is the profound study of the financial position of an institution .Financial Analysis in this study is the calculation and evaluation of various financial ratios, specially the ratios related to the deposit mobilization of selected banks.

This section deals with the analysis of different components regarding deposit mobilization. Following three categories of ratios are presented in this section:

- Loan and Advances
- Investment
- Return

4.1.1 Analysis of Growth of Loan and Advances

Loan and advances are the main transaction of the commercial bank. The major element where the banks mobilize their funds is loan and advance. Commercial banks mobilize their deposit in productive sector for earning profit and making the financial position of the bank better. So, increasing growth rate is necessary for increasing the return of the bank.

Table: 4.1

Growth of Loan and Advances of NBL & SCBNL

(Total percentage)

Banks/Year	NBL	SCBNL
2008/09	--	--
2009/10	-0.0281	-0.0427
2010/11	-0.0065	0.1067
2011/12	-0.0881	0.2206
2012/13	-0.3022	0.0354

Source: Appendix-I

Figure: 4.1

Growth of Loans & Advances NBL& SCBNL

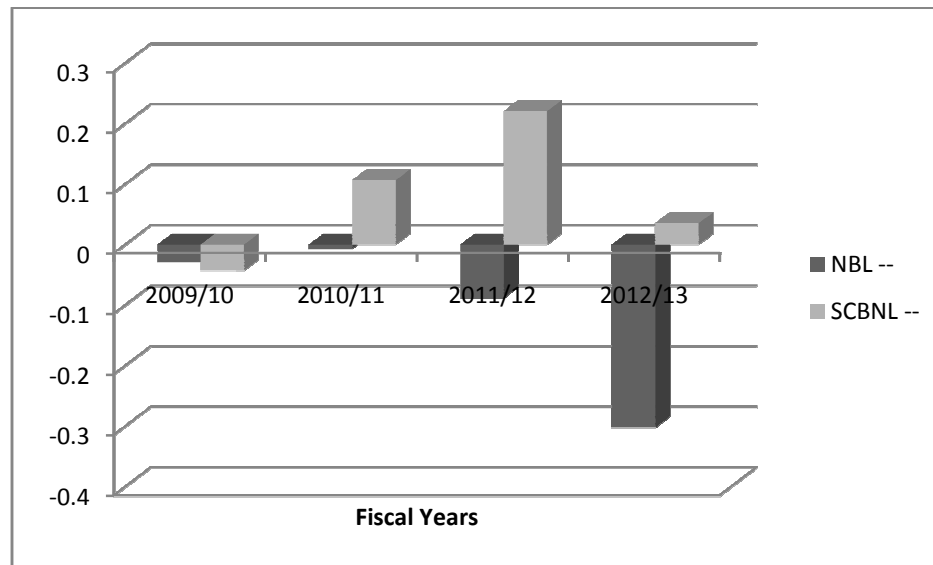


Table: 4.1 and Figure:4.1 are the presentations of the growth of loan and advance of sampled banks. The growth ratio of SCBNL is fluctuating but the ratios of NBL seems to be in decreasing trend. Growth rate of the ratios of NBL for 2010/11, 2011/12, and 2012/13 are -0.0065%, -0.088%, and -0.3022%, and these ratios of SCBNL for these period are 0.106%, 0.220% and 0.035% respectively. After observing these factors it is found that SCBNL is in better position in comparison to NBL. And it is seems that NBL should immediately take some action to make the growth of loan and advance positive.

4.1.2 Analysis of Growth of Investment

Banks collect deposits from people and invest it in the various productive sectors. Banks have to collect adequate deposit; and invest it in the productive sector for regular return. The investment of the bank increases only when the bank is able to increase the collection of the deposit and mobilize the collected deposit well. If the investment of the bank is increasing, the return will be high.

Table: 4.2

Growth of Investment of NBL and SCBNL

(Total Percentage)

Banks/Year	NBL	SCBNL
2008/09	--	--
2009/10	-0.0478	-0.0371
2010/11	-0.0963	0.1823
2011/12	0.3063	-0.0936
2012/13	-0.1490	0.1999

Source: Appendix-I

Figure: 4.2

Growth of Investment of NBL and SCBNL

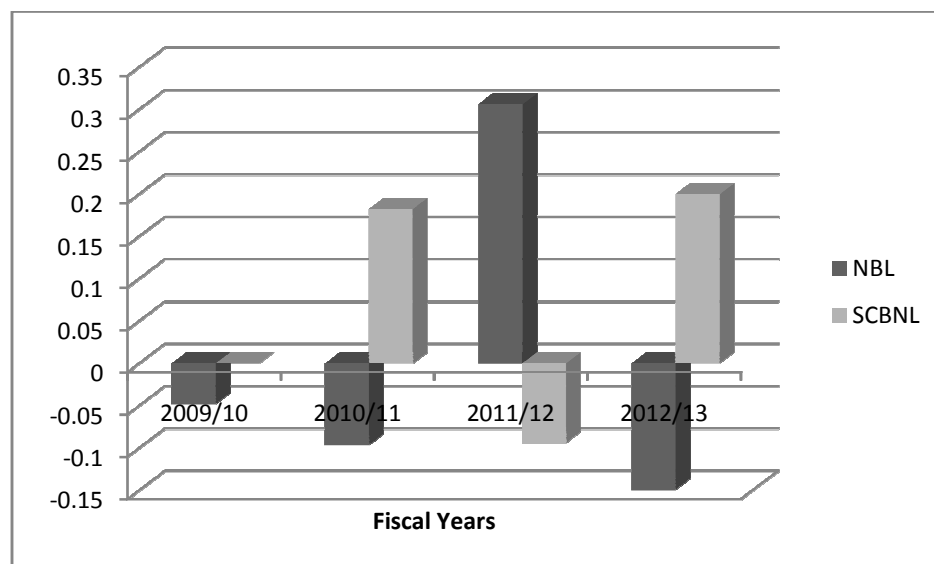


Table: 4.2 and the Figure:4.2 are the presentations of the growth of total investment of sampled banks for the study period of five years from 2008/09 to 2012/13.

Growth rate of NBL for same years are -0.0963%, -0.306% and -0.149% respectively and the growth rates of SCBNL for same years are 0.1823%, -0.936% and 0.1999% respectively.

After analyzing the facts and figures it is found that the growth rate of SCBNL is best for 2010/11 and 2012/13 and the ratio of NBL is best for 2011/12. But the ratio of NBL has fallen by the large percentage on 2012/13. The reason behind this is due to the recovery policy of default of loan.

4.1.3 Analysis of Growth of Return

One of the most important objectives of the bank is to maximize the return. It is possible through the proper mobilization of deposit. If the bank is able to mobilize the deposit well, higher will be the return and the performance of the bank. The net income is considered as the return in this unit.

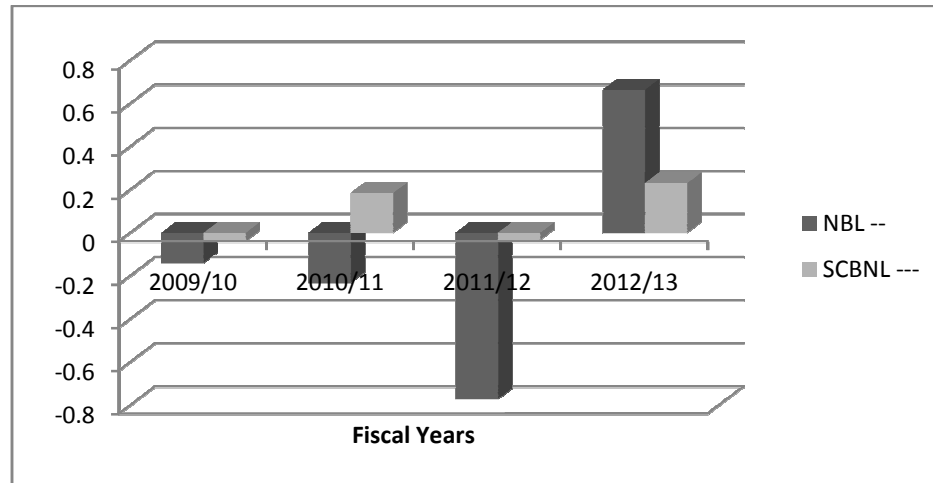
Table: 4.3
Growth of Return (Profit) of NBL and SCBNL

Banks/Year	(Total Percentage)	
	NBL	SCBNL
2008/09	--	---
2009/10	-0.1407	-0.0390
2010/11	-0.2317	0.1847
2011/12	-0.7722	-0.0338
2012/13	0.6647	0.2311

Source: Appendix-I

Figure: 4.3

Growth of Return (Profit) of NBL and SCBNL



Total Investment to Total Deposit Ratio

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

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

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

Table: 4.4

Total Investment to Total Deposit Ratio of NBL & SCBNL

Fiscal Year	NBL	SCBNL
2008/09	36.95	40.24
2009/10	33.75	35.84
2010/11	29.19	37.56
2011/12	39.83	37.24
2012/13	33.22	37.50
Average	34.59	37.68
SD	4.02	1.59
CV	11.63	4.23

Source: Appendix-V

Figure: 4.4

Trend of Total Investment to Total Deposit Ratio of NBL & SCBNL

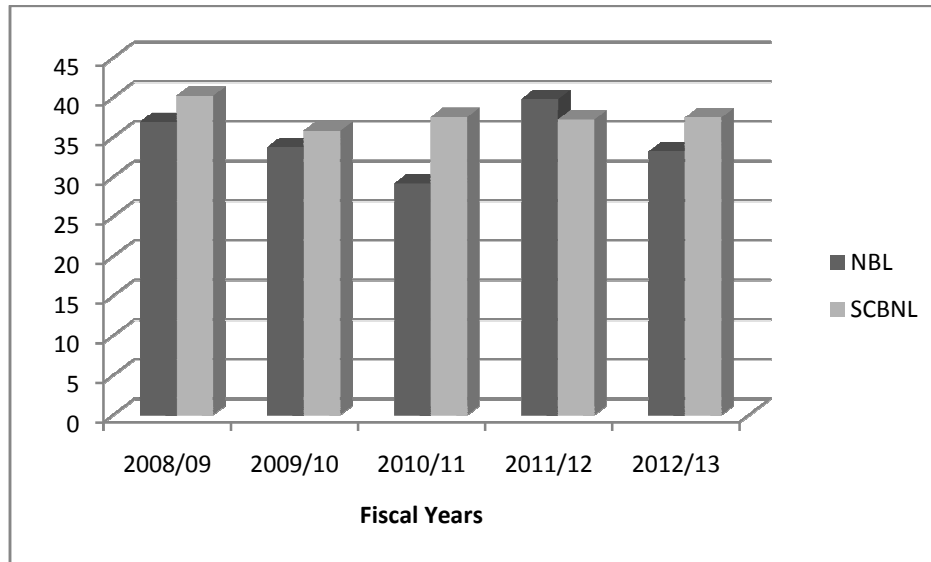


Table 4.4 & figure 4.4 shows that the total investment to total deposit ratio of NBL & SCBNL. The total investment to total deposit ratio of NBL is fluctuating each year during the study period and the total investment to total deposit ratio of SCBNL is also fluctuating in each fiscal year than previous year. The highest values of total investment to total deposit ratio of NBL & SCBNL are 39.83% & 40.24% in the fiscal year 2011/12 & 2008/09 respectively and that of lowest is 29.19% & 35.84% in the fiscal year 2010/11 & 2009/10 respectively. The total investment to total deposit ratio of SCBNL is higher than NBL in each fiscal year during the study period.

An average total investment to total deposit ratio of NBL is 34.59% and SCBNL is 37.68%, standard deviation is 4.02% & 1.59% and CV has 11.63% & 4.23% of NBL & SCBNL respectively during the study period. It shows that the total investment to total deposit ratio of NBL is more variable than SCBNL.

Loan & advance to Total Deposit Ratio

The most important feature of a commercial bank is to collect the scattered & small deposits of general public and use these deposits to grant loan & advances to the needy people. Here, Loan & Advance to total deposit ratio has been used to find out the

effective utilization of the available resource of the bank. It also shows the efficiency, ability and idle resource of the bank. The ratio of loan & advance and deposit declares the effective utilization of the collected resources. Generally, increase in deposit leads to increase in loan & advance.

$$\text{Loan \& Advance to Total Deposit} = \frac{\text{Loan and Advance}}{\text{Total Deposit;}}$$

Table: 4.5

Loan & Advance to Total Deposit Ratio of NBL & SCBNL

Fiscal Year	NBL	SCBNL
2008/09	59.49	36.61
2009/10	55.46	32.42
2010/11	52.75	31.80
2011/12	50.24	42.46
2012/13	34.36	36.90
Average	50.46	36.04
SD	9.63	4.28
CV	19.08	11.88

Source: Appendix-VI

Figure: 4.5

Trend of Loan & Advance to Total Deposit Ratio of NBL & SCBNL

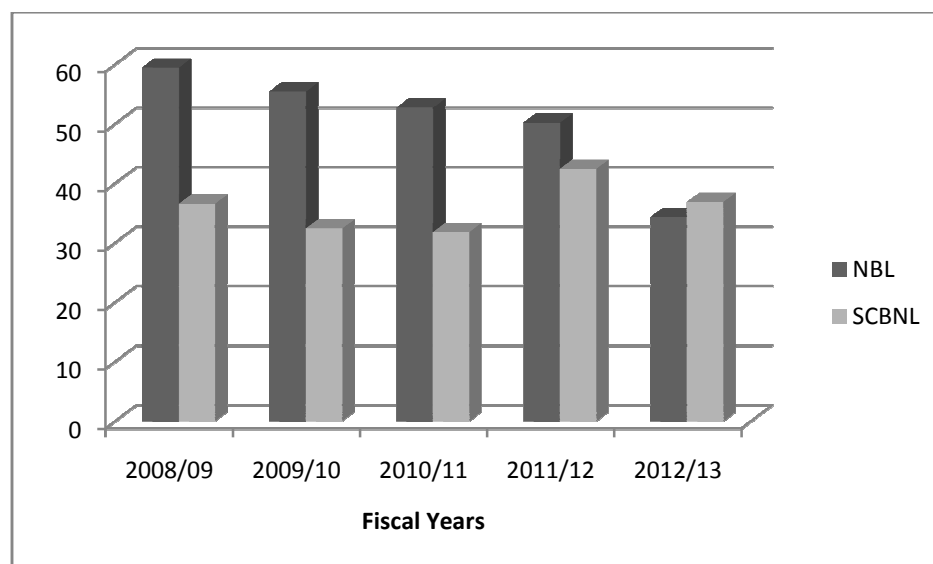


Table 4.5 & figure 4.5 shows that the loan & advance to total deposit ratio of NBL & SCBNL. The loan & advance to total deposit ratio of NBL is decreasing each year during the study period and the loan & advance to total deposit ratio of SCBNL is fluctuating in each fiscal year than previous year. The highest values of loan & advance to total deposit ratio of NBL & SCBNL are 59.49% & 42.46% in the fiscal year 2008/09 & 2011/12 respectively and that of lowest is 34.36% & 31.80% in the fiscal year 2012/13 & 2010/11 respectively. The loan & advance to total deposit ratio of NBL is higher than SCBNL in each fiscal year except the fiscal year 2012/13 during the study period.

An average loan & advance to total deposit ratio of NBL is 50.46% and SCBNL is 36.04%, standard deviation is 9.63% & 4.28% and CV has 19.08% & 11.88% of NBL & SCBNL respectively during the study period. It shows that the loan & advance to total deposit ratio of NBL is more variable than SCBNL.

Credit Deposit Ratio

The total credit is the loan and advance and investment. Loan is the sum of the money that will be repaid by the borrower. Investment is defined simply to be the sacrifice of current consumption for future consumption whose future objective is to increase future wealth.

$$\text{Credit deposit ratio (CD Ratio)} = \frac{\text{Total Credit}}{\text{Total Deposit}}$$

Table: 4.6

Credit Deposit Ratio of NBL & SCBNL

Fiscal Year	NBL	SCBNL
2008/09	96.44	76.85
2009/10	89.21	68.27
2010/11	81.94	69.36
2011/12	90.07	79.71
2012/13	67.59	74.40
Average	85.05	73.72
SD	11.03	4.87
CV	12.97	6.61

Source: Appendix-VII

Figure: 4.6

Trend of Credit Deposit Ratio of NBL & SCBNL

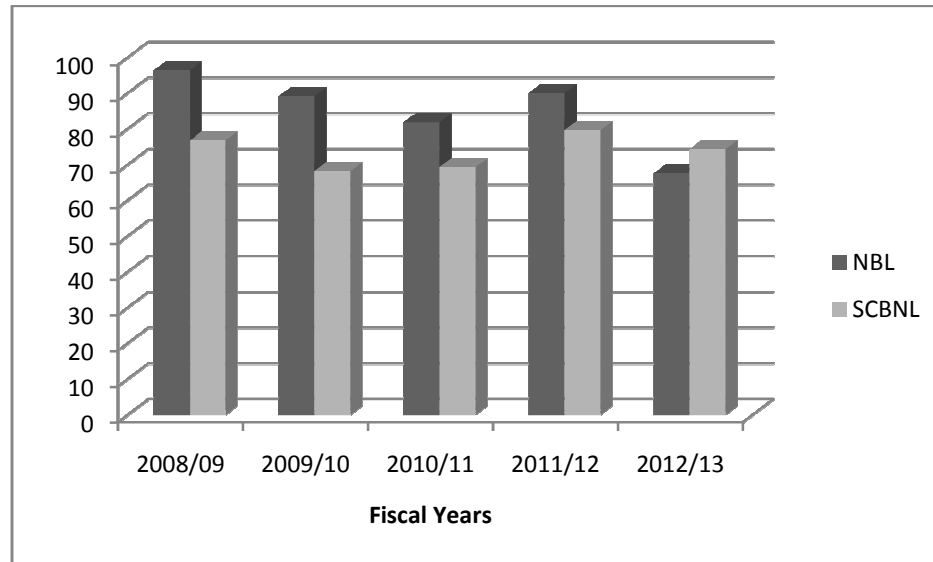


Table 4.6 & figure 4.6 shows that the credit deposit ratio of NBL & SCBNL. The credit deposit ratio of NBL is decreasing each year during the study period and the credit deposit ratio of SCBNL is fluctuating in each fiscal year than previous year. The highest values of credit to deposit ratio of NBL & SCBNL are 96.44% & 79.71% in the fiscal year 2008/09 & 2011/12 respectively and that of lowest is 67.59% & 68.27% in the fiscal year 2012/13 & 2009/10 respectively. The credit deposit ratio of NBL is higher than SCBNL in each fiscal year except the fiscal year 2012/13 during the study period.

An average credit deposit ratios of NBL is 85.05% and SCBNL is 73.72%, standard deviation is 11.03% & 4.87% and CV has 12.97% & 6.61% of NBL & SCBNL respectively during the study period. It shows that the credit deposit ratio of NBL is more variable than SCBNL.

4.1.4 Analysis of Correlation Coefficient between Deposit and Total Investment

The coefficient of correlation between deposit and investment is the degree of relationship between two variables. In this analysis, deposit is independent variable(x) and total investment is dependent variable (y). The purpose of this analysis is to justify

whether the deposits are significantly used in proper way or not and whether there is any relationship between these variables.

Table: 4.7

Banks	Base of Evaluation			
	r	t-cal	t-tab	Decision
NBL	-0.766	1.68	2.776	Insignificant
SCBNL	0.939	1.39	2.776	Significant

Source: Appendix-II

Table: 4.4 shows the correlation coefficient between deposit (independent variable) and total investment (dependent variable) of NBL, and SCBNL are -0.766 and 0.939 respectively. This figure shows the positive relationship between the variables of SCBNL and negative relationship between these variables of the NBL.

As shown in the table 4.7, the calculated value of SCBNL is greater than the tabulated value. As such we accept the alternative hypothesis & conclude that the relationship between deposit and investment of SCBNL is significant. In case of NBL the calculated value of t is smaller than the tabulated value. This result in the acceptance of null hypothesis and we conclude that the relationship between deposit and investment of NBL is insignificant.

4.1.5 Analysis of Correlation Coefficient between Deposit and Loan and Advances:

Correlation coefficient between deposit and loan and advance measures the degree of relationship between total deposit and loan and advances. Generally this relation should be positive and high. If the value of (r) i.e. Correlation coefficient is high, it can be generalized that the bank is mobilizing its fund well and vice versa. Deposit is independent variable (x) and loan and advance is dependent variable (y). The main objective of this analysis is to compare the value of (r) between two sampled banks. This analysis further aims to observe whether the sampled banks are mobilizing their deposit and loan & advances in proper way or not.

Table: 4.8
Correlation Coefficient between Deposit and Loan and Advances

Banks	Best of Evaluation			
	r	t-cal	t-tab	Decision
NBL	-0.1014	0.1523	2.776	Insignificant
SCBNL	0.651	1.588	2.776	Insignificant

Source: Appendix-III

Table: 4.8 shows the degree of correlation between deposit and loan and advance of NBL and SCBNL for the study period of five years from 2004/2005. The degree of correlation as the value of (r) of NBL and SCBNL are -0.1014 and 0.651 respectively. It means the degree of correlation between the variables of NBL is low but positive and the degree of the correlation of the variables of SCBNL is moderately positive. The calculated value of the variables of NBL and SCBNL are 0.1523 and 1.588 respectively. The calculated value of SCBNL is higher than the NBL.

Table no 4.8 further shows that the calculated t-values of both banks are well below the tabulated value. Hence we accept null hypothesis and assert that there exist no significant relationship between deposit and loan & advance of SCBNL as well as NBL.

4.2 Trend Analysis

The statistical test used in this study which describes the trend of any variables whether it increase or decrease is known as trend analysis. This heading finds out the trend of deposit utilization of NBL and SCBNL less than four years study period. Commercial banks mobilize deposits in various sectors like loan and advances, government securities, share and debentures and some other productive and development sectors.

4.2.1 Trend Analysis of Total Investment to Total Deposit Ratio

This analysis aims to analyze the trend of total investment to total deposit ratio NBL and SCBNL under five years of study period. If the trend line show the increasing trend the

bank is improving its deposit mobilization capacity and vice versa. The following table and the graph line describe the trend values of total investment to total deposit of above mentioned banks:

Table: 4.9
Trend Values of Total Investment to Total Deposit Ratio

Bank/Year	NBL	SCBNL
2008/09	34.862	0.60216
2009/10	34.725	0.60400
2010/11	34.588	0.60584
2011/12	34.451	0.60768
2012/13	34.314	0.60952
2013/14	34.177	0.61136
2014/15	34.040	0.6132
2015/16	33.903	0.61504
2016/17	33.766	0.61688

Source: Annex-IV

Figure:4.7
Trend Line of Total Investment to Total Deposit Ratio

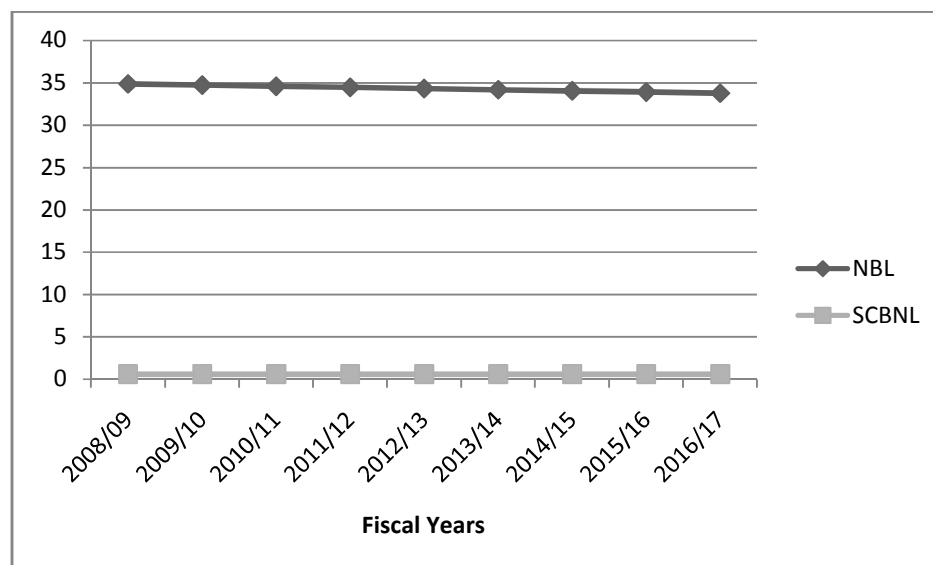


Table: 4.9 and Diagram No. 4.7 are the presentations of the trend values of total investment to total deposit ratio during the study period. The trend lines show that NBL and SCBNL have increasing trend in the ratio. SCBNL has greater trend value (i.e. 34.86) in 2015/016. Finally it can be determined that SCBNL is successful in managing total deposit and NBL also has the good trend on it.

4.2.2 Trend Analysis of Loan and Advances to Total Deposit Ratio

This study aims to analyze the trend of loan and advances to total deposit ratio of NBL and SCBNL for the study period of five years from 2011/012 to 2015/016. In this analysis the increasing trend and the high trend value is considered as the best. Following table and graph line describe the trend values of loan and advances to total deposit ratio of above mentioned banks.

Table: 4.10

Trend values of Loan and Advances to Total Deposit Ratio

Bank/Year	NBL	SCBNL
2008/09	61.555	33.9124
2009/10	56.008	34.9748
2010/11	50.461	36.0372
2011/12	44.914	37.0996
2012/13	39.367	38.1620
2013/14	33.82	39.2244
2014/15	28.273	40.2868
2015/16	22.726	41.3492
2016/17	17.179	42.4116

Source: Annex-IV

Figure:4.8

Trend values of Loan and Advances to Total Deposit Ratio

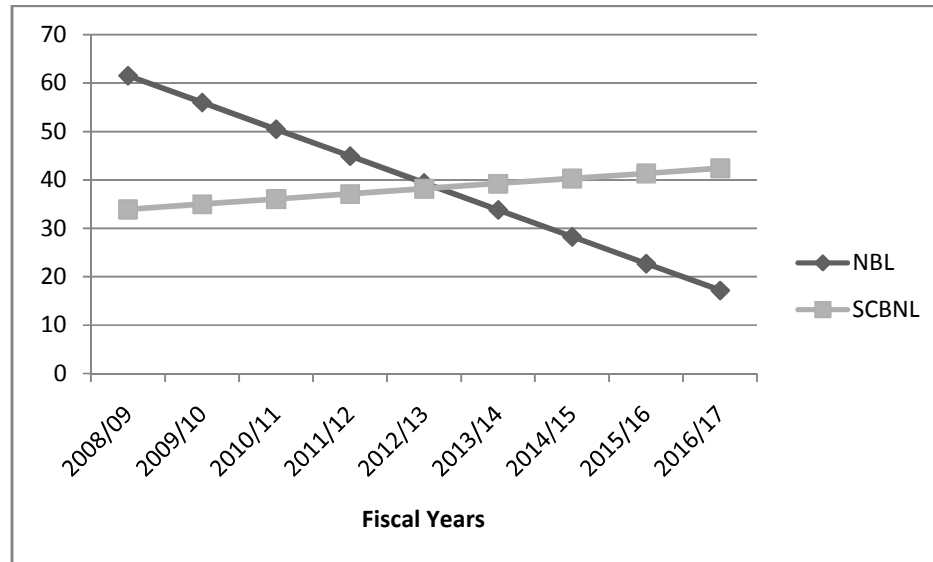


Table: 4.10 and Diagram No. 4.8 are the presentations of the trend values of loan and advance to total deposit ratio of NBL and SCBNL. The trend values of SCBNL are in increasing trend and the trend values of NBL during the study period are in falling trend. The trend value of loan and advances to total deposit ratio in 2012/013 is 58.07 which is highest in comparison to the trend values of sampled banks, and the trend value of SCBNL in 2008/09 is 33.91 that is lowest among the values, Finally loan and advance of NBL is better than the sampled banks, and SCBNL is better between the sampled banks with increasing trend.

4.3 Major Findings of the Study

In this research, data have been basically obtained by the secondary sources. The analysis is made with the help of financial and statistical tools. In the financial tools, ratio analysis has been used for the analysis of the financial activities of commercial banks.

Considering the statistical analysis as the easy path for meeting the objective some statistical tools have been used for the analysis. In statistical tools, correlation coefficient, trend analysis and t-statistic have been used. This unit focuses on the major findings,

which are derived from the analysis of the data related to NBL and SCBNL. This study has been made on the basis of the related data for five years from 2008/09 to 2012/13. The major finding of the financial analysis and statistical analysis is presented below.

Growth ratios show the performance level of the commercial banks. The smooth growth of the performance show the perfect efficiency but this cannot be found in real practice in general life.

Growth of deposit is one of the indicators showing the performance efficiency of commercial banks. Analyzing the growth of total deposit ratio, SCBNL has fluctuating ratios during the study period. The ratios of them have fallen in 2007 and taken the recovery in 2008. In case of NBL the ratios are falling during the study period. SCBNL has highest average growth of deposit during the study period in comparison. It means SCBNL representing the private sector bank is more successful than government owned commercial banks in winning the belief of the customers.

Loan and advance is the most important element for investing the funds of commercial banks. The statistics of NBL is showing the negative growth in loan and advance. The reason for decreasing trend in growth in all commercial banks may be of the application of the policy of financial restructuring. NBL facing the great problem of default of recovery of loan has been concentrating its effort for recovery of loan than making further loan so this bank may have the negative growth in loan and advance. Another reason for falling growth may be the political instability and unfavorable environment for the trade and industry. It means private sector commercial banks are more efficient than the government owned commercial banks.

Investment is another sector where the banks mobilize their funds. Increasing investment is the signal of economic recovery of the nation and financial efficiency of the commercial banks. Analyzing the growth of investment, the ratios of both sampled banks are fluctuating during the study period. The ratios of SCBNL are more positive than that of NBL and SCBNL has the highest average growth of investment in the study period. So

it can be generalized that the private sector commercial banks are more successful in making investment in comparison to the government owned commercial banks.

Profit making is one of the most important objectives of commercial banks. If the bank is successful in making smooth growth in profit by passes of time the bank can be considered as managerially successful bank and that can easily sustain in long term. Analyzing the growth of return, both sampled banks have fluctuating growth during the study period. SCBNL has highest mean growth of return during the period. Though NBL has negative average growth of return it has done well on the final year of the study.

Analyzing the correlation coefficient between deposit and total investment, NBL has negative relationship between these variables and SCBNL has positive relationship between these variables. Considering the t-test of NBL, the coefficient of correlation (i.e. $r < t\text{-cal} < t\text{-tab}$) and SCBNL of coefficient of correlations is ($r < t\text{-cal} < t\text{-tab}$). It means the relationship NBL is not significant and SCBNL is significant.

In the analysis of correlation coefficient between deposit and loan and advance, SCBNL have the positive relationship and NBL has the negative relationship. Considering the t-test, of NBL the coefficient of correlation (i.e. $r < t\text{-cal} < t\text{-tab}$) and SCBNL of coefficient of correlations is ($r < t\text{-cal} < t\text{-tab}$). It means the relationships both of them are not significant.

Trend analysis show the moving direction of some factors by the time passes on. In this study the trend of total investment to total deposit ratio and loan & advance to total deposit ratio is analyzed for meeting the objective of the study.

Analyzing the trend values of total investment to total deposit ratio for the five years of study period, the trend line of NBL and SCBNL have presented the increasing trend.

Observing the trend of loan and advance to total deposit ratio SCBNL have increasing trend and NBL has decreasing trend. This ratio of NBL may have fallen due to its efforts on recovery of default of loan.

CHAPTER- V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is an accomplished specific and indicative enclose which contains summary and conclusion of finding and recommendations. Brief introduction to all chapters of the study and genuine information of the present situation under the topic of the study is defined as summary. Conclusions are analysis of applicable data by using various financial and statistical tools, which presents strengths, weakness, opportunities and threats of the CBs. And suggestions are obtainable in recommendation, which is arranged on the based from finding and conclusions.

5.1 Summary

Development of a country always depends upon the economic development of that country. Financial Institutions play vital role for economic development. Basically it works as financial intermediary by taking deposit and lending that money to deficit group of society. Both private and public sector have been contributing to our nation. Integrated and speedy development of the country is possible only when competitive banking service reaches nook and corners of the country. Commercial banks occupy an important place in the framework of every economy because they provide capital for the development of industry, trade, business and other resources deficit sectors by investing the saving collected as deposits. All the economic activities of each and every country are greatly influenced by the commercial banking business of the country.

Mobilization of saving in the productive sector is important for the economic development of the country without inflationary pressure in the economy. No doubt commercial banks play a crucial role for the economic development by formulation of capital, which is key variable in the economic development of the country. Scattered recourses hold no meaning unless and until they are mobilized and utilized efficiently in some productive sectors. Commercial banks contribute to the process of capital formation by converting dispersed saving into meaningful capital investment in order to aid

industry, trade, commerce and agriculture for the economic development of a nation. It should not be forgotten that a country could hardly achieve its growth of economic development without a strong capital base. Commercial banks play a vital role in performing such base for financial and economic development by way of deposit mobilization. It is quite true that a strong financial system is of great need in the developing country like Nepal. Because all the economic conditions are based on the financial institutions and the development of a country depends upon the active participation of the banks in the different activities in the economy.

Deposits are the obligation of the commercial banks. So, commercial banks must allocate the funds in different loans and advances and investments. In this study two banks -NBL representing the government bank and SCBNL representing the private sector bank have been taken as the sample of the study.

In the analysis of growth ratios of NBL and SCBNL, these all have the positive growth in deposit and investment but NBL has the negative growth in loan and advance and return. In the growth point of view SCBNL is stronger than NBL and NBL seems weaker than SCBNL in these ratios.

In the analysis of correlation coefficient between the selected variables, NBL has the negative results on each test. It means the selected variables of NBL are not significantly correlated with each other during this period. Such results may have appeared because of the restructuring programs launched for the betterment of the bank.

Finally, in conclusion, it can be concluded that the deposit mobilization position of both (government owned commercial banks and private sector commercial banks) are good but the position of private sector commercial banks is better than the position of government owned commercial banks.

5.2 Conclusions

Banks are the very necessary elements of the economy of a country. The word banks generally denote the commercial banks. The commercial bank helps in the formation of capital that is most important for the economic growth of the country. The commercial bank in Nepal are doing well but they are not giving satisfactory result due to some internal and external factors. The deposits and its investment in productive sector by commercial bank are not stable and these are going thoroughly by the time passes on. A deposit is indeed the major organ of commercial banks. Higher the deposit higher will be the capacity of investment and higher will be the chance of mobilization of funds and make the satisfactory profit for the long term sustainability of an organization.

Banks should be careful while granting loan because loan is the blood of commercial banks for survival. If commercial bank does not adopt the sound investment policy, it will be in greater trouble in future in the collection of loan amount. Banks should invest its funds in various portfolios after the profound study of the project. It keeps the bank far from the problem of default of payment that certainly keeps the bank safe from the bankruptcy. Diversification of investment is very much important for banks because a bank uses the money of people for the benefit of the depositors and the benefit of its own.

From the analysis made in last chapter it is found that NBL and SCBNL are able to mobilize average 82.2% and 72.92% of their deposits to the loan and advance and in investment. This figure show the stronger position of NBL than SCBNL in deposit mobilization but comparing the return ratios, i.e. interest income to total income ratio NBL has smaller return than SCBNL (i.e. $70.84 < 78.82$). It means both the banks are efficient in deposit mobilization but NBL is weak in collecting interest and even the principal amount of the loan. The analysis of growth of deposit, loan and advance and the investment also reflects the weak position of NBL in deposit mobilization in comparison to SCBNL.

Analyzing the trend of investment of both sampled banks there are increasing trend and there is no significant difference between the trend values of the NBL and SCBNL. But

the trend values of loan and advance to total deposit ratio of NBL is falling during the study period. This value of SCBNL is increasing during the same period. It means SCBNL is managing its loan and advance well. But NBL is shifting from loan and advance to secured investment. Various analysis yield different results but summarizing the results it can be generalized that there is no more difference between the deposit mobilizations of government owned commercial banks and private sector commercial banks. But the private sector commercial banks are seems more efficient than the government owned commercial banks in deposit mobilization.

Every sector is facing the problem in Nepal due to violence and political instability. The commercial banking system also could not escape out from this situation. All the banks within this system have been facing the problem but this problem of NBL became great, because this is the government owned commercial bank which is serving even in remote areas through largest number of branches. Most of the loans became bad debt due to the unfavorable economic environment. But the position of this bank has been falling due to the managerial inefficiency and political interference in the management into some extent.

5.3 Recommendations

The problems related to deposit mobilization of NBL and SCBNL representing the government owned commercial banks and private sector commercial banks respectively have been discussed. In accordance with facts found in previous sections, the following recommendations are made for the further improvement of the deposit mobilization of the government owned commercial banks and private sector commercial banks especially NBL and SCBNL.

- The ever mounting amount of deposits is now got to be properly mobilized in different sectors of the economy. For the proper mobilization of deposit, banks must be prepared to take more risk on their lending and investments to encourage the borrowing by the units of the economy. In other words, it's time for them to divert their traditional collateral taking process into more realistic and potential aspects. They must provide loan for a project on the basis of its

potentiality instead of sound and safe collateral. In addition, it's also suggested that they should lower their lending rate too. Private sector commercial banks are adopting this policy into some extent.

- In order to develop the banking and saving habit of the people of remote areas in the nation, commercial banks are suggested not to be surrounded and limited within the urban areas and not to be gathered around the big clients (e.g. multinational companies, large industries, manufacturer and exporters, NGO's and INGO's, etc.). Reduction in the minimum required threshold balance and extension of its services towards rural area and priority sector indicated by the government is must for boosting up the living standard of lower level people.
- Since commercial banks used to provide less loan and advances in comparison to its total deposits, commercial banks are strongly recommended to follow the liberal lending policy. More percentage of deposits can be invested to different profitable sector as well as towards loan and advances. Because, analysis showed investment and loan and advances as a significant factor, this affects the net profit of the banks. Subsequently, a skillful administration is the most for these assets because negligence may become a reason for liquidity crisis and more liberal lending may lead to the default of repayment of loan.
- Considering the current economic scenario, banks are suggested to further advance their retail banking through newer and innovative products. They should expand their transaction in new services such as tax revenue collection, business enterprise's bill amount collection etc. Both banks are doing these works to some extent but that is not satisfactory to the customers of all regions.
- Commercial banks themselves should seek new investment opportunities rather than investing in identified areas. Commercial banks should establish the efficient R&D department for this purpose. It may be the worth being suggestion that banks are better to seek investment opportunities in foreign countries in order to overcome the mounting deposits and limited investment opportunities. They should invest in foreign currencies, precious metals, and highly liquid safe securities.

- All commercial banks should make an attractive publicity of the bank and then people will have knowledge about the bank and it encourages them to save the money. When there is more publicity, people may have great desire to save money in order to earn interest and use the bank to borrow money instead of money lenders. The banks should also pay attention to publish bulletin, brochures and others so as to make people familiar with its performance and activities.
- Training and observation tours should be organized on regular basis to increase the efficiency of the employees. Proper evaluation of the performance of the staff should be done in time. Continuous and timely evaluation of performance is must for improving the managerial efficiency of the bank. Job analysis should be done to find out the skill, knowledge, abilities etc. of the staffs that is needed for the better performance.

Finally, for the speedy development of the nation, the government owned banks as well as the private sector banks are suggested to follow decentralization policy in order to extend the modern and computerized banking facilities towards the marginal areas and for assuring the reach of remote area people in modern banking facilities.