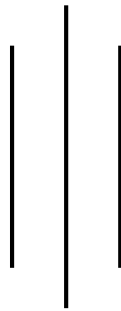


A Study of Resource Mobilization of Commercial Banks of Nepal

A Thesis Submitted to:

Office of the Dean
Faculty of Management
Tribhuvan University



Submitted by:

Name: Urmila Deshar
T.U Reg. No : 7-2-519-136-2005
Exam Roll NO : 280485/067
Campus Roll No. : 323/066
Central Department of Management

In Partial Fulfillment of the Requirements for the Degree of

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Kirtipur, Kathmandu

2013

RECOMMENDATION

This is to certify that the thesis:

Submitted by

Urmila Deshar

Entitled

"A Study of Resource Mobilization of Commercial Banks of Nepal"

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

.....
Lect. Govinda Tamang

.....
Prof. Dr. Sunity Shrestha

.....
Prof. Dr. Balkrishna Shresttha

.....

Chairman research Committee

Head of Department

Date:.....

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

Urmila Deshar

Entitled

**"A Study of Resource Mobilization of Commercial Banks of
Nepal "**

and found the thesis to be the original work of the student written according to the prescribed format. We recommend this thesis to be accepted as partial fulfillment of the requirements for Master of Business Studies (M.B.S.)

Viva-Voce Committee:

Chairperson, Research Committee:

Member (Thesis Supervisor):

Member (External Expert):

Member (Central Department of Management):

Date:

DECLARATION

I hereby declare that the work reported in this thesis entitled "**A Study of Resource Mobilization of Commercial Banks of Nepal**" submitted to central Department of Management, Tribhuvan University is my original work. It is done in the form of partial fulfillment of the requirements for the Master of Business Studies (M.B.S.) under the supervision and guidance of **lecturer. Govinda Tamang** of Tribhuvan University.

Date:

.....

Urmila Deshar

T.U Reg. No : 7-2-519-136-2005

Exam Roll NO : 280485/067

Campus Roll No. : 323/066

Central Department of Management

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.....

Urmila Deshar

T.U Reg. No : 7-2-519-136-2005

Exam Roll NO : 280485/067

Campus Roll No. : 323/066

Central Department of

Management

Recommendation
VIVA- voce sheet
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ABBREVIATIONS

BOK	:	Bank of Kathmandu
C.V.	:	Coefficient of Variation
CBB	:	Cash and Bank Balance
FA	:	Fixed Assets
FY	:	Fiscal Year
IED	:	Interest Expenses on Deposit
Inv.	:	Investment
LA	:	Loan and Advances
MSCN	:	Money at Short Call and Notice
NPAT	:	Net Profit after Tax
NRB	:	Nepal Rastra Bank
OH	:	Overhead
P.E.	:	Probable Error
r	:	Correlation Coefficient
S.D.	:	Standard Deviation
SBI	:	State Bank of India
TD	:	Total Deposit
TF	:	Total Fund
TLD	:	Total Local Deposit

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

A Bank is an institution, which deals in money, deposit from customers, honoring customer's drawing against such deposits on demands, collecting cheque for customers and lending or investing surplus deposits until they are required for repayment. In the present days various types of banks are established. For instance, Commercial Banks, Industrial Bank, Agricultural Bank, Joint Venture Bank, Cooperative Bank & Development Bank.

Economic standard and growth, of any nations determines the lifestyle of the people. Hence, Nepal must pay attention to uplift the economic estate of affairs for prosperous progress and advancement of the country. Nepal has god-gifted natural resources. Nepal is adapting a planned economic policy since four decade ago. To attend the economic development of the country, the environment for establishing corporation is needed for efficient utilization of resources.

The development of economy basically depends upon the development of financial sectors. Banking is one of the main financial sectors, which helps to formulate capital by collecting scattered amount from people. Banking sector can be taken as a platform through which the scattered saving and scares resources can be transferred from idle sector into productive sectors that ultimately helps in the economic growth rate of the country. A bank is an institution that provides financial service, particularly taking deposits and extending credit. (Ghimire, 2060)

Resource mobilization is one of the essential tools for the economic development of an underdeveloped and developing countries rather than the developed countries. It is because the developed countries deposit collection

Therefore the commercial banks help the mobilization of domestic resources for the economic development of any country. So, the commercial banks emerge to perform the function of transferring funds from savers to investors as intermediaries. The government in turn is required to regulate their activities so that the financial policies so that financial policies are implemented as per the requirements of the country. With the help of financial institution, the government in developing economies tries to implement the policies such as lending to the priority sectors, lending to the educated unemployed people, creation of entrepreneurship in the society are certain examples.

Commercial banks are defined as leading financial institutions, which issues demand liabilities used as means of payment and at the same time make loans to business in a tradition that goes back several hundred years ago. In course of time, commercial banks have expanded their activities on both the assets and liability side. They accept various kinds of time and savings deposits while they have expanded their lending activities to include term loans to business, consumer loans, long-term mortgage loans and investments in debt securities of all types of a wide range of maturities.

Banks hold cash assets to meet reserve requirements and daily transaction needs and they have “correspondent” relationships with other banks. Most banks funds, however, are used to acquire earnings assets. The most important of these are loans to business firms and to consumers. Banks also hold government securities for both liquidity and income reasons.

Bank and Financial Institutions Act, 2063 provides for the merger of any bank or financial institution with another one. By mid-July 2007, total number of bank branches, reached 404. (Financial Markets and Institutions by Manohar Krishna Shrestha and Dipak Bahadur Bhandari)

Therefore the functions of commercial bank are as follows:

- Commercial banks accept deposits from individuals, partnership firms and corporations and also from center government and local government.
- It provides different types of loan. Its principal business is to make loans to qualified borrowers. It earns profit by the amounts deposited with it in the form

of loans. Bank loans may be classified as: (a) Loans and advances, (b) overdraft, (c) Cash credit, (d) Discounting of a bills and so on.

- Commercial banks also extend credit when they purchase securities; and this category of assets may be especially attractive when loan demand is slack, as a way of employing loanable fund.
- It helps the government in times of need to meet fiscal deficits.
- It provide guarantee as a contingent liability to encourage foreign business of import and export.

Of course, commercial banks render their economic services even to those sectors where commercial banks are not available i.e. Housing, hire purchase, leasing, share and securities. But Commercial banks cannot collect short-term savings and current account of commercial banks. So it is difficult to get loan at the highest interest rate. In this situation commercial banks can play vital role to reduce the interest rate by using their savings. Interest rate is determined by the demand and supply process.

As we know that the government regulates the commercial banks and its activities .in Nepal Central Bank i.e. Nepal Rastra Bank is established to protect and regulate the commercial banks and others too. Commercial banks are to be registered as per the policy of NRB and should be registered only as public limited companies as per the Commercial banks Act 1982 (2042 B.S) and public limited companies Act 2053 B.S. Commercial banks are registered within the Registrar of Company, Gov. of Nepal and NRB grants license for operation. Commercial banks are operating under the act. Any banking system can accept time deposit of the maturity of minimum three months to maximum six years to a limit of twelve times of the core capital of the company.

“The first Investment Bank” began in Philadelphia; USA in 1764 is the initial step to organize financial services which originated from the establishment. The first commercial Bank “The Bank of North America” opened in the same city in 1781. Then the first investment Company “The Massachusetts Hospital Life Insurance

Company” was found in 1816 which is usually designated as the first saving Bank Insurance Company which is as old as the country”

“The more interesting development in US credit market in the 19th century. Then there has been the rapid growth in consumer credit. Installment credit was used for only a few items such as pianos, Encyclopedias and Sewing machines and total household expenditures. But the activities increase towards consumer’s durable goods such as automobiles boats and household appliance” (Ranlett, 2009)

Commercial bank recent innovation in South Asia and it was established growth and developed from mid 1950's. The first groups of Commercial bank were established in Philippines and Singapore but they are suffering from so many difficulties.

But the companies have been established in Hong Kong, Thailand and Malaysia have developed efficiently to accomplish their objectives and goals.

Most governments in South Asian countries have enacted to protect both depositors and investors in this invested industry. Singapore and Malaysia have enacted protective legislation regulating all commercial bank. The Hong Kong requires a Banking license for that Commercial bank that accepts deposits. In Philippines, there also allowed to deposit general public as a result of the passage in 1963 of a “Truth-in-lending Act”.

The purpose of this research is to focus on to analyze the resource mobilization of commercial bank of Nepal. To accomplish the purpose of this study two commercial banks are selected as samples. The brief introduction of this sample is as follows:

1.2 Focus of the Study

In the financial are of Nepal most of the Banks and commercial bank are said to be not utilizing their resources in an effective manner. Due to the Global financial crisis seen on the last some months of 2008, now a days NRB is warning the commercial bank not to utilize their resources on unproductive sectors such as Land and housing and margin lending on share transactions.

This study is mainly focused into the sources and uses of funds of commercial bank in Nepal. Mobilization of resources is the most important factor from the commercial banks management point of view. Though the several commercial banks have been established in the country within short span of time, sufficient return couldn't be achieved and strong, stable and these institutions have not followed appropriate fund mobilization policy. Due to throat-cut competition of financial environment, these companies seem to be ready to grant much more loan, advances and other facilities against their client's insufficient deposit. Unsecured loan and adequate fund mobilization may cause the liquidation of that commercial bank. If the funds are wrongly mobilized without thinking any financial risk, business risk and other related facts, the banks cannot obtain profitable return as well as sometimes it may lose its principal. Fund mobilization policy may differ from one country to another but there is no optimum utilization of fund to have greater returns.

So, this study is mainly focused on the utilization of resources like deposits, loan and advance and investment of some sample commercial bank operating in Nepal.

Therefore number of Financial Institutions in Nepalese Banking System, In the previous five year, is Shown in Table.

Types of BFIs	Class	Mid-July				
		2008	2009	2010	2011	2012
Commercial Banks	A	25	26	27	31	32
Development Banks	B	58	63	79	87	88
Finance Companies	C	78	77	79	79	69
Micro-finance Development banks	D	12	15	18	21	24
Saving and Credit Co-operatives (Limited Banking Activities)	Non-Classified	16	16	15	16	16
NGOs (Financial Intermediaries)	Non-Classified	46	45	45	38	36
Total		235	242	263	272	265

1.3 Statement of the Problem

Resource mobilization is the most important factor from the commercial bank management point of view. Though the several banks have been established in the country within short span of time, sufficient return couldn't be achieved and strong, stable and these institutions have not followed appropriate fund mobilization policy. Due to throat-cut competition of financial environment, these companies seem to be ready to grant much more loan, advances and other facilities against their client's insufficient deposit. Unsecured loan and adequate fund mobilization may cause the liquidation of those commercial banks. If the funds are wrongly mobilized without thinking any financial risk, business risk and other related facts, the company cannot obtain profitable return as well as sometimes it may lose its principal. Fund mobilization policy may differ from one country to another but there is no optimum utilization of fund to have greater returns. Therefore NRB has also played important role to make these companies to mobilize their funds in a good sector. For this purpose, NRB has imposed many rules and regulations so that they can have sufficient liquidity and security. Though, most of the commercial banks have been successful to earn profit from fund mobilization, none of them seems to be capable to invest their entire fund in a profitable sector. Besides these unnecessarily more portion than the actual need on cash and bank balances. Whereas only fewer portion of them have been mobilized due to limit and narrow capital market and the investment opportunities. Sometimes they bear as a risk-taker and sometimes they don't take the risk to mobilize their idle fund those investments that have lower risk and comparatively higher profit. Another problem is diversification in loan and advances. It is found that some of the companies have diversified their investment in different fields like housing, hire purchase, etc whereas some of them are not successful to mobilize their funds in different areas.

The following are the major problems those are identified for the purpose of this study:

- a. Are BOK and NSBI following the proper deposit mobilization?
- b. Due to imbalance in the growth of banking in the country, are people

- deprived of the banking facilities?
- c. What is the relationship between loan loss provision and total loan and advance?
 - d. How far BOK and NSBI have been efficient in its operation?

1.4 Objectives of the Study

The main objectives of the study are to analyze of the financial performance of the commercial banks resource mobilization in the context of Nepal. There are a limited number of commercial banks which provide the different kind of financial services as per current need and demand by the market and customers. But there are very nominal and few research paper and relevant literature on this subject so as a student of management my aim is to focus towards it. For provide a real picture and up to data status of financial performance of commercial bank have “To generalize funds by gradually shifting priorities from hire purchase industry and to industry to help in the capital formation within the country, the overall growth of the nature and extend of capital formation in the country. This is the course of time industrial financing should get higher priority in the lending strategy of commercial bank in view of their future sustainability and full fledged growth”. By parameter viz. Deposit growth, growth in the loan interest rate trend and sect oral classification of deposit and loan. The main objectives of this study are as follows:

- To analyze the trend of deposit mobilization of BOK and NSBI.
- To examine and analyze the various deposit services offered by BOK and NSBI.
- To study the relationship of deposit and loans and advances of BOK and NSBI.
- To identify the relationship of interest of deposits with the interest of loan of BOK and NSBI.

1.5 Significance of the Study

Nepal is an under developed country. There is need for additional capital investment which earns higher rate of economic growth. Domestic savings and foreign capital

(grant and loan) are two principal sources of capital available for instrument. Of the two, domestic saving is the most important and stable source of capital.

The growth rate to savings is very low in Nepal. For example in 1990 gross domestic earning as percent of GDP remained only 19.9% and now it remained as 33.3% in FY 2012/13.,foreign capital mostly loan, is the long term liability which needs to be rapid in scare foreign currency moreover the country cannot depend on foreign loan forever. Therefore financial development is indispensable to meet the growing demand for capital in the country.

After 1990, Nepal Government has adopted the policy of economic liberalization. The thrust of shift policy boils down to added efficiently which in truth is assumed by operation of market forces. The policy has given important role to the private sector. Financial liberalization policy is an important part of economic liberalization policy. Under this policy, the government has adopted liberal policy for the establishment growth and development of new commercial banks and commercial bank on a competitive basis.

1.6 Limitations of the Study

This thesis would be conduct in a partial fulfillment of the requirement for the Master Degree in Management. In order to prepare this it has some limitations like time resources, references, time limitations. The study will be limit to commercial banks that have been registered according to the provision of Commercial banks Act 1985. The coverage of the study is after the economic liberalization. This study is made comprehensive and clear by presenting recent information as far as possible. It will be beneficial to those banks, commercial bank and concerned entrepreneurs. Since the thesis will be base on the basically two banks of Nepal they are 1) Bank of Kathmandu 2) NSBI Bank. Reports provided by central bank, the limitations among them are as follows:

- Some books and annual reports are used for making this Report.

- This reports consists the data available from concerned authorities. Therefore, the accuracy of the data fully depends upon them(Bank of Kathmandu Bank and NSBI).

Despite above mention limitations present researchers have intensive effort to analysis research problem in respect to the study area as for as it is will be representative study

1.7 Organization of the Study

The study would be organized into five chapters, each of the resources mobilization followed by commercial banks.

Chapter I: Includes the introductory part of the study as already mentioned, this chapter describes the general background of the study, statement of the problem, objective of the study, limitations of the study and organization of the study.

Chapter II: This chapter describes the theoretical analysis of the related literature available. It includes a discussion on the conceptual framework and review of the major studies.

Chapter III: This chapter describes the research methodology

Chapter IV: This deals with the presentation of the data and its analysis.

Chapter V: It includes the summary, conclusions and major findings of the study.

Finally, bibliographies are included at the end of the study.

CHAPTER – II

REVIEW OF LITERATURE

In this chapter, the basic literatures related to the research topic are reviewed. It includes prior theories and review of the empirical evidences of previous studies. The first section of this chapter contains a brief description of the theories of commercial bank. It includes the evolution, history, growth, sales and functions of commercial banks. The second section provides reviews on empirical experience of previous studies.

2.1 Concept of Commercial Banks

Some of the definitions of Commercial banks are as follows:

“An institution that uses its funds chiefly to purchase financial assets (Deposits, Loans and Bonds) are opposed to tangible property. Commercial bank be classified according to the nature of the principle claims they issue non deposit, intermediaries include among other life and property insurance companies and pension funds, those really claims are the policies they fail on the promise to provide income after retirement, depository intermediaries obtain funds mainly accepting deposit from the public. (*Rosenberg,1998: Dictionary of Banking and Finance:21*)

“Economist and historians agree that the process of modern economics growth has been closely associated with the expansion and increasing diversification of financial intermediation”. (*Brayant,2002: Banking Intermediaries:231*)

“Commercial bank produce financial assets that are easily liquidated. With the existence of a large non-monetized sector in the economy and prevalence of wide spread illiteracy and conversation among the masses in developing/underdeveloped economize, savings remain either unutilized or hoarded in the form of the cash, gold and silver or invested and real estate.” (*Ghosal and Sharma,2008:Effeciency of Commercial Banks:25*)

“Commercial banks from a modern economy are beyond imagination in the current context. Without them the economy will drag behind to the period of the barter system where no intermediary, no financial assets, no liabilities of any kind, and hence no

commercial banks existed. External financing becomes absent in a Barter economy. Even in the least developed

Economized some form of transfer of financial resources occur, mostly through activities of merchants and eventually moneylenders. In an economy without financial liabilities there would be no means where by the ultimate savers could be matched with unlimited visitors". (*Hemple and Yawtidz, 2002: Commercial banks and Money Market: 123*)

"The channel through which the impact of the commercial bank failed in the savings-investment process and economic growth is the elimination of financial dualism that is co-existence of organized and non organized money market within the same economy. In the commercial bank non-monetised and non-organized barter market run parallel. Commercial bank tries to bridge this gap in the economy of both sectors of the economy". (Bhatta, 1997,:56)

2.2 History of Commercial Banks

"The first Investment Bank" began in Philadelphia; USA in 1764 is the initial step to organized financial services which originated from the establishment. The first commercial Bank "The Bank of North America" opened in the same city in 1781. Then the first investment Company "The Massachusetts Hospital Life Insurance Company" was found in 1816 which is usually designated as the first saving Bank Insurance Company which is as old as the country.

"The more interesting development in US credit market in the 19th century. Then there has been the rapid growth in consumer credit. Installment credit was used for only a few items such as pianos, Encyclopedias and Sewing machines and total household expenditures. But the activities increases towards consumer's durable goods such as automobiles boats and household appliance" (Kothari, C.R., (1994-211)

Commercial bank is recent innovation in South Asia and it was established growth and developed from mid 1950's. The first groups of Commercial banks were established in Philippines and Singapore but they are suffering from so many

difficulties. But the companies have been established in Hong Kong, Thailand and Malaysia have developed efficiently to accomplish their objectives and goals. Most governments in South Asian countries have enacted to protect both depositors and investors in this invested industry. Singapore and Malaysia have enacted protective legislation regulating all commercial banks. The Hong Kong requires a Banking license for those Commercial banks that accept deposits. In Philippines, there also allowed to deposit general public as a result of the passage in 1963 of a “Truth-in-lending Act”.

2.3 Development of Commercial Banks in Nepal

Commercial bank is relatively a new concept in Nepalese market. The country will be thought and adopted the liberal and open economy policy after 1990; the opening of non-banking commercial banks showed an encouraging trend. This was done as per the objectives of Gov. of Nepal to make the national economy more liberal, dynamic and competitive through increased participation of the private sectors in the economic development. In the process of economic liberalization, the government introduced Commercial bank Act, 2042 to attain economic growth in the nation by increasing non-banking activities. The policy has given more important role for the establishment, growth and development of Commercial banks within a short period of time. The commercial banks are coming on this period because of different kind of commercial banks are unable to supply credit need and expectation timely and carry out capital market activities. So that commercial banks have come timely to meet the individual credit needs, undertake merchant banking (*Ghosal and Sharma,(2008)*).

After 7 years from the enactment of this Act, the government promoted the first commercial bank as Rastriya Banijya Bank. Thereafter, a wave of establishing commercial banks increased, as a consequence the number of commercial banks increased to 31 till 2013.

2.4 Establishment, Growth and Development of the Commercial Banks

Financial development is one of the key indicators of economic development of any country. So, financial activities are an integral part of National plan to accelerate the rate of economic development. The main objectives of Commercial bank is the mobilization of small and large resources from urban as well as rural regions and their channelization into prospective, structured and high-priority areas in the economic development of nation.

Commercial banks have “to channelize funds by gradually shifting priorities from hire purchase industry and to industry to help in the capital formation within the country, the overall growth of the nature and extend of capital formation in the country. This is the course of time industrial financing should get higher priority in the lending strategy of commercial banks in view of their future sustainability and full fledged growth”.

Commercial banks are “the effective scientific instrument for mobilizing public, private and external financial resources and channelizing them into productive areas as short term loan on different commercial business activities “.

2.5 Establishment, Growth and Development of Commercial Banks in Nepal

Nepal is an under developed country. There is need for additional capital investment to get higher rate of economic growth. Domestic and foreign capital (grants and loans) are two principal sources of capital available for investment of the two domestic savings is the most important and stable source of capital.

The growth and development of the financial institution in economy depends to a very large extent on the quantum of funds they can command. With the rapid increase in the number of Commercial banks and the expansion of the financing institutions is gaining ground. The institutions are making hard efforts to leave no stone unturned to mobilize maximum capital resources.

“The growth rate of savings is very low in Nepal. For example in 1990 Gross domestic savings as percent of GDP remained at 19.9 percent. This shows the growing

resources gap in the economy. Nepal has obtained foreign capital bridge this resource gap. Foreign capital, only loan, is the long-term liability which needs to be repaid in scarce foreign currency. Moreover, the country cannot depend on foreign loans forever. Therefore, financial development is indispensable to meet the growing demand for capital in the country". After 1990 Nepal has adopted the policy of economic liberalization. The thrust of shift in policy boils down to add efficiency which in turn is assumed by operation of market forces. This policy has given more important role to the private sector. Financial liberalization policy is an important part of economic liberalization policy. Under this policy, the government has adopted liberal policy for the establishment of new commercial banks and Commercial banks on a competitive basis.

"Commercial banks are new type of institutions in the Nepalese context. They can be registered only public limited Companies as per the Finance Act 1985 and public limited company Act 2053 B.S. Commercial banks are registered within the Registrar of Company, GOV. of Nepal and NRB grants license for operation. The minimum paid up capital of the Commercial banks is fixed at Rs. 2.5 million, but if the Companies are interested in operating more or one activities or want to expand their branch the minimum paid up capital must be maintained. The minimum paid up capital for Commercial banks are fixed at Rs 15 crore, 5 crore, 2 crore and 1 crore for leasing and Commercial bank. Only Commercial bank based in Kathmandu, only Commercial bank for outside the valley (Eastern, Central and Western Development Region), Commercial bank that operates only one district (Western and Far Western Development Region) respectively"

2.6 Resource Mobilization of Commercial Banks

The growth and development of the commercial banks in an economy depends to a very large extent on the quantum of funds they can command. With the rapid increase in the number of Commercial banks and the expansion of the financing business undertaken by them besides other commercial bank is gaining ground. These institutions

are making hard efforts to leave no stone unturned to mobilize maximum capital resources.

In this context, Nepal Rastra Bank (NRB) have makes permission the Commercial banks to raise funds equal to ten times of their net worth has come in handy. The other important factor that has stimulated the growth of Commercial banks and the steady increase in deposits is that, unlike in most other countries, Commercial banks here have been allowed to mobilize deposits right from the day they star their business operations and there are no other entry norms prescribed. Another notable feature of the NRB directives governing deposit interest rates and the lending interest rates and no floor or ceiling rates has been fixed.

2.7 Deposit Mobilization

“When deposit mobilization is concerned then it is concerned with increasing 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.” (*NRB; 1984: 10*) “Collecting scattered small amount of capital through deferent medias and investing the deposited or collected fund in productive sector with a view to increase the income from the amount received from of the depositors is meant deposit mobilization. It also supports to increase the saving through the investment of extra amount.” (*NRB; 1984: 12*) The main objective of the deposit mobilization is to covert the idle saving into active saving.

“Commercial banks are the main financial institutions, which can play very important role in the resource mobilization for the economic development. Trade, industry, agriculture, and commerce should be development for the economic development. Capital formation is possible through collecting scattered unproductive and small savings from the people. This collected fund can be utilized in productive sectors to increase employment and national productivity. Deposit mobilization is the most important source of the capital formation.” (*RBB; 2055: 14*)

“Banking transaction refers to the acceptance of deposit from the people for granting loan and advances, and returning the accepted deposit at demand or after the expiry of the certain period according to the banking rules and regulations. Thus, deposit mobilization is the starting point of banking transactions. Banking activities can be increased as well as the accumulated deposit can be mobilized effectively.” (*NRB; 2037: 7*)

“A commercial bank changes the scattered unproductive small savings into loan able and active savings. The bank not collects saving, but also provides incentives to the savers and helps them to be able to save more.” (*RBB; 2055: 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 deposits. In this context, the yearly increasing rate of commercial banks deposit clearly shows the satisfactory progress of deposit mobilization.” (*RBB; 2055: 20*)

2.8 Needs for Deposit Mobilization

“The following are the reasons for why deposit mobilization is needed in a developing country like Nepal. Workshop report “Deposit mobilization why & how” states the following points as the needs for deposit mobilization:

- a) 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.
- b) It is much more important to canalize the collected deposit in the priority sectors of a country. In our developing country, we have to promote our business & other sectors by investing the accumulated capital towards productive sectors.
- c) The need for deposit mobilization is felt to control unnecessary expenditure. If there is no saving, the extra money that the people have, can be forwarded buying unnecessary & luxury goods. So, the government also should help to collect more deposit, steeping legal procedures to control

unnecessary expenditures.

- d) 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 & silver, etc. Though these loans are traditional in nature & are not helpful to increase productivity, but it helps, to some extent, to mobilize bank's deposits.
- e) To increase saving is to mobilize deposit. It is because if the production of agriculture & industrial products increases, it gives additional income, which helps to save more, & ultimately, it plays a good role in deposit mobilization.
- f) Low national income, low per capita income, lack of technical know-how, vicious cycle of poverty, lack of irrigation & fertilizers, pressure of population increase, geographical condition, etc. are the main problems to bring economic development in a under development country like Nepal. Deposit mobilization helps in capital formation & thereby plays a vital role in economic development of a country." (*Vaidya; 2002: 35-37*)

2.9 Advantages of Deposit Mobilization

“The NRB report published in 1984, Bankers Prakashan, Group ‘B’ enumerates the following advantages of deposit mobilization:

a) Circulation of idle money

Deposit mobilization helps to circulate the idle money. The meaning of deposit mobilization is to convert idle saving into active saving. It helps the depositor's habit of saving on one side, & it also helps to circulate the idle saving in productive sector on the other. This helps to create incentives to the depositors. Again, investment in productive sector helps directly in country's economic development, & also increases investor's income.

b) To support in fiscal & monetary policy

Fiscal policy of the government & monetary policy of the central bank for economic development of a country can be supported by deposit mobilization. It helps to canalize idle money in productive sectors. Again, it helps in money supply, which saves the country from deflation & helps central bank in achieving the objective of monetary policy.

c) To promote cottage industries

Deposit mobilization is needed to facilitate cottage industries located in rural & urban areas. If the bank utilizes the collected deposit in the same rural or urban sector for the development of cottage industries, it is helpful not only to promote cottage industries in the area, but also supports in the development of the locality as a whole, increasing employment & income of the local people.

d) Capital formation

Capital plays a vital role for the development of industries. But in an underdeveloped country, there is always lack of capital to support such industries. Capital formation & industrialization is possible through deposit mobilization.

e) Developing of banking habit

One of the important sides of economic developing country is to increase banking habit in the people. Deposit mobilization helps in this aspect. If there is proper deposit mobilization, people believe bank & banking habit develops in people.

f) To check the miss utilization of money

Mostly our customs & habits are supported by social & religious beliefs. There is also tendency of copying others & to show their superiority buying unnecessary & luxury items in our society. In such society, deposit mobilization proves a tool to check the

misutilization of money.

g) To support government development projects

Every underdeveloped country's government needs a huge amount of money for development projects. The deposit collected by the banks can fulfill to some extent the need of money of the people.

h) Co-ordination between different sectors

Deposit mobilization helps to collect capital from surplus & capital hoarding sectors. The fund can be invested for the needy sectors. Thus, it helps to fulfill the gap between these two different sectors. Earning interest in their deposit & the needy sector receiving loan & advances, benefits the surplus & hoarding sectors. Thus, it helps to keep good co-ordination between different sectors.

i) Others

Deposit Mobilization supports small savers by earning interests, helps to the development of rural economy, protects villagers from being exploitation of indigenous bankers investment incentives, provides facilities to the small farmers to purchase tools & fertilizers, etc.” (*NRB; 1984: 12-14*)

2.10 Investment

“Investment is simply defined as the sacrifice of current consumption for future consumption whose objective is to increase future wealth. The sacrifices of current consumption take place at present with certainty & the investor expects desired level of wealth at the end of his investment horizon. The general principle is that the investment can be retired when cash is needed. The decision to invest now is a most crucial decision as the future level of wealth is not certain. Time & risk are the two conflicting attributes involved in the investment decision. Broadly, investment alternatives fall into two categories: real assets & financial assets. Real assets are tangible while financial assets involve contracts written on pieces of papers such as

common stocks, bonds & debentures. Financial assets are bought & sold in organized security markets.” (*Helfert; 1992: 37*)

2.10.1 Principles of Sound Investment Policy

“The income and profit of the bank depends upon its investment of its funds in different securities. The greater the credit created by the bank, the higher will be the profitability.” (*Jain; 1996: 36*) A sound lending and investment policy is not only prerequisite for banks profitability, but also crucially significant for the promotion of commercial savings of a backward country like Nepal. The principles of sound investment policy, i.e. the features of sound lending policy are explained below:

a) Safety and Security

“The bank should never invest its funds in those securities, which are too volatile i.e., which are subject to too much depreciation and fluctuations because a little difference may cause a great loss. It must not invest its funds into speculative businessman who may be bankrupt at once and who may earn millions in a minute also. Security means adequate collateral having good value, which can be easily sold off if required at any point of time. The bank should accept that type of securities, which are commercial, durable and marketable having fair market value.” (*Reed & Smith; 2006: 70*) For this purpose 'MAST' should be applied while reaching an investment decision, where MAST stands for,

- M = Marketability,
- A = Ascertainability,
- S = Stability,
- T = Transferability.

b) Profitability

“A commercial bank can maximize its volume of wealth through maximization of return on their investments and lending. So, they must invest their funds where they can gain maximum profit. The profit of commercial banks depends on the interest

rate, volume of loan, its time period and nature of investment in different securities.”
(*Hampton; 1998: 87*)

c) Liquidity

“Liquidity is the ability of a firm to satisfy its short-term obligations when they become due for payment. People deposit money at the bank in different account with confidence that the bank will repay their money when they need. To maintain such confidence of the depositors, the bank must keep this point in mind while investing its excess funds in different securities, so that it can meet current or short-term obligations when they become due for payment.” (*Gitman; 1988: 49*)

d) Purpose of loan

“From the viewpoint of security, a banker should always be known that why a customer is in need have loan. If a borrower misuses the loan granted by the bank, it can never repay and bank will possess heavy bad debts. Therefore in order to avoid this situation each and every bank should demand and examine all the essential detailed information about the scheme of the project or activities, before lending.”
(*Kohn; 1999: 113*)

e) Diversification

“A bank should not lay all its eggs on the same basket. This saying is very important to the bank and it should always be careful not to grant loan in only one sector. To minimize risk, a bank must diversify its investment on different sectors. Diversification of loan helps to sustain loss according to the law of average because if securities of a company deprived, there may be appreciation in the securities of other companies. In this way the loss can be minimized or recovered.” (*Kohn; 1999: 113*)

f) Tangibility

“Though it may be considered that tangible property does not yield an income apart from direct satisfaction of possession of property, many times, intangible securities have lost their value due to price level inflation. A commercial bank should prefer tangible security to intangible one.” (Kohn; 1999: 114)

g) Legality

“Illegal securities will bring out many problems for the investor. A commercial bank must follow the rules and regulations as well as different directives issued by the central bank (Nepal Rastra Bank), Ministry of finance, Ministry of law and other relevant authorities, while mobilizing its funds.” (Kohn; 1999: 114)

h) National Interest

“In addition to its own profitability the Bank should also consider the national interest. Even though the Bank cannot get maximum return from such investment, it should carry out its obligation towards the society and the country. The Bank is required to invest on such sectors as per the Government and Nepal Rastra Bank's instruction. Investment on government bonds, priority and deprived sector lending are the examples of such investments.” (Panday; 2007:19-28).

2.12 Review of Journals and Articles

Subedi (2001), in his article “*Mobilization of Deposit of Banks*” has said due to the lack of investment avenues, banks are tempted to invest without proper credit appraisal and one personal guarantee, whose negative side effects would show colors only after 4 or 5 years. Again he said that Private CBs have mushroomed only in urban areas where banking transactions in large volume is possible. The rural and sub urban areas mostly remain unattended to. This is likely to prevail till competition tasks its full region in the urban areas.

Shrestha (2001), in his article, “*A study on Deposit and Credit of Commercial banks in Nepal*” has concluded that the credit deposit ratio would be 51.30, other things remaining the same. In Nepal, which was the lowest under the period of review. Therefore, he had strongly recommended that the joint venture banks should try to give more credit entering new field as far as possible, otherwise they might not be able to absorb even the total expenses.

Kazmi (2003), in his article, “*Deposit Mobilization in Pakistan*” has stated that deposit mobilization has dwindled considerably after 1997. Deposits as a proportion of GDP have been going down. Growth rate of overall deposits of banks has gone down. However, the slow down seems to have been arrested and reversed in year 2000.

Group-wise performance of deposit mobilization is the reflection of the varying degree with which each group has been affected since 1998. Foreign banks were affected the most due to their heavy reliance of foreign currency deposits. They experience 14 per cent erosion in 1999. However, they were able to achieve over 2 per cent growth in year 2000. Similar recovery was shown by private banks.

Deposit mobilization by NCBs seems to be waning after discontinuation of their rupee deposit schemes linked with lottery prizes. Growth in their deposits was on the decline. Despite the decline NCBs control a large share in total deposits. Aggressive posture of private banks in mobilizing more deposits in year 2000 is clearly reflected in their deposit growth, from 1.9 per cent in year 1999 to 21.7 per cent in year 2000. This has also helped them in increasing their share in total deposits to over 14 per cent in year 2000.

Due to the shift in policy, now banks are neither required nor have the option to place their foreign currency deposits with the SBP. Although, the growth in foreign currency deposits increases the deposit base, it does not add to their rupee liquidity.

The increasing share of foreign currency deposits in total base is a worrying development. In order to check this trend, SBP made it compulsory for the banks not to allow foreign currency deposits to exceed 20 per cent of their rupee deposits effective from January 1, 2002.

Thisen (2006), in his article, *“Mobilization of Savings through Increased Monetization of African Economies”*, has presented that deposit mobilization is one of the most effective means for intermediaries to mobilize resources. Savings mobilization makes financial institutions accountable to local shareholders. Thus all financial intermediaries should be encouraged to build savings mobilization arrangements for their clients, either by providing these services directly or by making arrangements with non-governmental institutions (NGOs). Banking regulations need to be adapted to encourage those micro-financing institutions with the capacities to legally mobilize savings from clients or the general public.

Financial markets with the aim to attracting more private financial resources to complement public funds have emerged. Hence, in addition to the banking systems, a number of initiatives were undertaken to assist the African countries enhance their capacity in financial intermediation and development of bonds, stock, and money markets.

Paredes (2008), in his article, *“Ecuador: Savings Mobilization in 14 Credit Unions”*, has presented that Credit unions in Ecuador are mobilizing savings with success. Based on the data collected in this study of the 14 credit unions, the credit unions supervised by the Bank Superintendence are larger and have mobilized greater levels of savings than those supervised by DINACOOOP. All the credit unions offered demand and fixed-term savings products. Demand savings made up a much larger share of total savings than fixed-term savings. Interest rates on both types of products tended to be higher in the institutions supervised by DINACOOOP. The savings

mobilization strategies employed by the 14 credit unions all drew on certain fundamental elements.

The institutional image, quality of member service, liquidity, directors and officers living in the area, and the stability of management for various years were considered fundamental elements for the establishment and promotion of security and soundness in the credit unions. The survey of more than 500 members created a profile of members in the 14 credit unions, particularly in relation to their income and social condition. The survey found that there remained a surplus of funds that were saved in alternative mechanisms. The implementation of systematic programs and marketing to encourage a culture of savings in credit unions would serve to channel these resources toward the credit unions. Finally, the trust factor, the image of the institution, and the quality of service were the principal platforms for savings mobilization in the credit unions in Ecuador.

Deshpande and Glisovic (2009), in their article, "*The True Cost of Deposit Mobilization*", have stated that most of the Bangladeshi institution's servicing costs come from roving deposit collectors. While the other institutions use branches to deliver deposit services, the Bangladeshi institution uses roving deposit collectors who visit clients in their homes and workplaces every day. This model is particularly useful for serving poor, remote, or busy clients who often do not have the resources or time to visit a branch.

However, the Filipino institution also uses collectors, and its cost of servicing deposit accounts amounts only to 1.2% of balances mobilized. The difference partly comes from the way each institution uses collectors. The Bangladeshi institution uses them to service all of its clients, while the Filipino one uses them for only a small minority who are least likely to visit the branch. So even though the two institutions have roughly similar numbers of clients, more Bangladeshi than Filipino customers are actually served by collectors, raising total collection costs.

Commercial banks are a comparatively new scenario in the country, and they have to compete with other very well accepted financial institutions, including commercial banks, and are practically made to fight against the prevailing public psychology that works against Commercial banks. The sources of funds for commercial banks are not being widened, and the annual increment rate is very low. Accordingly, competition for funds, both inter-commercial banks has rally augmented.

In Nepal, Commercial banks have been able to mobilize funds totaling to over 17.8 billion as of mid July-2004. this an increase of about 100% over the corresponding period of the previous year when the total funds at Commercial banks amounted to Rs. 3.4 billion. This increase can be considered to be enthusiastic, keeping in mind that the Commercial banks are in the initial stage of their development. It also speaks of the huge potential that the Commercial banks carry and the contribution they can make to the national economy with a little more encouragement.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is composed of two words “Research” and “Methodology”. Research is a systematic and organized effort to investigate specific problem that needs a solution. Whereas methodology is the systematic method of finding solution to a problem i.e. systematic collection, recording, analysis, interpretation and reporting of information about various facts of a phenomenon under study. Research Methodology describes the methods and procedures applied in the entire aspect of the study.

In the last two chapters, background of the joint venture as well as non-joint venture commercial banks has already been streamlined and the review of literature with possible review of theories and findings also has been discussed. As a result, I have felt very comfortable to come to the choice of research Methodology. It is framework or a general plan for the study guiding the collection and analysis of data.

In this study research methodology describe the methods and processes applied in the entire aspect of the study. Further efforts have been made to presents and explain the specific research design for the attaining the research objectives. It includes research design, nature of data, data gathering procedure, population & sample and data processing procedures.

3.2 Research Design

Research design is the plan, structure and strategies of investigation conceived so as to obtain answer to research questions and to control variation. Research design helps the investigator for obtaining answers to questions of research and also helps him to control the experimental, extraneous and error variance of the particular research problem under study.

“A research design is the logical and systematic planning and directing of piece of research” – P.Vayoung.

“A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure ”- Kothari 1992

Thus a research design is research plan or structure which is path for conducting research work. Without research design it is not possible to conduct a research. The analysis of this study is based on certain research design keeping in mind on the objective of the study. From concerned bank different information and necessary data are collected such as annual reports and financial statement published by related bank. The data are collected from year 2005/06 to 2009/010.

3.3 Sample and Population

Thirty one banks are operating in Nepal out of which six are joint venture commercial banks and twenty-five are non joint venture commercial banks. Nepal Rastra Bank being the central Bank of Nepal recommends, directs and controls the establishment, operations and dissolution of all commercial banks in Nepal. The population for this study of all joint venture and non joint venture banks. All the banks are performing banking function of commercial banks under rules, regulations and directive of Nepal Rastra Bank. As it is not possible to analyze the performance of all the banks in limited time. So, Nepal NSBI Bank and Bank of Kathmandu are taken for sample in this study. Population of this study is as follows;

Population:

1. Nepal bank Limited
2. Rastriya Banijya Bank
3. Agriculture Development Bank Ltd.
4. Nabil Bank Limited

5. Nepal Investment Bank Limited
6. Standard Chartered bank Nepal Ltd.
7. Himalayan Bank limited
8. Nepal NSBI Bank Limited
9. Nepal Bangladesh Bank Limited
10. Everest Bank Limited
11. Bank of Kathmandu Limited
12. Nepal Commerce and Credit Bank
13. Lumbini Bank Limited
14. Nepal Industrial and Credit Bank Limited
15. Machhapuchhre Bank Limited
16. Kumari Bank Limited
17. Siddhartha Bank Limited
18. Global Bank Limited
19. Citizen Bank International Limited
20. Prime Bank Limited
21. Sunrise Bank limited
22. Bank of Asia Nepal Limited
23. Development Credit Bank Limited
24. NMB Bank Limit
25. Kist Bank Limited
26. Century Commercial Bank
27. Commerz and Trust Bank
28. Civil Bank.
29. Megha Bank
30. Janata Bank
31. Sanima Bank

3.4 Sample of this Study

The researchers has used convenience sample method so the selected sample banks for the study is Bank of Kathmandu Ltd. and Nepal NSBI Bank Ltd.

3.5 Sources of Data

This study is mostly based on secondary data. However, required and necessary information have been obtained through informal discussions and with the staff of the banks. The sources of data collection are:-

- Financial Statements, annual reports provided by bank
- Articles and other related materials published in news paper
- Nepal Rastra Bank website
- Related web site
- Textbooks, Handbooks, Magazines and Other related Books
- Library findings

3.6 Data Collection Technique

The study has been conducted to examine and evaluate the cash flow performance of Nepal NSBI Bank and Bank of Kathmandu limited. For this purpose various data are required. The annual report of the last five yeas was provided by the banks.

Various websites were surfed to gather relevant information. Reference material was collected from libraries of Shanker Dev Campus and Central Library, Tribhuvan University that helped a lot in conduction of this study. Besides the above stated source of data detailed reviews of literature have been conducted for the purpose of collecting other relevant data and information. The data information, facts and figures have been edited tabulated and calculated before analysis. Information and major findings collected in this way was note down to use during analysis and interpretation of data.

3.7 Data Processing

Data collected from concerned Bank's annual reports, financial statements, relevant information and findings were in raw form. According to the nature of data they were classified and been inserted into meaningful related tables. Using financial and statistical tools, data have been analyzed and interpreted.

3.8 Data Analysis Tools Methods & Techniques

Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic. This study is mostly based on the analysis of secondary data with the help of different statistical tools. Therefore the data have been collected accordingly and managed, analyzed and presented in suitable tables, formats, diagrams, graphs and charts. Such presentations have been interpreted and explained wherever necessary. Financial, mathematical statistical tools and word, excel are used to analyze the presented data.

3.8.1 Financial Tools

The financial tools those have been used to achieve the objectives of the study are listed below;

3.8.1.1 Collection of Deposit

The higher the collection of deposit, the higher will be the opportunity for the bank to invest in profitable sector. Under this, mainly three analyses have been done.

3.8.1.1.1 Deposit Collection Growth

The deposit collection of BOK and NSBI banks have been delineated under this topic, and the percentage change of deposit comparing to the previous year's deposit has been calculated to measure the growth.

$$\text{Deposit Collection Growth} = \frac{\text{Current Year's Deposit} - \text{Last Year's Deposit}}{\text{Last Year's Deposit}} \times 100$$

3.8.1.1.2 Source of Deposit Collection

The source of bank deposit has been categorized mainly in interest-bearing deposit and non-interest bearing deposit. The source of deposit collection clarifies that which source of deposit plays the dominant role in fund collection in the form of deposit.

$$\text{Source of Deposit} = \text{Interest Bearing Deposit} + \text{Non Interest Bearing Deposit}$$

Where,

$$\text{Interest Bearing Deposit} = \text{Savings} + \text{Fixed} + \text{Call Deposits}$$

$$\text{Non Interest Bearing Deposit} = \text{Current} + \text{Margin} + \text{Other}$$

3.8.1.1.3 Deposit Mobilization

The bank not only collects the deposit but also mobilizes such deposit in various sectors to gain the profit. Hence, after deposit collection, the mobilization of deposit is the major role of bank. So, to analyze the deposit mobilization, the following ratios have been analyzed.

3.8.1.1.3.1 Cash and Bank Balance to Total Deposit ratio

This ratio measures the mobilization rate of total deposit in maintaining cash and bank balance ratio. The higher the ratio indicates the higher liquidity of the bank. However, keeping high ratio indicates low utilization of cash, which ultimately affects the profit. So, neither too high, nor too low ratio is preferable.

$$\text{Cash \& Bank Balance to Total Deposit ratio}$$

$$= \frac{\text{Total Cash \& Bank Balance}}{\text{Total Deposit}} \times 100$$

3.8.1.1.3.2 Loan and Advances to Total Deposit Ratio

This ratio measures the relationship between total deposit and loan and advances. This ratio indicates what percentage of total deposit collection has been mobilized in granting loan and advances to gain interest income.

$$\text{Loan \& Advances to Total Deposit ratio} = \frac{\text{Total Loan \& Advances}}{\text{Total Deposit}} \times 100$$

3.8.1.1.3.3 Investment to Total Deposit Ratio

Besides granting loan and advances, the bank mobilizes its fund in investment in various sector like government securities, corporate shares and debentures, and other to gain interest and dividend income. Hence, this ratio measures how effectively the bank has mobilized its total deposit in investment.

$$\text{Investment to Total Deposit ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}} \times 100$$

3.8.1.1.3.4 Money at Short Call & Notice to Total Deposit Ratio

The bank also mobilizes its total deposit in money at shot call and notice to gain interest income. Hence, the money at short call and notice to total deposit ratio measures the relationship between them.

$$\text{MSCN to Total Deposit ratio} = \frac{\text{Total MSCN}}{\text{Total Deposit}} \times 100$$

3.8.1.1.3.5 Fixed Assets to Total Deposit Ratio

To operate the daily activities, the bank needs to fixed assets. Thus, the fixed assets to total deposit ratio measures what percentage of total deposit has been mobilized by bank to acquire fixed assets.

$$\text{Fixed Assets to Total Deposit ratio} = \frac{\text{Total Fixed Assets}}{\text{Total Deposit}} \times 100$$

3.8.1.1.3.6 Interest Expenses on Deposit Ratio

It measures what percent of the total deposit has been paid to the deposit holders in paying the interest. The lower the ratio is considered better.

$$\begin{aligned} &\text{Interest Expenses on Total Deposit ratio} \\ &= \frac{\text{Total Interest Expenses on Deposit}}{\text{Total Deposit}} \times 100 \end{aligned}$$

3.8.2 Statistical Tools

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

3.8.2.1 Mean

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

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

3.8.2.2 Standard Deviation

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

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

3.8.2 .3 Coefficient of Variation

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

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

3.8.2.4 Correlation Coefficient

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

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

3.8.2.5 Probable Error

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

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

Where, r = the value of correlation coefficient

n = number of pairs of observations

if $r < \text{P.E.}$, it is insignificant, i.e. there is no evidence of correlation

if $r > 6 \text{ P.E.}$, it is significant

3.8.2.6 Regression Line

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

$$Y = a + bX \dots \dots \dots (i)$$

Where, Y = Dependent Variable

a = Constant

b = Regression Coefficient

X = Independent Variable

3.8.2.7 Trend Analysis

Trend analysis is an analysis of financial ratio over time used to determine the improvement or deterioration of financial situation. Trend analysis is a very useful and commonly applied tool to forecast the future event in quantitative terms on the basis of the tendencies in the dependent variable in the past period. Using the least square method, the projection for three years is done. For the estimation of linear trend line, following formula has been used.

$$Y = a + bx \dots \dots \dots (i)$$

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1 Financial Analysis

Under this part of the study, the various financial ratios that are related to the collection and mobilization of the deposit of BOK and NSBI have been analyzed to meet the objectives of the study.

4.1.1 Collection of Deposit

The bank collects deposit from various sources. So under this, the sources and growth of deposit and the coverage of fund mobilization on total fund have been presented.

4.1.1.1 Deposit Collection Growth

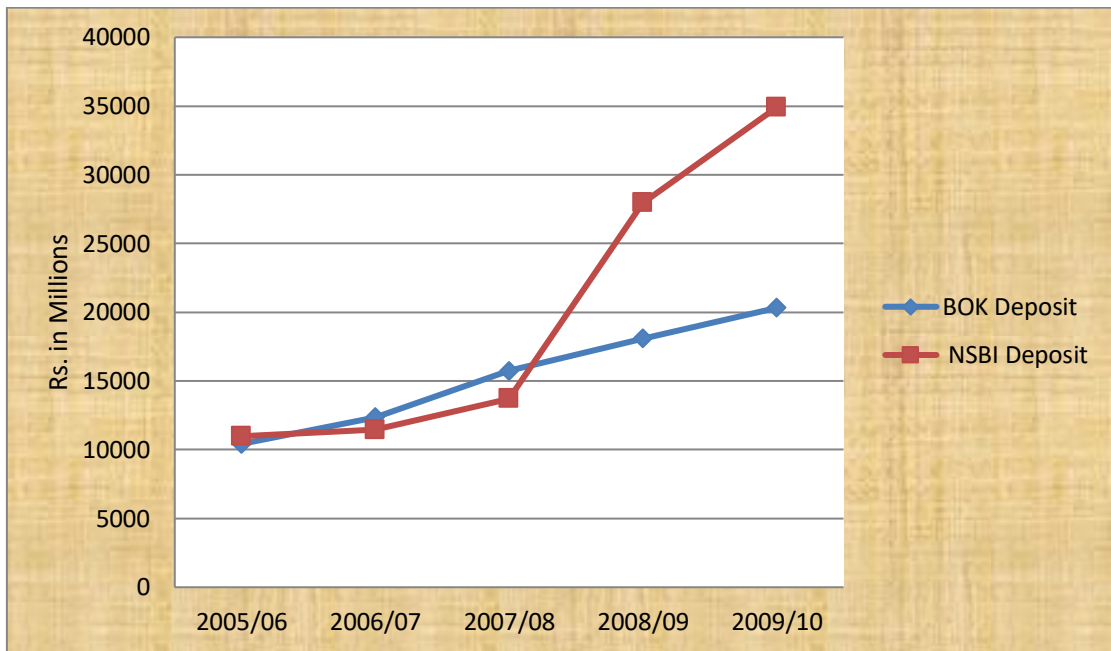
Deposit is the major source of fund of each bank to run the business. So, the success of any financial institution also relies on the deposit collection increment. The deposit collection and the percentage change in deposit of BOK and NSBI have been presented in the Table

Table 4.1
Deposit Collection Growth (In millions)

FY	BOK		NSBI	
	Deposit	% Change	Deposit	% Change
2005/06	10429.04	16.19	10983.98	26.91
2006/07	12359.05	18.51	11445.28	4.20
2007/08	15745.39	27.40	13715.39	19.83
2008/09	18083.98	14.85	27957.22	103.84
2009/10	20315.83	12.34	34896.42	24.82
Mean	51954.65	17.86	19799.65	35.92
S.D.	3171.64	5.78	2536.90	20.94
C.V.%	26.32	32.36	55.27	58.30

(Computed from NRB database)

Figure: 1
Deposit Collection Growth



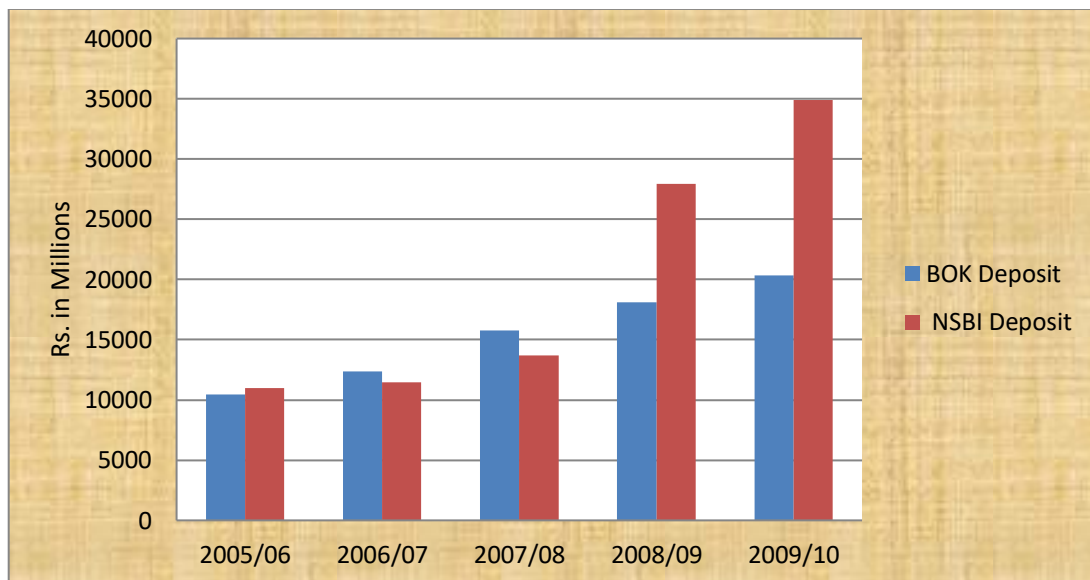
The table has shown the deposit collection of the sampled banks and the percent change in the deposit collection in each year. The table has revealed that the deposit collection of BOK is in increasing trend. BOK has collected Rs. 10429.04 millions, Rs. 12359.05 millions, Rs. 15745.39 millions, Rs. 18083.98 millions and Rs. 20315.83 millions in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. In average, Rs. 11085.09 millions has been collected by BOK as deposit amount. The table has also depicted that the percentage change in deposit collection is highest (27.81%) in the fiscal year 2007/08 and lowest (12.34%) in the fiscal year 2009/10.

Alike in BOK, the deposit collection amount of NSBI is also in increasing trend. NSBI has collected Rs. 10983.98 millions, Rs. 11445.28 millions, Rs. 13715.39 millions, Rs. 27957.22 millions and Rs. 34896.42 millions in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. In average, Rs. 19799.65 million has been collected as deposit amount by NSBI. Also the percentage change in

deposit collection is highest (103%) in the fiscal year 2008/09 and lowest (4.20%) in the fiscal year 2006/07.

Comparing two banks, it can be concluded that BOK is more successful than NSBI in deposit collection, since the average deposit collection of BOK (Rs. 51954.65 millions) is higher than that of NSBI (Rs. 19799.65 millions). Also, the deposit collection trend of BOK is more uniform than that of NSBI, since the C.V. on deposit collection of BOK (26.32%) is lower than that of NSBI (58.30%).

Figure: 1
Deposit Collection Growth



4.1.2 Deposit Mobilization

The bank collects deposit to mobilize it in the income generating assets. So, effective mobilization of deposit is crucial for the sustainability of the banks.

4.1.2.1 Cash and Bank Balance to Total Deposit Ratio

To have sufficient liquidity to pay the current liabilities the bank needs to have adequate cash and bank balance. Thus, what percentage of total deposit of BOK and NSBI has been represented by cash and bank balance is measured in the table below.

Table 4.2**Cash and Bank Balance to Total Deposit Ratio (in millions)**

FY	BOK			NSBI		
	CBB	TD	Ratio	CBB	TD	Ratio
2005/06	729.09	10429.04	6.99	505.73	10983.98	4.60
2006/07	1305.09	12359.05	10.55	1122.69	11445.28	9.80
2007/08	1392.73	15745.39	8.84	1347.58	13715.39	9.82
2008/09	2175.22	18083.98	12.02	1910.91	27957.22	6.83
2009/10	1798.36	20315.83	8.85	3549.44	34896.42	10.17
Mean			9.45			8.24
S.D.			1.90			2.44
C.V.%			20.20			29.61

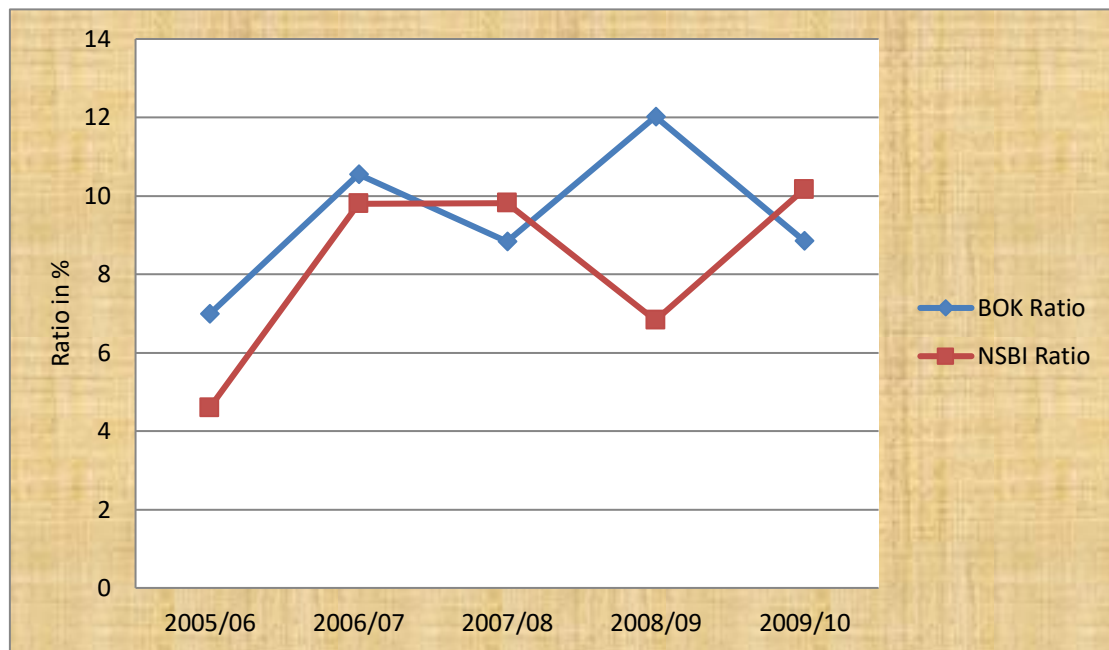
(Computed from NRB database)

The table shows the mobilization of total deposit to maintain cash and bank balance in order to have enough liquidity. The cash and bank balance in both the selected banks are in increasing trend, along with the increasing total deposit. However, the cash and bank balance to total deposit in each bank is in fluctuating trend. In BOK, the ratio is 6.99% in the base year 2005/06, which has increased to 10.55% in the fiscal year 2006/07, decreased to 8.84% in the fiscal year 2008/09, then increased to 12.02% and finally decreased to 8.7% in the fiscal year 2009/10. In average, 9.45% of the total deposit collection has been mobilized in maintaining cash and bank balance. The standard deviation and coefficient of variation in such ratio are 1.90% and 2.44% respectively.

Similarly, the ratio has ranged from 4.6% in the fiscal year 2005/06 to 9.8% in the fiscal year 2006/07 in NSBI. In average, NSBI has mobilized 8.22% of the total deposit to maintain cash and bank balance. The coefficient of variation and standard deviation on the ratio are 2.44% and 29.7% respectively.

Comparing two banks on the ground of cash and bank balance to total deposit, it can be concluded that BOK (9.24%) has mobilized higher portion of total deposit in maintaining cash and balance than NSBI (8.22%) does in order to have sufficient liquidity position.

Figure 4.2
Cash and Bank Balance to Total Deposit Ratio



4.1.2.2 Loan and Advances to Total Deposit Ratio

Bank grants loan and advances to gain interest income, which is the main source of income. To examine what portion of the total deposit has been mobilized by BOK and NSBI, the loan and advances to total deposit ratio has been computed.

Table 4.3
Loan and Advances to Total Deposit

Ratio (In millions)

FY	BOK			NSBI		
	LA	TD	Ratio	LA	TD	Ratio
2005/06	7542.76	10429.04	72.32	8232.11	10983.98	74.94
2006/07	9694.10	12359.05	78.43	10065.05	11445.28	87.94
2007/08	12747.72	15745.39	80.96	12742.52	13715.39	92.90
2008/09	14945.72	18083.98	82.89	15131.74	27957.22	54.12
2009/10	17044.29	20315.83	83.79	18031.77	34896.42	51.67
Mean			79.65			72.31
S.D.			5.41			17.23
C.V.%			6.79			23.82

(Computed from NRB database)

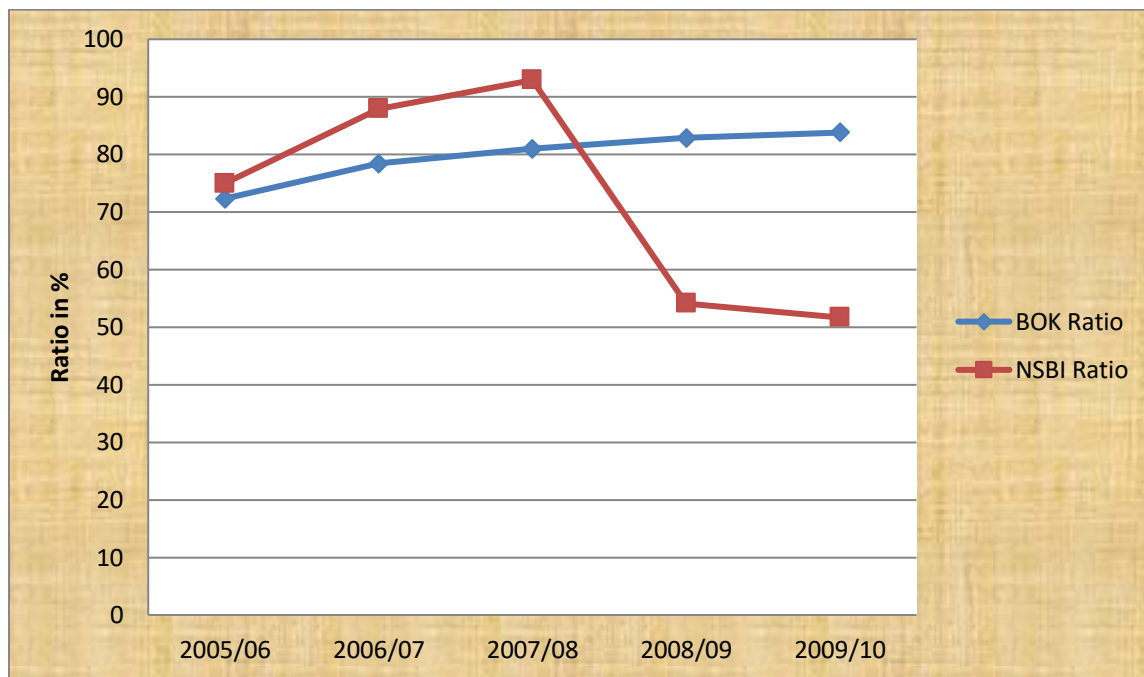
BOK has mobilized 72.32%, 78.43%, 80.96%, % and 82.89,83.9% of the total deposit in loan and advances. In average, 79.65% of the total deposit has been mobilized in loan and advances. And the coefficient of variation in such loan and advances is 5.41%, which has indicated uniformity in the ratio.

Similarly, NSBI has also mobilized high portion of its deposit collection in disbursing loan and advances. The loan and advances to total deposit has ranged from 92.90% in the fiscal year 2007/08 to 51.67 % in the fiscal year 2009/10. In average, 72.31% of the total deposit has been utilized in granting loan and advances. And the coefficient of variation in such ratio is 23.82%.

Comparing two banks, it can be considered the mobilization of total deposit collected in loan and advances is greater in NSBI (23.82%) than that in BOK (6.79%).

Figure 4.3

Loan and Advances to Total Deposit Ratio



4.1.2.3 Investment to Total Deposit Ratio

The banks mobilizes its deposit collection in investment in various sectors like government securities, corporate shares and debentures and others like certificate of deposit, mutual fund to earn interest, dividend and capital gain. The mobilization of total deposit in investment of BOK and NSBI has been presented in the Table 4.4.

Table 4.4
Investment to Total Deposit Ratio (in millions)

FY	BOK			NSBI		
	Inv.	TD	Ratio	Inv.	TD	Ratio
2005/06	2914.58	10429.04	27.94	3699.94	10983.98	33.68
2006/07	2995.19	12359.05	24.23	2377.51	11445.28	20.77
2007/08	2978.363	15745.39	18.91	3146.95	13715.39	22.94
2008/09	2786.35	18083.98	15.40	13286.18	27957.22	47.52
2009/10	3629.20	20315.83	16.09	16255.13	34896.42	46.58
Mean			20.51			34.29
S.D.			5.41			12.62
C.V.%			26.39			36.80

(Computed from NRB database)

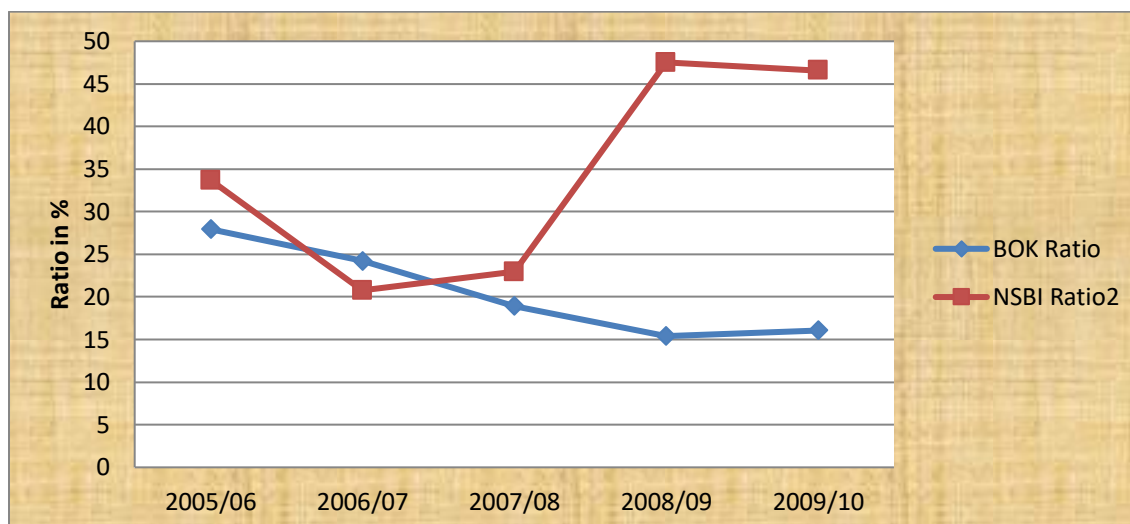
The above table depicts that the mobilization of total deposit in investment of BOK has fluctuated during the periods. The investment to total deposit of BOK has ranged from 16.19% in the fiscal year 2009/10 to 18.91% in the fiscal year 2007/08. In average, 20.51% of the total deposit has been mobilized in investment. The coefficient of variation on such ratio is 26.39%.

Similarly in NSBI, 33.68%, 20.77%, 22.94%, 47.52% and 46.58% of the total deposit has been mobilized in investment sector, like government securities, corporate share and debentures, and others, to earn interest income and dividend, in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. In average, NSBI bank has utilized 34.29% of the total deposit in investment and the coefficient of variation in such ratio is 36.80%.

Comparing two banks, it can be concluded that the mobilization of total deposit in investment is greater in NSBI (34.29%) than in BOK (20.51%). However, the ratio is more consistent in BOK (C.V. = 26.39%) than in NSBI (C.V. = 36.80%).

Figure 4.4

Investment to Total Deposit Ratio



4.1.2.4 Money at Short Call and Notice to Total Deposit Ratio

Besides loan and advances & investment, the bank mobilizes its total deposit in money at short call and notice to earn interest income. The money at short call and notice to total deposit ratio of BOK and NSBI have been presented in the Table

Table 4.5

Money at Short Call and Notice to Total Deposit Ratio (in millions)

FY	BOK			NSBI		
	MSCN	TD	Ratio	MSCN	TD	Ratio
2005/06	1057.59	10429.04	10.14	363.20	10983.98	3.30
2006/07	259.28	12359.05	2.09	631.94	11445.28	5.52
2007/08	301.16	15745.39	1.92	304.02	13715.39	2.21
2008/09	243.36	18083.98	1.35		27957.22	0
2009/10	931.98	20315.83	4.58		34896.42	0
Mean			4.01			2.20
S.D.			3.64			2.34
C.V.%			90.77			106.36

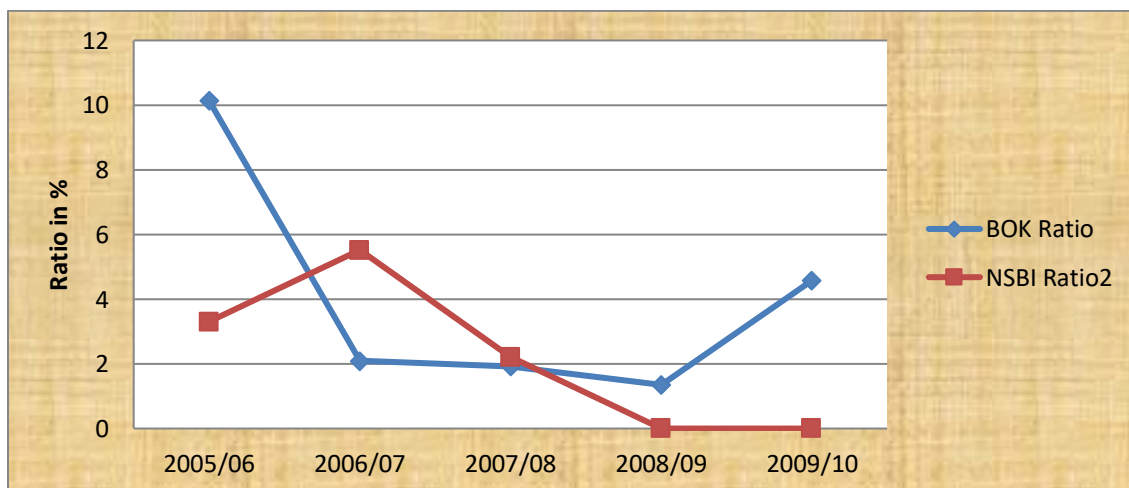
(Computed from NRB database)

Besides, loan and advances and investment, money at short call and notice is another source of interest generating assets. The table shows that BOK has mobilized 10.14%, 2.09%, 1.92%, 1.35% and 4.58% of the total deposit in money at short call and notice in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. In average, 4.01% of the total deposit is utilized in money at short call and notice by BOK. However, the coefficient of variation of 90.77% .

Likewise, the mobilization of total deposit in money at short call and notice is in fluctuating trend in NSBI. NSBI has practiced to invest in money at short call and notice since the fiscal year 2004/05. The ratio is 3.30% in the fiscal year 2005/06, which has increased to 5.52% in the fiscal year 2006/07, then has decreased to 2.21% in the fiscal year 2007/08, and finally has decreased to 2.22% in the fiscal year 2007/08. In average, 2.20% of the total deposit has been mobilized in money at short call and notice. The coefficient of variation in the ratio is 106.3%, indicating inconsistency.

Comparing BOK with NSBI, it can be considered that the mobilization of total deposit in money at short call and notice is higher in BOK (4.01%) than in NSBI (2.20%). Also, the ratio in BOK (C.V. = 90.77%) is more consistent than in NSBI (C.V. = 106.36%).

Figure 4.5
Money at Short Call and Notice to Total Deposit Ratio



4.1.2.5 Fixed Assets to Total Deposit Ratio

Besides income generating assets, the bank needs funds to acquire fixed assets to operate its daily activities. Hence, the mobilization of total deposit in fixed assets of BOK and NSBI bank has been presented in the Table 4.6

Table 4.6
Fixed Assets to Total Deposit Ratio

(In millions)

FY	BOK			NSBI		
	FA	TD	Ratio	FA	TD	Ratio
2005/06	119.96	10429.04	1.15	166.72	10983.98	1.51
2006/07	329.77	12359.05	2.66	97.56	11445.28	0.85
2007/08	411.79	15745.39	2.61	120.20	13715.39	0.87
2008/09	455.45	18083.98	2.51	255.32	27957.22	0.91
2009/10	527.40	20315.83	2.59	418.25	34896.42	1.19
Mean			2.30			1.06
S.D.			0.40			0.28
C.V.%			17.52			26.41

(Computed from NRB database)

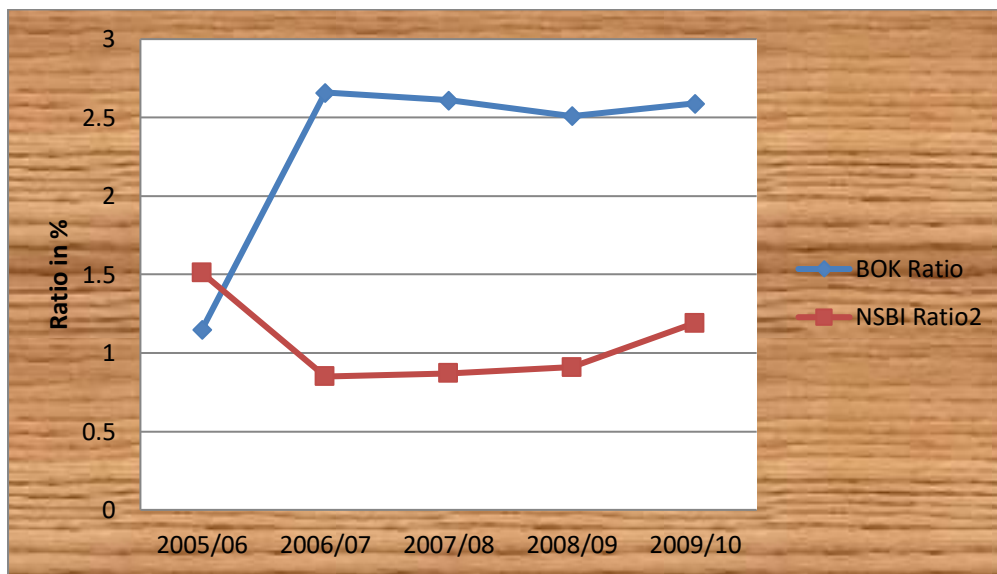
The table delineates the mobilization of total deposit in acquiring fixed assets. The table has shown that the ratio of fixed assets to total deposit of BOK in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 was 1.15%, 2.66%, 2.61%, 2.51% and 2.59% respectively. In average, 2.30% of the total deposit has been utilized by BOK in purchasing fixed assets. However, the coefficient of variation of 17.52% has indicated high inconsistency in the ratio.

Similarly, NSBI has mobilized 1.51%, 0.85%, 0.87%, 0.91% and 1.19% of the total deposit in acquiring fixed assets in the fiscal year 2005/06 2006/07, 2007/08, 2008/09

and 2009/10 respectively. In average, 1.06% of the total deposit has been mobilized in fixed assets. The coefficient of variation in the ratio is 26.42%.

Comparing two banks, it can be concluded that the mobilization of total deposit in fixed assets is greater in BOK (2.30%) than in NSBI (1.06%). However, the ratio is more volatile in BOK (C.V. = 17.52%) than in NSBI (C.V. = 26.41 %).

Figure 4.6
Fixed Assets to Total Deposit Ratio



4.1.2.6 Interest Expenses on Deposit Ratio

This ratio measures what percent of the total deposit has been paid to the deposit holders in paying the interest. The lower the ratio is considered better. The interest expenses on deposit ratio of BOK and NSBI has been presented in Table .

Table 4.7
Interest Expenses on Deposit Ratio (In millions)

FY	BOK			NSBI		
	IED	TD	Ratio	IED	TD	Ratio
2005/06	307.87	10429.04	2.95	334.78	10983.98	3.04
2006/07	339.42	12359.05	2.74	412.27	11445.28	3.60
2007/08	417.44	15745.39	2.65	454.91	13715.39	3.31
2008/09	563.12	18083.98	3.11	824.71	27957.22	2.94
2009/10	902.92	20315.83	4.44	1452.70	34896.42	4.163
Mean			3.17			3.41
S.D.			0.72			0.48
C.V.%			22.71			14.29

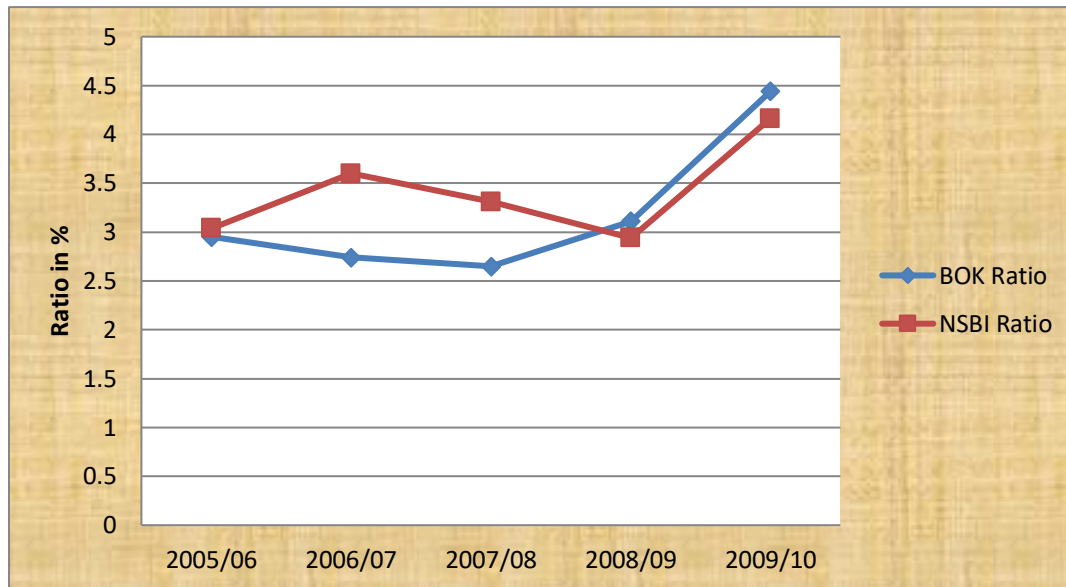
(Computed from NRB database)

The table has depicted the interest expenses incurred by the sampled bank in relation to the deposit collection. The table shows that BOK has been successful to decrease the interest expenses in deposit to total deposit in 2007/08 year. The interest expense on deposit to total deposit is 2.95%, which has significantly reduced and increased in 2008/09, 2009/10 has finally reached to 3.11% and 4.44%. . In average, BOK has incurred 3.17% of the total deposit as interest expenses.

However, the ratio in NSBI is in fluctuating trend. The ratio is 3.04% in the fiscal year 2005/06, which has increased to 3.60% in the fiscal year 2006/07, again has decreased to 3.31% in the fiscal year 2007/08, 2.94% in the fiscal year 2008/079 and again increased to 4.16% in the fiscal year 2009/10. In average, the interest expenses have represented 3.41% of the total deposit collection. The coefficient of variation in such ratio is 14.29%.

Comparing two banks, it can be concluded that NSBI (14.29%) is more successful than BOK (22.7%) to significantly reduce the interest expenses in relation to the total deposit.

Figure 4.7
Interest Expenses on Deposit Ratio



4.1.2.7 Interest Income on Deposit Ratio

This ratio measures what percent of the total deposit has been paid to the deposit holders in paying the interest. The lower the ratio is considered better. The interest expenses on deposit ratio of BOK and NSBI has been presented in

Table :4.8**Interest Income on Deposit Ratio (in millions)**

FY	BOK			NSBI		
	IID	TD	Ratio	IID	TD	Ratio
2005/06	719.01	10429.04	6.89	703.18	10983.98	6.40
2006/07	819.04	12359.05	6.62	831.12	11445.28	7.26
2007/08	1033.95	15745.39	6.56	966.90	13715.39	7.04
2008/09	1347.69	18083.98	7.45	1460.45	27957.22	5.22
2009/10	1870.84	20315.83	9.20	2269.77	34896.42	6.50
Mean			7.34			6.48
S.D.			1.09			0.79
C.V.%			14.85			12.19

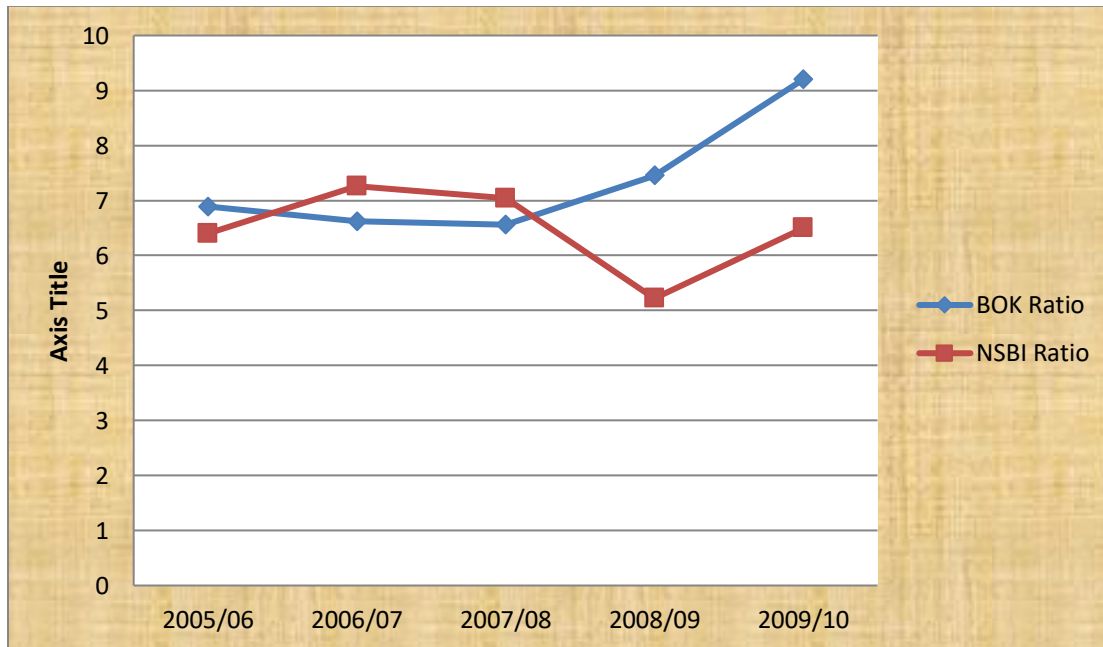
(Computed from NRB database)

The table has depicted the interest income incurred by the sampled bank in relation to the deposit collection. The table shows that BOK has been increased the interest income in deposit to total deposit in 2007/08 year. The interest income on deposit to total deposit is 6.56%, which has increased 7.45% in 2008/09 again increased 9.20 % in 2009/10 has finally reached to . In average, BOK has incurred 7.34 % of the total deposit as interest income.

However, the ratio in NSBI is in fluctuating trend. The ratio is 6.40% in the fiscal year 2005/06, which has increased to 7.26% in the fiscal year 2006/07, again has decreased to 7.04% in the fiscal year 2007/08, 5.22% in the fiscal year 2008/079 and again increased 6.50% in the fiscal year 2009/10. In average, the interest income have represented 6.48 % of the total deposit collection. The coefficient of variation in such ratio is 12.19%.

Comparing two banks, it can be concluded that NSBI (12.19%) is more successful than BOK (14.85%) to significantly reduce the interest expenses in relation to the total deposit.

Figure 4.8
Interest Income on Deposit Ratio



4.2 Statistical Analysis

Under this part of the study, mainly the simple correlation, simple regression and trend analysis of different financial variables have been analyzed.

4.2.1 Correlation and Regression Analysis

The correlation and regression analysis measures the relationship between variables. Mainly, the correlation and regression analysis between loan and advances and total deposit, investment and total deposit, net profit and total deposit have been analyzed.

4.2.1.1 Correlation and Regression Analysis between Loan & Advances and Total Deposit

Let the dependent variable, loan and advances be denoted by Y and the independent variable, total deposit be denoted by X . Then the regression line of loan and advances on total deposit and the correlation between these two variables of BOK and NSBI has been presented in the Table .

Table 4.9

Correlation and Regression Analysis between Loan and Advances and Deposit

Correlation Between LA and Deposit					
Bank	r	r ²	P.E.	6 P.E.	Remarks
BOK	0.9995	0.9990	0.0003	0.0018	Significant
NSBI	0.9435	0.8902	0.0265	0.0159	Significant
Regression Line of LA and Deposit					
Bank	A	B	Regression Equation		
BOK	3078.5	0.993	LA = 3078.5 + 0.993 TD		
NSBI	-13971.2	2.63	LA = -13971.2 + 2.63 TD		

The above table measures the relationship between loan & advances and deposit. The table shows that the correlation coefficient between loan & advances and total deposit is 0.9995 in BOK and 0.9435 in NSBI. This perfect correlation between loan & advances and total deposit in each bank indicates that with the increment/decrement in total deposit, the loan and advances of each bank increases/decreases.

The value of 'r' is greater than the 6 P.E. of BOK ($r = 0.9995 > 6 \text{ P.E.} = 0.0018$) and NSBI ($r = 0.9435 > 6 \text{ P.E.} = 0.0159$), it can be considered that the relationship between loan and advances and total deposit is statistically significant in each bank.

Similarly, the regression line of loan & advances on total deposit has enlightened that with per rupee increment in total deposit, the loan & advances of BOK increases by

Rs. 0.993, if the variable 3078.5 remains constant, and the loan & advances of NSBI increases by Rs2.63, if the variable -13971.2 remains uniform.

Eventually, from the above table, it can be concluded that the increment in loan & advances in NSBI is greater than that of BOK with the same per rupee of deposit collection, although the correlation coefficient between loan & advances and deposit of BOK is higher than that of NSBI.

4.2.1.2 Correlation and Regression Analysis between Investment and Total Deposit

The correlation coefficient between investment and total deposit, and the regression line of investment on total deposit is calculated.

Table 4.10
Correlation and Regression Analysis between Investment and Deposit
Correlation Between Investment and Deposit

Bank	r	r ²	P.E.	6 P.E.	Remarks
BOK	0.5565	0.3097	0.0310	0.186	Insignificant
NSBI	0.9904	0.98090	0.0335	0.198	Insignificant
Regression Line of Investment and Deposit					
Bank	A	B	Regression Equation		
BOK	13623.30	0.58	Inv. = 13623.30 + 0.58 TD		
NSBI	6851.92	1.67	Inv. = 6851.92 + 1.67 TD		

The above table has indicated that there exists positive correlation coefficient between investment and total deposit in both the banks. The correlation coefficient between investment and total deposit of BOK is 0.5565 and NSBI is 0.9904.

However, since the value of 'r' is lower than the calculated 6 P.E. in both BOK ($r = 0.556 < 6 \text{ P.E. } 0.180$) and NSBI ($r = 0.9904 < 6 \text{ P.E. } = 0.198$), it can be said that

there exists no significant relationship between total investment and total deposit, which means that it is uncertain to say that investment increases/decreases with the increase/decrease in total deposit.

Comparing two banks, it can be concluded that the rate of increase in investment with the same amount of increase in deposit is greater in NSBI than in BOK, although the relationship is statistically insignificant.

4.2.2 Trend Analysis

To predict the value of deposit collection amount, the mobilization rate of deposit on loan and advances, investment and the value of net profit in the fiscal year 2008/09 and 2009/10, trend analysis has been done.

4.2.2 .1 Deposit Collection

Let the deposit collection amount of bank be denoted by Y and the time period be denoted by X , then the regression line of dependent variable, deposit, on independent variable, time period, be given by;

$$Y_{\text{BOK}} = 5205.89 + 1959.73 X$$

$$Y_{\text{NSBI}} = 5655.77 + 1582.46 X$$

Table 4.11

Trend Analysis of Deposit Collection (In Millions)

FY	BOK		NSBI	
	Actual	Trend	Actual	Trend
2005/06	10429.04	10269.47	10983.98	10403.16
2006/07	12359.05	12828.19	11445.28	11985.63
2007/08	15745.39	15386.98	13715.39	13568.09
2008/09	18083.98	17945.77	27957.22	15150.56
2009/10	20315.83	20504.56	34896.42	13568.09

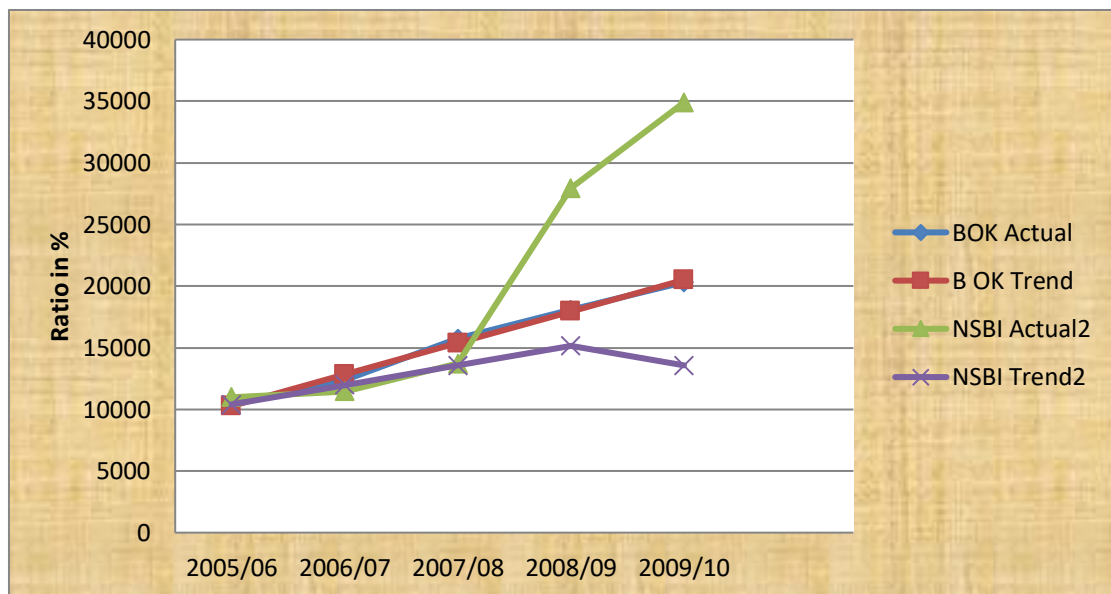
(Computed from NRB database)

The table shows that the predicated value of deposit collection of BOK in the fiscal year 2008/09 and 2009/10 will be Rs. 18083.98 millions and Rs. 20315.83 millions respectively. The table has revealed that the deposit collection will have positive relationship with the time. In each year the deposit collection of BOK have increased by Rs. 1959.73 millions, if the variable 5205.89 remains constant.

Similarly, the estimated value of deposit collection of NSBI in the fiscal year 2008/09 and 2009/10 will be Rs. 15150.56 millions and Rs. 16733.02 million respectively. Also, the deposit collection will increase by Rs. 1582.46 millions in each year.

Comparing two banks, it can be concluded that deposit collection of BOK will also remain higher than NSBI in the fiscal year 2008/09 and 2009/10. And also the speed of growth of deposit collection of BOK will be higher than NSBI in the forthcoming years.

Figure 4.9
Trend Analysis of Deposit Collection



Let the deposit mobilization rate in loan and advances be the dependent variable on time period, independent variable. Then the regression line of Y on X is;

$$Y_{BOK} = 5101.05 + 2431.9 X$$

$$Y_{NSBI} = 1773.7 + 3688.98 X$$

Table 4.12**Trend Analysis of Deposit Mobilization rate in Loan & Advances (In Millions)**

FY	BOK		NSBI	
	Actual	Trend	Actual	Trend
2005/06	7542.76	7532.95	8232.11	5462.68
2005/07	9694.10	9963.23	10065.05	9151.66
2007/08	12747.72	12396.75	12742.52	12840.64
2008/09	14945.72	14828.65	15131.74	16529.62
2009/10	17044.29	17266.55	18031.77	20218.61

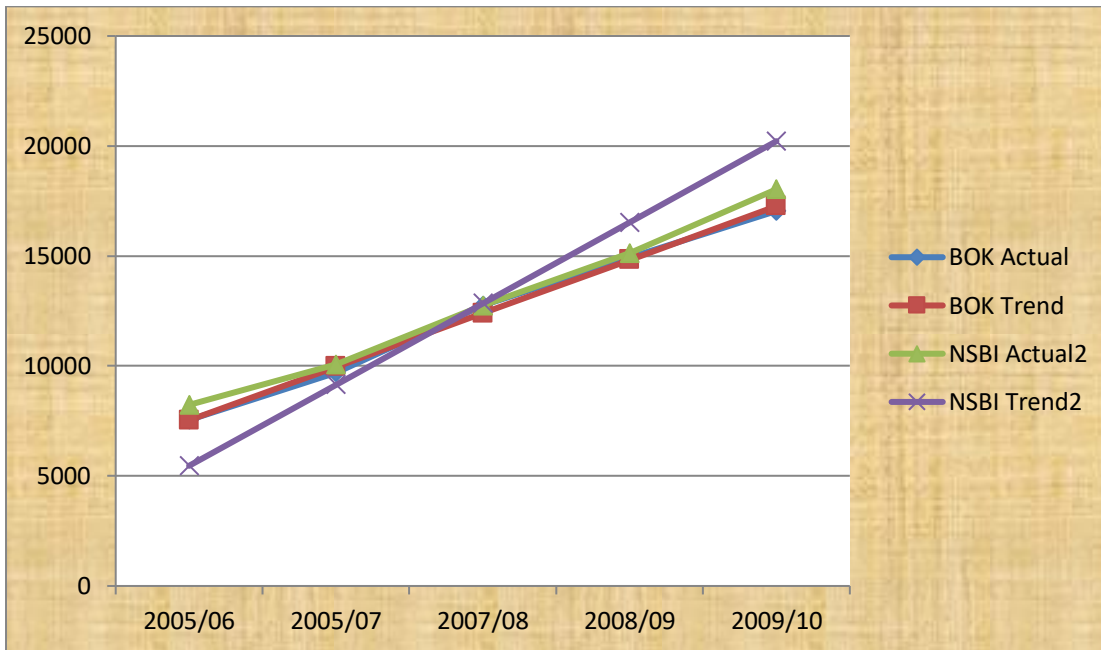
(Computed from NRB database)

The table depicts that the mobilization of total deposit in loan and advances in the fiscal year 2008/09 and 2009/10 will be 78.99% and 81.14% in BOK, and 90.09% and 94.54% in NSBI respectively. Similarly, the pace of growth of deposit mobilization in loan and advances of BOK will be 2.15% in each year, if the variable 66.06 remains constant, and that of NSBI will be 4.44% in each year, if the variable 63.34 remains constant.

Comparing two banks, it can be considered that the deposit mobilization rate in loan and advances of NSBI will be higher than that of BOK in the forthcoming years as well, and also the pace of growth of mobilization rate of NSBI will be higher than that of BOK.

Figure 4.10

Trend Analysis of Deposit Mobilization rate in Loan & Advances



Deposit Mobilization rate in Investment

Let the deposit mobilization rate in investment be denoted by Y and the time period be denoted by X. Then the regression line of Y on X is;

$$Y_{BOK} = 2769.8 - 72.98 X$$

$$Y_{NSBI} = 7560.44 - 4079.74 X$$

Table 4.13

Trend Analysis of Deposit Mobilization rate in Investment (In Millions)

FY	BOK		NSBI	
	Actual	Trend	Actual	Trend
2005/06	2914.58	2842.78	3699.94	11640.18
2006/07	2995.19	5685.56	2377.51	23280.36
2007/08	2978.36	8528.34	3146.95	34920.54
2008/09	2786.35	1137.12	13286.18	46560.72
2009/10	3269.20	14213.92	16255.13	58200.92

(Computed from NRB database)

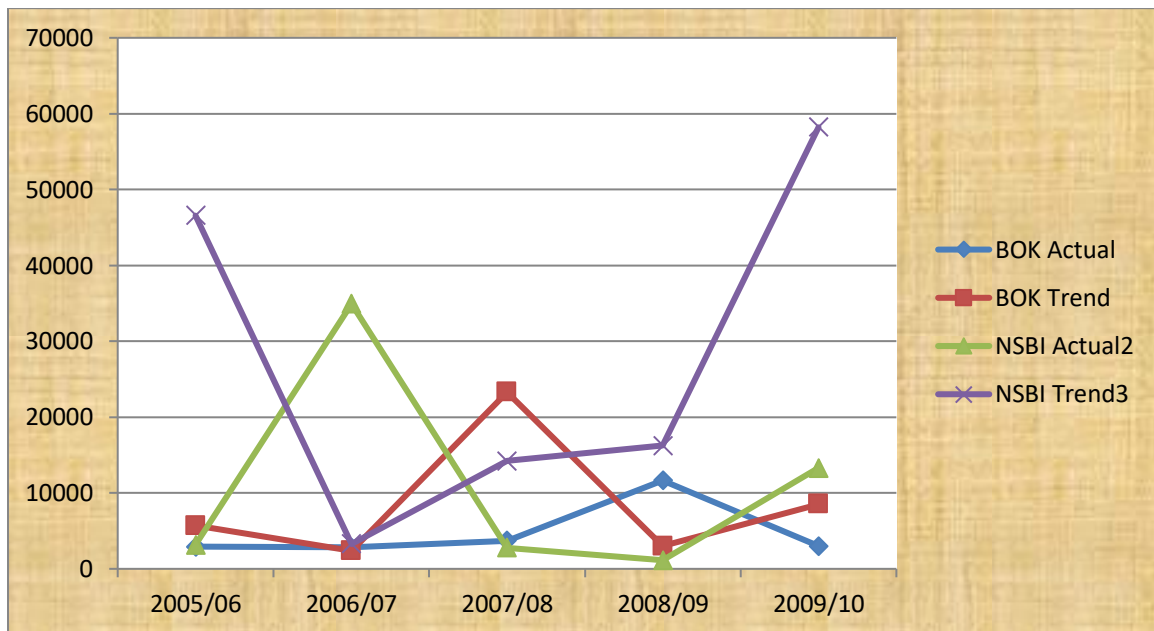
The table reveals that the estimated value of deposit mobilization rate in investment of BOK will be 19.01% and 16.18% and that of NSBI will be 22.59% and 21.10% in the fiscal year 2008/09 and 2009/10 respectively. The table delineates that the rate of deposit mobilization in investment will have negative relationship with the year, and hence in each year, the ratio decreases by 2.83% in BOK and 1.49% in NSBI.

Comparing two banks, it can be concluded that both the banks will adopt to decrease the portion of investment of deposit fund and divert such amount in other sectors.

However, the pace of decrease in the ratio will be greater in BOK than in NSBI.

Figure 4.11

Trend Analysis of Deposit Mobilization rate in Investment



Major Findings of the Study

From the above financial and statistical analysis related to the deposit mobilization, the following major findings have been drawn;

- BOK has collected more deposit than NSBI. The average deposit collection of BOK in the five year periods is Rs. 51954.65 millions, while that of NSBI is Rs. 19799.65 millions.

- In average, 9.45% of the total deposit of BOK and 8.24% of the total deposit of NSBI has been mobilized in maintaining cash and bank balance.
- Similarly, 79.65% of the total deposit of BOK and 72.31% of the total deposit of NSBI has been mobilized in loans and advances in average; BOK has mobilized 4.01% of the total deposit in money at short call and notice, while NSBI mobilized 2.20% only. Also, 2.30% and 1.06% of the total deposit of BOK and NSBI respectively has been mobilized to acquire fixed assets.
- The correlation between loan and advances and total deposit indicates that the loan and advances of both the banks increases with the increase in total deposit of the corresponding banks. The correlation coefficient between loan and advances and total deposit of BOK is 0.9995 and NSBI is 0.9435
- Similarly, the correlation between investment and total deposit of BOK is 0.4124 and NSBI is 0.19840. However, the relationship between investment and total deposit of both the banks is statistically insignificant.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary

Deposit of the commercial bank is very important variable. The collection of the deposit is must taken by the commercial bank as the major functions relation to the others. In fact, the main function of the banks revolves within the collection of deposit and effective mobilization of the deposit. Thus, there is no doubt that to increase deposit is the most important function the commercial bank.

Only increment of deposit does not give any return to the bank. A bank must have sound investment policy for the mobilization of the available fund as deposit. A deposit is that liabilities of the commercial banks which is returnable in demand at any time. So, sound investment policy has appeared to be very necessary to the commercial bank. A commercial bank mainly focuses on its two functions, i.e. collection of deposit through various schemes and granting those amounts as loan to the clients by providing various facilities.

To examine the health of deposit mobilization in commercial banks of Nepal, the two commercial banks, namely Bank of Kathmandu Limited and Nepal NSBI Bank, have been taken to represent the total of twenty six commercial banks. To achieve the objectives set out in first chapter, only secondary sources of data, which truly represent the banking situation, has been used. The data has been collected from the annual reports of the respective banks, and analyzed with the aid of different financial and statistical tools.

For the convenience, the whole study has been organized in five main chapters. The first chapter deals with the introduction, the second chapter deals with the review of concepts, and related studies, the third chapter deals with the method applied for analyzing the data collected, the fourth chapter deals with the analysis and

interpretation, and finally the fifth chapter deals in summarizing the study, making conclusion and providing recommendations for further enhancement.

Conclusion

On the basis of data analysis, it can be concluded that BOK is more successful in collecting deposit than NSBI in each year. Also, the deposit collected amount has indicated that the deposit collection policy of BOK is more stable compared to that of NSBI. The sources of deposit have verified that savings deposit is the main source of deposit in BOK and fixed deposit is the main source of deposit in NSBI. However, the interest-bearing deposit is collected more than the non-interest bearing deposit in both the banks. In addition, it can be concluded that the deposit is the main source of fund in both the banks, and the contribution of deposit in fund collection is more in BOK than in NSBI.

The deposit mobilization ratio aids to conclude that the mobilization rate of deposit to have sufficient liquidity is quietly more in NSBI than in BOK. However, both the banks do not kept the sufficient balance in NRB out of the total local deposit collection as directed by Nepal Rastra Bank. Further, the mobilization rate of deposit collected in loan and advances is higher in NSBI compared to that in BOK. And, the deposit mobilization rate in investment, like in government securities, corporate shares and debentures, foreign banks and local licensed institutions, mutual fund, SWIFT etc., is almost equal in both the banks. Also, the deposit mobilization rate in money at short call and notice to gain interest income, fixed assets to operate daily activities, and office overhead to reduce liabilities, is more in BOK compared to that in NSBI. In contrast, it can be concluded that the deposit collection of NSBI is more costly than that of BOK, since the average interest expenses to total deposit ratio of NSBI is more than that of BOK. However, BOK has remained more efficient in deposit mobilization than NSBI, since the net profit to total deposit is greater in BOK than that in NSBI. In overall, it can be concluded that both the banks has given more priority to loan and advances while mobilizing collected deposit.

The statistical analysis helps to conclude that there exist perfect correlation between the loan and advances and total deposit and the relationship is statistically significant. And, the pace of growth in loan and advances with the same amount increment in total deposit is higher in NSBI than in BOK. However, the relationship between investment and total deposit is statistically insignificant, and thus it can be considered that total investment does not increase/decrease with the increase/decrease in total deposit. In contrast, the relationship between net profit and total deposit is positively correlated and statistically significant and thus total deposit has equal impact in net profit value in both the banks. Eventually, it can be predicted that BOK will continue to collect higher amount of deposit than NSBI, and the mobilization rate of deposit in loan and advances and investment of NSBI will continue to be higher than BOK in the future. Consequently, the net profit after tax of BOK will be higher than that of NSBI in the future as well.

Recommendations

On the basis of the major findings drawn in the previous chapter and the conclusion made, the following recommendations have been provided for the enhancement of the deposit mobilization;

- Since deposit has remained the main source of fund in each bank, it would be better if NSBI launches new scheme for deposit collection to challenge the competitors.
- The main source of deposit in BOK is savings deposit and in NSBI is fixed deposit. It would be better if both the bank try to maximize the deposit collection through non-interest bearing deposit in order to increase profit.
- Both the banks need to examine the requirement of liquidity level and thus keep appropriate liquid assets to meet the short-term liabilities. Further, both bank should strictly maintain the cash reserve ratio as directed by NRB.

- Both banks have flown the most of the fund available in loan and advances and thus did focus on the short-term investment. It would be better if the banks quest new sectors of investment that are fruitful and thus mobilize deposit.
- Since the interest expenses to total deposit of NSBI is higher than that of BOK, it is recommended that NSBI should have high control over the interest expenses in deposit by promoting the non-interest bearing account.
- The bank is strongly recommended to operate new branches in non-representing rural areas for more deposit collection and more utilization of the funds as wells as to increase the transactions and to provide financial services and facilities to more customers.
- Finally, an efficient and capable project oriented research department should be developed so that it should be able to study different aspects of management such as credit collection procedure are viability of project appraisal, supervision and entrepreneurship etc. and to provide practical suggestion to develop efficient and sound deposit mobilization.

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