

CHAPTER-ONE

INTRODUCTION

1.1 General Background of the Study

Capital formation is one of the important factors leads to increase in the size of national output income and employment. Solving the problems of inflation and balance of payment & foreign debts. According to the classical economist, one of the main factors which helped capital formation was the accumulation of capital. Domestic capital formation helps in making a country self sustainable. Profit made by the business community and the saved has assumed to be invested. Thought capital formation indeed plays a deceived role in determining the level and growth of national income and economic development. In the view of many economists, capital occupies the central & strategies position in the process of economic development in an underdeveloped economy lies in a rapid expansion of the rate of its capital investment, so that it attains rate of growth of output which exceeds the rate of growth of population by the significant margin. In developing countries the rate of saving is quite low and existing institutions are half successful in mobilizing such savings as most people have incomes so low that vertically all current income must be spent in maintain a sustainable consumption.

Investment is an essence of the national economy. Banking system is the integral part of investment system in productive sectors. If involves the sacrifice of current rupees for future rupees. It is concerned with the allocation of present fund for later reward, which is uncertain. When people deposit money in a bank must invest the money in new factories and equipment to increase their productivity in addition borrowing from the banks must issues stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issues bonds to obtain funds to invest in such project such as the construction of dams, roads & schools. All such investments by individuals business & government involves a presto sacrifice of income to get an expected future benefits. As a result, investment raises a national living standard.

For the development of any country, the financial sector of that country in responsible and must be strong. The financial sector is vast field, which comprises

of banks co-operatives, insurance companies, financial companies, stock exchange, foreign exchange markets, mutual funds etc. these institutions collect idle & scattered money from the general public and finally invest in different enterprises of national economy that consequently help in reducing poverty, increase in life style of people, increase employment opportunity and thereby developing the society and country as a whole. Thus, today's concept, the financial institutions & commercial banks has become one of the bases for the measuring level of economic development of Nation.

Commercial banks are the main source which motivates people to save their earnings. Bank deals in accepting the saving of people in the form of deposit collection and invest it in the productive any other sectors. These are providing loan to the people against real & financial assets. They are transfer monetary sources from saver to users. In other words they are intermediate between lender and receiver of fund they mobilize the depositor fund.

The commercial bank has been a vital ingredient for economic development. They are intermediaries, which mobilize funds through the prudential combination of investment of investment portfolios in advanced countries. Where as in Nepal the role of joint venture bank are still to be realized as an essential machine of mobilizing internal saving through various banking schemes in the economy. Hence, to uplift the backward economic condition of the country, the process of capital accumulation, among other prerequisites should be expedited.

Capital accumulation plays an essential role in acceleration of the economic growth of nation (country). Which in turn is basically determined, among others by saving & investment propensities. But the capacity of saving in the developing country is quite low with a relatively higher marginal propensity of consumption. As a result developing countries are badly trapped into the vicious circle of poverty. The basic problem of the countries is raising the level of saving & thus investment. In other to collect the enough saving and put them into productive channels. Financial institutions like banks are necessary. It will be utilized within the economy and will enter be diverted abroad or used for unproductive consumption or speculative activities.

In 1980 A.D. Nepal Government adopted liberal economic policy. After the adaptation of liberal policy by the Nepal Government, So many private commercial banks, Developments bank and Co-operatives were come into operation as a result of liberal economic policy. So many foreign joint venture banks were enjoyed competitive advantages factors like highly skilled personnel. Modern and advanced banking technology, customer oriented modern banking services, management expertise and global banking networking. But the two oldest commercial banks become ineffective due to poor management style and old technology. At that time private sector's commercial banks become the major threats to these two banks. Now, the management of these two banks is taking foreign management group on contract basis.

According to the Nepal Commercial Bank Act 2031B.S; A commercial bank is the bank which exchange money, accept the deposit, grants loan & performs commercial banking functions and which is not a bank meant for co-operative, agricultural industries.³² commercial banks in operation and among them two banks are under government control and rest are under private & joint venture.

1.1.1 General background of Banks in Nepal

Commercial banks are the suppliers of finance for trade land industry, which plays vital role in the economic and financial life of the country. They helped in the formation of capital by investing the savings in productive sectors. Rural people of under developed countries like Nepal need various banking facilities to enhance its economy. In the most of the countries, the banks are generally concentrated in urban and semi-urban sectors. They neglect rural sector due to high risk and low return, which is in fact, the main factor to economic development without it other sectors of economy cannot be flourished.

1.1.2 History of Banking Development

The history of banking development, we can't forget the Bank of Casa de san Giorgio in Genoa, which was established in 1148; Bank of Venice was established in 1157 and the Bank of Genoa was established in 1148. In 1401, the bank of Barcelona was established in Barcelona. In fact modern bank started to take rapid

speed in forming & functioning from 17th century. During this period Bank of Amsterdam was established in Holland, like wise in 1610, Bank of Hamburg was established in Germany and the Bank of England was established in England (Bhandary,2003)

History tells us that, it was the merchant who first evolved the system of banking by trading in commodities than money. Reviewing the history we can find that present day banker has three ancestor of particular note. These are merchant, lender and the goldsmith. Lending and borrowing are almost as old as money itself but modern banking showed its seed in medieval Italy.

The goldsmith, merchants & moneylenders were the ancient bankers of Nepal. So, the growth of banking in Nepal is not so long in comparison with other developed and developing countries. Nepal had to wait for a long time to come to the present situation. Banking history of Nepal is about decade. The concept of banking system was introduced in Nepal with the establishment of Nepal bank limited in 1937 A.D. It was established to help government's policy to develop economic and business activities in the country. After realizing the need of another bank, later in 1956 A.D, the central bank named as the Nepal Rastra Bank was set up with an objective of supervising, protecting and directing the functions of commercial banking activities and to carry out central banking activities. After realizing the need of another bank, Rastriya Banijya Bank was set up in 1966 A.D to spread banking services to both rural and urban sectors. As the country moved towards economic liberalization in 1980 A.D. foreign banks were invited to operate in Nepal. The financial scenario has changed with the introduction of joint venture Banks in 1984 A.D. The number of commercial banks has been increasing. Since then, various financial institutions like JVBS, Domestic commercial banks, development banks, finance companies, co-operative banks, credit Guarantee Corporation, Employment provident fund, National insurance Corporation and Nepal Stock Exchange have come into existence to cater the financial needs of the country thereby assisting financial development of the country.

After restoration of democracy in the country in 1990 A.D, Government highlighted the agenda of economic liberalization. Liberalization policies were announced and

emphasized to invite FDI in banking sector of Nepal. Therefore the development of commercial banks in Nepal is categorized in three phases on the basis of financial institutions policies adopted by the country from time to time.

Only two commercial banks prior to 1980's. They are Nepal Bank Ltd. and Rastriya Banijya Bank. All the three commercial banks of 1980's were established as JVBs. Similarly six commercial banks of past 1990's were also come into operation as JVBs. Latest six banks were established by the private sector of Nepal. Consequently the names of some banks are also changed. Nepal Arab Bank Ltd. is now known as Nabil Bank Ltd. Similarly Nepal Grindlays Bank Ltd., Nepal Indosuez Bank Ltd. and Nepal Bank of Ceylon Ltd. are now known as Standard Chartered Bank Nepal Ltd., Nepal Investment Bank Ltd. and Nepal Credit & Commerce Bank Ltd. respectively.

1.2 Profiles of the Banks under Study

Himalayan Bank Limited were established in 1993 in joint venture with Employees Provident Fund and Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese banking sector, its have been able to maintain a lead in the primary banking activities-loans and deposits. Besides this, its leading position in the card business with world class quality at reasonable price is remarkable & holds high value to our stakeholders. They were proud to stand in the market as an institution known for its innovative approaches to merchandising and customer services. That is first financial institution in Nepal to introduce innovative products like Premium Savings Account, HBL Proprietary Credit Card and Millionaire Deposit Scheme besides modern technical services like ATMs and teli-banking. Thus, we can claim to have played a leading role in modernizing the nation's banking sector. All of its branches are integrated into Glob us (developed by Temenos), the single banking software where we have made substantial investments. This has helped in providing wide range of integrated Banking service to the clients. HBL is the pioneer in introducing many innovative products and marketing concept in banking sector of Nepal with 30 Branches in all major cities.

Nabil Bank Limited commenced its operation on 12th July 1984 A.D as the first Joint Venture Bank in Nepal. Dubai Bank Limited, Dubai which was later, acquired

by Emirates Bank International Limited, Dubai was the first Joint Venture partner of Nabil Bank Ltd. Currently, NB (International) Limited, Ireland is the foreign partner of Nabil Bank. Nabil Bank Limited had the official name Nepal Arab Bank Limited till 31 December 2001. It is the only bank having its presence at Tribhuvan International Airport, the only international airport of the country. Also, the number of outlets in country is the highest, Nabil is a milestone in banking history of Nepal as it paved the way for the establishment of many commercial banks and financial institutions. Nabil has a national network with 49 points of representations with its branches at different strategic locations throughout the nation. Its growth during the last 27 years of its operation has been very extensive. Nabil has set a mission of becoming the 1st Choice Provider of Complete Financial Solutions and has created many strategic business units, risk units and operations units and their performances have been found encouraging.

1.3 Statement of Problem:

Nepal is under developed country and rapid economic development is the basic need of the nation. Development by its means is not possible within a short period and it takes a long time for the poor development of a country. It has a build up infrastructure. In Nepal, the process of development started only after 1956 A.D, When the first five year plan came into practice.

Capital in fact, plays the leading role for the economic development of a country but in Nepal, there is shortage of capital. There are various sources of accumulating capital internal and external. Under external sources: aid, grants & loans are the main sources. In internal sources: accumulating capital, taxes, Public Enterprises. Public debts are the popular in our country. But due to under development, poverty, lack of banking knowledge the desired capital for the development of the country can't be accumulated from those internal sources. So it can be said that in Nepal's present situation of bank deposit is dependable and permanent sources of capital accumulation.

Needs of deposit mobilization for economic development of a country is no more to question but we are facing an acute problem of resources mobilization. We have 32 commercial banks in operation, which are very much considered to be vital financial

institution to mobilize domestic resources. Under the prevalence of these situations, the study has tried to deal with following specific problems:

- What is the relationship between deposit and loans & advances?
- How far the interest rates of deposits have positive relationship with the deposit collection of commercial banks?
- What is the status of deposit collection of sample banks over the study period.
- what is the relation of deposit with other variables like profit, Loan & advances & investment etc.
- What is the effectiveness of deposit mobilization of commercial banks?
- What are the problems and prospects of deposit mobilization associated with Himalayan bank ltd.& Nabil bank ltd.? etc.

1.4 Objectives of the study

Basics objective of the study is to examine relationship between the amount of total deposit and amount of total credit granted by the commercial banks.

The main objectives of the study are:

- To analyze the relationship between deposits and loans & advances.
- To examine the relationship between interest rates on deposit and amount of deposit.
- To find out the impact of an interest rates of loan on the credit extended by commercial banks.
- To identify the effectiveness of deposit mobilization of commercial banks.

1.5 Focus Of The Study

Major focus of the study is about commercial banks and their deposit mobilization. This study concentrates about the meaning of commercial banks and their functions, mainly consists the study of Deposits, the characteristics of bank loan reflects on the position of bank deposits & aggregate allocation of credit on different sectors of the economy. Commercial banks are those banks, which deals in accepting deposit of individual and giving loans. Those banks provide working capital needs of trade, industry and even to agricultural sectors. Commercial banks also provide technical and administrative assistance to industries, trade and business enterprises. They transfer monetary sources from savers to users. Commercial bank is a corporation

which accepts demand deposits subject to check & makes short terms loans to business enterprises, regardless of the scope of its other services.

The Commercial banks are the heart of financial management system. So its plays vital role in the modern economy. They makes fund available through their lending & investing activities to borrowers, individuals, business firms and services. A commercial bank must mobilize its deposits and their funds in profitable, secured and marketable sector.

So, this study deals with the efficiency of commercial banks and economic development of the country by making a survey of deposits and credit of commercial banks and how can we utilize it to fulfill the financial needs of the different sectors of the economy. It has been generally observed that the deposits of commercial banks have not been fully utilized.

1.6. Significance of the study:

Commercial banks provide different economic & technical facilities to the people who involve in business activities. Commercial banks plays major role in collection of scared small saving from depositors and transfer these funds into productive sectors for the economic development of the country. As the research done in any field there are several key factors the cannot be avoided, in which significance of study also occurs. Mainly this study covers the deposit and credit position of commercial banks, so it helps to reveal the financial position of banks and study occupies an importance role in the series of the studies on commercial banks. The significance of the studies are as:

- Importance to know how well the selected banks are collecting & utilizing its deposit.
- Important to policy formulator and also be useful for academic professionals, students particularly those involves in commerce, CA & financial institutions on formulate policies & plans on the basis of the performance of the bank.
- Important for the management party of concern banks for the evaluation of the performance of these banks and comparison with an another banks.
- personnel of bank to take various decisions regarding deposit and loan & advances.

- This study has been equally important to the others who are interested to know about the area. It may encourage to researcher to research future.

1.7. Limitation of the study

This study in conducted for the partial fulfillment of master degree in MBS and prepared within time constraints which will weaken adequacy of the study. Whereas, researcher try to keep the report more feasible, accurate and fulfill even there are some limitations. These limitations can be point out in the following points:

- Only two banks are selected for this research from 32 Commercial banks.
- This study concentrates on deposit mobilization by commercial bank like HBL & NBL only.
- The qualitative factors such as growth, expansion policies, quality of service, effectiveness of management team etc. have been ignored.
- This study covers only limited year's 5 years (063/64 to 067/68) financial data of concerned Banks..
- This study only covers the limited financial performance of the bank.
- The accuracy of the findings depends up on the reliability of available information and data.
- Due to the shortage of time & budget, various methods & techniques of analysis could not be used.

1.8 Organization of the Study

The study has been classified into Five Chapter. The each titles of these parts are as follows;

chapter 1; Introduction: The first chapter includes various aspects of present study like, background of study, Focus of the study, statement of the problems, objective of the study, significance of the study & limitation of the study.

Chapter 2; Review Of Literature:

The second chapter will be review of literature available and review of related the particular backgrounds of the relevant area of study. It includes review of literature where issues, published & unpublished articles, journals, books, thesis & newspapers and internet search.

Chapter 3; Research Methodology:

The third chapter deals research methodology process such as research design, Nature & Source of Data, Population & Sampling of the study, Methods, Tools of Analyzing Data viz. Qualitative & Quantitative tools and at last Definition of key terms.

Chapter 4; Presentation & Analysis of Data:

The fourth chapter introduces the main aspect of the study. It deals with data collection procedure & presentation of data with different statistical & financial tools and major finding of the study.

Chapter 5; Summary, Conclusion & Recommendations:

The fifth chapter presents summary, conclusion & recommendations.

CHAPTER TWO

REVIEW OF LITERATURE

Literature Review briefly focused about the abstract regarding the Deposit Mobilization Theory. In order to accomplish the objectives of the study. This chapter includes the review of literature on deposit mobilization & its theoretical framework. Including different views of expertise, assumptions, books & journals, as well as major findings of previous studies of the relevant area is included in precise manner.

2.1 Commercial Banks & Its Concept:

Commercial banks are those banks which deal in accepting deposits money from Individual persons & institutions and provide loans against securities. They provide working capital needs or trade, industry and even to agriculture sectors. Moreover commercial banks also provide technical and administrative assistance to trades, industries & business house.

Commercial banks are those banks which provide short term & long term debts whenever necessary for trade and commerce. They accept deposits from the public and grant loans in different form, purchase and discount the bill for exchange, promissory notes, exchange foreign currency; Commercial Banks Act 1947.

The American Institute Of Banking 1972; has laid down the four major functions of the commercial bank such as receiving & handling payments for its clients, making loan & investments and creating money by extension of credit.

Under the free enterprises system like USA, the interest of the nation as well as that of the individual stockholders are supposed to be best served by vigorously profit seeking. But profit is a sole objective of an enterprise and it should not be evaluated just on the basis of the profit earned. Neither the bank nor the community will be best served if the banker unreasonably sacrifices the safety his fund or liquidity of his bank is an effort to increase income. American Institute of Banking, 1972.

Commercial bank is one which exchange money, deposit money, accept deposit, grants loan and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industry for such specific purpose, Nepal Commercial Bank Act 1974.

2.2. Theoretical Framework:

Mainly, Theoretical Frameworks describes the following terms & conditions which are closely relation in the research process.

2.2.1 Concept of Deposit :

Deposit is the sum of money lodged with a bank, discount house or other financial institution. Deposit is nothing more than the assets of an individual which is given to the bank for safe-keeping with an obligation to get something interest from it. To a bank these deposits are liabilities. Commercial bank Act 2031 (1974) defines “Deposits” as the amount deposited in a current, savings or fixed accounts of a bank or financial institution (Bhandari 2003). The deposits are subject to withdrawals by mean of cheque on a short notice by customers. There are several restrictions on these deposits, regarding the amount of deposit, number of withdrawal etc. . These are considered more as investments and hence they earn some interest. The rate of interest varies depending on the nature of the deposit. The attracts deposits from customers by offering different rates of interest and different kinds if facilities. Through the bank plays an important role in influencing the customer to save and open deposit accounts with it. It is ultimately the customer who decides whether s/he should deposit his surplus funds in current deposit a/c, saving deposits a/c & fixed deposit a/c. Bank deposits arise in two ways. When the banker receives cash, it credits the customer’s account, it is known as a primary or a simple deposit. People deposit cash in the banking system and thereby convert one form of money, cash, into another form, bank money. They prefer to keep their money in deposit accounts and issue coequal against them to their creditors. Deposits also arise when customers are granted accommodation in the form of loans. When a bank grants a loan to a customer it doesn’t usually pay cash but simply credits the customers account with the amount of loan. Of course, there is nothing that prevents the borrower from withdrawing the entire amount of borrowing in cash but quite often s/he retains the amount with the bank as deposit.

Types of Deposit:

There are different types of deposits. But for this study, major three types of deposit are taken. They are:

Current Deposit

A current deposit is a running account with amounts being paid into and drawn out of the account continuously. These accounts are also called demand deposits or demand liabilities since the banker is under an obligation to pay money in such deposits on demand. The account never becomes time barred because the limitation does not run until a demand is made by the customer on the bank for the payment of deposit. These accounts are generally opened by business houses, public institutions, corporate bodies and other organization whose banking transactions are numerous and frequent. As these deposits are payable on demand, banker is obliged to keep larger cash reserves than are needed in the case of fixed and saving deposits. This type of account is just a facility offered by the bank to its customers so such deposit doesn't yield any interest return.

The deposit in which an amount is immediately paid at the time of any account holder's demand is called demand deposit. Its transaction is continual & a very small portion of such deposit can be invested in the productive sector. Though the bank cannot gain significant profit by investing it in new sector, this is one of the facilities given to the customer. Therefore, the bank doesn't give interest on this account. For this study this type of deposit is not suitable (Bhandari 2003).

Saving Deposit

The saving deposit bears the features of both of the current and fixed period's deposits. Saving accounts are mainly meant for non-trading customers who have some potential for saving and who don't have numerous transactions entering their account. While opening the account the minimum compensating balance differ according to the banks rule. Similarly there is also divergence as to how much amount of money can be withdrawn. But if the customers want to withdraw more money from the bank which is not allowed by it but if s/he gives pre-information to the banks, s/he can withdraw more money. The bank fixes the minimum and maximum amount of withdraw able through a cheque from this deposit. If the bank

goes into liquidation, priority is given to the saving deposit than current & fixed deposits while repaying the liabilities.

Fixed Deposit / Time Deposit

Fixed deposits constitute a very important resources for banks as bank need not keep greater reserve in respect of such deposits. Under the commercial bank Act. 2031, “fixed account means as account of amounts deposited in a bank for certain period of time.” The customers opening such account deposit their money in the account for a fixed period. Usually, only the person or institution who wants to gain more interest opens such type of account. Higher interest paid to this deposit as compare to saving deposits. The bank & customers can take benefits from this deposit. The bank invests this money on the productive sector and gain profit and the customers too can be made his financial transactions stronger by getting more interest from this deposit. Principal amount with interest must be returned to the customer after maturity period.

In England these type of deposits are repayable subject to a period of notice and hence known as time deposit or time liabilities means that these are withdraw able subject to a period of notice and not on demand (Radhaswamy & vasu devan,1979). Fixed deposit receipt is not transferable by endorsement and certainly not negotiable. However the debt covered by the fixed deposit receipts can be assigned. Bank generally gives loans up to 90% of the deposit against the security of the deposit. For this bank charge some interest higher than the interest allowed on the deposit (Radhaswamy & Vasu Devan 1979).

Importance of Deposit

The deposit of banks is the accumulated capital which can directly be invested. There is a great need of such deposit in the developing countries. Deposit includes the idle money of the public, bank being the inter-mediator to accept this sort of money and help to canalize this in productive sector. Deposit arises from saving. s/he deposits the saved part of income in the bank and gets interest from it. Banks in turn lend this money and earn profit by charging high interest rates. The borrowers from banks, invests this fund in productive sectors yielding more return than the interest on borrowed fund. This investment leads to create new employment

opportunity in the economy. Ultimately due to new employment the purchasing power of the economy increases and finally GDP and growth of the economy occurs. It means that the deposit has very important role in the economy. If the volume of deposit is low, the investment in the economy also lags behind due to lack of resources. So the importance of banks and financial intermediaries is larger in present context (Bajracharya, 2000).

Deposit = (Individual income – Consumption).

2.2.2 Features of Sound Lending & Fund Mobilization Policy:

come and profit of the financial institutions like commercial banks and financial institutions depend upon its lending procedure, lending policy and mobilizing collected deposit through investing in different securities. The greater the credit created by the bank the higher will be the profitability. Some required features of sound lending policy and deposit mobilization is explained as under:

Safety & Security

Financial institutions should invest their deposit in profitable and secured sectors. They should not invest their fund in securities of those companies whose securities are too much depreciated and fluctuated because of risk of loss factors. They should accept those securities, which are marketable, durable, profitable and higher market price as well as stable. In this case MAST should be applied.

Where as,

M = Marketability,

A = Ascertain ability

S = Stability,

T = Transferability

Legality

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

Liquidity

Liquidity is the position of the firm to meet current short-term obligations. General, public or customers deposit their savings at the banks in different account having full confidence of repayment by the banks whenever they required. To show a good current position and maintain the confidence, every firm must keep proper cash balance with them while investing in different securities & granting loan for excess funds.

Profitability

To maximize the return on investment and lending position, financial institutions must be invest their collected fund in proper sectors. Finally they can maximize their volume of wealth. Their return depends upon the interest rate, volume of loan its time period & nature of investment on different securities.

Tangibility

Commercial bank should prefer tangible securities to an intangible one. Though it may be considered that tangible properly doesn't yield an income a part from intangible securities, which have lost their value due to price level information.

Purpose Of Loan

Banks & other financial institutions must examine why loan is required to the customers. If customers do not use their borrowings, they can never repay and the financial institutions will have heavy bad debts. So they should collect detailed information about the plan and scheme of the borrowing.

Diversification

A firm can invest its deposit collection in various securities to minimize the risk. So, all the firms must diversify their fund or make portfolio investment. Diversification helps to earn a good return and minimize the risks and uncertainty. So the firms are making optimum portfolio investment with different securities of different sectors.

2.2.3 Meanings Of Some Important Terminologies:

This section comprises of some important banking terminology for which efforts have been made to clarify the meaning, which are frequently used in this study. Their brief summary is presented below:

Loan & Advances

Loans, Advances & Overdraft have occupied a huge portion for the mobilization of funds of the commercial banks. Bank deposits can be crossed beyond a desired level but the level of loans and advances and overdrafts will never cross it. Commercial banks and other financial institutions may take more preferential collateral while granting loan and advances. Some portion of loan & advances and overdrafts includes that amount which is given to staffs of the banks as home loan, vehicle loan, personal loan & Others loan (Bhatta,2004).

Investment on Government Securities

Commercial bank can earn some interest and dividend from the investment on share & debenture. It is not the major portion of income but it is treated as a secondary source of banking business. A commercial bank may extent credit by purchasing government securities bond & shares for several reasons. Some of them reasons are given below:

- it may wish to have high-grade marketable securities to liquidate if its primary reserve becomes inadequate.
- it may want to shape it's maturing so that the inflow of cash coincides with expected withdraw by depositors of large loan demands of its customers.
- it may also be forced to invest because the demand for loans has decreased or it is not sufficient to absorb its excess reserves.

However the investment portfolio of commercial bank is established and maintained primarily with a view of nature of banks liabilities since depositors may demand funds in great volume without previous notice to banks. The investment must be of a type that can be marketed quickly with little or no shrinkage in value.

Investment on Other Company

Due to excess funds and least opportunity to invest these funds in much more profitable sector and to meet the requirement of NRB directives many commercial banks have to utilize their funds to purchase share & debentures of many other financial & non-financial companies. These days most of the commercial banks have purchased regional development banks, NIDC & others Development bank's shares & debentures.

Deposits

Deposits is the most important source of the liquidity for each and every commercial bank. For financial strength of banks, it is treated as a barometer. In the word of Eugene, " a bank's deposits are the amount that it owes to its customers". A deposit is the lifeblood of the commercial banks. Even though, they constitute the great bulk of bank liabilities, the success of a bank greatly depends upon the extent to which it may attract more & more deposits, for accounting & analyzing purpose, deposits are categorized in three headings. These are:

- Current/ Demand Deposits
- Saving Deposits
- Fixed/Time Deposits

Off Balance Sheet Activities

Off balance sheet activities involves contracts for future purchase & sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities on balance sheet. Some good example of these items are letter of credit, letter of guarantee, bills of collections etc. . Nowadays, such activities are stressfully highlighted by some economist and finance specialists to expand the modern transaction of a bank.

Other Use of Fund

A commercial bank should be maintain the minimum bank balance with NRB i.e. 6% for fixed deposits and 8% for each of current & saving deposit account in local currency. Likewise, 3% cash balance of local cash balance, in local currency, accounts must be maintained in the vault of the bank. Again a part of the fund

should be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, stationery & computers etc..

2.2.4 Review Of Legislative Provisions:

Legislative provision has significant impact on the commercial bank's establishment and mobilization & utilization of resources. All the commercial banks have to confirm to the legislative provisions specified in the commercial bank Act 2013 and the rules & regulation formulated to facilitate the smooth running of commercial banks (Benerjee 1998).

Policy on the Establishment of the Commercial Banks

Receiving the applications for the establishment of commercial banks has been stopped since 1995. Visualizing that such an administrative restriction is not in conformity with the liberal financial policy, the following policy guidelines have been made public on 16th May 2003:

Share Capital

Generally, the share of commercial banks will be available for the promoters 70% and general public 30%. The foreign banks and financial institutions could have a maximum of 67% share investment on the commercial banks of national level. In order to provide adequate opportunity for investment to the Nepali promoters in national level banks, only 20% of total share capital will be made available to general public on the condition that the foreign bank and financial institutions are going to acquire 50% of the total share.

To establish the commercial bank of national level having its office in Kathmandu, Joint investment with foreign bank and financial institution or a management contract at least for 3 yrs with such institutions is required. The paid up capital of such bank must be at Rs. 1000 million. To establish the commercial banks in all the places in the Kingdom other than in the Kathmandu Valley, the paid up capital must be Rs. 250 million (Mandala,2007).

Promoters Share

Promoter Group's share can be disposed or transferred only on the condition that the bank has been brought in operation; the share allotted to the general public has been floated in the market and after completion of 3 yrs from the date it has been registered in the Stock Exchange. But before the Disposal of such shares it is mandatory to get approval from NRB. The share allotted to general public has to be issued and sold within 3 yrs from the date, the bank can't issue bonus shares or declare and distribute dividends, shareholders of the promoters group and their family members cannot have access to loans or facilities from the same institutions.

Promoters Share Payment Procedure

Of the total committed share capital, the promoters has to deposit in NRB an amount equal to 20% along with the application and another 30% at the time of receiving the letter of intent on a interest free basis. The bank should put into operation within one year of receiving the letter of intent. The promoters have to pay fully the remaining balance of committed total share capital before the bank comes into operation. Normally, within 4 months from the date of filling the application, NRB should give its decision for the establishment of the bank whether it is in favor or against it. If it declines to issue license, it has to inform in writing with reasons to the concerned body.

Banks Already in Operation

Banks that is already in operation & those who have already acquired letter of intent before the enforcement of these provisions have to bring their capital level within seven yrs; i.e. by 16th July 2009, as per the recently declared provision. Such increase in the capital should be at a rate of 10 % should be at the minimum.

Concerning Up Gradation

Banks to be established outside Valley could be allowed to operate throughout the Kingdom including Kathmandu Valley only on the condition that they have brought their paid up capital level to Rs. Ten Million and also fulfilled other prescribed conditions. Until and unless such banks do not get license to operate throughout the kingdom, they will not be allowed to open any office in Kathmandu Valley.

Promoters Qualification and Experience

Action on the application from promoters will not be initiated if it is proved that their collateral has been put an auction by the bank and financial institutions as a result of non-payment of loans in the past, who have not cleared such loans or those in the black list of the Credit Information Bureau and Five yrs have not elapsed from the date of the removal of their name from such list. The application will be deemed automatically cancelled irrespective of it being on any stage of process for license issuance if the above events are proved. Of the total promoters, one third should be its chartered accountant or at least a graduate of Tribhuvan University or Recognized institutions with major in economics or accountancy, finance, law, banking or statistics. Likewise one fourth promoters should have the work experience of bank or financial institution or similar nature.

Disqualify from Becoming Director

Individual who is already serving as a director in one of the bank or financial institutions licensed by NRB can't be considered eligible to become the director in other banks or financial institutions. Also, stock brokers, market maker & also an individual and institution involved as an auditor of the bank and institutions carrying on financial transactions cannot be a director.

Legal Procedure

Banks to be established with foreign promoters, participation have also to be registered fulfilling all the legal processes prescribed by the prevalent Nepal laws.

Branch Expansion

The commercial banks established in national level will initially be authorized to open a main branch office in Kathmandu Valley. They will be authorized to open one more branch in Kathmandu valley only after they have opened two branches outside the kathmandu Valley.

2.2.5 Deposit Mobilizing Procedure of Commercial Banks:

All the banks of entire world were applied their own deposit mobilizing procedure. In practice, straightforward and effective deposit mobilization procedure has adopted by the bank. Effective deposit mobilization is the indicator of banks

prosperity and its growth. Banks have some deposit mobilizing procedure they are summarized below:

2.2.5.1 Sources of Fund:

In the economic activities there are so many sources of fund. In these sources, issuing share and borrowing loan from different sector. The sources of funds can be categorized in two ways:

Owned Funds/ Equity Capital of Bank

Following are the sources of owned funds:

Ordinary Share

Ordinary shares are the bank's strong and reliable sources of funds. Banks promoters issue ordinary shares to the public in fixed number. Banks collect the fund by selling fixed ordinary shares to the public by adopting fixed rules and regulation. These public make shareholders after purchasing the issued share.

Preference Share

It is that kind of share which receive dividend and after liquidation money before ordinary share. But in Nepal, bank can not issue preference share. But some situation it can issue preference share by taking permission from Nepal Rastra Bank.

Bonus Share

Company issue the extra share to the shareholder from the saving from profit and reserve fund by capitalizing these funds is known as bonus share. Bank issue shares to shareholders instead of bank's amount. From this share, bank collects some share of funds.

Retained Earning

Banks earn profit by investing the funds in different sector through the principle of profit earning. Banks invest its fund in productive or profitable industries and business. Bank earns some amount from these investments.

Reserve Fund

Bank separates some share of capital in reserve funds in the time of banking activities. The reserve funds size based on banks earning and rules and regulation. Banks must separate some share of amount from profit in reserve fund. Banks have been earning by investing the reserve funds in liquid sector.

Undistributed Dividend

Bank does not distribute all profit to the shareholders. Banks invest some amount from profit by not distributing to shareholders. By this, the invested profit makes sources of funds to the banks.

Borrowed Fund of Bank:

Bank collects the funds from another source except owned funds. Another source is borrowing from different sector. These types of funds collect borrow and debt capital. Following are the sources of the borrowed fund:

Selling of Debenture

Debenture means a “Rinpatra” which is issued by company by keeping or not keeping assets securities for collection of funds. If bank need a fund, it can collect capital by issuing debenture. The money also collects bank capital, which is collected by issuing debenture.

Deposits:

The bank performs two-fold functions, i.e. the receipt of the deposits and granting the loans. The bank borrows money by accepting different types of deposits. The bank attracts the deposits from the public. The bank not only undertakes to take care of the deposits but also agrees to honors the demands of the depositor for withdraw of money from the deposits. Deposits accepted by the bank are of different types. They are:

Current / Demand Deposit

It is also known as current deposit. A customer can open a current account with a bank by making an initial of Rs. 100. Any amount may be deposited in this account. The bank makes a small charge on the customer having current deposit account.

Saving Deposit

In this deposit, there are restriction on the maximum amount that can be deposited and also withdrawals from the account. The bank may not permit more than one or two withdrawals during a week.

Fixed / Time Deposit

A fixed deposit is one where a customer is required to keep a fixed amount with the bank for specific periods. He is not allowed to withdraw amount before expiry of the period. The rate of interest is higher than on other deposit account during this period the bank is free to make use this money for granting loans and advances.

Loan from the Central Bank

Nepal Rasta Bank is the central bank of Nepal. All banks should operate their banking activities by maintaining the rules and regulations directed by the NRB. In the time of necessity, NRB provides the loans for the banks. The loan granted by the central bank is a bank capital.

Loan from the Financial Institutions

Financial institutions also provide loan for the banks. Bank can receive loans from financial institutions in the form of borrowing. The loan granted by the financial institutions is also a bank capital.

Loan from Commercial Banks

If banks need money, it receives money from other commercial bank also in the form of borrowing. Banks fulfill the need of cash by taking loan from other banks. It is also the types of bank capital.

2.2.5.2 Deposit Mobilization:

Banks utilize its funds in feasible area and right sector. Banks can not achieve its goals until and unless it mobilizes its deposits in right sectors and by performing different activities. Much kind of activities and other thing can origin for the purpose of receiving invest from the bank. But bank should separate the useful and profitable sector for mobilization its deposits. Banker being only a financial intermediary, we will not be able to make any profit unless he has to pay interest on

deposits, meet establishment expenses, meet liquidity of cash balance, and yet allow him some balance from out of which he can build reserve and pay dividend to the shareholder.

always commercial banks are expected to make Maximum profit. If there is no profit, there will be adverse criticism against public sector banking, both in and outside the parliament when these banks are asked to open new branches in areas which do not allow profits for years, or asked to grant loan to the priority sectors such as small industries and agriculture with a high incidence of bad debts, there is need for counter balancing profit from elsewhere. Therefore, these banks will have to show an ascending order of profits in order to ensure growth with stability. For this purpose the bank will have to allocate land able resources to different segments in such a manner these banks can ensure adequate profitability while at the same time responding to policies laid down in accordance with national objectives.

So, banks should be mobilize its deposits in suitable and profitable banking activities and right sector. Generally bank has mobilized its deposits in the following activities.

Liquid Funds

A bank has kept a volume of amount in liquid funds. The funds have so many responsibilities in banking activities liquid funds has covered following transactions.

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

Investment

Bank invests its fund in different banking activities and different sectors. Many types of fields are shown in market for investment. But banks invest its funds in profitable and safety activities. Bank invests its fund in the following titles:

- Share and debenture
- Joint-venture
- Government securities

Loan and Advances

Banks mobilize its deposits by providing different types of loan and advances to customers, by charging fixed interest. Different types of loan and advances are

To government enterprises

To provide enterprises

Bank manages the different types of loans i.e. providing loan, business loan, and traditional loan to prospective area.

Fixed Assets

Land and buildings are required for the establishment of bank. Bank's fund used in buying of furniture, vehicle, computer, and other required instrument, which are related to banking activities. Bank cannot obtain direct gain from these assets, but bank should buy it. A bank has a need of fund to purchase fixed assets for the new branches of the bank.

Administrative and Miscellaneous Expenses

Bank should manage funds for administrative and other miscellaneous expenses.

The administrative expenses are:

- Salary of Employee
- Donation Allowances
- Provident Fund
- Rent
- Insurance
- Tour expenses
- Income tax
- Commission
- Pension
- Advertisement
- Stationery etc.

The miscellaneous expenses are:

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

In this way, bank mobilizes its deposits by performing different activities to achieve its desired goals i.e. earning profit. Banks are able to earn sufficient profit by

mobilizing its deposits in proper way into the different profitable sector. It can utilize its collected deposits as well as own funds in all banking activities by performing effective deposit mobilization procedure.

2.2.6 Meaning of Interest:

Interest rate is one of the most important variables in economics and financial system of the country. In common sense interest is a payment made by borrower to the lender for the money borrowed and is expressed as a rate percentage per year. The interest rate is the price of money; the price of renting the use of the resources that money commands for a specified by the free interplay of supply and demand in a market economy. The price of the money, the interest rate, plays a vital role in the allocation of resources and in the decision making of consumers and business. Various interest rate theories have been propounded by various economists, which describe how interest rate is determined in various situations. There are numerous interest rates in financial market. Such type of differences exists due to the risk premium associated with the issuer. Even securities issued by the same borrowers often carry a variety of interest rates. In this section, the focuses upon those basic forces that influence the level of different interest rates (Bhatta 2004).

Classical Theories of Interest Rates :

The classical theory argues that the rate of interest is determined by two forces: 1) the supply of savings, derived mainly from households and 2) the demand for investments capital coming mainly from the business sectors.

Saving by Households, Generally most of the savings in modern industrialized economies are carried out by individual and families. For these households, saving is simply abstinence from consumption spending. Current savings, therefore, are equal to the difference between current income and current consumption expenditures. In making the decision on the timing and amount of saving to be done, households typically consider several factors: the size of current and long-term income, the desired savings target, and the desired proportion of income to be set aside in the form of savings. Interest rates affect an individual's choice between saving and current consumption. The classical theory of interest assumes that individual have a definite time preference for current over future consumption. It

considers the payment of interest as a reward for waiting the postponement of current consumption in favor of greater future consumption. The higher interest rate increases the attractiveness of saving from some quantity of current consumption for future uses.

Saving by Business Firms; Most business hold savings balances in the form of retained earnings (as reflected in their equity or net worth accounts). The volume of business saving depends on two key factors: the level of business profits and the dividend policies of corporations. These two factors are summarized in the retention ratio, the ratio of retained earnings to net income after taxes. This ratio indicates the proportion of business profits retained in the business for investment purposes rather than paid out as dividends to the owners. The critical element in determining the amount of business savings is then the level of business profits. If profits are expected to rise, business will be able to draw more heavily on earnings retained in the firm and less heavily on the money and capital markets for funds. The result is a reduction in the demand for credit and a tendency toward lower interest rates. Higher interest rates in the money and capital markets typically encourage firms to use internally generated funds more heavily in financing projects. Conversely, lower interest rates encourage greater use of external funds by raising it from the money and capital markets (Brigham 2000).

Saving by Government; Governments also save though less frequently than households and businesses. In fact, most government saving (i.e. a budget surplus) appears to be unintended saving that arises when government receipts unexpectedly exceed the actual amount of expenditures. Income flows in the economy (out of which government tax revenues arise) and the pacing of government spending programs are the dominant factors affecting government savings.

The savings made by business, government and households are important determinants of interest rate but they are only one side. The other side is investment spending, made by business firms, government and in some cases households. Business requires huge amounts of funds each year to purchase equipment, machinery and inventories and to support the construction of new buildings and other physical facilities. The majority of business expenditures for these purposes

consist of what economists call replacement investment. But according to the classical economist, interest rate and invest able fund have inverse relationship. At low rates of interest, more investment projects become economically viable.

The Loan-able Fund Theory:

In this theory, the main theme is the supply and demand for loan-able funds (i.e. lending & borrowing) determines the interest rate. It is a monetary theory of interest since it focuses on the financial factors that influence interest rates (i.e. borrowing and lending). In addition, the loan-able fund theory is a short-run, partial equilibrium explanation in which some factors produce a change in the interest rate, but there is no analysis of the long-run impact of this change in the interest rate and on the level of employment, income, and production of the resulting impact of changes in employment, income and production on the interest rate. The major sources of supply of loan-able fund are from two sources: 1) The amount of saving by households, business, governments and 2) The amount of new money created by the commercial banking system.

Saving

It refers to the postponement of current consumption. The decision to save is the decision to forgo current consumption in order to have a larger quantity of consumption in the future (Cooper & Fraser, 1983). Individual or household save for a variety of reasons but there is little evidence to suggest that the quantity of loan-able funds supplied through saving is clearly influenced by the level of the interest rate. Business saving refers to the net income after taxes of the firm, less any cash dividends i.e. retained earnings. There is little reason to believe that the volume of saving at business firm is strongly influenced by the level of interest rates. For governments, the volume of saving is defined as the difference between revenues and expenditures such that saving exists when revenues exceed expenditures.

New Money

The volume of saving is the principal source of loan-able funds in financial markets, the supply of the loan-able funds may be increased through the creation of new money beyond the amount made possible by current saving. The amount of new money created is determined jointly by the actions of the commercial banking

system and the central bank. Commercial banks use any excess reserves to make loans and purchase securities and create money (demand deposits) through the credit creation process. However, the ability of commercial bank to create money is limited by the central bank through the use of its monetary policy tools like open-market operations, reserve requirement changes, and discount rate changes.

The Liquidity Preference Theory of Interest Rate:

The loan-able funds approach to interest rate determination focuses on supply and demand for loan-able fund. An alternative approach the liquidity preference view focuses on the liquidity preference instead of the supply and demand for money. It is assumed that individuals inherently prefer money among all financial assets since money can be used to make payments and is thus the most liquid assets. Wealth holders are persuaded to hold financial assets other than money only because these non-money assets offer interest returns which do not exist in the holding of idle money. Further the greater the spread between the yields on non money financial assets and money, less the demand for money holdings and greater the demand for other financial assets and vice versa.

The Rational Expectation Theory:

This theory is modern approach to the financial market so it is in still development stage. The main theme of this theory is that “money and capital markets are highly efficient institutions in digesting new information affecting interest rates and security prices.” (Peter, 1997) This theory assumes that equilibrium interest rate depends upon the change in investor’s expectation regarding future security prices and return. Investor’s decision towards the borrowing and lending funds come from the availability of new information. When new information appears about investment, saving or the money supply, investors begin immediately to translate that new information into decision to borrow and lend funds. So rapid is the process of the market digesting new information that security prices and interest rates presumably impound the new data from virtually the moment they appear. In the absence of new information, next period’s interest rate will be equal to current periods interest rate. In other words, the knowledge of past interest rate will not be a reliable forecast of future interest rate. In a perfect efficient market it is impossible to win excess returns continuously by trading on publicly available information.

2.2.7 Review of Related Studies:

2.2.7.1 Review of Articles, Books, Journals & Research Papers

In this subject, effort has been made to examine and review some of the related articles published in different economic journals, Bulletin of World Bank, dissertation papers, newspapers, researchers view and findings towards Deposit mobilization and other related books.

Banks are that kind of institutions, which deals with money and substitutions for money. They deal with credit and credit instrument. Effective circulation of credit is more significant for the banks. Unsteady and unevenly flow of credit harms the economic situation of the nation. Because of this, collected funds or deposits should be invested and mobilized into the probable sector. An appropriate utilization of fund decides the life of the banks.

Bajracharya (1990), In his article, “Monetary Policy and Deposit Mobilization in Nepal” that the mobilization of domestic saving is one of the prime objectives of monetary policy in Nepal. For this purpose, commercial banks stood as the active and vital financial intermediary for generating resources in form of deposit of the investors in different aspects of the economy.

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

Gittman (1990), “Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns.”

Clark (1991), “An investment is a commitment of money that is expected to generate additional money. Every investment entails sacrifice for a future uncertain benefit.”

Amatya (1993), carried out a research on the topic “ An Appraisal of Financial Position of Nepal Bank Limited”. The objectives of the study were to examine, analyze and to interpret the financial position of the bank. The main findings of the study are as follows.

- The bank was successful in deposit collection but it had always adopted conservative and traditional credit policy.
- Regarding the liquidity management, the bank was in a better position. However the bank had been following a uniform policy to finance current assets and current liabilities.
- The trade & commerce advances were playing a major role in the credit composition of the bank. Although, the reserve of the banks was increasing gradually. The reserve played a nominal role in credit expansion control.
- The major portion of investment of the bank was in government securities and the volume of transaction was high in all respects but the bank did not show higher ratio of profit, rather it showed a decreasing trend of profit.

Pradhan (1996), In his articles, “Deposit Mobilization, Its Problem and Prospects” He has presented the following problems in the context of Nepal:

- People do not have knowledge and proper education for saving in institutional manner. They so now know financial organizational process, withdrawal system, depositing system etc.
- Financial institutions do not want to operate and provide their services in rural areas.
- He has also recommended about how to mobilize the deposit collection by the financial institutions by rendering their services in rural areas, by adding various services.
- By operating rural banking programmers and unit
- Nepal Rastra Bank must organize training programmers to develop the skilled human resources
- By spreading a numbers of co-operative societies to develop mini banking services and improves the habits of public on deposit collection to the rural areas.

Bhalla (1997), has derived a three- pointed basic concept of investment. His view on investment cover:

- Economic investment that is an economics definition of investment.
- Investment in a more general or extended sense which is used by the man of street or ordinary people
- The sense in which we are going to be very much interested namely financial investment.

He says, “Banks are those institutions which accepts deposits from the public and in return provide credit to trade, business and industry that directly makes a remarkable impact on the economic development of a country. To collect fund and collect as a good investment is a very risky job. Ad-hoc investment decision leads the bank out of the business thereby drawn the economic growth of a country. Hence sound investment policy is another secret of a successful bank.

Sakespeare (1997), has an elaborated definition on “Investment” which beseeches of sound investment policy and covers wider aspects. He writes, a sound investment policy of bank is such that its fund are distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to the depositors and banks on the other hand. Moreover, risk in banking sector tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually springs from significant amount of loans that have become uncollectible due to mismanagement, illegal economic downturn. Therefore, the banks investment policy must be such that it ensures sound and prudent in order to protect public funds.

“Further in details he deals with what type of loan do banks make? And, how much of loan is to be invested? The banks make a variety of loans to a wide variety of customers from many different purposes from purchasing automobile to construct of homes and making trade with foreign countries. There, no uniform rules can be laid down to determine the portfolio of bank. The environment in which the bank operates influences its investment policy. The nature and availability of funds and assets also differ widely from region to region within a country or country to country. For example, the scope of operating a bank in Jumla will be different from the scope of a bank operating in Kathmandu. The investment policy to be applied in

Kathmandu may not be applicable to the customer of Jumla because the demand for loans is less in rural areas whereas it is higher in urban areas.”

Shrestha (1997), has analyzed in her article, “Financial Performance of Commercial Banks Using Both Descriptive and Diagnostic Approach.” In her studies she has concluded the following points:

- The structural ratio of commercial banks show that banks invest on the average 75% of their total deposit on the government securities and the shares.
- The analysis of resources position of commercial banks should quit high percentage of deposit as cash reserve.
- Return ratio of all the banks show that most of the time foreign banks have higher return as well as higher risk than Nepalese banks.
- The debt-equity ratios of commercial banks are more than 100% in most of the time period under study period. It led to conclude that the commercial banks are highly leveraged and highly risk. Joint venture banks had higher capital adequacy ratio but has been dealing every day.
- In case of the analysis of the management achievement foreign banks have comparatively higher total management achievement index.

Charles (1999), Emphasizing on the proper management of an investor’s wealth says, “Investment is the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor’s wealth, which is the sum of current income and present value of all future income.”

Sharma (2000), has found same results that all the commercial banks are establishing and operating in urban areas, in this study, “Banking the future on Competition”. His achievement are:

Commercial banks are establishing and providing their services in urban areas only. They do not have interest to establish in rural areas. Only the branch of Nepal Bank Ltd. and Rastriya Banijya Bank Ltd. are running in those sectors.

- Commercial banks are charging higher interest rate on lending
- They have maximum tax concession
- They do not properly analyze the system

According to him, “Due to the lack of investment avenues, banks are tempted to invest without proper credit appraisal and on personal guarantee, whose negative side effects would show colors only after four or five years”. He has further included that private commercial banks have mushroomed only in urban areas where large volume of banking transaction and activities are possible.

Asian Weekly News Paper Report (2001), Published from Hong Kong, revealed the competition between joint venture banks made them to collect large amount as deposit. In same way, Nepal’s two Joint Venture Nepal Arab Bank Ltd. and Himalayan Bank Ltd. are positioned among 500 biggest banks of Asia region. This evaluation is based on the total assets, deposit, loan investment, net income and profit and investment on shares

Cheney and Moses (2001), are concerned with the objective of investment and indicate that the risk is in proportion with the degree of returns. They write, “The investment objective is to increase systematically the individual’s wealth, defined as assets minus liabilities. The higher the level of the desired wealth, the higher must be received. An investor seeking higher return must be willing to face higher level of risk.”

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

2.2.7.2 Review of Previous Thesis:

Before this study, various studies regarding the various aspects of commercial banks such as lending policy, interest rate structure, resource mobilization, deposit mobilizing policy, financial performance, investment policy, working capital management and capital structure have conducted several thesis works. Some of them, which are relevant for these studies, are as presented below:

Poudel (1997), in this thesis entitled “ Comparative Analysis of Financial Performance Between NBL and NGBL”. Has drawn some major findings. The main objective of this study was to comparatively analyze the financial activities of the banks. He found that although the liquidity position of NBL was better than NGBL, on the whole the current assets of these banks were adequate to meet the current liabilities. NGBL had better credit position than NBL in terms of short term investment. NBL had better turnover and was highly leveraged than NGBL. Joint Venture banks such as NGBL was fast growing and the overall profitability were higher whereas, government owned commercial banks such as NBL had higher expenditure and the profit making capacity was lower & gradually decreasing.

Bhandari (1998), in his study entitled “The Impact of Interest Rate Structure on Investment Portfolio of Commercial Banks of Nepal” has concluded followings:

- Rates of commercial banks have been fluctuating. Deposits and lending rates were increased immediately after liberalization of the interest rate on August 31, 1989 but however, started to decline which have helped in increasing the credit flow.
- Interest rate structure has direct influence on profitability of commercial banks. Decreasing lending rate helps to increase the profitability through increasing the credit.
- Deposits are more interest rate conscious and positively co-related.
- Loans and advances of commercial banks have been found to be continuously increasing with the decline in interest rates.
- Effective interest rate structure helps in proper utilization of resources as measured by loan to deposit ratio.
- Most of the banks are having similar interest rate structure which lessens the importance of liberalization of interest rate.

Thapa (2001), In her thesis paper “A Comparative Study on Investment Policy of Nepal Bangladesh Bank Ltd. and other Joint Venture Bank of Nepal” she has compared the investment activities of NBBL with only two Joint Venture Bank i.e. Nepal Arab Bank Ltd. and Nepal Grindlays Bank Ltd. by taking five years data. She has recommended in two ways:

- Statement Recommendation: She has suggested about investment in government securities, OBS operation loan recover act, sound credit collection policy, and project oriented approach, effective portfolio management, and innovative approach to bank marketing and banking facilities.
- Theoretical Recommendation: She has suggested about liberal policy and asset management strategy.

Sapkota (2002), in his thesis paper “A Study on Fund Mobilizing Policy of Standard Chartered Bank Ltd in Comparison to Nepal Bangladesh Bank Ltd and Himalayan Bank Ltd” having main objectives to examine the fund mobilizing policy adopted by three joint venture banks viz. SCBNL, NBBL and HBL and the way these banks mobilized their funds during five year study period. He found the overall condition of SCBNL seems in satisfactory position in comparison to NBBL and HBL. In other words, he recommends that banks are strongly recommended to provide information about its services, facilities and extension of their services towards rural areas. These three banks are recommended to increase cash and bank balance to meet the need of investment and demand of loan and advances. And banks are to be investing its funds in the purchase of shares and debentures of other financial, non-financial companies, hotels and government companies.

He has not explained about the risk ratios which have to be faced by these joint venture banks. His study can not show the fund mobilizing policy of the selected banks for the succeeding years because of time limitation i.e. up to 1999/2000.

While reviewing the books and articles and previous studies, it is found that banks are not just the storehouse of the country’s wealth but are the reservoirs of resources necessary for economic development and employment generation. There are still different obstacles in the effective operation of the commercial banks in Nepal. Therefore these obstacles should be eradicated for the economic development of Nepal.

Bhatta (2004), in the topic “Interest Rate and its effect on Deposit and Lending”, in this study, the disseminator tries to portrait the relation of interest rate with deposit and lending amount. Her findings and the findings made by Mr Chettri are seems to be different. According to Mr Chettri’s finding, all the relation matches with the theory but Mrs Bhatta’s finding on deposit was not as per theory. But other matters are same as Mr Chettri’s. The conclusions drawn by Mrs Bhatta are:

- Deposit rates of all sample banks under study are in decreasing trend; meaning that every year deposit rates of sample banks under study have decreased.
- Lending rates of all sample banks under study are also in decreasing trend; means that every year lending rates of sample banks under study have decreased.
- Analysis shows that interest rates on lending are far higher than deposit rates of sample banks. The correlation coefficient between these two variables, (deposit rate and lending rate) of sample banks comes highly positive.
- The simple correlation coefficient between deposit rate and deposit amount of sample banks were highly negative. But out of them, correlation coefficient analysis of one sample bank is found to be negative. It means that in that case the theory doesn’t match the analysis. So writers conclude that the result appears in that study was different than the theory.
- The correlation analysis between lending rate and lending amount of all sample banks under study comes highly negative. This relation between two variables (lending rate and lending amount) of sample banks matches with the theory which says with the increase in lending rate, lending amount decreases and vice-versa. So she concluded that lending rate is the most important determinant of loan and advances of all commercial banks. This makes clear that borrower’s seem more interest conscious.

Finally her conclusion about the study, in her own words:

“There is significant relationship between deposit interest rate and deposit amount and lending rate and lending amount of almost all commercial banks except one. Test of significance for correlation coefficient between inflation rate and deposit and lending rate shows that these variables are not correlated.”

Karmacharya (2005), in his thesis paper “A Study on the Deposit Mobilization by the Joint Venture Banks” has mentioned that the bank has successfully maintained its liquid asset position but could not mobilize its resources efficiently. He has concluded that Nepal Bank’s utilization side is weak as compare to the collection of resources. He suggested for extending its branches, so NBL’s deposit collection and also long-term as well as short-term credit may increase. He has recommended not to consider security factor only but to provide loan to genuine projects without securing.

Pokharel (2006), a study made on the topics “Determinants of Interest Rates in Nepalese Financial Markets” also give some ideas about the interest rates in Nepalese markets. Though, this thesis tried to identify the factors that shape the interest rates in Nepalese markets, it also tried to explore the relationship between the interest rate, deposits, credit rates and inflation. Among different objectives, some objectives that match to this study are:

- To show the relationship between the liquidity position and interest rate on deposit and lending.
- To identify the effect of inflation on interest rate charged and offered by various Nepalese financial institutions.
- To identify the different methods used by Nepalese financial institutions to calculate interest on lending.

Mandala (2007), in his thesis paper “A Comparative Financial Performance Appraisal of Joint Venture Banks”. has studied primarily three Joint Venture Banks i.e. NABIL, NGBL and Nepal Indosuez Bank Ltd. His main objectives is to find out the both banks, NGBL and NABIL have mobilized the debt funds in proper way for generating more return but Nepal Indosuez Bank (NIBL) could not mobilize as NABIL and NGBL. He has recommended that all the banks should provide their facilities in rural areas and encourage the small entrepreneur’s development programmes, play merchant role, mobilize the deposit funds in productive sectors and grant priority to the local manpower.

He has not attempted to show the investment policy and concentrated only on financial performance of JVBs, therefore if can not represent the performance appraisal of JVBs. His study is comparative study of only three JVBs.

Dawadi (2011), Conducted a study entitled “Financial Performance Analysis of Commercial Banks in Nepal”. The study analyzed the financial performance of Himalayan Bank limited and Everest Bank limited for the period of 2006 to 2010 A.D. The study had the following findings related to deposit mobilization and investment.

- Total Deposit and loan & advances of both the bank are almost positively perfect correlated. It indicates that loan & advance of both the selected banks will proportionally increase with the increment in total deposit.
- Correlation coefficient between total deposit and total investment of both the bank are more than 0.5 with positive sign. Which means investment will increase proportionally with the increment in total deposit. Out of these two banks EBL has higher value of correlation coefficient between total deposit and total investment than HBL.
- The above trend analysis shows that EBL is better than that of HBL in all the cases. The growth rate of total deposit, total loan & advances, total investment and total net profit of EBL is higher than that of HBL.

2.2.8 Research Gap:

Many research studies have been conducted by different students, experts and researchers about Financial Performance of Commercial banks. There have been found numerous research studies on financial institutions & Companies regarding deposit mobilization. Some studies are related to a single and some other are comparative in nature but the comparative study of deposit mobilization between two commercial banks can be found hardly. From the review of related studies no one study in the context of Himalayan Bank Limited and Nabil Bank Limited. The financial & statistical tools used by different terms by different researchers with different data, so analytical technique will be change. This research includes mainly ratio analysis in different terms and correlation analysis and others tools and techniques are used when required. This research study made on “Deposit Mobilization of commercial banks in Nepal” with reference to HBL & NBL will be an effort to analyze on deposit mobilization of the two commercial banks as a comparative study in present situation with the help of various related financial as well as statistical tools and techniques. This study can be beneficial to all the concerned parties like investors, policy makers and student to carry on further studies.

CHAPTER THREE

RESEARCH METHODOLOGY

Research methodology is the research method used to test the hypothesis. It sequentially refers to the various steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology describes the methods and process applied in the entire subject of the study.

“Research methodology refers to the various sequential steps to be adopted by a research in studying a problem with certain objectives in view” (Kothari, 1989).

Generally, it refers to the numerous processes adopted by the researchers during the research period. It is the technique to solve the research problem in systematic manner. It includes many techniques and is crucial for every research work. The main objective of this research work is to evaluate the deposit mobilizing procedure adopted by the Two Commercial Banks i.e. Himalayan Bank Ltd & Nabil Bank Ltd.

It helps to solve the research problem in a systematic way. This chapter has been designed and developed as a guideline or a plan for the achievement of objectives set and hypothesis developed as a guideline or a plan for the achievement of objectives and hypothesis developed for the purpose of the study. Reliability and validity of research work is facilitated by research methodology and the basic objective of this chapter is to guide next chapter for data presentation, descriptive and empirical analysis of interest rate in its effect on deposits, lending and inflation. So, suitable research methodology as demanded by the study has been followed. It is intended to use simple and lucid research methodology.

3.1 Research Design

“The research design is one of the most important elements of the Thesis. It is the out line of the logic of the Study”. The research design is the outline of the plan to test hypothesis and should include all the procedures that follow.

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

Thus, the research design is plan structure & strategy of investigation conceived to obtain answer to research questions and to control variances.

It is the arrangement of conditions for collection and analysis of data, to achieve the objective of this study, description & analytical research design has been use. The study aims to portraying accurately up on the deposit mobilization and its impact on overall financial position of these commercial banks under Himalayan Bank & Nabil Bank Ltd.

The research examines the facts and postulates in certain frameworks on details and supplies the important information on subject matter, summary of the study, major findings of the study, recommendations, conclusion etc. are the most significant information among them, they are derived with the help of some financial and statistical tools were adapted to evaluate the deposit mobilization of Commercial Banks viz. Himalayan Bank & Nabil Bank in consideration not only to research about them but also to facilitate among them.

3.2 Population and Sample

The time limit & unavailability of relevant data had forced me to make research on the few Commercial banks like HBL and NBL even through there are altogether 32 commercial banks. Financial Statement of last 5 years from 063/64 to 067/68 have been taken as sample data for the comparative study of Deposit Mobilization of commercial banks in Nepal.

3.3 Nature and Sources of Data

This study is basically based on secondary data. The secondary sources of data collections are those that have been used from published on used by someone previously. The secondary sources of data are Balance Sheet, Profit & Loss account and literature publication of the concerned banks. The NEPSE report of the Central bank and Concerned banks has furnished some important data to this research work. Some supplementary data and information have been collected from the authoritative sources like Nepal Stock Exchange Limited, Security Exchange Board, Economic Survey, National Planning Commission, different journals, magazines, related website and other published and unpublished reports etc. Previous related studies to the subject are also counted as source of information.

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

3.4 Data Collection Procedure

Since the data have been obtained from secondary sources after collection of financial statements, master sheet of financial data have been extracted and tabulated as for the need of this study. In order to process the data, financial statement and other available information have been reviewed these data have been grouped in different tables and charts according to their nature, Most of the data have been compiled in one form and processed and interpreted as required.

3.5 Method of Data Analysis

To achieve the goal & objective of the study, various financing and statistical tools have been used to achieve the goal & objective of the study. The analysis of data will be done according to the pattern of data available. Due to limited time and resources, simple analytical tools & trend analysis have been used for financial analysis. The various calculated results obtained through financial, accounting & statistical tools are tabulated under different headings. Then they are compared with each other to interpret the result. Tools make the analysis more effective, convenience, reliable & authentic. Here Two kinds of tools & techniques have been used to achieve the certain goal & objective.

- i) Financial Tools & Techniques
- ii) Statistical Tools & Techniques

3.5.1 Financial Tools & Techniques

financial tools are used to examine the financial strength & weakness of the firms. In this study financial tools like ratio analysis and financial statement analysis have been used. There are various ratios but in this study some selected ratios among them are used;

Ratio Analysis:

Ratio analysis is a powerful technique of analysis & interpretation of financial statement. To evaluate the performance of an organization by creating the ratios from the figure of different accounts consisting in balance sheet and income statement. A ratio is defined as the indicated quotient of two mathematical expressions the relationship between two or more things. (Merriam, 1975)

“ ratio analysis is a part of the whole process of analysis of financial statement of any business or industrial provided by ratio analysis with the help of financial statement are useful for making decision on any activity” (Kothari 1984)

“A ratio is a mathematical relationship between two variables. It is significant for financial analysis. It also helps us to predict the future performance of a company based on study of ratios of earlier years.” (Benerjee 1985)

In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The relationship between two accounting figure expressed mathematically, is known as a financial ratio or simply a ratio. Ratio indicates a quantitative relationship, which can be, in turn, used to make a qualitative judgment. Even though there are various types of ratios to analyze and interpret the financial statement, Some types of ratios have been taken in this study, which are related to fund mobilization of the banks. They are presented below;

A. Liquidity Ratio:

Liquidity ratios are applied to measure the ability of the firms to meet short-term liabilities. It measures the speed of firms to convert the firms asset into cash to meet deposit withdraws and other current obligations. This is quick measure of the liquidity and financial strength of the firm.

(Hampton, 1995), “Liquidity ratios examine the adequacy of funds, the solvency of the firms ability to pay its obligation when due.”

Various types of liquidity ratios are applied in these studies, which are explained below:

- Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the most liquid current assets of a firm, cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositor immediately. This ratio is computed dividing the amount of cash and bank balance by the total deposits. It can be presented as,

$$\text{Cash \& bank balance to total deposit ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Where, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance held abroad. Total deposits consist of deposits on current account, saving account, fixed account, money at call and short notice and other deposits.

- Cash and Bank Balance to Current Assets Ratio

This ratio measures the percentage of liquid assets i.e. cash and bank balance among the current assets of a firm. Higher ratio shows the higher capacity of firms to meet the cash demand. This ratio is calculated dividing cash and bank balance by total current assets and can be calculated as,

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

Hence, cash and bank balance includes cash in hand, foreign cash and foreign banks.

- Investment on Government Securities to Current Assets Ratio

This ratio is used to find the percentage of current assets invested on government securities, treasury bills and development bonds. It can be mentioned as:

$$\text{Investment on Government Securities to Current Assets} = \frac{\text{Investment on Government Securities}}{\text{Current Assets}}$$

Where, Investment on government securities involves treasury bills and development bonds etc.

B. Profitability Ratios:

Profit is only appeared when there is positive difference between total revenues and total cost over a certain period of time. Profitability ratios show the combined effects of liquidity, assets management, and debt on operating results. Profitability ratios are very helpful to measure the overall efficiency of operations of a firm. It is a true indication of the financial performance of each and every business organization. Here profitability ratios are calculated and evaluated in terms of the relationship between net profit and assets. Profitability of the firms can be presented through the following different ways:

Net profit to Loan and Advances Ratio

Net profit loan and advances ratio shows how efficiently the banks have utilized their resources to earn good return from provided loan and advances. This ratio is computed dividing net profit (loss) by the total amount of loan and advances and can be mentioned as,

$$\text{Return on Loan and Advances} = \frac{\text{Net profit (Loss)}}{\text{Loan and Advances}}$$

Net profit to Total Working Fund Ratio

Net profit to total working fund ratio measures the profit earning capacity of the banks by utilizing available resources i.e. total assets. If the bank's well managed and efficiently utilized its working fund, it will get higher return. Maximizing taxes, this in the legal options available will also improve the return. It is computed as:

$$\text{Return on Total Working Fund} = \frac{\text{Net profit}}{\text{Total Working Fund}}$$

Total Interest Earned to Total Working Fund Ratio

This ratio reflects the extent to which the banks are successful in mobilizing these total assets to acquire income as interest. This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the income as interest. We have,

$$\text{Total Interest Earned to Total Working Fund} = \frac{\text{Total Interest Earned}}{\text{Total Working Fund}}$$

Total Interest paid to Total Working Fund Ratio

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher interest expenses on total working fund and vice-versa. This ratio is calculated as:

$$\text{Total Interest Paid to Total Working Fund} = \frac{\text{Total Interest Paid}}{\text{Total Working Fund}}$$

C. Assets Management Ratios:

The asset management ratios, measures how effectively the firm is managing its assets. These ratios are designed to answer this question: does the total amount of each type of asset as reported on the balance sheet seem reasonable or not. If a firm has excessive investments in assets then its capital costs will be unduly high and its stock price will suffer. (Brigham, 1992).

In this study this ratio is used to indicate how efficiently the selected banks have arranged and invested their limited resources. The following financial ratios related to fund mobilization are calculated under asset management ratio and interpretation is made by these calculations.

Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out how successfully the selected banks are utilizing their total collections or deposits on loan and advances for the purpose of earning profit. Greater ratio shows the better utilization of total deposits. This ratio can be obtained dividing loan and advances by total deposits, which can be shown as,

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

Total Investment to Total Deposit Ratio

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

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

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

Loan and Advances to Total Working Fund Ratio

The main element of total working fund is loan and advances. This ratio indicates the ability of selected banks in terms of earning high profit from loan and advances. Loan and advances to working fund ratio can be obtained dividing loan and advances amount by total working fund. That is formulized as,

$$\textit{Loan and Advances to Total Working Fund} = \frac{\textit{Total Loan and Advances}}{\textit{Total Working Fund}}$$

Where, total working fund includes total amount of assets given in balance sheet which refers to current assets, net fixed assets, total loans for development banks and other sundry assets except off balance sheet items i.e. letter of credit, letter of guarantee etc.

Investment on Government Securities to Total Working Fund Ratio

Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage. It can be obtained by:

$$\textit{Investment on Government Securities to Total Working Fund} = \frac{\textit{Investment on Government Securities}}{\textit{Total Working Fund}}$$

Where, investment on government securities includes investment on debentures, bonds and shares of other companies.

Investment on Shares and Debentures to Total Working Fund Ratio

Investment on shares and debentures to total working fund ratio shows the investment of banks on the shares and debentures of other companies in terms of total working fund. This ratio can be obtained dividing on shares and debentures by total working fund. It is calculated as:

$$\text{Investment on Shares and Debentures to Total Working Fund} = \frac{\text{Investment on Shares and Debentures}}{\text{Total Working Fund}}$$

Where, total investment includes investment on government securities, investment on debenture and bonds, shares of other companies.

D. Risk Ratios:

Generally, risk means uncertainty which lies in the business transaction of investment management. When a firm wants to bear risk and uncertainty, profitability and effectiveness of the firm is increased. This ratio checks the degree of risk involved in the various financial operations. For this study, following risk ratios are used to analyze and interprets the financial data and investment policy.

Liquidity Risk Ratio

The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit, as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need.

This ratio is low if funds are kept idle as cash and bank balance but this reduces profitability. When the bank makes loans its profitability increases and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated by dividing cash and bank balance to total deposit.

$$\text{Liquidity Risk Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Credit Risk Ratio

Bank utilizes its collected funds in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project.

Generally credit risk ratio shows the proportion of non performing assets in the total investment plus total loan and advances of a bank. It is computed as:

$$\text{Credit Risk Ratio} = \frac{\text{Total Investment} + \text{Total Loan and Advances}}{\text{Total Assets}}$$

E. Deposit Collection Ratio:

The deposits are subject to withdrawals by mean of cheque on a short notice by customers. There are several restrictions on these deposits, regarding the amount of deposit, number of withdrawal etc. These are considered more as investments and hence they earn some interest. The rate of interest varies depending on the nature of the deposit. The attracts deposits from customers by offering different rates of interest and different kinds if facilities.

There are different types of deposits. But for this study, major three types of deposit are taken. They are:

Current Deposit Ratio

Current deposit ration means total collection from current a\c deposit to amount of total collection. Current deposit is a running account with amounts being paid into and drawn out of the account continuously. These accounts are also called demand deposits or demand liabilities since the banker is under an obligation to pay money in such deposits on demand. The account never becomes time barred because the limitation does not run until a demand is made by the customer on the bank for the payment of deposit. These accounts are generally opened by business houses, public institutions, corporate bodies and other organization whose banking transactions are numerous and frequent.

Saving Deposit Ratio

Saving deposit ratio reflect the amount of saving deposit to total amount of deposit of bank. which measure the proportion of deposit collection in relevant account. Which have different terms and condition so different account ratio is different certainly. The saving deposit bears the features of both of the current and fixed period's deposits. Saving accounts are mainly meant for non-trading customers who

have some potential for saving and who don't have numerous transactions entering their account.

While opening the account the minimum compensating balance differ according to the banks rule. Similarly there is also divergence as to how much amount of money can be withdrawn. But if the customers want to withdraw more money from the bank which is not allowed by it but if s/he gives pre-information to the banks, s/he can withdraw more money. The bank fixes the minimum and maximum amount of withdraw able through a cheque from this deposit. If the bank goes into liquidation, priority is given to the saving deposit than current & fixed deposits while repaying the liabilities.

Fixed Deposit / Time Deposit Ratio

Fixed deposit ratio means total amount of deposit collection into fixed account to total deposit. Fixed deposits constitute a very important resources for banks as bank need not keep greater reserve in respect of such deposits. Under the commercial bank Act. 2031, "fixed account means as account of amounts deposited in a bank for certain period of time." The customers opening such account deposit their money in the account for a fixed period. Usually, only the person or institution who wants to gain more interest opens such type of account. Higher interest paid to this deposit as compare to saving deposits. The bank & customers can take benefits from this deposit.

3.5.2 Statistical Tools & Techniques

In this study, some important statistical tools have been used to present and analyze the data for achieving the objectives. Such as coefficient of correlation between different variables has been used, which are presented below:

- i) Mean or Average (\bar{X})
- ii) Standard Deviation (S.D)
- iii) Coefficient of Variation (C.V)
- iv) Karl Pearson's of Coefficient of Correlation Analysis(r)
- v) Probable Error (P.E)

Mean or Average:

Mean is a single value related from a group of values to represent them in some way, a value, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group. (*Gupta, 1992, p 238*) There are various types of mean. Arithmetic mean (AM, Simple & Weighted), median, mode, geometric mean, harmonic mean are the major types of averages. The most popular and widely used measure representing the entire data by one value is the AM. The value of the AM is obtained by adding together all the items and by dividing this total by the number of items.

Mathematically:

Arithmetic Mean (AM) is given by,

$$\bar{X} = \frac{\sum X}{n} .$$

Where,

\bar{X} = Arithmetic mean

x = Sum of all the values of the variable X

n = Number of observation

Standard Deviation (S.D):

The standard deviation is an important and widely used measure of dispersion. The measurement of the scatter ness of the mass of figure in a series about an average is known as dispersion. The greater the amount of dispersion is the greater the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposites it is denoted by the letter.

$$S.D (\uparrow) = \sqrt{\frac{1}{N} \sum (X - \bar{X})^2}$$

Where,

N = Number of observations

X = Expected return of the historical data

Coefficient of Variation (C.V):

The coefficient of variation is the most commonly used measure of relative variation. It is used in such problems where the researcher wants to compare the variability of more than two years. Greater the C.V, the variable or conversely less consistent, less uniform, more consistent, more uniform, more stable and homogeneous.

$$C.V = \frac{\text{Standard Deviation}(\ddagger)}{\text{Expected Return}(X)} \times 100$$

Karl Pearson's Coefficient of Correlation Analysis (r) :

This statistical tool has been used to analyze, identify and interpret the relationship between two or more variables. It interprets whether two or more variables are correlated positively or negatively. Statistical tool analyses the relationship between those variables and helps the selected banks to make appropriate investment policy regarding to profit maximization and deposit collection; fund mobilization through providing loan and advances.

For the purpose of decision-making, interpretation is based on following term:

Assumptions

If $r = 1$, there is positively perfect correlation between the two variables.

If $r = -1$, there is negatively perfect correlation between the two variables.

If $r = 0$, the variables are uncorrelated.

The nearer the value of r to $+1$, the closer will be the relationship between two variables and the value of r , the lesser will be the relation. (Bajracharya, 2057)

Karl Pearson's Correlation coefficient(r) can be obtained as:

$$r = \frac{\sum dx \cdot dy - \frac{\sum dx \cdot \sum dy}{n}}{\sqrt{\sum dx^2 - \frac{(\sum dx)^2}{n}} \sqrt{\sum dy^2 - \frac{(\sum dy)^2}{n}}}$$

Here, Karl Pearson's correlation coefficient has been used to find out the relationship between the following variables:

- Coefficient of Correlation between Deposit and Loan and Advances

Correlation coefficient between deposits and loan and advances measures the degree of relationship between two variables i.e. X and Y. In this analysis, deposit is independent variables (X) and loan and advances is dependent variables (Y). The

main purpose of calculating correlation coefficient is to justify whether the deposits are significantly used in proper way or not and whether there is any relationship between these two variables.

- Coefficient of Correlation between Deposit and Total Investment

Correlation coefficient between deposit and investment is to measure the degree of relationship between deposit and total investment. In this analysis, deposit is independent variables (X) and total investment is dependent variables (Y).

- Coefficient of Correlation between Interest rate and amount of Deposit

Correlation coefficient between interest rate and amount of deposit is to measure the degree of relationship between interest rate and Deposit. In this analysis, interest rate is independent variable (X) and total deposit is dependent variable(Y).

- Coefficient of Correlation between Interest rate and Loan & advance

Correlation coefficient between Credit interest rate and loan and advances measures the degree of relationship between two variables i.e. X and Y. In this analysis, Credit interest rate is independent variables (X) and loan and advances is dependent variables (Y). The main purpose of calculating correlation coefficient is to justify whether the Credit interest rate are significantly used in proper way or not and whether there is any relationship between these two variables?

Error (P.E):

Probable error is measured for testing the reliability of an observed value of correlation coefficient. It is computed to find the extent to which it is dependable. If correlation coefficient is greater than 6 times P.E the observed value of r is said to be significant, otherwise nothing can be concluded with certainty. But if the calculated (r) is less than the P.E correlation is not at all significant. It is calculated by using following formula:

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

Where,

P.E. (r) = Probable error of correlation coefficient

r = Correlation coefficient

n = Number of observati

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

Presentation and analysis of the data is the core of each and every research work. This study requires some financial and statistical tools to accomplish the objective of the study. The various results obtained with the help of financial, accounting and statistical tools are tabulated under different headings. As the main objective of the study is to analyze the deposit mobilization of selected banks; the necessary financial facts and figures as well as descriptive information are gathered through the financial statement. The major variables for the study are cash and bank balance, total investment, investment on government securities and share and debenture and fixed deposit in commercial banks.

Financial Ratio Analysis is a tool, through which economic and financial position of organization can be fully X-rayed. It is the indicated quotient of two mathematical expressions, and as the relationship between two or more things. Therefore, to find out the position of investment in government securities of sample commercial banks, the following ratios are examined.

4.1 Liquidity Ratios

Liquidity ratios are applied to measure the ability of the firms to meet short term obligations. It measures the speed of firms to convert the firms asset into cash to meet deposit withdraws and other current obligations. This is quick measure of the liquidity and financial strength of the firm.

4.1.1 Cash and Bank Balance to Total Deposit Ratio

This ratio is computed dividing the amount of cash and bank balance by the total deposits.

Table: 4.1

Cash and Bank Balance to Total Deposit ratio

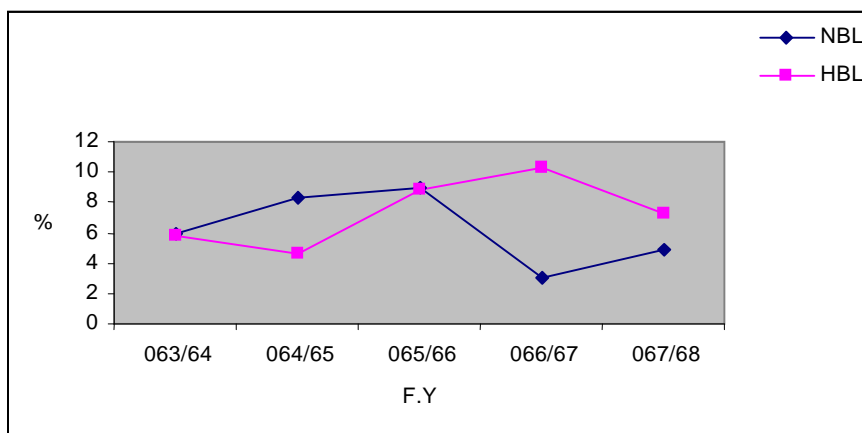
Years	HBL %	NBL %
063/64	5.85	5.99
064/65	4.55	8.37
065/66	8.79	9.03
066/67	10.28	3.02
067/68	7.25	4.90
Average	7.34	6.26
S.D	2.03	2.22
C.V	27.66	35.39

Source: Annex 3 & 4

From the table 4.1 shows that cash and bank balance to total deposit ratio of HBL is 7.34 percent in an average in the period under study where as NBL has 6.26 percent. The average ratio of HBL is higher than NBL. The ratios of banks are found to be in fluctuating. The higher ratio is 10.28 percent in FY 066/67 for HBL and 9.03 percent in FY 065/66 for NBL. The S.D is 2.03 & 2.22 for HBL & NBL respectively. As well as the C.V. for HBL & NBL are 27.66 & 35.39 respectively. These facts are shown in the figure 4.1 to make easier to understand.

Figure: 4.1

Cash & bank to Total Deposit ratio



.The figure 4.1 helps us to conclude that cash and bank balance position with respect to total deposit of HBL better than NBL. It means the customers of HBL

are more satisfy, i.e. the bank has high ability to pay the withdraw amount of its customers but too higher ration is unfit as capital will be tied up and opportunity cost will be increase

HBL has slightly higher average cash & bank balance to total deposit than NBL, which indicates that HBL use slightly more portion of its total deposit to meet short-term obligation as cash and bank balance. S.D & C.V of HBL remain consistent which means HBL has maintained cash & bank balance with respect to total deposit more consistently than NBL.

4.1.2 Cash and Bank Balance to Current Assets Ratio

This ratio is calculated dividing cash and bank balance by total current assets.

Table: 4.2
Cash and Bank Balance to Current Assets Ratio

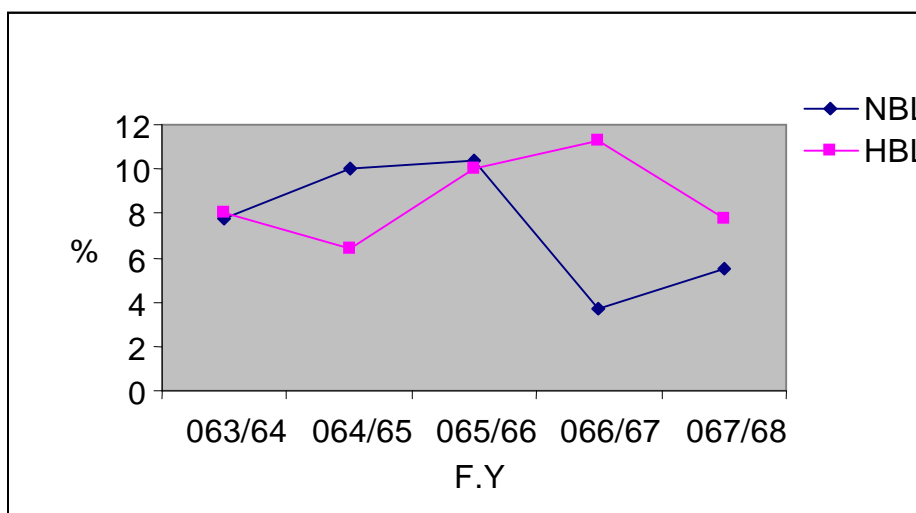
Years	HBL %	NBL %
063/64	8.02	7.76
064/65	6.37	10.04
065/66	10.03	10.42
066/67	11.26	3.72
067/68	7.77	5.52
Average	8.69	7.49
S.D	1.74	2.58
C.V	20.02	34.45

Source: Annex 3 & 4

From the table 4.2, it shows that Cash and Bank Balance to Current Assets ratio of HBL is 8.69 percent in an average under the study period whereas NBL has 7.49 percent. The average ratio of HBL is higher than NBL. The higher ratio is 11.26 percent in FY 066/67 for HBL & 10.42 percent in FY 065/66 for NBL. The S.D is 1.74 & 2.58 for HBL & NBL respectively. As well as the C.V. for HBL & NBL are 20.02 & 34.45 respectively.

The S.D and C.V of HBL bank has lower then NBL, its indicate that consistency of cash & bank balance to current assets ratio of HBL bank. These facts are shown in the figure 4.2 to make easier to understand.

Figure: 4.2
Cash and Bank Balance to Current Assets Ratio



The figure 4.2 helps us to conclude that cash and bank balance position with respect to total current assets of HBL better than NBL. It means HBL have been able to maintain higher cash balance to meet its daily cash requirements than of NBL.

HBL has slightly higher average cash & bank balance to current assets ratio than NBL. It implies that HBL is more capable to meet the daily cash requirements for payments of daily obligation. Over the study period NBL has the ratio in increasing trend just three years slightly but then after its ratio will be decrease Morley then HBL. Which means NBL has practiced to maintain lower level of cash & bank balance with respect to current assets.

4.1.3 Investment on Government Securities to Current Assets Ratio

This ratio is used to find the percentage of current assets invested on government securities, treasury bills and development bonds.

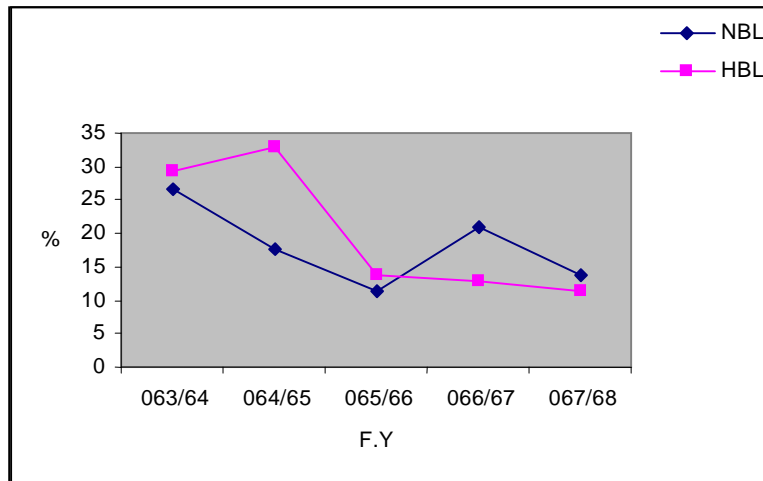
Table: 4.3
Investment on Government Securities to
Current Assets Ratio

Years	HBL	%	NBL	%
063/64	29.45		26.67	
064/65	32.88		17.55	
065/66	13.86		11.45	
066/67	13.00		21.08	
067/68	11.45		13.82	
Average	20.13		18.11	
S.D	9.11		5.39	
C.V	45.26		29.76	

Source: Annex 3 & 4

From the table 4.3 it is depicted that Investment on Government Securities to Current Assets ratio of HBL is 20.13 percent in an average in an under the study period whereas 18.11 percent for NBL. The average ratio of HBL is higher than NBL. The ratios of the banks are found to be in fluctuating. The higher ratio is 32.88 percent in FY 064/65 for HBL and 26.67 percent in FY 063/64 for NBL and the lowest ratio is 11.45 percent in FY 067/68 for HBL and 11.45 percent in FY 065/66. The S.D is 9.11 & 5.39 for HBL & NBL respectively. As well as the C.V. for HBL & NBL are 45.26 & 29.76 respectively. These facts are shown in the figure 4.3 to make easier to understand.

Figure: 4.3
Investment on Government Securities to
Current Assets Ratio



Investment on those securities issued by government are free of risk and highly liquid in nature and such securities yield the low interest rates of a particular maturity due to lowest risk in future, it is more better in regard to safety than other means of investment. So NBL is strongly recommended to give more importance to invest more funds in government securities then HBL because instead of keeping them idle with this proverb “something is better than nothing”

4.2 Assets Management Ratios

The asset management ratios, measures how effectively the firm is managing its assets. In this study this ratio is used to indicate how efficiently the selected insurance companies have arranged and invested their limited resources. The following financial ratios related to deposit mobilization are calculated under asset management ratio and interpretation is made by these calculations.

4.2.1 Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out how successfully the selected banks are utilizing their total collections or deposits on loan and advances for the purpose of earning profit. This ratio can be obtained dividing loan and advances by total deposits.

Table: 4.4

Loan and Advances to Total Deposit Ratio

Years	HBL %	NBL %
063/64	59.22	66.60
064/65	63.37	66.94
065/66	73.58	73.87
066/67	77.43	69.53
067/68	80.56	76.53
Average	70.83	70.69
S.D	8.14	3.91
C.V	11.51	5.53

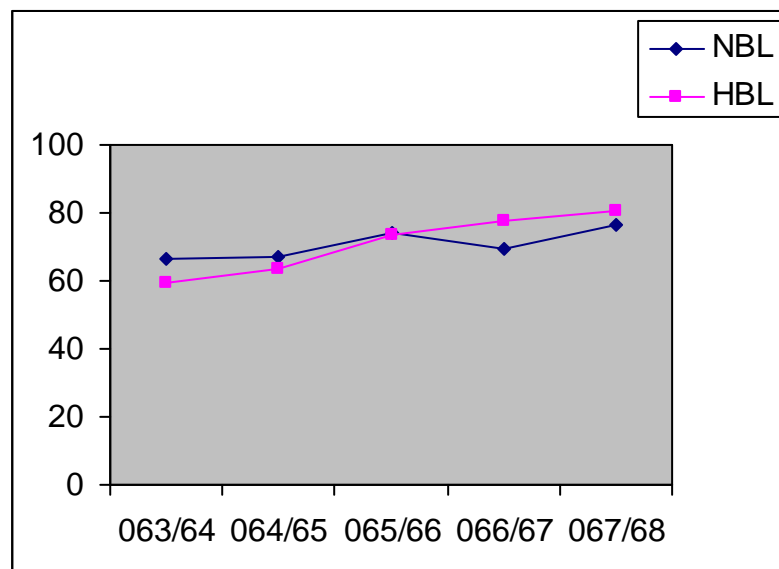
Source: Annex 3 & 4

From the table 4.4 it is depicted that Loan and Advances to Total Deposit ratio of HBL is 70.83 percent in an average in the period under study whereas 70.69 percent in an average for NBL. The average ratio of HBL is higher than NBL. The ratios of the banks are found to be in fluctuating.

The higher ratio is 80.56 percent in FY 067/68 for HBL & 76.53 percent in FY 067/68 and the lowest ratio is 59.22 percent in FY 063/64 for HBL & 66.60 in FY 063/64 for NBL. The S.D is 8.14 & 3.91 for HBL & NBL respectively. As well as the C.V. for HBL & NBL and are 11.51 & 5.53 respectively. These facts are shown in the figure 4.4 to make easier to understand.

Figure: 4.4

Loan and Advances to Total Deposit Ratio



From the above figure 4.4 we conclude that HBL average ratio has slightly higher than NBL. HBL had been able to efficiency us the outsiders fund in profit generating purpose. It had been successful in advancing the favorable proportion of its deposit towards loan & advance. But NBL had not been able to use the outsiders fund in profit earning purpose efficiently then HBL.

Which indicate that HBL mobilize most of the part of its deposit to loan & advance then NBL but NBL has more consistent then HBL because S.D & C.V is lower then HBL. However the average ratio of both banks found to be at satisfactory level and able to maintain the consistency in ratio.

4.2.2 Total Investment to Total Deposit Ratio

Investment is one of the major sources of earning of profit. This ratio indicates how properly firm's total deposits have been invested on different sectors of other companies.

Table: 4.5

Total Investment to Total Deposit Ratio

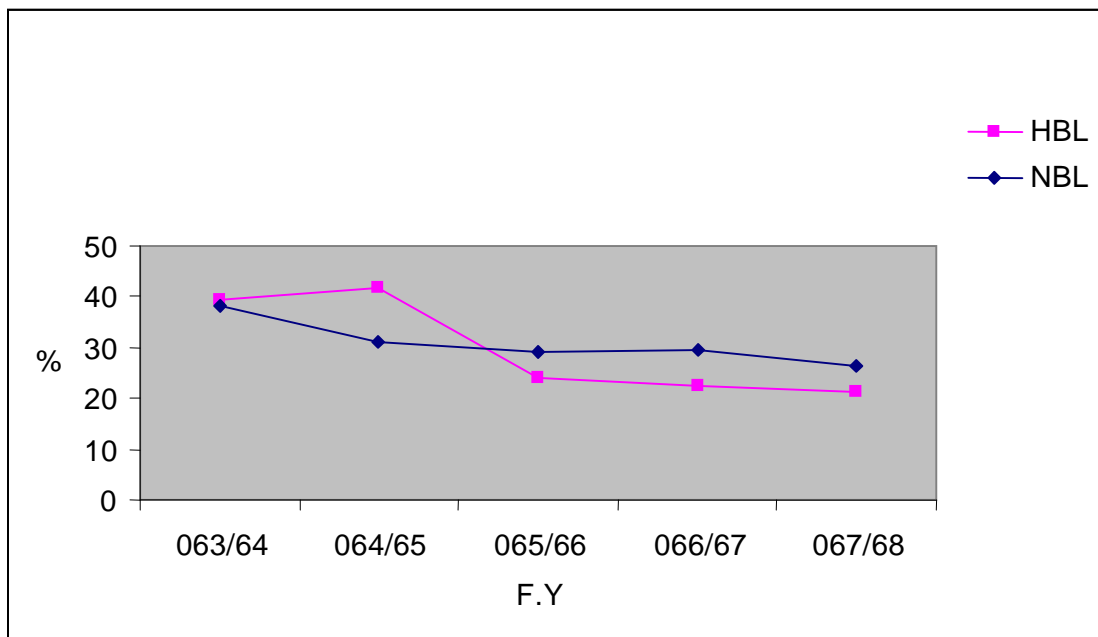
Years	HBL %	NBL %
063/64	39.35	38.32
064/65	41.89	31.15
065/66	25.12	28.99
066/67	22.45	29.53
067/68	21.43	26.32
Average	30.05	30.86
S.D	8.75	4.04
C.V	29.13	13.09

Source: Annex 3 & 4

From the table 4.5 it shows that Total Investment to Total Deposit ratio of HBL is 30.05 percent in an average in the period under study whereas that of NBL has 30.86 percent in an average. The average ratio of NBL is higher than HBL. The ratios of the banks are found to be in fluctuating.

The higher ratio is 41.89 percent in FY 064/65 for HBL & 38.32 percent in FY 063/64 for NBL and the lowest ratio is 21.43 percent in FY 067/68 for HBL & 26.32 percent in FY 067/68 for NBL. The S.D is 8.75 & 4.04 for HBL & NBL respectively. As well as the C.V. for HBL & NBL are 29.13 & 13.09 respectively. These facts are shown in the figure 4.5 to make easier to understand.

Figure: 4.5
Total Investment To Total Deposit ratio



In the figure 4.5. we can conclude that NBL has been able to utilize its total deposit as investment more efficiently than HBL. It utilize most of the parts of the total deposit as investment. The bank with larger volume of foreign currency deposit relies more on investment as these deposits can not be utilized into loans & advance easily.

The ratio of total investment to total deposit of both banks is found to be satisfactory level. NBL has higher ratio of average then HBL. from this analysis it can be said that NBL is able to invest in different sectors from its deposit. Because its S.D and C.V shows the more stability of NBL then HBL.

4.2.3 Loan and Advances to Total Working Fund Ratio

This ratio indicates the ability of selected banks in terms of earning high profit from loan and advances. Loan and advances to working fund ratio can be obtained dividing loan and advances amount by total working fund.

Table: 4.6
Loan and Advances to Total Working Fund Ratio

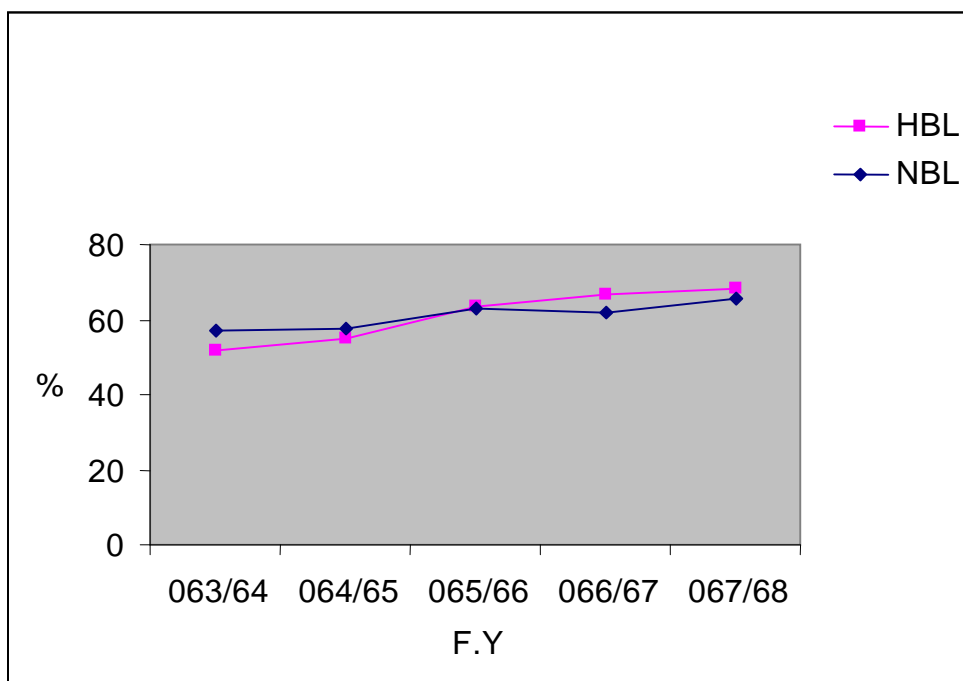
Years	HBL %	NBL %
063/64	51.85	57.04
064/65	54.75	57.54
065/66	63.73	62.89
066/67	66.40	61.87
067/68	68.49	65.42
Average	61.04	60.95
S.D	6.39	3.21
C.V	10.46	5.27

Source: Annex 3 & 4

From the table 4.6 it shows that Loan and Advances to Total Working Fund ratio of HBL is 61.04 percent in an average in the period under study whereas that of NBL has 60.95 percent in an average. The average ratio of HBL is higher than NBL. The ratios of the banks are found to be in fluctuating. The higher ratio is 68.49 percent in FY 067/68 for HBL & 65.42 percent in FY 067/68 for NBL and the lowest ratio is 51.85 percent in FY 063/64 for HBL & 57.04 percent in FY 063/64 for NBL. The S.D is 6.39 & 3.21 for HBL & NBL respectively. As well as the C.V. for HBL & NBL are 10.46 & 5.27 respectively. These facts are shown in the figure 4.6 to make easier to understand.

Figure: 4.6

Loan and Advances to Total Working Fund Ratio



From the figure 4.6, we can conclude that HBL has loan & advance to total working fund ratio is increasing trend NBL has fluctuating trend. Although both banks has been able to utilize its total working fund to loan & advance ratio approximately same but consistency in ratio of NBL is better then HBL. But both the sample banks able to maintain consistency.

4.2.4 Investment on Government Securities to Total Working Fund

Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage.

Table: 4.7

Investment on Government Securities to Total Working Fund Ratio

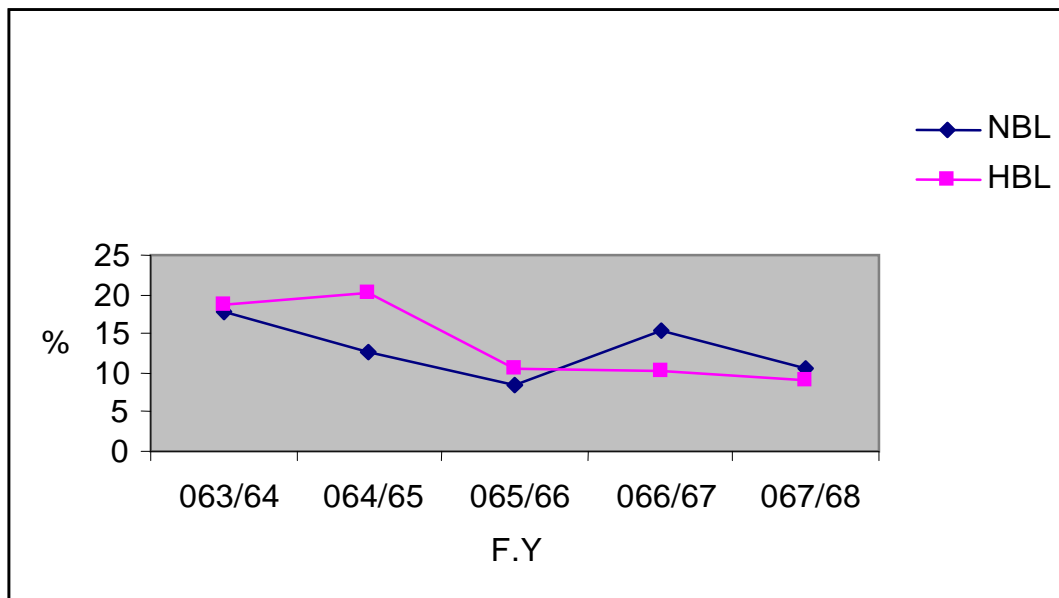
Years	HBL %	NBL %
063/64	18.81	17.63
064/65	20.27	12.57
065/66	10.52	8.45
066/67	10.18	15.23
067/68	9.08	10.48
Average	13.77	12.87
S.D	4.76	3.27
C.V	34.54	25.41

Source: Annex 3 & 4

From the table 4.7 it shows that Investment on Government Securities to Total Working Fund ratio of HBL is 13.77 percent in an average in the period under study whereas 12.87 percent in an average for NBL. The average ratio of HBL is higher than NBL. The ratios of the banks are found to be in fluctuating. The higher ratio is 20.27 percent in FY 064/65 for HBL & 17.63 percent in FY 063/64 for NBL and the lowest ratio is 9.08 percent in FY 067/68 for HBL & 8.45 percent in FY 065/66 for NBL. The S.D is 4.76 and 3.27 for HBL and NBL respectively. As well as the C.V. for HBL and NBL are 34.54 and 25.41 respectively. These facts are shown in the figure 4.7 to make easier to understand.

Figure: 4.7

Investment on Government Securities to Total Working Fund Ratio



From the figure 4.7, in the above analysis helps to conclude that proportion of government securities on total working fund of HBL is better than NBL. It shows that prioritized to invest on government securities rather than loan & advance due to unavailability of secured investment sector. The analysis of C.V of the banks shows the NBL has more control to maintain the consistency in investment on government security with respect to total working fund.

4.2.5 Investment on Shares and Debentures to Total Working Fund Ratio

Investment on shares and debentures to total working fund ratio shows the investment of insurance companies on the shares and debentures of other companies in terms of total working fund. This ratio can be obtained dividing on shares and debentures by total working fund.

Table: 4.8
Investment on Shares and Debentures to
Total Working Fund Ratio

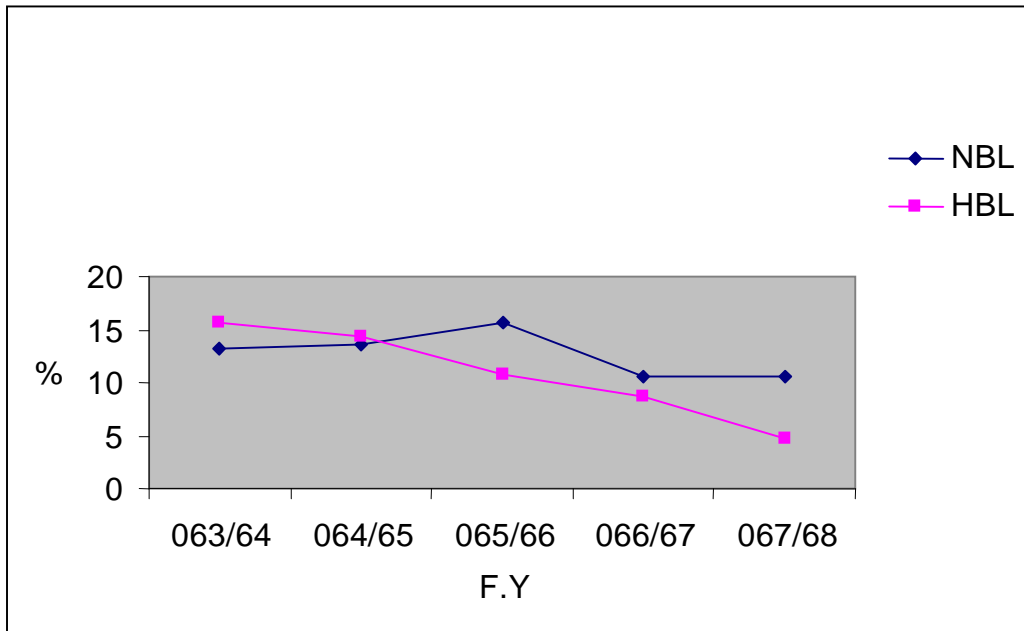
Years	HBL %	NBL %
063/64	15.64	13.18
064/65	14.33	13.67
065/66	10.78	15.72
066/67	8.73	10.52
067/68	4.80	10.54
Average	10.86	12.73
S.D	3.9	1.98
C.V	35.91	15.59

Source: Annex 3 & 4

From the table 4.8 it shows that Investment on Shares and Debentures to Total Working Fund ratio of HBL is 10.86 percent in an average in the period under study whereas 12.73 percent in an average for NBL. The average ratio of NBL is higher than HBL. The ratios are found to be in fluctuating. The higher ratio is 15.64 percent in FY 063/064 for HBL & 15.72 percent in FY 065/66 for NBL. The S.D is 3.9 & 1.98 for HBL & NBL respectively. As well as the C.V. for HBL & NBL are 35.91 & 15.59 respectively. These facts are shown in the figure 4.8 to make easier to understand.

Figure: 4.8

Investment on Shares and Debentures to Total Working Fund Ratio



From the figure 4.8; we can conclude that NBL has been able to utilize its total working funds as investment on share & debenture of other companies then HBL. It utilized higher proportion of the total assets investment on share & debenture to reduce uncertainty and obtain return from portfolio diversification of investment . Both the selected banks are successful to mobilize their fund as investment on share & debenture with respect to total assets. However, NBL has higher average ratio then HBL under the study period which implies that NBL can be taken as better investment project then HBL. As concerned to consistency, both the sample banks able to maintain consistency & homogeneity.

4.3 Profitability Ratios

Profit is only appeared when there is positive difference between total revenues and total cost over a certain period of time. Profitability ratios show the combined effects of liquidity, assets management, and debt on operating results. Profitability ratios are very helpful to measure the overall efficiency of operations of a firm. It is a true indication of the financial performance of each and every business organization. Here -profitability ratios are calculated and evaluated in terms of the

relationship between net profit and assets. Profitability of the firms can be presented through the following different ways:

4.3.1 Return on Loan and Advances Ratio

Return on loan and advances ratio shows how efficiently the banks have utilized their resources to earn good return from provided loan and advances.

Table: 4.9
Return on Loan and Advances Ratio

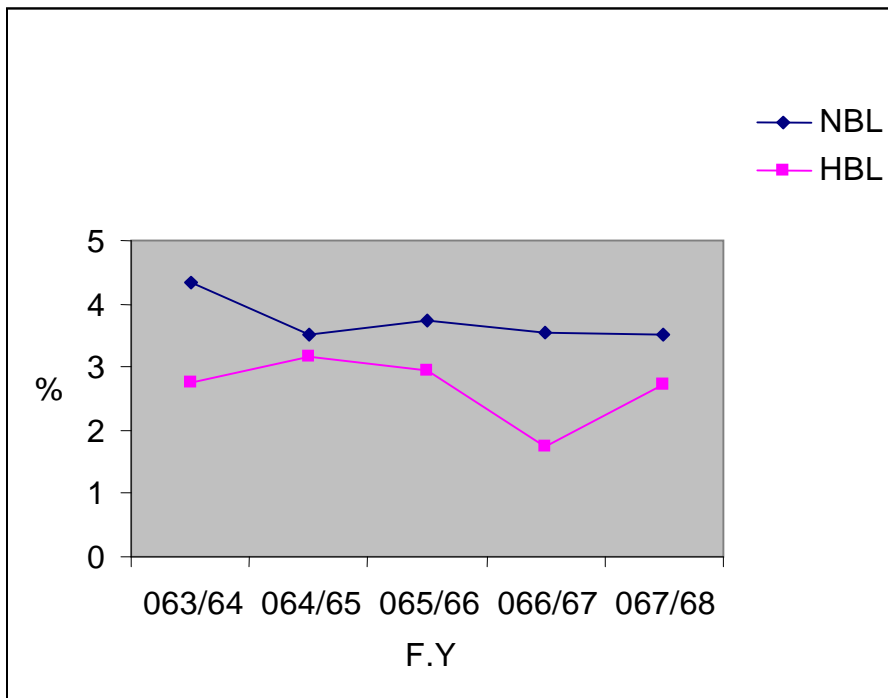
Years	HBL %	NBL %
063/64	2.76	4.34
064/65	3.15	3.50
065/66	2.95	3.74
066/67	1.75	3.54
067/68	2.71	3.52
Average	2.66	3.73
S.D	0.48	0.32
C.V	18.15	8.58

Source: Annex 3 & 4

From the table 4.9 it shows that net profit to Loan and Advances ratio of HBL is 2.66 percent in an average in the period under study whereas that of NBL is 3.73 percent in an average. The average ratio of NBL is higher than HBL. The ratios of the banks are found to be in fluctuating.

The higher ratio is 3.15 percent in FY 064/65 for HBL & 4.34 percent in FY 063/64 for NBL and the lowest ratio is 1.75 percent in FY 066/67 for HBL & 3.5 percent in FY 064/65 for NBL. The S.D is 0.48 & 0.32 for HBL & NBL respectively. As well as the C.V. for HBL & NBL are 18.15 & 8.58 respectively. These facts are shown in the figure 4.9 to make easier to understand.

Figure: 4.9
Return on Loan and Advances Ratio



From the figure 4.9; it is clear that return on loan & advance of both banks is fluctuated trend it means both banks are increased their earning with respect to loan & advances but its not remain constant. So HBL is more required to maintain the consistency, should be increase net profit by mobilizing the fund in preferable sectors then NBL. HBL should be adjust loan & advances policy to success competition and earning profit.

4.3.2 Return on Total Working Fund Ratio

Return on total working fund ratio measures the profit earning capacity of the banks by utilizing available resources i.e. total assets. If the bank's well managed and efficiently utilized its working fund, it will get higher return.

Table: 4.10

Return on Total Working Fund Ratio

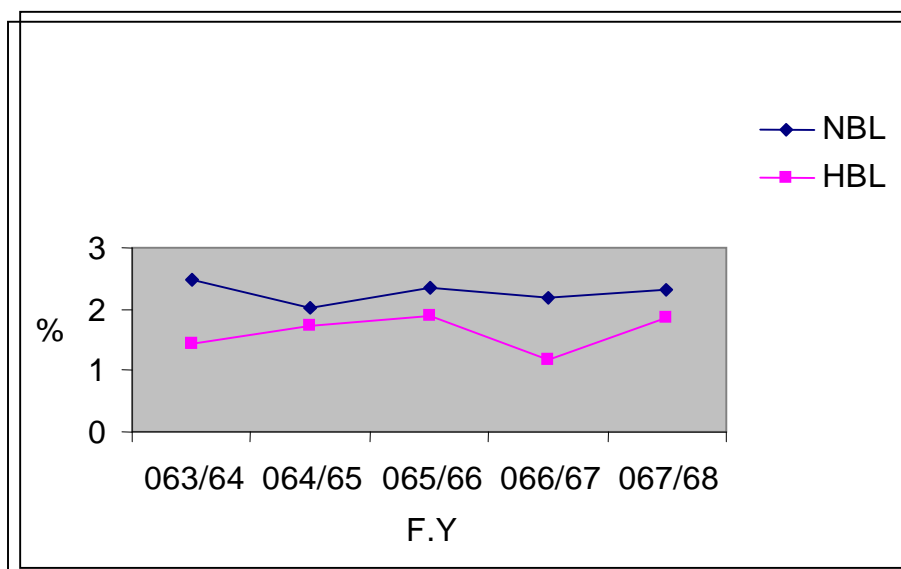
Years	HBL %	NBL %
063/64	1.43	2.47
064/65	1.73	2.01
065/66	1.88	2.35
066/67	1.16	2.19
067/68	1.86	2.30
Average	1.61	2.26
S.D	0.28	0.16
C.V	17.39	7.08

Source: Annex 3 & 4

From the table 4.10 it shows that Net Profit to Total Working Fund ratio of HBL is 1.61 percent in an average in the period under study whereas that of NBL is 2.26 percent in an average. The average ratio of HBL is lower but the higher ratio in an average is 2.26 for NBL. The ratios of the banks are found to be in fluctuating. The higher ratio is 1.88 percent in FY 065/66 for HBL & 2.47 percent in FY 063/64 for NBL and the lowest ratio is 1.16 percent in FY 066/67 for HBL & 2.01 percent in FY 064/65 for NBL. The S.D is 0.28 & 0.16 for HBL & NBL respectively. As well as the C.V. for HBL & NBL are 17.39 & 7.08 respectively. These facts are shown in the figure 4.10 to make easier to understand.

Figure: 4.10

Return on Total Working Fund Ratio



From the figure 4.10; shows that profit earning capacity of Nabil bank is higher than HBL. So HBL should be mobilized its fund on different profitable sector to maintain sustainable profit. Nabil has well managed and efficiently utilized its working fund, so it will get higher return than Himalayan bank.

4.3.3 Total Interest Earned to Total Working Fund Ratio

This ratio reflects the extent to which the banks are successful in mobilizing these total assets to acquire income as interest. This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund.

Table: 4.11

Total Interest Earned to Total Working Fund Ratio

Years	HBL %	NBL %
063/64	5.18	5.83
064/65	5.33	5.33
065/66	5.85	6.38
066/67	7.18	7.77
067/68	8.99	9.04
Average	6.51	6.87
S.D	1.43	1.36
C.V	21.94	19.80

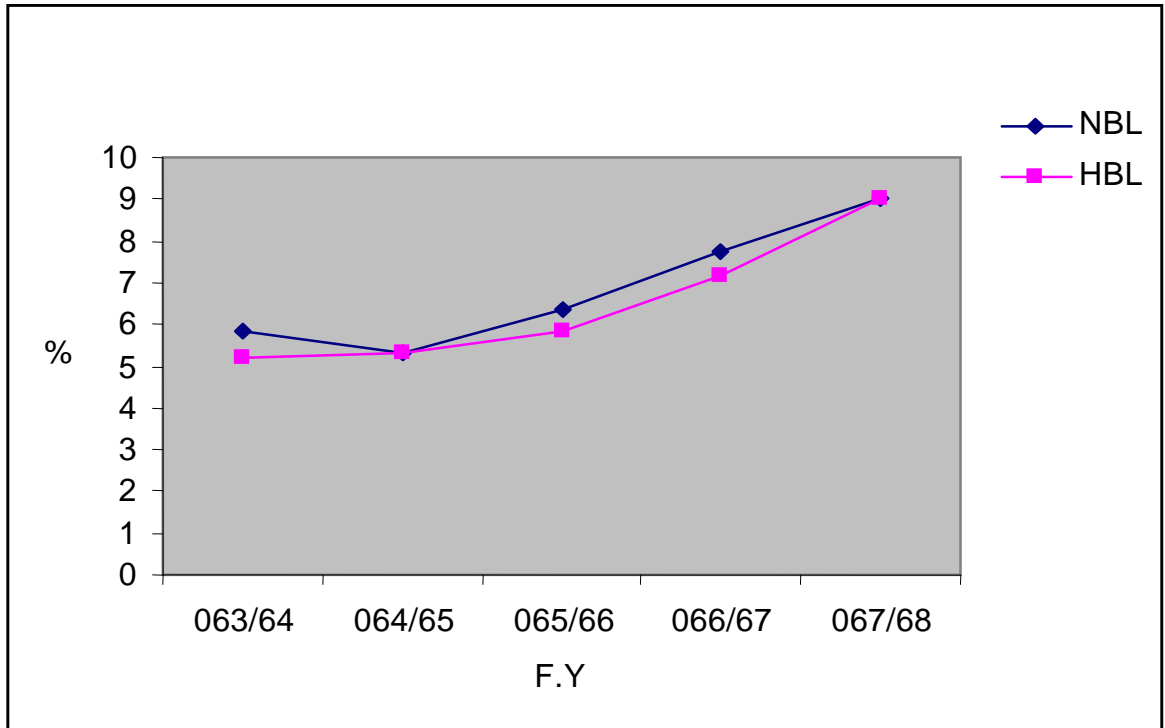
Source: Annex 3 & 4

From the table 4.11 it shows that Total Interest Earned to Total Working Fund ratio of HBL is 6.51 percent in an average in the period under study whereas that of NBL is 6.87 percent in an average. The average ratio of HBL is lower than NBL. The ratios of the banks are found to be in fluctuating.

The higher ratio is 8.99 percent in FY 067/68 for HBL & 9.04 percent in FY 067/68 for NBL and the lowest ratio is 5.18 percent in FY 063/64 for HBL & 5.33 percent in FY 064/65 for NBL. The S.D is 1.43 & 1.36 for HBL & NBL respectively. As well as the C.V. for HBL & NBL are 21.94 & 19.80 respectively. These facts are shown in the figure 4.11 to make easier to understand.

Figure: 4.11

Total Interest Earned to Total Working Fund Ratio



From the figure 4.11; we conclude that Interest earning capacity of NBL is higher than HBL so NBL is better to provide loan in different sectors to earning income as a interest. Interest earning ratio reflects the effectiveness of bank's credit worthiness. So HBL should be developed credit worthiness then NBL but both of the banks have maintained consistency & homogeneity.

4.3.4 Total Interest paid to Total Working Fund Ratio

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher interest expenses on total working fund and vice-versa.

Table: 4.12

Total Interest paid to Total Working Fund Ratio

Years	HBL %	NBL %
063/64	2.24	2.04
064/65	2.24	2.04
065/66	2.33	2.63
066/67	3.54	3.76
067/68	5.02	5.08
Average	3.07	3.11
S.D	1.09	1.17
C.V	35.53	37.56

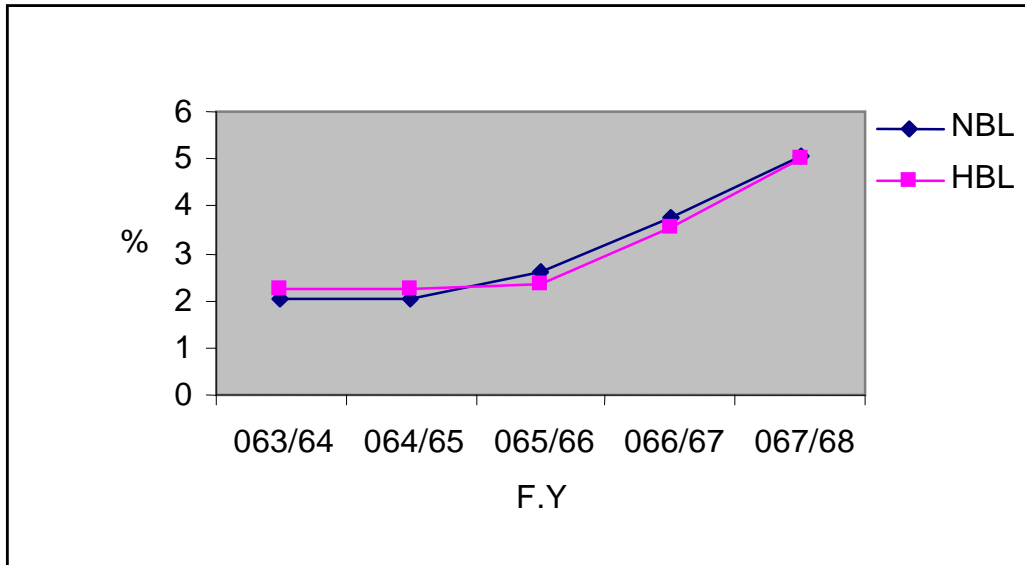
Source: Annex 3 & 4

From the table 4.12 it shows that Total Interest paid to Total Working Fund ratio of HBL is 2.17 percent in an average in the period under study whereas that of SBL is 2.53 percent in an average as well as 1.73 percent and 2.39 percent in an average for NBL and SCBNL respectively. The average ratio of SCBNL is higher than HBL, SBL and NBL. The ratios of the banks are found to be in fluctuating.

The higher ratio is 2.37 percent in FY 2059/060 for HBL, 3.42 percent in FY 2063/064 for SBL, 2.04 percent in FY 2063/064 for NBL and 2.77 percent in FY 2063/064 for SCBNL and the lowest ratio is 1.98 percent in FY 2060/061 for HBL, 0.65 percent in FY 2059/060 for SBL, 1.43 percent in FY 2061/062 for NBL and 2.10 percent in FY 2061/062 for SCBNL. The S.D is 0.17, 1.12, 0.25 and 0.25 for HBL, SBL, NBL and SCBNL respectively. As well as the C.V. for HBL, SBL, NBL and SCBNL are 7.82, 44.26, 14.42 and 10.47 respectively. These facts are shown in the figure 4.12 to make easier to understand.

Figure: 4.12

Total Interest paid to Total Working Fund Ratio



From the figure 4.12; shows that the interest expenses ratio is continuously increasing trend. So the deposit collection by customers is more costly. Both of the banks had increase, it means the banks has shortage of deposit to invest in different profitable sectors. So both of the banks has ready to paid more interest to make more customers in competitive environment. Deposit interest rate continuously increases so credit interest rate also be increase and loan & advances should be affected. Nabil has higher ratio then HBL so Nabil has used for costly source of fund then HBL but Nabil also be success to earned more interest income then HBL.

4.4 Risk Ratios

Generally, risk means uncertainty which lies in the business transaction of investment management. This ratio checks the degree of risk involved in the various financial operations. For this study, following risk ratios are used to analyze and interprets the financial data and investment policy.

4.4.1 Liquidity Risk Ratio

The liquidity risk of the bank defines its liquidity need for deposit. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is calculated by dividing cash and bank balance to total deposit.

Table: 4.13
Liquidity Risk Ratio

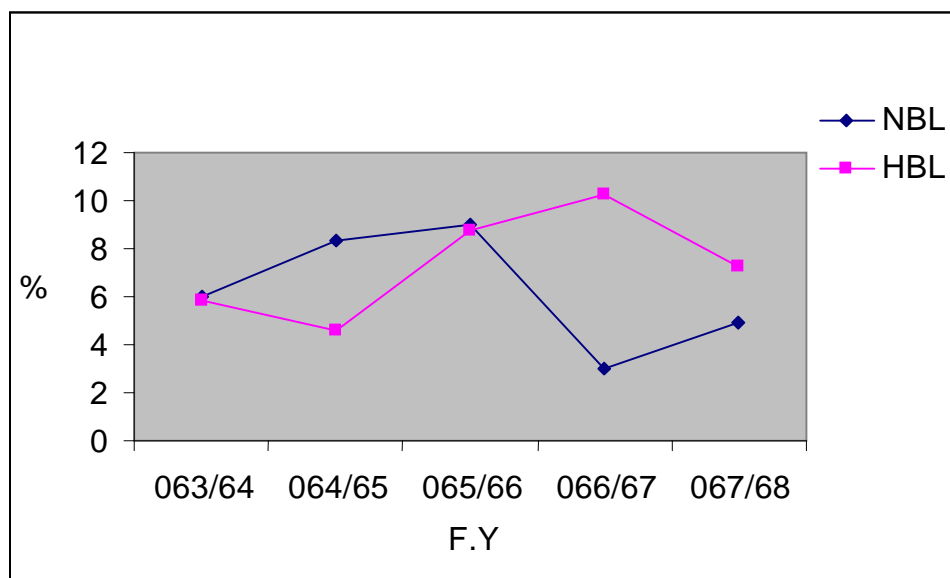
Years	HBL %	NBL %
063/64	5.85	5.99
064/65	4.55	8.37
065/66	8.79	9.03
066/67	10.28	3.02
067/68	7.25	4.90
Average	7.34	6.26
S.D	2.03	2.22
C.V	27.66	35.39

Source: Annex 3 & 4

From the table 4.13 it shows that Liquidity Risk ratio of HBL is 7.34 percent in an average in the period under study whereas that of NBL is 6.26 percent in an average. The average ratio of HBL is higher than NBL but both Bank's ratios are found to be in fluctuating.

The higher ratio is 10.28 percent in FY 066/67 for HBL & 9.03 percent in FY 065/66 for NBL and the lowest ratio is 4.55 percent in FY 064/65 for HBL & 3.02 percent in FY 066/67 for NBL.. The SD is 2.03 & 2.22 for HBL & NBL respectively. As well as the C.V. for HBL & NBL are 27.66 & 35.39 respectively. These facts are shown in the figure 4.13 to make easier to understand.

Figure: 4.13
Liquidity Risk Ratio



From the figure 4.13; HBL liquidity ratio is higher than NBL. It means liquidity ratio is extremely essential for a firm to be able to meet its short term obligations as they become due. Commercial banks need liquidity to meet daily loan demand and deposit withdrawal. HBL has higher liquidity ratio so it has higher speed to meet short term obligation than NBL.

4.4.2 Credit Risk Ratio

Generally credit risk ratio shows the proportion of non performing assets in the total investment plus loan and advances of a bank.

Table: 4.14
Credit Risk Ratio

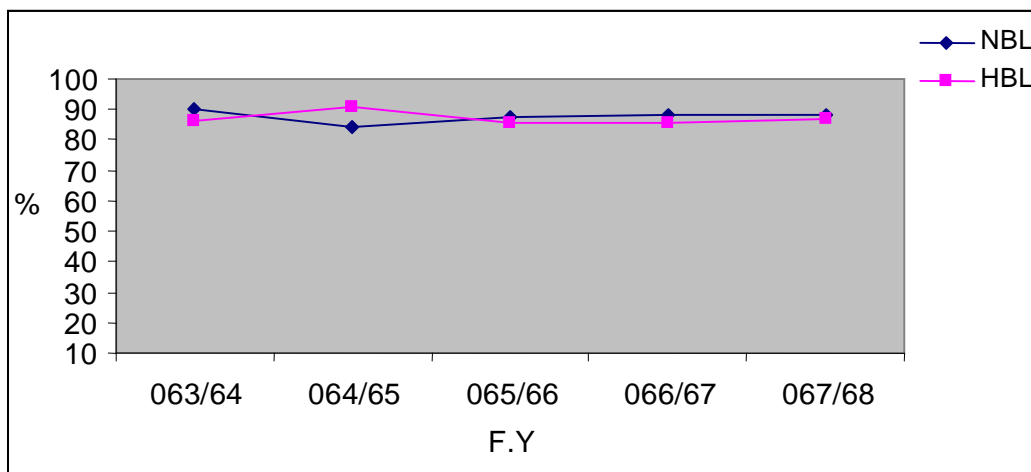
Years	HBL %	NBL %
063/64	86.31	89.86
064/65	90.94	84.31
065/66	85.48	87.57
066/67	85.66	88.15
067/68	86.70	87.92
Average	87.02	87.56
S.D	1.99	1.81
C.V	2.29	2.06

Source: Annex 3 & 4

From the table 4.14 it shows that Credit Risk ratio of HBL is 87.02 percent in an average in the period under study whereas that of NBL is 87.56 percent in an average. The average ratio of NBL is higher than HBL. 90.94 percent is the highest credit risk ratio which is in FY 064/65 for HBL because the difference of total assets and the sum of total investment and loan & advance is very few than other years that creates the higher ratio. The ratios of the banks are found to be in fluctuating.

The higher ratio is 90.94 percent in FY 064/65 for HBL & 89.86 percent in FY 063/64 for NBL and the lowest ratio is 85.48 percent in FY 065/66 for HBL & 84.31 percent in FY 064/65 for NBL. The S.D is 1.99 & 1.81 for HBL & NBL respectively. As well as the C.V. for HBL & NBL are 2.29 & 2.06 respectively. These facts are shown in the figure 4.14 to make easier to understand

Figure: 4.14
Credit Risk Ratio



From the figure 4.14; Banks always utilize its collected funds in providing credit to different profitable sectors. There is risk of the default of loan so while making investment, the bank examines the credit risk involved in the project. Projected risk of the Nabil bank is higher then Himalayan bank so NBL credit risk ratio is more then HBL and both are maintain consistency in investment.

4.5 Deposit Collection Ratio:

The deposits are subject to withdrawals by mean of cheque on a short notice by customers. There are several restrictions on these deposits, regarding the amount of deposit, number of withdrawal etc. These are considered more as investments and hence they earn some interest. The rate of interest varies depending on the nature of the deposit. To attracts deposits from customers by offering different rates of interest and different kinds if facilities.

There are different types of deposits. But for this study, major three types of deposit are taken. They are:

- Current Deposit
- Fixed Deposit
- Saving Deposit

4.5.1 Current Deposit Ratio

Current deposit ratio means amount of deposit collection into the current account to total deposit. It shows the ratio of deposit collection into current a/c.

Table 4.15.1
Current Deposit Ratio

F.Y	HBL %	NBL %
063/64	18.13	14.76
064/65	21.36	16.81
065/66	21.82	14.77
066/67	24.03	17.00
067/68	24.77	12.00
average	22.02	15.07
S.D	2.33	1.82
C.V	10.59	12.11

Source Annex 5 & 6

This Table shows that current deposit to total deposit ratio of HBL are increasing during the study period continuously. It has highest 27.77% in the year 067/68 and lowest 18.13 % in the year 063/64. The yearly ratio of last two years are higher then average ratio. Current Deposit to Total Deposit ratios of NBL are fluctuating. Its ratios are decreasing after second yrs. and increase after third yrs.

And also be decrease after fourth year. So its average ratio is 15.07 % and its highest ratio is 17% and lowest ratio is 12% in the year 067/68.

The S.D of HBL is 2.33 where as it is 1.82 in NBL. The coefficient of variation of HBL is 10.59% similarly the coefficient of variation of NBL is 12.11%.

Its shows that there is more variation in the composition in the current deposit to total deposit ratio of NBL compare to HBL.

Figure 4.15.1
Figure of Current Deposit Ratio

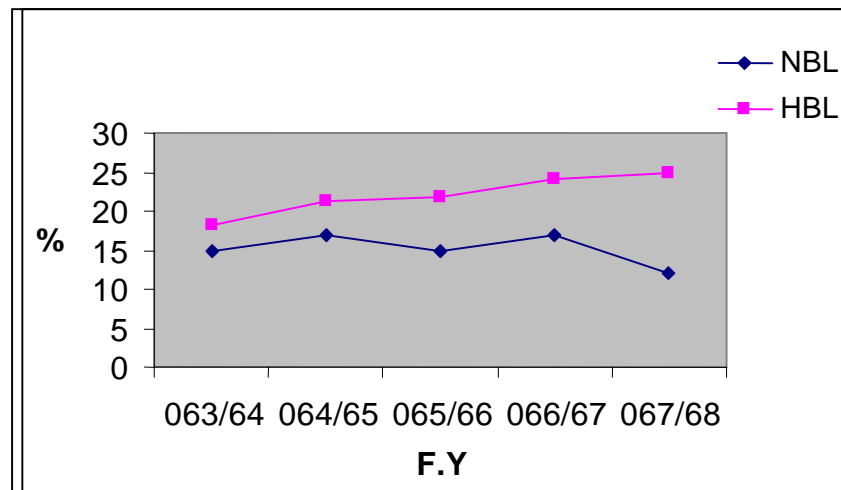


Figure 4.15.1; Shows that HBL has more success to collect deposit from current Deposit scheme then NBL. HBL has increasing trend continuously. It means HBL has more success to take more business house to collect more deposit. It has low interest so that is chipset source of fund but it has highly liquid nature then other deposit so HBL has required to maintain more liquidity in reserve to maintain the payment of withdrawal.

4.5.2 Fixed Deposit Ratio:

Fixed deposit ratio means amount of deposit collection into the Fixed account to total deposit. It shows the ratio of deposit collection into Fixed a/c.

Table 4.15.2

Table Of Fixed Deposit Ratio

F.Y	HBL %	NBL %
063/64	27.29	23.28
064/65	20.17	26.52
065/66	18.39	22.25
066/67	30.12	32.00
067/68	27.53	34.00
average	24.7	27.61
S.D	4.75	4.66
C.V	19.23	16.89

Source: 5 & 6

Figure 4.15.2; Shows that fixed deposit to total deposit ratio of HBL are decrease after first year but increase in the second last year and also be decrease at last year. So HBL ratio are volatile. Maximum ratio is 30.12% and minimum ratio is 18.39% and average 24.7% during the study period.

The fixed deposit to total deposit ratio of NBL will be decrease after second year and also be increase after third year. Maximum ratio is 34% and minimum ratio is 22.25% and average ratio is 27.61% which is greater then HBL ratio.

The S.D of HBL is 4.75 where as it is 4.66 in NBL. The coefficient of variation of HBL is 19.23% and 16.89% of NBL. It shows that there is more variation in the composition in the fixed assets to total deposit ratio of HBL compare to NBL.

Figure 4.15.2

Figure of Fixed Deposit Ratio

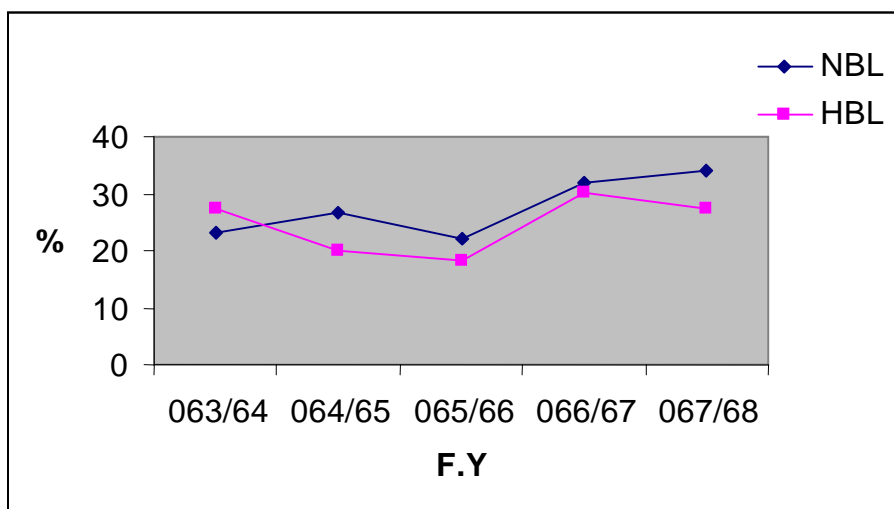


Figure 4.15.2; Shows that NBL has more success then HBL to collect the Fixed deposit. So NBL has investment opportunity also be higher because it has Higher

portion of Deposit is fixed. It means NBL has less required to maintain liquidity, so the bank have more opportunity to invest in different profitable sector confidently because its payment period is pre determined. In the interest rate point of view, fixed deposit scheme is more costly then other so the bank should be manage this fact & search the profitable new sector to invest it.

4.5.3 Saving Deposit Ratio

Saving deposit ratio means amount of deposit collection into the Saving account to total deposit. It shows the ratio of deposit collection into Saving a/c

Table 4.15.3
Table of Saving Deposit Ratio

F.Y	HBL %	NBL %
063/64	52.53	43.64
064/65	56.32	38.10
065/66	57.84	39.15
066/67	43.32	28.71
067/68	40.4	30.00
average	50.08	35.92
S.D	6.99	5.69
C.V	13.97	15.84

Source: Annex 5 & 6

It shows that the saving deposit to total deposit ratio of HBL are fluctuating during the study period. It is highest 57.84% in the year 065/66 and lowest 40.4% in the year 067/68. The average ratio of HBL is 50.08%. the yearly ratio of last two years are lower then average ratio but the yearly ratio of first, second & third yrs are higher then average.

In the case of NBL, the saving deposit to total deposit ratio are also fluctuating in the study period. It is higher 43.64% in the year 063/64 and lower 28.71 % in the year 066/67. The yearly ratios are lower then the average ratio in the last two years of the study period. The average ratio of HBL 50.08% is higher then of NBL 35.92%. The S.D of HBL is 6.99, similarly the S.D of NBL is 5.69. The coefficient of variation of HBL is 13.97%, likewise the C.V of NBL is 15.84%.

Figure 4.15.3
Figure of Saving Deposit Ratio

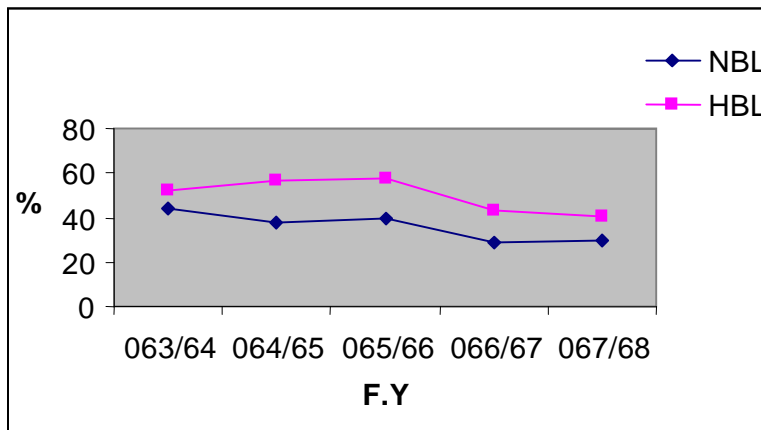


Figure 4.15.3 Shows that Saving deposit are short term viability, it is longer in term the current and other deposit. So the large portion of saving deposit in total deposits shows the liquidity on the bank. Bank also pays interest on saving deposit whereas current, call & other deposits are nominal cost fund. From the above figure, saving deposit to total deposit ratio of HBL is better then NBL but HBL stability of deposit is more risky then other because its half on the portion covered by saving deposit only.

4.6 Statistical Tools

The statistical analysis includes various methods of measuring relationship between two or more than two variables as well as their significance. In this study, different relationships have been calculated with the help of Karl Person's formula of correlation coefficient and calculating PE for measuring significant correlation.

4.6.1 Coefficient of Correlation between Deposit and Loan and Advance

The relationship between deposit and loan and advance is evaluated in order to measure deposit mobilization of the banks. The following result is obtained for selected commercial banks.

Table 4.16.1
Correlation Coefficient between Deposit and Loan and Advance

Banks	r	P.E.	6P.E	Significance/Insignificance
HBL	0.995	0.003	0.0181	Significant
NBL	0.989	0.007	0.042	Significant

Source: Annex, 8 & 9

The correlation coefficient for both both the banks found to be almost '1' which indicates there is proportional relationship between the deposit and loan & advances for both the banks (i.e. HBL & NBL). While testing the level of significant correlation coefficient between deposit & loan and advances of both the banks found to be significant as the value of 6 P.E is less than that the value of correlation coefficient 'r'. above analysis shows that both the banks have perfect positive correlation between deposit and loan & advance, it indicates that loan & advance of both the selected banks have been proportionally increased with the increment in total deposit.

4.6.2 Coefficient of Correlation between Deposit and Total Investment

The relationship between deposit and total investment is evaluated in order to measure deposit mobilization of the banks. The following result is obtained for selected commercial banks.

Table 4.16.2
Correlation Coefficient between Deposit and Total Investment

Banks	r	P.E.	6P.E	Significance/Insignificance
HBL	-0.784	0.4871	2.92	Insignificant
NBL	0.965	0.021	0.126	Significant

Source: Annex 10 &11

The calculation of correlation coefficient between The P.E is 0.4871 and the 6P.E is 2.92. The correlation is insignificant due to the value "r" which is less than six times the value of PE, which is negative -0.784. deposit and Total Investment is It shows the negative correlation for HBL.

At the same time NBL has 0.965 of correlation coefficient. The P.E is 0.021 and the 6 P.E is 0.126, which shows the positive correlation for NBL. The correlation is significant due to the "r" which is more than six times the value of P.E that is 0.965.

4.6.3 Correlation Coefficient between interest rate on deposit & amount of Deposit

The relationship between interest rate & Deposit is evaluated in order to measure deposit utilization of the banks. The following result is obtained for selected commercial banks.

Table 4.16.3

Correlation Coefficient between interest rate & amount of Deposit

Banks	r	P.E.	6P.E	Significance/Insignificance
HBL	0.954	0.027	0.162	Significant
NBL	0.998	0.0005	0.0032	Significant

Source: Annex 12 & 13

The calculation of correlation coefficient between interest rate on deposit and amount of deposit is highly positive. It shows the positive correlation for HBL. The P.E is 0.027 and the 6P.E is 0.162. The correlation is significant due to the value “r” which is more than six times the value of PE, which is 0.954.

At the same time NBL has 0.998 of correlation coefficient. The P.E is 0.001 and the 6 P.E is 0.007, which shows the perfectly positive correlation for NBL. The correlation is significant due to the “r” which is more than six times the value of P.E.

4.6.4 Correlation Coefficient between credit interest rate and loan & advance

The relationship between credit interest rate & loan & advances is evaluated in order to measure deposit mobilization of the banks. The following result is obtained for selected commercial banks.

Table 4.16.4

Correlation Coefficient between Credit interest rate and loan & advance

Banks	r	P.E.	6P.E	Significance/Insignificance
HBL	0.949	0.030	0.18	Significant
NBL	0.951	0.029	0.174	Significant

Source: Annex 14 & 15

The calculation of correlation coefficient between credit interest rate and amount of loan & advance is 0.949, It shows the positive correlation for HBL. The P.E is 0.03 and the 6P.E is 0.18. The correlation is significant due to the value “r” which is more than six times the value of PE, which is 0.949.

At the same time NBL has 0.951 of correlation coefficient. The P.E is 0.029 and the 6 P.E is 0.174, which shows the positive correlation for NBL. The correlation is significant due to the “r” which is more than six times the value of P.E.

4.7 Major Findings:

Major findings of the research study are as follows:

1. From the analysis of liquidity ratio is extremely essential for a firm to be able to meet its short terms obligations as they become due. Commercial banks need liquidity to meet daily loan demand and deposit withdrawal. HBL has higher liquidity ratio so it has higher speed to meet short term obligation then NBL.
2. HBL has slightly higher average cash & bank balance to current assets ratio than NBL. It implies that HBL is more capable to meet the daily cash requirements for payments of daily obligation. Over the study period NBL has the ratio in increasing trend just three years slightly but then after its ratio will be decrease Morley then HBL. Which indicate NBL has practiced to maintain lower level of cash & bank balance with respect to current asset.

3. Investment on those securities issued by government are free of risk and highly liquid in nature and such securities yield the low interest rates of a particular maturity due to lowest risk in future, it is more better in regard to safety than other means of investment. HBL has higher ratio of investment on Government securities then NBL.
4. Loan & advance to total deposit ratio of HBL has slightly higher then NBL so HBL had been used efficiently us the outsiders fund in profit generating purpose. It had been successful in advancing the favorable proportion of its deposit towards loan & advance. But NBL had not been able to use the outsiders fund in profit earning purpose efficiently then HBL.
5. The ratio of total investment to total deposit of both banks is found to be satisfactory level. NBL has higher ratio of average then HBL. from this analysis, it can be said that NBL is able to invest in different sectors from its deposit. Because its S.D and C.V shows the more stability of NBL then HBL.
6. HBL has loan & advance to total working fund ratio is increasing trend NBL has fluctuating trend. Although both banks has been able to utilize its total working fund to loan & advance ratio approximately same but consistency in ratio of NBL is better then HBL. But both the sample banks able to maintain consistency.
7. Proportion of government securities on total working fund of HBL is better then NBL. It shows that prioritized to invest on government securities rather then loan & advance due to unavailability of secured investment sector. The analysis of C.V of the banks shows the NBL has more control to maintain the consistency in investment on government security with respect to total working fund.
8. NBL has been able to utilize its total working funds as investment on share & debenture of other companies then HBL. It utilized higher proportion of

the total assets investment on share & debenture to reduce uncertainty and obtain return from portfolio diversification of risk.

9. Return on loan & advance of both banks is fluctuated trend it means both banks are increased their earning with respect to loan & advances but its not remain constant. So HBL is more required to maintain the consistency, should be increase net profit by mobilizing the fund in preferable sectors then NBL. HBL should be adjust loan & advances policy to success competition and earning profit.
10. Profit earning capacity of Nabil bank is higher then HBL. So HBL should be mobilized its fund on different profitable sector to maintain sustainable profit. Nabil has well managed and efficiently utilized its working fund, so it will get higher return then Himalayan bank.
11. Interest earning capacity of NBL is higher then HBL so NBL is better to provide loan in different sectors to earning income as a interest. Interest earning ratio reflect the effectiveness of bank's credit worthiness. So HBL should be developed credit worthiness but both of the banks has maintained consistency & homogeneity.
12. The interest expenses ratio is continuously increasing trend. So the deposit collection by customers is more costly. Both of the banks had increase, it means the banks had shortage of deposit to invest in different profitable sectors. So both of the banks has ready to paid more interest to make more customers in competitive environment
13. Banks always utilize its collected funds in providing credit to different profitable sectors. There is risk of the default of loan so while making investment, the bank examines the credit risk involved in the project. Projected risk of the Nabil bank is higher then Himalayan bank so NBL credit risk ratio is more then HBL and both are maintain consistency in investment.

14. HBL has more success to collect deposit from current Deposit scheme than NBL. HBL has increasing trend continuously. It means HBL has more success to take more business house to collect more deposit. It has low interest so that is chipset source of fund but it has highly liquid nature than other deposit so HBL has required to maintain more liquidity in reserve to maintain the payment of withdrawal.
15. NBL has more success than HBL to collect the Fixed deposit. So NBL has investment opportunity also be higher because it has Higher portion of Deposit is fixed. It means NBL has less required to maintain liquidity, so the bank have more opportunity to invest in different profitable sector confidently because its payment period is pre determined. In the interest rate point of view, fixed deposit scheme is more costly than other so the bank should be manage this fact & search the profitable new sector to invest it.
16. Saving deposit are short term viability, it is longer in term of current and other deposit. So the large portion of saving deposit in total deposits shows the liquidity on the bank. Bank also pays interest on saving deposit whereas current, call & other deposits are nominal cost fund. From the above figure, ratio of saving deposit to total deposit of HBL is better than NBL but HBL stability of deposit is more risky than other because its half on the portion covered by saving deposit only.
17. Both the banks have almost perfect positive correlation between deposits and loan & advances, which indicates that loan & advance of both banks have been proportionally increased with the increment in total deposit.
18. Correlation coefficient between deposit and Total Investment has negative, which indicate the negative correlation of HBL. The correlation is insignificant due to the value "r" which is less than six times the value of P.E. At the same time NBL has almost perfectly positive correlation coefficient. The correlation is significant due to the "r" which is more than

six times the value of P.E. its indicate that investment have increase proportionally with the increment in total deposit in the context of NBL but HBL has no proportional relation between deposit & investment.

19. Correlation coefficient between interest rate on deposit and amount of deposit is highly positive, It shows the positive correlation for banks. The correlation is significant due to the value “r” which is more than six times the value of PE. It shows the proportionally positive relation of interest rate and deposit. Average interest rate of NBL is higher then HBL so NBL has more success to collect higher deposit then HBL so we conclude that it has higher positive correlation.

20. Correlation coefficient between credit interest rate and amount of loan & advance is positive relation. The correlation is significant due to the value “r” which is more than six times the value of PE. It shows that there is significant relation between credit interest rate and loan & advance. Most of the banks are having nearly similar interest rate structure which lessens the importance of liberalization of interest rate. In real sins, NBL has average lower credit interest rate then HBL so NBL has more success to increasing credit.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This is the main chapter for the research process because this chapter is the extracts of all the previously discussed chapters. This chapter consists of mainly three parts: Summary, Conclusion and Recommendation. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation part, suggestion and recommendation is based on the result and experience of thesis. Recommendation is made for improving the present situation to the concerned parties as well as for further research.

The researcher must point out the mistakes and errors and also correct them by giving suitable suggestions for further improvement. Therefore, this summarized and recommended tasks of the researcher of the study would be meaningful to the top management of the bank to initiate the action and achieve the desired result.

5.1 Summary

The entire research work has focused on the comparative study on deposit mobilization of commercial banks. For the study, two commercial banks i.e. Himalayan Bank Ltd. (HBL) and Nabil Bank Ltd. (NBL) are taken as sample and analyzed their deposit mobilization. Five fiscal years' secondary data, i.e. from the year 063/64 to 067/68, are taken for the study period. Basically necessary data were taken from balance sheet & profit and loss a/c of relevant banks. The general objective of this study is to analyze the practice of deposit mobilization of the commercial banks like HBL & NBL. To meet the general objective, the other specific objectives were formulated as follows.

- To analyze the relationship between deposits and loans & advances.
- To examine the relationship between interest rate on deposit and amount of deposit.
- To find out the impact of an interest rate of loan on the credit extended by commercial banks.
- The effectiveness of deposit mobilization of commercial banks.

To meet the research objectives this study were divided into five chapters. The study applied different strategy to collect and analyze the data. Data were collected from the websites of respective banks and websites of NEPSE and NRB. Different financial ratios and statistical tools applied to analyze the data. The major ratios were Liquidity ratios, Assets management ratios, Profitability ratios, Risk ratios and Deposit collection ratios. The major statistical tools applied to analyze were Average, Standard Deviation, Coefficient of Variation and Coefficient of Correlation between Deposit and Loan & advances, Total investment and Total deposit, interest rate and Deposit and Credit interest rate and Loan & advances of concerned bank. The major findings of the study were as Under:

From the analysis of liquidity ratio is extremely essential for a firm to be able to meet its short terms obligations as they become due. Commercial banks need liquidity to meet daily loan demand and deposit withdrawal. HBL has higher liquidity ratio so it has higher speed to meet short term obligation then NBL.

Loan & advance to total deposit ratio of HBL has slightly higher then NBL so HBL had been used efficiently us the outsiders fund in profit generating purpose. It had been successful in advancing the favorable proportion of its deposit towards loan & advance. But NBL had not been able to use the outsiders fund in profit earning purpose efficiently then HBL.

Proportion of government securities on total working fund of HBL is better then NBL. It shows that prioritized to invest on government securities rather then loan & advance due to unavailability of secured investment sector. The analysis of C.V of the banks shows the NBL has more control to maintain the consistency in investment on government security with respect to total working fund.

profit earning capacity of Nabil bank is higher then HBL. So HBL should be mobilized its fund on different profitable sector to maintain sustainable profit. Nabil has well managed and efficiently utilized its working fund, so it will get higher return then Himalayan bank.

Interest earning capacity of NBL is higher than HBL so NBL is better to provide loan in different sectors to earning income as a interest. Interest earning ratio reflect the effectiveness of bank's credit worthiness. So HBL should be developed credit worthiness but both of the banks has maintained consistency & homogeneity.

The interest expenses ratio is continuously increasing trend. So the deposit collection were more costly. Both of the banks had increase, it means the banks had shortage of deposit to invest in different profitable sectors. So both of the banks has ready to paid more interest to make more customers in competitive environment.

NBL has more success than HBL to collect the Fixed deposit. So NBL has investment opportunity also be higher because it has Higher portion of Deposit is fixed. It means NBL has less required to maintain liquidity, so the bank have more opportunity to invest in different profitable sector confidently because its payment period is pre determined. In the interest rate point of view, fixed deposit scheme is more costly than other so the bank should be manage this fact & search the profitable new sector to invest it.

Correlation coefficient between deposit and Total Investment is negative, which indicate the negative correlation for HBL. The correlation is insignificant due to the value "r" which is less than six times the value of P.E. At the same time NBL has almost perfectly positive correlation coefficient. The correlation is significant due to the "r" which is more than six times the value of P.E. its indicate that investment have increase proportionally with the increment in total deposit in the context of NBL but HBL has no proportional relation between deposit & investment.

Correlation coefficient between interest rate on deposit and amount of deposit is highly positive, It shows the positive correlation for banks. The

correlation is significant due to the value “r” which is more than six times the value of PE. It shows the proportionally positive relation of interest rate and deposit. Average interest rate of NBL is higher than HBL so NBL has more success to collect higher deposit than HBL so we conclude that it has higher positive correlation.

Correlation coefficient between credit interest rate and amount of loan & advance is positive relation. The correlation is significant due to the value “r” which is more than six times the value of PE. It shows that there is significant relation between credit interest rate and loan & advance. Most of the banks are having nearly similar interest rate structure which lessens the importance of liberalization of interest rate. In real sense, NBL has average lower credit interest rate than HBL so NBL has more success to increasing credit.

5.2 Conclusion

The overall performance of the sample banks found to be satisfactory. Both banks have different performance ratio in different condition. So decision should be change in terms of HBL & NBL. From the liquidity point of view; HBL has slightly better performance than NBL. HBL has better position to meet its short-term obligation than NBL which is reflected cash & bank balance to total deposit ratio and cash & bank balance to current assets ratio. NBL has also be higher aggressive than HBL in terms of working capital policy, which also implies that HBL has better position in terms of Liquidity.

From the view point of assets management aspects; HBL has also better than NBL, which is reflected by loan & advance to total deposit ratio, loan & advance to total working fund and investment on government securities to total working fund ratio. It means HBL has able to mobilize its assets into different profitable sectors than NBL. Similarly NBL has more success to invest its collected deposit in profitable sectors and mobilizing total working fund on different types of share & debentures of other company.

From the profitability point of view; NBL has better position than HBL. NBL has success to earned more profit on loan & advances than HBL. Profit earning

capacity of HBL is considered too weak then NBL. The average return on total working fund ratio indicates that working fund of NBL is well managed and efficiently utilized then HBL. HBL was not able to success to receive higher interest on its total working fund in comparison with Nabil bank. On the other hand, NBL has mobilized its working fund properly and its interest earning capacity is also high but it has not success to collect funds from cheap sources then HBL because its interest payment ratio is higher then Himalayan Bank.

From the deposit collection point of view; HBL has more success to collect deposit from current deposit scheme and saving deposit scheme then NBL But NBL has more success to collect more deposit by offering Fixed deposit scheme then HBL. Which indicate that HBL has highly liquid nature deposit is high so liquidity ratio should be maintained sufficiently then NBL.

Both of the banks have highly positive correlation between deposit and loan & advances, which indicate that loan & advance of both banks have been proportional change with the total deposit But correlation coefficient between total deposit and total investment has negative correlation only in the HBL context. It shows that every investment decision depends up on availability of funds or deposit but HBL has not concerned only with the availability of deposit. So HBL has insignificant relation between total Investment and Deposit.

Average deposit interest rate of NBL has slightly higher than HBL. So NBL has more success to collect higher deposit then HBL. Correlation Coefficient between interest rate and deposit have highly positive. It shows the highly significant relation between interest rate and deposit. NBL has highly positive significant relation between interest rate & deposit then HBL.

Average credit interest rate of HBL is higher than NBL. So HBL has not success to provide loan & advances because its credit interest rate is higher than other bank. But both banks have positive correlation between credit interest rate and loan & advance, which indicate that loan and advances has not only affected by credit interest rate.

5.3 Recommendation

From the above analysis, it is clear that both the banks are not success completely regarding deposit utilization and mobilization. On the basis of above analysis, major findings & conclusion, the recommendation has been forwarded:

The liquidity position of a bank may be affected by internal as well as external factors. The affecting factors may be interest rates, supply and demand position of loan and advances as well as savings, investment situations, central banks directives, the lending policies, capability of management, strategic planning and funds flow situations. The ratio of cash and bank balance to total deposit and current assets of HBL is higher than that of other banks. it indicates HBL has higher idle cash and bank balance. It may decrease profit of bank. HBL is recommended to mobilize its idle cash and bank balance in profitable sector as loan and advances efficiently.

Total investment of HBL has continuously decreasing so HBL should be increasing its investment ratio with properly then NBL. NBL has more success to invest in different project. Average Deposit interest rate of HBL is lower than NBL which indicate that HBL usage the cheapest sources of fund but deposit collection ratio of HBL is comparatively lower then NBL so HBL should be adjust its interest rate to take a more customer because interest rate and deposit has higher positive correlation

HBL has more success to collect deposit by current and saving deposit schemes but NBL has more success to collect by fixed deposit scheme. So recommendation for HBL should be encourage to peoples deposit into Fixed deposit account then NBL because Fixed deposits are deposited for long period and payment period is fixed so that is less risky than other, in the liquidity point of view. NBL has more success to collect deposit then Himalayan bank so it has more success than HBL in the deposit collection point of view. Both banks should be encouraged to peoples to saving for deposit and the banks should be search different profitable sectors to invest fund to earning maximum profit. Average interest rate of HBL is lower than NBL so HBL should be increase interest rate to increase the total amount of deposit because deposit has directly affected by interest rate.

As a private sector, commercial banks cannot keep their eyes closed from the profit motive. They should be careful in increasing profit motive. They should be careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and all its customers. HBL's profitability position is worse than that of NBL. So, HBL is strongly recommended to utilize risky assets and shareholders fund to gain highest profit margin. Similarly, it should reduce its expenses and should try to collect for long term deposit for long term investment.

HBL and NBL are also recommended to mobilize the deposit to make higher profitability position in the market. It should reduce its unnecessary expenses and cost to maximize the profit margin. These banks are strongly recommended to give more importance to invest more funds in government securities instead of keeping them idle.

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