

**AN ANALYSIS ON DEPOSIT MOBILIZATION OF
COMMERCIAL BANKS OF NEPAL
(With Reference to NBL and SCBNL)**

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INTRODUCTION

General Background of the Study

The development of a country is measured by its economic indices. Nepal, like any other country has been laying emphasis on the upliftment of its economy. The process of economic development depends upon various factors. Financial institutions are viewed as catalyst in the process of economic development and growth. The mobilization of domestic resource, capital formation and its proper utilization play an important role in the economic development of the country. Every financial institution, big or small, be it a commercial bank or a finance company or a cooperative bank, plays an important role in the development of a country.

Commercial banks are major financial institutions, occupying an important place in the economy of a country because the deposit collected by them provide much needed capital for the development of industry, trade, and commerce and other sectors, thereby contributing to the economic growth of the nation. They render various services to their customers facilitating their economic and their social life. They are the most important ingredients for integrated and speedy development of a country.

Bank accepts deposits in numerous forms depending upon the nature of savers and banks own product offering strategy .Some of the common deposits are saving, fixed and call deposits etc. Banks collect the saving of people in the form of deposits collection and investment in the productive area. They give the loan to the people; banks mobilize deposit collected from people. People who have a lot of money also consume precious goods; people have no idea the investment in productive line.

The development of a country is always measured by its economic development through indices. Therefore every country has given emphasis on uplifting of a country can hardly be carried forward without the assistances of financial institution. The role of commercial banks in supplying the credit in the economy is vital. Banks are the main sources which motivate people to save their earnings. The proposed study is believed to be beneficial for a number of individuals, groups, and organizations directly or indirectly.

Capital formation, considered to be one of the important factors in economic development leads to increase the size of national output, income and employment solving the problem of inflation, balance of payments and making the economy free from any burden of foreign debts. Domestic capital formation helps in making a country self-sustainable.

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

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

In the view of many economists, capital occupied central and strategic position in the process of economic economy lie in the rapid expansion of the rate of its capital investment. So that it development in an under developed attains a rate of growth of output which exceeds the rate of growth of population by the significant margin only with such a rate of capital investment will the living standard begin to improve in a developing country. In developing countries the rate of saving is quite low and existing institution are half successive in mobilizing such saving as most people have incomes so low that vertically all current income be spent in marinating a substantial level of consumption.

"For the development of the nation it is required to have enough capital, without adequate capital investment may not be possible, formation of the adequate capital through the financial institution like finance company banks etc is important. (*Encyclopedia; 1966:232*).

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

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

However, it's said that the average cost of deposits for the bank is 4%.Development of nation banking sector of that country is responsible and must be strong. The financial sector like bank is a vast field, which helps in reducing poverty, increase in life style of people, increase employment opportunities and there by developing the society of a country as a whole development of a country depends upon adequate saving and invested in productive sector which is inspired by banking activities. Due to the low income there is fewer saving .people spend all the money in consumption of necessary items. People who have a lot of money also consume precious goods; people have no idea the investment in productive line. Banks are the main sources which motivate people to save their earnings. Banks collect the saving of people in the form of deposits collection and investment in the productive area. They give the loan to the people; banks mobilize deposit collected from people.

The importance of the banking as the nerve centre of economic development cannot be over emphasized and it is said that which are the need of and great wealth of country has got to be kept very scared just as water of irrigation good banks are for the country's and trade. The development of a country is always measured by its economic development through indices. Therefore every country has given emphasis on uplifting of a country can hardly be carried forward without the assistances of financial institution. They are the indispensable part of the development process It is the fact that the unorganized financial system leads the country. Therefore, central bank plays a major role and keeping the financial system of a country organized by providing those guidelines and directions.

The recent trend in the banking industries has been observed that the portion of idle cash they are holding is mounting. For instance: commercial banks are currently holding about 326.364 billion rupees. In the mean time, the total loan outstanding and investments of commercial banks is about 320.316 billion rupees only. This clearly shows the level of deposit management by commercial banks and it requires something to be done immediately. Recognizing the true fact of developing country," Nepal cannot ignore the importance of commercial banks. Realizing it, HMG of Nepal has been adopted the economy liberalization policy. Due to liberalization policy made by government, the number of bank has been increased and there has emerged the tough competition among them”.

Focus of the Study

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

Introduction of Nepal Bank Limited

On November 15, 1937 (Kartik 30, 1994), the then King Tribhuvan inaugurated Nepal Bank Limited. This marked the beginning of an era of formal banking in Nepal. Until then all monetary transactions were carried out by private dealers and trading center.

In that era, very few understood or had confidence in this new concept of formal banking. Raising equity shares were not easy and mobilization of deposits even more difficult. This was evident when the bank floated equity shares worth NPR 2,500,000, but was successful only in raising NPR 842,000.

The total deposits for the first year was NPR 17,02,025 where current deposits was about NPR 12,98,898 fixed was about NPR 3,88,964 and saving was NPR 14,163. Loan disbursed and outstanding at the end of the first year was NPR 1,985,000.

From the very conception and its creation, NBL was as joint venture between the government and the private sector. Out of 2500 equity shares of NPR 100 face value, 40% was subscribed by the government and the balanced 60% was offered for the sale to private sector. There were only 10 shareholders when the bank first started.

When NBL was established, it was formed under the principle of Joint venture (Joint venture between Government and general public). NBL's authorized capital was NPR 10 million & issued capital NPR 2.5 million of which paid-up capital was NPR 842,000 with 10 shareholders. The bank has been providing banking through its branch offices in the different geographical locations of the country.

Nepal Bank Limited is providing services to its customers from its 116 Branches. It provides deposit facility, various loan facilities, advanced ABBS services from 110 branches, Internet Banking along with the ATM facilities all over the country

Introduction of Standard Chartered Bank Nepal Limited

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

Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest-growing markets with an extensive global network of over 1750 branches (including subsidiaries, associates and joint ventures) in over 70 countries in

the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. As one of the world's most international banks, Standard Chartered employs almost 75,000 people, representing over 115 nationalities, worldwide. This diversity lies at the heart of the Bank's values and supports the Bank's growth as the world increasingly becomes one market.

With 19 points of representation, 23 ATMs across the country and with more than 425 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal.

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

The Bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. It is the first Bank in Nepal that has implemented the Anti-Money Laundering policy and applied the 'Know Your Customer' procedure on all the customer accounts.

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

Statement of the Problems

The establishment of commercial banks enforcement of priority sector and productive sectors lending policies of NRB to financial institutions does not seem to have an appreciate impact. Nepal being listed among least development countries, the commercial banks has played a catalytic role in the economic growth.

Neplese commercial banks have not formulated their investment policy in an original manner. They mainly rely upon the instruction and guidelines of Nepal Rastra Bank. They don't have clear view towards investment policy. Furthermore, the implementation of policy is not in an effective way.

Banks are not being able to fully utilize their deposits fund in to productive sectors. In other words, they are said to be more focused on retail banking rather than in corporate banking. Similarly, banks are holding major portion of their deposits liabilities as the cost bearing deposits. Likewise, it can be generalized that banks are not being able to manage their liquid assets efficiently.

Precisely, these problems could be numerically categorized into the following four broad groups, and they are being explained as well. The recent trend observed in banking industry is that they have not been able to fully utilize their deposit fund by mobilizing it into productive sectors. Due to the deteriorating economic scenario, management of the banks, and the attitude of the board of directors, they have been able to lend about 70 percent of total deposits only. Referring to the Banks' composition of deposit liabilities, it can be said that they are holding too much of cost bearing deposits.

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

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

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

The problems specially related to deposit mobilization of commercial banks of Nepal have been presented. The questions of the research are as follows:-

- How increasing the income of the low income group of people and making them able to save more?
- Are both of the banks mobilization deposits and fund efficiently and effectively?
- Can deposit mobilization helps to invest the collected deposit in desired sector?
- Are they maintaining sufficient liquidity position?.
- Deposit Mobilization is to convert idle saving into active saving?
- Does the degree of success in deposit mobilization strategy successful to utilize?

Objectives of the Study

Banks provide both the deposit and credit services to the public. They accept the funds from the savers as deposits and lend the funds to the fund seekers in the economy. Therefore, banks can run effectively and efficiently only if they can mobilize their deposits fund at their prescribed area and realize those disbursed amounts timely. In totality, the proposed study aims to analyze how far the banks have been able to achieve these objectives.

The basic purposes of this study are:

- To see the financial factors like liquidity management, efficiency and profitability position in relation to deposit mobilization of commercial banks.

- To see the deposit mobilization position of government owned commercial bank (Nepal Bank Limited) and private sector commercial bank (Standard Chartered Bank Nepal Ltd).
- To see the position of deposit and loan investment.
- To identify the formation of deposit liabilities

Significance of the Study

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

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

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

Limitations of the Study

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

- Though there are around 31 commercial banks, the study covers only 2 banks: Nepal bank Ltd. and Standard Chartered bank Ltd.

- The analysis period of research covers only five years of data from 2007/08 to 2011/12.
- Being a student time and resources consentient.
- Limited variable has been selected.
- Simple statistical and financial tools have been used in analysis.
- Study is made mainly on the basis of secondary data only.
- The truth of the project depends upon the available data from the bank.

Organizations of the study

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

Chapter- I: Introduction

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

Chapter- II: Review of Literature

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

Chapter-III: Research Methodology

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

Chapter- IV: Presentation and Analysis of Data

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

Chapter -V: Summary, Conclusion and Recommendation

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

And thereafter, a bibliography and appendices also are included.

CHAPTER-II

REVIEW OF LITERATURE

Review of literature is the second stage and ongoing process of research process. During the review of this research, in depth study and theoretical investigation regarding deposits aspects and their present application and potentialities made. That is, when the topic is finalized, the related available materials liked different journals, article, annual reports of banks and some research paper related with this topic has been reviewed. Review of literature need to develop new research framework is based on the past knowledge and experience, from which hypothesis can be development for testing and minimizes the risk of pursuing the dead-ends in research work.

2.1 Conceptual Theoretical Framework

Conceptual review provides the fundamental theoretical framework and foundation to the present study. For this various books dealings with theoretical aspects of deposit mobilization and investment portfolio analysis are taken into consideration.

2.1.1 Concept of Commercial Bank

A commercial bank is a business organization that receives and holds deposits of funds from others, makes loan or extends credits that transfers fund by written order of deposit." A commercial is one which exchange money, deposit money, accept deposits, grant loans and performs commercial banking functions and which is not bank meant for co-operative, agriculture and industries or for such specific purpose"(Commercial Bank Act; 1974).

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

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

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

"The American institute of banking has laid down for functions of the commercial banks i.e. Receiving and handling deposits handling payment for its clients, granting loans and investment and creating money by extension of credit".(*Encyclopedia America; 1984:85*).

Principally, commercial bank accepts deposits and provides loans, primarily to business firms thereby facilitating the transfer of funds on the economy." A commercial bank as one which exchanges money, deposits money accepts deposits, grants loans, and performs commercial banking functions". (*Nepal Commercial Bank act; 1974*).

The term commercial bank is also misleading because the fact that commercial bank performs not only one but many type of functions. Today the commercial banks not only issue the transfer deposits through cheques but also operate underwriters to new equity issue deals facilities handle tax matters on behalf of their clients. Commercial bank is a corporation which accepts demand deposits subject to check and makes short term loans to business enterprises, regardless of the scope of its other service.

Commercial banks is a heart of financial system they hold the deposits of many person, Government establishment, business unit, they make fund available through their lending and investing activities to borrower, individuals , business firms and service from the producers to customers and the financial activities of the government. They provide a large portion is affected. These fact shows that the commercial banking system of nation is import to the functioning of the economy.

2.1.2 History of Commercial Banks in Nepal

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

As per Banking and Financial Institution Act (BAFIA) commercial bank is defined as any financial institution that is operate under section 47(1) of BAFIA-2063. It is fact that financial sector plays a vital role for the economic development of a country. Even before the establishment of a banking system in Nepal financial transaction was in practice as undertaken by some moneylenders like sahu-mahajans, jamindars, relatives, friends, and few informal organization limited to ethnic group such as guthi. The borrowing from the other people and the informal organization was limited and based on personal understanding. At that time people deposit their gold, silver, and valuable goods for the sake of security. Thus, the private moneylender can be taken as forerunner of the concept of financial institution.

Nepal has been ruled over by many rulers like Kirati, Lichchhavi, Mall, Ranas and Shahs. Mostly Kirati, Lichhavi, and Mall regimes were concerned with the construction of temples, pati, pouwa, chautari etc. At that period neither the people nor the government were interested to think about the economic development of the country. According to ancient "Vanshawali" in fourteenth century, the ruler of the then Kathmandu Jaysthiti Malla segregated the local domiciles into 64 different classes according to profession they had undertaken. Tankadhari was one of those classes who used to deal in coins and precious metals such as gold. These Tankadharis were said to have carried out the borrowings and lending on money (coins). Hence, Tankadharis can be regarded as the traditional bankers of Nepal. After long time, during the Ran regime only handfuls prime minister thought about the economic development of the country. They established some offices in 1993 B.S. (1887 AD). "Tejarath Adda" was established during the tenure of Prime Minister Ranodip Singh Rana as a first institutionalized credit house. Tejarath adda provided loan under the security of gold and silver to the government employees and public. The government established its various branches and sub-branches at different places of the country for the sake of benefits of people. In the overall development of the banking system in

Nepal, the Tejarath Adda many be regarded as the Father of modern banking institutions and for a quit long time it tendered a good service to government employee as well as to the general public. The government also implemented the rules against the vast interest rate taken by moneylenders. Thus, the government financial institution occupies an important role in the banking history of Nepal.

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

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

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

Along vacuum in the banking sector got some rays of hope only when the government forwarded the economic liberalization policy in 2039 B.S. and decided to allow foreign banks to operate their activities in Nepal in "joint-venture model". "Joint venture banks can be defined as an association of two or more parties having common objectives and goals so as to get maximum satisfaction. Basically at that time, it was envisioned that joint-venture banks (JVBS) would support the country in various ways". The Nabil Bank Ltd is the first joint-venture bank established in 2041 B.S. and started its operation with modern banking services. In the same way, Nepal Indosuez Bank (at present Nepal Investment Bank), the second joint-venture bank established in 2042 B.S. with an objective to encourage efficient banking services and facilities.

Likewise Standard Chartered Bank is operated under the direction of Indian management.

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

2.1.3 Functions of Commercial Banks

Commercial Banks are directly related with the people. Commercial Bank is an important bank. Its functions are very attractive for people. Although these banks are truly inspired with the objectives of gaining profit, here Commercial Banks are also established to accelerate common people's economic welfare & facility, to make available loan to Agriculture, Industry & Commerce & to provide the banking services to the public & the state. Along with other functions, the main functions of commercial banks are to accept deposits from the people & to lend to those who demand it. Numerically, these functions could be categorized into the following functions:

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

2.1.4 Role of Commercial Banks in Nepal

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

is impossible. For all the development, the regular supply of financial resources is a prerequisite.

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

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

The role of commercial banking in the economy is obviously a prime prerequisite for the formulations of the bank policy as the role shapes, the nature and character of the bank. The deposit minded bankers may overstress conservation liquidity while the loan minded banker may under emphasize safety. Often Commercial Bank performs a number of interrelated functions. There are not only the custodians of the community's money but the suppliers of its liquidity. For these banks customers who seldom borrow money from the bank an important function may be the acceptance and safe keeping of deposits.

But those customers who often take loans from the bank, the credits creation function may be the most important. "The commercial bank is different from the other banks

especially from central bank. In appearance the main distinction between Central Bank and a Commercial Bank is that now-a-days the Central bank does not much banking, but the more fundamental difference is one of aim.

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

Commercial Banks are those banks that are engaged in commercial banking transactions and exclude from this description such banks are established for achieving certain specific goals such as co-operatives, agricultural and industrial banks, much wider activities in relation to the Economic Development of the country have been empowered to the banks. Apart from strictly performing commercial functions, Commercial Banks so described in the act are empowered to perform such functions as undertaking of agency business. In the issue of Shares & Debentures for public corporations guaranteeing & underwriting foreign exchange business under the restriction imposed by Foreign Exchange Act, Rules, Orders & Notifications; advancing loans for period not exceeding one year against the security of the jewelers, gold & silver ornaments the mortgage of land & buildings, for acquiring plant & machinery ; and receiving deposits of government money according to the order of HMG in those places where there are no branches of the NRB or RBB or where the NRB gives its consent to remit through bills of exchange and checks in Nepal and foreign countries and so on.

Nepal being an underdeveloped country, its industries, agriculture, sectors has been expanding. It provides the credit facilities for the development of agriculture in cases where Agricultural Development Banks & Cooperative Societies do not enter into the field. The agriculture sector needs more & more capital for the improved methods of

farming viz. the fertilizers, equipment, irrigation facilities etc. require obviously more investment. Thus role commercial bank in promoting agriculture sector is increasing in many of other countries, especially in developing countries like Nepal.

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

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

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

As the agricultural development needs capital, the commercial banks are helping by providing financial help to the farmers & they are able to invest or utilize the fund in different ways that make them increase agricultural product. Thus in order to accelerate the tempo of economic development of Nepal, the government & the commercial banks should play crucial role in the agriculture sector of the economy. Thus the sound development and wide geographical average of commercial banks particularly in agriculture is a prerequisite in accelerated & sustained economic growth. In recent years even through the commercial banks have made rapid progress in mobilizing financial resources they are still insufficient in their lending policies. The role of Commercial Banks is indispensable for industrial development of Nepal. Due to insufficiency of capital, industries are depending more & more upon the supply of capital by the banks. It would not be exaggeration to state that commercial banks are mainly responsible for whatever the financial institutions like ABD/N,

NIDC have already been established for the development of agricultural & industrial sector of the country. The commercial banks are also continuously participating in these activities. Being a mountainous country many places are very remote & sometimes it requires many weeks to approach some of the places. Due to lack of transport & communication facilities & other geographical causes, the country has been still facing the problem of imbalances economic growth. The scattered capital of the country is unable to solve the problem of imbalance of the economy growth. Commercial Banks have their appropriate role to play here by expanding their branches in the differently Hilly & Terai regions availing loan to the local people. In industrial sector, Commercial Banks are providing the necessary financial help for the industrial establishment in the country. They provide short & medium term loan to purchase machineries, tools, raw materials etc. & introduce new & developed techniques of production.

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

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

2.1.5 Credit Creation by Commercial Banks

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

In the modern banking industry, actual cash withdrawals from the deposit are very negligible. The bank usually synchronizes the withdrawals and deposits from their past experiences. Thus a bank lends a large part of the money he receives in deposits. If the bank has more primary deposit, he can lend more keeping small cash in reserve day to day transactions. The bank knows the customers will withdraw money by cheques which will be deposited by his creditors in the same bank or some other bank where they have their accounts. Such cheques which are deposited in others bank are settled through clearing houses. The same procedure is follows in other banks. In this way, the bank is able to create credit or deposit by keeping small cash in reserves & lending the remaining amount. Therefore, the loans make an increase in the total amount of deposits. These deposits are called derived deposits.

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

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

A bank also creates a deposit by making investments by buying government bonds & securities. The bank pays for the bond through a cheque on itself to the central bank. If it buys security from others, it creates the amount in the account of the seller, provided he is the bank's customers. Otherwise it pays by cheque which is deposited in some other bank. In all such cases, liabilities & assets in the banking system on the whole are increased. Thus loans by create deposits or credit is created by banks". When funds are plentiful, market rate generally tend to decline, banks seek loan aggressively & therefore lower their rates induce marginal borrower to come into the

market. When funds are scarce banks raise their rates & some potential borrower may defer the use of credit or seek it elsewhere. Some writers stress on the fulfillment of credit needs of various sectors which insure investment. The investment lending policy of commercial bank is based on the profit maximization as well as the enhancement of the country.

2.1.6 Resources of Nepalese Commercial Banks

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

I. Capital

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

II. Deposits

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

III. Internal and External Borrowing

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

reconstruction and development (IBRD). Internal monetary fund (IMF) etc. internally commercial banks can borrow from only one source that is from NRB.

2.1.7 Concept of Deposits

Deposit is the raw materials for bank's loan and thus represents the ultimate source of bank profit and growth. Deposit generate cash resource, and it is out of the excess cash reserves a bank holds the deposit with the lowest possible cost is the important indicator of the management effectiveness.

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

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

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

"Bank deposits arise in two ways the first when the banker receives cash & credits a customer's a/c, it is known as a primary or a simple deposit. Such primary deposits are made from the initiative of depositors. The second, when banks advance loans, discount bills, provide overdraft facilities; make investments through bonds & securities. This is called derived deposits or derivative deposits. They add to the supply of money. Banks actively create such deposits" (*The Encyclopedia Britannica; 1981: 700*).

2.1.8 Types of Deposits

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

- Demand Deposits
- Saving Deposits
- Fixed deposits

I. Demand Deposits

The deposit in which an amount is immediately paid at the time of any a/c holder's demand is called demand deposits. In another words, we can say this type of demand deposit as current a/c. current a/c means an a/c of amounts deposited in a bank, which may be drawn at any time on demand. Its transaction is continual & such deposit can't be invested in the productive sector, so such type of amount remains as stock in the bank. Though the bank can't gain profit by investing it in new sector after taking from the customers, this facility is given to the customer. Therefore, the bank doesn't give interest on this account. From such deposit, the merchant & traders are benefited more than the individual. The bank should pay as many times as the checks is sent until

there is deposit in his a/c. the bank can't impose any condition & restrictions in demand deposit. An institution or an individual, who usually needs money daily, precedes their acts & transaction through such deposit. The current a/c is very important for the customers of bank.

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

II. Saving Deposits

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

Therefore, the deposit is popular in people in general. According to internal rules or banks some banks demand a small amount & some banks demand a great deal of money to open saving account. Different banks have made different rules. Some banks have made one hundred thousand, some banks have made two hundred thousand, some have three hundred thousand, some have five hundred thousand & some have not fixed the limitation. So, there is divergence as to how much amount of money can be withdrawn. Banks give some interest on it.

III. Fixed Deposits

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

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

2.1.9 Deposits Mobilization

“Collecting scattered small amount of capital through different Medias & investing the deposited fund in productive sector with a view to increase the income of the depositor is meant deposit mobilization. In the other words, investing the collecting fund in the productive sectors & increasing the income of the depositor, it also supports to increase the saving through the investment of increased extra amount”.(NRB;1984 : 10-12).

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

The main objective of Deposit Mobilization is to convert idle saving into active saving”.(NBL, 2037 :7). Saving refers to that part of the total income which is more than the expenditure of the individual. In other words, $\text{saving} = \text{Total income} - \text{total expenditure}$. Basically saving can be divided into two parts: Voluntary saving & Compulsory Savings. Amount deposited in different accounts of Commercial Bank, investment in government securities are some examples of voluntary saving. A commercial bank collects deposit through different accounts like fixed, saving & current.

In developing countries there is always shortage of the capital for the development activities. There is need of development in all sectors. It is not possible to handle & develop all the sectors by the government alone at a time, Private people also can not undertake large business because the per capita income of the people is very low

while their propensity consumes is very high. Due to the low income their saving is very low and capital formation is also very low. So their saving is not sufficient for carrying on development work.

To achieve the higher rate of growth and per capita income, economic development should be accelerated. "Economic development may be defined in a very broad sense as a process of raising income per head through the accumulation of capital (*Johnson; 1965:11*).

But how capital can be accumulation in the development countries there are two ways one from the external and other from the internal sources. In the first gap foreign Aid, Loans and grants are the main. While in the later, financial institution operating within the country, play in a dominant role. In the context of Nepal, commercial bank is the main financial institution which can play very important role in the resource mobilization for the economic development in the country. Trade, industry, agriculture and commerce should be developed for the economic development.

Economic development so defined is necessary and sufficient to generate rate of saving and investment. The generation of high rates of saving and there by investment is possible only through the commercial banks. Commercial banks occupies greater role in economic development by generating the saving towards the desired sectors from one place to another, communicating with its branches and agencies in different part of the country and the world and advising to the commercial people." Increasing the income of the low income group of people and making them able to save more, deposit mobilization helps to invest the collected deposit in desired sector".(*NRB; 1984:25*).

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

According to banking rules and regulations, this definition clearly states that Deposit mobilization is the starting point of banking transactions. Banking activities can be increase as much as we can mobilize the accumulated deposit effectively. Deposit, such as current, saving and fixed are the main part of the working Capital. It is due to this reason that banks keep their deposit mobilization campaign always in full swing taking resort every possible means laying at their disposal.

“A Commercial bank changes the scattered unproductive small saving into Loan able & active savings. The bank not only collect saving, but also it provides incentives to the saver & help them to be able to save more” (*RBB, 2054 no 3, p: 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 & more deposit. In this context, the yearly increasing rate of commercial banks deposit clearly shows the satisfactory progress of deposit mobilization.

2.1.10 Need for Deposits Mobilization

The following are some reasons for why Deposit Mobilization is needed in a developing country like Nepal. Workshop report “Deposit Mobilization why & how” Group “A” states the following points as the need for deposit mobilization (*NRB; 1984: 10-12*).

Capital is needed for the development of any sector of the country. The objective of Deposit Mobilization is to collect the scattered capital in different forms within the country. It is much more important to canalize the collected deposit in the priority sector of a country. In our developing country’s we have to promote our business & other sectors by investing the accumulated capital towards productive sectors.

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

To increase saving is to mobilize deposit. It is because if the production of agricultural & industrial products increases, it gives additional income, which helps to save more, & ultimately it plays a good role in deposit mobilization. Deposit

mobilization plays a vital role for the economic development of an under developed & developing country, rather than developed one. It is because, a developed country does not feel the need of deposit mobilization for Under Developed Country (UDC) & developing country.

Deposit mobilization plays a great role in such countries. Low National Income, Low per Capita Income, lack of technical know, vicious cycle of poverty, lack of irrigation & fertilizer, pressure of population increase, geographical condition etc. are the main problem of Economic Development of an UDC like Nepal.

So far the developments of these sectors concerned, there is needs of more capital. Again, instead of the development of a particular sector, the development of every sector should go side by side. So, the development process of these sectors on one side & to accumulate the scattered & unproductive sectors deposit on the other is the felt need of an UDC. We can take this in our country's present context.

2.1.11 Definition of Investment

The word investment sounds very good and attractive that is why every individual in the world is interested in it. In layman's sense, there is always a return if there is investment. This may be favorable as well as unfavorable to the investors stand point. Investment covers the wide range of activities. It is commonly known fact that an investment is only possible when there is adequate saving. Different author have tried to explain the meaning of investment in their own way. Some of them are explained below.

“Investment brings forth vision of profit, risk, speculation and wealth. For the uninformed, investing may result in disaster. In general sense; investment means to pay out money to get more. But in the broadest sense, investment means the sacrifice of current money for future money. Two different attributes are generally involved time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain” (*Sharpe, Alexander and Bailey; 2003:1*).

Investment generally involves real assets and financial assets. Real assets investment involves some kinds of tangible assets such as building, land, machinery; factory etc. and financial assets investment are pieces of paper representing an indirect claim to real assets held by someone else. Real assets are generally less liquid than financial assets.

“Investment is the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time funds are committed, for the expected rate of inflation and also for uncertainty involved in the future flow of the funds”(*Frank and Reilly; 2004:298-299*).

“Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generated positive returns (*Gitman and Joehnk; 1990:265*).

“Investment may be defined as the purchase by an individual or institutional investor of a financial or real asset that produces a return proportional to the risk assumed over some future investment period”(*Amling; 1994:147*).

Investment is always related with risk and return. Making money alone cannot be an appropriate to state that objective is to make profit by recognizing the possible losses. Therefore, investment objective should be stated in terms of both risk and returns. Setting a clear investment policy also involves the identification of the potential categories of financial assets for consideration institution the ultimate portfolio. The identification of assets depends upon many things such as investment objectives, investment wealth, tax consideration etc. (*Bhatarai;2004:3*)

"An investment as a commitment of funds made in expectation of some position rate of return. If the investment in properly undertaken, the return will be commensurate with the risk the investor assumes." (*Donald. E. Fischer and Ronal J. Jordon. 1994:103*)

2.1.12 Introduction to Investment Portfolio Analysis

A portfolio is usually defined as a combination of investment assets or collection or a group of assets. The portfolio is the holding of securities and investment in financial

assets . i.e bond, stock. A portfolio is a collection is the holding of securities. Portfolio theory deals with selection of optimal portfolios i.e. the portfolio that provides the highest possible return for any specified of degree of risk or the lowest possible risk for any specific rate of return. Thus making investment from the selected optimal portfolio i.e. portfolio provide the highest return with least possible amount of risk is the real investment portfolio.

Investment portfolio refers to an investment that combines several assets. It is a collection of securities. “Portfolio means the lists of holdings in securities owned by an investor or institution” (*Oxford Dictionary; 1997:173*). A portfolio is simple defined as the combination of investments in various securities and the portfolio theory deals with the selection of efficient portfolio, which maximizes risk for a given level of return.

“A portfolio is a bundle of combination of individual assets or securities” (*Pandey, 1997:329*). If investor holds a well diversified portfolio, then his concern should be the expected return and risk of portfolio rather than individual assets or securities. The portfolio theory provides a normative approach to the investor’s decision to investment in assets or securities under risk. Portfolio expected return is a weighted average of the expected return of individual securities but the portfolio is sharp contrast, can be something less than a weighted average of variance. As a result an investor can reduce portfolio risk by adding another security with greater individual risk than any other securities in the portfolio. The seemingly curious result occur because risk greater on the covariance among the return of individual securities.

“Portfolio analysis is to develop a portfolio that has the maximum return at whatever level of risk the investor deems appropriate. A portfolio is a collection of investment securities” (*Weston and Brigham; 1992:123*).The portfolio of asset usually offers advantages of reduction risk through diversification. A stock or securities held, as part of a portfolio is less risky than the same stock held in isolation. The objective of portfolio analysis is to develop a portfolio that has the maximum return at whatever level of risk the investor deems appropriate.

Most financial assets are not held in isolation, rather they are held as parts of portfolios. “Portfolio theory deals with selection of optimal portfolios i.e. portfolios that provide the highest possible return for any specified degree of risk or the lowest possible risk for any specified rate of return” (*Weston and Copeland;2003: 366*).

The investment portfolio analysis is to analyze different individual assets and delineate efficient portfolios. The group of all efficient portfolios will be called the efficient set of portfolios. The efficient set of portfolios comprises the “efficient frontier”. The efficient frontier is the locus of points in risk –return space having the maximum return at each risk class. The efficient frontier dominates all other investments.

2.1.13 Factor Affecting Investment Portfolio Decision

There are quantitative and qualitative factors affecting the investment portfolio as the investment doesn't exist in vacuum. Some of the factors affecting the investment portfolio decision are;

i. Amount of Investment

While determining the investment portfolio the finance manager should actually consider the amount of fund available with organization. Trading and manufacturing organization deal in securities only for the purpose of best utilization of their available surplus cash resource. The amount of surplus fund available with them will therefore decide the quantum of their investment in securities.

ii. Objective of Investment Portfolio

While determining the investment portfolio we should be clear about objective of making investment in securities. The objective may differ organization to organization. While an Organization looking for investment of provident fund of its employees can think of having in its investment portfolio only such securities which can assure safety of the fund and its return.

iii. Selection of Investment

This is an essential decision which a finance manager has to take. He has to decide the kind of investment in which he has to put his fund. The selection of investment involves deciding about the type of securities, proportion between fixed and variable yield securities, selection of industries, selection of companies etc.

iv. Timing of Purchase

To maximize the profit, it is not only important for the finance manager to buy the right security but it is also equally important to buy and sell it at the right time. It is the most intricate and complex decision for finance manager

2.2 Review of the Related Studies

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

2.2.1 Review of Articles

Pradhan (1996), in his article “*Deposit Mobilization, its Problem and Prospects*” has presented that deposit is the life-blood of every financial institutions, like commercial bank, finance company, and co-operative or non-government organization. He further adds in consideration of most of banks and finance companies, the latest figure dopes produce a strong feeling that serious review must be made of problems and prospects of deposit sector. Leaving few joint venture banks, other organizations rely heavily, on the business deposit and credit disbursement.

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

- Most of the Nepalese do not go for saving in institutional manner, due to the lack of good knowledge. However, they are very much used of saving be it in the form of cash or ornaments. Their reluctance to deal with institutional system is governed by the lower level of understanding about financial organization process, withdrawn system, and availability of deposing facilities and so on.
- Unavailability of the institutional services in rural areas.

- Due to lesser office hours of banking systems people prefers holding and cash in the personal possession.
- No more mobilization and improvement of the employment of deposits and loan sectors.

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

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

Bhatta (1997), on his article “*Financial Policies to Prevent financial crisis*” has given more emphasis on Nepalese financial market sector. He has mention the financial crisis occurred in China, Mexico, South Asia, Russian Federation Ecuador, Brazil & Argentina. This crisis affected all this economic by posing negative effect in their real output. He has also focused on Nepalese financial market, which is directly affected by the national and international events.

The most effected event was September 11 incident in the U.S.A., have added more to the fragility in the global financial market. In present context in many part of the world, the move towards liberalization is getting its momentum on one hand and process of economic development is being threatened due to various anticipated incidents on the other.

He has define a financial crisis is a description to financial markets in which adverse selection and moral hazard problems become much worse, so that financial markets are unable to efficiently channel funds to those who have the most productive investment opportunities.

He has given light on the dynamics of financial crisis dividing it into three stages. Also he has suggested the policies to prevent financial crisis.

Following policies are supposed to be applicable for preventing financial crisis.

- Prudential supervision.
- Accounting standards & disclosure requirements.
- Legal and judicial system.
- Monetary policy and price stability.
- Exchange rate regimes and foreign exchange reserves.
- Capital controls.
- Restrictions on foreign denominated debt.
- Reduction of the role of the state owned financial institution.
- Encouraging market based discipline.
- Entry of foreign banks.
- Limitation of too-big –to fail in the corporate sector.
- Sequencing financial liberalization etc.

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

Bajracharya (2000), through his article “*Monetary Policy & Deposit Mobilization in Nepal*” has concluded that the mobilization of domestic savings is one of the monetary policies in Nepal. For this purposes commercial banks stood as the vital & active financial intermediary for generating resources in the form of deposit of the private sector so for proving credit to the investor’s in different aspects of economy.

Fry (2006), in the article, “*Resources Mobilization & Financial Development in Nepal*” in journal says that the interest rate fixing authorities causes adverse effect on income distribution. Interest rate affects the savings & its mobilization. A high interest rate diverts the resources from unproductive tangible assets into financial claim. For Nepalese people & Nepalese undeveloped money & capital market, interest can be taken as an important weapon in mobilizing the internal resources. Higher interest rate pushed people to some money & it allows people to invest into best opportunities.

Joshi (2007), the chief officer of NRB in the topic "*Rural Saving Mobilization in Nepal*" in journal states that: The ability to save & the incentive to save are the two major determinants of saving. The incentive to save as reflected in NRB real interest rate policy can be stretched for with profit. It is highly probable that the further increase in the growth rate of financial saving can materialize if a flexible policy is pursued to keep real interest rate at a positive level.

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

- Effective publicity and attractive prizes.
- Branch expansion policy.
- Extend the house saving account.
- Revision in interest rate policy.
- Credit planning.
- Win the confidence of local people.
- Investment in priority sector.

Shetty (2013), through his article "*RBI Concerned as Credit Growth Outstrips Deposit Mobilization*" Reserve Bank of India has expressed concern over the high rate of credit in the banking system. This has resulted in the ratio of bank credit to bank deposits (CD ratio) rising sharply triggering alarm bells in the central bank.

"Our problem is that banks are giving too much loans compared to the deposits they mobilize. Their credit-deposit ratio is 78% and their incremental CD ratio is more than 80%. Our concern is that if banks are not able to mobilize deposits, so how will they be able to grow their loans," said KC Chakrabarty, deputy governor, Reserve

Bank of India speaking at an event to launch a financial inclusion programme by Kotak Mahindra Bank to cover milk producers in Gujarat and West Bengal.

According to data released by RBI, the year on year growth in bank credit as on September 20 was almost 18% while the deposit growth was only 14.1%. This is despite a slowdown in the economy with many sectors reporting a drop in sales. Banks say that credit has grown partly because of the tight liquidity situation created by RBI to support the rupee. This has resulted in corporate, which earlier raised funds in commercial paper or bond market, now turning to bank loans. Some bankers feel that the slowdown also results in longer working capital cycles as corporate require longer term loans to fund their slow moving inventory.

The writer has recommended in these ways;

- Banks need to maintain up to one fourth of their deposits in government bonds and another four percent of their deposits in the form of a cash reserve ratio with RBI. This leaves less than 75% of their deposits free for lending.
- Banks can have a credit deposit ratio of even over a 100% if loans are out of shareholder funds and banks have enough capital to meet statutory requirements.
- He also said that there was no move to prevent banks from extending loans through EMI payments under credit cards clarifying that the circular on zero interest rates was aimed more at transparency.

2.2.2 Review of Unpublished Dissertations

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

Adhikari (2007), focuses on “*Investment Policy of Nepal Industrial Development Corporation*” Researcher used different type of statistical tools i.e. mean, standard deviation, correlation, regression analysis etc have been used for analysis.

The Main Objectives of the Study:

- Analysis of fluctuation in the approved and disbursed loan.
- To analysis the role in the industrial development of the country the corporation.

The Major Findings of the Study:

- There is a fluctuation in the approved and disbursed loan.
- Sometimes, the approval amount has gone up but the disbursement has been lowered and vice-versa, as well as there is increasing and decreasing trends in the investment pattern year by year.
- In view of the liberal economic policy adopted by HMG and open market competition, the corporation has made its investment policy more flexible and expanded into resources mobilizing sector.
- The corporation has given priority to the project based on indigenous raw materials and man power as well as sought the policy of investing in small hydro-electricity projects.
- To analyze the relationship between loan and advance and total investment with other financial variable of EBL and compare with NABIL and BOKL.
- To study the various risks in investment of EBL in comparison to NABIL and BOKL.

Raya (2008), in his thesis, "*Investment Policy and Analysis of Commercial Banks in Nepal*" made a comparative study between SCBL, NIBL and NBBL.

The Main Objectives of the Study:

- To discuss fund mobilization and Investment policy of SCBL in respect to its fee based off- balance sheet transaction and fund based on balance sheet transaction.
- To evaluate the quality, efficiency and profitability and risk position.
- To evaluate trend of deposit, investment, loan and advances and projection for next years.

The Major Findings of the Study:

- Mean current ratio of SCBL is slightly higher than NBBL and NIBL.
- Mean ratio of cash and bank balance to total deposit of SCBL is lower than NIBL and NBBL.
- Liquidity position of SCBL is comparatively better than NIBL and NBBL.

Dhungana (2009), conducted a study on *"Investment policy of Nepal Bangladesh Bank Limited & other Joint Venture Banks (Himalayan Bank Limited & Nepal State Bank of India Bank Limited)."*

The Main Objectives of the Study:

- To study fund mobilization and investment policy with respect to fee based off-balance sheet transaction and fund based on balance sheet transaction.
- To evaluate the liquidity efficiency of assets management and profitability position.
- To evaluate the trends of deposit utilization towards total investment and loan & advances and its projection for next five years.
- To evaluate the growth ratios of loan & advances and total investment with respect to growth ratios of total deposit and net profit.
- To study the various risks in investment.

The Major Findings of the study:

- The liquidity position of NBBL is not better than that of HBL and NSBL.
- NBBL is in better position regarding its on balance sheet activities. The ratios of NBBL are highly variable which reveals NBBL has not followed stable policy.
- NBBL is not better regarding off-balance sheet transactions. The ratios of NBBL are highly variable also.
- The credit risk ratios and interest rate risk ratios of NBBL is higher than that of HBL and NSBL.
- NBBL has not maintained adequate capital in relation to the nature and condition of its assets, its deposit liabilities and other corporate liabilities.
- NBBL has maintained high growth rate.
- Deposit collection position, lending position, investment position and net profit position of NBBL is not better in comparison to HBL but better than NSBL.

Subedi (2010), In her study, *"Deposit Mobilization of Commercial Banks (SCBNL, NBL & Total Commercial Banking System) ."*

The Main Objectives of the Study:

- To analysis the financial factors like liquidity management, effience and profitability

- To observe the deposit mobilization position of government owned banks and private sector commercial bank
- To provide suggestion on the basis of major findings.

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

The Major Findings of the study:

- SCBNL has highest average growth of deposit during the study period in comparison to total commercial banking system and NBL. It means SCBNL representing the private sector bank is more successful than government owned commercial banks in winning the belief of the customers.
- SCBNL has the highest average growth of investment in the study period. So it can be generalized that the private sector commercial banks are more successful in making investment in comparison to the government owned commercial banks.
- NBL has negative average growth of return it has done well on the final year of the study.

Thapa (2010), in her thesis paper, “*A Comparative Study on Investment Policy of Nepal Bangladesh Bank ltd. and Other Joint Venture Banks of Nepal*” has compared the investment activities NBBL with only two of the joint venture banks. By taking five years data, she has recommended in two ways, first statement recommendation and second theoretical recommendation. In statement recommendation, she has suggested about investment in government securities, OBS operation loan recover act, sound credit collection policy, project oriented approach, effective portfolio management, innovative approach to bank marketing and banking facilities. In theoretical recommendation she has suggested about liberal lending policy and cost management strategy

This study conducted by Pant entitled, "A study of deposit collection and utilization of commercial banks in Nepal"

The Main Objectives of the Study:

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

For the purpose of study, activities of NBL and RBB are taken together the period of 14 years. Only secondary data are used in this study to gather the required information regarding existing position of commercial banks.

The writer found that deposits are collected much from individuals and deposits from organization is very low, similarly more loans are granted to the commercial sector and a little amount to the agriculture and industrial by commercial banks. They cannot utilize the deposit properly. The writer further found, there is positive relation between deposits and loan.

The writer recommended that commercial banks should not limit their lending activities in only business sectors. Commercial banks also offer long term loans not only short term period. At last, he suggest that the fully interest rates should be changed by making it's more suitable to expand the services of commercial banks in all sectors.

Ojha (2011), conducted a study on "*Lending Practices: A Study on NABIL Bank Ltd., SCB Nepal Ltd. and Himalayan Bank Ltd.*"

The Main Objective of the Study:

- To determine the liquidity position, the impact of deposit in liquidity and its effect on lending practices.
- To measure the bank's lending strength.
- To analyze the portfolio behavior of lending and measuring the ratio and volume of loans and advances made in agriculture, priority and productive sector.
- To measure the lending performances in quality, efficiency and its contribution in total income.

The Major Findings of the Study:

- The measurement of liquidity has revealed that the mean current ratio of all the three banks is not widely varied. All of them are capable in discharging their current liability by current asset.
- The measurement of lending strength in relative terms has revealed that the total liability to total assets of SCBNL has the highest ratio. The high ratio is the result of high volume of shareholder equity in the liability mix. Himalayan Bank Ltd. has high volume of saving and fixed deposits as compared to current deposit resulting into low ratio of non-interest bearing deposits to total deposits ratio compared to the combined mean.
- SCBNL's tendency to invest in government securities has resulted with the lowest ratio of loans and advances to total assets ratio whereas NABIL Bank Ltd. has highest due to steady and high volume of loans and advances throughout the years.
- The ratio of investment to investment and loan and advances has measured the total portion of investment in total of investment and loans and advances. The mean ratio among the banks does not have deviated significantly.
- The loans and advances and investment to deposits ratio has shown that NABIL Bank Ltd. has deployed the highest proportion of its total deposits in earning activities. This is the indicative of that in fund mobilizing activities NABIL Bank Ltd. is significantly better.
- The portfolio analysis has revealed that the flow of loans and advances in agriculture sector is the lowest priority sector among these commercial banks. The contribution of all the banks in industrial sector is appreciable. The contribution made by Himalayan Bank Ltd. in industrial sector is the greatest and that of SCBNL is the least.
- The lending in commercial purpose is highest in case of NABIL Bank Ltd. and least in case of SCBNL. SCBNL has highest contribution in service sector lending. It has contributed 25.47 % of its total credit in general use and social purpose.
- The measurement of efficiency in lending has revealed that the loan loss provision to loans and advances analysis shows that NABIL Bank Ltd. has the highest mean ratio. According to Nepal Rastra Bank directive, the loan loss

provision indicates the provision made against the performing loan (pass loan and sub-standard loan) only. It indicates that the volume of sub-standard loan in the loan mix of NABIL Bank Ltd. is higher and the volume of non-performing loan in the mix of NABIL Bank Ltd. is likely to increase in coming future.

- The mean ratio of interest income to total income has concluded that the contribution of interest income in total income is higher in case of Himalayan Bank Ltd. and lower in case of SCBNL. The interest expenses to total deposits ratio indicate that the cost of fund in Himalayan Bank Ltd. is the highest and that of SCBNL is the least.
- The total income to total assets ratio measures the earning power of each rupee employed by the bank. NABIL's ratio in this case is the best. The ratio of total income to total expenses reflects the earning capacity of a rupee of expenses. The productivity of expenses in SCBNL is the best.
- The performance of SCBNL is significantly better than other two banks in case of profitability. EPS is highest in case of SCBNL.

Laudari (2012), conducted a study on "*A study on investment policy of Nepal Indosuez Bank Ltd. in Comparison to Nepal SBI Bank Ltd.*"

The Main Objectives of the Study:

- To examine the liquidity, asset management and profitability position and investment policy of NIBL in comparison to Nepal SBI bank ltd.
- To study the growth ratios of loans and advances and investment to total deposit and net profit of NIBL in comparison to Nepal SBI bank ltd.
- To analyze relationships between deposit and investments, deposits and loan & advances, net profit and outside assets of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd.

The Major Findings of the Study:

- Current ratios for both the Banks is satisfactory.
- Although cash reserve ratio (CRR) is managed by both banks as per Nepal Rastra Bank directives, both banks have not paid sufficient insight toward cash management. Their cash reserves have fluctuated in a high degree

- Nepal SBI Bank Ltd. has increased investment in government securities where as Nepal Indosuez Bank Ltd. has decreased.
- Nepal Indosuez Bank Ltd. has maintained both current ratio and cash reserve ratio better than Nepal SBI Bank Ltd. But its cash and bank balance, investment in government securities and loan and advances in comparison to current assets are lower than that of Nepal SBI Bank Ltd.
- Deposit utilization of Nepal Indosuez Bank Ltd. is less effective than that of Nepal SBI Bank Ltd. Further Nepal Indosuez Bank Ltd. has invested lesser amount on government securities and shares and debenture than that of Nepal SBI Bank Ltd.
- Nepal Indosuez Bank Ltd. did a better performance in return on total assets and loan and advances and interest earning, but it paid lower interest amount to working fund.
- The analysis of growth ratios shows that growth ratio of total deposit, loan and advances, total investment and net profit of Nepal Indosuez Bank Ltd. is less than that of Nepal SBI Bank Ltd.
- The trend value of loan and advances to total deposit ratio is decreasing in case of both the banks. The trend value of total investment to total deposits ratio is also decreasing in case of both the banks.

Tamrakar (2013), conducted a study on *"Portfolio analysis of investment trend of listed commercial banks in Nepal: with special reference to SCBNL, NIBL, NABIL, EBL & HBL."* The general objective of the present study is to identify the current situation of investment portfolio of commercial banks in Nepal.

The Main Objectives of the Study:

- To compare the investment portfolio and investment on government securities of listed commercial banks.
- To analyze the risk and return of investment of commercial banks in different portfolio.
- To identify the impact of variables on portfolio performance.

The study was conducted on the basis of secondary database on the analysis of the various data remarkable findings are drawn up. The major findings are as follows;

- The total investment to total deposits ratio of selected CBs shows that SCBL is the most successful in utilizing its resources on investment than others CBs on the basis of highest mean ratio with lowest CV ratio. While NIBL and EBL are not so successful in better utilizing their total deposits on investment of various assets.
- The loan and advance to total deposit ratio of selected CBs shows that EBL and NIBL are the most successful in utilizing its resources on L&A than other CBs. The mean ratio reveals that NIBL and NABIL are moderate in utilizing its resources on L&A. while SCBL and HBL are not so successful in better utilizing their total deposits on L&A.
- The ratio between government securities and total deposit reflects that SCBL has the secure investment than that of other banks and NIBL is more risky than that of other banks.
- The return on total assets ratio of selected CBs shows that, SCBL & EBL utilized its overall resources efficiently than other banks. HBL is the low profitability position among the 5 CBs but NIBL and NABIL are in moderate in profitability position.
- The ratio between investments on Govt. securities and total outside investment reflects the extent on which the SCBL is higher among five CBs which is proved by highest ratio and lowest CV. Similarly NABIL, HBL, EBL have moderate position. Likewise NIBL has weakest position for mobilization of total outside assets into government securities with highest CV. SCBL are better mobilization of fund as investment on Govt. securities and NIBL has weakest position for mobilization of funds as investment on Govt. securities. However, EBL is more consistent in utilizing its resources by virtue of low ratio of C.V.
- SCBL is the best bank among five CBs on the basis of exploitation of resources in the field of govt. securities, on the basis of S&D NABIL is the best bank among 5 CBs and HBL is the best bank among 5 banks on the basis of exploitation of resources in the field of loan and advances.

- On the basis of investment amount, the CBs gives first priority to invest their resources on loan and advances, then to govt. securities and lastly to share and debentures. Therefore CBs invest highest part of the resources to loan and advances.

2.3 Research Gap

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

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

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

Research is a systematic method of finding right solutions for the problem where as research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology refers to the various methods of practices applied by the researcher in the entire aspect of the study.

The basic objective of this study is to evaluate the fund mobilizing policy of SCBNL and NBL and to recommend the useful & meaningful, points. So that all concerned can achieve something from this study. To accomplish this goal, the study follows the research methodology described in this chapter.

3.2 Research Design

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

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

Some statistical & accounting tools have also been applied to examine facts and descriptive techniques have been adopted to evaluate funds mobilizing performance of standard chartered bank & Nepal Bank Limited & these are compared with the deposit mobilization position of commercial banks in aggregate.

3.3 Sources of Data

This study is conducted on the basis of secondary data. The data relating to the investment, deposit, loan & advances, assets, & profit are directly obtained from the balance sheet & profit & loss a/c of concerned bank's annual reports.

Supplementary data & information are collected from number of institution & regulating authorities like NRB, security exchange board, Nepal stock exchange Ltd, ministry of finance budget speech of different fiscal years, economic survey & national planning commission etc.

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

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

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

- Banking and financial statistics of Nepal Rastra Bank.
- Annual Reports of SCBNL and NBL.
- Central Bank's directives to Commercial Banks:

- Statistics Nirdesika 2059
- Directive I to II
- Consortium Financial Directive
- Main Economic Indicators

3.4 Population & Samples of the study

There are 31 commercial banks operating in Nepal. Among them two banks operating in the nation for representing the government sector and rest in private sector. Nepal bank limited and standard chartered bank limited respectively are selected as the base for the study. The deposit mobilization positions of these two banks are studied comparatively.

3.5 Method of Analysis

To achieve the objectives of the study various financial and statistical tools have been used to analyze the data ratio analysis, growth ratio, correlation coefficient, hypothesis test, etc were used in the study. The analysis of data will be done according to pattern of data available. Because of limited time & resources and nature of the study simple financial and statistical tools has been used for the analysis.

3.6 Data Analysis Tools

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

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

3.6.1 Financial analysis (Ratio Analysis)

In this unit the financial position of the banks are observed. Especially the ratio analysis technique is applied for financial analysis of total commercial banking

system and sampled banks in this unit. An arithmetical relationship between two figures is known as ratio. It is computed by dividing one item of relationship with the other. Ratio simply means one number expressed in terms of another.

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

D) Liquidity Ratio

As name denotes the liquidity refers to the ratio between liquid assets and liabilities, the ability of firms to meet its obligation in the short term is known as liquidity. It reflects the short term financial strength of the business. In order to ensure short term solvency, the company must maintain unnecessary high liquidity ratio then it may adversely effect in the profitability of to earn high profit. Means everybody knows that investing assets in the liquid assets doesn't maintain adequate then it will result in bad credit.

These ratios show the short term solvency of a firm or liquidity position of a firm. To show the liquidity position following ratios can be calculated:

a) Liquid Assets to Total Assets Ratio

This ratio is an important liquidity management tool to assess on ongoing basis the extant liquid assets can support its assets base. An firm that does not mobilize saving can maintain a lower liquid assets to total assets ratio. It shows the ratio of liquid assets over the total assets. This ratio can be computed by dividing liquid assets by total assets, which can be presented as:

$$\text{Liquid Assets to Total Assets ratio} = \frac{\text{Liquid Assets}}{\text{Total Assets}}$$

Here liquid assets refer to cash balance, balance with NRB, balance with banks and total assets mean the assets that appear in assets side of the balance sheet.

b) Liquid Fund to Total Deposit Ratio

It shows the ratio of liquid fund over the total deposit. Liquidity funds consists cash balance, balance with NRB, balance with financial institutions and money at call. Total deposit consists all type of deposits. This ratio can be computed by dividing liquid fund by total deposit, which can be presented as:

$$\text{Liquid Fund to Total Deposit Ratio} = \frac{\text{Liquid Fund}}{\text{Total Deposit}}$$

c) Cash and Bank Balance to Current Assets Ratio

This ratio measures the proportion of most liquid assets i.e. cash and balance among the total current assets of the banks. Cash and bank balance comprises cash balance, balance with NRB and balance with bank. Current assets consists Cash Balance, Balance with NRB, Balance with other institution, Loan advance & Bills purchase.

Higher ratio shows the bank's ability to meet its demand of cash. This ratio is calculated by dividing cash and bank balance by current assets.

Mathematically it is expressed as

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

ii. Assets Management Ratios

Assets management ratio evaluation the offence with which the firm manages and utilizes its assets. This ratio is known as turnover ratio. This measures how effectively the firm employs the resources at its command. Funds are created by the collection of shares, deposit and debt from the owner, creditor and outside parties. Those funds are invested in procuring various kinds of assets to generate profit or income. These ratios are the indicators of a concern with regard to its efficiency in assets management hence they are often referred to as efficiency ratios. They are completed to assets finance companies efficiency in utilizing available resources.

a) Total Deposit to Total Liabilities Ratio

This ratio is calculated to find out the portion of total deposit with respect to the total liabilities. It is the expression of numerical relationship between total deposits to total liabilities. High ratio shows better opportunity available to the banks to invest in sufficient profit generating long-term loans but low ratio indicates vice versa. This ratio determined by dividing total deposits by total liabilities.

$$\text{Total Deposit to Total Liabilities Ratio} = \frac{\text{Total Deposit}}{\text{Total Liabilities}}$$

Here total deposit refers to all kinds of deposit and total liabilities mean the liabilities that appear in liabilities side of the balance-sheet.

b) Loan and Advances to Total Deposit Ratio

This ratio is called credit-deposit ratio. It is calculated to find out how successfully the bank is able to utilize its deposits on loan and advances for profit generating purpose. Greater ratio implies better utilization of total deposit and Loan and advance. Loan and advance refers to total of loan, advance and overdraft. This ratio can be obtained by dividing loan and advanced by total deposit as under;

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

c) Loan and Advances to Total Assets Ratio

Loan and advances is the major component in the total assets, which indicates the ability of bank to utilize its deposits in the form of loan and advances to earn high return. The ratio is computed by dividing loan and advances by total asset which is stated as under;

$$\text{Loan and Advances to Total Assets Ratio} = \frac{\text{Loan and Advances}}{\text{Total Assets}}$$

d) Total Investment to Total Deposit Ratio

Investment to total deposit ratios shows how efficiently the major resources of the bank have been mobilized. Investment consists of investment in government treasury bills, development bonds, company shares and other types of investment.

This ratio is calculated by dividing investment by total deposit collected in bank as follow:

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

e) Investment on Government Bond to Total Deposit Ratio

Investment in Government bond to Total Deposit Ratio is used to measure the percentage of total deposit invested to Government bond like treasury bills and development bonds .this ratio can be expressed as:

$$\text{Investment on Government Bond Total Deposit Ratio} = \frac{\text{Investment on Government Bond}}{\text{Total Deposit}}$$

III) Profitability Ratio

Profit is the difference between total revenues and total expenses over a period of time. Profit is the ultimate output of a commercial bank and it will have no future, if it fails to make sufficient profit. Therefore, the financial manager continuously evaluates the efficiency of the banks in term of profits. Profitability shows the overall efficiency of the business concern. The relation of the return of the firm to either its sales or equity of its assets is known as profitability ratio. Profit is necessary to survive in any business field for its successful operation and further expansion. It means management's overall effectiveness as shown by the return generated on sales and investment. Higher the profitability ratios better the financial performance of the bank and vice versa. Profitability ratio can be calculated by following different ratio.

a) Interest Income to Total Income Ratio

Interest income consists of interest income received from loan, advances cash credit, overdraft and government securities, interbank and other investment. Total income indicate total income of profit and loss a/c. Higher ratio is favorable from profitability point of view.

This ratio is calculated by dividing total interest income by total income as follows.

$$\text{Interest Income to Total Income Ratio} = \frac{\text{Interest Income}}{\text{Total Income}}$$

b) Return on Loan and Advances Ratio

Return on loan and advances ratio shows the relation of net profit earned by the bank with the loan and advances. Return refers to the profit after deduction of interest and tax. Higher ratio indicates strong profitability position and vice versa.

The ratio is calculated by dividing net profit after tax by loan and advances as follows.

$$\text{Return on Net Profit to Loan and Advances} = \frac{\text{Net Profit after Tax}}{\text{Loan and Advances}}$$

c) Return on Total Assets Ratio

This ratio measures the productivity of the assets. It show the relationship of net profit and total assets and determines how efficiently the total assets have been used by the management. Net profit refers to the profit after deduction of interest and tax. Total assets mean the assets that appear in assets side of the balance sheet. It measures the efficiency of banks in utilization of the overall operation. Higher ratio shows the higher return on the assets used in the business thereby indicating effective use of the resources available and vice versa.

This ratio is calculated by dividing net profit after tax by total assets as follows.

$$\text{Return on Total Assets Ratio} = \frac{\text{Net Profit after Tax}}{\text{Total Assets}}$$

d) Interest Expenses to Total Expenses Ratio

Interest expenses consist of interest expenses incurred for deposits, borrowing and loans taken by the bank. Total expenses mean the expenses that appear in the profit and loss a/c. Lower ratio is favorable from profitability point of view.

This ratio is calculated by dividing interest expenses by total expenses as follows.

$$\text{Interest Expenses to Total Expenses Ratio} = \frac{\text{Interest Expenses}}{\text{Total Expenses}}$$

iv. Growth Ratios

- Growth of Loan and Advances
- Growth of Investment
- Growth of Return

v) Standard Deviation

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

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

Where,

X is Variable and N is Number of Periods.

Co-efficient of Variance (C.V)

The co-efficient of variance is the relative measurement of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in percentage. It is calculated as.

$$\text{C.V} = \frac{\text{S.D}}{\text{Mean}} \times 100\%$$

Where,

$$\text{Standard Deviation S.D.} = \sqrt{\frac{\sum X^2}{N} - \frac{(\sum X)^2}{N}}$$

3.6.2 Statistical tools

Statistical tools used in the chapter are as follows

3.6.2.1 Coefficient of Correlation Analysis (r)

“Correlation is the statistical tools that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of sigma. Among the various methods of finding out coefficient of correlation, Karl Pearson’s method is applied in the study. The result of coefficient of correlation is always between +1 & -1. When $r = +1$, it

means there is perfect relationship between two variables & vice versa. When $r = 0$, it means there is no relationship between two variables.

The Pearson's formula is:

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

Probable error of correlation is calculated by following formula.

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

3.6.2.2 Coefficient of Determination

Variable that is accounted for by the dependant variable/s. In other words, the coefficient of determination gives the ratio of expected variance to the total variance. The coefficient of determination is given by the square of the correlation coefficient, i.e. r^2 . So the coefficient of determination

$$r^2 = \frac{\text{Expected variance}}{\text{Total variance}}$$

3.6.2.3 Test of Hypothesis

A quantitative statement about population parameter is called a hypothesis. In other words, it is an assumption that is made about the population parameter and then its validity is tested. It may or may not be found valid in verification. The act of verification involves testing the validity of such assumptions which, when undertaken on the basis of sample evidence, is called statistical hypothesis or testing of hypothesis.

The main goal of testing hypothesis is to test the characteristics of hypothesized population parameter based on sample information whether the difference between the population parameter and sample statistics is significant or not. The act of verification involves testing the validity of such assumption which, when undertaken on the basis of sample evidence, is called statistical hypothesis or the testing of hypothesis.

For the test of hypothesis t-test is made in this study.

3.6.2.4 t – statistics

t –statistics is applied for the test of small sample. If the sample size is less than 30 i.e. called small sample and t-test is used.

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

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

Where,

r = Simple Correlation Coefficient

n = Number of Observations

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

This chapter is the major body of the research work. This chapter presents and analyses the collected data for the achievement of the objective of this study and helps the researcher to reach to the conclusion. This chapter is divided into major two parts the first is financial analysis and the second is statistical analysis.

Introduction review of literature and research methodology are presented in the previous chapters provide the basic inputs to analyze & interpret the data. In this chapter, collected data are analyzed & interpreted as the states methodology in the previous chapters. This chapter of study presents the data & facts, which is related to different aspects of Standard Chartered Bank Nepal Ltd and Nepal Bank Ltd. This include data are collected from various sources .These available data are tabulated, analyzed and interpreted so that financial performance and interpretation is to highlights the strength and weakness of the bank. The collected data are analyzed & interpreted by using the financial & statistical tools.

4.1 Financial Analysis (Ratio Analysis)

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

4.1.1 Liquidity Ratio

4.1.1.1 Liquid Assets to Total Assets Ratio

The table and figure show the liquid assets to total assets ratio of SCBNL and NBL for the past five years of the study period.

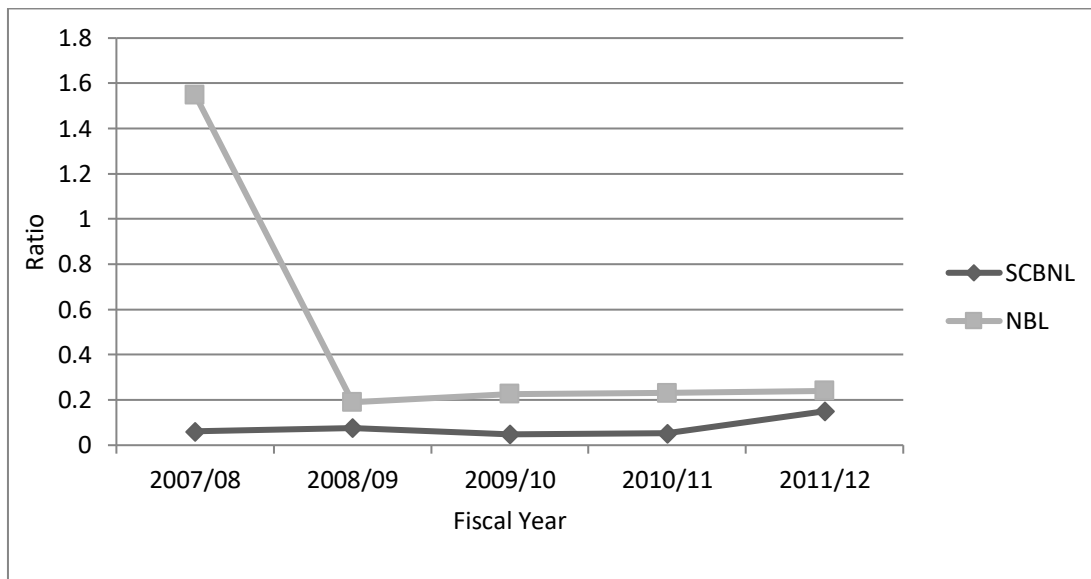
Table 4.1
Liquid Assets to Total Assets

(In Times)

Fiscal Year	Banks	
	SCBNL	NBL
2007/08	0.061	1.55
2008/09	0.077	0.19
2009/10	0.048	0.226
2010/11	0.053	0.23
2011/12	0.15	0.24
Mean	0.079	0.487
SD	0.037	0.59
C.V.	46.83%	121.14%

(Source: Annex I)

Figure 4.1
Liquid Assets to Total Assets



The above table and figure shows the ratio between liquid assets and total assets of NBL and SCBNL. The liquid assets and total assets of SCBNL is the highest of 0.15 in F/Y 2011/12 and the minimum is 0.048 in F/Y 2009/10. Similarly liquid assets and total assets of NBL is the higher of 1.55 in the F/Y 2007/08 and the minimum is 0.19 in F/Y 2008/09.

The liquid assets to total asset are higher in every year of NBL than SCBNL. It means the ability of NBL to meet its maturing short term obligation and reflects the term

financial strength. Liquidity refers to the solvency of the banks. Among two banks SCBNL has less average ratio of liquid assets to total assets in comparison to NBL.(i.e. $0.079 < 48.7$).It mean NBL is in good to maintain liquidity and solvency position. SCBNL has less coefficient of variance where as NBL has high level of variance (i.e. $121.14 > 46.83$.) So the SCBNL has maintained remarkably good consistency in comparison to NBL.

4.1.1.2 Liquid Fund to Total Deposit Ratio

The table and figure show the liquid assets to total assets ratio of SCBNL and NBL for the past five years of the study period.

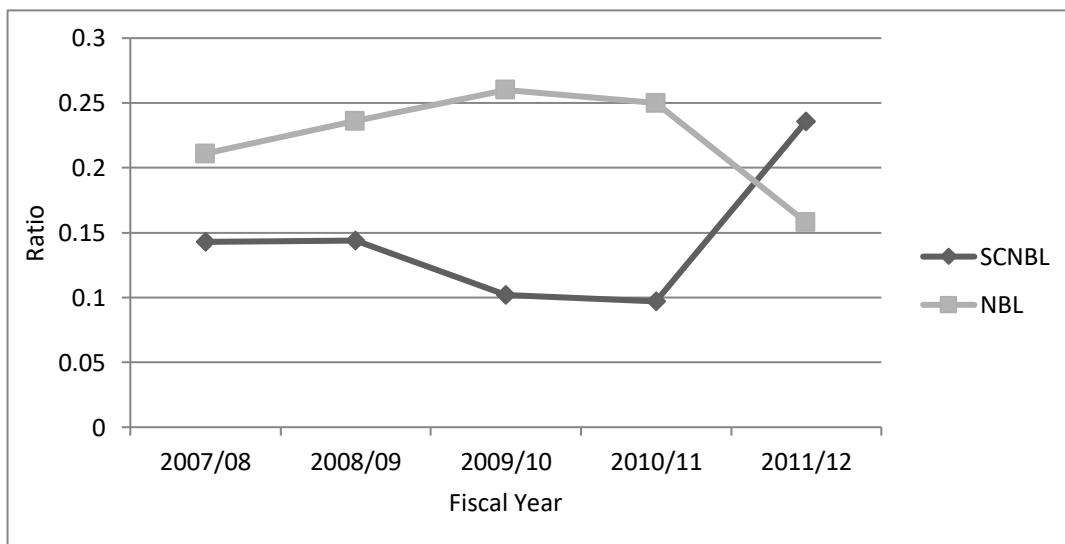
Table 4.2
Liquid Fund to Total Deposit Ratio

(In Time)

Fiscal Year	Banks	
	SCBNL	NBL
2007/08	0.143	0.211
2008/09	0.144	0.236
2009/10	0.102	0.26
2010/11	0.097	0.25
2011/12	0.236	0.158
Mean	0.144	0.223
SD	0.055	0.04
CV	38.61%	18.26

(Source: Annex I)

Figure 4.2
Liquid Fund to Total Deposit



This analysis covers five years from 2007 to 2012. Liquidity funds consists cash balance, balance with NRB, balance with banks financial institution and money at call.

Above table show the liquid fund to total assets ratio of SCNBL is 0.143, 0.144, 0.102, 0.097 and 0.236. respectively in selected year. And 0.211, 0.236, 0.26, 0.25 and 0.158 are the ratio of NBL. The above analysis helps to conclude that the liquid fund of NBL with the respect to deposit is better than SCNBL. The ratio of NBL is increasing in first three year then decreasing trend but the ratio of SCNBL is fluctuation. NBL has high mean and less standard deviation and CV in comparison to SCBNL. That mean NBL kept 22.3% of its deposit as most liquid fund. It means NBL has good to mobilize its deposit than SCBNL. Even having high degree of uniformity and consistency we can say that NBL mobilizing there fund in productive sector.

4.1.1.3 Cash and Bank Balance to Current Assets Ratio

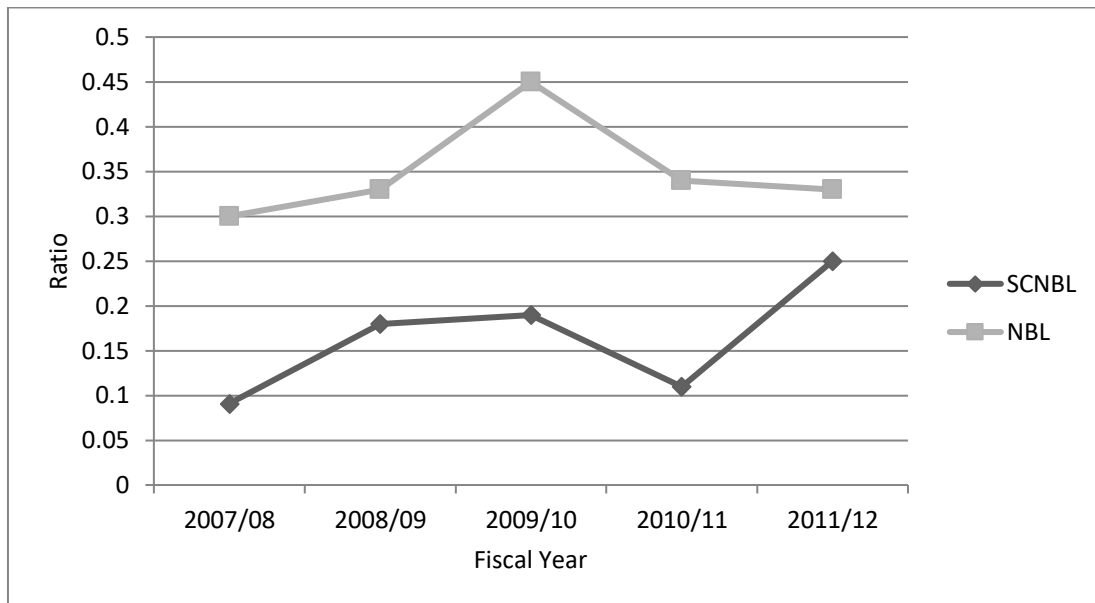
The table and figure show the cash and bank balance to current assets ratio of SCBNL and NBL for the past five years of the study period.

Table 4.3
Cash and Bank Balance to Current Assets Ratio

Fiscal Year	SCNBL	NBL
2007/08	0.091	0.3
2008/09	0.18	0.33
2009/10	0.19	0.45
2010/11	0.11	0.34
2011/12	0.25	0.33
Mean	0.164	0.35
SD	0.064	0.57
CV	39.20%	162.85

(Source: Annex I)

Figure 4.3
Cash and Bank Balance to Current Assets



The above analysis shows the relation of cash balance and current assets. Current assets consists Cash Balance, Balance with NRB, Balance with other institutions, Loan advance & Bills purchase.

The above calculated ratios of SCBNL are lower than the ratios of NBL. It means SCBNL have poor liquidity position. The bank may face the problem of working capital. NBL is maintain high level of investment in cash and bank balance in comparison to SCBNL (i.e. 35% > 16.6%). It has high variance and less CV too. Even having a good level of consistency we cannot say that NBL has mobilizing its fund in productive sector. To be clear in all these, more analysis is required.

4.2 Assets Management Ratios

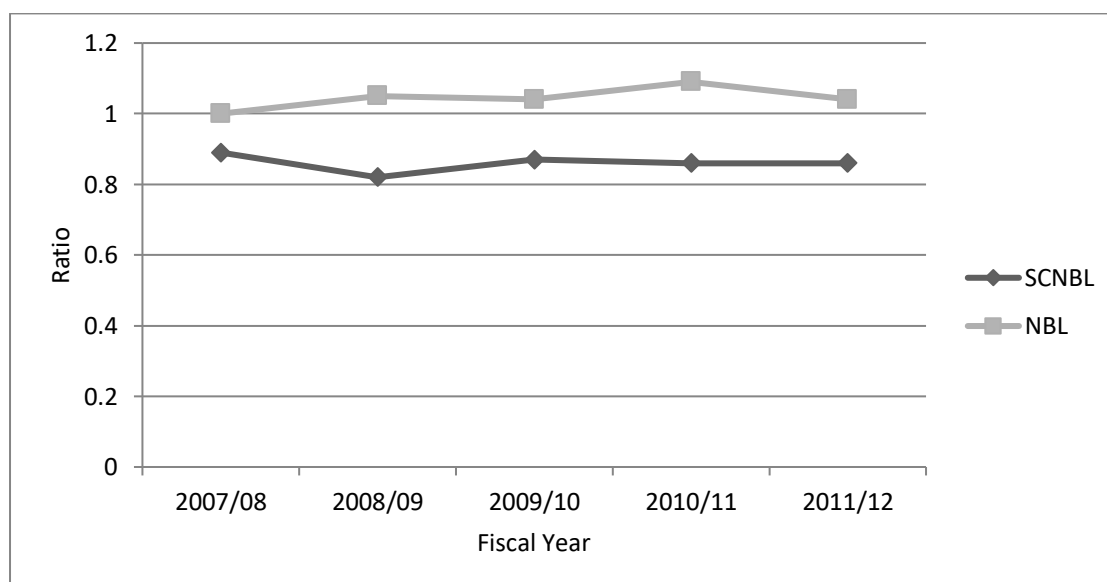
4.2.1 Total Deposit to Total Liabilities Ratio

Table 4.4
Total Deposit to Total Liabilities

Fiscal Year	Banks	
	SCBNL	NBL
2007/08	0.89	1
2008/09	0.82	1.05
2009/10	0.87	1.04
2010/11	0.86	1.09
2011/12	0.86	1.04
Mean	0.86	1.04
S.D	0.02	0.03
CV	2.32%	2.88%

(Source: Annex I)

Figure 4.4
Total Deposit to Total Liabilities



Above table and figure shows the relation between deposit and liabilities. Total Deposit To Total Liabilities Ratios of SCBNL are 0.89, 0.82, 0.87, 0.86 and 0.86. And the ratios of NBL are 1, 1.05, 1.04, 1.09 and 1.04 respectively over the five year. Above calculated ratio shows the decreasing trend of SCBNL for the all study period and in case of NBL it is increasing trend comparatively for first two year. And high in fourth year then its decrease in fifth year. Bank should maintain its deposit in liabilities. SCBNL has high level of deposit in comparison to NBL (i.e. 114% > 104%). SCBNL

has lower standard deviation and variance that mean it maintain high degree of uniformity and consistency in liquidity position.

4.2.2 Loan and Advance to Total Deposit Ratio

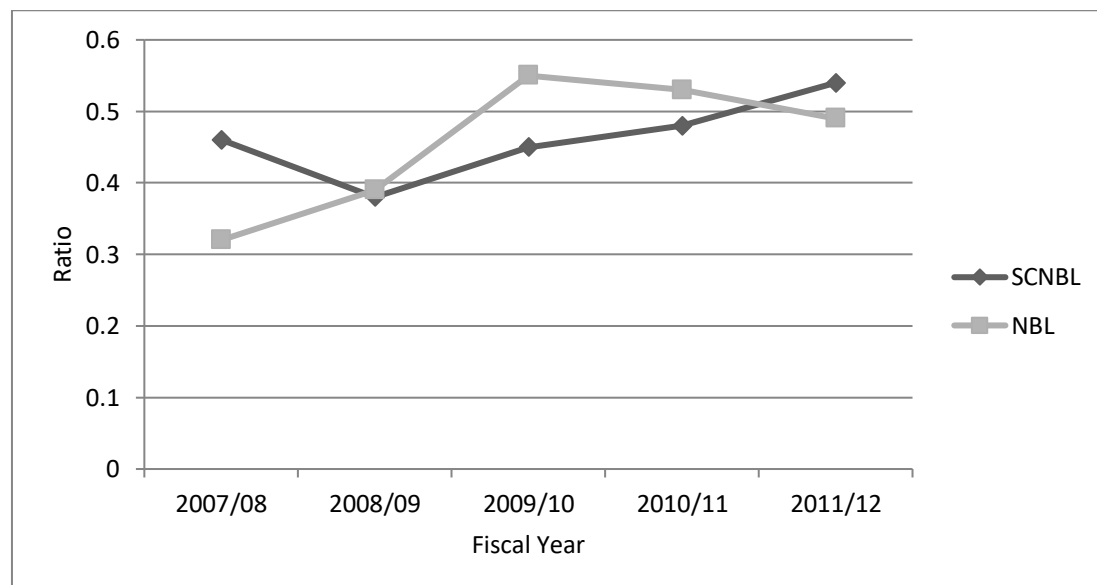
The table and figure show the loan and advances to total deposit ratio of SCBNL and NBL for the past five years of the study period.

Table 4.5
Loan and Advance to Total Deposit

Fiscal Year	Banks	
	SCBNL	NBL
2007/08	0.46	0.32
2008/09	0.38	0.39
2009/10	0.45	0.55
2010/11	0.48	0.53
2011/12	0.54	0.49
Mean	0.46	0.45
SD	0.057	0.09
CV	12.47%	21.46%

(Source: Annex I)

Figure 4.5
Loan and Advance to Total Deposit



The above table and figure represent the position of deposit investment in loan and advances. The ratio indicated the proportion of total deposit invested in loans and advances. In a year 2011/012, 54% of total deposit was invested in loan and advances

which is higher of the period and in 2008/09, ratio was 38% which is lowest of the study period of SCBNL. Another hand NBL have 55% in year 09/10 which is highest ratio and 32% in year 07/08 which is lowest ratio. Too low ratio gives a picture of the idle cash in banks. Both banks are should utilizing its deposit on loan and advance more. On an average, SCBNL has utilized 46% of total deposit. It has also low variance and coefficient of variation which indicates that there is systematic flow in loan & advances and maintained consistency and utilizes of loan & advance to total deposit in comparison to NBL.

4.2.3 Total Investment to Total Deposit Ratio

Table4.6

Total Investment to Total Deposit

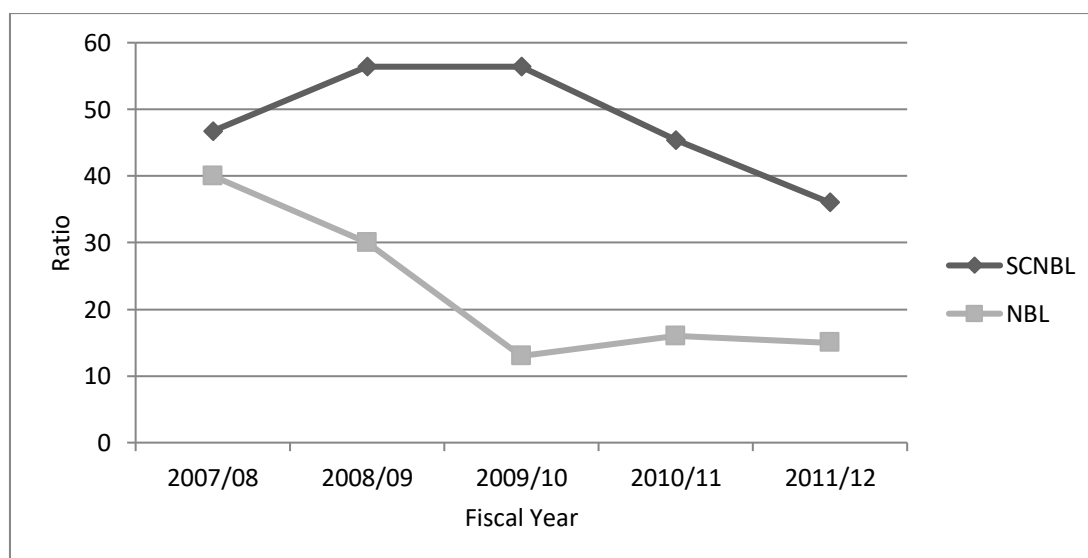
(In %)

Fiscal Year	Banks	
	SCBNL	NBL
2007/08	46.7	40
2008/09	56.4	30
2009/10	56.4	13
2010/11	45.4	16
2011/12	36	15
Mean	48.18	22.8
SD	8.56	11.73
CV	17.78%	51.46%

(Source: Annex I)

Figure 4.6

Total Investment to Total Deposit



The Ratio of Investment to total deposit remained 47%, 56%, 56%, 45.4% and 36% of SCBNL and 40%, 30%, 13%, 16% or 15% of NBL over the study period which is showed the above table and figure. The ratio of both banks shows irregular pattern over the study period. NBL should increase invests percentage of deposit in different sector. If bank is unable to invest in proper way it increases interest expenses, ideal fund do not gives any return to bank. While comparing average level of study period SCBNL has exceeded the mean value. NBL has found to be not interested in this part. So it have to explore the possibilities of new investments foe mobilizing its deposit. Coefficient of variation (CV) show that NBL has more CV than SCBNL. So we can say that NBL is more inconsistent than SCBNL.

4.2.4 Loan and Advance to Total Assets Ratio

Table 4.7
Loan and Advance To Total Assets Ratio

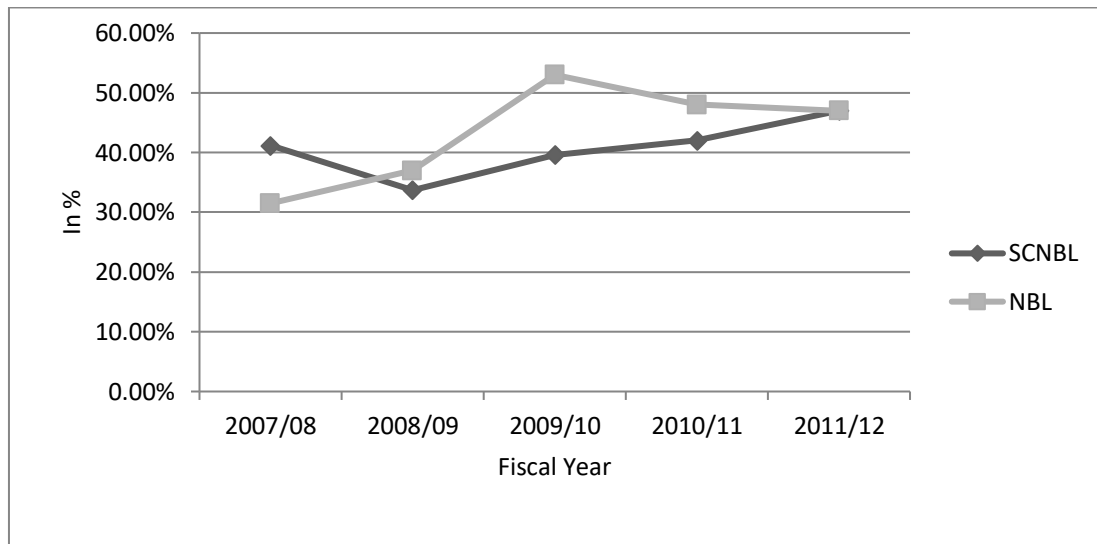
(In %)

Fiscal Year	Banks	
	SCBNL	NBL
2007/08	41.15%	31.5%
2008/09	33.7%	37%
2009/10	39.6%	53%
2010/11	42%	48%
2011/12	47%	47%
Mean	40.69	43.3
SD	0.048	0.08
CV	11.77%	20.29%

(Sources: Annex 1)

Figure 4.7

Loan and Advance to Total Assets Ratio



Above table shows loan and advances to total assets ratio in the sampled year. Ratio of SCBNL which is highest in fifth year i.e. 47% and 33.7% which is lowest in second year. And ratio of NBL is 53% which is highest in third year and 31.5% in first year which is lowest ratio of study period. The ratio of SCBNL is increasing trend than the case of NBL its decreasing trend. It means NBL may have the idle cash on investing its money in marketable securities. In an average NBL has high utilization ratio of total assets in loan and advances in comparison to SCBNL. But lower CV of SCBNL show that it has maintain very good consistency in maintain loan & advances portion out of total assets.

4.2.5 Investment on Government Bond to Total Deposit Ratio

Table 4.8

Investment on Government Bond to Total Deposit

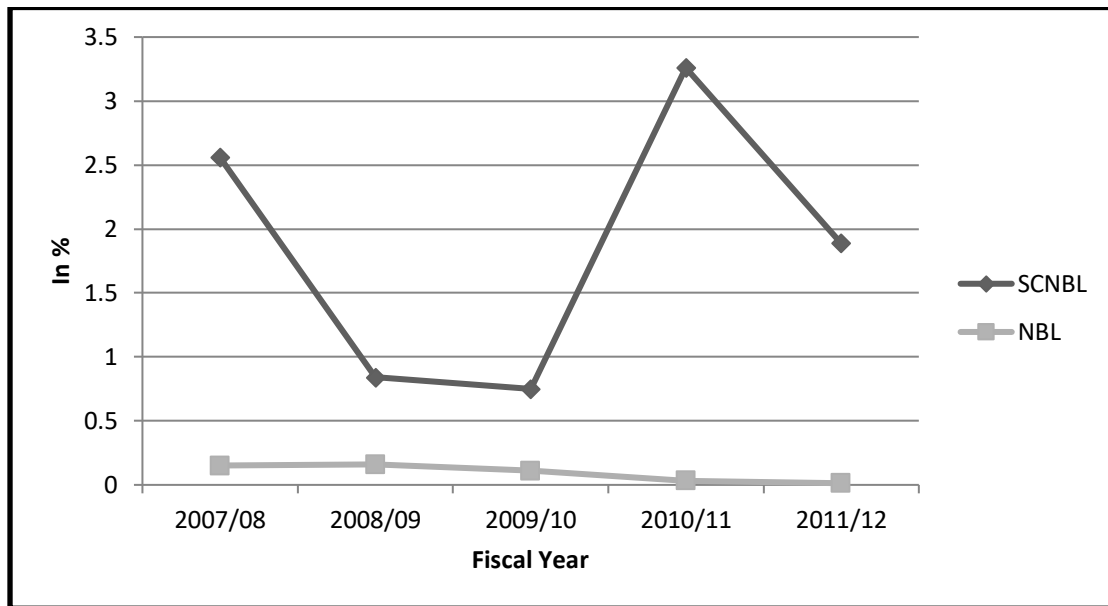
(In %)

Fiscal Year	Banks	
	SCBNL	NBL
2007/08	2.56	0.15
2008/09	0.84	0.16
2009/10	0.75	0.11
2010/11	3.26	0.032
2011/12	1.89	0.013
Mean	1.86	0.093
SD	1.08	0.06
CV	58.42%	72.43%

(Sources: Annex 1)

Figure 4.8

Investment on Government Bond to Total Deposit



Investment in Government securities bond to Total Deposit is used to measure the percentage of total deposit investment in Government securities. Above calculated ratio shows invested in Government Securities fluctuated over the study period of both sample banks. The highest ratio SCBNL and NBL are 3.26% in 2010/11 and 0.16 in 2008/09 respectively. And the mean ratio of SCBNL and NBL are 1.86 and 0.096.

Governments Securities are risk free investment but gives lower return to investor. SCBNL have the higher ratio then the NBL. It means SCBNL has invested more money in risk free assets than NBL. In another words NBL has emphases on more loan & advance and other short- term investment in government securities.

4.3 Portfolio Ratio

4.3.1 Interest Income to Total Income Ratio

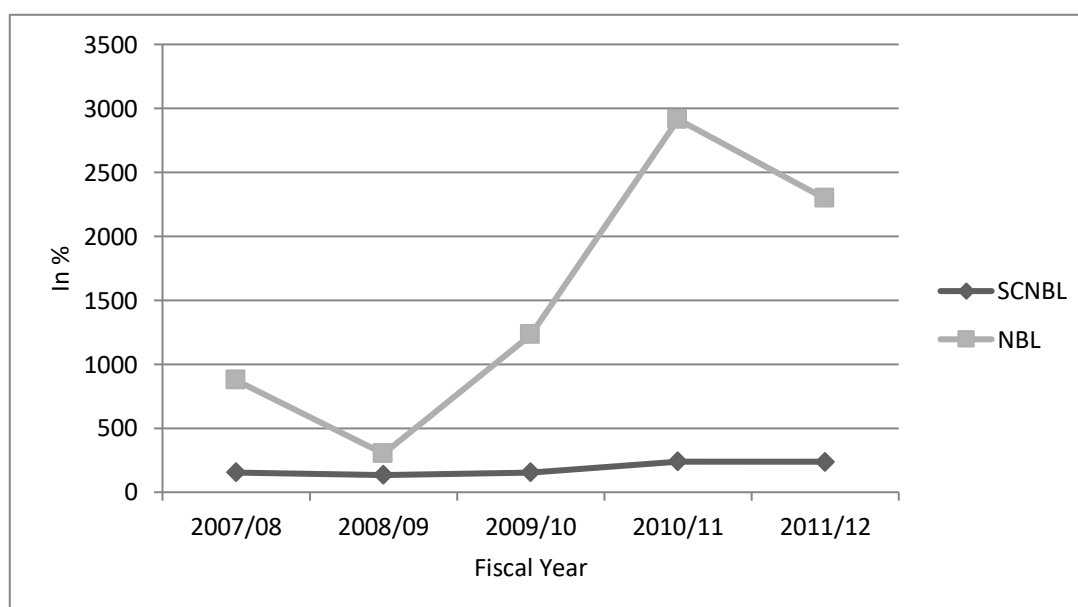
Table 4.9
Interest Income to Total Income

(In %)

Fiscal Year	Banks	
	SCBNL	NBL
2007/08	155.58	875.74
2008/09	134.00	300.81
2009/10	154.00	1230
2010/11	238.61	2914
2011/12	236	2297
Mean	183.64	304.702
SD	49.73	1064
CV	27.08%	69.87

(Sources: Annex 1)

Figure 4.9
Interest Income to Total Income



The main sources of the banks are interest income. The above table and figure shows the interest income ratio. The ratios of SCBNL are lower than the NBL. 238.61% and 2914% of highest ratios of SCBNL and NBL in year 2010/011 respectively. It indicates SCBNL is not earned more interest. SCBNL have lower average ratio of interest income to total income but have higher consistency in that ratio. SCBNL have

27.08 coefficient of variation where as NBL stands as higher inconsistency of interest income to total income of 69.87.

4.3.2 Return on Loan and Advances Ratio

Table 4.10

Return on Loan and Advanced

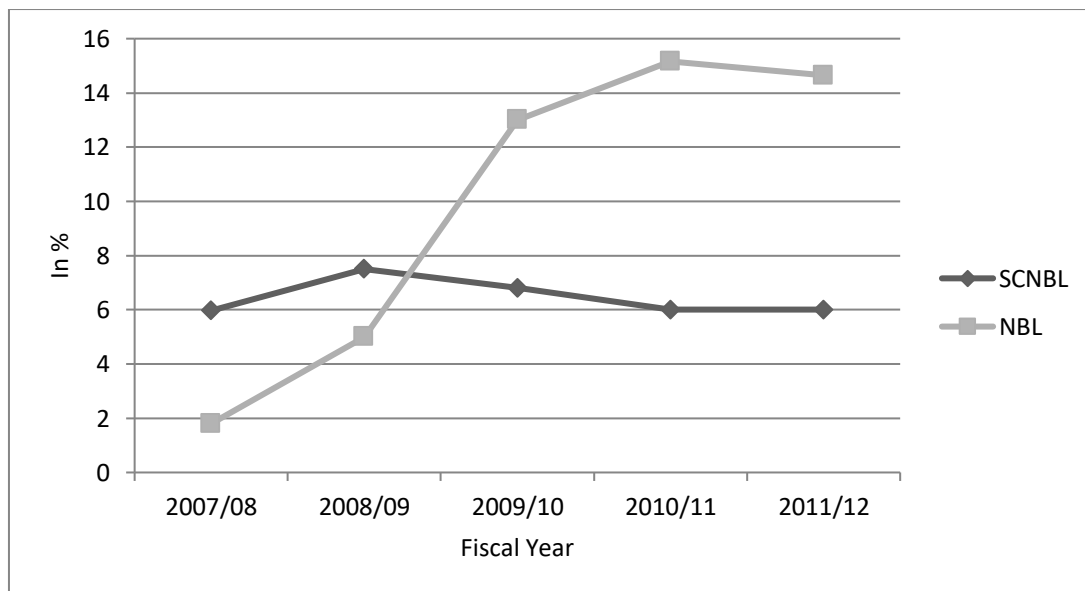
(In %)

Fiscal Year	Banks	
	SCBNL (%)	NBL (%)
2007/08	5.97	1.8
2008/09	7.5	5.0
2009/10	6.8	13
2010/11	6.0	15.16
2011/12	6.0	14.64
Mean	6.45	9.92
SD	0.68	6.11
CV	10.57%	61.60%

(Source: Annex 1)

Figure 4.10

Return on Loan and Advanced



Above table and figure show the return on loan and advances of two sampled banks. This ratio indicates how % earns in use of loan and advances. The Ratio of SCBNL is 7.5% and 5.97% which is highest and lowest value for the year 2009/10 and 2007/8 respectively. The ratios of NBL are 15.16% or 1.80% which is highest and lowest

value for the year 2010/11 or 2007/8 respectively. So the SCBNL Invest high amount in loan and advances to earn more income. While comparing coefficient of variance, NBL have higher inconsistency in maintaining ratio. NBL has coefficient of variation of 61.60 where as SCBNL has maintained good consistency and has 10.57 coefficient of variance.

From the table we notice that SCBNL has lower ratio of average in the study period. It can be concluded that NBL have utilized the loan & advances for the profit generation in same earning capacity than SCBNL.

4.3.3 Return on Total Assets

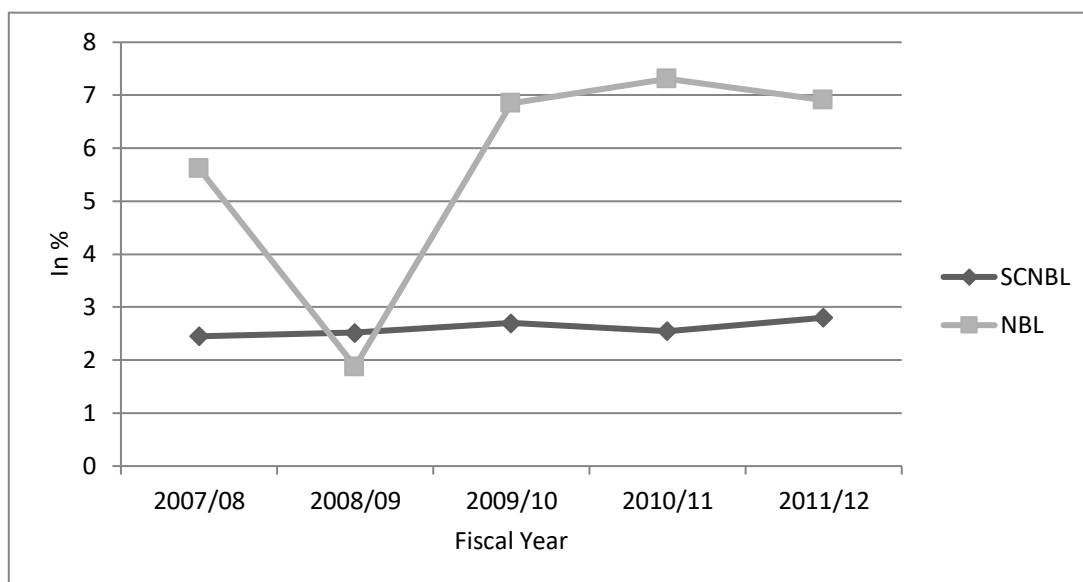
Table 4.11
Return on Total Assets

(In %)

Fiscal Year	Banks	
	SCBNL	NBL
2007/08	2.45	5.62
2008/09	2.52	1.88
2009/10	2.70	6.85
2010/11	2.55	7.31
2011/12	2.80	6.91
mean	2.60	5.71
SD	0.14	2.23
CV	5.47	32.34

(Sources: Annex 1)

Figure 4.11
Return on Total Assets



This ratio measure the productivity of assets. Net profit refers to the profit after deduction of interest and tax. Total assets appear in assets side of the balance sheet. Return on total assets of SCBNL increased in a year 2007/08 to 2009/010. And decrease in 2010/011 then again increase in fifth study period i.e. 2.80%. The ratio of NBL Is higher but fluctuation over the study period than the ratio of SCBNL. Higher the ratio indicates the success of management in overall operation. NBL stands higher position which have an average return on total assets ratio of 5.71 where as SCBNL have 2.60 an average return on total assets. But in comparing coefficient of variation, SCBNL have remarkable good consistency to maintaining ratio than NBL. Following that SCBNL & NBL have 5.57% 32.34 level of coefficient of variation respectively.

4.3.4 Interest Expenses to Total Expenses Ratio

Table 4.12

Interest Expenses to Total Expenses

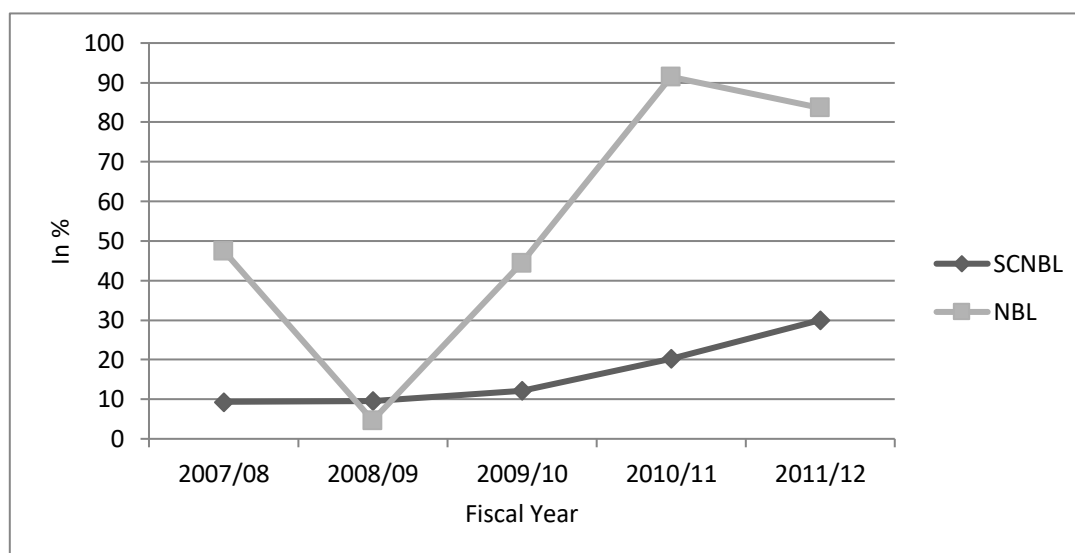
(In %)

Fiscal Year	Banks	
	SCBNL	NBL
2007/08	9.35	47.49
2008/09	9.59	4.65
2009/10	12.13	44.44
2010/11	20.25	91.45
2011/12	30	83.62
Mean	16.26	54.33
SD	8.86	34.81
CV	54.47%	64.08%

(Sources: Annex1)

Figure 4.12

Interest Expenses to Total Expenses



Total Interest expenses to Total Expenses ratio of both banks are increasing trend Over the study period. In year 2011/012 SCBNL have highest ratio i.e. 30%.And NBL have 91.45% in year 2010/011 which is the highest value over the study period .It indicates NBL not able to decrease interest expenses which is not favorable for NBL.NBL is not successful allocating interest bearing debt in profitable sector than the comparison to SCBNL. On an average the mean ratio of SCBNL &NBL are 16.26 & 54.33 respectively. While comparing the averages, NBL have higher interest expenses to total expenses ratio than SCBNL. By the analysis of coefficient of

variance SCBNL seems having moderate consistency nature and NBL have little inconsistency in maintaining interest expenses to total expenses ratio.

4.4 Growth Ratios

4.4.1 Analysis of Growth of Loan and Advances

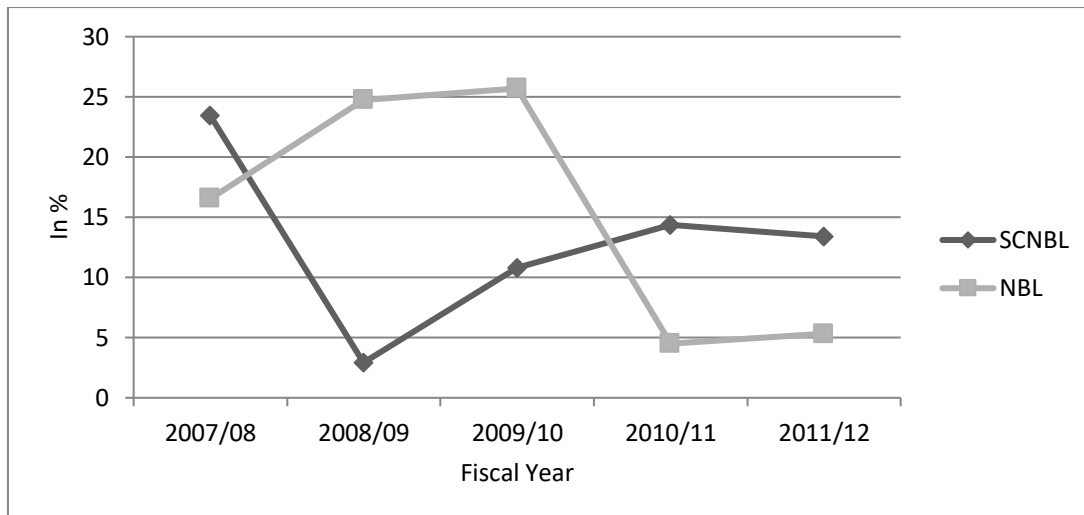
Loan and advances are the main transaction of the commercial bank. The major element where the banks mobilize their funds is loan and advance. Commercial banks mobilize their deposit in productive sector for earning profit and making the financial position of the bank better. So, increasing growth rate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

Table 4.13
Growth of Total Loan and Advance

Fiscal Year	Banks	
	SCBNL	NBL
2007/08	23.44	16.55
2008/09	2.92	24.76
2009/10	10.8	25.7
2010/11	14.34	4.5
2011/12	13.40	5.3
Mean	12.98	15.36
SD	7.37	10.19
CV	55%	66.34%

(Source: Annex2)

Figure 4.13
Growth of Total Loan and Advance



The above table and figure are the presentations of the growth of loan and advance of sampled banks. The growth ratio SCBNL is fluctuating but the ratios of NBL are seemed to be in increasing trend first three year.

Growth rate of SCBNL for these period are 23.44%, 2.92%, 10.8, 14.24 and 13.40% respectively. After observing these factors it is found that SCBNL is in better position in comparison to NBL. And it is seemed that NBL should immediately take some action to make the growth of loan and advance positive.

NBL has higher mean, SD & CV than comparison to SCBNL (i.e. 15.36, 10.19, 66.34 > 12.98, 7.37, 55). That mean NBL has high utilization of growth of loan & advances but SCBNL has lower CV than NBL it show that it maintain good consistency in maintain the growth of loan & advances.

4.4.2 Analysis of Growth of Investment

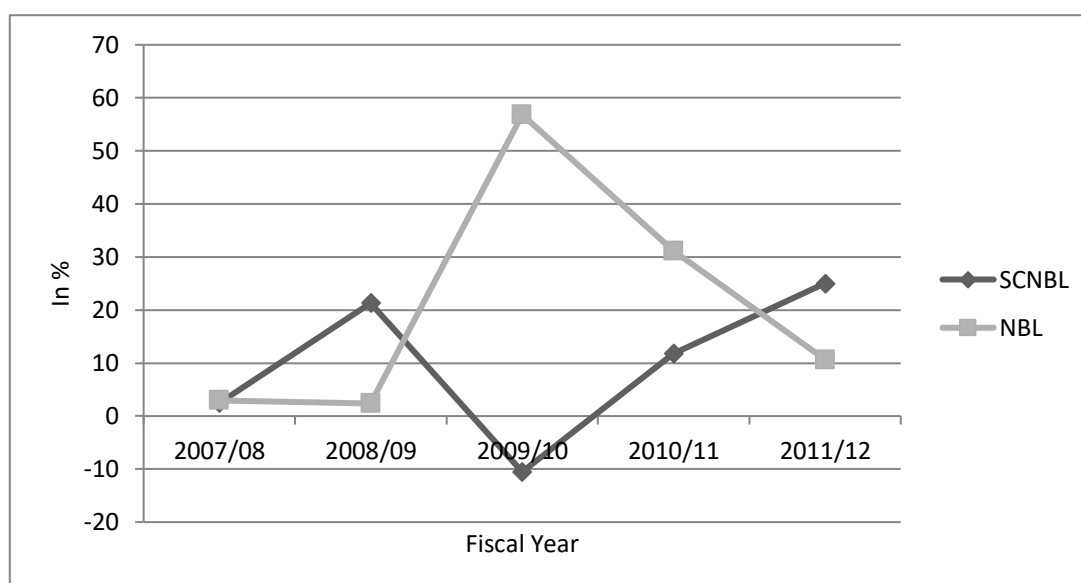
Banks collect deposits from people and invest it to the various productive sectors. Banks have to collect adequate deposit; and invest it to the productive sector for regular return. The investment of the bank increases only when the bank is able to increase the collection of the deposit and mobilize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

Table 4.14
Growth of Investment

Fiscal Year	Banks	
	SCBNL	NBL
2007/08	2.51	3
2008/09	21.29	2.36
2009/10	-10.52	56.82
2010/11	11.76	31.14
2011/12	25.03	10.62
Mean	10.014	20.78
SD	14.43	23.26
CV	144%	111.93%

(Source: Annex2)

Figure 4.14
Growth of Investment



The above table and figure are the presentations of the growth of total investment of sampled banks for the study period of four years from 2007/08 to 2011/12.

The growth rate of SCBNL is fluctuating during the study period. Growth rate of NBL for five year years are 3,2.36,56.82,31.5and 10.62% respectively and the growth rates of SCBNL for same years are 2.51,21.29,-10.52,11.76 and 25.003%respectively.

After analyzing the facts and figures it is found that the growth rate of SCBNL is best for fifth year of study period and the ratio of NBL is best for third year. But the ratio of NBL has fallen by the large percentage on 2011/12.

NBL has high mean of growth of investment than SCBNL (i.e. $20.78 > 10.01$). It shows that NBL has high utilization of investment but also lowest cv of SCBNL (i.e. $11.93 < 144$) than NBL. So it is clear that NBL is the most successful in utilizing its resource on investment in point of view of coefficient of variation.

4.4.3 Analysis of Growth of Return

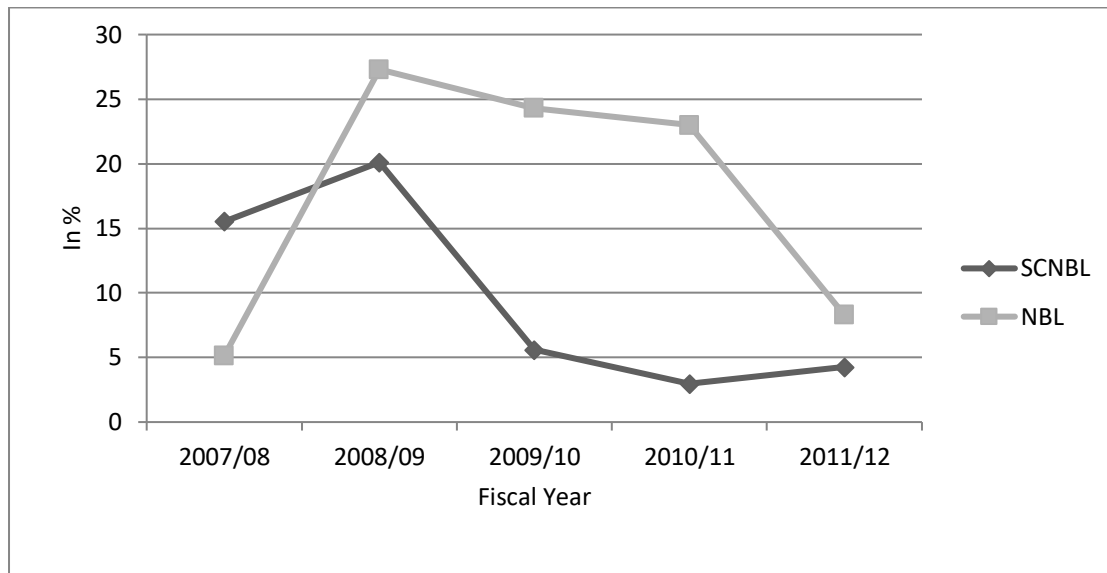
One of the most important objectives of the bank is to maximize the return. It is possible through the proper mobilization of deposit. If the bank is able to mobilize the deposit well, higher will be the return and the performance of the bank. The net income is considered as the return in this unit.

Table 4.15
Growth of Return

Fiscal Year	Banks	
	SCBNL	NBL
2007/08	15.54	5.12
2008/09	20.11	27.3
2009/10	5.59	24.3
2010/11	2.97	23
2011/12	4.25	8.29
Mean	9.69	17.60
SD	7.65	10.13
CV	78.94	57.55

(Sources Annex 2)

Figure 4.15
Growth of Return



The above table and figure show the growth ratio of return of the two sampled banks. The ratios are fluctuating during the study period. The growth rates of return of SCBNL are 15.54, 20.11, 5.59, 2.97 and 4.24% respectively. And ratios of NBL for the same period are 5.12, 27.3, 24.3, 23 and 8.29% respectively.

After analyzing the growth of NBL is seemed highly fluctuating and that is higher than the ratio of SCBNL on 2011/12.

The mean ratio of growth of return for NBL is the higher at the 17.60 similarly SCBNL has 9.69. From the point of view of average ratio it can be said that NBL has capacity to gain high return because higher mean than SD i.e. 10.13. But the coefficient of variation in the ratio of NBL is the lower i.e. 57.55. Similarly the CV in the ratio of SCBNL is the highest i.e. 78.94 indicate more inconsistency than NBL. It shows that NBL is the most successful to earn high return than SCBNL.

4.5 Statistical Analysis

This unit aims to analyze the factors related to the topic of the study by using statistical tools such as co-efficient of correlation, trend analysis and test of hypothesis between different variables. Such types of statistical analysis assist the researcher to get to the decision.

4.5.1 Analysis of Coefficient of Correlation

The coefficient of correlation defines the degree of relationship between or among two or more variables. Here we study the degree of relationship between two variables one of them is independent variable and another is dependent variable. The Karl Pearson's method popularly known as Pearson's co-efficient of co-relation is mostly used for calculating the coefficient of correlation in practice. The Pearson's co-efficient of co- relation is denoted by "r" which shows the relationship between two variables. It helps to determine whether

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

Correlation analysis among various statistical tools is preferred in this study to identify the relationship between variables, and measure the significance of the relationship.

For the purpose of decision making interpretations are based on the following terms:

- When, $r = 1$, there is perfect positive correlation.
- When, $r = -1$, there is perfect negative correlation
- When, $r = 0$, there is no correlation
- When, r lies between 0.7 and 0.99 (-0.7 and 0.-.099), there is a high degree of positive or (negative) correlation.
- When "r" lies between 0.5 and 0.69 (-0.5 and -0.69) there is moderate degree of correlation.
- When "r" is less than 0.5(-0.5) there is low degree of correlation.

Probable Error (P.E.) of Correlation

The probable error of the correlation of coefficient is applicable for the measurement of reliability of the computed value of the correlation coefficient 'r'. The probable error is calculated by:

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

For decision making purpose following points will be considered:

- If $r < P.E.$ the value of 'r' is not significant no matter how high r value is. It means there is no evidence of correlation between the variables.
- If $r > 6 P.E.$ the value of 'r' is significant i.e. correlation is significant.

4.5.2 Analysis of Correlation Coefficient between Deposit and Total Investment

The coefficient of correlation between deposit and investment is the degree of relationship between two variables. In this analysis, deposit is independent variable(x) and total investment is dependent variable(y). The purpose of this analysis is to justify whether the deposits are significantly used in proper way or not and whether there is any relationship between these variables.

Table 4.16
Correlation Coefficient between Deposit and Total Investment

Banks	Base of Evaluation			
	r	r ²	pEr	6Per
NBL	0.72	0.52	0.14	0.84
SCBNL	0.12	0.014	0.29	1.74

(Source: Annex - 3)

The above table shows the correlation coefficient between deposit (independent variable) and total investment (dependent variable) of NBL, and SCBNL 0.72 and 0.12 respectively. These figures show the negative relationship between these variables to the SCBNL and NBL.

The coefficient of determination of the variables of NBL and SCBNL are, 0.52 and 0.014 respectively. It means 52% of the variation in total investment of NBL is explained by the deposit and 1.4% of the variation in total investment of SCBNL is explained by deposit.

Considering the probable error , the value of correlation coefficient (i.e. r) is greater and the value of Per and 6per of NBL is lower than the value of SCBNL. Comparing the value of 6Per with the value of coefficient of correlation (r) the value of 'r' of NBL is smaller than the value of 6Per (i.e. $0.72 < 0.84$). It means the value of r is not

significant it means the relationship between the variables is insignificant. The value of correlation coefficient of SCBNL is lower than the value of 6per (i.e. $1.74 > 0.12$). It means the relationship between the variables is not significant.

4.5.3. Analysis of Correlation Coefficient between Deposit and Loan and Advances

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

Table 4.17
Correlation Coefficient between Deposit and Loan and Advances

Banks	Base of Evaluation			
	r	r ²	pEr	6Per
NBL	1	1	0	0
SCBNL	0.62	0.38	0.18	1.08

(Source: Annex- 3)

The above table shows the degree of correlation between deposit and loan and advance NBL and SCBNL for the study period of five years from 2007/08 to 2011/12. The degree of correlation as the value of (r) of NBL and SCBNL are 1 and 0.62 respectively. It means the degree of correlation between the variables of these variables of NBL is highly positive and the degree of the correlation of the variables of SCBNL is positive but lower than NBL.

The value of (r²) the coefficient of determination of NBL and SCBNL are 1 and 0.38 respectively. It means 100% of the variation in loan and advance of NBL is explained

by the deposit and 38% of the variation in loan and advance of SCBNL is explained by the deposit.

Considering the probable error, the value of PEr of SCBNL are smaller than the value of correlation coefficient (i.e. r), the value of PEr of NBL is smaller than the value of r . comparing the value of 6PEr with the value of correlation coefficient the value of r of SCBNL is smaller than the value of 6PEr so the relationship between the loan and advance and total deposit of this banks are not significant, on the other hand the value of (r) of NBL is also smaller than the value of 6PEr so the relationship between the variables are not insignificant.

4.5.4 Analysis of Correlation Coefficient between Total Assets and Profit

Correlation coefficient between total assets and profit measures the degree of relationship between total assets and profit. Here, total assets are independent variable(x) and net profit is dependent variable(y). Generally it is assumed that total assets and the profit are positively correlated, if total assets increases the profit will increase and vice versa. The main purpose of analyzing this is to justify whether the profit is significantly correlated with total assets or not.

Table 4.18

Correlation Coefficient between Total Assets and Profit

Banks	Base of Evaluation			
	r	r^2	pEr	6Per
NBL	0.12	0.014	0.29	1.74
SCBNL	0.93	0.86	0.04	0.24

(Source: Annex-3)

Above table presents the degree of correlation between total assets and profit of NBL and SCBNL. Correlation coefficient (r) for above mentioned banks is 0.12 and 0.93 respectively. It means the total assets and profit of SCBNL are highly positively correlated, but these variables of NBL are positively correlated.

Coefficient of determination of these variables for, NBL and SCBNL are 0.014 and 0.86 respectively. It means 1.4% of the variation in profit of NBL is explained by total assets and 86% of the variation in profit is explained by total assets of SCBNL.

Analyzing the value of probable error of the correlation coefficient the value of (r) of SCBNL is greater than the value of PEr so the relationship between the variables are significant. Comparing the value of 6PEr with the value of (r), the value of 6PEr of SCBNL are smaller than the value of (r) this figure further specifies the relationship between the variables. The figure relating to the NBL shows that the relationship between the variables is not significant.

4.6 Test of Hypothesis

Test of hypothesis is the process of testing of significance regarding the parameter of the population on the basis of sample drawn from the population. In testing hypothesis, we examine on the basis of statistics computed from the sample drawn, whether the sample drawn belongs to the, parent population with certain specific characteristics or not.

In this topic, an effort has been made to test the significance regarding the parameter of the population on the basis of sample drawn from the population. Generally following steps are followed for the test of hypothesis.

1. Formulation of hypothesis
 - Null hypothesis.
 - Alternative hypothesis
2. Computing the test statistics.
3. Fixing the level of significance.
4. Finding critical region. Deciding two- tailed or one-tailed test.
5. Making decision.

Since, we have population less than 30 we apply (t-test) for testing the hypothesis. Some of the main hypothesis tests which are helpful for making reliable decision regarding the deposit mobilization of sampled banks are done as follows.

4.6.1 Test of Hypothesis on Investment and Total Deposit Ratio of SCBNL and NBL

Table 4.19

Test of Hypothesis on Investment to Total Deposit Ratio of SCBNL and NBL

Fiscal Year	Banks					
	SCBNL			NBL		
	X	d ₁ =(x-x)	(d ₁) ²	y	d ₂ =(y-y)	(d ₂) ²
2007/08	46.7	-1.46	2.13	39.6	16.84	283.58
2008/09	56.4	8.24	67.89	29.6	6.84	46.78
2009/10	56.4	8.24	67.89	13.5	-9.2	84.64
2010/11	45.4	-2,76	7.62	16.2	-6.56	43.033
2011/12	35.9	-12.26	150.30	14.9	-7.86	61.78
Total	Σ=240.8	Σ= 0	Σ=295.83	Σ=113.8	Σ=0.06	Σ=519.81

$$\bar{X} = \frac{\Sigma x}{N} = \frac{240.08}{5} = 48.16$$

$$\bar{Y} = \frac{\Sigma y}{N} = \frac{113.8}{5} = 22.76$$

$$S^2 = \frac{1}{n_1+n_2-2} \left[\Sigma d_1^2 - \frac{(\Sigma d_1)^2}{n_1} \right] + \left[\Sigma d_2^2 - \frac{(\Sigma d_2)^2}{n_2} \right]$$

$$= \frac{1}{5+5-2} \left[295.83 - \frac{(0)^2}{5} + \left\{ 519.81 - \frac{(0.06)^2}{5} \right\} \right]$$

$$= 101.95$$

Hence,

Null Hypothesis (H₀): $\mu_x = \mu_y$, i.e. there is no significant difference between mean ratio of total investment to total deposit of SCBNL and NBL.

Alternative Hypothesis (H₁): $\mu_x \neq \mu_y$ (two tailed), i.e. there is significant difference between mean ratio of total investment to total deposit ratio of SCBNL and NBL.

Now,

Calculating the value of t':

$$t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

$$= \frac{48.16 - 22.76}{\sqrt{101.95 \left(\frac{1}{5} + \frac{1}{5} \right)}}$$

$$= 3.97$$

Therefore; t = 3.97

Tabulated value of t' (two- tailed test) for (n1+n2-2) (i.e. 8) degree of freedom, at 5% level of significance is 0.42

Decision

Since calculated value of t' high than its tabulated value, we accept alternative hypothesis (H1). In other words, there is significant difference between mean ratio of investment to total deposit of SCBNL and NBL.

4.6.2 Test of Hypothesis on Loan and Advance to Total Deposit Ratio of SCBNL and NBL

Table 4.20

Test of Hypothesis on L&A to Total Deposit Ratio of SCBNL and NBL

Fiscal Year	Banks					
	SCBNL			NBL		
	X	d ₁ =(x-x)	(d ₁) ²	Y	d ₂ =(y-y)	(d ₂) ²
2007/08	46.1	-0.38	0.144	31.6	-13.88	192.56
2008/09	38.1	-8.38	70.22	38.9	-6.58	43.29
2010/11	45.3	-1.18	1.39	54.9	9.42	88.73
2010/11	48.5	2.02	4.08	52.7	7.22	52.12
2011/12	54.4	7.92	62.72	49.3	3.82	14.59
Total	$\Sigma=232.4$	$\Sigma=0$	$\Sigma=138.56$	$\Sigma=227.4$	$\Sigma=0$	$\Sigma=391.59$

$$\bar{X} = \frac{\Sigma x}{N} = \frac{2324}{5} = 48.48$$

$$\bar{Y} = \frac{\Sigma y}{N} = \frac{227.4}{5} = 45.48$$

$$S^2 = \frac{1}{n_1+n_2-2} \left[\Sigma d_1^2 - \frac{(\Sigma d_1)^2}{n_1} \right] + \left[\Sigma d_2^2 - \frac{(\Sigma d_2)^2}{n_2} \right]$$

$$= \frac{1}{5+5-2} \left[138.56 - \frac{(0)^2}{5} + \{391.38 - \frac{(0.06)^2}{5} \right] = 66.24$$

Hence,

Null Hypothesis (H₀): $\mu_x = \mu_y$, i.e. There is no significant difference between mean ratio of loan and advance to total deposit of total commercial banking system and NBL.

Alternative Hypothesis (H₁): $\mu_x \neq \mu_y$ (two tailed), i.e. there is significant difference between mean ratio of loan and advance to total deposit ratio of total commercial banking system and NBL.

Now,

Calculating the value of 't':

$$\begin{aligned} t &= \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}} \\ &= \frac{46.48 - 45.48}{66.24 \left(\frac{1}{5} + \frac{1}{5} \right)} \\ &= 0.19 \end{aligned}$$

Therefore;

$$t = 0.19$$

Tabulated value of 't' (two-tailed test) for $(n_1 + n_2 - 2)$ (i.e. 8) degree of freedom, at 5% level of significance is 0.45

Decision

Since calculated value of 't' is higher than its tabulated value, we accept alternative hypothesis (H₁). In other words, there is significant difference between mean ratio of loan and advance to total deposit of total commercial banking system and NBL.

4.7 Major Findings of the Study

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

Considering the statistical analysis as the easy path for meeting the objective some statistical tools have been used for the analysis. In statistical tools, correlation coefficient, trend analysis and t-statistic have been used. This unit focuses on the major findings, which are derived from the analysis of the data related to the NBL and SCBNL. This study has been made on the basis of the related data for five years from 2007/08 to 2011/12. The major finding of the financial analysis and statistical analyses are presented below.

I. Financial Ratio

In liquid assets to total assets ratio NBL have higher ratio in overall study period. It show the ability of NBL to meet its short term obligation indicate the strength financial position. SCBNL has less average ratio and level of coefficient of variance than NBL. It mean SCBNL have maintain good ratio of this and consistency than NBL.

In liquid fund to total deposit ratio, the ratio of NBL have increasing then decreasing but SCBNL have fluctuation. NBL have higher mean, variance and coefficient of variance than SCBNL. It indicate that NBL kept high ratio of deposit as most liquid fund and also have good consistency of mobilizing its fund in profitable sector. And cash balance to current assets ratio shoes that SCBNL have poor liquidity position than NBL. But also has lower cv indicate SCBNL maintain good consistent than NBL.

In assets management ratios, total deposit of total liabilities ratio of SCBNL has lower standard deviation that mean it maintain high degree of uniformity n consistency in liquidity position. Also in the ratio of loan & advances to total deposit SCBNL have good to maintain loan & advances and utilizing loan & advance to total deposit in comparison to NBL. SCBNL have also good position of investment. Which we can the ratio of investment to total deposit than NBL.

Findings of Assets Management Ratios

In total investment to total deposit ratio the ratio of SCBNL are higher in every study period than NBL. SCBNL has higher mean and lower standard deviation or coefficient

of variance than NBL. It indicate that NBL is more inconsistent and it should increase its investment ratio in various ways

Loan and Advance to Total Assets ratio of SCBNL are increasing trend but the ratio of NBL are decreasing trend. SCBNL have lower mean, variance and coefficient of variance than comparison to NBL. It shows that NBL has high utilizing ratio of total assets in loan & advances. But it has not maintained good consistency on loan & advance out of total assets.

Investment on government bond to total deposit ratio of SCBNL has higher in every study period in comparison to NBL. SCBNL have higher value of mean and variance but low value of coefficient of variance. It shows that SCBNL has kept high ratio of investment on government bond and low degree of uniformity but remarkable good consistency in comparison to NBL.

Findings of Profitability Ratio

- In profitability ratios of interest income to total income ratio of NBL has higher ratio overall study period than SCBNL. NBL have higher mean. Variance and coefficient of variance. It all ratios indicates that NBL keep high rate of interest income but not maintain good consistency in interest income on total income than SCBNL.
- Return on loan and advanced ratio of SCBNL has lower in 2009/10 to 2011/12 than NBL. SCBNL have lower ratio of mean, variance and coefficient of variance in comparison to NBL. It indicate that NBL has earn high rate of return on loan & advances but not maintain high degree of uniformity or consistency on return on loan & advances.
- The ratio of return on assets SCBNL has increasing trend but NBL has decreasing trend with high value. SCBNL also have lower ratio of mean standard deviation and coefficient of variance. It indicates that NBL earn high return on total assets than SCBNL. But SCBNL maintain high degree of uniformity of the observation and good consistency on return of total assets.
- NBL has also higher ratios on interest expenses to total expenses ratio than SCBNL in overall five years. SCBNL has lower ratio of mean, standard

deviation and coefficient of variation. This all ratios indicate that SCNL has lower interest expenses and has maintain good consistency in interest expenses to total expenses ratio.

Findings of Growth Ratio

Growth ratios show the performance level of the commercial banks. The smooth growth of the performance show the perfect efficiency but this cannot be found in real practice in general life. In this study the growth of both sampled banks are analyzed and compared with each other.

Loan and advance is the most important element for investing the funds of commercial banks. Analyzing the growth ratios of loan and advance, the ratios of both sampled banks. The statistics of NBL is showing the increasing for first three year then decreasing loan and advance. NBL facing the great problem of default of recovery of loan has been concentrating its effort for recovery of loan than making further loan so this bank may have the decreasing growth in loan and advance. Another reason for falling growth may be the political instability and unfavorable environment for the trade and industry. Though the ratios of both sampled banks are falling SCBNL has the positive and higher growth rate so this bank can be considered as the efficient bank in this analysis. But the point of view of average SD or CV NBL has higher average ratio and lower CV which indicate NBL has highly utilization its loan & advance than SCBNL.

Investment is another sector where the banks mobilize their funds. Increasing investment is the signal of economic recovery of the nation and financial efficiency of the commercial banks. Analyzing the growth of investment, the ratios of both sampled bank are fluctuating during the study period. The ratios of SCBNL are negative in f/y 2009/10. But positive ratios of NBL in all study period. SCBNL has the increasing of growth of investment in the study period of last two years. So it can be generalized that the private sector commercial banks are more successful in making investment in comparison to the government owned commercial banks. But from the analysis of average ratio NBL has higher average ratio of growth of investment and lowest CV. it is clear that NBL is most successful in utilization its source on investment than SCBNL.

Profit making is one of the most important objectives of commercial banks. If the bank is successful in making smooth growth in profit by passes of time the bank can be considered as managerially successful bank and that can easily sustain in long term. Analyzing the growth of return, both sampled banks have the fluctuating growth during the study period. On the point of view of average ratio NBL has higher ratio of growth of return than SD and lower CV than comparison to SCBNL. It shows that SCBNL can not successful in gain high return than NBL.

Findings of Coefficient of Correlation

Analyzing the correlation coefficient between deposit and total investment NBL has highly positive relationship between these variables and SCBNL has positive relationship between these variables. Considering the probable error, the coefficient of correlation (i.e. r) of NBL is smaller than the value of $6PEr$ (i.e. $0.72 < 0.84$). It means the relationship is not significant. On the other hand the value of coefficient of correlation (I.e. r) of SCBNL is also smaller than the value of $6PEr$ (i.e. $1.74 > 0.12$).It means the relationship between the variables is also not significant.

In the analysis of correlation coefficient between deposit and loan and advances SCBNL have the positive relationship and NBL has the perfectly positive relationship. It indicates that the increase in deposit tends to increase in loan and advances. The study suggests that the dependent variable i.e. loan & advance of sample bank is highly depends upon the total deposit. Considering the probable error the value of coefficient of correlation (i.e. r) of NBL is greater than the value of $6PEr$ (i.e. $1 > 0$).So the relationship between the variables is significant. The value of coefficient of correlation (i.e. r) of SCBNL is smaller than the value of $6PEr$ (i.e. $1.08 > 0.62$). The relationship between the variables of SCBNL is significant.

Analyzing the correlation coefficient between total assets and profit of SCBNL has the highly positive relationship and NBL has positive relationship between these variables but lower than SCBNL. Considering the probable error, SCBNL have the value of coefficient of correlation (i.e. r) greater than the value six times probable error ($6PEr$) (i.e. $0.93 > 0.24$). It means the relationship between the variables of SCBNL is significant. While comparing the value of coefficient of correlation (i.e. r) with the value six times probable error ($6PEr$) of NBL the value of coefficient of

correlation is smaller than the value of (6PEr) (i.e. $0.12 < 1.78$).so the relationship between the variables of NBL is not significant.

Findings of Test of Hypothesis

Analyzing the hypothesis test result of investment to total deposit ratio and L&A to Total Deposit Ratio of NBL and SCBNL both test have yield the result of acceptance of alternative hypothesis. Both commercial banks have significant difference the mean ratios of investment to total deposit and the mean ratio of L&A to total deposit.

CHAPTER-V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Mobilization as well as canalization of saving in the productive sector is important for the economic development of the country without inflationary pressure in the economy. No doubt commercial banks play a crucial role for the economic development by formulation of capital, which is key variable in the economic development of the country. Scattered recourses hold no meaning unless and until they mobilized and utilized efficiently in some productive sectors. Commercial banks contribute to the process of capital formation by converting dispersed saving into meaningful capital investment in order to aid industry, trade, commerce and agriculture for the economic development of a nation. It should not be forgotten that a country could hardly achieve its growth of economic development without a strong capital base. Commercial banks play a vital role in performing such base for financial and economic development by way of deposit mobilization. It is quite true that a strong financial institution is of great need in the developing country like Nepal. Because all the economic conditions are based on the financial institution and the development of a country depend upon the active participation of the banks in the different activities in the economy.

Deposits are the obligation of the commercial banks. So, commercial banks must allocate the funds in different loans and advances and investments. In these studies two banks NBL representing the government bank and SCBNL representing the private sector bank in this study data of five years from 2007/08 to 2011/12 have been considered for the targeted analysis.

Analyzing the liquidity position of the banks, both banks have satisfactory level of liquidity but SCBNL has the lower portion of liquid assets in total assets in last f/y then the NBL and also has the higher CV. The portions of liquid fund to total deposit of NBL has better position than SCBNL. Generalizing the findings of the study it can be observed that private sector commercial banks are less strong in liquidity management but government owned banks also are not in dissatisfactory conditions.

In assets management ratios, total deposit to total liabilities ratios are higher in increasing trend of SCBNL similarly decreasing trend of NBL. This means NBL should not maintain its deposit in liabilities. In total investment to total deposit ratio and investment on government bond to total assets ratio, NBL is weak in all assets management ratio then comparison of SCBNL. Comparing these all ratios of two sampled banks it is found that SCBNL is stronger than NBL in all the ratios. SCBNL show that it has maintain very good consistency in maintaining assets management.

In the analysis of profitability ratio NBL is stronger than SCBNL in return on loan and advance ratio and return on total assets ratio. SCBNL is weaker than NBL in interest expenses to total expenses ratio. Comparing these ratios of two sampled commercial banks it is found that SCBNL is stronger than the NBL in all ratios excepting interest expenses to total expenses ratio. And vice versa in interest income to total income ratio.

In the analysis of growth ratios of NBL have higher average growth ratio in investment and L&A & return. SCBNL has higher CV of all growth ratios. In the growth point of view NBL is stronger than SCBNL.

In the analysis of correlation coefficient between the selected variables, NBL has the positively higher and perfectly correlated results on deposit and investment or deposit and L&A respectively. And low degree of correlation in total assets and profit. It means NBL are significantly correlated with deposit & investment and deposit & L&A each other during this period and vice versa in total assets & profit. Such results may have appeared because of the restructuring programs launched for the betterment of the bank.

In the hypothesis test it is found that both sampled banks are significantly different. In other words the sampled banks have significant difference between the mean ratios of investment to total deposit and L&A to Total deposit.

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

better but the position of private sector commercial banks is better than the position of government owned commercial banks.

5.2 Conclusions

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

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

From the analysis made in last chapter it is found that SCBNL and NBL are able to mobilize average 46% and 45% of their deposits to the loan and advance and 48.18% and 22.8% in investment. This figure show the stronger position of SCBNL than NBL in deposit mobilization but comparing the return ratios, i.e. interest income to total income ratio NBL has higher return than SCBNL in five study period. It means SCBNL is weak in collecting interest. The analysis of all growth ratios the SCBNL also reflects the weak position in comparison to NBL.

Various analysis yield different results but summarizing the results it can be generalized that there is no more difference between the deposit mobilizations of government owned commercial banks and private sector commercial banks. But the private sector commercial banks are seemed more efficient than the government owned commercial banks in deposit mobilization.

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

5.3 Recommendations

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

- A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community; however, external as well as internal factors affect the liquidity position of banks. NBL has high degree of liquidity than SCBNL also comparing the L& A to Total deposit and Investment to Total Deposit ratio SCBNL has higher ratio in comparison to NBL. It means NBL should mobilize the liquid funds in good position on the good liquidity management.
- NBL is better to revise the deposit management policy and implement the revised policy strongly. SCBNL should also revise and implement the liquidity policy.

- The ever mounting amount of deposits is now got to be properly mobilized in the different sectors of the economy. For the proper mobilization of deposit, banks must be prepared to take more risk on their lending and investments to encourage the borrowing by the units of the economy.
- Since, NBL used to provide less loan and advances in comparison to its total deposits, NBL strongly recommended to follow the liberal lending policy more percentage of deposits can be invested to different profitable sector as well as towards loan and advances.
- Considering the current economic scenario, NBL should expand their transaction in new services such as tax revenue collection, business enterprise's bill amount collection etc.
- NBL should increase its profitability ratio by investment diversification n also increase invest ratio in government securities in a proper ways. For minizing the risk.
- Both Commercial banks themselves should seek for new investment opportunities rather than investing in identified areas.
- NBL has also increase to used newly scientific technology like ATM, Mobile banking, internet banking activities .Hence to compete with SCBNL, NBL should go for scientific financial operation.
- All imperfect parties inherent from the past mistakes should be avoided to re-orient the bank to new discuss of change and other future improvement.
- Finally, for the speedy development of the nation, the government owned banks as well as the private sector banks are suggested to follow decentralization policy in order to extend the modern and computerized banking facilities towards the marginal areas and for assuring the reach of remote area people in modern banking facilities.