

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

The term bank is derived from the French word Banco which means a Bench or Money exchangeable table. In olden days, European money lenders or money changers used to display (show) coins of different countries in big heaps (quantity) on benches or tables for the purpose of lending or exchanging. The terms bankrupt and “broke” are similarly derived from banca rotta, which refers to an out of business bank, having its bench physically broken. Money lenders in Northern Italy originally did business in open areas, or big open rooms, with each lender working from his bench or table.

Nowadays, the term bank is generally understood as an institution that holds a banking license. Banking license are granted by bank regulatory authorities and provide rights to conduct the most fundamental banking services such as accepting deposits and providing loans. There are also financial institutions that provide certain banking services without meeting the legal definition of a bank, called non-banking financial company. Banks have a long history, and have influenced economics and politics for centuries.

Financial development is one of the key indicators of economic growth for any country and financial institution grant regular energy for investments, which is needed for economic development. Capital formation is one of the important factors for economic development. The capital formation leads to increase in the size of national output, income and employment, solving the problem of inflation, balance of payment and making the economy free from the burden of foreign debts. Domestic capital formation helps in making a country self-sustainable. In

developing countries, the rate of saving is quite low and existing institutions are half successful in mobilizing such saving as most people have incomes so low that vertically all current income must be spent in maintaining a subsistence level of consumptions (Higgins, 1968:804).

Deposit mobilization is one of the essential tools for the economic development of an underdeveloped and developing countries rather than the developed countries. Low national income, low per capita income, lack of technical knowledge, vicious cycle of poverty, lack of irrigation and fertilizer, rapid population increase, geographical conditions etc. are the main problems of developing countries like Nepal. Banking thus increases the supply of funds by collecting lodgments from public and then combining them with its capital and reserve fund. Their lodgments are accepted as current, saving and fixed accounts. Overall, however they fall into demand and time deposits. The former payable as and when demand is made and later after the expiry of stated period (Nigam, 1987:25).

Enough capital is required for the development of any country. It is the backbone for the development of the nation. Nepal lacks the adequate capital for its development planning. Due to this reason many development planning are pending. If there is enough capital available, it can be invested into profitable projects and contribute to the National GDP. Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in a saving account in a bank for example, the bank must invest by lending the funds for various business companies. These firms in return, may invest the money in new factories and equipments to increase their production. In addition to this borrowing from the banks, it must issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issue bonds to obtain funds to invest in capital incentive project, as the construction of dams, roads and schools. All such investments by individuals, business and

government involve a presto sacrifice of income to get an expected future benefits. As a result, investment raises a nation's standard of living (The World Bank, 1966:232).

Banks today have gained paramount trust of the public. They hold the deposit of millions of persons, government and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and government. Thus, their task is to provide a collecting point for saving of relatively small average amount from a large number of individual sources and invest them into a productive and needed sector of the country, so as to develop the nation. Commercial banks are basically important because of their ability to create money from excess reserves made available from the public's deposits.

1.2 Development of Banking System in Nepal

History of Finance industry in Nepal is not that matured. Comparison cannot be made between ancient and modern banks, yet it is necessary to know how the banking system gradually developed to the present state. In comparison to other developing or developed countries, the institutional development of banking system in Nepal is lagging far behind. Nepal had to wait for a long time to come to this present banking system.

As the specific date of the beginning of money and banking deal in Nepal is not obvious, it is speculated that during the reign of the King Mandev, the coin 'Manank' was in use. Historical example as to the pre-modern banking system was found in 723 A.D. when Gun Kam Dev, the king of Kathmandu had brought money to rebuild and rule Kathmandu (NRB, 2037:37). During the reign of Gun Kam Dev, the coin 'Gunank' was in use. Historically, we find the evidence of minted coin of Amshuverma in 7th Century. At the end of 8th century, Shankhadhar, a merchant of Nepal, paid all the outstanding loans of the Nepali

people and started a new era (Nepal Sambat). Sadashiva Dev in 12th century introduced silver coins. Jayasthiti Malla, ruler of Kathmandu classified people into 64 different casts on the basis of their occupation towards the end of the 14th century. At that time, king Malla had given the responsibility to a caste of society called 'Tankadhari' whose occupation is to collect and lend money. So, they can be called as traditional bankers. In the same century, copper coins were used by King Ratna Malla of Kathmandu, silver coins by Mahendra Malla and the gold coins by the last Malla King of Kathmandu Jaya Prakash Malla.

Coin Mohar had been used by the great king Prithivi Narayan shah in his name, after the unification of Nepal. During the reign of Ranodip Singh, an office named 'Tejarath' was established in Kathmandu in 1936 A.D. It is used to provide loans to the government officials and the people against deposit of gold and silver. It was the first institutional financial intermediaries at the time. Although it played a vital role in the banking system, it provided credit facility to only the government officials.

Though all the banking activities were not performed by Tejarath Adda, during the tenure of the Prime Minister Ranodip Singh, modern banking practices began with the establishment of the first banking institution, Nepal Bank Limited. The Nepal Bank Limited was established in 30th Kartik 1937 A.D. as a joint venture of the government and private individuals. Before the inception of this bank, the traditional ways of banking seem to be in existence even today.

The central bank helps the government to control, direct and formulate other monetary policies. Nepal Rastra Bank was set up in 1956 A.D. as central bank and since then it has contributed to the growth of financial sector. Speedy development of the country is possible only when comparative banking service reaches each and every corners of the country. Government has set up Rastriya

Banijya Bank in 1965 A.D. as a fully government owned commercial bank and agriculture development bank was established in 1967A.D. There are currently 32 commercial banks, 87 development banks, 79 finance companies and 21 Micro Credit Development Banks as of mid July 2011 (Licensed by NRB). The list of commercial bank as licensed by NRB is as follows:

(in '00'Thousands)

S.N.	Name of the Banks	Operation Date(A.D.)	Head Office	Paid up Capital
1	Nepal Bank Ltd.	15-Nov-1937	Kathmandu	3804
2	Rastriya Banijya Bank Ltd.	23-Jan-1966	Kathmandu	3853
3	Agriculture Development Bank Ltd.	2-Jan-1968	Kathmandu	94375
4	Nabil Bank Ltd.	16-Jul-1984	Kathmandu	20298
5	Nepal Investment Bank Ltd.	27-Feb-1986	Kathmandu	24091
6	Standard Chartered Bank Nepal Ltd.	30-Jan-1987	Kathmandu	16102
7	Himalayan Bank Ltd.	18-Jan-1993	Kathmandu	20000
8	Nepal SBI Bank Ltd.	7-Jul-1993	Kathmandu	18693
9	Nepal Bangladesh Bank Ltd.	5-Jun-1994	Kathmandu	20103
10	Everest Bank Ltd.	18-Oct-1994	Kathmandu	11196
11	Bank of Kathmandu Ltd.	12-Mar-1995	Kathmandu	13595
12	Nepal Credit and Commerce Bank Ltd.	14-Oct-1996	Siddharthanagar	13997
13	Lumbini Bank Ltd.	17-Jul-1998	Narayangadh	13000
14	Nepal Industrial & Commercial Bank Ltd.	21-Jul-1998	Biratnagar	13116
15	Machhapuchhre Bank Ltd.	3-Oct-2000	Pokhara, Kaski	16272
16	Kumari Bank Ltd.	3-Apr-2001	Kathmandu	14850
17	Laxmi Bank Ltd.	3-Apr-2002	Birgunj, Parsa	16140
18	Siddhartha Bank Ltd.	24-Dec-2002	Kathmandu	15610
19	Global Bank Ltd.	2-Jan-2007	Birgunj, Parsa	15000
20	Citizens Bank International Ltd.	21-Jun-2007	Kathmandu	19223
21	Prime Commercial Bank Ltd	24-Sep-2007	Kathmandu	22457
22	Sunrise Bank Ltd.	12-Oct-2007	Kathmandu	18554
23	Bank of Asia Nepal Ltd.	12-Oct-2007	Kathmandu	15175
24	DCBL Bank Ltd.	25-May-2008	Kathmandu	19209
25	NMB Bank Ltd.	5-Jun-2008	Kathmandu	16517
26	Kist Bank Ltd.	7-May-2009	Kathmandu	20000
27	Janata Bank Nepal Ltd.	5-Apr-2010	Kathmandu	14000
28	Mega Bank Nepal Ltd.	23-Jul-2010	Kathmandu	16310
29	Commerz & Trust Bank Nepal Ltd.	20-Sep-2010	Kathmandu	14000
30	Civil Bank Ltd.	26-Nov-2010	Kathmandu	12000
31	Century Commercial Bank Ltd.	10-Mar-2011	Kathmandu	10800
32	Sanima Bank	2012	Kathmandu	

Notes:

- Paid up capital are as on Chaitra End, 2010.
- Himchuli Bikash Bank and Birgunj Finance Ltd. are merged and operated in the name of H. &B. Development Bank Ltd.

1.3 Profile of the Selected Banks

1.3.1 Himalayan Bank Limited (HBL)

Himalayan Bank Limited-established and promoted in 1993 by a group of prominent businessmen, bankers and financial institutions with Habib Bank Limited of Pakistan, as the joint venture partner today stands as one of the largest private sector commercial banks in the country.

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

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

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

The bank at present has 11 branches within the Kathmandu Valley namely Thamel, Newroad, Maharajgunj, Dillibazar, Teku, Swayambhu, Baneshwor, Sorakhutte Chabahil, Kalanki, Battisputali . Besides, it has twenty five branches outside the Kathmandu Valley namely Bhaktapur, Patan, Banepa, Tandi, Bharatpur, Birgunj, Hetauda, Bhirawa, Biratnagar, Pokhara, Dharan, Butwal, Nepalgunj , Itahari, Palpa, Ghorahi, Trishuli, Damak Baglung Parsha, Dhangadi Satdobato, Gorkha, Barahbise and Kawasoti. The bank is also operating a counter in the premise of the Narayanhiti Museum. The Bank has a very aggressive plan of establishing more branches in different parts of the nation in near future.

Himalayan Bank has always been committed to providing a quality service to its valued customers, with a personal touch. All customers are treated with utmost courtesy as valued clients. The Bank, wherever possible, offers tailor made facilities to its clients, based on the unique needs and requirements of different clients. To further extend the reliable and efficient services to its valued customers. HBL has adopted the latest banking technology. This has not only helped the bank to constantly improve its service level but has also prepared the

bank for future adaptations to new technology. The bank has launched new Internet Banking Module - Himal@net with Two Authentication that comes with a Security Device. HBL has become the first financial institution in the country to provide Internet Banking with a Active Identity Security Device. HBL and JCBI have recently (2011-06-26) signed credit card issuing and acquiring license agreement. JCB International (JCBI) is the international subsidiary of JCB, the only global payment brand and leading credit card issuer and acquirer based in Japan. Through this agreement, JCB card members will be able to use JCB cards at approximately 1,200 HBL merchants and ATMs starting this fall, and HBL will be the first to issue JCB cards in Nepal which is scheduled in the next year. The bank already offers unique services such as short message sent (SMS) banking and internet banking to customers and will be introducing more services in the near future. (www.himalayanbank.com)

1.3.2 Siddhartha Bank Limited (SBL)

Siddhartha Bank Limited commenced its operations in 2002. The Bank was promoted by a group of highly reputed Nepalese dignitaries having wide commercial experience. The bank provides a full range of commercial banking services through 40 branches and 22 ATM Networks within and outside the Kathmandu Valley. The Vision statement of the Bank describes the core values and purposes that guide the Bank as well as an envisioned future. Fundamentally, in all dealings SBL earnestly believes in transparency, financial soundness, efficiency and better technology. SBL's vision is to be financially sound, operationally efficient and keep abreast with technological developments. The Bank firmly believes customer focus is a core value, shareholder prosperity is a prime priority, employee growth is a commitment and economic welfare is a sincere concern.

The Bank wants to be a leader among the banks of its age in Nepal by fulfilling the interest of the stakeholders and also aims to provide total customer satisfaction by way of offering innovative product and by developing and retaining highly motivated and committed staff. It directs all its efforts to move ahead with increased profits. The following mission statement is a guide to meet the Vision of the Bank:

- SBL's vision is to be financially sound, operationally efficient and keep abreast with technological developments. The Bank firmly believes customer focus is a core value, shareholder prosperity is a prime priority, employee growth is a commitment and economic welfare is a sincere concern.
- The Bank wants to be a leader among the banks of its age in Nepal by fulfilling the interest of the stakeholders and also aims to provide total customer satisfaction by way of offering innovative product and by developing and retaining highly motivated and committed staff. It directs all its efforts to move ahead with increased profits. The following mission statement is a guide to meet the Vision of the Bank.

1.4 Focus of the Study

The development of a nation depends upon its domestic resources. Banking sector plays vital role in allocation and utilization of such resources. Integrated and speedy development of a country is possible when competitive banking services reaches every corners of the country. It provides capital for the development of industries trade and business. Without banking sectors the development of the country is not possible.

The commercial banks can play a vital role in mobilizing the resources in developing as well as developed countries. These institutions can induce the public to save their valuable fund. They can help to monetize the society. In this way the savings can enter into the banking channel from the informal sector. Banks are the

financial intermediaries; they collect the surplus money in the form of deposit and provide loans to deficit sectors. In between, they follow credit creation process. In this way they bridge gap between surplus sector and deficit sector.

Thus this study deals with the liquidity, efficiency, profitability and risk position of commercial banks as an aid to economic development of the country by making survey of deposits and credits of commercial banks and their utilizations to fulfill the financial needs of the different sectors of the economy.

1.5 Statement of the Problem

Capital plays an important role in the banking sector. It is a requisite from the promotional stage up to the end of a banking sector. No banking transactions can be operated without capital. So, capital is labeled as ‘life blood’ of banking sector. The capital can be collected from the various sources such as shares, debentures, public deposits, bank loan etc. Generally, there are various sources of accumulating capital internal and external. Aid, grants and loans are the main external sources whereas taxes, public enterprises, and public debts are the popular internal sources in our country. But due to under-development, poverty, lack of banking knowledge etc. the desired capital for the development of the country can't be accumulated from those internal sources.

Negligence and corruption made by management level, over-staffing, lack of social obligation, lack of proper control and directions are the reasons that are being faced by the Nepalese commercial banks. New entry of banks and financial companies has made the tough competitions between them. Most of the people of Nepal are illiterate and people are unaware about the banking system. The problems specially related to deposit mobilization of commercial banks in Nepal have been presented below: -

- Does the development works need short, medium and long term credit?

- How many percentages of people of the total population live in the rural area due to imbalance in the growth of banking in the country and are deprived of the banking facilities?
- Commercial banks of Nepal are considered as efficient banks but how far are they efficient?
- How many percentages of people of our country are lying under the marginal poverty line?

1.6 Objective of the Study

The main objectives of this thesis are to analyse the trend of deposit mobilization of Himalayan Bank and Siddhartha Bank Limited. Some other objectives of this research are as follows: -

- To find out the relationship between deposit collection and utilization.
- To analyze the financial position of the sampled banks.
- To analyze the trends of deposit mobilization towards investment, loan and advances and projection of investment for current 5 Years.
- To give suggestions and recommendations based on analysis.

1.7 Significance of the Study

Development of banking system plays an important role in the growth of any economy. Banking industry is an important institution for accelerating the process of development through deposit mobilization. In Nepal, banking industry is also playing vital role for the development of the nation. According to the NRB research report banking and financial institution are contributing around 10% to its national GDP. Due to the lack of proper infrastructure, commercial banks are handicapped to reach rural areas. Banking services are provided only on the urban areas. Thus, NRB need to amend its certain rules to motivate commercial banking to incorporate their branches even in the rural areas.

Mainly, this study covers the deposits and credit portion of HBL and SBL. So it helps to reveal the financial position of the bank and study occupies an important role in the series of the studies on HBL and SBL.

This study is important to banks to make policies based on recommendations and suggestions in this thesis and this study may encourage the researchers to research further. It is important for investors, customers and personnel of bank to take various decisions regarding deposits and loan and advances. This study is important to know how well the bank is utilizing its deposit.

1.8 Limitations of the Study

Every research has its own limitations. The main focus of this study is to point out the financial position and its analysis of banking sectors. Preparations of multiple financial statements are common practices in private sector. So, the conclusion is based on the available financial statement which might not be perfectly correct in reality. However, following are the limitations of the study:

- This research design and analysis followed for this study are based on secondary data which covers the period of last five fiscal years.
- Time and resources constraints may limit the area covered by the study.
- Due to limited time and resources, out of 32 commercial banks, only two of them are included in this study.
- The period covered by the study is from 2006/07 to 2010/11A.D.
- The accuracy of the research work will be dependent on the data provided by concerned banks.
- Last but not the least limitation is that it is a partial requirement for the degree programmer.

1.9 Organization of the Study

The study has been organized into five chapters, the title of each of these chapters are as follows:

The rationale behind this kind of organization is to follow a simple research methodology approach. The contents of the chapters of this study are briefly mentioned here.

Chapter-I Introduction

This Chapter includes general background of the study, historical perspective of banking industry, overview of sample banks, statements of the problem, objectives of the study, significance of the study and limitation of the study.

Chapter -II Review of Literature

Chapter two is devoted to theoretical analysis and brief review of related books, journals, and past research works.

Chapter -III Research Methodology

This Chapter expresses the way and the technique of the study applied in the research process. It includes research design, population and sample, data collection procedure and processing, tools and methods of analysis.

Chapter-IV Presentation and Analysis of Data

This Chapter is the important chapter in which collected and processed data are presented, analyzed and interpreted using financial as well as statistical tools and major finding are also include at the of this chapter.

Chapter –V Summary, Conclusion and Recommendations

Finally, This Chapter provides the summary of the study, conclusion and recommendations which are forwarded to the related banking industry for utilization and mobilization of their deposits.

The bibliography and appendices are incorporated in the end of the study.

CHAPTER-II

REVIEW OF LITERATURE

This chapter is focused on brief discussion about the abstract regarding the theories of deposit mobilization. In order to accomplish the objective of the study only the relevant literatures have been reviewed, including different views of expertise, assumptions, book and journals, as well as major findings of previous studies of the relevant field is included in precise manner. Every possible effort has been made to grasp knowledge and information that is available from the concerned commercial banks. This chapter helps to take adequate feedback to widen the information base and inputs to my study. In this chapter inputs are reviewed as follows.

2.1 Conceptual Review

Under this heading the concept of the bank and banking transactions are described after thorough reading of the available books.

2.1.1 Modern Banking in Nepal

Nepal Bank Ltd. is the first modern bank of Nepal. It is taken as the milestone of modern banking of the country and was established in 1937 A.D. From the very beginning, it has been rendering following services to its customers: -

- Accepting deposits.
- Providing loans.
- Rendering customer-related service i.e. issue of bill of exchange, hundies.
- Investment in government bonds and securities.
- Performing agency function.

Until mid 1940s, only metallic coins were used as medium of exchange. So the Government of Nepal felt the need of separate institution or body to issue national

currencies and promote financial organization in the country. Hence, the NRB Act 1955 was formulated. Accordingly, Nepal Rastra Bank was established in 1956 A.D as a central bank of Nepal.

A sound banking system is important for smooth development of banking system. It can play a key role in the economy. It accumulates savings from the general public of all over the country and provides liquidity for industry and trade (Singh 2005:13). In 1957., Industrial Development Bank was established to promote the industrialization in Nepal, which was later converted into Nepal Industrial Development Corporation (NIDC) in 1959 A.D.

Rastriya Banijya Bank was established in 1965 A.D as the second commercial bank of Nepal. The financial shapes of these two commercial banks have a tremendous impact on the economy. That is the reason why these banks still exist in spite of tough situations.

Since, the agriculture is the basic occupation of major Nepalese, the development of this sector is the prime concern in the economy. So, Agricultural Development Bank was established in 2024 B.S as a separate entity to support in agricultural financing.

After that for more than two decades, no more banks have been established in the country. Only after the declaration of free economy and privatization policy, Government of Nepal encouraged the foreign banks for joint venture in Nepal. As a result, Nepal Arab Bank Ltd. (NABIL) was established in 1984 A.D. This is the first modern bank with latest banking technology.

Then lots of commercial banks have been opened in the country. Nepal Indosuez Bank was established in 1985 A.D. as a private joint venture Bank. Nepal

Grindlays Bank was established as a joint venture between ANZ Grindlays and Nepal Bank Ltd. This bank is now known as Standard Chartered Bank since July 2001. The growth of modern banking has started only after the establishment of Nepal Indosuez Bank and Nepal Grindlays Bank. In 1992 A.D., Himalayan Bank Ltd. was established with a joint venture with Habib Bank of Pakistan. It started its operation with paid-up capital of Rs. 60 Million. Nepal SBI Bank Ltd. is a joint venture between Employees Provident Fund and State Bank of India which was established in 1993 A.D. The State Bank of India holds 50% of the equity. Nepal Bangladesh Bank was established in 1994 A.D in technical collaboration with IFIC Bank Ltd. of Bangladesh. After that Everest Bank Ltd. started its operation in 1994 A.D It entered into joint venture with Punjab National Bank of India (PNB). PNB holds 20% equity stakes in the banks. Bank of Kathmandu was established with a joint venture with Siam Commercial Bank of Thailand. Nepal Bank of Ceylon is a Joint venture with a leading bank of Sri Lanka. Lumbini Bank was established in the year 1998 A.D. in Narayangadh. This is the first regional Bank of Nepal. Nepal Industrial and Commercial Bank was established in 1998 A.D It does not have any joint venture yet. But it has employed senior managers from India to handle its operation. Machhapuchre Bank started its operation from 1999 A.D with its head office in Kathmandu. This bank has introduced internet banking which is a Hi-Tech Banking system of the world. Lately, Laxmi Bank was established in 2001 A.D Its head office is situated in Kathmandu.

Presently, there are 32 commercial banks in Nepal. These commercial banks have played a very significant role in creating banking habit among the people, widening area and serving business communities and the government in various ways.

2.1.2 Concept of Commercial Bank

A bank is a business organization that receives and holds deposits of funds from others make loan or extends credits and transfer funds by written order of deposits (The Encyclopedia America, 1984:302).

A commercial banker is a dealer in money and substitutes for money and substitutions for money, such as cheque or bill of exchange. It also provides a variety of financial service (The New Encyclopedia Britannica, 1985:14.60).

In the Nepalese context, Commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions" (Commercial Bank Act, 1974 :121).

Commercial banks are those banks which perform all kinds of banking functions such as accepting deposits, advancing loans, credit creation and agency functions. They provide short term loan, medium-term loans and long-term loans to different business house and trading companies. NRB act 2031 has defined the meaning of commercial bank as the bank which performs the commercial functions.

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

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

Hence, we can conclude that the commercial banks are established under the rules and legislation of the central bank of the country. It has to move as per the directives given by the central banks. Though banks are established for the mobilization of the saved fund, central bank makes certain rules so that the public or the customer of the bank may not undergo on loss of their hard earned money by the disinvestment procedure of the bank.

2.1.3 Types of Banks

There are several types of banks as per their nature and objectives, which are as follows.

a. Central Bank

It is the guardian of the entire banking system. All other banks are required to comply with instructions of the central bank. It is the regulating and controlling authority. Usually, Central bank controls monetary policy. It acts as the lender of the last resort in the event of the crisis. They are often charged with controlling the money supply, including printing paper money. Bank of England (1964 A.D.) is the first central bank. Now, almost all the countries have their own central banks. The central bank of the Nepal is Nepal Rastra Bank (2013, 1-14).

b. Commercial Bank

Commercial bank collects deposits, issue short-term credit, provides necessary facilities for trade, payments and renders various kinds of common commercial

services. Nepal Bank Limited was established on 30th Kartik 1937 A.D. and is the first commercial bank in Nepal.

c. Agriculture Bank

Agriculture banks are specialized banks that are specialized in providing financial facilities for agriculture sector. Farmers need short term loans for input procurement, medium term loans for major agricultural equipment and long term loans for land improvement and major facilities. It is also called Cooperative Banks.

d. Industrial Bank/ Development Bank

Development Banks are established for development of certain sector. They normally offer long-term loan and provide technical and other advice as well. The origin of development banks, dates back to industrial revolution in U.K.

e. Savings Bank

Small savings of numerous households are collected by savings banks and are made available for useful investments. Households deposit their small savings in boxes given to them. Their objective is to encourage thrift and make small savings available for useful investment.

f. Merchant Bank

Merchant banks were traditional banks which engaged in trade financing. The modern definitions, however, refers to banks which provides capital to firms in the form of shares rather than loans. Unlike venture capital firms, they tend not to invest in new companies. In Nepal, finance companies involve in merchant banking activities.

g. Postal Savings Bank

Postal savings banks are any of the saving banks that are formerly operated by local post offices and limited to small accounts. Japan and Germany are examples of countries with prominent postal savings banks.

h. Retail Bank

In the retail banks, primary customers are individuals. An example of a retail bank is Washington mutual fund of the U.S.A.

i. Land Development Bank

Land development banks were known as land mortgage banks in the earlier time. They provide long term loans against security and mortgage of land and property.

j. Universal Bank

Universal Banks are those that include investment services in addition to the services related to savings and loans.

2.1.4 Functions of the Commercial Banks

Banks collect unused money from public by providing attractive interest rates and earn profit by lending it mainly to business organization, industrial and agriculture sectors and investing in government bonds. So, the main function of commercial banks is to mobilize the idle resources in productive areas by collecting it from scattered sources and generating profit. There are many functions performed by commercial banks which may be summarized as follows: -

a. Accepting Deposit

The main objective of the commercial banks is to collect the deposit. Commercial banks accept the deposit from the public who has surplus funds under three main headings namely current, savings and fixed deposits.

Current Deposit

Current deposits are also known as demand deposits. The deposit in which an amount is paid immediately at the time of any account holder's demand is called demand deposit. As a result the banks are unable to utilize such funds to yield higher profits. Therefore, the bank does not provide interest on this account.

Saving Deposit

Saving account is mainly meant for individuals who want to have savings for some interest return and availing banking facilities instead of putting it into the house with risk and no gain at all. This deposit is suitable and appropriate for the people of middle class who have low income and small saving. The bank usually pays small interest to the depositors against their deposit.

Fixed Deposit

Fixed deposit is the one, which a customer is required to keep fixed amount with the bank for specific period, generally by those who do not need money for the stipulated period. She/he is not allowed to withdraw the amount before expiry of the period. The rate of interest is generally higher in such deposits rather than other deposit. Minimum amount for which the fixed deposits are accepted differs from banks to banks and the interest is payable at periodic intervals to the depositors or as per their instructions. Fixed Deposit Receipts are issued for the deposits accepted by the banks.

b. Advancing Loans

Commercial bank collects funds by accepting all kinds of deposits and then, mobilizes by providing loans and advances. Direct loans and advances are provided to the needy person against the personal security of the borrowers or against the security of movable and immovable properties. There is various method of advancing loans e.g.

- Overdraft
- Cash credit
- Direct loans
- Discounting bill of exchange, etc.

c. Agency Services

A commercial bank provides a range of investment service undertakes to buy and sell securities on behalf of its clients. The banks undertake the payment of subscriptions, premium rents etc. It collects cheques, bills, promissory notes, dividends, interest etc on behalf of the customers. The bank charges a small amount of commission for those services. It also acts as correspondent or representative of its customers, other banks and financial institutions.

d. Credit Creations

Commercial banks create credit on the basis of deposits. They hold a certain amount of cash reserve to meet obligations. The rest of the deposit amount is invested in loan finance that yields higher rates of interest as compared to those payable on deposits. When the bank advances loans, it opens an account to draw the money by cheque according to borrower's needs.

e. Other Functions

Other functions of the commercial banks are as follows:-

- Assist foreign trade
- Offer security brokerage services
- Financial advising
- Security brokerage service.

2.1.5 Concept of Deposit and Deposit Mobilization

The excess of income over consumption requirement is saved. Such savings are deposited in commercial banks, even amounts to be spent for consumption purposes are deposited in commercial banks. Payment for goods and services is made in cheques drawn on banks. Banking habit is growing faster. People deposit their earnings in commercial banks because banks vaults are safer than home coffers and they pay interest according to the kind of deposits.

It is important that the commercial bank's deposit policy is the most essential policy for its existence. The growth of banks depends primarily upon the growth of its deposits. The volume of funds that management will use for creating income through loans and investment is determined largely by the bank's policy governing deposits. In other words, when the policy is restrictive, the growth of bank is restated or accelerated with the liberalization in the deposit policy. In banking business, the volume of credit extension much depends upon the deposit base of a bank. The deposit creating powers of commercial banks forces to raise the assets along with the liabilities side of the balance sheet. In other words, assets give rise to liabilities. Traditionally, the deposit structure of a commercial bank was thought to be determined by the depositors and not by bank management. There are regular changes in this view in the modern banking industry. Thus banks have evolved from relatively passive acceptors of depositors to achieve bidders for funds. Depositors are one of the aspects of the bank liabilities that management has been influencing through deliberate action (Baidya, 1999:68).

Thus, bank deposit is subject to various form of classification. The deposits are generally classified based on ownership, security and the availability of funds. There are two types of deposit which are as follows.

a. Interest Bearing Deposit

Deposit in which banks are required to pay interest is known as interest bearing deposit. Saving, Term (Fixed), Call and Recurring deposit are interest bearing deposit.

Saving Deposit

A saving deposit is one in which the general public open an account with a limited amount of money that can be withdrawn and low level of interest will be provided by bank. This is a very common and general deposit account, which is suitable for those classes of people who want to save some portion of their earnings or the money left after the consumption. Initial deposit as decided by the bank must be made to open the Saving Accounts. There are some restrictions in withdrawing money; at the same time the limitation depends as per nature of the economy and from one country to the other country or every one bank to the other.

Fixed Deposit or Time Deposit

This is a kind of deposit in which banks offers fixed interest rate on the deposit and repays principal together with interest at fixed maturity or pays interest on regular interval. So the money deposited in this account can be utilized by banks for medium or long term credit freely being confident that the depositors will not come to claim until the time lapses. Normally higher interest rate is offered for long term deposit and lower interest rate for short term deposit. The time deposit is the main source of commercial banks for their credit operation. Investment in medium term and long purposes is possible only through this type of deposit. However, the depositor can take loan in case of urgency before the maturity of the account against the Fixed Deposit.

Call Deposit

Call deposit incorporates the characteristics of current and saving deposit in the sense deposit is withdrawn able at 'call' and savings in the sense the deposit earns 'interest'. The companies not entitled to open savings account can open the call accounts. Interest rate on call deposit is negotiable between the bank and the depositors and hence, is normally not published in public.

Interest rate is applied on daily average balance. Withdrawal restriction is not imposed on call deposit but the balance should not go below an agreed level (Dahal, Sarita and Dahal, Bhuban; 1990:30)

Recurring Deposit

Concept of recurring deposit was developed to encourage the thrift among people of fixed regular earning. In recurring deposit scheme, the depositor is required to deposit the fixed amount in each installment and is repaid fixed amount at maturity.

b. Non-Interest Bearing Deposit

It is the deposit in which the banks need to pay interest for the customer of their savings. It is because in this types of deposit customers can withdraw the money at any time or can withdraw daily and the bank could not employ the amount in profitable projects that's why it does not pay any interest in this type of account. Current and margin deposit are non interest bearing deposit.

Current Deposit

The current deposit accounts are generally opened by the business organizations. They are allowed to withdraw and deposit the money according to their needs. There is no limitation of withdrawing the money. Therefore, these types of deposits are for those customers/ organizations who may need money at uncertain times.

Margin Deposit

Banks issue letter of credit, guarantee and indemnity etc. on behalf of the customer for a specified sum of money. These amounts have to be paid to the beneficiaries of aforesaid instruments provided they claim as per the terms and conditions agreed upon. Thus, banks are exposed to contingent liability. To reduce the liability banks ask customer to deposit a certain amount as the margin deposit.

Banks open the fictitious margin account in the name of the borrower to put such amount and interest is not paid in such deposit. Margin deposit is required to the customer if the claim is not lodged by the beneficiary. In the case of claim, the amount is utilized to honor the claim. The customer is asked to cover the shortfall if any (Dahal and Dahal, 1999:32).

Mobilization of resources also could be understood as the task of transferring the saving from those who save to those who are prepared to invest (Demond, 1957:14).

Therefore, the main objective of deposit mobilization is to convert idle savings into active saving. When discussing about resource mobilization we are mainly concerned with increasing the income of low-income group and to make them able to save more and to invest against the collected amount in the development activities.

It is quite understandable that comprehensive and highly objective credit policies are to be prepared and implemented effectively by the commercial banks. However, when the banks are to lend more and more credit as necessity, the sources of such loans and advances become a matter of serious consideration. Primarily, the deposit of the banking system would increase, if the structural change in one banking habits and practices and other institutional improvements are in progress. Secondly, increase in bank deposits should emanate from increase

in advances. It is known fact that every loan creates deposits through of course in different proportion. The range of propensity to deposit out of loans received is between zero and one. Greater the degree of propensity to deposit out of new loans larger will be the deposits with banks. High propensity to deposit out of loans reflects low desire of people to hold cash with themselves in relation to bank deposits. In other words, this indicates increased banking habit and practices among the public at least of those who benefit through bank loans (Joshi, V.R.. 1990:57).

Thus it is cleared that commercial banks are set up with a view to mobilize national resources. The first condition for national economic development is to be able to collect more and more deposits. In this context, the yearly increasing rate of commercial bank's deposits clearly shows the satisfactory progress of deposit mobilization.

Therefore, there is need of a huge amount of capital and the objective of deposit mobilization is to collect the scattered capital in different forms within the country. It is much more important to analyze the collected deposit in the priority sector of country. In the context of developing country like Nepal we have to promote our business and other sectors by investing the accumulated capital towards productive sectors. The need of deposit mobilization is felt to control unnecessary expenditure. If there is no saving, the extra amount that the people have, can flow towards buying unnecessary and luxury goods. Thus, the commercial banks are playing vital role for national development. Deposit mobilization is necessary to increase their activities. To increase saving is to mobilize deposit, it is because if the product of agriculture and industrial product increase it gives additional income which help to save more and ultimately it plays a good role in deposit mobilization.

2.1.6 Deposit Mobilization

Collecting small scattered amount of capital through different media and investing the deposited fund in productive sector with a view to increase the income of the depositors is meant deposit mobilization. In other words, investing the collecting fund in the productive sectors and increasing the income of the depositors, also supports increase in the saving through the investment of increased extra amount (NRB, Bankers Prakashan, 1984:24.12).

When we discuss about deposit mobilization, we are concerned with increasing the income of the low income group of people and to make them able to save more and invest the collected amount in the development activities (NRB, Bankers Prakashan, 1984:24.10).

Saving refers to that part of the total income which is more than the expenditure of the individual. In other words, $\text{saving} = \text{total income} - \text{total expenditure}$. Basically, saving can be divided into two parts voluntary saving and compulsory savings. Among deposited in different accounts of commercial bank, investment in government securities are some examples of voluntary saving. A commercial bank collects deposit through different accounts like fixed, saving and current.

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

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

Capital formation is possible through collecting scattered unproductive and small savings from the people. This collected fund can be utilized in productive sector to increase employment and national productivity. Deposit mobilization is the most dependable and important source of capital formation (RBB, 2055:4.14).

Deposits, such as current, saving and fixed deposits are the main part of the working capital. It is due to this reason that banks keep their deposit mobilization campaign always in full swing taking resort to every possible means lying at their deposit (NRB, 2040:13.2).

Commercial banks are set up with a view to mobilize national resources. The first condition of National Economic Development is to be able to collect more and more deposit. In these contexts, the yearly increasing rate of commercial banks deposit clearly shows the satisfactory progress of deposit mobilization (RBB, 2054:3-20).

Huge inflow of remittance has been one of the major factors in the high growth of deposit mobilization during last couple of years. According to the NRB statistics, the total formal remittance volume during last fiscal year was almost Rs. 60 billion, which was almost 13 percent of GDP.

As a result of this growing remittance inflow last year, the deposits of commercial bank has grown by almost 14% and had touched almost Rs. 105 billion from Rs. 92 billion recorded a couple of year earlier. Similarly, the deposit mobilization of the finance companies had also witnessed a growth of over 17 percent during the same period.

Commencing over the slow growth of deposits, Kishor Maharjan, deputy general manager of Himalayan Bank Limited said that the low growth in deposit mobilization could largely be attributed to the decline in remittance collection. “The major reason for the modest growth in deposit mobilization, is largely due to high decline in remittance income,” said Maharjan, “however, I believe, it is a temporary phenomenon and the remittance collection will bounce back in coming days” (www.kantipuronline.com)

2.1.7 Requirement for Deposit Mobilization

The following are some reasons why deposit mobilization is needed in the developing country like Nepal: -

- Capital is needed for the development of any sector of the country. The objective of deposit mobilization is to collect the scattered capital in different forms within the country.
- The need of deposit mobilization is felt to control unnecessary expenditure, if there is no saving, the extra money that the people have, can flow forwards buying unnecessary and luxury goods. So, the government also should help

to collect more deposit, steeping legal procedures to control unnecessary expenditures.

- Commercial banks are playing a vital role for National Development. They are granting loan not only in productive sectors but also in other sectors like food grains, gold, silver etc.
- It is much more important to analyze the collected deposit in one priority sectors of a country. In our developing country's we have to promote our business and other sectors by investing the accumulated capital towards productive sectors.

2.1.8 Advantage of Deposit Mobilization

The advantages of deposit mobilization are as follows: -

Circulation of Idle Money

Deposit mobilization helps to circulate idle money. The meaning of deposit mobilization is to convert idle saving into active saving. Deposit mobilization helps the depositor's habit of saving and it also helps to circulate the idle saving in productive sector. This helps to create incentives to the depositors.

To Support Fiscal and Monetary Policy

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

Capital Formation

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

Development of Banking Habit

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

To Support Government Development Projects

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

To Promote Cottage Industries

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

To Check up Misuse of Money

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

Others

Deposit mobilization supports small savers by earning interest. It also helps for the development of rural economy, protects villagers from being exploitation of indigenous bankers, increase investment incentives, provides facilities to the small farmers to purchase tools and fertilizers etc. So commercial banks play an important role for the economic development not only in a development country but also in a developing country.

2.1.9 Loans and Advances

The core function of commercial bank is the granting of credit. Although banks offer wide range of financial services, lending has traditionally been their main function. Banks possess experience, expertise and flexibility in lending which gave them clear competitive advantage over all other financial institution. Bank credit has been responsible for the development and growth of many small and moderate size business that otherwise would have withered and died by providing credit, banks have contributed to the growth of their respective communities and advances of local well being (Baidya, 1999:74).

Commercial bank provides loan to the public through which it creates the credit for the community. Commercial banks mobilize their funds mainly in loan and advances. Loan and advances is the risky assets. There is high ratio of risk on granting loan. Since, loan and advances is risky there is the possibility of high rate of return. Banks loans and advances contribute high ratio in the profit of the banks. It is the instrumental in creating and maintaining good deposit relationship which are essential for the furthering of bank's lending. Making loan is the principle economic functions of banks. Therefore, how well a bank performs its lending function has a great deal to do with the economic health of the country because bank loans support the growth of the new business and jobs within the bank's trade territory and promote its economic activity.

Through banks loan and advances are the important factor for getting profit to the bank it should not grant loan haphazardly. It should analyze the creditor before the approval of the loan. A manager must consider character, capacity and capital of the borrower. Another thing in lending is always influenced by the safety, recovery and return. The four conditional principles determine the spread of loans and advances. They are: -

- How to be safe?
- How to meet demand?
- How to meet the cost?
- How to bring about the development in terms of achieving social objectives?
- Generally a bank grants two types of loan i.e. short-term loan and long-term loan against the security. Security is necessary in case of the default of the payment. Banks can sell the property if due balance are not repaid in time with the interest.

2.1.10 Investment and Investment Policy

2.1.10.1 Investment

Investment is simply defined to be the sacrifice of current consumption for future consumption whose objective is to increase future wealth. The sacrifice of current consumption takes place at present with certainty and the investors expect desired level of wealth at the end of his investment horizon. The general principle is that the investment can be retired when cash is needed. The decision of investment is now the most crucial decision as the future level of wealth is not concern. Time and risk are the two conflicting attributes involved in the investment decision. Broadly, investment alternative fall into two categories: real assets and financial assets. Real assets are tangible while financial assets involve contracts written on pieces of papers such as common stocks, bonds and debentures. Financial assets are bought and sold in organized security markets.

2.1.10.2 Investment Policy

The initial step, setting investment policy, involves determining the investment objective and the amount of his or her investable wealth because there is a position relationship between risk and return for sensible investment strategies. It is not appropriate for an investor to say that his or her objective is to 'make a lot of money'. What is appropriate for an investor in this situation is to state that the objective is attempt to make a lot of money while regarding that there is same chance that large loss may be incurred. Investment objective should be stated in terms of both risk and return (Jack Clark Francis; sixth edition)

2.1.10.3 Characteristics of Sound Investment Policy

Some of the main characteristics of sound lending and investment policies are given below:-

Liquidity

People deposit money at bank in different account with confidence that the bank repay their money when they are in need. To maintain such confidence of the deposits the bank must keep this point in mind while investing its excess fund in different securities or at the same time of lending so that it can meet current or short term obligation when they become due for payment.

Safety and Security

The bank should invest its funds in those securities, which are subject to too much depreciation and fluctuation because little difference may cause a great loss. It must not invest its funds into speculative businessman who may be bankrupt at once and who may earn million in a minute also. The bank should accept the type of securities which are commercial, durable and marketability and have high market price.

Profitability

Commercial banks can maximize its volume of wealth through maximization of return on their investment and lending. So, they must invest their fund where they gain maximum profit. The profit of commercial banks mainly depends on the interest rate, volume of loan, its time period and nature of investment in different securities.

Legality

Illegal securities will bring many problems for the investors. Commercial banks must follow a rules and regulations as well as different direction issued by NRB, ministry of finance and others while mobilizing its deposits.

Purpose of Loan

The loan should be utilized in purposed plan. Everything related with the customer should be examined before lending. If borrower misuses the loan granted by the bank they can never repay and bank will posses heavy bad debts. Detailed information about the scheme of the project activities should be examined before lending.

2.1.11 Deposit Mobilization Institution in Nepal

There are mainly seven types of deposit mobilization institutions in Nepal.

Commercial Banks

There are 32 Commercial banks in the country as on March 2011 A.D.

Finance Companies

At February 2011 A.D. there are 79 finance companies in operations throughout the country. Out of these 51 finance companies are operating in central

development region and other 28 are rendering their services outside central development region.

Development Banks

There are altogether 87 development banks including Agriculture Development Bank as on December 31 2010 A.D. Out of these, 58 banks are operating in central development region.

Rural Development Banks

There are 5 rural development banks, one in each five development region as December 2010 A.D.

2.2 Review of Related Studies, Journal & Articles

Shrestha (2004), Deputy Chief officer of NRB Banking Operation Department, has given a short glimpse on the, *“Portfolio Management in Commercial Banks, Theory and Practice”*. Shrestha emphasis issue in the article. The portfolio management becomes very important both the individual and the institutional investors. Invest would like to select a best mix of invests assets subject to following aspects.

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

In the view of above aspects following strategies are adopted.

- Do not hold any single security; try to have a portfolio of different securities.
- To find out the risk of securities depending upon the attitude of investortoward risk.
- Do not put all the eggs in the one basket to have diversified investment,
- To find out the invisible assets(generally securities) having scope for better returns depending upon individual characteristic like age, need, health, deposition, tax liabilities and other liabilities.
- To identify of securities for investment to refuse volatility of return and risk.
- Choose such a portfolio of securities, which insures maximum return wit minimum risk or lower of return with added objectives of wealth. maximization. However, Shrestha has also presented the many approach to be adopted for designing a good portfolio and its good management.
- To develop alternative in investment strategies for selecting a better portfolio, which will ensure a trade- off between risk and return so as to attach the primary objectives of wealth maximization at lower risk.

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

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

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

Regarding the joint- venture commercial banks, they are very eager to provide such service but because of above-mentioned problems very limited opportunities are available to the banks for exercising the portfolio management, Shrestha has find out the following conclusion.

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

Joshi (2007), in the article *“Rural saving mobilization in Nepal”* states that the ability to save and the incentive to save are the two major determinants of saving. The incentive to save as reflected in NRB real interest rate policy can be stretched for with profit. It is highly probable that the further increase in the growth rate of financial saving can be materialized if a flexible policy is pursued to keep real interest rate at a positive level. Eventually the deposit expansion is to be bounded constrained by the low saving ability of the people as indicated by stagnant per capital GDP over the past decade.

- For a sustained growth of deposit or of overall saving rate what is needed more is to increase the income level of the people in order therefore to make saving mobilization strategy effective and successful policy should focus on the appropriate steps to tap saving within the existing banking framework while the long run measures should be adopted with a review to raise the investment rate and making it more productive.

Shrestha (2008), in his article, *‘A study on deposit and credit of commercial banks in Nepal’* conclude that the credit deposit ratio would be 51.30, other things remaining the same. In Nepal, this 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.

Pradhan (2009), has presented a short glimpse on investment in different sector, its problem and prospects through his article *“Deposit Mobilization, its problem and prospects”*. He has expressed that, “Deposit is the life blood of any financial institution, and be it commercial bank, finance company, co-operative or non government organization.” He has added, “In consideration of ten commercial banks, nearly three dozen of finance companies, the latest figure does produce a

strong feeling that a serious review must be made of problems and prospects of deposit sector.

Bajracharya (2010), in his article, “*Monetary policy and deposit mobilization in Nepal*” concludes that the mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal and for this purpose commercial banks are the vital active financial intermediary for generating resources in the form of deposit of the private sector and providing credit to the investors in different sectors of the economy.

2.2.1 Review of Unpublished Dissertation

Katuwal (2006), carried out a study on the topic “*Mobilization of Deposit and Investment of EBL Bank Limited*”. The purpose of the study will be to examine the relationship between the amount of total deposit and amount of total credit granted by EBL.

His main objectives are as follows:

- To examine how far the interest rates of deposits have positive relationship with the deposit collection of EBL Bank.
- To see the impact of interest rate of loan on the credit extended by EBL Bank.
- To study the increasing and decreasing trend of deposit mobilization of EBL Bank.
- To compare the performance of deposit and investment of EBL.

His Research Methodologies are as follows:

The research is analyzed by using different types of tools. For this study following statistical tools and financial tools are use such as Loans and advances to Total Risk, Weighted Assets Ratio, Non-performing Loan to Total Loans and advances

Ratio, Loan Loss Provision to Non Performing, Loan Ratio Loan Loss Provision to Total Loans and Advances, Arithmetic mean, standard Deviation, Correlation Coefficient, Probable Error, Regression Analysis and Test of Hypothesis.

His major findings are as follows.

- The analysis reveals that the banks attraction toward saving deposit seems to be satisfactory. But it is not stable increasing in percentage during the study period. It is continuous to increasing in the last of the study period.
- The changes in percentage in all deposits are in increasing trend. But last of the study period it is little fluctuate. The analysis reveals that the banks attraction towards total deposit seems to be satisfactory.
- The growth ratio of total deposit of EBL by analysis of 15 years period is 13.48%. It means the bank is able to maintain 13.48% growth rate. This ratio measures the capacity of the bank to maintain the percentage of total deposit. Since the growth ratio of total deposit is 13.48%, the bank must improve its deposit collection in high growth ratio.
- The total deposit has found in increasing trend. The total deposit of EBL will be Rs. 17544.74 lakhs in the 2009, if other things remains same. Similarly the credit also found in increasing trend. The amount of total credit will be Rs. 10408.03 lakhs in 2009.if other factors remains the constant.

Sanjel (2007), has carried out a study on the topic “*Analysis of Investment Policy of Commercial Bank*”. The main objective of the present study is to analyze the liquidity position as well as the investment policy adopted by NBBL, HBL and SCBNL and comparison of such between themselves. Presently the bankers are facing a huge tension of liquidity and this is not a good signal toward the performance of the banks. The study focuses whether it is backward or forward in investing its fund efficiently in industry average.

His main objectives are as follows:

- To evaluate the liquidity, assets management, efficiency and profitability of HBL, NBBL and SCBNL
- To analyze the deposit utilization trend of the HBL, NBBL and SCBNL.
- To analyze the relationship between total investment with other financial variables of HBL, NBBL and SCBNL and comparison between them.
- To recommend the package of workable suggestions and possible guidelines to improve investment policy of HBL, NBBL and SCBNL based on the finding of the study.

His Research Methodologies are as follows:

The research is analyzed by using different types of tools such as statistical tools and financial tools ie. Earnings per Share, Price Earnings Ratio, Return on Total Assets Return on Share, Holder's Fund or Equity, Arithmetic mean, Standard Deviation Correlation Coefficient, Probable Error and Regression Analysis.

His major findings are as follows.

The comparative analysis of liquidity ratio of SCBNL, NBBL and HBL reveals the following facts:

- The mean ratio & CV of current ratio of SCBNL is satisfactory. Only the SCBNL seems capable of paying current obligations. The ratio of HBL seems improving but the NBBL ' trend is deteriorating.
- The mean ratio & CV of cash and bank balance to total deposit ratio of HBL is higher. Higher ratio of HBL shows that it is able to serve the demand of its customers i.e. it is operating at the lower risk. The mean ratio of SCBNL and NBBL are lower than HBL but seems satisfactory. On the basis of CV it can be conducted that the ratio of SCBNL and NBBL are more consistent than that of HBL.

- The mean ratio and CV of cash and bank balance to current assets ratio of HBL is higher. NBBL takes place after HBL. SCBNL is also satisfactory position and has more consistent on the ratios. The ability of HBL to make the quick payment of its customer deposits on the basis of its most liquid assets i.e. cash & bank balance is higher.
- The mean ratio & CV of investment in government securities to current assets ratio of SCBNL has been found higher and more consistent. SCBNL has better position, HBL has average and NBBL from the point of view of investment in government securities is poor.

Maharjan (2008) has carried out a study on the topic “*Deposit Mobilization of Commercial Banks In Nepal*”. The objective of the study has been to examine relationship between the amount of total deposit and amount of total credit granted by the commercial banks.

His main objectives are as follows:

- To analyze the relationship between deposits and loans & advances.
- The effectiveness of deposit mobilization of commercial banks.
- To examine how far the interest rates of deposits have positive relationship with the deposit collection of commercial banks.
- To see the impact of an interest rates of loan on the credit extended by commercial banks.
- To provide suggestions and recommendations to the concerned for the further improvement.

His Research Methodologies are as follows:

The research, data are analyzed by using different types of tools. For this study following statistical tools Arithmetic mean, Standard Deviation, Correlation

Coefficient, Probable Error and Regression Analysis and financial tools Earnings per Share, Price Earnings Ratio, Return on Total Assets and Return on Share are also use.

His major findings are as follows.

- The cash and bank balance to total deposit ratio of HBL is 7.79 percent in an average, SBL is 7.65 percent in an average as well as NBL has 5.68 percent and SCBNL has 7.42 percent. The average ratio of HBL is higher than SBL, NBL and SCBNL. The ratios of the banks are found to be in fluctuating. The S.D is 1.58, 5.3, 2.18 and 1.73 for HBL, SBL, NBL and SCBNL respectively. As well as the C.V. for HBL, SBL, NBL and SCBNL are 20.28, 69.26, 38.37 and 23.32 respectively.
- The Loan and Advances to Total Deposit ratio of HBL is 52.77 percent in an average, SBL is 114.72 percent in an average as well as 64.07 percent in an average for NBL and 12.75 percent in an average for SCBNL. The ratios of the banks are found to be in fluctuating. The S.D is 3.77, 36.68, 5.98 and 6.1 for HBL, SBL, NBL and SCBNL respectively. As well as the C.V. for HBL, SBL, NBL and SCBNL are 7.14, 23.26, 9.33 and 16.57 respectively.
- The Total Investment to Total Deposit ratio of HBL is 37.76 percent in an average and SBL is 9.11 percent in an average as well as NBL has 37.04 percent in an average and SCBNL has 53.79 percent in an average. The ratios of the banks are found to be in fluctuating.
- The S.D is 10.86, 6.68, 6.62 and 2.19 for HBL, SBL, NBL and SCBNL respectively. As well as the C.V. for HBL, SBL, NBL and SCBNL are 28.76, 73.35, 17.87 and 4.07 respectively.
- The Investment on Shares and Debentures to Total Working Fund ratio of HBL is 0.13 percent and for SBL is 0.04 percent in an average as well as 5.71 percent in an average for NBL and 31.87 percent in an average for SCBNL. The S.D is 0.08, 0.08, 8.03 and 8.31 for HBL, SBL, NBL and

SCBNL respectively. As well as the C.V. for HBL, SBL, NBL and SCBNL are 62.90, 188.99, 140.70 and 26.07 respectively.

- The Liquidity Risk ratio of HBL is 7.79 percent in an average and for SBL is 7.65 percent in an average as well as 85.90 percent in an average for NBL and 80.36 percent in an average for SCBNL. The S.D is 1.58, 5.3, 2.69 and 4.44 for HBL, SBL, NBL and SCBNL respectively. As well as the C.V. for HBL, SBL, NBL and SCBNL are 20.28, 69.26, 3.13 and 5.52 respectively.
- The calculation of correlation coefficient between deposit and loan and advance is 0.96, shows the positive correlation for HBL, SBL has the perfectly positive correlation, NBL has positive correlation coefficient and SCBNL has also positive correlation coefficient which is 0.828 between deposit and loan and advance.

Based on his findings, 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 SBL is higher than that of other banks. It means SBL has higher cash and bank balance than other banks and it indicates SBL has higher idle cash and bank balance. It may decrease profit of bank. SBL is recommended to mobilize its idle cash and bank balance in profitable sector as loan and advances.

The main source of commercial banks is collecting deposit from public who don't need that fund recently. So, it is recommended to collect more amounts as deposits through large variety of deposits schemes and facilities, like cumulative deposit scheme, prize bonds scheme, gift cheques scheme, recurring deposit scheme (life

insurance), monthly interest scheme, house building scheme, direct finance housing scheme, education loan scheme and many others.

Investment on those securities issued by government i.e. treasury bills, development bonds, saving certificates 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, SBL is strongly recommended to give more importance to invest more funds in government securities instead of keeping them idle with this proverb “something is better than nothing”

Katuwal (2010), has carried out a study on the topic “*Mobilization of Deposit and Investment of Nabil Bank Limited*”. The purpose of the study will be to examine the relationship between the amount of total deposit and amount of total credit granted by Nabil.

His main objectives are as follows:

- To examine how far the interest rates of deposits have positive relationship with the deposit collection of Nabil Bank.
- To see the impact of interest rate of loan on the credit extended by Nabil Bank.
- To study the increasing and decreasing trend of deposit mobilization of Nabil Bank.
- To compare the performance of deposit and investment of Nabil.

His Research Methodologies are as follows:

In his thesis the data are analyzed by using different types of tools. As per topic requirements, emphasis is given on statistical tools rather than financial tools. So for this study following statistical tools and financial tools are use such as Debt to

Equity ratio, Debt Ratio Interest Coverage Ratio, Earnings per Share, Price Earnings Ratio, Return on Total Assets, Return on Share Holder's Fund or Equity, Arithmetic means, Standard Deviation and Correlation Coefficient.

His major findings are as follows.

- The analysis reveals that the banks attraction toward saving deposit seems to be satisfactory. But it is not stable increasing in percentage during the study period. It is continuous to increasing in the last of the study period.
- The changes in percentage in all deposits are in increasing trend. But last of the study period it is little fluctuate. The analysis reveals that the banks attraction towards total deposit seems to be satisfactory. Though the percentage changes are not stable, the change in ratio is in average. In case of percentage change in credit amount, the bank's attraction towards credit amount is satisfactory.
- The growth ratio of total deposit of Nabil by analysis of 15 years period is 13.48%. It means the bank is able to maintain 13.48% growth rate. This ratio measures the capacity of the bank to maintain the percentage of total deposit. Since the growth ratio of total deposit is 13.48%, the bank must improve its deposit collection in high growth ratio. Similarly the growth ratio of total credit is 17%. So the bank seems in strong condition to increase the total credit than the total deposit growth rate.
- The total deposit has found in increasing trend. The total deposit of Nabil will be Rs. 17544.74 lakhs in the 2009, if other things remains same. Similarly the credit also found in increasing trend. The amount of total credit will be Rs. 10408.03 lakhs in 2009.if other factors remains the constant.
- Bank's deposit collection is satisfactory but due to lack of investing opportunities it is unable to use its funds. Bank considers various possible factors while making lending. Such as: safety and security, profitability,

feasibility of project available of resources diversification, legality etc. Lending process is lengthy because it takes longtime to get loan from the bank. Manager generally visits to the investor once a year to get information about the business. This is very helpful to the investors.

Lamsal (2011) carried out a study on the topic “*Mobilization of Deposit & Investment of Nabil Bank Limited*” The major objective of the study is to analyze the deposit and investment position of NABIL bank.

His main objectives are as follows:

- To explore the deposit and investment trend of NABIL.
- To assess the impact of interest rate on deposit collection by the NABIL.
- To examine the relationship between deposit and investment of NABIL.
- To compare the performance of deposit and investment of NABIL.

His Research Methodologies are as follows:

In this research, data are analyzed by using different types of tools. As per topic requirements, emphasis is given on statistical tools rather than financial tools. So for this study following statistical tools and financial tools are use such as Loans and advances to Total Risk Weighted Assets Ratio, non-performing Loan to Total Loans and advances Ratio, Loan Loss Provision to Non Performing Loan, Arithmetic Mean Standard Deviation and Hypothesis Test.

His major findings are as follows.

- The current deposit, saving deposit, and margin deposit are in fluctuating trend over the study period and the call deposit and fixed deposit are in increasing trend over the study period.

- The total deposit of NABIL is in increasing trend in FY 2062/063 the total deposit is Rs. 19347.39 million and then increase by 20.65% in the fiscal year 2063/064, 32.73% in FY 2064/065, 17.02% in FY 2065/066 and 24.26% in FY 2066/067.
- Current deposit to total deposit ratio is in fluctuating trend the highest CD to TD ratio is 17.03% in FY 2066/067 and the lowest ratio is 14.55% in the FY 2064/065. The saving deposit to total deposit ratio is in decreasing trend, the highest SD to TD ratio is 45.33% in FY 2062/63 and the lowest ratio is 29.33% in FY 2066/067.
- The fixed deposit to total deposit ratio is in increasing trend except FY 2066/067. The highest FD to TD ratio is 33.99% in the FY 2066/067 and the lowest ratio is 17.83% in the FY 2062/063. The mean value of CD to TD, SD to TD and FD to TD are 20.90, 54.95 and 15.90 respectively and standard deviation is 4.15, 11.55 and 6.99 respectively.
- In average 100% of the deposited amount has been succeeded to mobilize the resources. The highest ratio is 104.92 and lowest ratio is 98.09. the amount of cash in bank and its position in total deposited amount is increasing each year.

2.3 Research Gap

The present thesis work reflects the following research gap.

This thesis work has covered the period of study till 2010/11 A.D. whereas the previous thesis work covered only up to 2009/10. This thesis work has covered the fact that SBL and HBL are focusing on different schemes to collect deposits from general public whereas the previous thesis work lacks this concept. Because deposit collecting schemes are new concepts to attract consumers in competitive banking sector.

We have lots of research on the topic 'Deposit Mobilization' of Siddhartha Bank Ltd and Himalayan Bank Ltd. Among those studies - some focused on the deposit collection of the Siddhartha Bank Limited and Himalayan bank limited-some included the study on their deposit mobilization and some also emphasized on the consistency of the fund investment.

This study also focuses on all the above issues related to deposit mobilization of the bank with similar kind of analysis tools. Besides these, this study has covered the data from 2006/07-2010/11.

CHAPTER-III

RESEARCH METHODOLOGY

In the previous chapter, the role of commercial banks and its functions for the economic development of a nation has been discussed and the review of literature with possible review of relevant books, articles and thesis, and research findings has been done along with the function of commercial banks and types of deposits. This has equipped the researcher to make choice of research methodology to support the study in realistic terms with sound empirical analysis.

“Research methodology refers to the various sequential steps to be adopted by a research in studying a problem with certain objectives in view” (Kothari, 1989:30).

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. This topic deals with the research design, nature of data collection, processing of data and statistical tools used.

3.1 Research Design

Research design indicates a plan of action to be carried out in connection with proposed research work. The research design is descriptive and core prescriptive in this study because the historical secondary data have been mainly deployed for analysis. “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, 1992:25).

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. They are derived with the help of some financial and statistical tools adapted to evaluate the deposit mobilization of the banks.

Research will mostly be based on secondary data. The research will be analytical as well as descriptive in nature. Appropriate financial and statistical tools will be used. All the commercial banks are taken as the population whereas two banks are taken as the samples which are listed as follows:-

- Himalayan Bank Limited
- Siddhartha Bank Limited

The various financial and statistical tools will be used in the research. The financial tools are liquidity ratio, activity ratio, capital adequacy ratio, risk ratio; profitability ratio, growth ratio etc. and the various statistical tools used are mean, standard deviation, coefficient of variation, correlation coefficient, trend analysis etc.

3.2 Source and Nature of Data

The study is conducted on the basis of secondary data. The data relating to the investment, deposit, loan and advances, assets and profits are directly obtained from the Balance Sheet and Profit and Loss account of the concerned bank's annual reports.

Supplementary data and information are collected from number of institution and authoritative sources like NRB, NEPSE, SEBON, web sites etc. For the additional information, informal-formal talks to the concerned head of the department of the bank were also done.

3.3 Population and Sample

There are six joint venture banks out of 32 commercial banks all over Nepal. In this study the deposit mobilization procedures of Himalayan Bank Limited and Siddhartha Bank Limited are studied. 32 commercial banks are taken as the population and SBL and HBL are chosen as the sample banks to reflect the picture of deposit mobilization.

3.4 Method of Data Analysis

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

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

- Financial Tools
- Statistical Tools

3.4.1 Financial Tools

Analysis and interpretation of various ratio should give experienced, skilled and analysis of a better understanding of a financial condition and performance of the firm than they would obtain from analysis of the financial data alone. The type of analysis varies according to specific interest of the party involved. Financial tools basically help to identify the financial strengths and weaknesses of the firm by

properly establishing relationships between the items of the balance sheet and the profit and loss account.

Liquidity Ratios

- Cash and Bank Balance to Total Deposit Ratio
- NRB Balance to Total Deposit Ratio (Cash Reserve Ratio)
- Investment on Government Securities to Total Deposit Ratio

Assets Management Ratios

- Loan and Advances to Total Deposit Ratio
- Total Investment to Total Deposit Ratio
- Loan and Advances to Total Working Fund Ratio
- Investment on Government Securities to Total Working Fund Ratio
- Investment on Shares and Debenture to Total Working Fund Ratio

Profitability Ratios

- Return on Loan and Advances Ratio
- Return on Total Working Fund Ratio
- Total Interest Earned to Total Working Fund Ratio
- Total Interest Expenses to Total Working Fund Ratio

Risk Ratios

- Liquidity Risk Ratio
- Credit Risk Ratio

Growth Ratios

- Growth Ratio of Total Deposits
- Growth Ratio of Total Investment

- Growth Ratio of Loan and Advances
- Growth Ratio of Net Profit

3.4.2 Statistical Tools

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, trend analysis of important variables as well as hypothesis test (t-statistic) has been used, which are presented below:

- Karl Pearson's of Coefficient of Correlation Analysis
- Coefficient of Variation (C.V)
- Standard Deviation (S.D)
- Probable Error (P.E)
- Trend Analysis

Karl Pearson's Coefficient of Correlation Analysis

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:

When $r = 1$, there is perfect positive correlation.

When $r = -1$, there is perfect negative correlation.

When $r = 0$, there is no correlation.

When 'r' lies between 0.7 to 0.999 (-0.7 to 0.999), there is a high degree of positive (or negative) correlation.

When 'r' lies between 0.5 to 0.699, there is moderate degree of correlation.

When 'r' is less than 0.5, there is low degree of correlation.

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).

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

$$r = \frac{N \sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$
$$x = X - \bar{X}$$
$$y = Y - \bar{Y}$$

Where,

n = number of observations in series X and Y

X = sum of observations in series X

Y = sum of observations in series Y²

X = sum of squared observations in series X²

Y = sum of squared observations in series Y

XY = sum of the product of observations in series X and Y

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 less consistent, less uniform, more years. Greater the C.V, the variable or conversely consistent, more uniform, more stable and homogeneous.

$$CV = \frac{\text{Standard Deviation}}{\text{Expected Return}} \times 100$$

Standard Deviation (S.D)

Karl Pearson first introduced the concept of standard deviation in 1983. Standard deviation is the positive square root of the arithmetic average of the squares of all the deviation measured from the arithmetic average of the series. The standard deviation measures the absolute dispersion of a distribution. Greater the amount of dispersion the greater the standard derivation i.e. greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series. Standard Deviation is denoted by a Greek letter ' σ ' (Sigma) and is calculated as follows.

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

Where,

N = Number of items in the series.

\bar{X} = Mean

X = Variable

Probable Error (P.E)

The probable error of the co-efficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the

value of coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows:

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

Where r is coefficient of correlation and n is the number of pairs of items. The following general rules are taken to interpret the value of r :

If the value of ' r ' is less than the probable error, there is no evidence of correlation, i.e. the value of ' r ' is not at all significant.

If the value of ' r ' is more than six times the probable error, the existence of correlation is practically certain, i.e. the value of ' r ' is significant.

Trend Analysis

Trend analysis has been a very useful and commonly applied statistical tool to forecast the future events in quantitative terms. On the basis of tendencies in the dependent variables in the past periods, the future trend is forecasted. This analysis takes the historical data as the basis of forecasting. This method of forecasting the future trend is based on the assumptions that the past tendencies of the variables are repeated in the future of the past events affects the future events significantly. The future trend is forecasted by using the following formula:

$$Y = a + bx$$

Where,

Y = The dependent variable

a = The origin i.e. arithmetic mean

b = The slope coefficient i.e. rate of change

X = The independent variable

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation, analysis and interpretation of statistics, evidence and facts to clarify the research works. Hence the study presents the collected data for various purposes of analysis. The data are analyzed using financial and statistical tools to get values of different variables. The analyzed data and results are presented clearly and simultaneously using tables and graphs. Lastly, each of the results is interpreted in each topics and sub topics.

4.1 Ratio Analysis

4.1.1 Liquidity Ratio

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 a quick measure of the liquidity and financial strength of the firm.

“Liquidity ratios examine the adequacy of deposits, the solvency of the firms ability to pay its obligation when due” (Hampton, 1971: 139). Various types of liquidity ratios are applied in these studies, which are explained below:

4.1.1.1 Cash and Bank Balance to Total Deposit

To have sufficient liquidity to pay the current liabilities the bank needs to have adequate cash and bank balance because cash and bank balance are the most liquid current assets of a firm. This ratio is computed dividing the amount of cash and bank balance by the total deposits. It can be presented as:

$$\text{Cash and Bank balance to Total Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposits}}$$

Where, cash and bank balance includes cash on hand and bank balance with NRB and other financial institutions. Total deposits consist of deposits on current account, margin account, saving account, fixed account, money at call and short notice and other deposits.

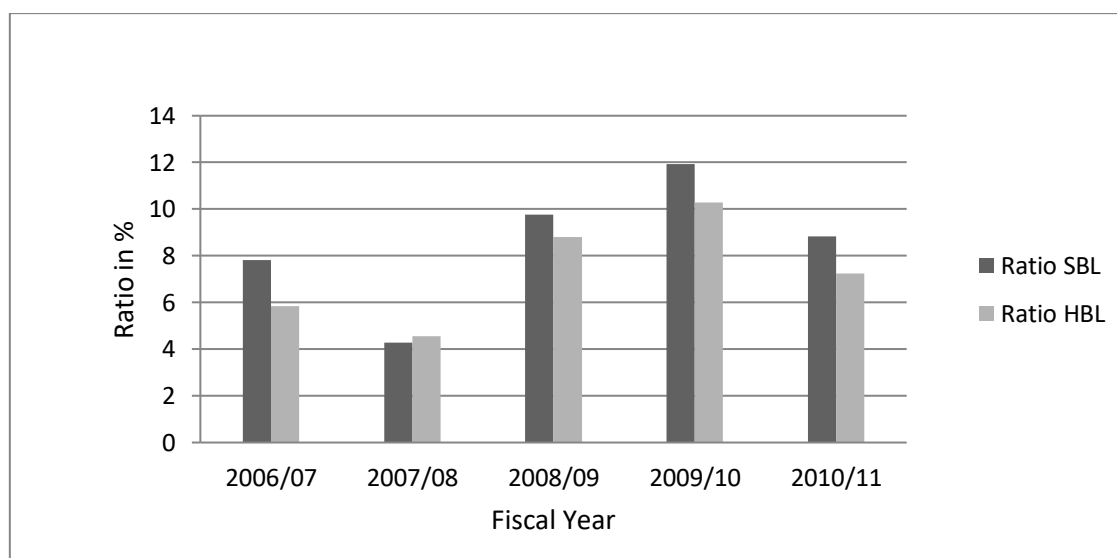
Table 4.1
Cash and Bank Balance to Total Deposit Ratio

(Rs in Million)

Fiscal Year	SBL			HBL		
	CBB	TD	Ratio	CBB	TD	Ratio
2006/07	517.22	6625.08	7.81	1757.34	30048.42	5.85
2007/08	437.43	10191.44	4.29	1448.14	31842.79	4.55
2008/09	1547.68	15854.80	9.76	3048.52	34681.34	8.79
2009/10	2406.61	20197.03	11.92	3866.48	37611.20	10.28
2010/11	1905.68	21575.65	8.83	2964.65	40920.63	7.24
Mean			8.52			7.34
S.D.			2.81			2.28
C.V.%			32.96			31.04

(Source: Annual Reports of SBL & HBL & Appendix I)

Figure 4.1
Cash and Bank Balance to Total Deposit Ratio



Source: Table 4.1

The table 4.1 and figure 4.1 show that the mobilization of total deposit to maintain cash and bank balance in order to have enough liquidity. The cash and bank balance in both the selected banks are in fluctuating trend, while the total deposit is in increasing trend. SBL has maintained the higher ratio at 11.92% while HBL maintained 10.28% during the study period. The average ratio of SBL and HBL is 8.52 % and 7.34 % respectively.

Comparing two banks on the ground of cash and bank balance to total deposit, it can be concluded that SBL (8.52%) has mobilized higher portion of total deposit in maintaining cash and balance than HBL (7.34%) does in order to have sufficient liquidity position. But, the uniformity in ratio is more in HBL (C.V. = 31.04%) than in SBL (C.V. = 32.96%).

4.1.1.2 Cash Reserve Ratio

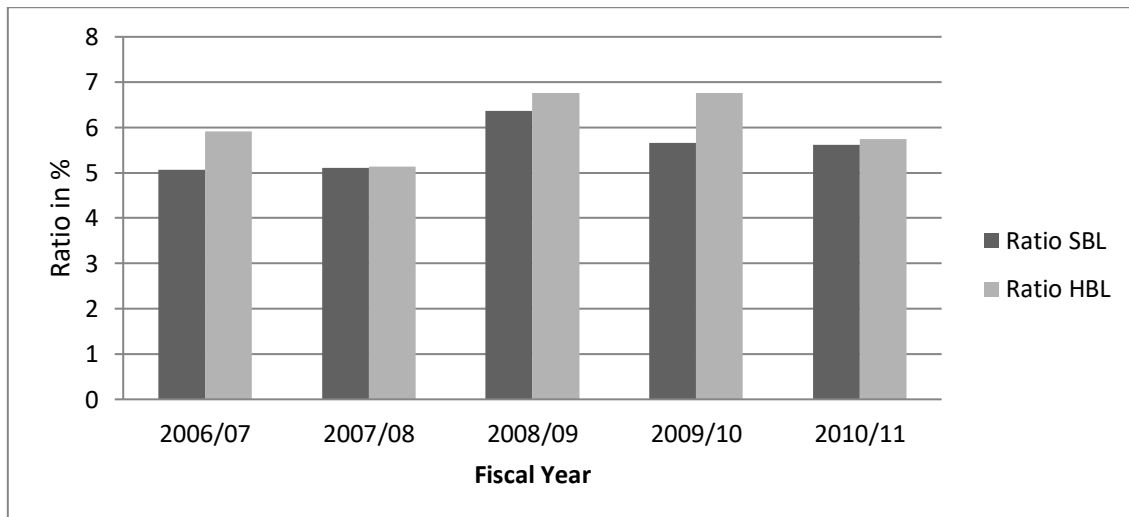
Each bank has to operate its activities as per the direction set out by Nepal Rastra Bank. According to the directives of NRB, the cash balance at NRB should be 5% of the total local deposit in the fiscal year 2004/05 to 2007/08 and 5.5% since October 2008. Thus, cash reserve ratio measures, whether the bank has effectively mobilized the local deposit to implement the NRB directives.

Table 4.2
NRB Balance to Total Local Deposit Ratio

Fiscal Year	NRB Requirement %	CRR %	
		SBL	HBL
2006/07	5	5.07	5.92
2007/08	5	5.11	5.13
2008/09	5.5	6.36	6.76
2009/10	5.5	5.66	6.76
2010/11	5.5	5.61	5.75
Mean		5.56	6.06
S.D.		0.52	0.70
C.V.%		9.41	11.55

(Source: Annual Reports of SBL & HBL & Appendix I)

Figure 4.2
NRB Balance to Total Local Deposit Ratio



Source: Table 4.2

The table 4.2 and figure 4.2 have depicted the mobilization of total deposit to maintain minimum cash reserve ratio by SBL and HBL. In average, SBL maintained 5.56% cash reserve ratio, and the coefficient of variation on such ratio is 9.41%, which is highly inconsistent. Similarly, HBL in average maintained

6.06% of the total local deposit as cash balance in NRB. The coefficient of variation on cash reserve ratio is 11.55%, which has indicated consistency.

Finally, it can be concluded that both the banks were able to keep the cash reserve ratio set out by NRB. However the CRR maintained by SBL (5.56%) is comparatively lesser than the cash reserve ratio of HBL (6.06%) in NRB in average.

4.1.1.3 Investment on Government Securities to Total Deposit

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

$$\text{Investment on Govt. Securities on Total Deposit} = \frac{\text{Investment on Govt. Securities}}{\text{Total Deposit}}$$

Table 4.3

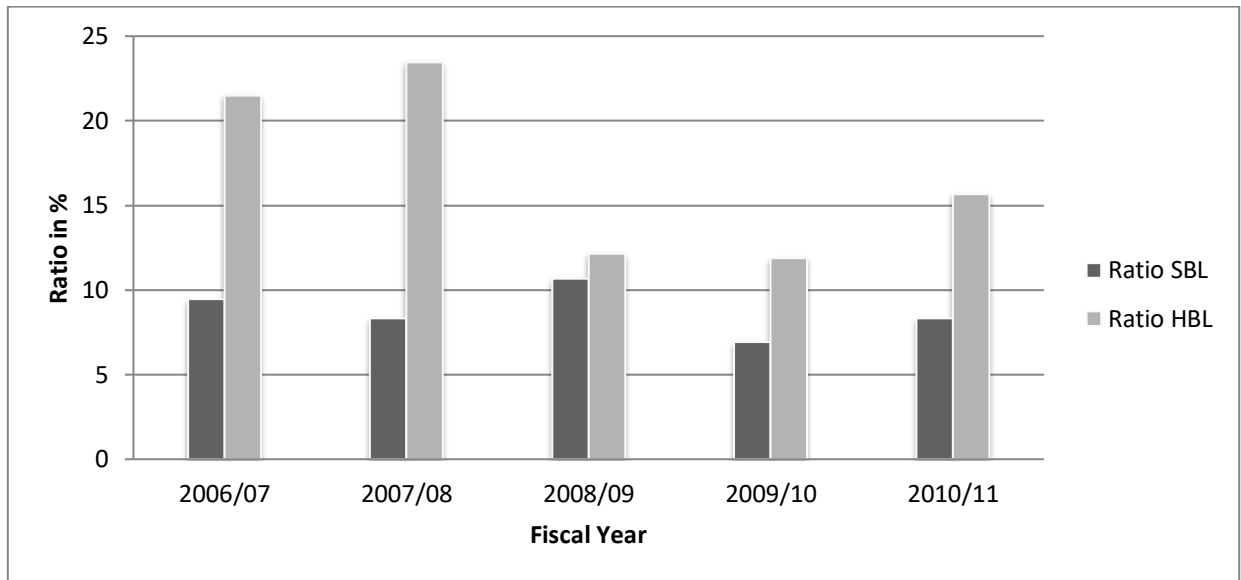
Investment on Government Securities to Total Deposit Ratio

Fiscal Year	SBL			HBL		
	Inv to Govt. Sec.	TD	Ratio	Inv to Govt. Sec.	TD	Ratio
2006/07	625.74	6625.08	9.45	6454.86	30048.42	21.48
2007/08	850.08	10191.44	8.34	7471.66	31842.79	23.46
2008/09	1693.57	15854.8	10.68	4212.3	34682.31	12.15
2009/10	1401.36	20197.03	6.94	4465.37	37611.20	11.87
2010/11	1795.36	21575.65	8.32	6407.34	40920.63	15.66
Mean			8.75			16.92
S.D.			1.40			5.33
C.V.%			16.02			31.47

(Source: Annual Reports of SBL & HBL & Appendix I)

Figure 4.3

Investment on Government Securities to Total Deposit Ratio



Source: Table 4.3

The table 4.3 and figure 4.3 show that the HBL has invested more portions of current assets in government securities i.e. 23.46% in the year 2007/08 in comparison to SBL during the study period.

The mean ratio of HBL is highest i.e. 16.92% than that of SBL. Also, coefficient of variation of HBL is highest than that of SBL (i.e. 31.47% > 16.02%). It seems that SBL is more consistent to make investment in government securities than HBL.

4.1.2 Assets Management Ratios (Activity Ratio)

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, 1996:74).

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 deposit mobilization are calculated under asset management ratio and interpretation is made by these calculations.

4.1.2.1 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. 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 follows:

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

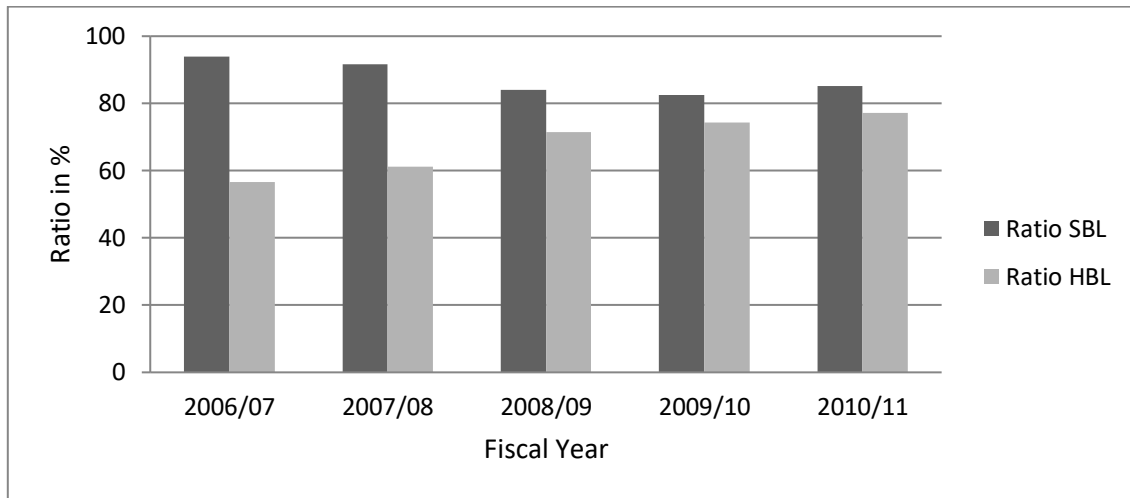
Table 4.4
Loan and Advances to Total Deposit Ratio

Fiscal Year	SBL			HBL		
	LA	TD	Ratio	LA	TD	Ratio
2006/07	6222.58	6,268.95	93.92	16997.98	30048.42	56.57
2007/08	9335.60	7,768.96	91.60	19497.52	31842.79	61.23
2008/09	13328.62	10,557.42	84.07	24793.15	34681.34	71.49
2009/10	16653.85	12,780.15	82.46	27980.63	37611.20	74.39
2010/11	18384.03	15,710.92	85.21	31566.97	40920.63	77.14
Mean			87.45			68.16
S.D.			5.01			8.85
C.V.%			5.73			12.98

(Source: Annual Reports of SBL & HBL & Appendix I)

Figure 4.4

Loan and Advances to Total Deposit Ratio



Source: Table 4.4

The table 4.4 and figure 4.4 show that these two banks have mobilized their collected deposits on loan and advances in an increasing trend during the study period. The higher ratio of loan and advances to total deposit of SBL and HBL are 93.92 and 77.14 respectively. HBL has mobilized 68.16% of its collected deposit in loan and advances which is less than SBL in average, coefficient of variation of SBL is 5.73% which shows that SBL is more stable than HBL in mobilizing collected deposit.

4.1.2.2 Total Investment to Total Deposit

The bank mobilizes its deposit collection through investment in various sectors like government securities, corporate shares and debentures and others like certificate of deposit, mutual fund to earn interest, dividend and capital gain. The mobilization of total deposit in investment is computed as follows:

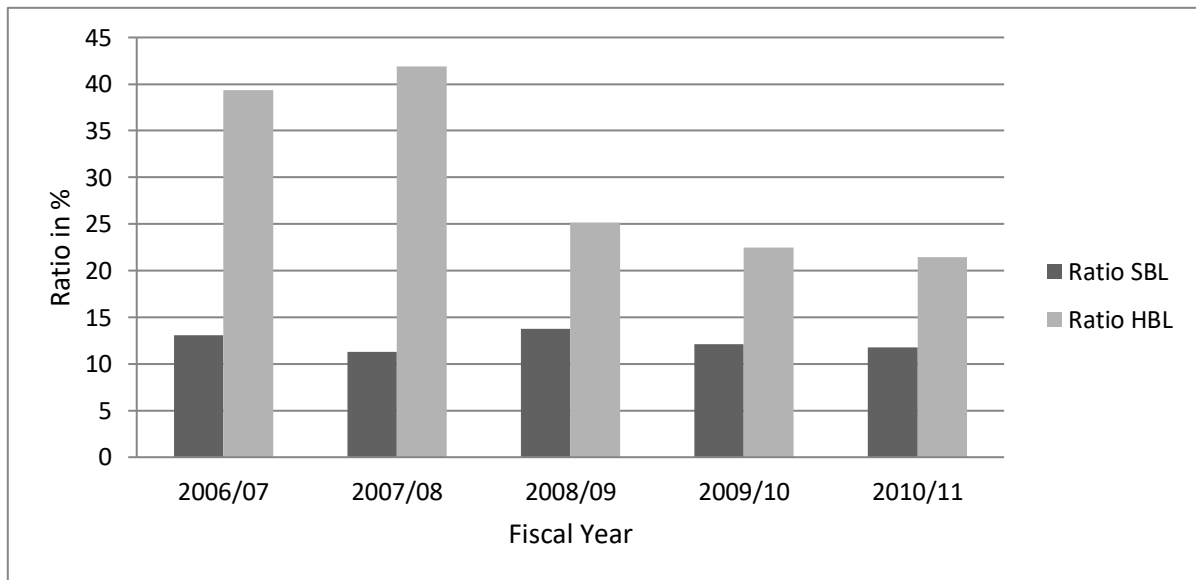
$$\text{Investment to Total Deposit Ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

Table 4.5
Investment to Total Deposit Ratio

Fiscal Year	SBL			HBL		
	Inv.	TD	Ratio	Inv.	TD	Ratio
2006/07	865.19	6,268.95	13.06	11822.98	30048.42	39.35
2007/08	1150.09	7,768.96	11.28	13340.18	31842.79	41.89
2008/09	2176.43	10,557.42	13.73	8710.69	34681.34	25.12
2009/10	2452.47	12,780.15	12.14	8444.91	37611.20	22.45
2010/11	2537.91	15,710.92	11.76	8769.94	40920.63	21.43
Mean			12.40			30.05
S.D.			0.99			9.79
C.V.%			7.98			32.57

(Source: Annual Reports of SBL & HBL & Appendix I)

Figure 4.5
Investment to Total Deposit Ratio



Source: Table 4.5

From the table 4.5 and figure 4.5 concluded that both the banks have the ratios of fluctuating trend during the study period. In average HBL has invested more amount of its total deposit in comparison to SBL. The coefficient of variation of

SBL is 7.98% which is comparatively less than that of HBL. It indicates that SBL is more consistent to make investment of total deposit than HBL.

4.1.2.3 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. It is calculated as follows,

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

Where, total working fund includes the entire funds mobilized to earn profit. That is Total Working Fund = Total Deposits + Borrowings

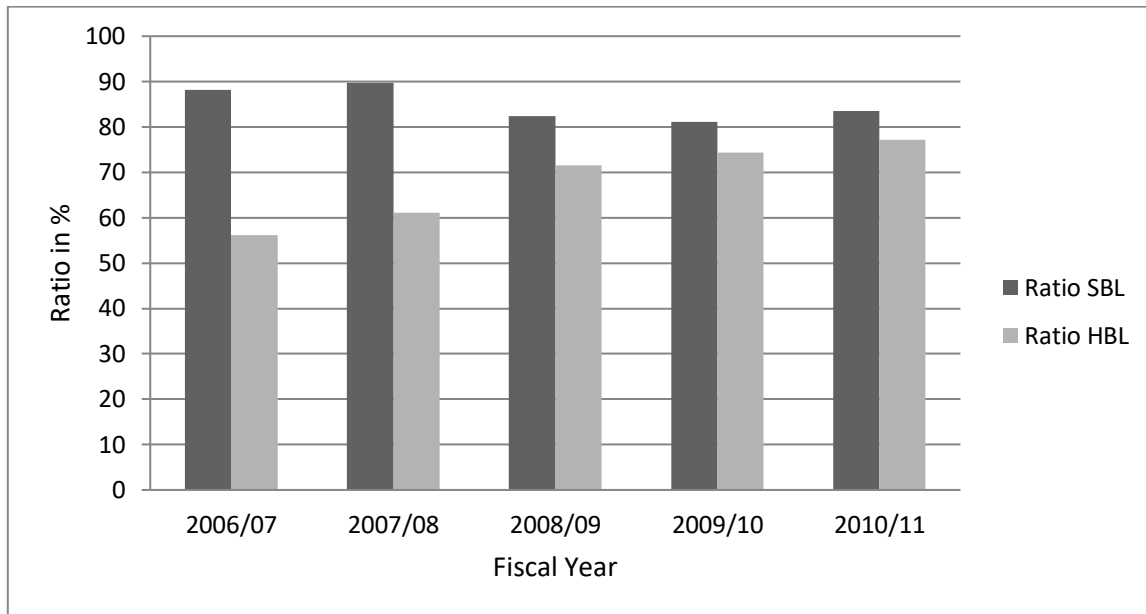
Table 4.6
Loan and Advances to Total Working Fund Ratio

Fiscal Year	SBL			HBL		
	LA	TWF	Ratio	LA	TWF	Ratio
2006/07	6222.58	7055.08	88.20	16997.98	30284.39	56.13
2007/08	9335.6	10396.57	89.79	19497.52	31925.97	61.07
2008/09	13328.62	16182.4	82.36	24793.15	34682.31	71.49
2009/10	16653.85	20542.03	81.07	27980.63	37611.20	74.39
2010/11	18384.03	22025.65	83.47	31566.97	40930.63	77.12
Mean			84.98			68.04
S.D.			3.81			9.02
C.V.%			4.48			13.25

(Source: Annual Reports of SBL & HBL & Appendix I)

Figure 4.6

Loan and Advances to Total Working Fund Ratio



Source: Table 4.6

The table 4.6 and figure 4.6 describes the loan and advances to total working fund ratio of SBL in fluctuating trend while that of HBL in an increasing trend. During the study period SBL and HBL have highest ratio 89.79 and 77.12 in year 2007/08 and 2010/11 respectively. On average SBL maintains highest ratio of 84.98% than HBL. The coefficient of variation SBL is also of lowest variation i.e. 4.48%.

4.1.2.4 Investment on Government Securities to Total Working Fund Ratio

Investment on government securities to total working fund ratio shows how much part of investment is there on government securities. Here, investment on government securities includes investment on Nepal Government Treasury Bill, Saving Bonds and other securities. It can be obtained by using following formula:

$$\text{Investment on Government of TWF Ratio} = \frac{\text{Investment on Govt Securities}}{\text{Total Working Fund}}$$

Table 4.7

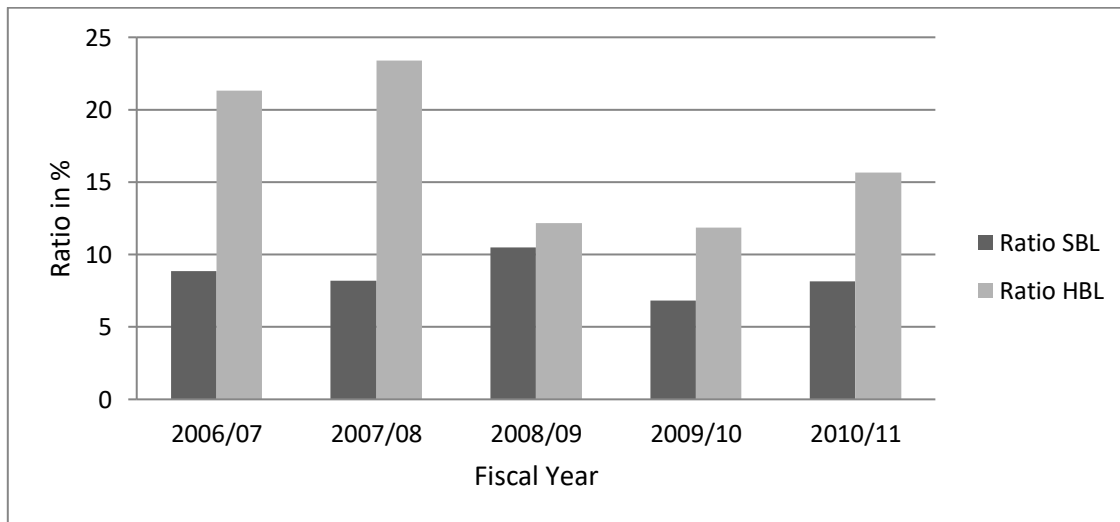
Investment on Government Securities to Total Working Fund Ratios

Fiscal Year	SBL			HBL		
	Inv to Govt. Sec.	TWF	Ratio	Inv to Govt. Sec.	TWF	Ratio
2006/07	625.74	7055.08	8.87	6454.86	30284.39	21.31
2007/08	850.08	10396.57	8.18	7471.66	31925.97	23.40
2008/09	1693.57	16182.4	10.47	4212.3	34682.31	12.15
2009/10	1401.36	20542.03	6.82	4465.37	37611.20	11.87
2010/11	1795.36	22025.65	8.15	6407.34	40930.63	15.65
Mean			8.50			16.88
S.D.			1.33			5.27
C.V.%			15.62			31.24

(Source: Annual Reports of SBL & HBL & Appendix I)

Figure 4.7

Investment on Government Securities to Total Working Fund Ratios



Source: Table 4.7

Comparative table 4.7 and figure 4.7 shows the investment on government securities to total working fund of both SBL and HBL are in fluctuating trend. SBL and HBL have the highest ratio of 10.47 and 23.40 in year 2008/09 and

2007/08 respectively. Likewise they have the lowest ratio of 6.82 and 11.87 in year 2009/10 respectively. HBL has highest mean ratio of 16.88% than SBL. The coefficient of variation indicates SBL (i.e. 15.62) has more stable ratio than that of HBL.

4.1.2.5 Investment on Shares, Debentures and Bonds to Total Working Fund

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 investment on shares and debentures by total working fund. It is calculated as:

$$\text{Inv't, on shares, Debt and Bonds to TWP Ratio} = \frac{\text{Inv't.on Shares,Debt. \& Bonds}}{\text{Total Working Fund}}$$

Table 4.8

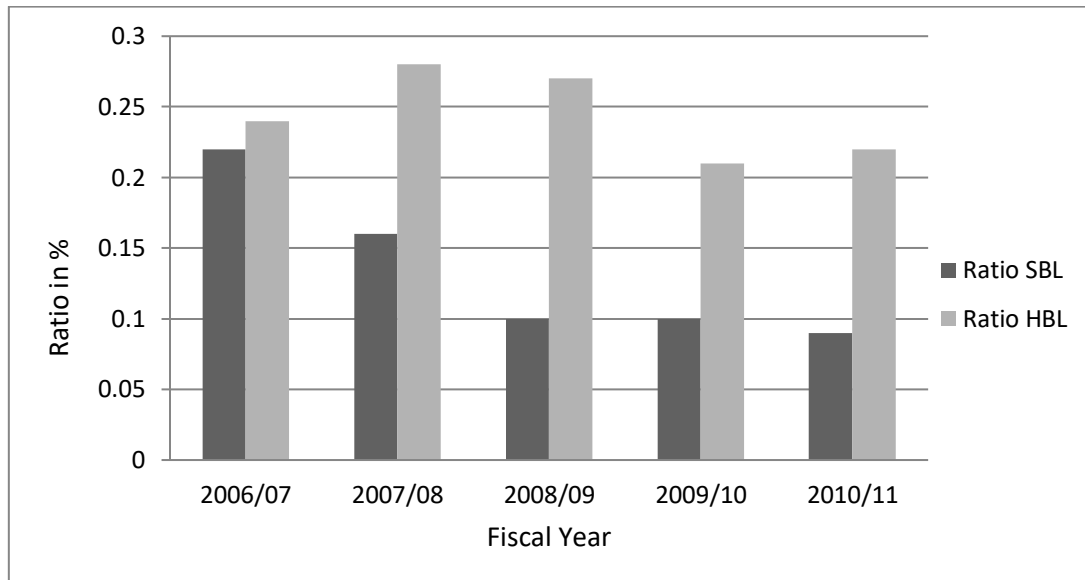
Investment on Shares, Debentures and Bonds to Total Working Fund Ratio

Fiscal Year	SBL			HBL		
	Inv on Shares & Debt.	TWF	Ratio	Inv on Shares & debt.	TWF	Ratio
2006/07	15.35	7055.08	0.22	73.42	30284.39	0.24
2007/08	16.23	10396.57	0.16	89.56	31925.97	0.28
2008/09	16.36	16182.4	0.10	93.88	34682.31	0.27
2009/10	19.93	20542.03	0.10	78.88	37611.20	0.21
2010/11	20.31	22025.65	0.09	88.79	40930.63	0.22
Mean			0.13			0.24
S.D.			0.05			0.03
C.V.%			40.66			12.89

(Source: Annual Reports of SBL & HBL & Appendix I)

Figure 4.8

Investment on Shares, Debentures and Bonds to Total Working Fund Ratio



Source: Table 4.8

The table 4.8 and figure 4.8 analyses SBL and HBL have a highest ratio of 0.22 and 0.28 in year 2006/07 and 2007/08 respectively during the study period. HBL has invested more amounts in shares and debentures i.e. 0.24% than SBL. The coefficient of variation shows more stable ratio of HBL i.e. 12.89%.

4.1.3 Profitability Ratios

Profit is the 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 ways:

4.1.3.1 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. This ratio is computed dividing net profit (loss) by the total amount of loan and advances and can be calculated as,

$$\text{Return on loan and advances Ratio} = \frac{\text{Net Profit (Loss)}}{\text{Loan and Advances}}$$

Table 4.9

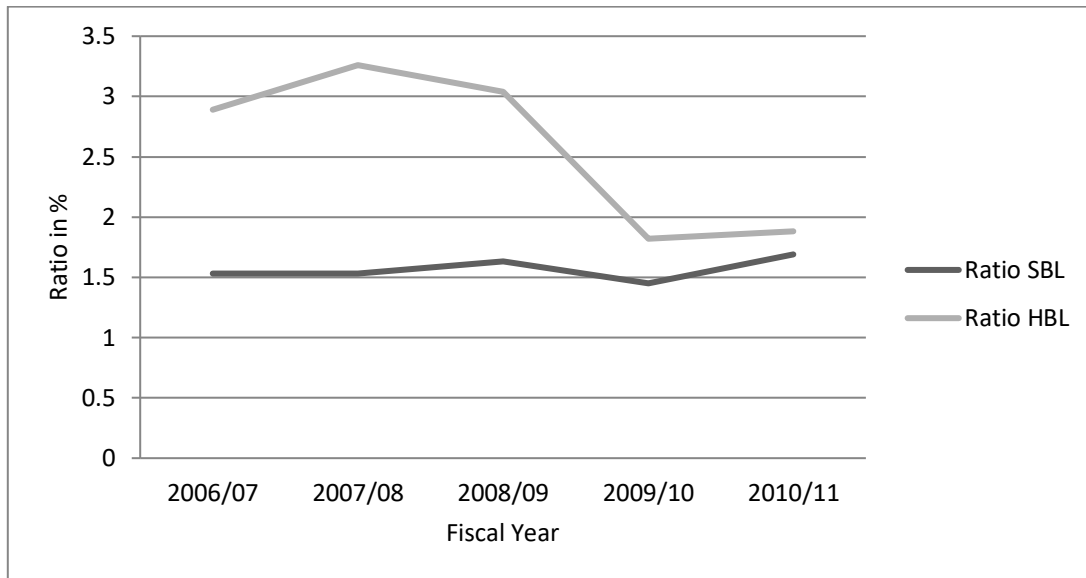
Return on Loan and Advances Ratio

Fiscal Year	SBL			HBL		
	NPAT	LA	Ratio	NPAT	LA	Ratio
2006/07	95.3	6222.58	1.53	491.82	16997.98	2.89
2007/08	143.17	9335.6	1.53	635.87	19497.52	3.26
2008/09	217.91	13328.62	1.63	752.83	24793.15	3.04
2009/10	240.85	16653.85	1.45	508.8	27980.63	1.82
2010/11	311.41	18384.03	1.69	593.11	31566.97	1.88
Mean			1.57			2.58
S.D.			0.10			0.68
C.V.%			6.19			26.33

(Source: Annual Reports of SBL & HBL & Appendix I)

Figure 4.9

Return on Loan and Advances Ratio



Source: Table 4.9

The table 4.9 and figure 4.9 show that analysis the return on loan and advances of HBL and SBL have the ratio of fluctuation trend. During the study period, HBL has a higher ratio 3.26 than SBL i.e. 1.69. In average HBL has the highest mean ratio of 2.58 whereas SBL has the mean ratio of 1.57.

4.1.3.2 Return on Total Working Fund Ratio

Return on total assets ratio measures the profit earning capacity of the banks by utilizing available resources i.e. total assets. If the banks well manage and efficiently utilize the assets, it will yield higher return. It is computed as:

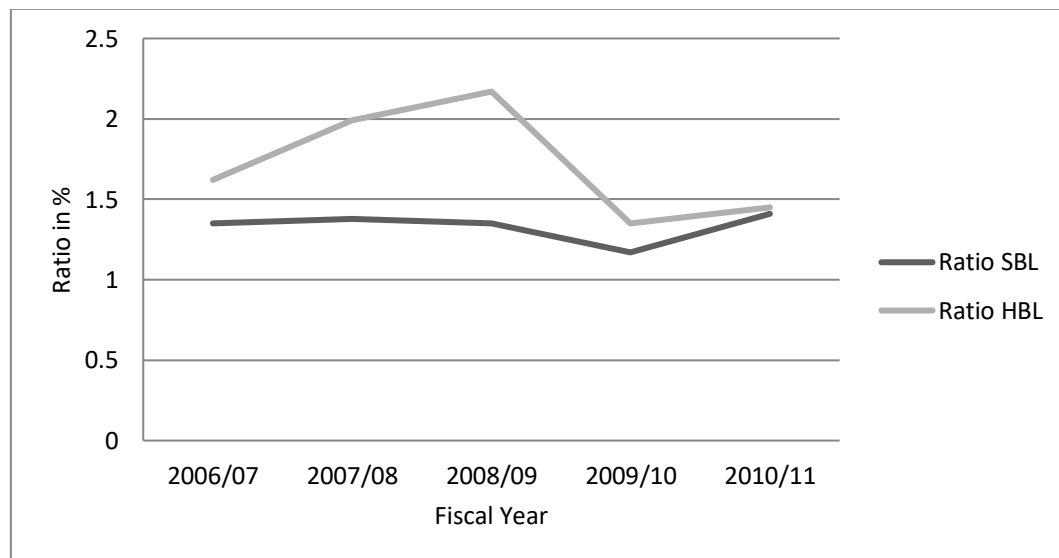
$$\text{Return on Total Assets Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Working Fund}}$$

Table 4.10
Return on Total Working Fund Ratio

Fiscal Year	SBL			HBL		
	NPAT	TWF	Ratio	NPAT	TWF	Ratio
2006/07	95.3	7055.08	1.35	491.82	30284.39	1.62
2007/08	143.17	10396.57	1.38	635.87	31925.97	1.99
2008/09	217.91	16182.4	1.35	752.83	34682.31	2.17
2009/10	240.85	20542.03	1.17	508.8	37611.20	1.35
2010/11	311.41	22025.65	1.41	593.11	40930.63	1.45
Mean			1.33			1.72
S.D.			0.09			0.35
C.V.%			7.00			20.47

(Source: Annual Reports of SBL & HBL & Appendix I)

Figure 4.10
Return on Total Working Fund Ratio



Source: Table 4.10

The table and figure 4.10 shows the ratio is in fluctuating trend. During the study period HBL the highest ratio 2.17 than SBL i.e. 1.41. HBL has highest return on

total assets i.e. 1.72% than SBL. In case of coefficient of variation, SBL has the lowest CV of 7% than HBL.

4.1.3.3 Total Interest Earned to Total Working Fund Ratio

This ratio reflects the extent to which the banks are successful in mobilizing the total assets to acquire income as interest. This ratio actually reveals the earning capacity of commercial banks by mobilizing its assets. Higher the ratio higher will be the income as interest. It can be calculated as follows:

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

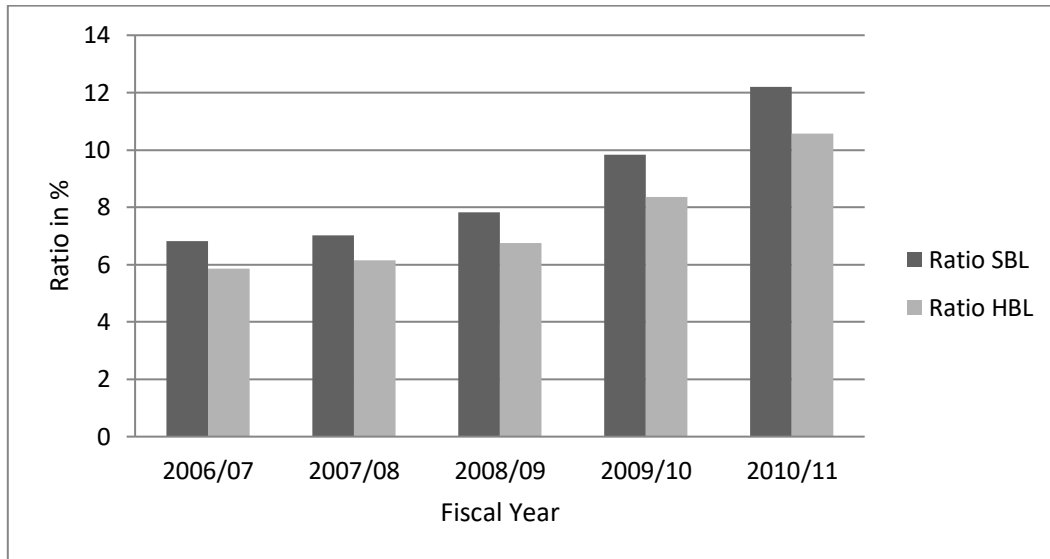
Table 4.11

Total Interest Income to Total Working Fund Ratio

Fiscal Year	SBL			HBL		
	IE	TWF	Ratio	IE	TWF	Ratio
2006/07	481.52	7055.08	6.83	1775.58	30284.39	5.86
2007/08	729.87	10396.57	7.02	1963.65	31925.97	6.15
2008/09	1265.58	16182.4	7.82	2342.2	34682.31	6.75
2009/10	2018.3	20542.03	9.83	3148.61	37611.20	8.37
2010/11	2690.3	22025.65	12.21	4326.14	40930.63	10.57
Mean			8.74			7.54
S.D.			2.28			1.95
C.V.%			26.04			25.87

(Source: Annual Reports of SBL & HBL & Appendix I)

Figure 4.11
Total Interest Income to Total Working Fund Ratio



Source: Table 4.11

The table 4.11 and figure 4.11 show the SBL has highest Interest Income to Total Working Fund ratio 12.21% in the year 2010/11 and the lowest ratio 7.02% in the year 2007/08. Likewise HBL has highest ratio 10.57% and lowest ratio 5.86% in the year 2010/11 and 2006/07 respectively. SBL has 8.74% mean ratio but HBL has only 7.54%. The coefficient of variation of HBL is less than SBL. It indicates that interest earning power of HBL is more consistent than SBL.

4.1.3.4 Total Interest Expenses to Total Working Fund

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:

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

Table 4.12

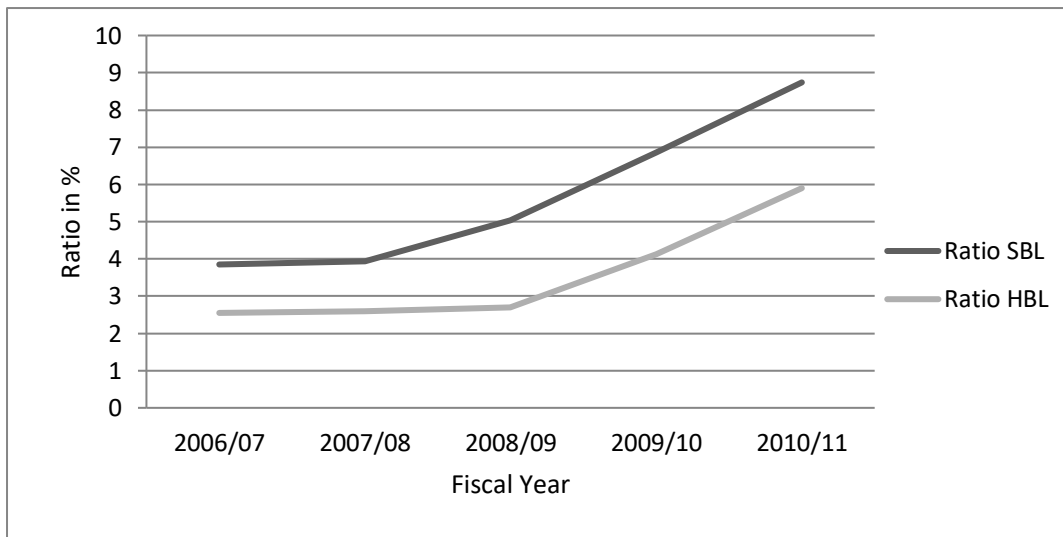
Total Interest Expenses to Total Working Fund Ratios

Fiscal Year	SBL			HBL		
	IED	TWF	Ratio	IED	TWF	Ratio
2006/07	271.71	7055.08	3.85	767.41	30284.39	2.53
2007/08	408.19	10396.57	3.93	823.74	31925.97	2.58
2008/09	813.62	16182.4	5.03	934.78	34682.31	2.70
2009/10	1406.49	20542.03	6.85	1553.53	37611.20	4.13
2010/11	1925.24	22025.65	8.74	2414.81	40930.63	5.90
Mean			5.68			3.57
S.D.			2.10			1.46
C.V.%			36.91			41.00

(Source: Annual Reports of SBL & HBL & Appendix I)

Figure 4.12

Total Interest Expenses to Total Working Fund Ratios



Source: Table 4.12

The table 4.12 and figure 4.12 indicates that the ratio is in an increasing trend. SBL has highest ratio of 8.74% and lowest ratio 3.85% in year 2010/11 and 2006/07. Similarly HBL has highest ratio of 5.90% and lowest ratio 2.53 in year 2010/11 and 2006/07. The mean ratio of SBL and HBL is 5.68% and 3.57% respectively. The coefficient of variation of SBL is more stable than HBL.

4.1.4 Risks Ratio

Generally, risk means uncertainty which lies in the business transaction of investment management. When a firm bears risk and uncertainty, profitability and effectiveness of the firm is also increased. This ratio measures 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.

4.1.4.1 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. 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 provides loan, 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.

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

Table 4.13
Liquidity Risk Ratios

Fiscal Year	SBL			HBL		
	CBB	TD	Ratio	CBB	TD	Ratio
2006/07	517.22	6625.08	7.81	1757.34	30048.42	5.85
2007/08	437.43	10191.44	4.29	1448.14	31842.79	4.55
2008/09	1547.68	15854.80	9.76	3048.52	34681.34	8.79
2009/10	2406.61	20197.03	11.92	3866.48	37611.20	10.28
2010/11	1905.68	21575.65	8.83	2964.65	40920.63	7.24
Mean			8.52			7.34
S.D.			2.81			2.28
C.V.%			32.96			31.04

(Source: Annual Reports of SBL & HBL & Appendix I)

The table 4.13 shows that SBL and HBL have the highest cash and bank balance to total deposit ratio of 11.92% and 10.28% in the year 2009/10 and lowest ratio of 4.29% and 4.55% respectively. The mean ratio of HBL is lower than that SBL i.e. 7.34% <8.52%. It means the HBL has maintained the lower liquidity risk ratio which means it operates with higher risk of higher profit. The coefficient of variation of SBL i.e. 32.96 which is comparatively higher than that of HBL i.e. 31.04. It shows that the ratio of SBL is more variable than HBL.

4.1.4.2 Credit Risk Ratio

Bank utilizes its collected funds in providing credit to different sectors. There is risk or default for 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 loan and advances of a bank. It is computed as:

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

Table 4.14
Credit Risk Ratio

Fiscal Year	SBL			HBL		
	INV + LA	TA	Ratio	INV + LA	TA	Ratio
2006/07	7087.77	7954.66	89.10	28820.96	33519.14	85.98
2007/08	10485.7	11668.35	89.86	32837.7	36175.53	90.77
2008/09	15505.1	17881.75	86.71	33503.84	39330.13	85.19
2009/10	19106.3	22802.43	83.79	36425.54	42717.12	85.27
2010/11	20921.9	24405.87	85.72	40336.91	46736.20	86.31
Mean			87.04			86.70
S.D.			2.48			2.32
C.V.%			2.85			2.68

(Source: Annual Reports of SBL & HBL & Appendix I)

The table 4.14 shows that the credit risk ratio of both the banks is in fluctuating trend. SBL and HBL have the highest ratio 89.86% and 90.77% in the year 2007/08 respectively. On the basis of the mean ratio it can be said that the credit risk of HBL is lower than of SBL i.e. 86.70% < 87.04%. Also SBL has greater coefficient of variation than HBL i.e. 2.85% >2.68% which shows more variable ratio of HBL.

4.1.5 Growth Ratios

The growth ratios represent how well the commercial banks are maintaining their economic and financial position. The higher ratio represents the better performance of the selected firms to calculate, check and analyze the expansion and growths of the selected banks the following growth ratios are calculated. Growth ratios are directly related to the fund mobilization and investment of those firms.

4.1.5.1 Growth Ratio of Total Deposits

Growth ratios measure how well the firm is maintaining its economic position in its industry. It is directly related to the fund mobilization and investment management of a commercial bank. The Growth Ratio of Total Deposits is calculated in this below.

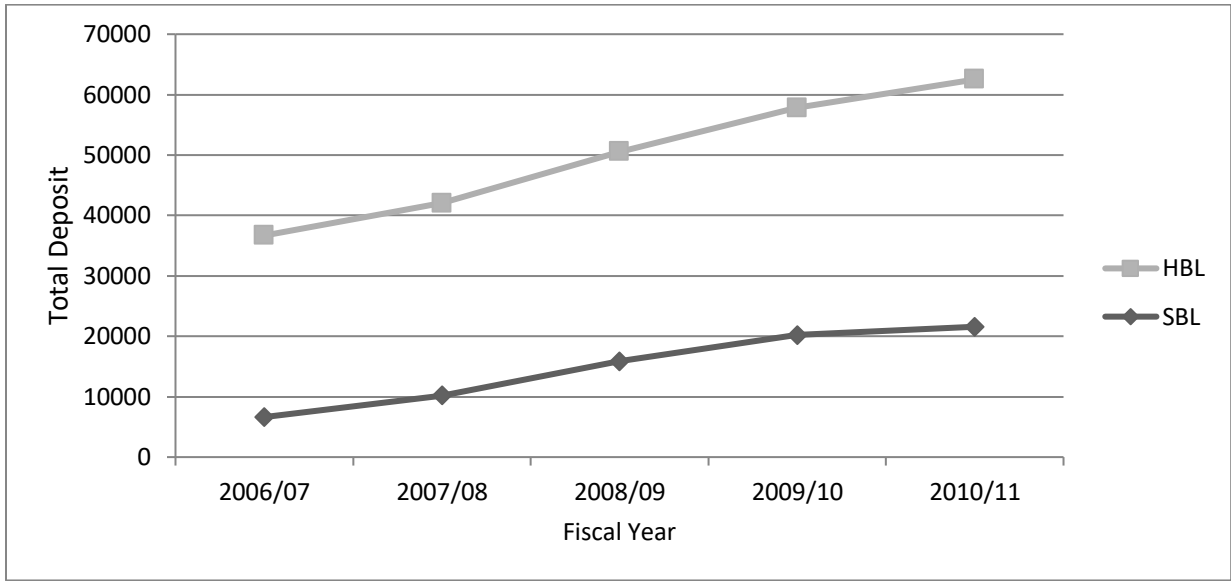
Table 4.15
Growth Ratio of Total Deposits

(Rs in Million)

Banks	Total Deposits					Growth Rate %
	2006/07	2007/08	2008/09	2009/10	2010/11	
SBL	6625.08	10191.44	15854.8	20197.03	21575.65	34.34%
HBL	30048.42	31842.79	34682.31	37611.20	40920.63	8.03%

Source: Appendix -I & II

Figure 4.13
Growth Ratio of Total Deposits



Source: Table 4.15

The table 4.15 and figure 4.13 show that the deposits of HBL and SBL are in increasing trend. The growth ratio of total deposits of HBL seems lower than SBL. i.e. $8.03\% < 34.34\%$. It reveals that the performance of SBL is better in deposits collection than that of HBL. Growth ratio of total deposit of HBL and SBL can be shown in the following chart.

4.1.5.2 Growth Ratio of Total Investment

Growth ratios measure how well the firm is maintaining its economic position in its industry. It is directly related to the total investment of a commercial bank. Investment comprises investment its HMG treasury bills, development bonds, company shares and other type of investment

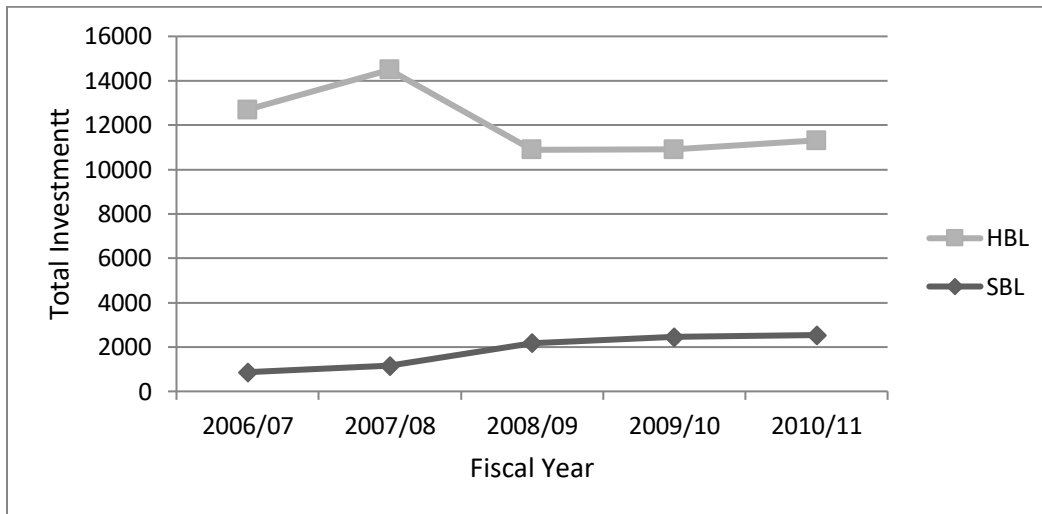
Table 4.16
Growth Ratio of Total Investment

(Rs. in Million)

Banks	Total Investment					Growth Rate %
	2006/07	2007/08	2008/09	2009/10	2010/11	
SBL	865.19	1150.09	2176.43	2452.47	2537.91	30.87%
HBL	11822.98	13340.18	8710.69	8444.91	8769.94	7.19%

Source: Appendix -I & II

Figure 4.14
Growth Ratio of Total Investment



Source: Table 4.16

The table 4.16 and figure 4.14 shows the growth rate of SBL and HBL is 30.87% and 7.19% respectively i.e. SBL has highest growth rate than HBL.

4.1.5.3 Growth Ratio of Loan and Advances

Growth ratios measure how well the firm is maintaining its economic position in its industry. It is directly related to the loan and advances of a commercial bank. Loans and advances are the major sources of investment to generate income in commercial banks.

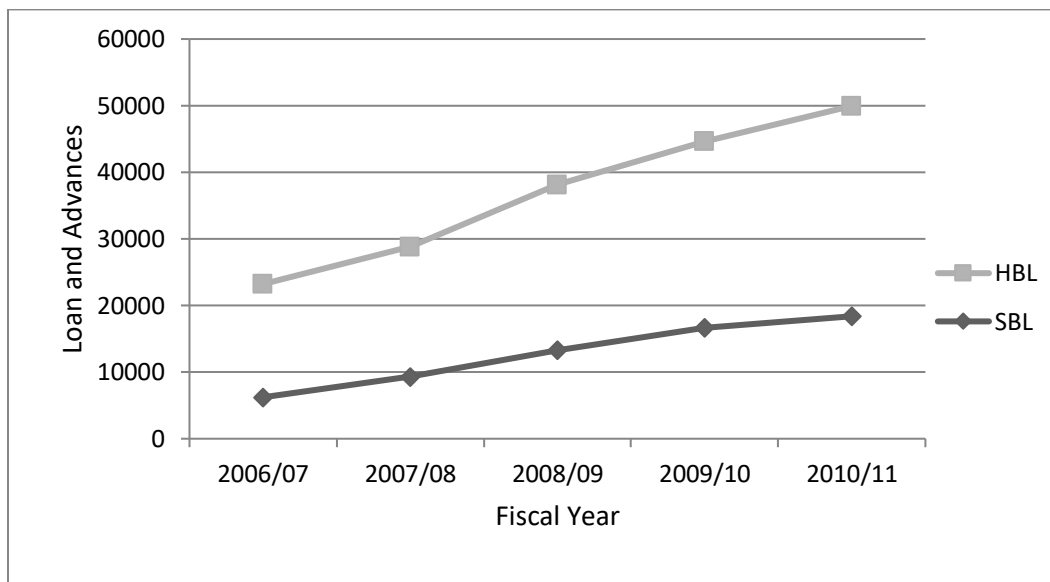
Table 4.17
Growth Ratio of Loan and Advances

(Rs. in Million)

Banks	Loan and Advances					Growth Rate %
	2006/07	2007/08	2008/09	2009/10	2010/11	
SBL	6222.58	9335.6	13328.62	16653.85	18384.03	31.10%
HBL	16997.98	19497.52	24793.15	27980.63	31566.97	16.74%

Source: Appendix -I & II

Figure 4.15
Growth Ratio of Loan and Advances



Source: Table 4.17

The table 4.17 and 4.15 describes the growth ratio of loan and advances of HBL and SBL are in increasing order under five year study period. The table shows the high growth ratio of SBL 31.10% and low growth ratio of HBL 16.74%. It shows that the performance of SBL in advancing loans is better than that of HBL.

4.1.5.4 Growth Ratio of Net Profit

Growth ratios measure how well the firm is maintaining its economic position in its industry. It is also directly related to the net profit of a commercial bank. The Growth Ratio of net profit is calculated in this below.

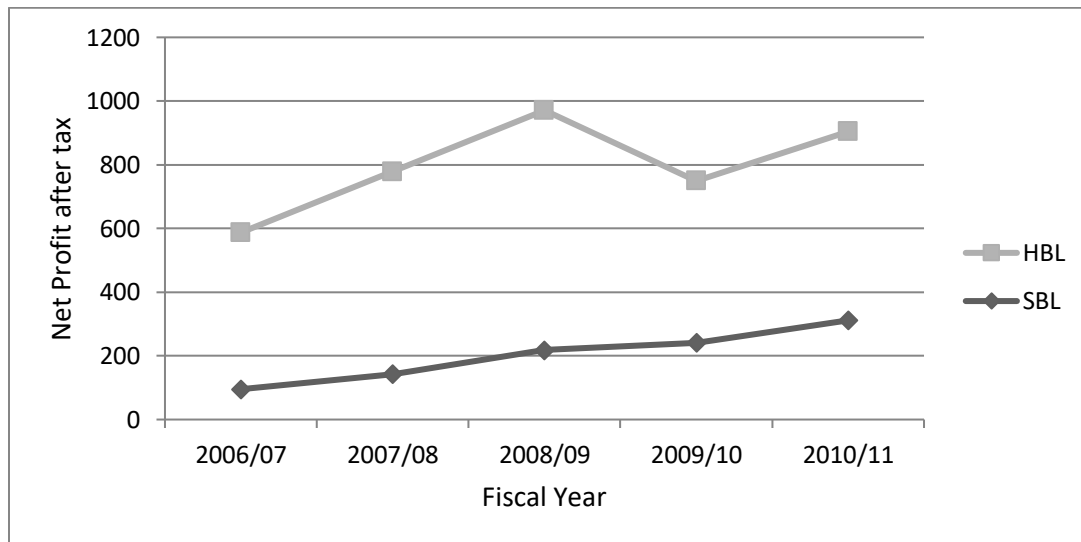
Table 4.18
Growth Ratio of Net Profit

(Rs. in Million)

Banks	Net Profit					Growth Rate %
	2006/07	2007/08	2008/09	2009/10	2010/11	
SBL	95.3	143.17	217.91	240.85	311.41	34.45%
HBL	491.82	635.87	752.83	508.8	593.11	4.79%

Source: Appendix –I & II

Figure 4.16
Growth Ratio of Net Profit



Source: Table 4.18

The table 4.18 and figure 4.16 represents the growth ratio of net profit of HBL and SBL during 5 years study periods. It shows the SBL has highest ratio 34.45% Growth ratio of Net Profit of HBL and SBL can also be shown in the line chart.

4.2 Statistical Analysis

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

4.2.1 Correlation and Regression Analysis

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

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

Let the dependent variable, loan and advances be denoted by Y and the independent variable, total deposit be denoted by X . Then the regression line of loan and advances on total deposit and the correlation between these two variables of SBL and HBL has been presented in the Table 4.13.

Table 4.19
Correlation and Regression Analysis between Loan and Advances and Deposit

Correlation Between LA and Deposit					
Bank	r	r²	P.E.	6 P.E.	Remarks
SBL	0.9984	0.9868	0.00141	0.0852	Significant
HBL	0.9932	0.9964	0.0041	0.0246	Significant
Regression Line of LA and Deposit					
Bank	a	b	Regression Equation		
SBL	-1092.29	0.78	LA = - 1092.29 + 0.78 TD		
HBL	-23383.81	1.36	LA = -23383.81 + 1.36 TD		

(Source: Appendix – III)

The table 4.19 measures the relationship between loan & advances and deposit. The table shows that the correlation coefficient between loan & advances and total deposit is 0.9984 in SBL and 0.9932 in HBL. This perfect correlation between

loan & advances and total deposit in each bank indicates that with the increment/decrement in total deposit, the loan and advances of each bank increases/decreases.

Further the coefficient of determination of 0.9868 in SBL and 0.9964 in HBL indicates that 98.68% change in loan and advances of SBL and 99.64% change in loan and advances of HBL is explained by change in total deposit of respective banks. Also, since the value of 'r' is greater than the 6 P.E. of SBL ($r = 0.9984 > 6 \text{ P.E.} = 0.0852$) and HBL ($r = 0.9932 > 6 \text{ P.E.} = 0.0246$), it can be considered that the relationship between loan and advances and total deposit is statistically significant in each bank.

Similarly, the regression line of loan & advances on total deposit has enlightened that with per rupee increment in total deposit, the loan & advances of SBL increases by Rs. 0.78, if the variable -1092.29 remains constant, and the loan & advances of HBL increases by Rs. 1.36, if the variable -23383.81 remains uniform.

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

4.2.1.2 Correlation and Regression Analysis between Investment and Total Deposit

The correlation coefficient between investment and total deposit, and the regression line of investment on total deposit calculated in Appendix-II have been presented in the Table 4.14.

Table 4.20

Correlation and Regression Analysis between Investment and Deposit

Correlation Between Investment and Deposit					
Bank	r	r²	P.E.	6 P.E.	Remarks
SBL	0.9840	0.9683	0.0142	0.0852	Significant
HBL	-0.7839	0.6145	0.1163	0.6978	Significant
Regression Line of Investment and Deposit					
Bank	a	b	Regression Equation		
SBL	- 64.47	0.12	Inv. = - 64.47 + 0.12 TD		
HBL	24201.52	-0.40	Inv. = 24201.52 - 0.40 TD		

(Source: Appendix – II)

The table 4.20 has indicated that there exists positive correlation coefficient between investment and total deposit in SBL but negative in HBL. The correlation coefficient between investment and total deposit of SBL is 0.9840 and HBL is -0.7839. Also, the coefficient of determination indicates that 96.83% variation in investment of SBL is explained by change in total deposit.

However, since the value of 'r' is greater than the calculated 6 P.E. in SBL ($r = 0.9840 > 6 \text{ P.E.} = 0.0852$) and is lower in HBL ($r = -0.7839 < 6 \text{ P.E.} = 0.6978$), it can be said that there exists significant and insignificant relationship between total investment and total deposit respectively. Insignificant relationship of HBL indicates that it is uncertain to say that investment increases/decreases with the increase/decrease in total deposit. Further, the regression line of total investment on total deposit indicates that with per rupee increment in total deposit, the investment amount of SBL increases by Rs. 0.12, if the variable -64.47 remains stable and the investment amount of HBL decreases by Rs. -0.40, if the variable 24201.52 remains uniform.

Comparing two banks, it can be concluded that the rate of increase in investment with the same amount of increase in deposit is greater in SBL than in HBL.

4.2.1.3 Correlation and Regression Analysis between Net Profit and Total Deposit

The correlation coefficient between net profit and total deposit, and the regression line of net profit on total deposit of SBL and HBL calculated in Appendix-II have been presented in the Table 4.15.

Table 4.21

Correlation and Regression Analysis between Net Profit and Deposit

Correlation Between Net Profit and Deposit					
Bank	r	r²	P.E.	6 P.E.	Remarks
SBL	0.9747	0.9500	0.0151	0.0906	Significant
HBL	0.0516	0.0027	0.301	1.806	Insignificant
Regression Line of Net Profit and Deposit					
Bank	a	b	Regression Equation		
SBL	10.27	0.053	NPAT = 10.27 + 0.053 TD		
HBL	552.84	0.0012	NPAT = 552.84 + 0.0012TD		

(Source: Appendix – III)

The table 4.21 represents the relationship between net profit and total deposit. The table shows that the correlation coefficient between net profit and total deposit of SBL is 0.9747 and that of HBL is 0.0516. The coefficient of determination indicates that 95% change in net profit of SBL and 9% change in net profit of HBL is explained by the change in total deposit of the respective banks.

However, since the value of 'r' is greater than the calculated 6 P.E. in SBL ($r = 0.9747 > 6 \text{ P.E.} = 0.0906$) and is lower in HBL ($r = -0.0516 < 6 \text{ P.E.} = 1.806$), it can be said that there exists significant and insignificant relationship between net profit after tax and total deposit respectively. Insignificant relationship of HBL indicates that it is uncertain to say that net profit increases/decreases with the increase/decrease in total deposit.

Similarly, the regression line of net profit on total deposit indicates that the net profit of SBL increases by Rs. 0.053, if the variable 10.27 remains constant, and that of HBL also increases by Rs. 0.0012, if the variable 552.84 remains constant, with the same per rupee increment in total deposit. Comparing two banks, it can be concluded that the net profit of SBL increases equally with the same per rupee increment in total deposits and vice versa while that of HBL indicates that the net profit is uncertain with the increase/decrease in total deposit.

4.2.2 Trend Analysis

4.2.2.1 Trend analysis of Deposit

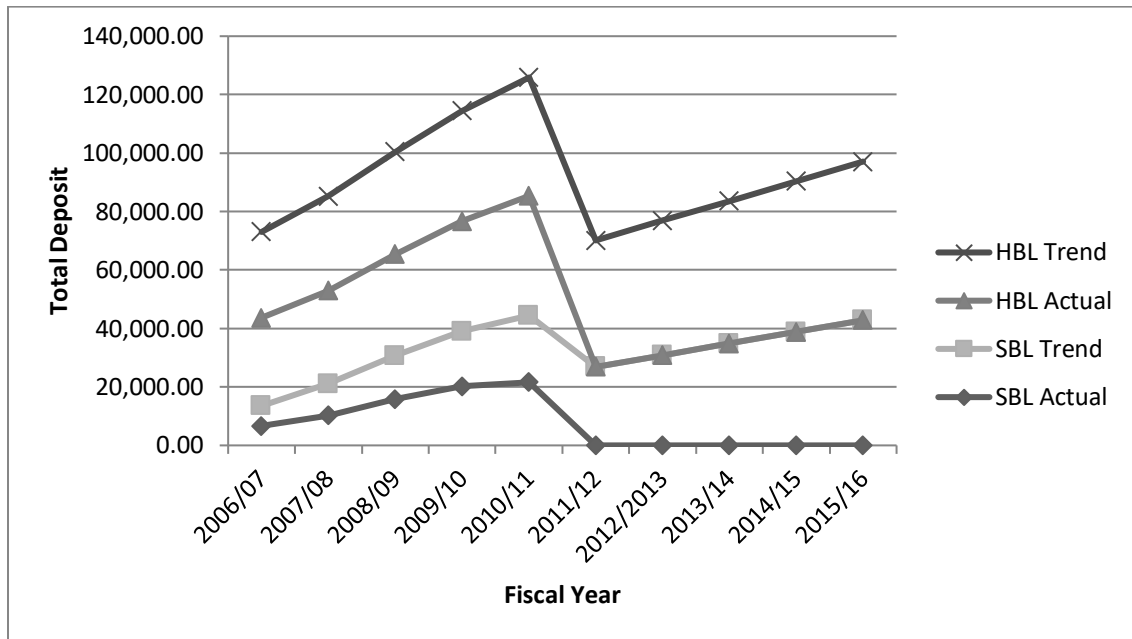
Under this topic, an effort has been made to calculate the trend values of total deposit of SBL and HBL for 5 years and forecast for the next 5 years till 2015/16.

Table 4.22
Trend Analysis of Deposit Collection

Fiscal Year	SBL		HBL	
	Actual	Trend	Actual	Trend
2006/07	6,625.08	6907.46	30048.42	29518.31
2007/08	10,191.44	10898.13	31842.79	32269.59
2008/09	15,854.80	14888.8	34681.34	35020.87
2009/10	20,197.03	18879.47	37611.20	37772.15
2010/11	21,575.65	22870.14	40920.63	40523.43
2011/12		26860.81		43274.71
2012/13		30851.48		46025.99
2013/14		34842.15		48777.27
2014/15		38832.82		51528.55
2015/16		42823.49		54279.83

(Source: Appendix – IV)

Figure 4.17
Trend Analysis of Deposit Collection



Source: Table 4.22

The table 4.22 and figure 4.17 show that the predicted values of deposit collection of both the banks are in increasing trend. The total deposit of HBL is greater than that of SBL. Other things remaining the same, SBL and HBL will be accumulating a total deposit of Rs 42,823.49 and 54,279.83 million in 2015/16 respectively.

4.2.2.2 Trend Analysis of Loan and Advances

Under this topic, an effort has been made to calculate the trend values of loans and advances of SBL and HBL for 5 years and forecast for the next 5 years till 2015/16.

Table 4.23

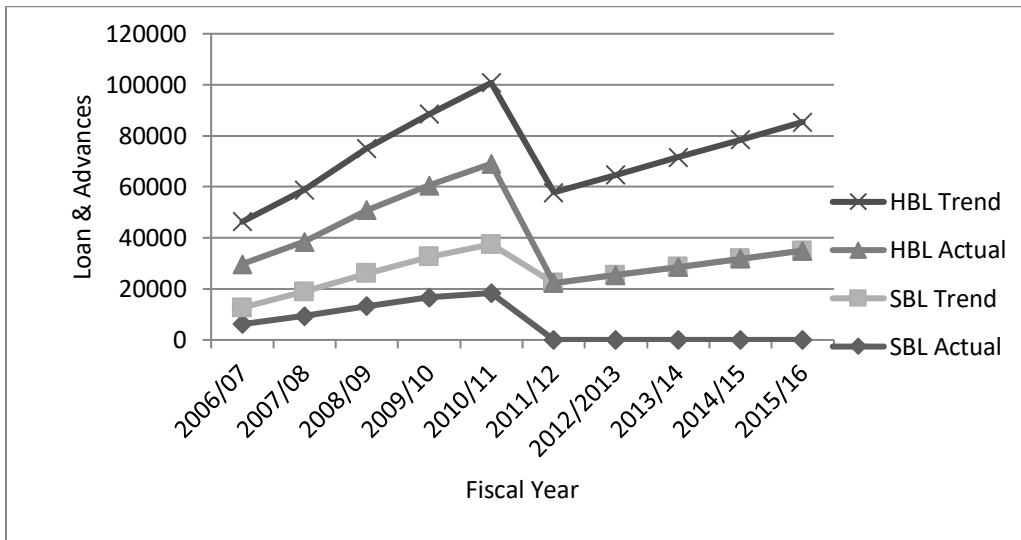
Trend Analysis of Loan and Advances

Fiscal Year	SBL		HBL	
	Actual	Trend	Actual	Trend
2006/07	6222.58	6456.72	16997.98	16643.03
2007/08	9335.6	9620.83	19497.52	20405.14
2008/09	13328.62	12784.94	24793.15	24167.25
2009/10	16653.85	15949.05	27980.63	27929.36
2010/11	18384.03	19113.16	31566.97	31691.47
2011/12		22277.27		35453.58
2012/13		25441.38		39215.69
2013/14		28605.49		42977.8
2014/15		31769.6		46739.91
2015/16		34933.71		50502.02

(Source: Appendix – IV)

Figure 4.18

Trend Analysis of Loan & Advances



Source: Table 4.18

The table 4.23 and figure 4.18 show that the loans and advances of both the banks are increasing regularly. The loans and advances of HBL is greater than that of

SBL. Other things remaining the same, SBL and HBL will extent total loans of Rs 34,933.71 and 50,502.02 million in 2015/16 respectively which is the highest amount during the period of the study.

4.2.2.2 Trend Analysis of Total Investment

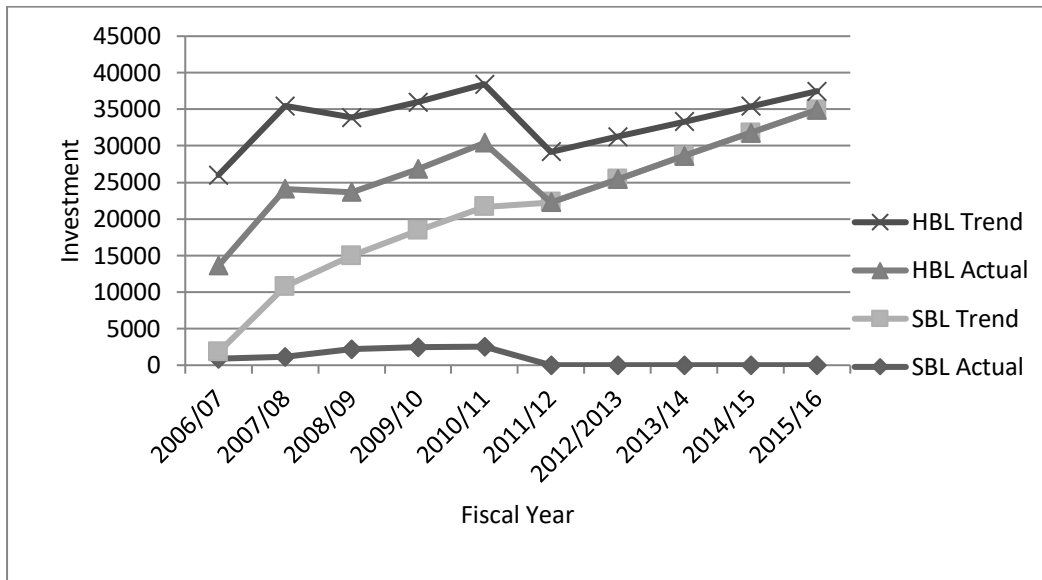
Under this topic, an effort has been made to calculate the trend values of total investment of SBL and HBL for 5 years and forecast for the next 5 years till 2015/16.

Table 4.24
Trend Analysis of Investment

Fiscal Year	SBL		HBL	
	Actual	Trend	Actual	Trend
2006/07	865.19	906.86	11822.98	12418
2007/08	1150.09	1371.64	13340.18	11317.87
2008/09	2176.43	1836.42	8710.69	10217.74
2009/10	2452.47	2301.2	8444.91	9117.61
2010/11	2537.91	2765.98	8769.94	8017.48
2011/12		3230.76		6917.35
2012/13		3695.54		5817.22
2013/14		4160.32		4717.09
2014/15		4625.1		3616.96
2015/16		5089.88		2516.83

(Source: Appendix – IV)

Figure 4.19
Trend Analysis of Investment



Source: Table 4.24

The table 4.24 and figure 4.19 show that the total investment of SBL is increasing regularly while that of HBL is in decreasing trend. The total investment of SBL is greater than that of HBL. Other things remaining the same, SBL will extent total investment of Rs 5,089.88 million and HBL will decrease it to Rs 2,516.83 million in 2015/16 respectively.

4.3 Major Findings of the Study

Basically in this research work, all the data has been obtained from secondary sources. Data has been analyzed by using financial as well as statistical tools. This topic focuses on the major findings of the study, which are derived from the analysis of deposit mobilization of HBL and SBL with comparatively applying five years data from 2006/07 to 2010/11. The major findings of the study derived from the analysis of financial tools of HBL and SBL given below:

Finding from Liquidity Ratios

- The mean ratio of cash and bank balance to total deposit of SBL is higher than HBL. It states that the Liquidity position of SBL is better in this regard. The ratio of SBL is less consistent and HBL has more consistent ratio. It shows HBL has taken more risk to meet the daily cash requirements.
- The mean ratio of NRB deposit to Total Local Deposit of HBL is higher than SBL. It reveals that HBL has the higher capacity to meet the cash reserve ratio than that of SBL. The ratio of HBL is less consistent than that of SBL.
- The average ratio of investment of government securities to total deposit of HBL is higher than that of SBL. It reveals that investment on government securities of HBL is stronger than SBL. Analysis shows that investment of government securities of SBL is more consistent.
- The above result shows that the Liquidity position of HBL is comparatively better than SBL. HBL has highest cash and bank balance to current assets and investment to government securities to total deposit ratio. SBL has enough in cash and bank balance to total deposit ratio. So, it can be concluded that SBL has good deposit collection higher ability to meet the cash requirements.

Findings from Assets Management Ratios

- The mean ratio of loan advances to total deposit of SBL is greater than HBL. The variability ratio of SBL is lower than HBL. It seems that HBL is more consistent than SBL.
- The average ratio of total investment to total deposit ratio of HBL is higher than that of SBL. The variability ratio of SBL is lower than that of HBL.
- The average ratio of loan and advances to total working fund of SBL is higher than HBL. The variability ratio of SBL is lower than that of HBL which is the indication of more consistency ratio of loan and advances.

- The average ratio of investment on government securities to total working fund of HBL is higher than SBL. It seems HBL is less consistent to make investment on government securities.
- The mean ratio of investment on shares and debentures to total working fund of HBL is greater than SBL. HBL has the lower variability ratio of investment on shares and debentures.
- From the above analysis it helps to conclude that HBL is comparatively successful to invest in productive sector and has mobilized its collected deposits to provide loan and advances.

Findings from Profitability Ratio

- The mean ratio of return on loan and advances of HBL is higher than SBL. The variability ratio of SBL is lower than HBL. It seems SBL has stable return.
- The mean ratio of return of on total working fund of HBL is greater than SBL, where as the variability ratio of SBL is lower than HBL. It indicates that the return on total working fund of HBL is less consistent.
- In case of mean ratio of total Interest Income to total working fund of SBL is higher ratio than HBL. The variability ratio of HBL is lower than SBL. It reveals that SBL is mobilizing its assets successfully so that is has high earning capacity.
- The mean ratio of total Interest Expenses to total working fund of HBL is lower than SBL. It reveals that HBL has not paid high interest as SBL. The ratio of SBL is more consistent than HBL
- From the above analysis of profitability ratio, it can be concluded that the SBL is profitable in comparison to HBL.

Findings from Risk Ratios

- The mean ratio of Liquidity risk of HBL is lower than SBL. Degree of risk and variability of risk is also lower in HBL in comparison to SBL. It seems Liquidity risk ratio is consistent of HBL.
- HBL has the lower credit risk than SBL. The variability ratio of HBL is lower than SBL which indicates that the credit risk ratio of HBL is more consistent.
- From the above analysis HBL has maintained the lower liquidity risk and credit risk.

Findings from Growth Ratios

- The growth ratios of total deposits of HBL & SBL are increasing every year. Out of two banks growth rate of total deposits of SBL is greater than HBL. It shows that SBL has increased its deposit collection capacity.
- The growth rate of total investment of SBL is higher than HBL. Although HBL is investing more deposits but it seems weak in comparison to SBL.
- The growth ratio of loan and advances of SBL and HBL both are increasing trend. Growth rate of SBL is higher than HBL. Though HBL is providing more deposits in loan and advances it appears weak in growth rate in comparison to SBL.
- The growth rate of profit of SBL is in increasing trend while that of HBL is in fluctuating trend during the study period.
- From the above findings it can be observed that the SBL has maintained the high growth ratio in total deposits, total investment Loan and advances and net profit.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Basically the entire research work focus on the comparative study on deposit mobilization of two Commercial Banks, Himalayan Bank Ltd. and Siddhartha Bank Ltd. These two banks are composed as per their deposit mobilization activities by taking five years data from the year 2006/07 to 2010/11.

The study is mainly based on secondary sources. All data are taken from concerned banks annual report, literature publication, balance sheet, profit and loss account, previous thesis report, different website, related books and booklets, journals and articles, After collecting data from different sources, it is analyzed by using financial and statistical tools .Findings are drawn by applying various financial tools viz. Liquidity ratio, assets management ratio, profitability ratio, growth ratio, risk ratio. Similarly, statistical tools have been used viz. Mean standard deviation, coefficient of variation coefficient of correlation.

In an attempt to fulfill the objectives of the research work, all secondary data are compiled, processed and tabulated as per necessity and figures, diagrams and different types of chart are also used.

This study suffers from different limitations, it considers two banks only and time and resource are the constraints of the study. Therefore the study may not be generalized in all cases and accuracy depends upon the data collected and provided by the organization.

5.2 Conclusion

From the analysis of Liquidity ratio, the Liquidity position of SBL is comparatively better than HBL. SBL has highest cash and bank balance to total deposit.

Considering assets management aspect of two banks, SBL is relatively successful to invest in productive sector and has mobilized its collected deposits to provide loan and advance for the purpose of earning profit. HBL has weak condition in mobilizing its collected deposits in comparison of HBL. However in comparison to SBL, HBL seems more successful in mobilizing total deposit on different types of government securities to maximize its earning capacity.

The Liquidity risk ratio of SBL is higher than HBL which appears to be less profitable return of SBL. On other hand Liquidity risk ratio of HBL is the lowest in comparison to SBL which specified that HBL has kept idle deposits in the form of cash and bank balance but this reduces profitability. HBL has lower credit risk ratio. Credit risk involved in loan and advances and total investment of SBL is more than HBL. It may arise due to default risk or non repayment of loan.

HBL appears to be more successful to earn profit on loan and advances than SBL. The average ratio of return to total loans and advances and to total working fund of HBL is greater than that of SBL which indicates that the total assets of HBL is well managed and efficiently utilized. HBL was not able to receive high interest on total assets in comparison with SBL. On the other hand, SBL has mobilized its assets properly and its earning capacity is also high .HBL is in better position from the viewpoint of interest expenses.

Growth ratio of total deposits, total investment, loan and advances and net profit of SBL is higher in comparison to HBL. SBL has maintained higher growth ratio.

Therefore, we must say that the bank is successful in increasing its sources of deposits and its mobilization.

Correlation coefficient between deposits and loan and advances indicates the positive relationship between the variables of HBL and SBL. Most of the investment decision of these two banks depends upon deposits and only few decisions depend upon other variables. Moreover by considering the probable error the value of coefficient of all banks is greater than that of 6 P.E. so it can be concluded that the value of correlation coefficient is significant i.e. there is significant relationship between total deposit and loan and advances.

Correlation coefficient between deposit and total investment of HBL and SBL elucidates the positive relationship or there is high degree of positive correlation. Most of the investment decisions depend upon deposits and only few decisions of two banks are depend upon other variables. Moreover by considering the probable error, the value of coefficient of determination of HBL and SBL both are more than 6 P.E. so it is significant relationship between deposit and total investment.

Correlation coefficient between deposit and net profit after tax of SBL elucidates the positive relationship and negative relationship of HBL. Considering the probable error, the value of coefficient of determination of HBL and SBL is respectively lower and higher than 6 P.E. So it indicates the insignificant and significant relationship of HBL and SBL between deposit and total investment respectively.

5.3 Recommendations

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

To Maintain Effective Liquidity Position

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 the demand position of loan and advances as well as savings, investment situations, central banks directives, the lending policies, capability of management, strategic planning and deposits flow situations. The ratio of cash and bank balance to total deposit SBL is higher than HBL. It means SBL has higher cash balance to total deposit SBL is higher than HBL and it indicates SBL has higher idle cash and bank balance. It may decrease profit of bank. SBL is recommended to mobilize its idle cash and bank balance in profitable sector as loan and advances.

To Increase Deposit Collection

The main source of commercial banks is collecting deposit from general public who don't need that deposit recently. So it is recommended to collect more amounts of deposit by introducing various schemes and facilities, like cumulative deposit scheme, price bonds scheme (Life insurance), monthly interest scheme, and many others.

To Make More Investment in Government Securities

From the study SBL has not invested more deposits in government securities. SBL has made lower investment amount on government securities. Increasing large amount on assets, as cash and bank balance is not considered good from the profitability point of view of the bank as it doesn't earn any return. SBL investment on government securities is not satisfactory. Investment on those

securities issued by government i.e. treasury bills, development bonds, saving certificates are free of risk and are highly liquid in nature and such securities yield the lower interest rates. It is better in regards to safety than any other means of investment. So, SBL is strongly recommended to give more importance to invest more deposits in government securities instead of keeping them idle because "Something is better than nothing."

To Make More Investment on Share and Debentures

To get success in a competitive market and to raise financial and economic development of the country, a commercial bank must mobilize its deposit in different sectors such as purchase of share and debentures of other financial and non financial companies and other government and non government organizations. It is also genuine means of utilization of resource. Thus those companies may get chances to raise that ultimately helps for the development of the country. Out of total working fund, investment on shares and debentures of SBL is lower than HBL. SBL is therefore suggested to invest more of its deposit in share and debentures of different companies.

To Make Profitable Return

As a private sector, commercial banks cannot be away from the profit motive. They should be careful in increasing profit in a real sense to maintain the confidence of share holders, depositors and all its customers. HBL is in profitable situation than SBL. So SBL is strongly recommended to utilize risky assets and shareholders deposit to gain highest profit margin. Similarly, it should reduce its interest expenses and should try to collect low cost deposit being more profitable.

To Prefer Aggressive Defensive Policy

Observing the findings of growth analysis; it has noticed that SBL has been adopting an aggressive policy in all the parameters including loan and advances.

As the economy has not been able to show the survival growth, the aggressive policy may prove to be harmful in future. SBL should rather perform an aggressive defensive policy in mobilizing the resources into loans.

To Invest Deprive and Priority Sector

NRB has directed the commercial banks to invest their certain percentage in deprived and priority sector and as the due responsibility of banks. The study has found that SBL has earned high profit because their services are only for profitable sector. It reveals that it has not granted loan on priority and deprived sector. So SBL is recommended to thoroughly follow the directives issued by NRB and invest in priority and deprived sector and also to invest on other small scale industries like public utilities, health sanitation and drinking water, education and agricultural.

To Make Effective Portfolio Management

Portfolio management is very important for every investor. In each investment risk is involved. Risk is the chance of loss or the variability of the returns of a period. The project with greater variability of the returns will be a riskier. So it should invest in such projects which would bear lower risk and yield higher return. Portfolio Management plays vital role at allocating total investment in different areas. Portfolio management of the bank assets basically means allocation of deposits in different components of banking assets having different degrees of risk and varying rate or return in such a way that the conflicting goal of maximum yield and minimum risk can be achieved. So portfolio conditions of HBL and SBL should be examined carefully from time to time and alteration should be made to maintain equilibrium in the portfolio condition as far as possible because “all eggs should not be kept in the same basket.” The bank should make continuous efforts to explore new competitive and high yielding investment opportunities to optimize their investment portfolio.

B) Calculation of Major Financial Ratios of HBL related to Deposit (Rs in Million)

Year	CBB	TD	CBB/TD	NRB Requirement	CRR	Inv to Govt. Sec.	TD	Inv to G.S/TD	LA	TD	LA/TD
2006/07	1757.34	30048.42	5.85	5	5.92	6454.86	30048.42	21.48	16997.98	30048.42	56.57
2007/08	1448.14	31842.79	4.55	5	5.13	7471.66	31842.79	23.46	19497.52	31842.79	61.23
2008/09	3048.52	34682.31	8.79	5.5	6.76	4212.3	34682.31	12.15	24793.15	34682.31	71.49
2009/10	3866.48	37611.20	10.28	5.5	6.76	4465.37	37611.20	11.87	27980.63	37611.20	74.39
2010/11	2964.65	40920.63	7.24	5.5	5.75	6407.34	40920.63	15.66	31566.97	40920.63	77.14
Mean			7.34		6.064			16.92			68.16
S.D.			2.28		0.70			5.33			8.85
C.V.%			31.04		11.55			31.47			12.98
Total Inv.	TD	TI/ TD	LA	TWF	LA/TWF	Inv to Govt. Sec.	TWF	Inv to G.S/TD	Inv on shares & debt.	TWF	Inv to S&D/TWF
1822.98	30048.42	39.35	16997.98	30284.39	56.13	6454.86	30284.39	21.31	73.42	30284.39	0.24
3340.18	31842.79	41.89	19497.52	31925.97	61.07	7471.66	31925.97	23.40	89.56	31925.97	0.28
8710.69	34682.31	25.12	24793.15	34682.31	71.49	4212.3	34682.31	12.15	93.88	34682.31	0.27
8444.91	37611.20	22.45	27980.63	37611.20	74.39	4465.37	37611.20	11.87	78.88	37611.20	0.21
8769.94	40920.63	21.43	31566.97	40930.63	77.12	6407.34	40930.63	15.65	88.79	40930.63	0.22
Mean		30.05			68.04			16.88			0.24
S.D.		9.79			9.02			5.27			0.03
C.V.%		32.57			13.25			31.24			12.89

NPAT	LA	NPAT/LA	NPAT	TWF	NPAT/TWF	IE	TWF	IE/TWF	IED	TWF	IED/TWF
491.82	16998	2.89	491.82	30284.39	1.62	1775.58	30284.39	5.86	767.41	30284.39	2.53
635.87	19497.5	3.26	635.87	31925.97	1.99	1963.65	31925.97	6.15	823.74	31925.97	2.58
752.83	24793.2	3.04	752.83	34682.31	2.17	2342.2	34682.31	6.75	934.78	34682.31	2.70
8508.8	27980.6	1.82	508.8	37611.20	1.35	3148.61	37611.20	8.37	1553.53	37611.20	4.13
93.11	31567	1.88	593.11	40930.63	1.45	4326.14	40930.63	10.57	2414.81	40930.63	5.90
Mean		2.58			1.72			7.54			3.57
S.D.		0.68			0.35			1.95			1.46
C.V.%		26.33			20.47			25.87			41.00

Cal Year	INV + LA	TA	(INV+LA)/TA
2006/07	28821	33519.14	85.98
2007/08	32837.7	36175.53	90.77
2008/09	33503.8	39330.13	85.19
2009/10	36425.5	42717.12	85.27
2010/11	40336.9	46736.20	86.31
Mean			86.70
S.D.			2.32
C.V.%			2.68

Note: Mean, Standard Deviation and Coefficient of Variation have been calculated by using Microsoft Excel Formulae.

APPENDIX – II

Sample Calculation on growth Ratio of Total Deposits

We have,

$$D_n = D_o(1+g)^{n-1}$$

Where,

D_n = Total Deposit in the n^{th} year

D_o = Total Deposit in the initial year

g = Growth Rate

n = Total number of year

Here

$$D_{2010}=21575.65$$

$$D_{2006}=6625.08$$

n = 5 year

Now,

$$D_n = D_o(1+g)^{n-1}$$

$$21575.65 = 6625.08 (1+g)^{5-1}$$

$$(1+g)^4 = \frac{21575.65}{6625.08}$$

$$1+g = (3.2566)^{\frac{1}{4}}$$

$$1+g = 1.3434$$

$$G = 0.3434 \text{ or } 34.34\%$$

Similarly other growth ratios have been calculated by performing same method is mentioned above.