

CHAPTER I

INTRODUCTION

1.1 Background of the study

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

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

In modern age, economic condition is one of the most remarkable distinctions. In this universe, there are a number of countries whose economic condition is very high with per capita income of more than US \$ 30,000.00 while there are such countries whose economic condition is very poor with per capita income of less than \$200 per annum. Of course, these countries are trying to lift up their economic condition. These countries are suffering from numerous problems. However, recently, significant improvement has been seen in the global economic and financial scenario.

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 exiting 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 be half of its clients by opening bank drafts and letter of credit facility etc.

Besides, the main task of bank is to mobilize idle resources into productive sector by collecting it from scattered sources and generating profit. Banks also facilitates people to carry out their financial transaction in every sector such as organization, industries,

agriculture trade and needy people as well. Bank accepts deposits in numerous forms depending upon the nature of savers and banks own product offering strategy .Some of the common deposits are saving, fixed and call deposits etc. the cost of deposits to the banks varied as central bank has freed up the commercial bank to offer the interest rate on their own.

However, it's said that the average cost of deposits for the bank is 4%.Development of nation banking sector of that country is responsible and must be strong. The 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 with out 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.

1.1.1 Historical Development of commercial banks in Nepal

The word 'bank' generally denotes commercial bank. It is believed that the word 'bank' was derived from the French word 'Benque' and Italian word 'Banqo'. Literally, a bank means doing the transaction of money sitting on a bench. The first bank of its kind was established on 1148 A.D. in Genoa and on 1157 in Venus. However, in Nepalese

context, a formal banking system was introduced only in 1973 with the establishment of Nepal Bank Ltd. which is regarded as the mount institution of modern banking system of Nepal. Prior to the establishment of this bank, the banking needs of people, were fulfilled to certain extent only by organized financial institution the 'Tezarath Addha' but the services offered by it were not sufficient. Actually, the formation of high quality board, 'Udhyog Parisad' was indeed a land mark in opening a new avenue in the field of banking and commerce accordingly. NBL was established in November 1937 under Nepal Bank Act as joint venture between government and private sector and replace the 'Tejarath Addha' by taking over its operation. Since then, Nepalese have been able to enjoy the banking services in an organized way.

Saving account is considered to be the major source of funds for banks. Many of the bank's deposit structure here in Nepal shows that about eighty percent of their total deposit liabilities comes from this account. This account provides some interest to the depositors on their deposited money as they are bound by the rules regarding the operation of their accounts. The volume of such deposits is very high in commercial banks operating within the boundary of Nepal.

"In modern times, commercial banking occupies quite an important place in the financial framework of every economy because of the continuing challenge presents to those who are responsible for managing the affairs of the banks and to those who observe and study their performance. The character of banking has kept on meandering through times and the working of the commercial banks reflects the changing character of the credit mechanism which is itself the outcome of the economic changes taking place in the economic system. Consequently, commercial bank's workings must be flexible to enable them to face the new economic problem and policy issue in order to play their useful role in the economy. (*vaish;1999:540*)

The recent trend in the banking industry has been observed that the portion of idle cash they are holding is mounting. For instance: commercial banks are currently holding about eighty one percent of the total deposits held by entire depository institution, which turns out to 219 billion rupees. In the mean time, the total loan outstanding and investments of commercial banks is about 180 billion rupees only. This clearly shows the level of deposit management by commercial banks and it requires something to be done immediately.

1.1.2 An Introduction to the Selected Commercial Banks

Two commercial banks have been chosen with an aim to attain the basic purposes of the study. Standard chartered bank represents the private owned commercial bank that is considered as the well managed banks among the private sector and joint venture banks. On the other hand Nepal Bank Ltd is considered as the wide area serving bank in Nepal .this bank is selected as the sample bank because this is most popular government owned bank in Nepal. The selection of sampled banks has been made with an attempt to achieve the maximum variety in respect to their investments and loans characteristics. A brief introduction to these banks has been made in the following paragraphs.

Himalayan Bank Ltd.

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. Other financial institutions in the country have been following our lead by introducing similar products and services. Therefore, we stand for the innovations that we bring about in this country to help our Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks, we believe we obviously lead the banking sector of Nepal. The most recent rating of HBL by Bankers' Almanac as country's number 1 Bank easily confirms our claim.

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and

other stakeholders of being innovative, HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster Recovery Management System'. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software- HimalRemitTM. By deputing our own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All this only reflects that HBL has an outside-in rather than inside-out approach where Customers' needs and wants stand first. (www.himalayanbank.com.np)

Nabil Bank Ltd.

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 47 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Telebanking system. (www.nabilbank.com)

1.2 Focus of the study

This study focuses on the history of the deposit mobilization of total commercial banking system and two sampled banks HBL & NABIL. This study is made the

especial aim of observing the deposit mobilization position of total commercial banking system in Nepal and comparing the deposit mobilization position of HBL & NABIL 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 total commercial banking system and two sampled banks.

1.3 Statement of the Problem

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

The basic purposes of this study are:

-) Do the financial factors like liquidity management, efficiency and profitability position in relation to deposit mobilization of commercial banks?
-) How is the deposit mobilization position of government owned commercial banks and private sector commercial banks?
-) How is the formation of deposit liabilities?
-) What is the trend of deposit and loan investment?

1.4 Objectives of the Study

The main objectives of the study are as follows:

-) To identify the trend of saving deposit of HBL & NABIL
-) To identify the problem of saving deposit of HBL & NABIL
-) To assess the source of investment of HBL & NABIL
-) To know the proportion of saving deposit with total deposit and to compare it with optimal composition

1.5 Importance/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:

1.6 Limitations of the Study:

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

-) The research work will be made on the basis of latest four years' data from fiscal year 2006/07 to 2010/11.
-) Time is a limit for the study.
-) Simple statistical and financial tools are used for the analysis.
-) Study is made on the basis of secondary data only.
-) The usage of transaction period of the selected banks has been determined by the specific nature and availability of data.

1.7 Organization of the study

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

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.

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.

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.

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.

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 total commercial banking system better than that is.

Bibliography and annex are included at the last of this chapter.

CHAPTER II

REVIEW OF LITERATURE

To develop the concept and ideas about the selected topic, the review of relevant material is very important and crucial. In fact, review of literature begins with a search for a suitable topic and continuous throughout the duration of the research, either a dissertation or a thesis. Review of literature means reviewing research studies or other relevant propositions in the related areas of the study so that all the past studies, their conclusions and deficiencies may be known and further search can be conducted. It is an integral and mandatory process in research works. It deals with a literature survey of existing volumes of similar or related subjects and a careful check should be made that the proposed study has not been carried out previously. Completely new and original problems are very rare, however a previous study should not be exactly replicable unless the techniques used facilitate to trace out the doubtful conclusions or some new sources of information identified.

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

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

This chapter is basically concerned with review of literature relevant to the topic “Deposit Mobilization of HBL & NABIL”. Every study is very much based on past knowledge. The previous studies can not be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past studies.

“Literature Review is basically a “Stock Taking” of available literature in one’s field of research. The literature survey thus provides us with the knowledge of the status of their field of research” (*Wolf and Pant; 2000:30*). Therefore, this chapter has its own importance in the study.

To develop the concepts and ideas about the selected topic, the review of relevant materials is very important and crucial. The main reason for a full review of research in the past is to know the outcomes of those investigations in areas where similar concepts and methodologies had been used successfully. In this connection, a review of previous related studies reports, articles books will help the researcher to formulate a satisfactory structure for the study. the review of literature helps:

↳To identify the problem in other words it provides a basis for identifying the areas for future research.

↳To determine the methodology for research works.

↳To draw delineation and scope for studies.

↳To avoid unintentional replication of previous studies.

↳To interpret the result in precise manner.

2.1 Conceptual Review

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

2.1.1. Concept of Deposits

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

It is important that the commercial banks deposit policy is the most essential policy for its 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 "(Vaidya; 1999:68).

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

"Bank deposits arise in two ways the first when the banker receives cash & 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 of derivative deposits. They add to the supply off money. Banks actively create such deposits

2.1.2 Types of Deposits

At the outset it is necessary to know what a deposit is. Commercial bank Act 2031, defines deposits is 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:

- i.Demand Deposits
- ii.Saving Deposits

iii. Fixed deposits

i. Demand Deposits

The deposit in which an amount is immediately paid at the time of any a/c holder's demand is called demand deposits. In another words, we can say this type of demand deposit as current a/c. current a/c means an a/c of 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

2.1.3 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”

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.

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 with in 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.

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

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

Insurance of bank deposits, creation of proper atmosphere can increase deposits and the development of severity of capital markets with the helps of banks will prove effective in mobilizing the available floating resources in the country (*Ghosal and Shirma; 1965:92*). Capital formation is possible through collecting scattered unproductive and small saving from the people. This collected fund can be utilized in productive sector to increase employment and national productivity. Deposit mobilization is the most dependable and important sources of capital formation. Banking transaction refers to the acceptance of deposits from the people for granting loan and advances, and returning the accepted deposit at demand or after the expiry of a certain period.

According to banking rules and regulations, this definition clearly states that Deposit mobilization is the starting point of banking transactions. Banking activities can be 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”. 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.

2.1.4 Need for Deposits Mobilization

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

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

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 out country's present context.

2.1.5 Advantages of Deposit Mobilization

Following points as the advantages of deposit mobilization:

i) Circulation of Idle Money

Deposit mobilization helps to circulate idle money. The meaning of deposit mobilization is to convert idle saving into active saving. It helps the depositors' habit of saving on one side, and it also helps to circulate the idle saving into productive sector on the others. This helps to create incentives to the depositors. Again, investment in productive sector helps to develop a country's economic development, and also increase in investors' income.

ii) To Support Fiscal and Monetary Policy

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

iii) To Promote Cottage Industries

It is needed to facilitated cottage industries located in rural and urban areas. If the bank utilized the collected deposit in the same rural or urban sector for the development of the cottage industries, it is helpful not only to promote cottage industries in the area, but also support in the development in the locality as a whole increasing employment and income of the local people.

iv) Formation of Capital

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

v) Development of Banking Habit

One important side of economic development of a country is to increase banking habit in the people. Deposit mobilization helps in these aspects. If there is proper deposit mobilization, people believe on the bank and banking habit develops on the people.

vi) To Check up Miss Utilization of Money

Mostly our customs and habit are supported by social and religious believes. There is also tendency of copying others and to show there superiority buying unnecessary and luxury items in our society. In such society, deposit mobilization proves a tool to check up miss utilization of money.

vii) To Support Government Development Project

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

vii) Co-ordination between Different Sectors

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

viii) Others

Deposit mobilization supports small savers by earning interests, helps to the development of rural economy, protects villagers from being exploitation of indigenous bankers, increase investment incentives, and provides facilities to the small farmers to purchase tools and fertilizers.

2.2 Concept of Commercial Bank

"A Bank is a business organization that receives and holds deposits of funds from others make loans or extends credits and transfer funds by written order of depositors"

"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"

"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, stockbrocking, 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.

"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" Principally, commercial bank accepts deposits and provides loans, primarily to business firms thereby facilitating the transfer of funds on the economy. In the Nepalese context, commercial bank act, 1974 defines "a commercial bank as one which exchanges money, deposits money accepts deposits, grants loans, and performs commercial banking functions".

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

Commercial Banks are those banks who pool together the savings of the community and arrange for their productive use. They supply the financial needs of moderns business by various means. They accept deposits from the public on the condition that they are repayable on demand of on short notice. Commercial Banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short terms needs of trade and industry such as working capital financing. They can

not finance in fixed assets. They grant loans in the forms of cash credits and overdrafts. Apart from financing they also render services like collection of bills and checks, safe keeping of valuables financing advising etc. to their customers.

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

"Commercial banks are those who pool together the savings of the community and arrange for their productive use. They supply the financial need of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand or on short notice. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant loans in the form of cash credits and overdrafts. "Accepting the financing, the Bank also renders services like collection of bills and cheques, safe keeping of valuables, financial advising etc. to their customers" (*Vaidya; 2001:38*).

2.2.1 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, uneven 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 confided to what is necessary for influencing the country's financial business in the directions citrated by economic policy". (*Sayers;1972:17*).

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 GON 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:

1. By providing fixed capital to Agricultural Development Bank by purchasing its Shares of debentures
2. By giving direct credit facility to the farmers on the mortgage of their land, house, food grains & 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 though the commercial banks have made rapid progress in mobilizing financial resources they are still insufficient in their lending policies.

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

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

The role of Commercial Banks is indispensable for industrial development of Nepal. Due to insufficiency of capital, industries are depending more & 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.

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

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

2.2.2 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

2.2.3 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 withdraws 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" (*Vaidya;2001:42*).

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 arise their rates & come potential borrower may differ the use of credit or seek it elsewhere.

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

2.2.4 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 can not be used for investment purpose. This capital fund consists of two elements; paid of 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 county like Nepal being and 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.

2.3 Review of Related Studies

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

2.3.1 Review of Journals & Articles

Bajracharya (2007), 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 (2000), in the article, “*Resources Mobilization & Financial Development in Nepal*” 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*” 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 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.

Pradhan (2008), 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 depositing 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.
-) C. By adding services hour system to bank.
-) NRB could also organize training programs to develop skilled man power.
-) E. By spreading co- operative to the rural areas for development of mini-branch services to these backward areas.

Kafle (2008) in his article entitled “*NRB and its Policies for Monetary Control*” opines that liberalization, the effect on deposit seems to be positive in the later period as it increased from 17.74 to 21062 % of nominal GDP. And, this, there was a positive effect on saving mobilization, however in the case of loan and advances, commercial banks were found to be underlet because the percentage of loans and advances to nominal GDP was only 100.6 & 11.9 in the two period respectively.

Bhatta (2008), 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 effected 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.

Shrestha (2010), in her Ph.D thesis entitled. “*Investment planning of Commercial Banks in Nepal.*” has concluded that bank portfolio (loan and investment) of commercial banks has been influenced by the variable securities rates. Investment planning and operation of commercial banks in Nepal has not been found satisfactory in terms of profitability, safety, liquidity, productivity, and social responsibility. To overcome this problem she has suggested “commercial; bank should take their investment function with proper business attitude and should perform lending and investment operation efficiently with proper analysis of the project.

Shrestha (2010), Deputy Chief officer of NRB Banking operation department, has given a short glimpse on the “*Portfolio Management in Commercial Banks, Theory and Practice*” Shrestha has highlighted issue in the article.

The portfolio management becomes very important both the individual and the institutional investors. Invest would like to select a best mix of invests assets subject to the following aspects.

-) Higher return which is comparable with alternative opportunities available according to the risk class of investors.
-) Good liquidity with adequate safety of investment.
-) Certain capital gain.
-) Maximum tax concession.
-) Flexible investment.
-) Economic efficient and effective investment mix.

In view of above aspects ‘following strategies are adopted’

-) Do not hold any single security; try to have a portfolio of different securities.
-) Do not put all the eggs in the one basket; to have diversified investment.
-) Choose such a portfolio of securities, which insures maximum return with minimum risk or lower of return with added objectives of wealth maximization.

However, Mr. Shrestha has also presented following approach to be adopted for designing a good portfolio and its investment.

-) To find out the invisible assets (generally securities) having scope for the Better returns depending upon individual characteristics like age, health, Need, disposition, liquidity, tax liability etc.
-) To find out the risk of securities depending upon the attitude of investor towards risk.
-) To develops alternative investment strategies for selecting a better Portfolio, which will insure a trade-off between risk and return so as to attach the primary objectives of wealth maximization at lower risk.

Shrestha has presented two types of investment analysis technique; i.e. fundamental analysis and technical analysis to consider any securities such as equity, debenture or bond and other money and capital market instrument. He has suggested that the bank having international network can also offer access to global financial markets. He has pointed out the requirements of skilled manpower, research and analysis team and proper management information system (MIS) in any commercial banks to get success in portfolio management and customer confidence.

According to Shrestha, the portfolio management activities of Nepalese commercial banks at present are in nascent stage however, on the other hand, most of the banks are not doing such activities so for because of following reasons.

-) Unawareness of the clients about the services available.
-) Hesitation of taking risk by the clients to use such facilities.
-) Lack of proper techniques to run such activities in the best and successful manner.
-) Less developed capital market and availability of new financial instruments in the financial markets

Regarding the joint venture commercial banks, they are very eager to provide such services but because of above mentioned problems very limited opportunities are available to the banks for exercising the portfolio management.

Shrestha has drawn following conclusion-

-) The survival of the banks depends upon its own financial health and various activities.
-) In order to develop and expand the portfolio management activities successfully, the investment management mythology of a portfolio manager should reflect high standard and give their clients the benefits of global strength, local insights and prudent philosophy.
-) With the disciplined and systematic approval to the selection of appropriate countries, financial assets and the management of various risks; the portfolio manager could enhance the opportunities for each investor to earn superior return over time.
-) The Nepalese banks having greater network and access to national and international capital markets have to go for portfolio management activities for the increment of their fee based income as well as to enrich the clients based and to contribute in national economy.

2.4 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.

Khanal (2006) in this thesis paper, "*A study on the deposit mobilization by the Nepal bank ltd.*" during eight years study period. The main objectives of his research were as follows:

-) To study the resource mobilization of NBL
-) To study about the liquid assets position of NBL
-) To study the comparative trend of deposit collection and lending

The major findings of the research were as follows:

-) The utilization side of Nepal Bank Ltd. has been weak as compare to the collection of resources.
-) The bank has successfully mentioned its liquid assets position but couldn't mobilize its resources efficiently.
-) The bank needs to set-up more banking branches to increase the deposit collection and long-term as well as short-term credit.

He has recommended not to consider security factor only but to provide loan to genuine project without security.

Thapa (2008), in her thesis paper, “*A comparative study on investment policy of Nepal Bangladesh bank ltd. and other joint venture banks of Nepal*” has mentioned the following objectives.

To compare the investment activities NBBL with only two of the joint venture banks.

To study the credit policy of the sample banks.

-) The major findings of her research were as follows:
 -) The bank should make investment in government securities.
 -) The bank should have to start online banking services (OBS)
 -) The bank should adopt 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

Pant (2007) entitled, “*A study of deposit collection and utilization of commercial banks in Nepal*” with the main objectives:

-) To find out whether commercial banks have been able to collect deposit from different sector.
-) To find out whether banks are 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.

-) 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.
-) The bank is not being able to utilize the deposit properly.
-) 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.

Pradhan (2008) entitled; “*A study on investment policy of NABIL*” has tried to find out to what extent NBL has been able to utilized mobilized deposits. The main objectives of his research were as follows:

-) To find out the relationship between total deposits and loan and advances
-) To study the composition of deposit mobilization in priority sector
-) To study the resource mobilization aspect of the sample banks

The major findings of the research were as follows:

-) There is a greater relationship between deposits and loan and advances.
-) Increase in deposits lead to increase in the loan and advances but when immense increase in the deposit leads to little bit increase in loan and advances.
-) The bank could invest only 2.98% in priority sector and could not mobilize in the priority sector.

In this thesis, the writer recommended that the bank ‘should invest more on agriculture sector and further says the bank should make clear policy to provide the loan. The bank should invest on risky sector to earn more profit and increase the rate of interest in deposit side and decrease in loan and advances.

Agrawal (2009), in the thesis entitled *A study on deposit and investment position of Yeti Finance Company Ltd.*” has mentioned the following objectives.

-) To assess the deposit position of the company.

-) To assess the investment position of the company
-) To study the correlation between deposits and lending

The major findings of the study are as follows:

-) The deposit policy is not stale but has highly fluctuating trend and investment is gradually in increasing trend.
-) There is highly positively correlation between total deposit and total investment
-) The company has been found profit oriented, ignoring the social responsibility which is not a fair strategy to sustain in long run.

Therefore, it is suggested the company should involve in social program which helps the deprived people who are depended helps in agriculture. Agriculture is the paramount of Nepalese economy so that any finance company should not forget to invest in this sector. In order to do so, they must open their branches in remote area with an objective of providing cheaper financing services.

Ranjit (2010), in the thesis entitled “*Role of NRB in deposit mobilization of commercial banks*” carried the research with the following objectives.

-) To examine the role of NRB in deposit mobilization of commercial banks.
-) To analyze the trend of deposit mobilization towards total investment and total loan and advances.

The researcher used different financial tools such as liquidity ratio, profitability ratio, risk ratio and coefficient of correlation, trend analysis as statistical tools. The researcher took 30 commercial banks as population and two banks i.e. NBBL and EBL as sample banks.

The researcher has found that

-) All new directives of NRB of commercial banks are effective and it is good for both nation and the future of the banks
-) Loan classification and provisioning seems to be little bit uncomfortable to the commercial banks.
-) Deposit and loan and advances of NBBL are higher than EBL but in case of the investment EBL is able to mobilize more funds than NBBL in this sector.

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

Neupane (2011) in his thesis entitled “*A study of deposit collection and utilization of commercial banks in Nepal*” with the main objectives

-) To find out whether commercial banks have been able to collect deposit from different sectors or not
-) To find out whether banks are being able to meet the liquidity of the economy
-) To find out relationship between deposit and loans.

For the purpose of study, activities of NABIL & EBL are taken together the period of 5 yrs. Only secondary data are used in this study to gather the e information regarding existing position of commercial banks. The major findings are as follows:

-) Nepalese commercial banks are not being able to collect deposit from every sectors of the economy.
-) Te presence of banks in terms of deposit collection in rural areas is very low
-) The banks are not utilizing deposit properly
-) There is positive relation between deposit and loans.

2.5 Research Gap

All previous researchers carried out in the past on the topic related with growth trend and mobilization of deposit was analyzed by using the data of total deposit of the sample banks only. But this research has focused on the composition of total deposits too. i.e. saving deposits, fixed deposits and call deposits too. The composition of deposit plays a vital role on the liquidity of the overall economy. Those banks that rely heavily on saving deposits only can face liquidity problem on future. So this research accesses the composition of deposit which is different than other researches. It can be very useful in this area. Thus present study may be valuable piece of research work.

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 objectives of this study is to evaluate the fund mobilizing policy of standard chartered bank has got in the whole commercial JVBS of Nepal & 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 through 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 report of HBL & NABIL Bank.
-) Central Bank's directives to Commercial Banks:

) Statistics Nirdesika 2069

) Unified Directives 2068

3.4 Population & Sampling of the study

There are 32 commercial banks operating in Nepal which accept about 81 percent of the total deposits and sanction 71 percent of total loans and advances out of the total depository institutions. Out of these 32 operating in the nation, two commercial banks representing the private sector respectively are selected as the base for the study. The deposit mobilization positions of these two banks are studied comparatively with the deposit mobilization of aggregate commercial banks within the country.

3.5 Method of Analysis

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

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

3.6 Necessary tools and techniques for the study

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

3.6.1 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’.

I. Liquidity Ratios

Liquid Assets to Total Assets ratio	=	$\frac{\text{liquid assets}}{\text{Total assets}}$
Liquid fund to total deposit ratio	=	$\frac{\text{liquid fund}}{\text{Total deposits}}$
Cash and bank balance to current assets ratio	=	$\frac{\text{cash and bank balance}}{\text{Current assets}}$

ii. Assets Management Ratios

Total deposit to total liabilities ratio	=	$\frac{\text{Total deposit}}{\text{Total liabilities}}$
Loan and advances to total deposit ratio	=	$\frac{\text{loan and advances}}{\text{Total deposits}}$
Total investment to total deposit ratio	=	$\frac{\text{Total investment}}{\text{Total deposits}}$
Loan and advances to total assets ratio	=	$\frac{\text{loan and advances}}{\text{Total assets}}$
Investment on government bond to total deposit ratio	=	$\frac{\text{Investment on government bond}}{\text{Total deposit}}$

iii. Profitability Ratios

Interest income to total income ratio	=	$\frac{\text{Interest income}}{\text{Total income}}$
Return on loan and advances ratio	=	$\frac{\text{Net profit}}{\text{Loan \& adv}}$
Return on total assets ratio	=	$\frac{\text{Net profit}}{\text{Total assets}}$
Interest expenses to total expenses	=	$\frac{\text{Interest expenses}}{\text{Total expenses}}$

iv. Growth Ratios

Growth ratio of deposit

Growth of loan and advances

Growth of investment

Growth of return

3.6.2 Statistical tools

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:

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

Probable error of correlation is calculated by following formula.

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

Least Square Linear Trend

Among the various methods of determining trend of a time series, the most popular & mathematical method is the least square method. Using the method of least square it has been tried to estimate the figure trend of loan & advances & deposit investment. For estimation, straight- line method is.

$$Y = a + bx$$

Where,

Y = Dependent variable. X= independent variable

a = Y intercept b= slope of the trend line

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

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 of financial analysis and the second is statistical analysis.

4.1 Financial analysis

Financial analysis is the profound study of the financial position of an institution. Financial analysis in this study is the calculation and evaluation of various financial ratios, specially the ratios related to the deposit mobilization of selected banks. This section deals with the different ratios which would be helpful for the researcher to reach to the conclusion and make the conclusion more believable and more presentable too.

4.1.1 Total Deposit

Banks take various types of deposits from the individuals group or institution. Deposits are one of the major sources of raising capital for the banks. Current a/c, fixed a/c & saving a/c are three major deposits of commercial banks.

Besides other various minor a/c like call deposits from its customers, it gives to the customer to withdraw from his amount deposited as per the terms and conditions of the agreement of a/c opening. For this deposit bank pays certain amount as interest to the customer for the amount deposited.

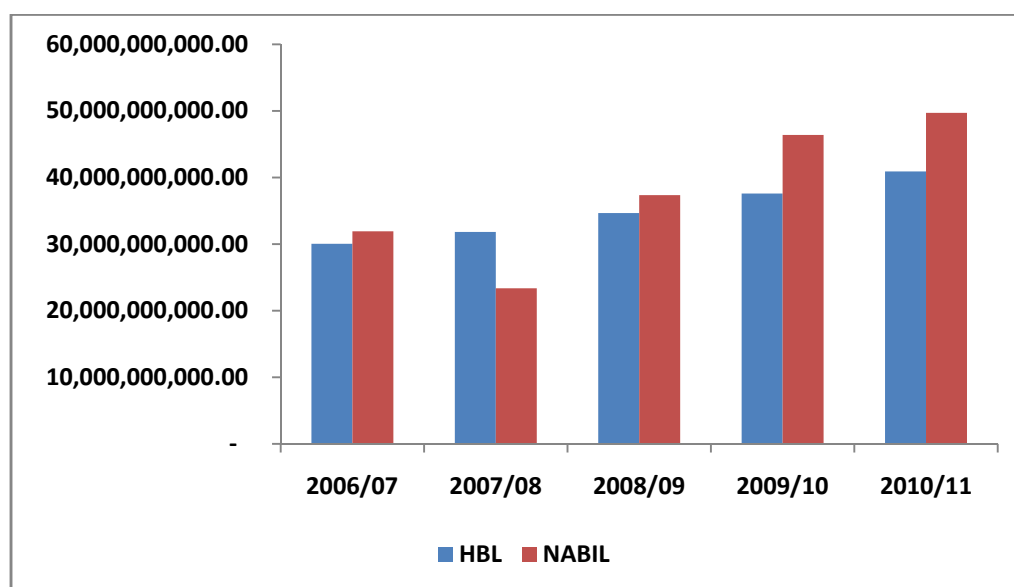
A commercial bank performs many different functions & among these different functions, collection of deposits & granting loan are the major functions & various others. These are the most important tasks. In other words, deposit is a function of collection of money from the savers.

Table 4.1
Total Deposit(Amount in Rs.)

Year	HBL	NABIL
2006/07	30,048,417,756.00	31,915,047,467.00
2007/08	31,842,789,356.00	23,342,284,327.00
2008/09	34,681,345,179.00	37,348,255,840.00
2009/10	37,611,202,274.00	46,410,700,628.00
2010/11	40,920,627,030.00	49,696,112,934.00

Source: Annex II & III

Figure 4.1
Total Deposits



Source: Table 4.1

Table 4.1 shows that the total deposits of HBL and NABIL throughout the study period. During the study period the total deposits of HBL has consistently increasing while that of NABIL has been increased throughout the study period except in FY 2007/08. During the study period the total deposits of NABIL seem to be higher than that HBL. In FY 2010/011 despite the liquidity crunch in Nepalese financial market, the total deposit of HBL has reached to the level of 40,000 million and that of NABIL has reached to the level of 50,000 million. So from the above analysis it seems that the trend of deposit of both the sample bank is in increasing trends.

4.1.2 Total current Deposits

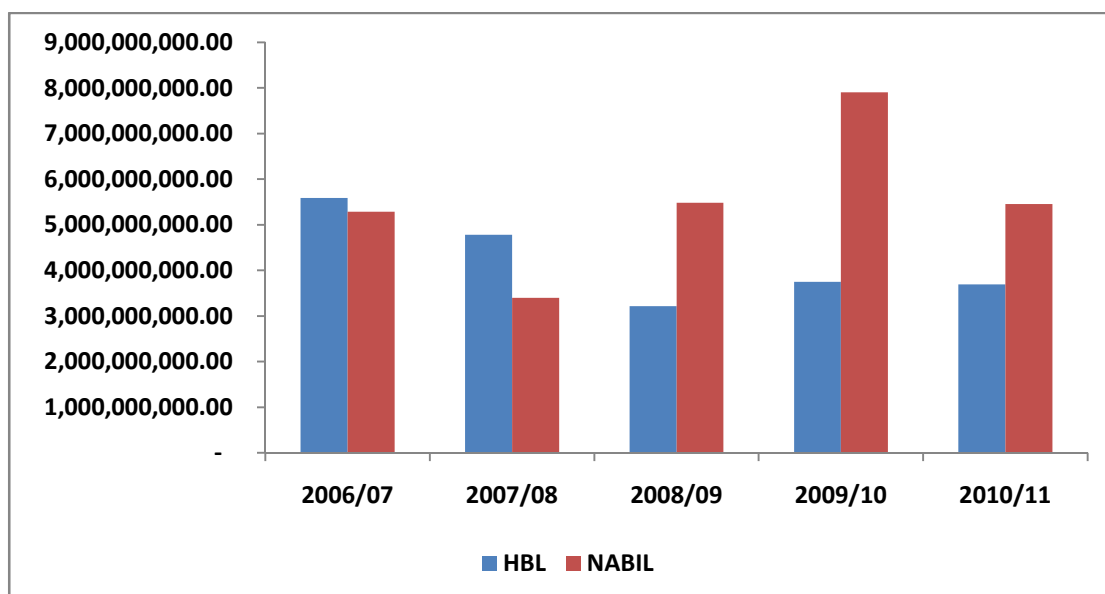
Total current deposits comprise of the amount of deposit currently available in a bank/financial institution. Current deposit is comprised of the local currency and foreign currency deposited by the organizations and individuals and other licensed financial institutions.

Table 4.2
Total Current Deposits(Amount in Rs.)

Year	HBL	NABIL
2006/07	5,589,580,391.00	5,284,368,064.00
2007/08	4,784,216,160.00	3,395,239,772.00
2008/09	3,218,224,894.00	5,480,533,468.00
2009/10	3,745,624,493.00	7,904,619,852.00
2010/11	3,694,249,426.00	5,456,894,633.00

Source: Annex II & III

Figure 4.2
Total Current Deposits



Source: Table 4.2

Table 4.2 depicts the total current deposits of the sample banks. The total current deposits of HBL are decreasing for the first three fiscal years of the study period and then it started to increase. In case of NABIL, the level of total current deposits is

found to be fluctuating throughout the study period. In the FY 2009/010 the level of total current deposit of NABIL reached up to approximate 8000 million.

4.1.3 Local Currency Deposits

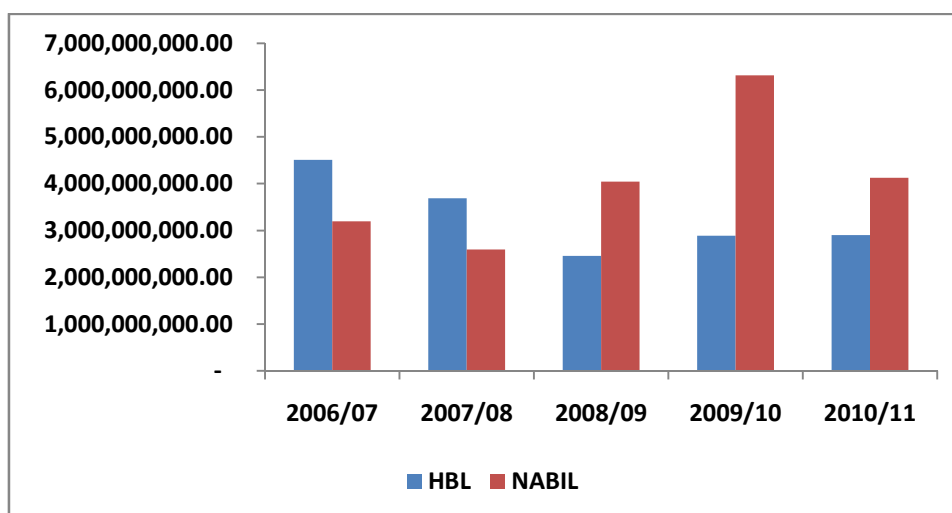
Local currency deposit is one of the major components of deposit in a financial institution. Local currency deposit also is comprised of the saving amount from general public, institutions and from other financial institutions.

Table 4.3
Local Currency Deposits (Amount in Rs.)

Year	HBL	NABIL
2006/07	4,512,637,015.00	3,193,617,554.00
2007/08	3,688,654,549.00	2,594,683,384.00
2008/09	2,453,294,891.00	4,045,800,379.00
2009/10	2,885,401,105.00	6,313,796,289.00
2010/11	2,903,865,089.00	4,124,212,945.00

Source: Annex II & III

Figure 4.3
Local Currency Deposits



Source: Table 4.3

Table 4.3 shows the level of local currency deposits of the sample banks. The level of local currency deposits of HBL is found to be decreasing throughout the first three fiscal years and then it started to increase slightly. But in case of NABIL the level of

local currency deposits is found to be fluctuating throughout the study period. In FY 2009/10 the level of local currency deposit of NABIL is found to be the highest. For the first two years, the years of the study period, the level of local currency deposit of NABIL is higher than that of HBL.

4.1.4 Foreign Currency Deposits

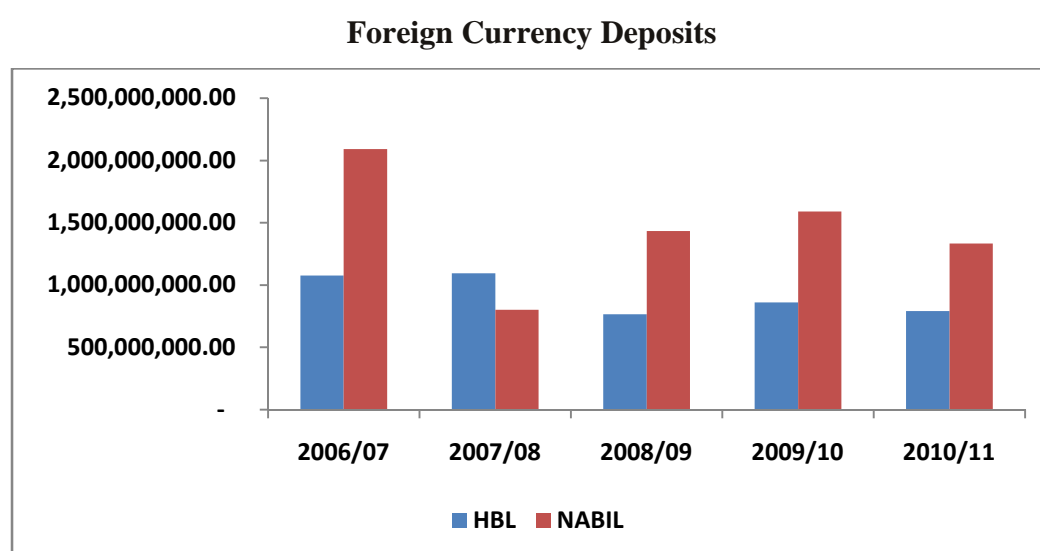
Foreign currency deposit is comprised of the deposits made by general public. Different organizations and other financial institutions on foreign currency. In Nepal, most of these kind of deposit is in USD. For this purpose those depositors have to open a dollar account.

Table 4.4
Foreign Currency Deposits (Amount in Rs.)

Year	HBL	NBL
2006/07	1,076,943,376.00	2,090,750,510.00
2007/08	1,095,561,611.00	800,556,388.00
2008/09	764,930,003.00	1,434,733,089.00
2009/10	860,223,388.00	1,590,823,563.00
2010/11	790,384,337.00	1,332,772,688.00

Source: Annex II & III

Figure 4.4



Source: Table 4.4

From Table 4.4 it is depicted that the level of foreign currency deposit of both the sample banks has been found to be fluctuating throughout the study period. The level of foreign currency deposit of NABIL is found to be higher than that of HBL except

in the FY 2007/08. In FY 2006/07 the foreign currency deposit of NABIL has been reached to the level of 2000 million. The level of foreign currency deposits of HBL has not crossed the level of 1100 million. Therefore its found that the level of foreign currency deposit of NABIL is strong.

4.1.5 Margin Deposits

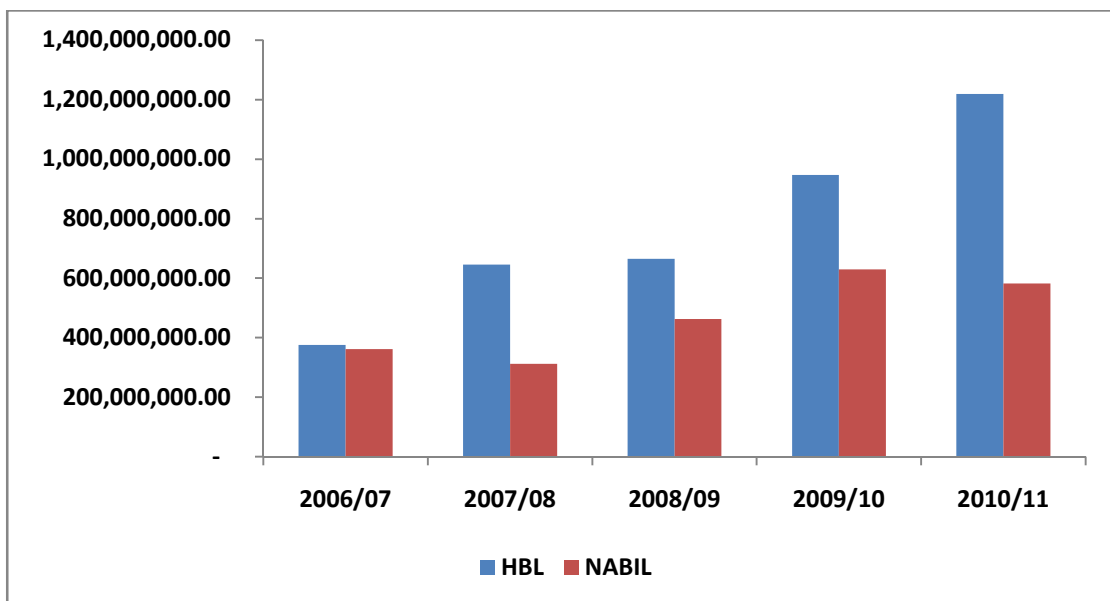
Margin deposit of a commercial bank is comprised of the L/C and guarantee margin along with the margin deposits of the employees. While issuing a letter of credit and different types of bond and guarantees, a client have to deposit certain amount of money as a margin.

Table 4.5
Margin Deposits (Amount in Rs.)

Year	HBL	NABIL
2006/07	375,026,163.00	361,782,186.00
2007/08	645,186,699.00	312,060,101.00
2008/09	665,173,504.00	463,015,109.00
2009/10	946,871,896.00	629,857,093.00
2010/11	1,219,365,273.00	581,913,590.00

Source: Annex II & III

Figure 4.5
Margin Deposits



Source: Table 4.5

Table 4.5 shows the level of margin deposit of the sample banks throughout the study period. During the study period the level of margin deposit of HBL is higher than that of the NABIL. It clearly justifies that the foreign trade business of HBL is approximate 1200 million which is the highest during the study period. On the other hand the level of margin deposit of HBL is continuously increasing throughout the study period while that of NABIL is fluctuating throughout the study period.

4.1.6 Non Interest Bearing Deposits

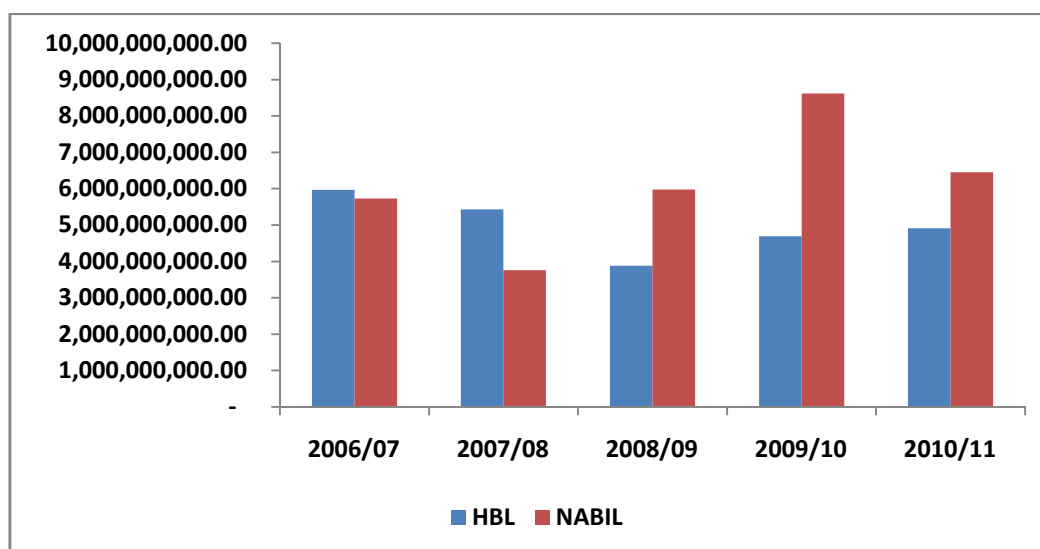
Non-Interest Bearing Deposits represent deposit with no interest accrual or with minimal interest payments may be considered demand deposits and may be included in Non-Interest Bearing Deposits by some banks.

Table 4.6
Total Non Interest Bearing Deposits (Amount in Rs.)

Year	HBL	NABIL
2006/07	5,964,606,554.00	5,727,554,250.00
2007/08	5,429,402,859.00	3,758,107,748.00
2008/09	3,883,398,398.00	5,978,868,827.00
2009/10	4,692,496,389.00	8,620,898,550.00
2010/11	4,913,614,699.00	6,456,719,063.00

Source: Annex II & III

Figure 4.6
Total Non Interest Bearing Deposits



Source: Table 4.6

From Table 4.6 it is clear that the non interest bearing deposit of HBL is higher than that of NABIL for the first two years of the study period. But for the last three fiscal years of the study period the non interest bearing deposit of NABIL is higher than that of HBL. The level of non interest bearing deposit of HBL is highest in FY 2006/07 whereas of NABIL is highest in FY 2009/10. Higher the level of non interest bearing deposit lower will be the cost of fund of a financial institution. Therefore in the last three years the level of non interest bearing deposit of NABIL is higher and the cost of fund is lower in comparison with HBL. From the above figure it is also clear that the level of non interest bearing deposit of HBL has not crossed the limit of 6000 million throughout the study period.

4.1.7 Total Saving Deposit

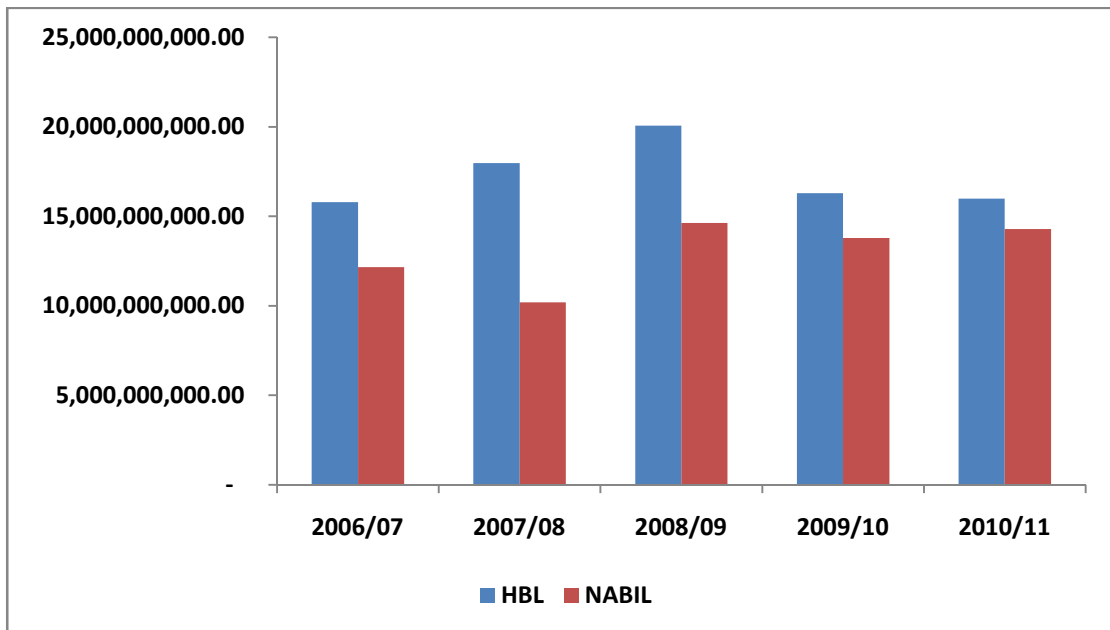
The Primary objective of saving deposit a/c is to enable the people of limited means to save a part of their future requirements. The banks, therefore impose certain restrictions on the saving a/c, but offer a reasonable rate of interest to the a/c holders. They are also offered facilities like depositing and collecting cheque, drafts etc. During last two decades, the banking facilities in Nepal witnessed a considerable expansion and saving deposits of a commercial bank have substantially increased. Saving deposit is the backbone of a financial institution for operating is smoothly.

Table 4.7
Total Saving Deposits(Amount in Rs.)

Year	HBL	NABIL
2006/07	15,784,769,766.00	12,159,966,430.00
2007/08	17,972,440,577.00	10,187,354,402.00
2008/09	20,061,047,700.00	14,620,407,308.00
2009/10	16,294,680,337.00	13,783,585,962.00
2010/11	15,994,563,707.00	14,288,520,136.00

Source: Annex II & III

Figure 4.7
Total Saving Deposits



Source: Table 4.7

Table 4.7 shows that the level of total saving deposits of the sample banks under study. More interestingly its found that the level of saving deposit of HBL is higher than that of NABIL throughout the study period. The total saving deposit of HBL has been increased up to FY 2008/09 and then it remained some what constant. But the level of saving deposit of NABIL is found in fluctuating trend. The saving deposit of HBL is highest in FY 2008/09 and its minimum in FY 2010/11. On the other hand the saving deposit of NABIL is maximum in FY 2009/10 and minimum in FY 2007/08.

4.1.8 Fixed Deposit

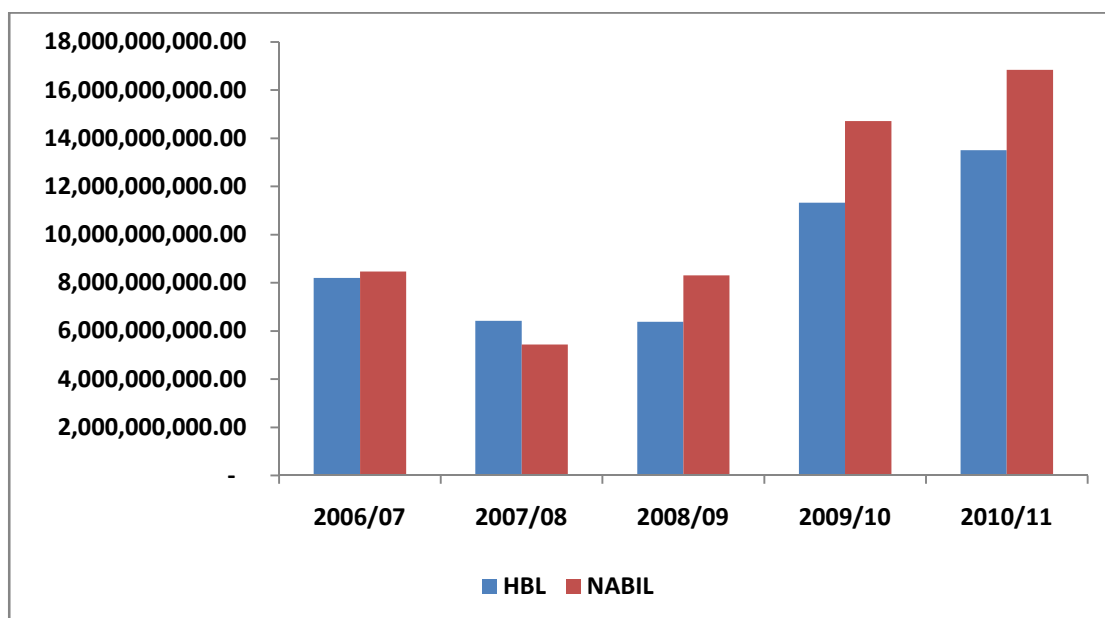
Fixed deposit is the amount of money collected by a bank with a stipulated interest rate. Fixed deposit helps a lot in maintaining the liquidity of a financial institution in a low cost of fund.

Table 4.8
Total Fixed Deposits (Amount in Rs.)

Year	HBL	NABIL
2006/07	8,201,134,697.00	8,464,086,113.00
2007/08	6,423,874,106.00	5,435,189,720.00
2008/09	6,377,132,487.00	8,310,708,297.00
2009/10	11,328,635,821.00	14,711,158,487.00
2010/11	13,507,370,421.00	16,840,831,154.00

Source: Annex II & III

Figure 4.8
Total Fixed Deposits



Source: Table 4.8

From Table 4.8 it can be concluded that the level of fixed deposit of NABIL is higher than that of HBL except in FY 2007/08 throughout the study period. Comparatively the fixed deposit amount of NABIL is higher than HBL. The fixed deposit level of both HBL and NABIL is decreasing to a certain level from the first year of study period and then again it started to increase. The amount of fixed deposit of HBL and NABIL is minimum in FY 2007/08 and maximum in FY 2010/11 therefore it can be concluded that people are more interested to save their deposit in fixed these days as the amount of FD has been increased substantially in the FY 2010/11.

4.1.9 Call Deposits

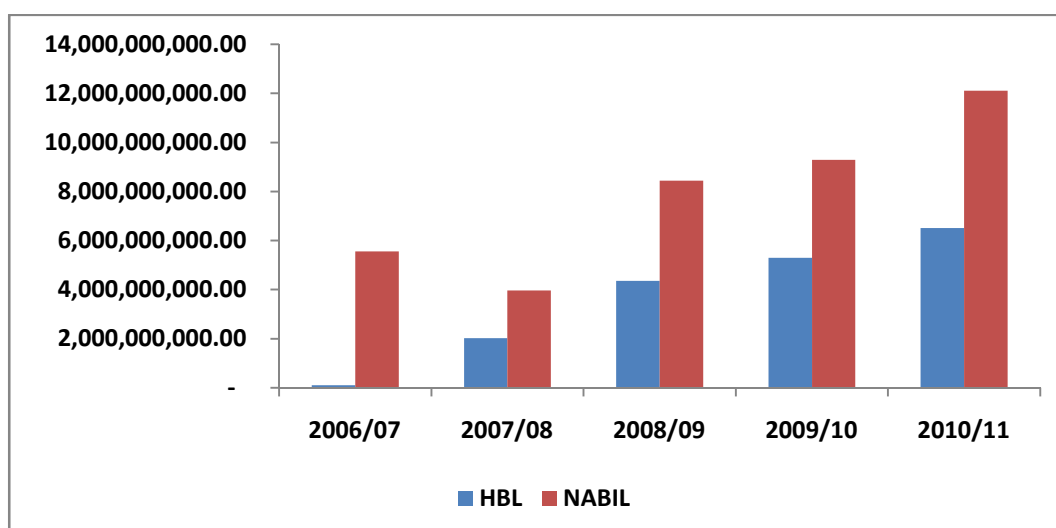
Call deposits are the deposits made by other financial institutions, individuals and organizations which can be called upon by them at any time. A bank pays minimal or no interest in these type of accounts. Higher the amount of call deposit in a bank more will be the risk in managing the liquidity and fund and vice versa. As the call deposit can be called at any time by the depositors, a bank should properly manage this kind of deposits. Currently, as per the NRB directive a financial institution cannot give interest in such kind of call deposits made by other financial institution. These kinds of call deposits will be of great help to manage the liquidity.

Table 4.9
Total Call Deposits (Amount in Rs.)

Year	HBL	NABIL
2006/07	97,906,739.00	5,563,440,674.00
2007/08	2,017,071,814.00	3,961,633,457.00
2008/09	4,359,766,584.00	8,438,271,408.00
2009/10	5,295,389,727.00	9,295,057,629.00
2010/11	6,505,078,203.00	12,110,042,581.00

Source: Annex II & III

Figure 4.9
Total Call Deposits



Source: Table 4.9

From table 4.9 it can be depicted that the level of call deposit of NABIL is higher than the HBL throughout the study period. The level of call deposit of HBL is

continuously increasing throughout the study period whereas the level of call deposit of NABIL has been decreased in FY 2007/08 in comparison with 2006/07 and then it again started to increase continuously. The amount of call deposit of HBL is minimum in FY 2006/07 and maximum in FY 2010/11. The amount of call deposit of NABIL is minimum in FY 2007/08 and maximum in 2010/11. It has crossed the level of 12000 million in FY 2010/11. The amount of call deposit of HBL is negligible in comparison with NABIL in FY 2006/07.

4.1.10 Total Interest Bearing Deposits

Total Interest Bearing Deposits represents deposits with periodic interest accrual or with high interest earning, which are often known as demand deposits. Those deposits in which a bank has to pay regular interest to its customers is interest bearing deposits. The depositors of this kind of account are individuals and organizations.

Table4.10

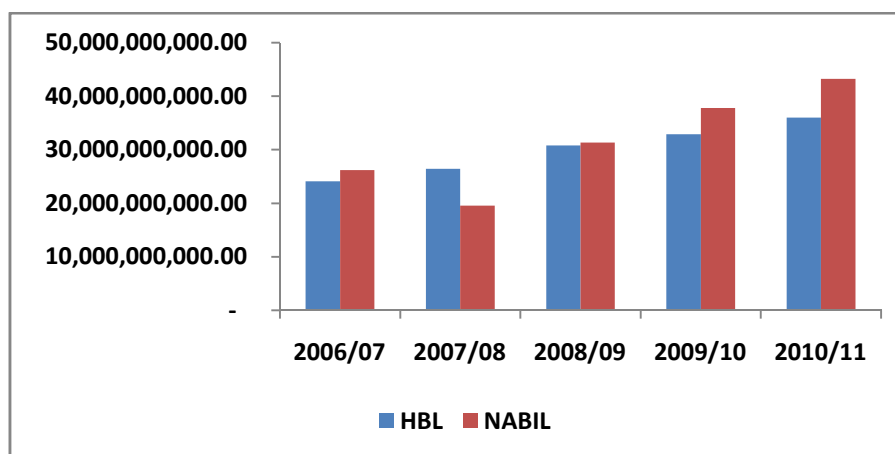
Total Interest Bearing Deposits (Amount in Rs.)

Year	HBL	NABIL
2006/07	24,083,811,202.00	26,187,493,217.00
2007/08	26,413,386,497.00	19,584,177,579.00
2008/09	30,797,946,781.00	31,369,387,013.00
2009/10	32,918,705,886.00	37,789,802,078.00
2010/11	36,007,012,331.00	43,239,393,871.00

Source: Annex II & III

Figure 4.10

Total Interest Bearing Deposits



Source: Table 4.10

Table 4.10 shows the total interest bearing deposits of the sample banks under study. From the table it can be concluded that the total interest bearing deposits of HBL is increasing continuously throughout the study period where as same of NABIL bank has been decreased in 2007/08 and increasing thereafter. The level of such deposit is higher in case of NABIL than that of HBL except in FY 2007/08. In FY 2010/11 the level of such deposit in case of NABIL has crossed 40,000 million.

4.2 Financial Ratios

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.

4.2.1 Saving Deposits to Total Deposits Ratio

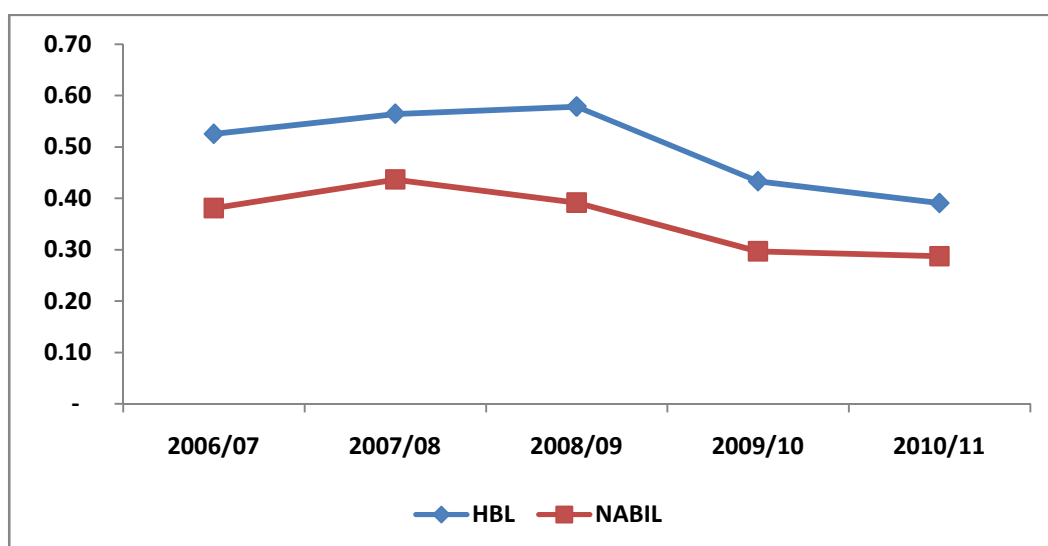
Saving deposits to total deposits ratio determines the level of total saving of a commercial bank in the total deposit. More the saving deposit higher will be the capacity to mobilize the fund and strong liquidity.

Table 4.11
Saving Deposits to Total Deposits Ratio

Year	HBL	NABIL
2006/07	0.53	0.38
2007/08	0.56	0.44
2008/09	0.58	0.39
2009/10	0.43	0.30
2010/11	0.39	0.29

Source: Annex II & III

Figure 4.11
Saving Deposits to Total Deposits Ratio



Source: Table 4.11

From table 4.11 and figure it can be concluded that the ratio of saving deposit to total deposit is increasing in the current years. The ratio of both the banks increased at the initial years of the study period and started to decrease from the FY 2008/09. This indicated that due to an increase in the no. of commercial banks the portion of saving deposit in the total deposit is decreasing. The ratio is higher in 2008/09 in case of HBL and the same is highest in 2007/08 in case of NABIL. The ratio is higher in case of HBL than NABIL throughout the study Period.

4.2.2 Fixed Deposits to Total Deposits Ratio

Fixed deposits to total deposits ratio determines the level of total FD of a commercial bank in the total deposit. More the fixed deposit higher will be the capacity to mobilize the fund and strong liquidity.

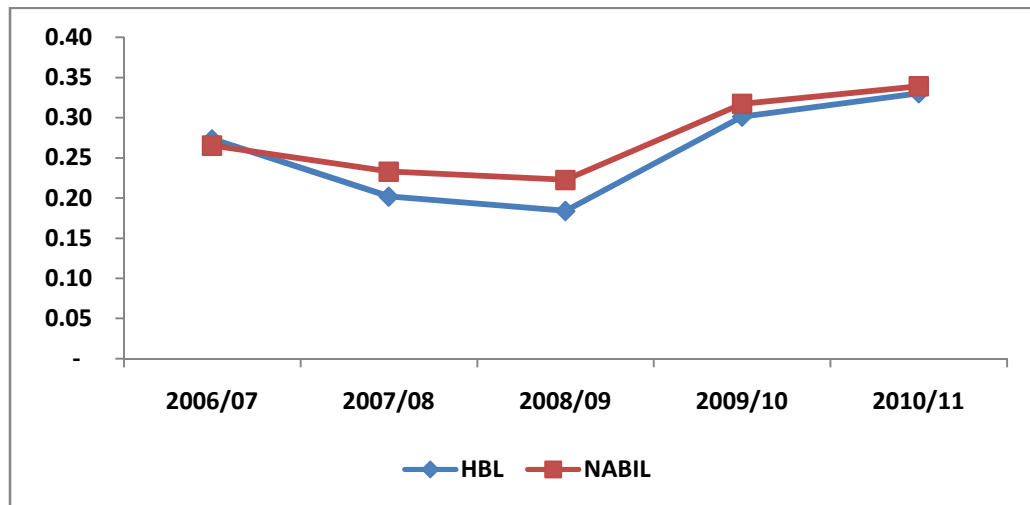
Table 4.12
Saving Deposits to Total Deposits Ratio

Year	HBL	NABIL
2006/07	0.27	0.27
2007/08	0.20	0.23
2008/09	0.18	0.22
2009/10	0.30	0.32
2010/11	0.33	0.34

Source: Annex II & III

Figure 4.12

Saving Deposits to Total Deposits Ratio



Source: Table 4.12

From table 4.12 and figure it can be concluded that the ratio of fixed deposit to total deposit in case of both HBL and NABIL has decreased at the first two years of the study period and then it started to increase. Currently the ratio is in increasing trend for both the banks. The ratio is higher in case of NABIL than HBL except in increasing trend for both the banks. The ratio is higher in case of NABIL than HBL except in FY 2006/07. Therefore it can be concluded that the ratio of FD in total deposit is greater in case of NABIL. The ratio is highest in FY 2010/11 in case of both the banks i.e. 33% and 34% respectively.

4.2.3 Non Interest Bearing Deposits to Total Deposits Ratio

Non Interest bearing deposits to total deposits ratio determines the level of total noninterest bearing deposit of commercial bank in the total deposit. Higher the non interest bearing deposit higher will be the profit and vice versa.

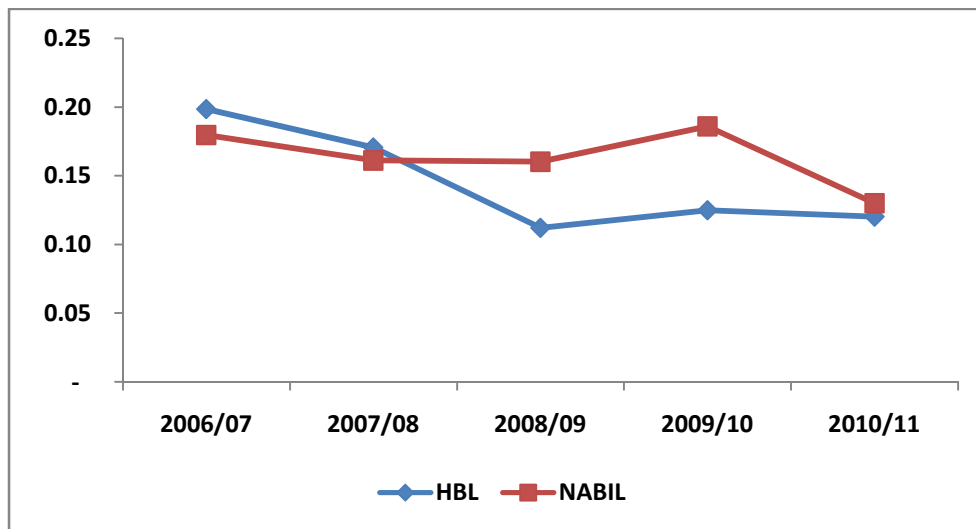
Table 4.13

Non Interest Bearing Deposits to Total Deposits Ratio

Year	HBL	NABIL
2006/07	0.20	0.18
2007/08	0.17	0.16
2008/09	0.11	0.16
2009/10	0.12	0.19
2010/11	0.12	0.13

Source: Annex II & III

Figure 4.13
Non Interest Bearing Deposits to Total Deposits Ratio



Source: Table 4.13

From table 4.13 and figures it can be concluded that the non interest bearing deposit to total deposit ratio of HBL is decreasing up to FY 2008/09 and then it started to increase slowly

But in case of NABIL the same ratio has been decreased in FY 2007/08 in comparison with FY 2006/07 and then started to increase in 2010/11. At the end of the study period the ratio is in decreasing trend. The ratio is higher in FY 2006/07 i.e. 20% in case of HBL and 19% in FY 2009/10 in case of NABIL. Lower the portion of the non interest bearing deposit higher will be the profit and vice versa.

4.2.4 Interest Bearing Deposits to Total Deposits Ratio

Interest bearing deposits to total deposits ratio determines the level of total noninterest bearing deposit of a commercial bank in the total deposit. More the interest bearing deposit lower will be the profit efficiency and vice versa.

Table 4.14

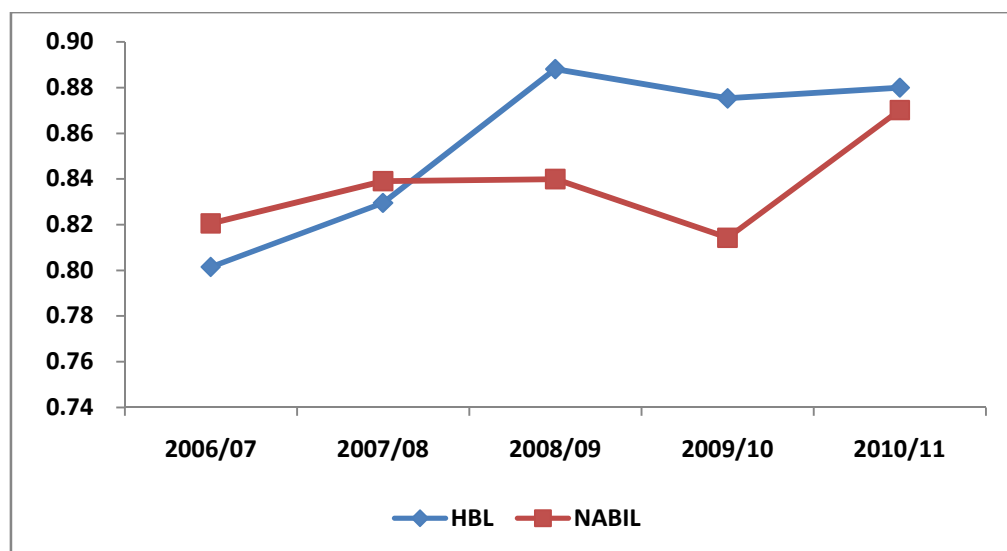
Interest Bearing Deposits to Total Deposits Ratio

Year	HBL	NABIL
2006/07	0.80	0.82
2007/08	0.83	0.84
2008/09	0.89	0.84
2009/10	0.88	0.81
2010/11	0.88	0.87

Source: Annex II & III

Figure 4.14

Interest Bearing Deposits to Total Deposits Ratio



Source: Table 4.14

From the table 4.14 and figure it can be concluded that the interest bearing deposit to total deposit of both the sample banks under study is in decreasing trend. In average the ratio of NABIL is higher than that of HBL. It means that the portion of interest bearing deposit in total deposit of NABIL is higher. In FY the ratio of both the bank is somewhat equivalent at 19-20%. At the end of the study period the ratio is decreasing which is a good sign of profit efficiency of both the sample banks.

4.2.5 Current Deposits to Total Deposits Ratio

Current deposits to total deposits ratio determines the level of total current deposit of a commercial bank in the total deposit. More the current deposit stronger will be the liquidity position and vice versa. Current deposit determines the level of deposit

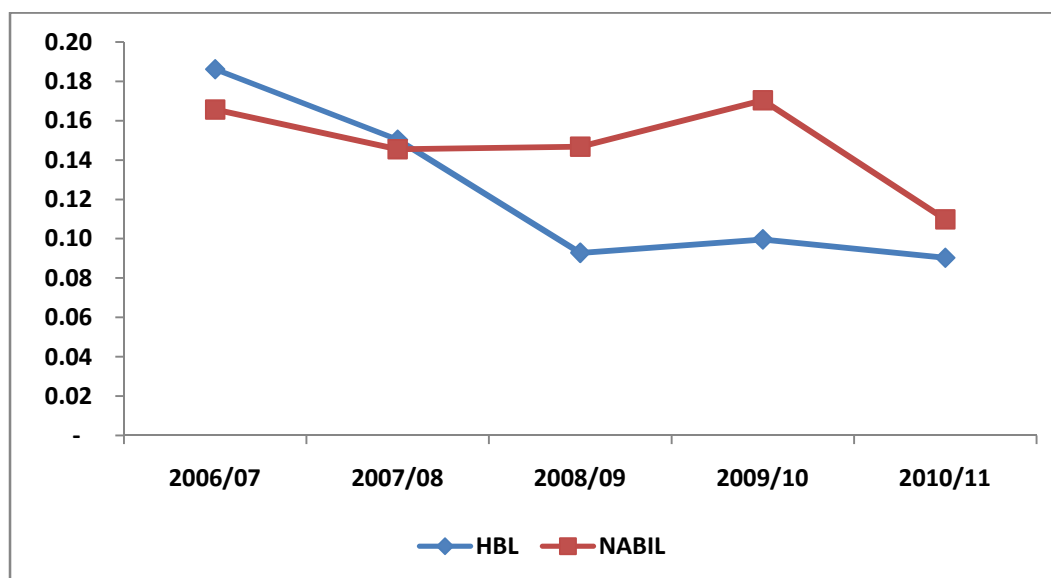
which is currently available with the bank. Its in the form of cash in vault, deposit in other FI's and the deposit with NRB.

Table 4.15
Current Deposits to Total Deposits Ratio

Year	HBL	NABIL
2006/07	0.19	0.17
2007/08	0.15	0.15
2008/09	0.09	0.15
2009/10	0.10	0.17
2010/11	0.09	0.11

Source: Annex II & III

Figure 4.15
Current Deposits to Total Deposits Ratio



Source: Table 4.15

Table 4.15 and figure indicates the current deposit to total deposit ratio of the sample banks under study. The ratio is in decreasing trend in case of both the banks which is a negative sign itself. The same ratio is lower in case of HBL than NABIL. The ratio is minimum in case of HBL in FY 2008/09 i.e. 9% and the same are minimum in NABIL in FY 2010/11 i.e. 11%.

4.2.6 Call Deposits to Total Deposits Ratio

Call deposits to total deposits ratio determines the level of call deposit of a commercial bank in the total deposit. More the call deposit stronger will be the

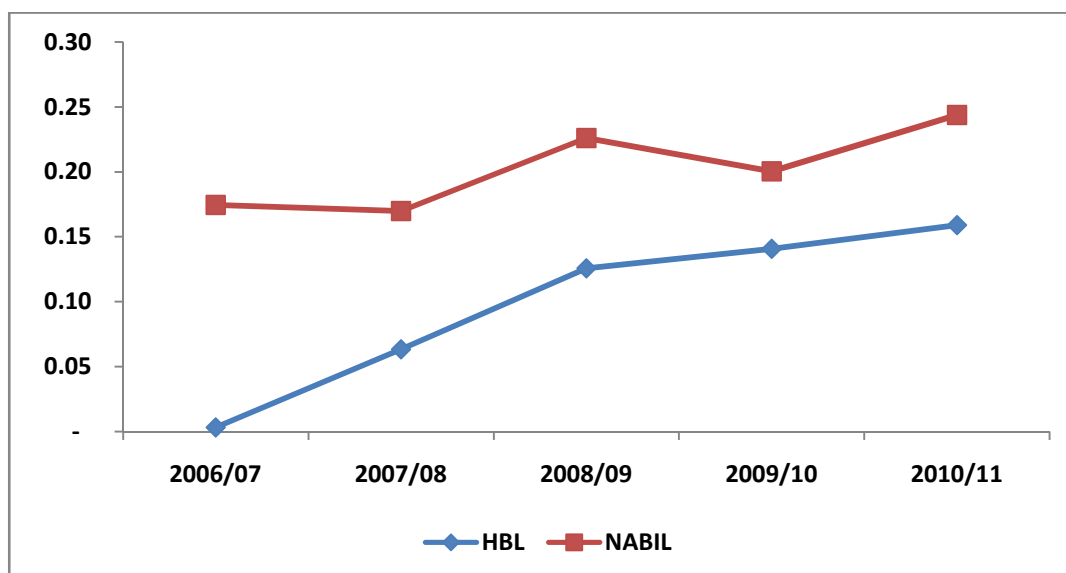
liquidity position and vice versa. Call deposit determines the level of deposit which can be called by the depositor at any time.

Table 4.16
Call Deposits to Total Deposits Ratio

Year	HBL	NABIL
2006/07	0.00	0.17
2007/08	0.06	0.17
2008/09	0.13	0.23
2009/10	0.14	0.20
2010/11	0.16	0.24

Source: Annex II & III

Figure 4.16
Call Deposits to Total Deposits Ratio



Source: Table 4.16

From the table 4.16 and figure it can be concluded that the call deposit to total deposit ratio of both the sample banks under study is in increasing trend. The portion of call deposit of HBL in FY 2006/07 is negligible and it's constantly increasing throughout the study period. But in case of NABIL the same is in fluctuating trend. The ratio of NABIL is higher than the ratio of HBL throughout the study period. It indicates that the portion of call deposit of NABIL is higher than that of HBL.

4.3 Statistical Analysis

The statistical analyses include the calculation of correlation coefficients of different variables in order to find out the liquid assets trend of the respective commercial banks and to figure out the strengths and weaknesses of credit management of the commercial banks.

4.3.1 Correlation Analysis

Correlation is a statistical tool that can be used to describe the degree of linear relationship of one variable to other variables. Correlation analysis is another important tool of statistics. It describes the relationship between variables and degree of dependency of one variable with another variable. Two variables are said to be correlated when the change in one variable results the change in another variables. Different model for correlation analysis has been formulated and we have used Karl Pearson Coefficient of correlation to determine the relationship between variables studied. Karl Pearson coefficient of correlation is calculated as follows:

4.3.2 Correlation between Fixed Deposits to Total Deposit

Fixed deposit is one of the major components of the total deposit of a bank. The relationship of fixed deposit and total deposit should always be perfect positive.

Following table exhibits the correlation between fixed deposit and total deposit.

Table 4.17

Correlation between Fixed Deposits to Total Deposit

Bank	Correlation Coefficient (r)	P.E.	6*P.E.	Remarks
HBL	0.82	0.19	1.19	Significant
NABIL	0.96	0.22	1.37	Significant

Source: Appendix-1 & MS Excel

Table 4.17 shows the relationship between fixed deposit and total deposit for sample commercial banks. It is clear to see that all banks have perfect positive correlation between fixed deposit and total deposit for review period.

Perfect positive correlation between fixed deposit and total deposit indicates that total deposit largely depends on deposit volume of these banks which means if one want to increase fixed deposits; it has to accept the additional deposit. Likewise, correlations

of these banks are higher than the six times of its P.E. which proves that the correlation calculated above are highly significant and reliable.

4.3.3 Correlation between Non Interest bearing Deposits to Total Deposits

Accepting non interest bearing deposits for commercial banks will be very fruitful. The relationship of non interest bearing deposits and total deposits should always be perfect positive.

Following table exhibits the correlation between non interest bearing deposits and total deposits.

Table 4.18

Correlation coefficient between Non Interest bearing Deposits and Total Deposits

Bank	Correlation Coefficient (r)	P.E.	6*P.E.	Remarks
HBL	0.990	0.123	0.74	Significant
NABIL	0.994	0.241	1.45	Significant

Source: Appendix-1 & MS Excel

Table 4.18 shows the relationship between non interest bearing deposits and total deposits for sample commercial banks. It is clear to see that all banks have perfect positive correlation between non interest bearing deposits and total deposits for review period.

Perfect positive correlation between non interest bearing deposits and total deposits indicates that non interest bearing deposits largely depends on total deposits volume of these banks which means if one want to increase total deposits, it has to accept the additional non interest bearing deposits. Likewise, correlations of these banks are higher than the six times of its P.E. which proves that the correlation calculated above are highly significant and reliable.

4.4 Trend Analysis of Deposits of Sample Banks

The trend of liquid assets of commercial banks tend to identify the average deposits maintained by the banks and to identify the rate of changes in the volume of deposits in the next five years using the trend shown by the historical data.

The following table reveals the forecast of the liquid assets to be maintained by the respective banks for the next 4 years. This has been calculated using the regression analysis (trend analysis) of last five years' data.

Banks	HBL				NABIL			
	Fiscal Year	Total Deposits (Y ₁)	X ₁ = X-2008/09	X ₁ ²	X ₁ Y ₁	Total Deposits (Y ₂)	X ₂ = X-2008/09	x ₂ ²
2006/07	30,048.20	-2	4	(60,096.40)	31,915.05	-2	4	(63,830.10)
2007/08	31,842.70	-1	1	(31,842.70)	23,342.20	-1	1	(23,342.20)
2008/09	34,681.30	0	0	-	37,348.20	0	0	-
2009/10	37,611.20	1	1	37,611.20	46,410.70	1	1	46,410.70
2010/11	40,920.60	2	4	81,841.20	49,696.10	2	4	99,392.20
Total(n=5)	175,104.00	0	10	27,513.30	188,712.25	0	10	58,630.60

Let the middle year be assumed as 2008/09. Then,

The trend line equation is given by:

$$Y = a + bx \quad \text{Where,}$$

Y = the regression line of dependent variable

a = constant

b = slope of the trend line or regression coefficient

x = independent variable

Here, a = \bar{Y}

The above equations imply that if the value of independent variable is 0, the dependent value will be equal to the average value.

Therefore, in the case of HBL, when $x = 0$, the liquid asset for that year will always be Rs. 35020.87 million; and for every additional year, the yearly liquid asset will increase by Rs. 5502.57 units. The same can be said about NABIL's trend line.

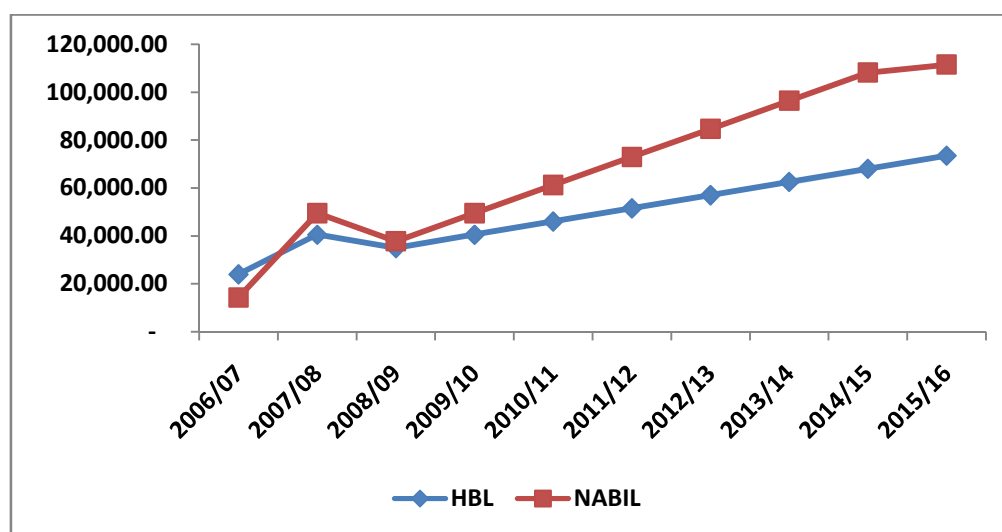
Table 4.19
Trend Analysis of Deposits

FY	X	HBL: $y = \text{Rs } 35020.87 + 5502.57x$	NABIL: $y = \text{Rs } 37742.48 + 11726.11x$
2006/07	-2	24,015.73	14,290.26
2007/08	-1	40,523.44	49,468.59
2008/09	0	35,020.87	37,742.48
2009/10	1	40,523.44	49,468.59
2010/11	2	46,026.01	61,194.70
2011/12	3	51,528.51	72,920.80
2012/13	4	57,031.15	84,646.92
2013/14	5	62,533.72	96,373.03
2014/15	6	68,036.29	108,099.14
2015/16	7	73,456.87	111,439.80

Source: Appendix III

Table 4.19 deals with the trend of the deposits maintained by the respective banks for the next 5 years. The table presents the forecast of the banks liquid assets from the FY 2011/12 to FY 2014/15. As already given by their regression equation, the average deposits maintained by the banks, HBL & NABIL are Rs. 5502.57 million and Rs. 11726.11 respectively, with other things remaining unchanged. However, the slope of the equation, that usually shows the rate of change in the value, reveals two different directions of the banks. This trend is more clearly understood from the following line graph.

Figure 4.17
Trend Analysis of Deposits



Source: Appendix- III

Figure 4.17 clearly projects NABIL in a steady uphill climb while the graph of HBL shows its slow trend. This indicates that HBL has not been doing a good job maintaining the required level of deposits as compared to NABIL. This suggests that HBL may have a hard time in maintaining a sound deposit position in the market in future. The slow projection of HBL may suggest its inability to generate fund to meet the obligations within one year.

4.5 Major Findings of the Study

The major findings of the study are as follows:

-) During the study period the total deposits of HBL has consistently increasing while that of NABIL has been increased throughout the study period except in FY 2007/08. During the study period, the total deposits of NABIL seem to be higher than that of HBL. In FY 2010/11 despite the liquidity crunch in Nepalese financial market, the total deposit of HBL has reached to the level of 40,000 million and that of NABIL has reached to the level of 50,000 million.
-) The total current deposits of HBL are decreasing for the first three fiscal years of the study period and then it started to increase. In case of NABIL, the level of total current deposits is found to be fluctuating throughout the study period. In the FY 2009/010 the level of total current deposit of NABIL reached up to approximate 8000 million.
-) The level of local currency deposits of HBL is found to be decreasing throughout the first three fiscal years and then it started to increase slightly. But in case of NABIL the level of local currency deposits is found to be fluctuating throughout the study period.
-) The level of foreign currency deposit of both the sample banks has been found to be fluctuating throughout the study period. The level of foreign currency deposit of NABIL is found to be higher than that of HBL except in FY 2007/08. In FY 2006/07 the foreign currency deposit of NABIL has been reached to the level of 2000 million. The level of foreign currency deposits of HBL has not crossed the level of 1100 million. Therefore its found that the level of foreign currency deposit of NABIL is strong.
-) The level of margin deposit of HBL is higher than that of the NABIL. It clearly justifies that the foreign trade business of HBL is stronger than that of

the NABIL. In FY 2010/011, the level of margin deposit of HBL is approximate 1200 million which is the highest during the study period.

-) The non interest bearing deposit of HBL is higher than that of NABIL for the first two years of the study period. But for the last three fiscal years of the study period the non interest bearing deposit of NABIL is higher than that of HBL.
-) Interestingly its found that the level of saving deposit of HBL is higher than that of NABIL throughout the study period. The total saving deposit of HBL has been increased up to FY 2008/09 and then it remained some what constant. But the level of saving deposit of NABIL is found in fluctuating trend.
-) The level of fixed deposit of NABIL is higher than that of HBL except in FY 2007/08 throughout the study period. Comparatively the fixed deposit amount of NABIL is higher than HBL. The fixed deposit level of both HBL and NABIL is decreasing to a certain level from the first year of study period and then again it started to increase.
-) The level of call deposit of NABIL is higher than the HBL throughout the study period. The level of call deposit of HBL is continuously increasing throughout the study period whereas the level of call deposit of NABIL has been decreased in FY 2007/08 in comparison with 2006/07 and then it again started to increase continuously.
-) The total interest bearing deposit of HBL is increasing continuously throughout the study period where as same of NABIL bank has been decreased in 2007/08 and increasing thereafter.
-) The saving deposit to total deposit ratio of both the banks increased at the initial years of the study period and started to decrease from the FY 2008/09. This indicates that due to an increase in the no. of commercial banks the portion of saving deposit in the total deposit is decreasing.
-) The ratio of fixed deposit to total deposit in case of both HBL and NABIL has decreased at the first two years of the study period and then it started to increase. Currently the ratio is in increasing trend for both the banks.
-) The non interest bearing deposit to total deposit ratio of HBL is decreasing up to GY 2008/09 and then it started to increase slowly but in case of NABIL the

same ratio has been decreased in FY 2010/11. At the end of the study period the ratio is in decreasing trend.

-) The interest bearing deposit to total deposit of both the sample banks under study is in decreasing trend. In average the ratio of NABIL is higher than that of HBL. It means that the portion of interest bearing deposit in total deposit of NABIL is higher.
-) The current deposit to total deposit ratio of the sample banks under study. The ratio is in decreasing trend in case of both the banks which is a negative sign itself. The same ratio is lower in case of HBL than NABIL.
-) The call deposit to total deposit ratio of both the sample banks under study is in increasing trend. The portion of call deposit of HBL in FY 2006/07 is negligible and it's constantly increasing throughout the study period. But in case of NABIL the same is in fluctuating trend.
-) The trend line graph clearly projects NABIL in a steady uphill climb while the graph of HBL shows its slow trend. This indicates that HBL has not been doing a good job maintaining the required level of deposits as compared to NABIL. This suggests that HBL may have a hard time in maintaining a sound deposit position in the market in future. The slow projection of HBL may suggest its inability to generate fund to meet the obligations within one year.

CHAPTER V

SUMMARY, COMCLUSION 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 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 in 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 county 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 this study two banks HBL and NABIL are compared with total commercial banking system and with each another. In this study data of four years from 2007 to 2011 have been considered for the targeted analysis.

Analyzing the saving and liquidity position of the banks have satisfactory level of liquidity but NABIL has the larger portion of liquid assets in total assets. Return on liquid fund of HBL is not more satisfactory and the portions of liquid fund to total deposit of both banks are in satisfactory level in comparison to total commercial banking system. Generalizing the finding of the study it can be observed that private sector commercial banks are strong in liquidity management.

In interest and non interest bearing ratios both sampled banks seemed stronger than total commercial banking system in total deposit liabilities ratio, total investment to total deposit ratio and investment on government bond to total deposit ratio. Both banks are weak in loan and advance to total deposit ratio and loan and advance to total assets ratio. Comparing these all ratios of two sampled banks it is found that NABIL is stronger than HBL in all the ratios.

The ratio of fixed deposit to total deposit in case of both HBL and NABIL has decreased at the first two years of the study period and then it started to increase. Currently the ratio is in increasing trend for both the banks. The non interest bearing deposit ratio of HBL is decreasing up to FY 2008/09 and then it started to increase slowly but in case of NABIL the same ratio has been decreased in FY 2007/08 in comparison FY 2006/07 and then started to increase in 2010/11. At the end of the study period the ratio is in decreasing trend.

The interest bearing deposit to total deposit of both the sample banks under study is in decreasing trend. In average the ratio of NABIL is higher than that of HBL. It means that the portion of interest bearing deposit in total deposit of NABIL is higher. The current deposit to total deposit to total deposit ratio of the sample banks under study. The ratio is in decreasing trend in case of both the banks which is a negative sign itself. The same ratio is lower in case of HBL than NABIL.

The call deposit to total deposit ratio of both the sample banks under study is in increasing trend. The portion of call deposit of HBL in FY 2006/07 is negligible and it's constantly increasing throughout the study period. But in case of NABIL the same is in fluctuating trend.

In trend analysis both sampled banks are seemed stronger than the total commercial banking system in the trend of total deposit ratios and HBL seemed to be weaker than total commercial banking system and NABIL as stronger.

5.2 Conclusion

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 information 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.

The analysis of growth of deposit also reflects the weak position of HBL in deposit mobilization in comparison to NABIL.

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

Every sector is facing the problem in Nepal due to the 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 the sample banks are doing satisfactory business besides the political turmoil.

5.3 Recommendations

The problems related to deposit mobilization of HBL & NABIL 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 sample banks.

-) NABIL has high degree of liquidity than HBL but both the banks are recommended to decrease the call deposit and maintain a good combination of saving and fixed deposit in the ratio of 60/40.
-) 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. In other words, it's time for them to divert their traditional collateral taking process into more realistic and potential aspects. They must provide loan for a project on the basis of its potentiality instead of sound and safe collateral. In addition, it's also suggested that they should lower their lending rate too. Private sector commercial banks are adopting this policy in some extent.
-) In order to develop the banking and saving habit of the people of remote areas in the nation, commercial banks are suggested not to be surrounded and limited within the urban areas and not to be gathered around the big clients (e.g. multinational companies, Large industries, manufacturer and exporters, NGO's and INGO's etc.). Reduction in the minimum required threshold balance and extension of its services towards rural area and priority sector indicated by the government is must for boosting up the living standard of lower level people.
-) Since, commercial banks used to provide less loan and advances in comparison to its total deposits, commercial banks are strongly recommended to follow the liberal lending policy more percentage of deposits can be invested to different profitable sector as well as towards loan and advances. Because, analysis showed investment and loan and advances as a significant factor this affects the net profit of the banks. Subsequently, a skillful administration is the most for these assets because negligence may become a reason liquidity crisis and more liberal lending may lead to the default of repayment of loan.
-) Considering the current economic scenario, banks are suggested to further advance their retail banking through newer and innovative products. They should expand their transaction in new services such as tax revenue collection, business enterprise's bill amount collection etc. Both banks are doing these

works in some extent but that is not satisfactory to the customers of all regions.

-) Commercial banks themselves should seek for new investment opportunities rather than investing in identified areas. Commercial banks should establish the efficient R&D department for this purpose.
-) It may be the worth being suggestion that banks are better to seek investment opportunities in foreign countries in order to overcome the amounting deposits and limited investment opportunities. They should invest in foreign currencies, precious metal, and highly liquid safe securities.
-) All commercial banks should make an attractive publicity of the bank and than people will have knowledge about the bank and it encourages them to save the money. When there is more publicity, people may have great desire to save money on order to earn interest and use the bank to lend money instead of money lenders the banks should also pay attention to publish bulletin, brochures and other so as to make people familiarizes with its performance and activities.
-) Training and observation tours should be organized on regular basis to increases the efficiency of the employees. Proper evaluation of the performance of the staff should be done in time. Continuous and timely evaluation of performance is must for improving the managerial efficiency of the bank. Job analysis should be done to find out the skill, knowledge, abilities etc. of the staffs that is needed for the better performance.

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

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Appendix - 1

Total Deposits

Year	HBL	NABIL
2006/07	30,048,417,756.00	31,915,047,467.00
2007/08	31,842,789,356.00	23,342,284,327.00
2008/09	34,681,345,179.00	37,348,255,840.00
2009/10	37,611,202,274.00	46,410,700,628.00
2010/11	40,920,627,030.00	49,696,112,934.00

Total Current Deposits

Year	HBL	NABIL
2006/07	5,589,580,391.00	5,284,368,064.00
2007/08	4,784,216,160.00	3,395,239,772.00
2008/09	3,218,224,894.00	5,480,533,468.00
2009/10	3,745,624,493.00	7,904,619,852.00
2010/11	3,694,249,426.00	5,456,894,633.00

Local Currency Deposits

Year	HBL	NABIL
2006/07	4,512,637,015.00	3,193,617,554.00
2007/08	3,688,654,549.00	2,594,683,384.00
2008/09	2,453,294,891.00	4,045,800,379.00
2009/10	2,885,401,105.00	6,313,796,289.00
2010/11	2,903,865,089.00	4,124,212,945.00

Foreign Currency Deposits

Year	HBL	NABIL
2006/07	1,076,943,376.00	2,090,750,510.00
2007/08	1,095,561,611.00	800,556,388.00
2008/09	764,930,003.00	1,434,733,089.00
2009/10	860,223,388.00	1,590,823,563.00
2010/11	790,384,337.00	1,332,772,688.00

Margin Deposits

Year	HBL	NABIL
2006/07	375,026,163.00	361,782,186.00
2007/08	645,186,699.00	312,060,101.00
2008/09	665,173,504.00	463,015,109.00
2009/10	946,871,896.00	629,857,093.00
2010/11	1,219,365,273.00	581,913,590.00

Total Non Interest Bearing Deposits

Year	HBL	NABIL
2006/07	5,964,606,554.00	5,727,554,250.00
2007/08	5,429,402,859.00	3,758,107,748.00
2008/09	3,883,398,398.00	5,978,868,827.00
2009/10	4,692,496,389.00	8,620,898,550.00
2010/11	4,913,614,699.00	6,456,719,063.00

Total Saving Deposits

Year	HBL	NABIL
2006/07	15,784,769,766.00	12,159,966,430.00
2007/08		

	17,972,440,577.00	10,187,354,402.00
2008/09	20,061,047,700.00	14,620,407,308.00
2009/10	16,294,680,337.00	13,783,585,962.00
2010/11	15,994,563,707.00	14,288,520,136.00

Total Fixed Deposits

Year	HBL	NABIL
2006/07	8,201,134,697.00	8,464,086,113.00
2007/08	6,423,874,106.00	5,435,189,720.00
2008/09	6,377,132,487.00	8,310,708,297.00
2009/10	11,328,635,821.00	14,711,158,487.00
2010/11	13,507,370,421.00	16,840,831,154.00

Total Call Deposits

Year	HBL	NABIL
2006/07	97,906,739.00	5,563,440,674.00
2007/08	2,017,071,814.00	3,961,633,457.00
2008/09	4,359,766,584.00	8,438,271,408.00
2009/10	5,295,389,727.00	9,295,057,629.00
2010/11	6,505,078,203.00	12,110,042,581.00

Total Interest Bearing
Deposits

Year	HBL	NABIL
2006/07	24,083,811,202.00	26,187,493,217.00
2007/08	26,413,386,497.00	19,584,177,579.00
2008/09	30,797,946,781.00	31,369,387,013.00
2009/10	32,918,705,886.00	37,789,802,078.00
2010/11	36,007,012,331.00	43,239,393,871.00

Saving Deposit to Total Deposit Ratio

Year	HBL	NABIL
2006/07	0.53	0.38
2007/08	0.56	0.44
2008/09	0.58	0.39
2009/10	0.43	0.30
2010/11	0.39	0.29

Fixed Deposit to Total Deposit Ratio

Year	HBL	NABIL
2006/07	0.27	0.27
2007/08	0.20	0.23
2008/09	0.18	0.22
2009/10	0.30	0.32
2010/11	0.33	0.34

Non Interest Bearing Deposit to Total Deposit Ratio

Year	HBL	NABIL
2006/07	0.20	0.18
2007/08	0.17	0.16
2008/09	0.11	0.16
2009/10	0.12	0.19
2010/11	0.12	0.13

Interest Bearing Deposit to Total Deposit Ratio

Year	HBL	NABIL
2006/07	0.80	0.82
2007/08	0.83	0.84
2008/09	0.89	0.84
2009/10	0.88	0.81
2010/11	0.88	0.87

Current Deposit to Total Deposit Ratio

Year	HBL	NABIL
2006/07	0.19	0.17
2007/08	0.15	0.15
2008/09	0.09	0.15
2009/10	0.10	0.17
2010/11	0.09	0.11

Call Deposit to Total Deposit Ratio

Year	HBL	NABIL
2006/07	0.00	0.17
2007/08	0.06	0.17
2008/09	0.13	0.23
2009/10	0.14	0.20
2010/11	0.16	0.24

Appendix II

Bank of Kathmandu (BOK)

Calculated table of Correlation Coefficient between DEPOSIT & LOAN &
ADVANCES

Year	DEPOSIT (X1)	LOAN & ADV (X2)	X ₁ X ₂	X ₁ ²	X ₂ ²
04/05	5736	4890	28049040	32901696	23912100
05/06	6170	4856	29961520	38068900	23580736
06/07	7742	6008	46513936	59938564	36096064
07/08	8943	6182	55285626	79977249	38217124
08/09	10429	7543	78665947	108764041	56896849
	X ₁ =39020	x ₂ = 29479	X ₁ X ₂ = 238476069	X ₁ ² = 319650450	X ₂ ² = 178702873

$$r = \frac{n \sum X_1 X_2 - \sum X_1 \sum X_2}{\sqrt{n \sum X_1^2 - (\sum X_1)^2} \sqrt{n \sum X_2^2 - (\sum X_2)^2}}$$

$$= \frac{5 \times 238476069 - 39020 \times 29479}{\sqrt{5 \times 319650450 - 39020^2} \sqrt{5 \times 178702873 - 29479^2}}$$

$$r = 0.97$$

KUMARI BANK LTD. (KBL)

Calculated table of Correlation Coefficient between DEPOSIT & LOAN & ADVANCES

Year	DEPOSIT(X1)	LOAN & ADV (X2)	X ₁ X ₂	X ₁ ²	X ₂ ²
04/05	1,180	1,127	1329860	1392400	1270129
05/06	2,513	2,138	5372794	6315169	4571044
06/07	4,817	3,698	17813266	23203489	13675204
07/08	6,270	5,618	35224860	39312900	31561924
08/09	7,800	6,010	46878000	60840000	36120100
	X ₁ = 22580	x ₂ = 18591	X ₁ X ₂ = 106618780	X ₁ ² = 131063958	X ₂ ² = 87198401

$$r = \frac{n \sum X_1 X_2 - \sum X_1 \sum X_2}{\sqrt{n \sum X_1^2 - (\sum X_1)^2} \sqrt{n \sum X_2^2 - (\sum X_2)^2}}$$

$$= \frac{5 \times 106618780 - 22580 \times 18591}{\sqrt{5 \times 131063958 - (22580)^2} \sqrt{5 \times 87198401 - (18591)^2}}$$

$$r = 0.98$$

NEPAL INVESTMENT BANK LTD. (NIBL)

Calculated table of Correlation Coefficient between DEPOSIT & LOAN & ADVANCES

Year	DEPOSIT(X1)	LOAN & ADV (X2)	X ₁ X ₂	X ₁ ²	X ₂ ²
04/05	4,175	2,714	11330950	17430625	7365796
05/06	7,923	5,922	46920006	62773929	35070084
06/07	11,706	7,339	85910334	137030436	53860921
07/08	14,255	10,453	149007515	203205025	109265209
08/09	18,927	13,172	249306444	358231329	173501584
	X ₁ = 56986	x ₂ = 39600	X ₁ X ₂ = 542475249	X ₁ ² = 778671344	X ₂ ² = 379063594

$$r = \frac{n \sum X_1 X_2 - \sum X_1 \sum X_2}{\sqrt{n \sum X_1^2 - (\sum X_1)^2} \sqrt{n \sum X_2^2 - (\sum X_2)^2}}$$

$$= \frac{5 \times 542475249 - 56986 \times 39600}{\sqrt{5 \times 778671344 - (56986)^2} \sqrt{5 \times 379063594 - (39600)^2}}$$

$$=$$

$$=$$

$$r = - 0.6550$$

Bank of Kathmandu (BOK)

Calculated table of Correlation Coefficient between DEPOSIT & LOAN & ADV

Year	DEPOSIT(X1)	LOAN & ADV (X2)	X ₁ X ₂	X ₁ ²	X ₂ ²
04/05	-	1270	0	-	1612900
05/06	10	537.50	5375	100	288906.25
06/07	5	247.50	1237.5	25	61256.25
07/08	10	242.50	2425	100	58806.25
08/09	15	430.00	6450	225	184900
	X ₁ =40	x ₂ = 2727.5	X ₁ X ₂ =5487.5	X ₁ ² = 450	X ₂ ² = 2206768.75

$$\begin{aligned}
 r &= \frac{n \sum X_1 X_2 - \sum X_1 \sum X_2}{\sqrt{n \sum X_1^2 - (\sum X_1)^2} \sqrt{n \sum X_2^2 - (\sum X_2)^2}} \\
 &= \frac{5 \times 5487.5 - 40 \times 2727.5}{\sqrt{5 \times 450 - 40^2} \sqrt{5 \times 2206768.75 - 2727.5^2}} \\
 &= \frac{77437.5 - 109100}{25.4950 \times 1895.939} \\
 &= \frac{-31662.5}{48336.98369} \\
 r &= -0.6550
 \end{aligned}$$