

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Commercial banks are the heart of the financial system. They hold the deposits of individuals, government establishment and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and government establishments. In doing so, they assist both the flow of goods and services from the producers to consumers and the financial activities of the government. They provide a large portion of medium of exchange and they are the media through which monetary policy is affected. These facts show that the commercial banking system of a nation is very important to the functioning of its economy.

Financial institution in the economy plays a crucial role in the process of economic growth of the country. Financial institution refers to a business concern, which is mainly confined to finance for the development of the trade, commerce and industry. Trade, commerce and industry are the prime factors of the economic development. Bank is a financial institution, which primarily deals in borrowing and lending. Banking is a vital part of national economy and a vehicle for the mobilization of economy's financial resources and extension of credit to the business and service enterprises.

Government also issues bonds to obtain funds to invest in such project as the construction of dams, road, schools, hospitals and other social & development fields. All such investments by individuals, business & government involves a presto sacrifice of income to get an expected future benefits. As a result, investment raises a nation's standard of living (The World Bank Encyclopedia 1966: 232).

For the economic development of a country it is very important to have an adequate saving which can be invested in productive sector. Due to low income there is fewer saving. People spend all the money in consumption of daily needs. However, some rich people who save money, they spend their money in purchasing precise metal and goods. Thus people have no idea about the investment in productive area due to the lack of education. Commercial Banks are the main source, which motivate people to save theirs

earnings. Banks collect the saving of people in the form of deposit and invest it in the productive area. They give the loan to the needy people, merchants and other institutions etc. Commercial banks mobilize the deposit in different sectors, which is collected from the people and other sectors.

The actual fact of the origin of the modern banking is up to date of mystery. So, when, how and where the modern banking actually comes in to existence couldn't be pointed out. But from the different historical facts revealed that some sort time banking activities have been carried out since the time of immemorial. At that time, merchants, moneylenders, Gold Smiths etc, did the banking transactions. Later the transaction starts increasing and they being the activities if money exchange, secure the valuable goods, deposits money, Lending money and so on. And for all the activities, the written receipt is began to use; and the modern form of banking formed thereafter.

The word bank was derived from the Italian word "Banco" which means accumulation of money or stock. Bank as an institution was originated from Italy. The Bank of Venice, which was established in 1157 AD, was the first bank in the history of banking. The Bank of Barcelona, Spain, which was established in 1401 AD, was the second, bank f the world. The first Central bank though was the bank of England, which was established in 1844 AD.

Bank can be briefly defined as the financial intermediary between the deposits and the credit seekers. The inter-mediation takes place when banks accept deposits from general public, corporate bodies and private organizations and deploys those deposits for profitable purposes in the form of loans and advances. Bank can be described as the custodian of saving of general people and establishment as well. It would be quite impossible for the entrepreneurs to acquire the saving of general public for investment without banks. Therefore, the bank can be best described as the financial institution which accepts saving of public by providing then with certain rate interest and loans it to needy investors charging certain rate of interest and earns some profit in the process of inter – mediation. Modern banking being a lot more than just deposit and loans, cater a range if services viz. remittance of money, letter of credit, bank guarantee, issue of money, controlling monetary activities of the entire nation (Gupta, 1984:15).

The main objective of deposit mobilization is to convert idle saving into active saving. Capital formation is possible through collecting scattered unproductive and small saving from the people. This collected fund can be utilized in productive sector to increase employment and national productivity. Deposit mobilization is the most dependable and important source of capital formation. Collecting scattered amount of capital and investing the deposited fund in productive sector to increase the income of the depositor is meant Deposit Mobilization. In the other words, investing the collected fund in the productive sectors and increasing the income of the depositors, it also supports to increase the saving through the investment of increased extra amount.

1.2 Profile of Everest Bank Limited

Everest Bank Limited was registered on November 17, 1992 and come into operation on October 18, 1994 with an objective of extending professionalized and efficient banking services to various segments of the society. Today the bank has grown to become one of the leading banks in Nepal.

Everest Bank has recognized the value of offerings a complete range of services and has pioneered in extending various customer friendly products such as home loan, education loan, EBL flexi loan, EBL property plus (future lease rental), Home equity loan, vehicles loan, Loan against share, loan against life insurance policy and loan for professional.

Everest Bank Limited was the first bank to introduce Any Branch Banking System (ABBS) in Nepal. All the branches of the bank are connected with ABBS which enables the customers to do all their transactions from any branches other than where they have their account. Everest Bank has introduced the Mobile Vehicle Banking System to see the segment deprives of proper banking facilities through Birtamod branch, which is the first of its kind.

The bank has committed to provide excellent professional services & improve its position as a leader in the field of financial related services, use latest technology aimed at customer satisfaction & act as an effective catalyst for socio-economic developments. The bank was bestowed with the “NICCI Excellence award” twice in 1999 and 2003 by Nepal India chamber of commerce for its spectacular performance under finance sector and the

bank has been conferred with “Bank of the Year 2006, Nepal” by the banker, a publication of financial times, London (Annual Report of EBL 2010: 13).

1.3 Statement of the Problem

The establishment of commercial bank (including joint venture banks), the enforcement of priority sector and productive sectors lending policy of NRB to financial institutions don't seem to have an appropriate impact. Nepal being listed among least developed countries, In this situation the commercial banks have plays a important role in the economic growth of country. It's investment range from small-scale cottage industries to large industries in making investment in loans and government securities. One may always wonder which investment is better. It can be hypothesis that bank portfolio variables like loan, investment, cash receive, deposit and borrowing affects the national income. And also how the government policy affects these variables such as the effect of an interest rate on the bank portfolio variable is a great concern. Therefore, when monitoring money and credit condition, the central bank has to keep an eye on the bank portfolio behaviors.

Nepalese commercial banks have not formulated their deposits/ investment policy in an organized manner. They mainly really upon the instructions and guidelines of NRB. They don't have clear view toward deposit and investment policies. Further more the implementation of policy is not in an effective way. Thus the present study will make a modest attempt to analyze in deposit and investment policy of EBL. The problems specially related to deposit function of the joint venture bank like EBL and other commercial banks of Nepal have been presented below.

- Commercial banks are considered efficient but how far they are efficient?
- What is the relationship of investment loan and advances with total deposits and total profit?
- Is EBL's mobilization of deposit and investment policy effective and efficient?
- Is EBL maintaining sufficient liquidity position?

1.4 Objectives of the Study

- To examine the deposit and investment trend of EBL.
- To find out the different types of deposits & credit position of EBL.
- To find out the relationship between deposit and investment of EBL.

1.5 Significance of the Study

Generally deposit and loan are directly related to each other. Larger the deposit fund collected, larger the loan can be given. The study had been done to see the relationship of deposit collection and mobilization of them.

- This study will help to know the relationship of deposit collection and mobilization of EBL to the concern parties.
- It will be helpful to management to make appropriate deposit and lending policy.
- It will show the general public that how their deposit is being utilized by EBL.
- It will be helpful for know the current deposit and lending position of EBL.

1.6 Limitation of the Study

- Most of data used in the study were of secondary data. So, reliability of this analysis depends upon the pooled secondary data.
- This report covers the data from fiscal year 2063/64 to 2067/68.
- This study is concerned only on deposit collection and its utilization by EBL.
- The same data obtained through different sources varied to some extent.
- Some data may not be accurate due to poor data processing system.
- This study was based on the financial statements like balance sheet, profit and loss account and cash flow statement which provided the quantitative information.

1.7 Organization of the Study

This study has been divided into five chapters as follows.

Chapter – I - Introduction

It contains the background of the study, profile of EBL, statement of the problem, objective of the study, significance of the study, limitations of the study and organization of the study.

Chapter – II - Review of Literature

It includes the literature review of the relevant studies. it includes the conceptual review and review of related studies and unpublished thesis studies and related articles.

Chapter – III - Research Methodology

This chapter describes the research methodology employed in the study. This chapter deals with the research design, population and sample, nature and source of data, method of data collection and data analysis tools.

Chapter – IV- Data Presentation and Analysis

This Chapter deals with the presentation and analysis of data to analyze quantitative factors of deposit and investment using financial as well as statistical tools and techniques. This chapter also includes the major findings of the study.

Chapter – V - Summary, Conclusion and Recommendations

This Chapter states summary, conclusion and recommendations, compares them with other empirical evidence to the extent possible and provides some suggestions.

CHAPTER - II

REVIEW OF LITERATURE

This chapter is basically concerned with review of literature relevant to the topic ‘Deposit Mobilization’. The purpose of reviewing of literature is to develop some expertise in one’s area, to see what new contribution has made and to receive some ideas for developing a research design. Thus, previous studies cannot be ignored as they provide the foundation of the present study. This chapter highlights the literature that is available in concerned subject as to my knowledge, research work, and relevant study on this topic, review of journals and articles and review of thesis work performed previously.

2.1 Conceptual Framework

2.1.1 Concept of Commercial Bank

Commercial institutions are those financial institutions, which deals in accepting the deposits of people and institutions and giving loan against securities. They provide working capital needs of trade, industry and even to agricultural sectors. Moreover commercial banks also provide technical and administrative assistance to trade, industries and business enterprise. Commercial banks are a corporation which accepts demand deposits, subject to check and make short term loans to business enterprises, regardless of the scope of its other services.

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Therefore commercial banks are those banks that pool together the saving of community and arrange for their productive use. They supply the financial needs of

modern business by various means. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short terms needs of trade and industry. They cannot finance in fixed assets. Apart from financing, they also lender services like collection of bills and cheque, safe keeping of valuables, financial advising etc to their customers (Vaidya, 2001: 38).

The American institute of Banking has laid down the four major function of Commercial bank such as receiving and handing of deposits, handing payments of its clients making loans and investments and creating money by extension of credit (Principle of Bank Operation, USA: 609).

Principally, commercial banks accept deposits and provide loans, primarily to business firms, thereby facilitating the transfer of funds on the economy (Albrol and Gupta, 1971:65).

In the Nepalese context, commercial banks act, 2031 defines “A commercial bank as one which exchange money, deposits money, accepts deposits, gratt loans and performs commercial banking functions” (Commercial Bank Act 2063).

A commercial banks can be define as an institution which deals in money in words of the Crowther “ Banks collect money from those who have it to spar 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).

However, central bank is the main bank of the any nation that directs and controls all the banks whose existence is in the country. In Nepal, Nepal Rastra Bank is the central bank of the country. All the commercial banks perform their functions under rules, regulations and the directives provided by Nepal Rastra Bank.

Under the free enterprise system like U.S.A. the interest of nation as well as those of individuals and stockholders are supposed to be best served by vigorously seeking profit. But the profit cannot be the sole objective of the any enterprise. It should not be evaluated just on the ground of profit earned. Neither the bank nor the community will be best serve if the banker unreasonably scarifies the safety of theirs fund or the liquidity of

their bank in an effort to increase income (Vaidya, 1947: 24 and Nepal Commercial Bank Act).

From the above many definition, commercial banks including joint venture banks, they are mainly receiving the money from depositor and invest in different sectors. So that banks are the main source of development of a nation. In the context of Nepal, it is a poor and least developed county having low per capita income and GDP. As a result, many economic problems such as inflation, devaluation of money trade, trade deficit, budget deficit etc arises. For the sake of removing these problems, many joint ventures are being incorporated in our country by sharing Nepal's and foreign investment towards making more profit by using the funds in profitable sectors. Therefore bank should be invested in different sector which helps in the growth of national economy.

2.1.2 Evolution of Banking System in Nepal

There are several types of banks but among them commercial banks play significant contribution in the financial system of the country. They 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 public on condition that they are repaid on demand or on short notice. Their business is confined to financing the short-term and medium term needs of trade and industry such as working capital financing.

Commercial Bank Act, 2031 B.S. (1974A.D.) of Nepal has defined the commercial banks as an organization, which exchanges money, accepts, grants loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or for such specific purpose (Bank and Financial Institution Ordinance 2005).

It is the fact that financial sector plays a vital role for the economic development of a country. Even before the establishment of a banking system in Nepal, financial transactions were in practice as undertaken by some moneylenders like sahu-mahajans, zamindars, relatives, friends, and few informal organizations limited to ethnic group such as Guthi. The borrowing from the other and the informal organization was limited and based on personal understanding. At that time people deposit their gold, silver and

valuable goods for the sake of security. Thus, the private moneylenders can be taken as forerunner of the concept of financial institution.

However, the private money lenders supported the economic development of a country, the transactions undertaken by them was totally based on their personal understanding. No legal restriction was against them and their monopolies in transactions were the reasons for covering the interest in personal understandings and exploiting the people. Thus, it was then realized the need to establish financial intermediaries in supporting the economic development of a country.

Nepal has been ruled over by many rulers like Kirati, Lichchhavi, Malla, Ranas, and Shahs. Mostly Kirati, Lichchhavi and Malla regimes, who were concerned with the construction of temples, pati-pouwa, chautaris, etc. At that period neither the people nor the government needed to think about the economic development of the country. According to ancient Vanshawaliin fourteenth century, the ruler of the Kathmandu Jayasthiti Malla segregated the local domiciles into 64 different classes according to profession they had undertaken. Tankadhari was one of those classes who used to deal in coins and precious metals such as gold. These Tankadharis were said to have carried out the borrowing and lending of money (coins). Hence, Tankadharis can be regarded as the traditional bankers of Nepal.

After long time, during the Rana regime, only handfuls prime minister thought about the economic development of the country. They established some offices in 1993 B.S. (1936A.D.) Tejarath Addawas established during the tenure of Prime Minister Ranoddip Singh Rana as a first institutionized credit house. Tejarath Adda provided loans under the security of gold and silver to the government employees and public. The government established its various branches and sub-branches at different places of the country for the sake of benefits of people. In the overall development of the banking system in Nepal, the Tejarath Adda may be regarded as the father of modern banking institution and for a quite long time it rendered a good service to the government employees as well as to the general public. The government also implemented the rules against the vast interest rate taken by moneylenders. Thus, the government financial institution occupies an important role in the banking history of Nepal. To fulfill the growing need of economy in Nepal, banking activities were performed only after the establishment of Nepal Bank Limited in

1994 B.S. (1937A.D.) as the first commercial bank in Nepal. This bank was established under the Nepal Bank Act 1994 B.S.

At beginning, 49% of the ownership belongs to the promoters as well as general public and remaining belongs to government. The incorporation of Nepal Bank Ltd. is the real starting of the banking institution in Nepal? The bank started the act of consolidating the scattered capital since its establishment in order to mobilize it in productive sector. It developed systematic tradition in culture of modern banking system in Nepal. Such system could be able to establish a strong base for the enlistment of national economy. Besides, it also acted as central bank for more than three decades.

Nepal Rastra Bank was established in Baisakh 14, 2013 B.S. (26 April 1956 A.D.) under Nepal Rastra Bank Act, 2012 B.S. (1955 A.D.), the central bank of Nepal. It is totally owned by government. NRB is heavily assisting for the development of the whole economy. It is giving timely directives to all financial institutions operating and conducting in all over the country.

After a long period, the second commercial bank namely Rastriya Banijya Bank (EBL) has been established in 2022 B.S. (1965A.D.) with cent percent government ownership. This bank has been established under the Rastriya Banijya Bank Act 2021 B.S. (1964 A.D.) Both Nepal Bank Limited (NBL) and Rastriya Banijya Bank (EBL) have made a remarkable contribution by providing reliable banking services to the Nepalese people. Its contribution is well noted in terms of capital formation to the small dispersed saving into meaningful capital investment in order to flourish industry, agriculture, and commercial sector in the country.

The government introduced Commercial Bank Act in Nepal in 2033 B.S. (1976A.D.) to cover the vast field of financial sector. This act has helped to emerge number of commercial bank with a view to maintain economic interest in comfort of the public in general facilitated to provide loan for agriculture, industry, trade and make a available banking services to the country and people.

Among vacuum in the banking sector got some rays of hope only when the government forwarded the economic liberalization policy in 2039 B.S. (1982 A.D.) and decided to

allow foreign banks to operate their activities in Nepal in joint venture model. Joint Venture Banks can be defined as an association of two or more parties having common objectives and goals so as to get maximum satisfaction. Basically at that time, it was envisioned that joint venture banks (JVBs) would support the country in various ways. In Nepalese context the main purpose of joint venture is top developing economic forces in order to achieve distinguished result, which the partners separately could not achieve. Nowadays, joint venture banks (JVBs) are playing dynamic and vital role in economic development of the country.

The EBL Bank Ltd. is the first joint venture bank established in 2041 B.S. (1984 A.D.) and started its operation with modern banking services. In the same way, Nepal Indosuez Bank (currently Nepal Investment Bank), the second joint venture bank established in 2042 B.S. (1985 A.D.) with an objective to encourage efficient banking services and facilities. Likewise Standard Chartered Bank is operated in 2044 B.S. (1987 A.D.).

With the satisfactory result of joint venture banks, Nepalese promoters are highly encouraged and as a result, commercial banks are introduced with cent percent domestic investment. At present, Nepal Industrial and Commercial Bank (NIC), Lumbini Bank Ltd., Machhapuchhre Bank Ltd., Bank of Kathmandu, Nepal Credit and Commerce Bank Ltd., Laxmi Bank Ltd., Siddhartha Bank Ltd., Kumari Bank Ltd. came into operation with cent percent domestic investment by Nepalese promoters which are the plus point of development of banking sector of Nepal. Now, there is a strong competition between commercial bank for the existence so that the growing needs of the customers can easily achieve (Gupta, 1984:17-19).

2.1.3 Function of Commercial Banks

Commercial banks are the most important types of financial institution for the nations in terms of aggregate assets. Traditional functions of commercial banks are only concern with accepting deposits and providing loan. Although these banks are truly inspired with the objectives gaining profits. Here commercial banks are also established to accelerate common people"s economic welfare and facility. But modern commercial banks work for overall development of trade, commerce, services and agriculture also. The business of banking is very broad in modern business age. The number and variety of services

provided by bank will provably expand. Recent innovation in Banking include the introduction of credit cards accounting services of business firms, factoring leasing participating in the Euro-dollar market and lock- box banking. Along with other functions, the main functions of commercial banks are to accept deposits from the people and to lend it to those who are in need of financial aid. The main functions of commercial banks are as follows.

- Accept various types of deposits
- Borrowing raising and taking up of money
- Lending loans as well as services
- Provide guarantee of services
- Provide facility of discounting bills and promissory notes
- Provide Tele banking services
- Provide safe deposit vault
- Provide transit facility of foreign currency
- Provide remittance service
- Provide service of letter of credit (L/C), travelers cheque
- Provide facilities on bill clearing, purchase and collection services
- Provide locker facilities and other commercial services

2.1.4 Role of Commercial Banks

The role of commercial bank in the economy is obviously a prime prerequisite for the formulation of the bank policy as the role shape, the nature and character of the bank. The deposit minded banker may under emphasize safety. Often commercial bank performs a number of interrelated functions. There are not only the custodians of the community's money but the suppliers of its liquidity. For these banks customer who seldom borrow from the bank an impartment function may be the acceptance and safe keeping of deposits. But those customers who often take loans from the bank, the credit creation function may be the most important. The commercial bank is different from the other banks especially from central bank. In appearance the main distinction between central bank and a commercial bank is that now- a- days the central bank does not do much banking, but the more fundamental difference is one of aim. The main objective of the commercial bank is to make profit where as the central bank thinks of the effects of its operations on the working of the economic system. The commercial bank has the

shareholders and is expected to do the best it can for them but the government by contrast usually owns the central bank. The commercial bank may be few or many and they are to be found business with the general public all over the country. But, there is only one central bank in each country. Its market operations are mainly impersonal and are confined to what is necessary for influencing the country's financial business in the directions dictated by economic policy (Baxley, 1987:17-18).

For all countries of the world and more so for the developing countries like Nepal, fast economic development is one of the most important aspects of the developmental activities. However, it is obvious that unless the development of the most important sector like agriculture, industry, and commerce are achieved, even development is impossible. For all the development, the regular supply of financial resources is a prerequisite. Finance is thus like fuel for providing energy to move the tempo of economic development and financial institutions naturally, serve as reservoir for supplying and controlling the stream of that fuel i.e. finance. The commercial banks which are the financial institutions dealing with activities of agriculture industry, trade and commerce play the most important role for the business activities of the world. The objectives of the commercial banks are to mobilize the idle resources in productive uses collecting them from scattered and various sources. Its role in economic development is thus immense in order to bring out greater mobility of resources to meet the ever increasing needs of financing of the various economic activities.

Presently, the contribution of commercial banks and joint venture banks in agriculture sectors has been expanding. It provides the credit facilities for the development of agriculture on cases where Agricultural Development Banks and Cooperative Societies don't enter into the field. The agriculture sector needs more and more capital for the improved methods of farming viz. the fertilizers, equipment, irrigation facilities etc. require obviously more investment. Thus role of commercial bank in promoting agriculture sector is increasing in many of other countries, especially in developing countries like Nepal. The economy of our country is dominated by agricultural sector. This could be exemplified from the figures that about 73 percent of the total population is engaged on agriculture and about 35 percent of the national income comes from the agriculture. Similarly 51 percent of the export trade is in agricultural product. Also if we take into account of the major industries of Nepal, they are mainly based on agriculture.

This is very clear that in such a country the financial help to the agriculture sector is most urgent and indispensable for strengthening the base of national economic structure (Nepal Rastra Bank Statistics 2068, July).

The role of commercial bank is indispensable for industrial development of Nepal. Due to insufficiency of capital, industries are depending more and more upon the supply of capital by the banks. It wouldn't be exaggeration to state that commercial banks are mainly responsible for whatever the industrial development has been achieved by Nepal. However many other financial institutions like ADB/N, NIDC have already been established for the development of agriculture and industrial sector of the country. The commercial banks are also continuously participating in these activities. Being a mountainous country, many places are very remote and sometimes it requires many weeks to approach some of the places. Due to lack of transport and communication facilities and other geographical causes, the country has been still facing the problem of imbalances economic growth. The scattered capital of the country is unable to solve the problem of imbalance of the economy growth. Commercial banks have their appropriate role to play here by expanding their branches in the different Hilly and Tarai regions available loan to the local people. In industrial sector, commercial banks are providing the necessary financial help for the industrial establishment in the country. They provide short and medium term loan to industries to purchase machineries, tools, raw materials etc. and to introduce new and developed techniques of production.

So the role of commercial banks is extremely important for the development of industries, trade commerce, agriculture, hotel, transport etc. of the country. In fact, no nation can develop itself without the development of these banks. It is not only true in the capitalist countries but also true in the socialist countries and mixed economic countries like Nepal as well (Baxley, 1978:25).

2.1.5 Concept of Deposit

Deposit is the sum of money lodged with a bank, discount house or other financial institution (Shrestha & Bhandari: 2059, p 28). Deposit is nothing more than the assets of an individual which is given to the bank for safe-keeping with an obligation to get something (interest) from it. To a bank these deposits are liabilities. Banking and financial institutions act 2063 defines "Deposits" as the amount deposited in a current,

savings or fixed accounts of a bank or financial institution. The deposits are subject to withdrawals by means of cheque on a short notice by customers. There are several restrictions on these deposits, regarding the amount of deposit, number of withdrawal etc. These are considered more as investments and hence they earn some interest. The rate of interest varies depending on the nature of the deposits. The bank attracts deposits from customers by offering different rates of interest and different kinds of facilities. Though the bank plays an important role in influencing the customer to save and open deposit accounts with it, it is ultimately the customer who decides whether s/he should deposit his surplus funds in current deposit a/c, saving deposits or fixed/time deposit a/c. Bank deposits arise in two ways. When the banker receives cash, it credits the customer's account, it is known as a primary or a simple deposit. People deposit cash in the banking system and thereby convert one form of money, cash, into another form, bank money. They prefer to keep their money in deposit accounts and issue cheques against them to their creditors. Deposits also arise when customers are granted accommodation in the form of loans. When a bank grants a loan to a customer it doesn't usually pay cash but simply credits the customers account with the amount of loan. Of course, there is nothing that prevents the borrower from withdrawing the entire amount of borrowing in cash but quite often s/he retains the amount with the bank as deposit (Bhandari: 2003, p 73).

2.1.6 Types of Deposit

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

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

account holder's demand is called demand deposit Its transaction is continual & a very small portion of such deposit can be invested in the productive sector. Though the bank cannot gain significant profit by investing it in new sector, this is one of the facilities given to the customer. Therefore, the bank doesn't give interest on this account. For this study this types of deposit is not suitable (Bhandari: 2003, p 79).

2. Saving Deposit: - According to Banking and Financial Institutions Act 2063 saving account means "An account of amounts deposited in a bank for savings purposes." The saving deposit bears the features of both of the current and fixed period's deposits. Saving accounts are mainly meant for non-trading customers who have some potential for saving and who don't have numerous transactions entering their account. While opening the account the minimum compensating balance differ according to the banks rule. Similarly there is also divergence as to how much amount of money can be withdrawn. But if the customers want to withdraw more money from the bank which is not allowed by it but if s/he gives pre-information to the banks, s/he can withdraw more money. The bank fixes the minimum and maximum amount of withdraw able through a cheque from this deposit. If the bank goes into liquidation, priority is given to the saving deposit than current and fixed deposits while repaying the liabilities.

3. Fixed Deposit: - Fixed deposits constitute a very important resource for banks as bank need not keep greater reserve in respect of such deposits. Under the Banking and Financial Institutions Act 2063 "Fixed account means as account of amounts deposited in a bank for certain period of time." The customers opening such account deposit their money in the account for a fixed period. Usually, only the person or institution who wants to gain more interest opens such type of account. High interest rate is paid to this deposit as compare to saving deposits. The bank and the customer can take benefit from this deposit. The bank invests this money on the productive sector and gains profit and the customer too can be made his financial transaction stronger by getting more interest from this deposit. The principal amount with interest must be returned to the customer after expiry of fixed time. In England these deposits are repayable subject to a period of notice and hence known as time deposit or time liabilities means that these are withdraw able subject to a period of notice and not on. Fixed deposit receipt is not transferable by endorsement and certainly not negotiable. However the debt covered by the fixed deposit receipts can be assigned. Bank generally gives loans up to 90% of the deposit against the

security of the deposit. For this bank charge some interest higher than the interest allowed on the deposit demand (Radhaswamy & Vasu Devan: 1979, p 72).

2.1.7 Importance of Deposit

Deposit arises from saving. An individual's income equals consumption plus saving. S/he deposits the saved part of income in the bank and gets interest from it. Banks in turn lend this money and earn profit by charging high interest rates. The borrowers from banks, invests this fund in productive sectors yielding more return than the interest on borrowed fund. This investment leads to create new employment opportunity in the economy. Ultimately due to new employment the purchasing power of the economy increases and finally GDP and growth of the economy occurs. It means that the deposit has very important role in the economy. There is a direct relationship between deposit of banks and the investment in the economy. If the volume of deposit is low, the investment in the economy also lags behind due to lack of resources. The deposit of banks is the accumulated capital which can directly be invested. There is a great need of such deposit in the developing countries. Deposit includes the idle money of the public, bank being the inter-mediator to accept this sort of money and help to canalize this in productive sector. So the importance of banks and financial intermediaries is larger in present context (Radhaswamy & Vasu Devan: 1979, p 76)

2.1.8 Features of Sound Lending and Fund Mobilization Policy

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

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

Where,

M = Marketability

A = Ascertain ability

S = Stability

T = Transferability

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

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

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

5. Tangibility: - A commercial bank should prefer tangible security to an intangible one. Though it may be considered that tangible properly doesn't yield an income a part from intangible securities, which have lost their value due to price level inflation.

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

7. Diversification: - A firm can invest its deposit collection in various securities to minimize the risk. So, all the firms must diversify their fund or make portfolio investment. Diversification helps to earn a good return and minimize the risks and

uncertainty. So, the firms are making portfolio investment with different securities of different companies (Thapa: 2065, p 108-109).

2.1.9 Deposit Mobilization

In developing countries there is always shortage of the capital for the 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; 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 very broad sense as a process of rising income per head through the accumulation of capital" (Venhorn and John, 1995:11).

But how capital can be accumulation in the developing countries, there are two ways of capital accumulation in the developing country, one from the external sources and other from the internal sources. From external Foreign Aid, Loan and Grants are 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. Economic development so defined is necessary and so sufficient to generate rates up savings and investment. The generation of high rates of saving and thereby investment is possible only through the commercial banks. Commercial banks occupies greater role in economic development by generating the savings towards the desired sectors from one place to another, communicating with its branches and agencies in different parts of the country and the world and advising to the commercial people.

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 to invest again the collected amount in the development activities. Collecting scattered small amount of capital through different Medias 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, it also supports to increase the saving through the investment of increased extra amount (NRB, Bankers Prakashan, 1998: 10- 12).

Banking transaction refers to the acceptance of deposits from the people for granting loan and advances, and returning the accepted deposit at demand or after the expiry of a certain period according to banking rules and regulations. This definition clearly states that Deposit Mobilization is the starting point of banking transactions. Banking activities can be increased as much as we can mobilize the accumulated deposit effectively (NRB, Nepal Bank Patrika, 2001:4-7).

Increasing the income of the low-income group of people and making them able to save more deposit mobilization helps to the collected deposit in desired sectors. Deposit depends among others, on the level of country's per capita income and its growth rate, population growth rate, interest rate on deposits or on the bank accounts, banking and financial facilities and net factor income etc. The national income is the measure of the nation from the economic activities. Saving is the excess if income over consumption. Investment is the expander made for the formulation of the fixed capital. Mobilization of saving implies transfer of resources from surplus spending units to deficit units. In these connections, financial intermediaries play an important role in mobilization of voluntary saving. The amount of saving of a typical household in Nepal is small because the people have limited opportunities for investment. They prefer to spend savings on commodities rather than on financial assets. These restricts the process of financial intermediation, which might otherwise bring such as reduction of investment risk and increase in liquidity when capital is highly mobile internally, saving from abroad can also finance the investment need at home. When capital is not mobile internally, saving from abroad will limit investment at home (NRB, Nepal Bank Patrika, 2001:13).

2.1.10 Need for Deposit Mobilization

The following are some reasons for why Deposit Mobilization is needed in a developing country like Nepal. Workshop report, “Deposit Mobilization why and how” (NRB Bankers Prakashan, 1984 No. 24) Group “A” states the following points as the need for deposit mobilization.

- 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.
- 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.
- To increase saving is to mobilize deposit. It is because if the production of agricultural and industrial products increases, it gives additional income, which helps to save more, and ultimately it plays a good role in deposit mobilization.
- It is much more important to canalize the collected deposit in the priority sectors of a country. In our developing country we have to promote our business and other sectors by investing the accumulated capital towards productive sectors.
- Commercial banks are playing a vital role for National Development. Deposit mobilization is necessary to increase their activities. Commercial banks are granting loan not only in productive sectors but also in other sector like food grains, gold and silver etc. Though these loans are traditional in nature and are not helpful to increase productively, but it helps to some extent, to mobilize the bank deposit.

Developed country does not feel the need of deposit mobilization for capital formation due to developed capital markets in every sectors but in an under developed country and developing country deposit mobilization plays a great role for the economic development . So far the developments of these sectors concerned, there is needs of more capital. Again instead of the development of a particular sector, the development of every sector should go side by side. Low national income, low per capita income, lack of technical know how, vicious cycle of poverty, lack of irrigation and fertilizer, pressure of population increase, geographical condition etc. are the main problems of economic development of an under developed country like Nepal. So the development process of

these sectors on one side and to accumulate the scattered and unproductive sectors deposit on the other is the felt need of an under developed country. We can take this in our country's present context (NRB Bankers Prakashan, 2001: 12).

2.1.11 Investment

Though commercial bank can earn some interest and dividend from the investment on government securities share and debentures, it is not the major portion of income, but it is treated as a second source of banking business.. Banks are such types of institutions, which deal in money and substitute for money. They deal with credit and credit instrument. The most important thing for the bank is good circulation of credit. Fluctuate flow of credit and decisions harm the whole economy and the bank as well. Thus, to collect fund effectively and its well utilization is the very challenging task for the bank. The decision of an investment of fund may be the question of life and death for the bank. Commercial banks may extend credit by purchasing government securities, bond and shares for several reasons. Some of them are given as.

- It may want to space its maturities so that the inflows of cash coincide with expected withdrawals by depositors or large loan demands of its customers.
- It may wish to have high-grade marketable securities to liquidate if its primary/resource becomes inadequate.
- It may also be forced to invest because the demands for loan has decreased or is not sufficient to absorb its excess reserve.

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

“Investment has many factors, it may involve putting money into bond, treasury bills, or notes or common stocks, or painting of real estates, or mortgages or oil ventures, or selling short in bear markets. It may involve options, straddles, rights, warrants, convertibles, margin, gold silver, mutual funds, money market funds, index funds and results in accumulation of wealth or dissipation of resources diversity and challenge.

Characterize the field for the able or lucky, the reward may be substantial. For the uninformed the results may be disastrous” (Jerome B. C. E., D and Arthur Z: 1997).

“The investment objective is to increase systematically the individual’s wealth, defined as assets minus liabilities. The higher the level of the desired wealth the higher the must be received. An investor seeking higher return must be willing to face higher level of risk.” The word investment brings forth vision of profit, risk, speculation and wealth. Most of people invest their excess fund to different sectors for future financial gains and to protect the purchasing power of their saving against price of goods, due to inflation” (John M. C. and Edward A. M. 1986).

“ An investment may be defined as the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time. The funds are the expected rate of inflation and also for the uncertainty involved in the future flows of funds” (Frank K R. 1986).

From the above definition, it is clear that an investment means to trade a known rupee amount today for some expected future stream of payment of benefits that will exceed the current outlay by an amount that will compensate the investor for the time. The funds are committed for the expected changes in prices during the period and for the uncertainty involved in expected future cash flows. Thus investment is the most important function of commercial banks. It is the long-term commitment of the bank in the uncertain and risky environment. It is very challenging task for commercial banks. So a bank has to be very cautious while investing their funds in various sections. The success of the bank depends heavily upon the proper management of its invisible funds.

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 may invest by lending the funds to various business companies. These firms in turn may invest the money in new factories and equipments to increase their production. In addition to borrowing from banks most companies issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issues bond to obtain funds to invest in such projects as the construction of dams, roads and schools. All such investment

involves a present sacrifice of income to get an expected future benefit. As a result, investments raise a nation's standard of living. (Encyclopedia of Britannica, 1984: 7).

“A sound investment policy of a bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provide maximum safety and security to the depositors and banks. On the other hand risk on banking sectors tends to be concentrated on the loan portfolio. When a bank gets into serious financial trouble its problem usually spring from significant amount of loan that have become uncollectible due to mismanagement, illegal manipulation of loan, misguided lending policy or unexpected economic downturn. Therefore, the bank investment policy must be such that it ensures that it is sound prudent in order to protect public funds” (Shakespeare: 1997)

2.1.12 Major Investment of Commercial Banks

A. Investment in the Securities

The third line of defense to meet demands for cash and serving, the quick source of funds is the bank's liquid security holding, often called secondary reserves. “These assets normally compose more than one third of total assets of banks. These typically include holding of shorter-term government bonds like treasury-bills, development bonds, etc., and other securities purchased in the open market and readily converted into cash in the financial market. These security bear low risk, low return, but higher liquidity. The remaining securities where the banks invest in are direct and indirect investments, in the sectors by virtue of statutory requirements are imposed. For example, most of the Nepalese commercial banks feel convenient to invest in the rural development bank's shares as this complies both with NRB regulations for priority sector lending and also they get moderate return from them” (Subedi, 2006:45).

“Commercial banks invest their excess funds in the shares and debentures of other companies. They generally invest when there is excess of funds over the required when there is no alternative opportunity to make investment in the profitable sector. Now-a-days, the commercial banks of Nepal have purchased shares and debentures of regional development banks, NIDC and other development banks, etc. These types of investments are mainly made for their income generating power and for other advantage like tax shelter, etc. Investments are recorded in their cost price or market values whichever is lower” (Subedi, 2006:54).

B. Loans and Advances

This is the primary source of income and most profitable asset to a bank. A bank is always willing to lend as more as possible since they constitute the profitable source of revenue. This occupies the highest proportion of assets of any commercial banks bearing more than 40% of the assets used. But a bank has to be more careful while providing loans and advances since they may not be realized in a short period of time. And sometimes they may turn into bad debt. Therefore, it is not wise to rely on them at the time of emergency for all banks.

A commercial bank hardly lends money for a longer period of time. It lends money for a short period of time that can be collected in a short period of time. The commercial banks are never bound to provide long-term loan because it has to synchronize the loans and advances with the nature of deposits they receive. Loans and advances are provided against the personal security of the borrower or against the security of the immovable and movable properties. Banks provide the loans in the various forms such as overdraft, cash credit, direct loans and discounting bills of exchange.

C. Other Assets

The great majority of banks' assets are financial claims. However, banks' assets also include the value of bank buildings, vehicles, equipments, computers (Hardware and Software) and other miscellaneous fixed assets like deferred revenue expenditures, leaseholds and free holds, prepaid expenses and advances. However, only a small portion of total assets is covered in this category.

2.1.13 Major Sources of Funds

A. Deposits

The principal liability of a commercial bank is its deposits collected from general public, business and government agencies. It is a direct claim of outsiders to the bank. The total assets of banks are financed by more than 75% from the deposits. Normally, deposits are classified into three categories: demand deposits, saving deposits and fixed deposits. Demand deposits are permitted for unlimited check writings, but they do not bear any interest liabilities. However, a minimum balance is fixed for the depositors. By the viewpoint of banks, these are the cost free deposits but banks are not confirmed to invest them for a longer period, since can be demanded at any time. This is an easy mean of

circulating transactions and suitable for business concerns. Saving deposits are normally meant for the individuals, non-profit making organizations and other who are for saving motive and also want to earn some interest from the deposits. However, there is a minimum fixed balance. Banks offer interest in the minimum monthly balance to the saving depositors and also permit withdrawals and deposits to these accounts. However, banks impose some constraints in the maximum one-time withdrawal limit. If the maximum one time limit is exceeded and minimum balance is not maintained, no interest is offered to the depositors. These deposits are of somehow stable and banks can feel confirmed to invest them in the medium term financings. Fixed term deposits (also called time deposits) are the major sources for bank's longer- term investments as these deposits bear fixed maturity periods. These deposits are offered a stipulated interest rate (normally higher than the savings rate), a fixed denomination of amount and a prefixed maturity period. Banks tend to offer different interest rates to these deposits accounting to the deposit amount and maturity time. The more amount and longer the maturity period, the higher the interest rate and vice versa.

Nowadays, Nepalese commercial banks have introduced a different type of deposit account: Call Deposit. Banks are happy to find the heavy corporate source of deposit stable in the time span. Banks are interested to find the single source of heavy deposits constable to invest it in the market. These types of deposits have various benefits. Banks can serve a single corporate deposit or more carefully than various small accounts. The deposits are of constable nature and banks can invest them without hesitation. So, banks provide a special interest rate to such deposit, permit to write checks against them, but also fix a minimum balance for maintaining this account.

B. Borrowings from the non-deposit sources

A sizable amount of funds stem from miscellaneous liability accounts. Bank assets are supported from other non-deposit liabilities with or without costs. Bank borrowings, placements, overnight placements, borrowing from central banks, foreign banks are some examples of nominal cost bearing sources. However, these are short-term liabilities, due to no obligation for banks to maintain reserve for them. These types of liabilities are also important for banks. Other cast free sources of liabilities are accrued interest payables, deferred expenses, accounts payable, deferred tax liabilities, obligations such as bankers'

acceptances, banker's checks, matured time deposits, remittance awaiting disposals and other liabilities.

C. Stockholder's equity/Internal Financing Sources

Every new bank begins with a minimum amount of owners' capital and borrows funds from the public to lever up its operation. These capitals normally account less than 10% value of the total assets. So, banks are the institutions having the greatest financial leverage using from external sources of financing. Though, being a relatively small item, bank's capital account typically includes value of paid up capital, share premium, statutory and other reserves and retained/ploughed back profits. Usually, the largest item in the capital account is retained earnings, undivided profits, which include accumulated profit over each year after payment of dividends.

The banks are such type of institutions, which deal in money, substitute for money, the deal with credit and credit instruments. Good circulation of credit is very much important for the banks .unsteady and unevenly flow of credit harms the economy. Thus, to collect fund and utilize it in a good investment is not a joke for such organization. The secret of successful banking is to distribute resources between the various joins of assets in such a way as to get a sound balance between liquidity and profitability. So there is cash (in hand quickly) to meet every claim and at the same enough income for the bank to pay its way and earn profits for its shareholders. Bank is government regulated, profit making organization that operates in comparison with other banks and financial institutions to serve the credit needs of its customers. The primary business of bank is accepting deposit and lending money. Bank accepts deposits from customers who want the safety and convenience of deposit and the opportunity to earn interest on their excess funds. Bank put their depositor's funds to other individuals ...to other business...and to federal state and local government. A commercial bank must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn a handsome profit as well as it should be secured and can be converted into cash whenever needed. Obviously, a firm that is being considered for commercial loans must be analyzed to find out why the firm needs money, how much money the firm needs and when and how it will able to repay the loan. Bhattacharya, in his book has put the recommendation of Tandem committee to prepare this report in 1975. "However, recommendation skills deserve great significance in the sector to credit appraisal and lending breaking away from the additional methods of

appraisal. The system proposed by the committee enjoyed upon the banker” (Bhattacharya, 1998:75).

- To assess the need based credit of the borrower on a rational basis.
- To ensure proper end use of bank credit by keeping a closer watch on the borrowers business and thus to ensure safety of all bank funds.
- To improve the financial discipline of the borrowers
- To develop the healthy relationship between the bankers and the borrowers.

The committee examined the existing system of lending recommended the following broad changes in the lending system.

- The credit needs of borrower are assessed on the basis of their business plan.
- Bank credit is only the supplementary to the borrowers’ resources and not in replacement of them.
- Borrowers are required to hold inventory and receivable according to norms prescribed by the Reserve Bank of India time to time.
- Credit is made available in different components only depending upon the nature of holding of various current assets.
- In order to facilitate a close watch on the operation of borrowers, they are required to submit, at regular intervals, data regarding to their business and financial operations, both for the past and future period.

The committee held that any time a business required holding the following current assets for the operations of a business.

- Raw materials including stores and other items used in manufacturing process.
- Stock in process
- Finished goods.

2.3 Review of Related Research

Sanjel (2007), has carried out a research work 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. The specific objectives of the study are given below;

- 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.

Based on this study, her major findings were;

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 in 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.

Pradhan (2003), in his research paper “*Role of Saving, Investment & Capital Formation in Economic Development of Nepal*” has studied about the strong role & impact of saving, investment & capital formation on economic development of Nepal. This study is based on secondary data only. The necessary data on saving, investment, capital formation and gross domestic product has been collected for the period of 1974/75 to 2000/01. The role & impact of saving, investment and capital formation on economic development were analyzed by using various regression models. The regression equation used in this study have been estimated at current prices as well as in real term with the entire study period divided into different sub-period.

The results presented in this paper suggest that in all cases GOP is significantly associated with saving. Investment and capital formation both at current prices and in real terms. The result of the empirical analysis led to three important conclusions: first, saving, investment & capital formation have positive impact on economic development. Second, the current values & past values of saving, investment & capital formation have positive impact on economic development but the current values have the largest impact. Third, there is a strong role played by saving & capital formation on economic development while weak role-played by investment.

Joshi (2004), 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.

Bajracharya (2008), 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.

Pradhan (2005), 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.

2.4 Review of Unpublished Thesis

Shrestha (2007) conducted a research on “*Investment Practice of Joint Venture Banks in Nepal*”. He has selected three joint venture banks i.e. EBL Bank Limited, Standard Chartered Bank Limited and SBI Bank Limited for the study of lending and investment practice. The main objectives of his study were;

- To highlight the features and problems of investment lending procedure in foreign commercial banks and their implementation in practical life
- To study priority sector investment and repayment rate of commercial banks in Nepal through intensive banking program.
- To show the repayment position of the sector of the three commercial banks.

The major findings of this study were as follows.

- liquidity position of EBL and SCBNL have not found satisfactory. Therefore, suggested them to improve cash and bank balance to meet current obligations.
- SCBNL’s loan and advances to total deposit ratio is lower at all, therefore it is recommended to follow liberal lending policy for enhancement of lend mobilization.
- It was found that SBI had not invested its fund on share and debenture of other companies. It is suggested to enhance off balance sheet transactions, diversifying investment, open new branches, play merchant banking role and invest their risky assets and shareholders fund to gain higher profit margin.
- EBL and SCBNL are recommended to increase cash and bank balances to meet current obligations and loan demand.

Sanjel (2008), carried out a research work 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. The specific objectives of the study were 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.

Based on this study, her major findings were;

- 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 of loan & advances to total deposit of NBBL is higher. HBL seems to be more stable than others. Large proportion of total deposit of NBBL has been utilized on loans & advances than HBL & SCBNL.
- The mean ratio & CV of total investment to total deposit of SCBNL is higher and stable i.e. SCBNL mobilizes its more deposits on investment. HBL stands in average with greater volatility and NBBL made low investment.
- The mean ratio and CV of loan & advances to total assets of NBBL is higher i.e. it mobilizes large proportion of total assets on loans & advances with slightly higher variability. It clearly shows that NBBL focuses to mobilize fund on loans and advances. HBL stands for same on second than SCBNL.
- The mean ratio of CV of return on assets (ROA) of SCBNL is better than that of NBBL and HBL.

- The average ratio of interest earned to total assets of NBBL is higher than that of SCBNL and HBL, indicates that NBBL's interest earning power with respect to total assets seems to be very efficient than SCBNL & HBL. And lower CV indicates consistency in the ratios.
- The growth ratio of loans and advances of NBBL is higher. HBL has taken second position and SCBNL has least with greater instability. The ratios are in fluctuating trend. NBBL is stronger in increasing loan and advances.

Katuwal (2009), 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. The main objectives of the study were:

- To study the increasing and decreasing trend of deposit mobilization of EBL Bank.
- To compare the performance of deposit and investment of EBL.
- To see the impact of interest rate of loan on the credit extended by EBL Bank.

The major findings of this study were;

- 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. 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 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.
- 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 (2010) carried out a research work 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 and the other specific objectives were as follows.

- 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.

The major findings of this study are as follows.

- 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.
- 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. In 2062/063 the banks cash amount is Rs. 630.18 million and it is 3.26% of total deposit, i.e. it is 3.26 in ratio of total deposit. In 2063/064 the cash collected amount increased up to Rs 23342.28 million, it is 6% in total collected /deposited money. In 2066/067 it is increase in Rs 46410.7 thousand and 3.02% in total deposited amount.
- Growth ratio of total deposit of NABIL during the period of study is 24%. So, it can be said that NABIL has the satisfactory position in term of collection deposit. Growth ratio of total credit is 25% under the period of study which is high in compared to the growth ratio of total deposit i.e. 24%. It shows that the bank is highly utilizing the collected deposit as per the growth of total deposit. The growth ratio of total investment is 22% under the period of study which is low in compared to the growth ratio of total deposit and credit.

Khadka (2012) conducted a study on “*Investment Policy of Commercial Bank of Nepal*” a comparative study of NABIL with NABIL Bank and BOK. Her major objectives were as follows.

- To analyze the relationship between loan and advance and total investment with other financial variable of NABIL and compare with NABIL and BOKL.

- To examine the liquidity assets management and profitability position and investment policy of NABIL in comparison to NABIL and BOKL.
- To give recommendation and suggestions.

Majors findings of her research were

- It should always try to maintain the equilibrium in the portfolio condition of the bank. So it can be said “all eggs should not be kept in the same basket”. The bank should make continuous effort to explore new, competitive and high yielding investment opportunities to optimize their investment portfolio.
- NABIL has to make way for small depositors and entrepreneurs for the promotion and mobilization of small investor’s fund.
- On the basis of above facts, it is seen that NABIL has invested much of its fund in total outside assets but it has not achieved the desired result.
- The risk taken by NABIL, from the angle of credit and capital are in an average whereas the consistencies of the same are highly volatile which may result higher loss. The bank should not test those risks on an experiment basis as seen from the consistency angle.

2.5 Research Gap

Many research studies have been conducted by the different students, experts and researcher about mobilization of Deposit and Investment. There have been numerous research studies on financial companies and public enterprises regarding mobilization of Deposit and Investment. Some studies are related to case study of two company and some others are comparative in nature. But the case study on mobilization of Deposit and Investment of single financial company can be hardly found. The financial and statistical tools used by most of the researchers were ratio analysis, test of hypothesis and regression analysis. This research includes different tools like ratio analysis, correlation analysis and co-efficient of variation, growth rate analysis, probable error, trend analysis as specific tools. Thus the research study made on "A study on mobilization of Deposit and Investment of EBL" will be an effort to analyze on detail about mobilization of Deposit and Investment of EBL in present situation with the help of various related financial as well as statistical tools and techniques. The study can be beneficial to all the concerned parties and people as well.

CHAPTER - III

RESEARCH METHODOLOGY

A systematic study needs to follow a proper methodology to achieve pre determine objective. Research methodology may be defined as “a systematic process that is adopted by the researcher in studying problem with certain objective and view”. In other word, research methodology describes the methods and process applied in the entire aspect of the study focus of data, data gathering instrument and procedure, data tabulating and processing and methods of analysis. It is really a method of critical thinking by defined and redefining the problems, formulating hypothesis or suggested solution and collecting and organizing and evaluating data, making deduction and making conclusions. Research methodology is a path from which we can solve research dilemma systematically to accomplish the basic objective of the study. It consists of a brief explanation of research design, nature and sources of data, method of data collection and methods of tools used for analyzing data.

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data that aim to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to objective of this study. To achieve the objective of this study, descriptive and analytical research design has been used.

It is the process which gives us an appropriate way to reach research goal. It includes definite procedures and techniques which guide in sufficient way for analyzing and evaluating the study. This study is carried out by using both quantitative and qualitative analysis methods. Mostly, secondary data has been used for analysis, but the discussion and personal interview with the concerned employees of the selected bank is also used for qualitative analysis. Hence, research design of this study is based on descriptive and analytical method.

3.2 Population and Sample

Population refers to the industries of the same-nature of its service & product. It is the collection or the aggregate of objects or the set of results of an operation. On the other hand sample means the representative parts of population selected from it with the objectives of investigating its properties. Thus, a sample is just a portion of the population selected with a view to draw conclusions about the population under study. In context of Nepal, 32 commercial banks are in operation. These 32 banks are regarded as population. But, it is not possible to study all data related with these 32 banks. Hence one bank has been taken as sample from the whole population. The sample is Everest Bank Limited (EBL).

3.3 Nature and Sources of Data

For the purpose of this study, data are collected mainly from the secondary source. The secondary data are based on the second hand information. Secondary data were gathered much more quickly than primary. Secondary source are bulletins and newspapers of selected banks, annual reports, official document, reference material collected from library.

3.4 Method of Data Collection

It indicates the sources of data and how they collected. In this study data are collected through published sources. They were collected from the correspondent offices and their respective websites. The annual reports of EBL, NRB publications, the data regarding the profile of EBL and other related documents were collected from internet websites. Unpublished master's thesis, books, research papers, articles, journals have been collected mainly from Centre Library of Tribhuvan university, library of Shanker Dev Campus and NRB Magazines and newspapers were from concerned authorities.

3.5 Data Analysis Tools

For analyzing the data, different kinds of tools are used. The analysis is done according to the nature and quality of the available data. Some simple financial and statistical tools are used like percentage change, credit deposit ratio, growth ratio, co-efficient of correlation and trend analysis of important variables.

3.5.1 Financial Tools

a. Percentage Change: - To find out the changing positions of different amount this ratio is used. This ratio is calculated to measure the acceleration or retardation of any variables to the company is to take the suitable direction. It is calculated in following way:

$$\text{Annual percentage change} = \frac{\text{Amount of this Year} - \text{Amount of Last Year}}{\text{Amount of Last Year}}$$

b. Credit Deposit Ratio: - To find out the effective utilization of available sources this CD ratio is used and to find out CD ratio following formula is used.

$$\text{Credit deposit ratio (CD Ratio)} = \frac{\text{Credit}}{\text{Deposit}}$$

c. Growth Ratio: - Growth Ratio is calculated to find out how would the bank is maintaining economic and financial condition. The following formula has been used to calculate growth ratio.

$$D_n = D_0 (1+g)^{n-1}$$

Where,

D_n = Total amount in nth year.

D_0 = Total amount in beginning year

G = Growth rate of amount

n=Total no. of years during the study period.

To examine and analysis following growth ratio are calculated in this study.

- Growth ratio of total deposit.
- Growth ratio of total credit.
- Growth ratio of total investment.

3.5.2 Statistical Tools

In this study, statistical tools such as coefficient of correlation analysis and least square linear trend have been used. Following statistical tools are used for this purpose.

a. Coefficient of Correlation: - Correlation is a statistical tool design to measure the degree of association between two or more variables. In other word if the changes in one variable affects the changes in other variable, then the variable are said to be co-related

when it is used to measure the relationship between two variables, then it is called simple correlation. The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always lie between +1 and -1. The formula for the calculation of coefficient of correlation between X and Y is given below.

$$r = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

Where,

r = Correlation coefficient

$\sum x_1 = X_1 - \bar{X}_1$

$\sum x_2 = X_2 - \bar{X}_2$

Under this topic, Karl Pearson's correlation coefficient is used to measure the degree of relationship between the following variables.

- Co-efficient of correlation between total deposit and total credit.
- Co-Efficient of correlation between interest income and interest expenses.
- Co-efficient of correlation between total deposit and total investment.

The interpretation of calculated value of correlation coefficient by following way.

- If $r = 0$, then there is no correlation between variables.
- If $r > 0$, then there is positive correlation between variables.
- If $r < 0$, then there is negative relation between variables.
- If $r = +1$, then there is perfect positive correlation.
- If $r = -1$, then there is perfect negative correlation.

b. Least Square Linear 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 predicted. 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 variable are repeated in the future or the past events affect 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

PRESENTATION AND ANALYSIS OF DATA

Presentation and analysis of data is the most important in any research or dissertation. So that, this chapter is more effective and evaluative in the research process. Therefore analysis parts are presented in detailed. Different financial, statistical and other required analyses, which are related to deposit mobilization, are studies to evaluate and analyze the performance and condition of financial position of EBL Bank. This analysis helps in to improve the any wrong situation of the banks financial condition. So that deposit mobilization of EBL studies the economic good or bad trend of the bank. Data are analyzed according to the figures in the table and mentioning the reasons of increasing and decreasing trend of data. EBL Bank ltd. and it's customer's interest and EBL's policy so far as well as to recommend suggestions for its improvement through this research studies.

4.1 Analysis of Deposit

4.1.1 Deposit Position of EBL

Deposit is that types of amount which is deposited by the money senders in banks or other financial institutions for safe keeping with an obligation to invest for it. The banks or financial institutions main sources are the different kinds of deposits for financial existence. Existence of the commercial banks basically depends upon the mobilization of deposits. The commercial banks may function when they have adequate deposit amount. Higher the volume of deposits, higher will be the volume of investment and lending which generated the amount of profit. So commercial bank first of all tries to mobilize as much deposit as possible. Therefore deposited amount is the most required things of any banks or financial institutions which systematically generated or mobilize, helps in the existence of the banks in long time.

Deposits are the main sources of resources to meet growing demands of financial existence. The existence of commercial banks basically depends upon the mobilization of deposits. It is important that commercial bank's deposit policy is the essential policy for its existence. The growth of bank depends primarily upon the growth of its deposit. The commercial banks may function well when they have enough deposit. Higher the volume

of deposit, higher will be the volume of lending and investment which again creates higher volume of profit.

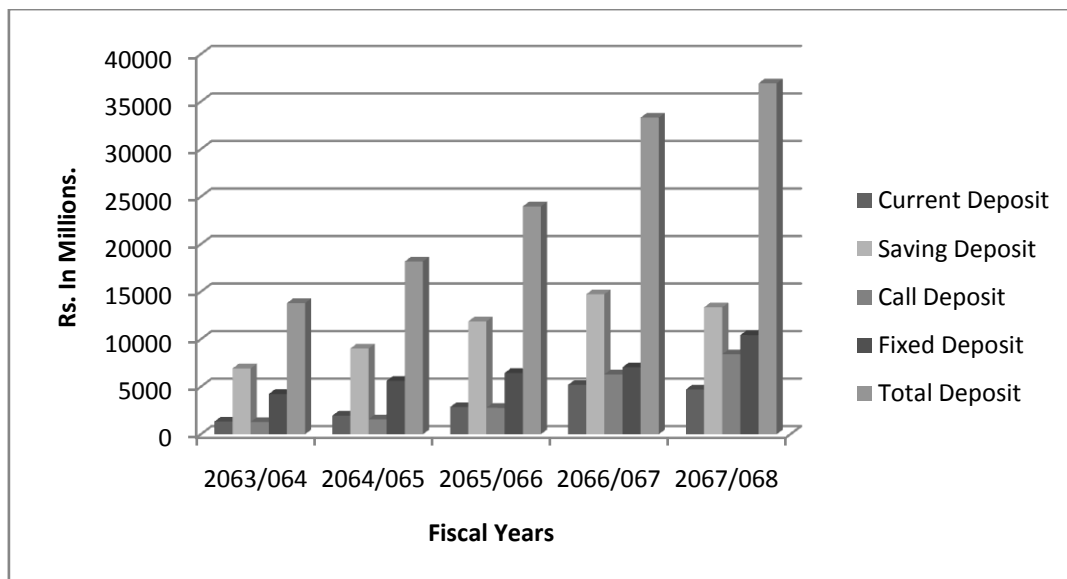
Table: 4.1
Deposit Position of EBL

(Rs. In Millions)

Year	Current Deposit	Saving Deposit	Call Deposit	Fixed Deposit	Total Deposit	% Changes
2063/064	1337.58	6929.22	1293.3	4242.35	13802.44	-
2064/065	1956.81	9029.25	1573.5	5626.67	18186.2	31.76
2065/066	2865.61	11883.86	2780.65	6446.18	23976.3	31.84
2066/067	5196.63	14728.33	6294.00	7049.98	33322.95	38.98
2067/068	4719.19	13360.01	8412.8	10440.28	36932.31	10.83

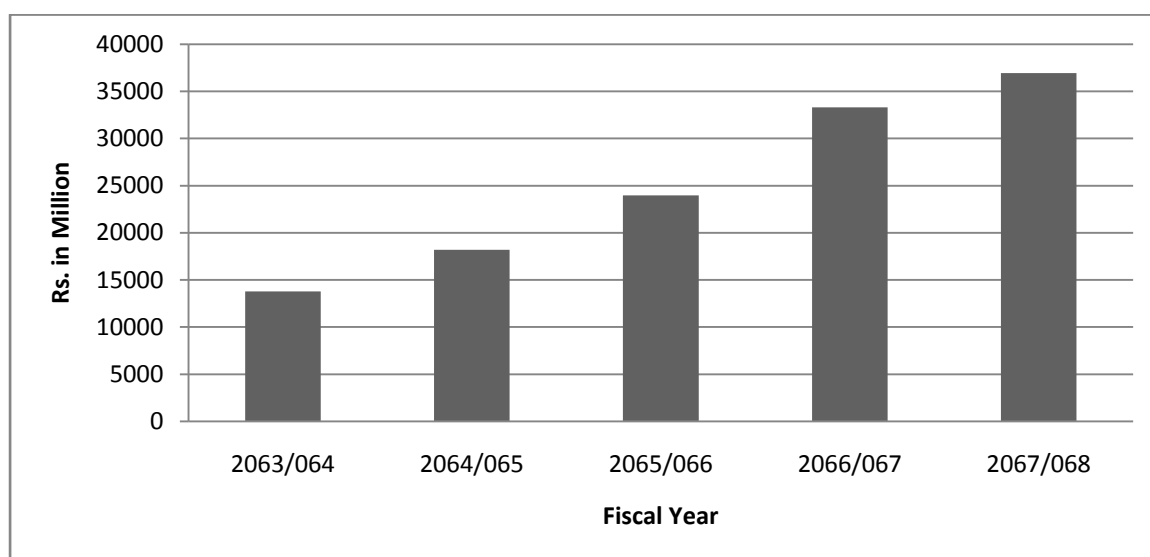
Source: Annual Reports of EBL from 2063/064 to 2067/068

Figure: 4.1
Deposit Position of EBL



Source Table 4.1 and Figure 4.1 show the deposit position of EBL. The total deposit of EBL in 2063/64 is Rs. 13802.44 million. During the next five year the total deposit of EBL is in increasing trend. In the fiscal year 2067/068 the total deposit of EBL is Rs. 36939 million. Similarly the current deposit, saving deposit, call deposit and fixed deposit are also in increasing trend over the study period.

Figure: 4.2
Trend of Total Deposit



Source figure 4.2 shows the total deposit of EBL is in increasing trend in FY 2063/064 the total deposit is Rs. 13802.44 million and then increase by 31.76% in the fiscal year 2064/065, 31.84% in FY 2065/066, 38.98% in FY 2066/067 and 10.83% in FY 2067/068.

4.1.2 Interest Bearing and non Interest Bearing Deposit

The deposit in which bank pay the interest like saving deposit, fixed deposit are interest bearing deposit and the bank do not pay the interest for deposit this type of deposit are non interest bearing deposit. The position of interest bearing and non interest bearing deposit of EBL is shown in the following table and figure.

Table: 4.2
Interest Bearing & Non Interest Bearing Deposit

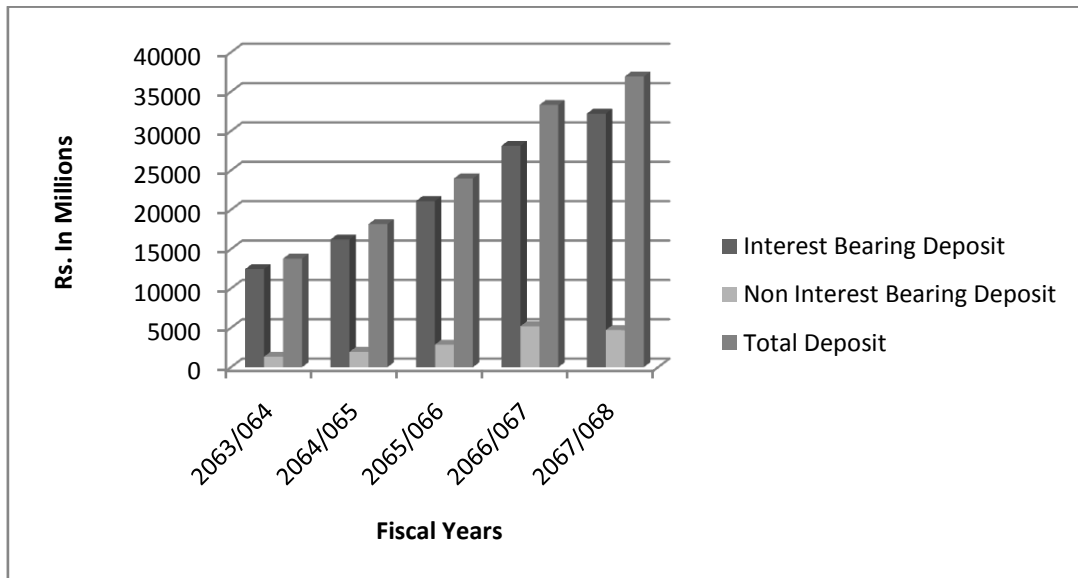
(Rs. In Millions)

Year	Interest Bearing Deposit	Non Interest Bearing Deposit	Total Deposit
2063/064	12464.87	1337.58	13802.44
2064/065	16229.41	1956.81	18186.2
2065/066	21110.69	2865.61	23976.3
2066/067	28126.32	5196.63	33322.95
2067/068	32213.12	4719.19	36932.31

Source: Annual Reports of EBL from 2063/064 to 2067/068

Source table 4.3 and figure 4.4 show that the interest bearing deposit of EBL is in increasing trend over the study period and the non interest bearing deposit of EBL is in also increasing trend except the FY 2067/068. It shows the non interest bearing deposit in each FY is high than interest bearing deposit. It is shows in the following figure.

Figure: 4.3
Trend of Interest Beating & Non Interest Bearing Deposit



4.1.3 Different Types of Deposit to Total Deposit Ratios

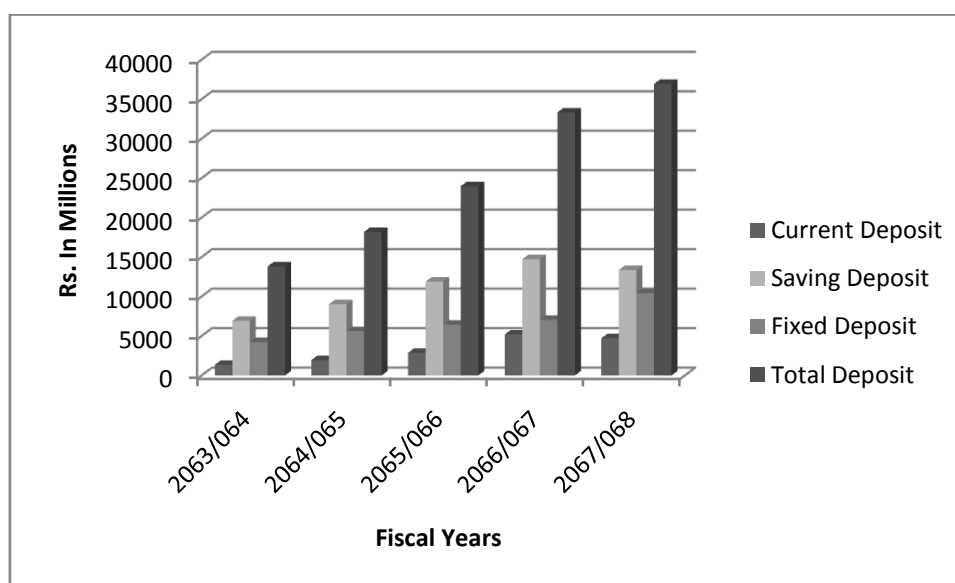
This ratio measures the proportion of different type of deposit it total deposit. There are mainly three type of deposit in commercial banks. A current deposit is a running account with amounts being paid into and drawn out of the account continuously. These accounts are also called demand deposits or demand liabilities since the banker is under an obligation to pay money in such deposits on demand.

The saving deposit bears the features of both of the current and fixed period's deposits. Saving accounts are mainly meant for non-trading customers who have some potential for saving and who don't have numerous transactions entering their account. While opening the account the minimum compensating balance differ according to the banks rule. Fixed account means as account of amounts deposited in a bank for certain period of time. The customers opening such account deposit their money in the account for a fixed period.

Table: 4.3**Different Types of Deposit to Total Deposit Ratios of EBL****(Rs. In Millions)**

Year	Current Deposit	Saving Deposit	Fixed Deposit	Total Deposit	CD to TD (%)	SD to TD (%)	FD to TD (%)
2063/064	1337.58	6929.22	4242.35	13802.44	9.69	50.20	30.74
2064/065	1956.81	9029.25	5626.67	18186.2	10.7	49.65	30.94
2065/066	2865.61	11883.86	6446.18	23976.3	11.95	49.57	26.89
2066/067	5196.63	14728.33	7049.98	33322.95	15.59	44.20	21.16
2067/068	4719.19	13360.01	10440.28	36932.31	12.78	36.17	28.27

Source: Annual Reports of EBL from 2063/064 to 2067/068

Figure: 4.4**Trend of Different Types of Deposit to Total Deposit Ratios of EBL**

Source table 4.2 and figure 4.3 show different types of deposit and their proportion in the total deposit are shown. Current deposit to total deposit ratio is in fluctuating trend the highest CD to TD ratio is 15.59% in FY 2066/067 and the lowest ratio is 9.69% in the FY 2063/064. The saving deposit to total deposit ratio is in decreasing trend, the highest SD to TD ratio is 50.205 in FY 2063/64 and the lowest ratio is 36.17% in FY 2067/068. Similarly, the fixed deposit to total deposit ratio is in also fluctuating trend except FY 2064/065. The highest FD to TD ratio is 30.94% in the FY 2064/065 and the lowest ratio is 21.16% in the FY 2066/067. It is shown in the following figure.

4.1.4 Expenses for Interest Bearing Deposit

Bank pays the certain amount of interest for deposit this is the expenses for the bank and income for the depositor. The bank invest deposit amount in higher rate than the bank given to the depositor and the difference between the rate of investment and the rate of deposit in the margin of banks. It is shown in the following table and figure.

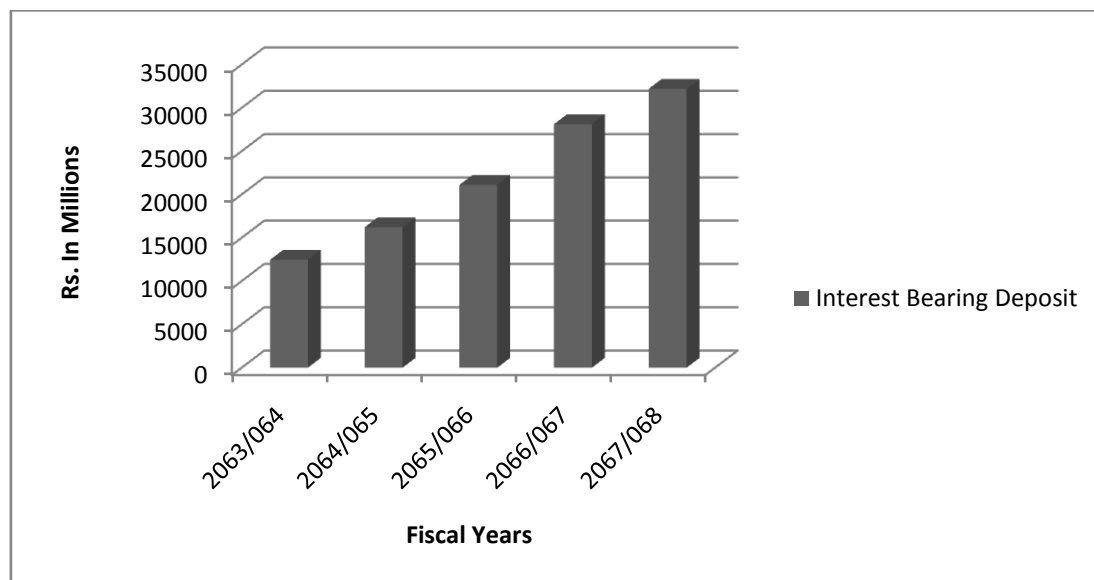
Table: 4.4
Interest expenses for Deposit

(Rs. In Millions)

Year	Interest Bearing Deposit	Interest Expenses for Deposit
2063/064	12464.87	383.39
2064/065	16229.41	499.17
2065/066	21110.69	608.98
2066/067	28126.32	987.48
2067/068	32213.12	1537.52

Source: Annual Reports of EBL from 2063/064 to 2067/068

Figure: 4.5
Trend of Interest expenses for Deposit



Source table 4.4 and figure 4.5 shows that over the study period the interest bearing deposit is in increasing trend so the interest expenses is also increasing. In the FY 2063/064 interest expenses is Rs. 383.39 million and then Rs. 499.17, 608.98, 987.48 and 1537.72 million respectively.

4.2 Analysis of Investment

An investment means to trade a known rupee amount today for some expected future stream of payment of benefits that will exceed the current outlay by an amount that will compensate the investor for the time. The funds are committed for the expected changes in prices during the period and for the uncertainty involved in expected future cash flows. Thus investment is the most important function of commercial banks. It is the long-term commitment of the bank in the uncertain and risky environment. It is very challenging task for commercial banks. So a bank has to be very cautious while investing their funds in various sections. The success of the bank depends heavily upon the proper management of its invisible funds.

4.2.1 Investment Position of EBL

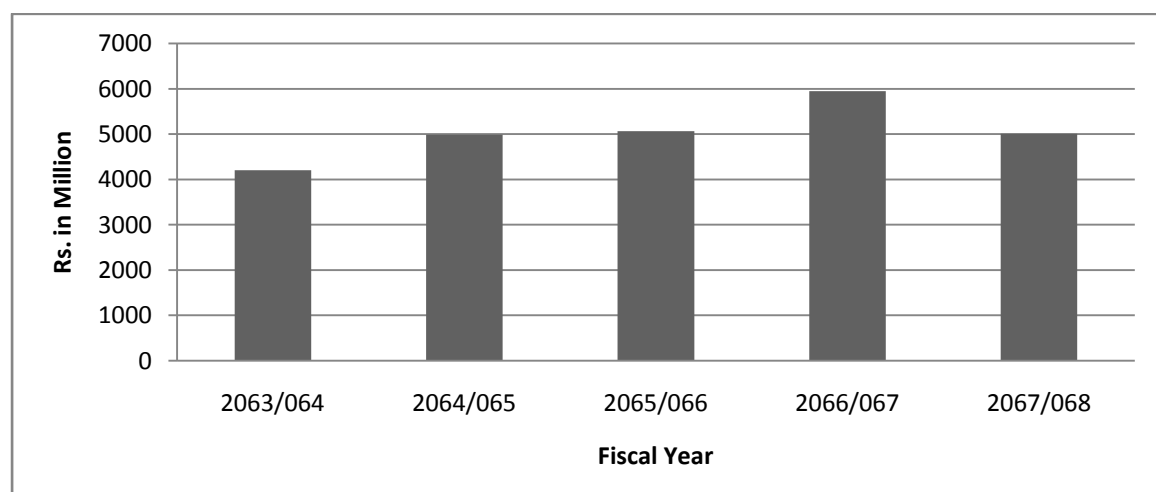
Table: 4.5
Investment Position of EBL

(Rs. In Millions)

Year	Total Investment	% Change
2063/064	4201.32	-
2064/065	4985.12	15.72
2065/066	5061.16	1.5
2066/067	5950.08	14.94
2067/068	5009.91	-18.77

Source: Annual Reports of EBL from 2063/064 to 2067/068

Figure: 4.6
Trend of Investment Position of EBL



Source table 4.6 and figure 4.7 shows the total investment position of EBL over the five year study period, in the FY 2063/064 the amount of total investment is Rs. 4201.32 million after that the trend of investment position is in increasing up to FY 2066/067, finally in the FY 2067/068 the amount of investment is decrease by 18.77% than previous year.

4.2.2 Interest Income from Investment

Bank invest the deposited amount in different sector like Share, bond, debenture, industrial sector, agriculture, hydropower etc. and give loan to different person for different purpose to these investment and loan bank charged a certain percentage of interest it is the interest income from investment of the bank. It is shown in the following table and figure.

Table: 4.6
Interest Income from Investment

(Rs. In Millions)

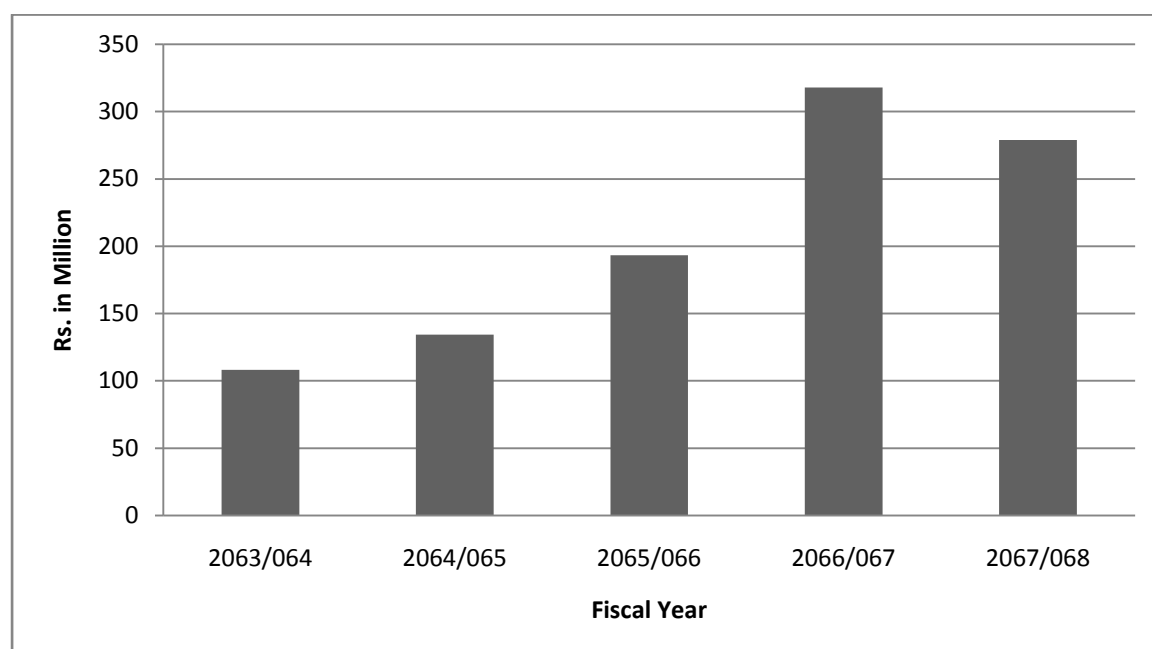
Year	Interest Income From Investment	Percentage Change
2063/064	108.22	-
2064/065	134.26	19.41
2065/066	193.22	30.51
2066/067	317.86	39.21
2067/068	278.8	-14.01

Source: Annual Reports of EBL from 2063/064 to 2067/068

Source table 4.7 and figure 4.8 shows that the interest income received from investment, the interest income is in increasing trend over the study period except the FY 2067/068. In the FY 2063/064 the amount of interest income is Rs. 108.22 million after that the trend of interest is in increasing up to FY 2066/067, finally in the FY 2067/068 the amount of interest is decrease 14.01% than previous year.

Figure: 4.7

Trend of Interest Income from Investment



4.2.3 Investment Pattern of EBL

Table: 4.7

Investment Pattern of EBL

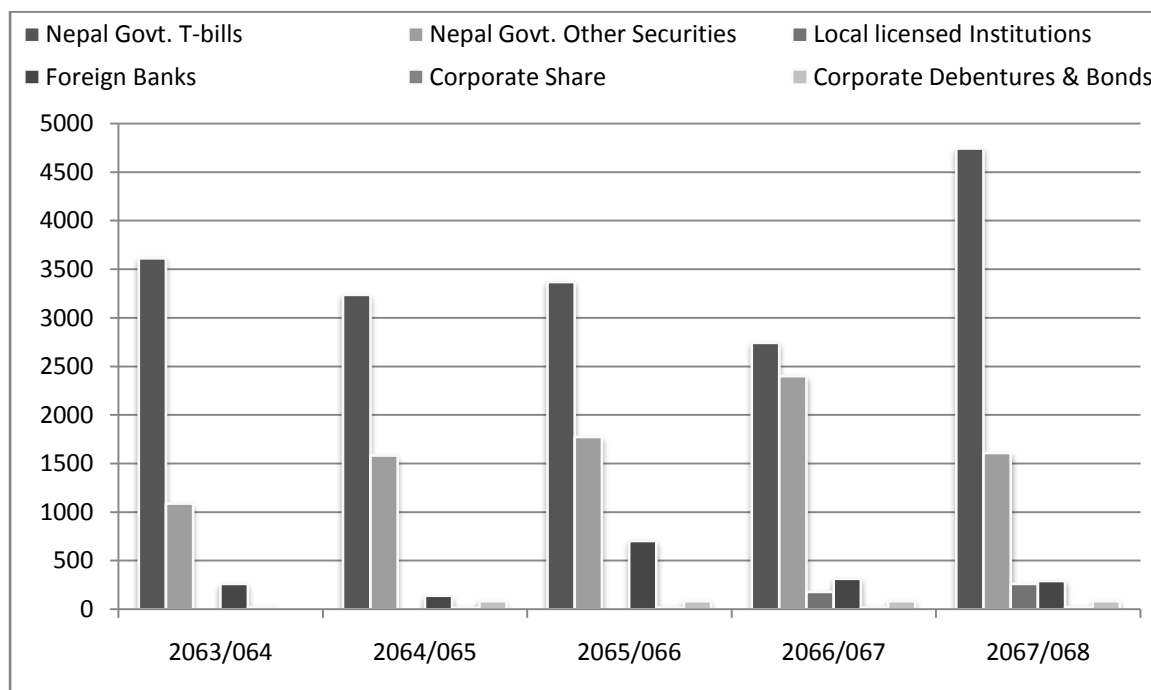
(Rs. In Millions)

Sector	2063/064	2064/065	2065/066	2066/067	2067/068
Nepal Govt. T-bills	3322.44	3614.54	3237.98	3371.43	2745.28
Nepal Govt. Saving Bonds	-	-	-	-	-
Nepal Govt. Other Securities	226.17	1090.09	1583.63	1774.62	2399.52
Local licensed Institutions	-	-	-	-	177.87
Foreign Banks	632.82	260.6	138.4	702.00	313.06
Corporate Share	19.89	19.89	16.23	17.12	17.11
Corporate Debentures & Bonds	-	-	84.93	84.93	84.93
Total Investment	4201.32	4985.12	5061.16	5950.08	5009.91
Less: Provisions	0.8	0.8	1.6	1.6	1.6
Net Investments	4200.51	4984.31	5059.56	5948.48	5008.31

Source: Annual Reports of EBL from 2063/064 to 2067/068

Figure: 4.8

Investment Pattern of EBL



Source table 4.5 and figure 4.6 shows the investment portfolio of EBL, the major sectors of investment are Nepal Govt. T-bills, Nepal Govt. Other Securities, Local licensed Institutions, Foreign Banks, Corporate Share, and Corporate Debentures & Bonds. The EBL invest the high amount in the Nepal govt. treasury bills in each year, it is risk free assets for investment. The investment trend in treasure bills is in fluctuating trend over the study period, the amount of investment in each year is Rs. 3614.54, 3237.98, 3371.43, 2745.28 and 4745.49 millions respectively in each year respectively.

4.3 Analysis of Credit Position

Total credit is the amount of loans, advances & investments. The bank provides loan by accepting different collateral securities of the general public. The general public gets attracted to take loan and advances from the bank if the interest rate is lower. The bank provides loan to the general public for different purposes like industry, trade, commerce etc.

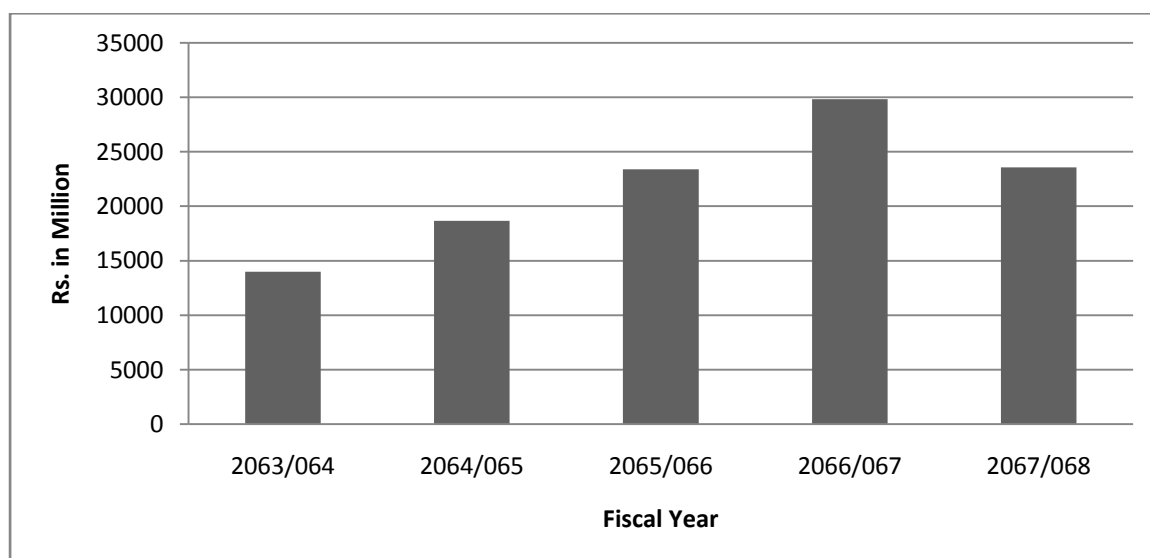
Table: 4.8
Credit Position of EBL

(Rs. In Millions)

Year	Total Credit	% Changes
2063/064	14001.82	-
2064/065	18648.41	24.92
2065/066	23398.66	20.30
2066/067	29833.15	21.57
2067/068	23564.67	-26.6

Source: Annual Reports of EBL from 2063/064 to 2067/06

Figure: 4.9
Trend of Credit Position of EBL



Source table 4.8 and figure 4.9 shows the overall credit position of EBL till the year end 2066/67, the trend of credit is increasing. There is a notable increment of 24% in the year 2064/65. But the year 2067/68, the credit disbursement decrease by 26.6% than previous year.

4.4 Credit Deposit Ratio

Credit disbursement and deposit collection are the major functions of a commercial bank. The most important feature of a commercial bank is to collect the scattered & small deposits of general public and use these deposits to grant loan & advances to the needy people. Here, Credit Deposit ratio has been used to find out the effective utilization of the

available resource of the bank. It also shows the efficiency, ability and idle resource of the bank. The ratio of credit & deposit declares the effective utilization of the collected resources. Generally increase in deposit leads to increase in credit.

Table: 4.9
Credit Deposit Ratio

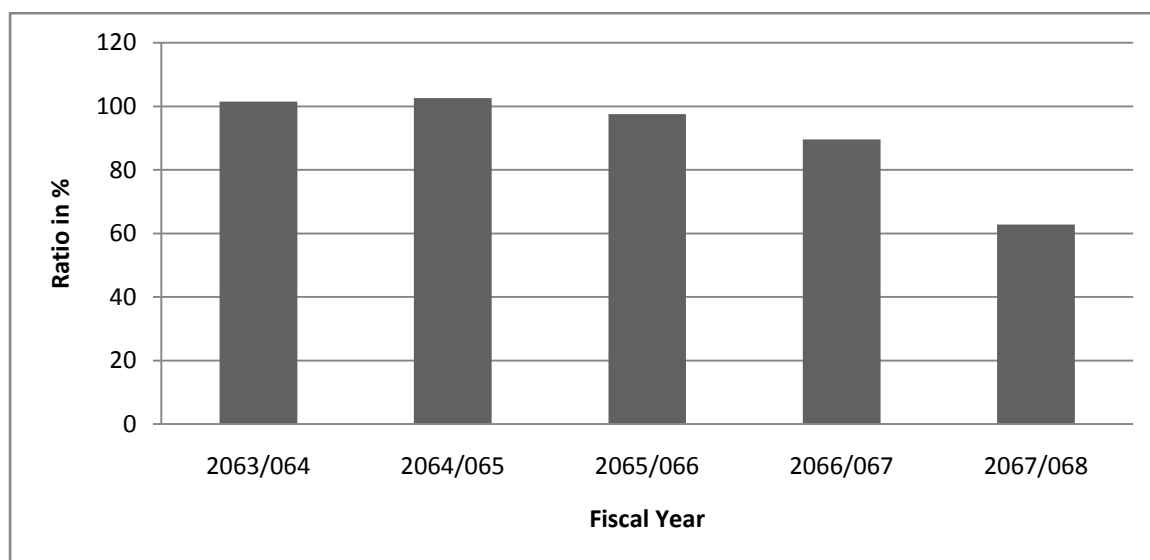
(Rs. In Millions)

Year	Total Credit	Total Deposit	CD Ratio (%)
2063/064	14001.82	13802.44	101.45
2064/065	18648.41	18186.2	102.54
2065/066	23398.66	23976.3	97.57
2066/067	29833.15	33322.95	89.53
2067/068	23564.67	36932.31	62.82

Source: Annual Reports of EBL from 2063/064 to 2067/068

Figure: 4.10

Trend of Credit Deposit Ratio of EBL



Source table 4.9 and figure 4.10 shows the Credit Deposit ratio is the highest in the year 2064/65 i.e. 102.54% which is extremely higher. But the ratio is the lowest in the year 2067/68 i.e. 62.82% which is extremely lower over the study period. CD ratio is in decreasing trend it is not in satisfactory condition. From the above analysis, it can be said that there is greater relationship between credit and deposit. Increase in deposit leads to

increase in credit but sometimes even the deposit is increasing, the credit may be seen in decreasing trend due to various causes.

4.5 Growth Ratio of EBL

The maintenance of economic and financial condition of a bank is shown by its growth ratio. If the calculated growth ratio of a bank is higher, it indicates the better performance and lower growth ratio indicates the worse performance. The growth ratio is calculated by using following formula:

$$D_n = D_0 (1+g)^{n-1}$$

Where,

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

D_0 = Total amount in the beginning year

g = Growth rate

n = Total number of year in the period of study.

Growth Ratio may be calculated for two components in the context of deposit mobilization of a bank viz. Growth Ratio of Total Deposit and Growth Ratio of Total Credit.

4.5.1 Growth Ratio of Total Deposit

D_n = Rs. 36932.31 million

D_0 = Rs. 13802.44 million

n = 5 years

g = ?

According to formula,

$$D_n = D_0 (1+g)^{n-1}$$

$$\text{Or, } 36932.31 = 13802.44 (1+g)^{5-1}$$

$$\text{Or, } (36932.31 / 13802.44) = (1+g)^4$$

$$\text{Or, } (2.68)^{1/4} = 1 + g$$

$$\text{Or, } 1.28 = 1 + g$$

$$\text{Or, } g = 0.28 = 28\%$$

From the above analysis, it is found that the growth ratio of total deposit of EBL during the period of study is 28%. So, it can be said that EBL has the satisfactory position in term of collection deposit.

4.5.2 Growth Ratio of Total Credit

$$D_n = \text{Rs. } 23564.67 \text{ million}$$

$$D_0 = \text{Rs. } 14001.82 \text{ million}$$

$$n = 5 \text{ years}$$

$$g = ?$$

According to formula,

$$D_n = D_0 (1+g)^{n-1}$$

$$\text{Or, } 23564.67 = 14001.82 (1+g)^{5-1}$$

$$\text{Or, } (23564.67 / 14001.82) = (1+g)^4$$

$$\text{Or, } (1.68)^{1/4} = 1 + g$$

$$\text{Or. } 1.14 = 1 + g$$

$$\text{Or, } g = 0.14 = 14\%$$

From the above analysis, it is found that the growth ratio of total credit is only 14% under the period of study which is very low in compared to the growth ratio of total deposit i.e. 28%. It shows that the bank is not utilizing the collected deposit as per the growth of total deposit. So, it can be concluded that the bank seems in very weak condition to increase the growth ration of total credit.

4.6 Trend Analysis

Trend Analysis shows the relationship between two variables on a single period. It helps in future forecasting and planning with the help of past and present data and the factors affecting them will make possible to forecast the future magnitude. Trend Analysis is an analysis of bank's financial figure over a period of time in order to determine the improvement, deterioration or stability of its financial situation.

Under this topic, trend analysis of deposit collection and its utilization of RBB are studied during the period of time. The objective of this topic is to forecast the total deposit and credit for the next two years.

The projections are based on the following assumptions:

1. The bank will run in the present style.
2. Nepal Rastra Bank and the Government of Nepal will not make any amendments in the guidelines for the operation of commercial banks.
3. Other all the things also remain constant.

Simple linear trend line of the form 'y = a + bx' is used where 'x' and 'y' are considering variables. Here, 'x' denotes time, 'b' measures the increase and decrease in the value of 'y' due to unit change in 'x' and 'y' denotes the total deposit and the total credit. Here, the method of least square has been used for the analysis of total deposit and total credit of RBB.

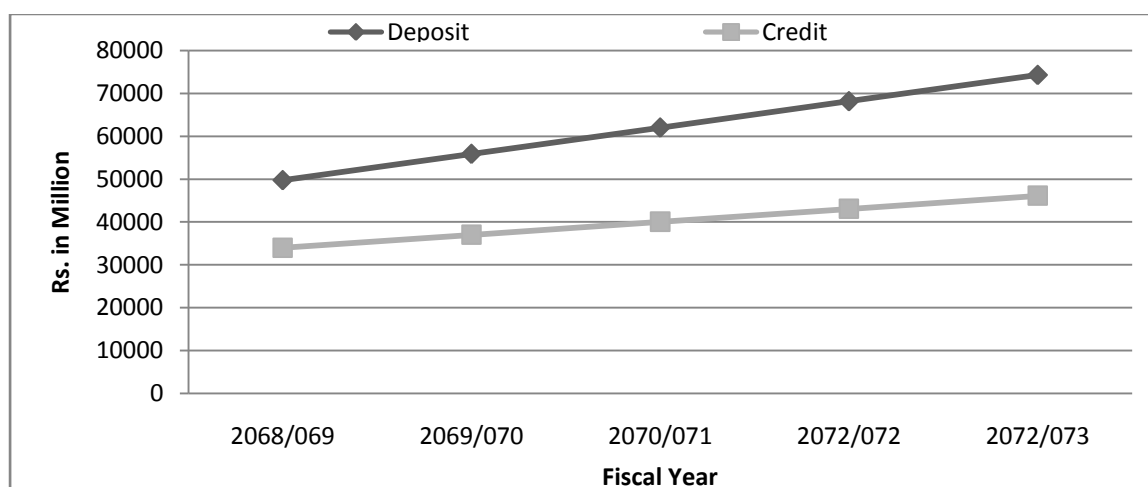
4.6.1 Trend Analysis of Total Deposit and Total Credit:- Under this topic, trend values of the total deposit and total credit of RBB, for the period of study has been calculated and forecasted for the next 5 years, from 2068/69 and 2072/67. The following table presents the trend value of deposit and Credit.

Table: 4.10
Forecasted Trend Value of Deposit & Credit

Year	X	Trend Line & Trend Value	
		Deposit (Y = 25244.04+6139.62X)	Credit(Y = 21889.34 + 3031.04X)
2068/069	4	25244.04+6139.62×4=49802.52	21889.34 + 3031.04×4=34013.50
2069/070	5	25244.04+6139.62×5=55942.14	21889.34 + 3031.04×5=37044.54
2070/071	6	25244.04+6139.62×6=62081.76	21889.34 + 3031.04×6=40075.58
2072/072	7	25244.04+6139.62×7=68221.38	21889.34 + 3031.04×7=43106.62
2072/073	8	25244.04+6139.62×8=74361.00	21889.34 + 3031.04×8=46137.66

Source: Appendix I and II

Figure: 4.11
Forecasted Trend Line of Deposit & Credit



Source table 4.10 and figure 4.11 show the increasing trend of total deposit and credit of EBL. 'Y' has shown the trend value of total deposit. Since, the calculated value of 'b' is positive, it is found that the bank's deposit is increasing with time. It shows that the deposit increasing by Rs. 6139.62 million every year. On the basis of this calculation, it can be forecasted that the bank's total deposit will become Rs. 49802.52 million in the year 2068/69 and it will become Rs. 74361.00 million in the year 2072/073.

Since, the calculated value of 'b' is positive, it is found that the banks credit is increasing with time. It shows that the credit increasing by Rs. 3031.04 million every year. On the basis of this calculation, it can be forecasted that the banks total credit will become Rs. 34013.50 million in the year 2068/69 and it will become Rs. 46137.66 million in the year 2072/073.

4.7 Coefficient of Correlation Analysis

Coefficient of correlation is used to measure the relationship between two variables. It helps in determining the extent to which the two variables are correlated but it doesn't tell about the cause and effect of the relationship. Karl Pearson's coefficient of correlation is used to find out the relationship. Correlation analysis is a measure of association that is based on the numerical values of two variables. It is used in this study to determine whether:

- The correlation is significant or insignificant
- The correlation is positive or negative or non-correlated.

The statistical tool, correlation analysis has been used in this study to identify the relationship between variables whether the relationship is significant or not.

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

- When $r = 0$, there is no relationship between the variables
- When $r < 0$, there is negative relationship between the variables
- When $r > 0$, there is positive relationship between the variables
- When $r = +1$, the relationship is perfectly positive
- When $r = -1$, the relationship is perfectly negative
- When 'r' lies in between 0.7 to 0.999, there is high degree of positive correlation
- When 'r' lies in between -0.7 to -0.999, there is high degree of negative correlation.

Note that the numerical measurement of relationship between the two variables is denoted by the symbol 'r' whose value ranges from -1 to +1 i.e. $-1 \leq r \leq +1$.

4.7.1 Correlation Coefficient between Total Deposit & Total Credit: - Correlation coefficient between total deposit and total credit measures the degree of relationship between total deposit and total credit. Here, the total credit is the amount of loan and advances granted. For the analysis of coefficient correlation, deposit is an independent variable (X) while credit is dependent variable(Y).

Table: 4.11
Correlation Coefficient between Total Deposit & Total Credit

Evaluation Criteria						
Name	R	r^2	P.E (r)	6 P.E (r)	Remarks	Relationship
EBL	0.84	0.70	0.1316	0.789	significant	High Degree of Positive Correlation

Source: Appendix III

Source table 4.11 describes the relationship between total deposit and total credit during the period of study. The coefficient of correlation (r) between total deposit and total credit is 0.84. This figure shows the positive association between deposit and credit. It means deposit and credit both move towards same direction.

The coefficient of determination (r^2) is 0.70 it shows that 70% of the variation in the dependent variable (i.e. total credit) has been explained by the independent variable (i.e. total deposit).

The value of P.E. (r) is 0.1316 and 6.P.E (r) is 0.789. The value of correlation coefficient (r) is greater than six times of probable error (6.P.E (r)). Therefore true value of 'r' is significant. It reveals that there is significant relationship between the deposit collection and credit extension.

There is positive relationship between total deposit and total credit. It shows that by increasing the deposit, the amount of credit can be increased. Therefore both the deposit

and credit are very much interrelated. Thus it can be concluded that if the deposit is collected more, it increases the credit accordingly.

4.7.2 Correlation Coefficient between Fixed Deposit and Saving Deposit:- Correlation coefficient between Fixed Deposit and saving deposit measures the degree of relationship between them. For correlation analysis, fixed deposit is taken as independent variable (X) whereas saving deposit is dependent variable (Y). The main objective of computing 'r' between these two variables is to justify whether fixed deposit is significantly correlated with saving deposit or not.

Table: 4.12
Correlation Coefficient between Fixed Deposit & Saving Deposit

Evaluation Criteria						
Name	r	r ²	P.E (r)	6 P.E (r)	Remarks	Relationship
RBB	0.75	0.56	0.1956	1.174	Insignificant	High degree of Positive correlation.

Source: Appendix V

Source table 4.12 shows that the calculated value of correlation coefficient (r) between fixed deposit and saving deposit is 0.75; there is high degree of Positive correlation between these two variables. Again, coefficient of determination (r²) is 0.56. It indicates that 56% of the variation in the saving deposit (dependent variable) has been explained by fixed deposit (independent variable).

Generally, probable error is used to measure the significance of the relation between two variables. The probable error P.E. (r) is 0.1956 and 6.P.E (r) is 0.1.174. Since the 'r' is less than 6.P.E (r), it can be concluded that the relation between the fixed deposit and saving deposit is significant or there is high degree of association between these two variables.

4.8 Major Findings

For the study of Deposit Mobilization of EBL, the five years data have been considered. The analysis has been done according to the nature and quality of the available data.

Some simple financial as well as statistical tools have been used to reveal the entire position of deposit and credit of EBL.

- In the analysis of deposit position of EBL, it is observed that deposit position percentage change is normal except in the financial year 2066/67. In that year, the percentage change is decrease by 10.83% than previous year.
- The analysis revealed the normal condition of the bank in the credit position except 2066/67. The percentage change in the credit position is in decreasing trend during the period of study. In the year 2063/64, the total credit is increased by 14.44% where as in 2064/65, the total credit increased by 20.30%. Similarly the total credit is decrease by 26.2% in the year 2066/67.
- The proportion of interest bearing deposit is in decreasing trend over the study period except 2067/068 and the proportion of non interest bearing deposit is in increasing trend over the study period except 2067/068. It shows the non interest bearing deposit in each FY is high than interest bearing deposit.
- Current deposit to total deposit ratio is in fluctuating trend the highest CD to TD ratio is 15.59% in FY 2066/067 and the lowest ratio is 9.69% in the FY 2063/064. The saving deposit to total deposit ratio is in decreasing trend, the highest SD to TD ratio is 50.205 in FY 2063/64 and the lowest ratio is 36.17% in FY 2067/068. Similarly, the fixed deposit to total deposit ratio is in also fluctuating trend except FY 2064/065. The highest FD to TD ratio is 30.94% in the FY 2064/065 and the lowest ratio is 21.16% in the FY 2066/067
- Over the study period the interest bearing deposit is in increasing trend so the interest expenses is also increasing. In the FY 2063/064 interest expenses is Rs. 383.39 million and then Rs. 499.17, 608.98, 987.48 and 1537.72 million respectively.
- In the FY 2063/064 the amount of total investment is Rs. 4201.32 million after that the trend of investment position is in increasing up to FY 2066/067, finally in the FY 2067/068 the amount of investment is decrease by 18.77% than previous year.
- The interest income is in increasing trend over the study period except the FY 2067/068. In the FY 2063/064 the amount of interest income is Rs. 108.22 million after that the trend of interest is in increasing up to FY 2066/067, finally in the FY 2067/068 the amount of interest is decrease 14.01% than previous year.

- In the FY 2067/068 the highest proportion of credit is in trading sector i. e. 37.6% and that of lowest is in agriculture and mine i.e. 0.7%. Similarly, the proportion in construction and manufacturing is 26%, service 20% and other 15%.The highest proportion of deposit of EBL is saving deposit which is 36.1% of total deposit and that of lowest is interest free deposit i.e. 12.8% and the fixed and call deposit are 28.3% and 22.8% respectively.
- Till the year end 2065/66 the trend of credit is increasing. There is a notable increment of 24% in the year 2063/64. But from the year 2066/67, the credit disbursement is decreasing to the year 2061/62. In the year 2062/63, the credit disbursement decrease by 26.6% than previous year.
- Credit Deposit ratio is the highest in the year 2063/64 i.e. 102.54% which is extremely higher. But the ratio is the lowest in the year 2066/67 i.e. 62.82% which is extremely lower over the study period.CD ratio is in decreasing trend it is not in satisfactory condition.
- The growth ratio of total deposit of EBL during the period of study is 28%. So, it can be said that EBL has the satisfactory position in term of collection deposit.
- The growth ratio of total credit is only 14% under the period of study which is very low in compared to the growth ratio of total deposit i.e. 28%. It shows that the bank is not utilizing the collected deposit as per the growth of total deposit.
- The total deposit of EBL has been found in increasing trend. The total deposit of EBL will become Rs. 49802.52 million in the year 2068/69 and it will become Rs. 74361.00 million in the year 2072/73, if all the other factors remain constant.
- The total credit of EBL also has been found in increasing trend. The total credit of EBL will become Rs.34013.50 million in 2068/69 and it will become Rs.46137.66 million in the year 2072/73, if all the other factors remain constant.
- Correlation coefficient between total deposit and total credit of EBL shows the positive relationship between these two variables. Since $r^2 = 0.70$, it indicated that 70% of the variation in the total credit has been explained by the deposit. Since $r < 6.P.E. (r)$, there is no significant relationship between the deposit collection and credit extension, however these two variables are positively associated with each other.
- Correlation coefficient (r) between fixed deposit and saving deposit is 0.75; there is high degree of Positive correlation between these two variables. Again,

coefficient of determination (r^2) is 0.56. It indicates that 56% of the variation in the saving deposit (dependent variable) has been explained by fixed deposit (independent variable).

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

In this chapter, summary and conclusion of the research as well as recommendations are presented separately. After summarizing and concluding the research, recommendations are suggested for the effective mobilization of deposit and investment of EBL. The researcher has tried to give suggestions and recommendations to the commercial banks based on this research.

5.1 Summary

Commercial banks contribute to the process of capital formation by converting dispersed saving into meaningful capital investments in order to aid industry, trade, commerce, agriculture and other sectors for the economic development of a nation. It should not be forgotten that a country could hardly achieve its goal of economic development with a strong capital base. Commercial banks play a pivotal role in performing such base for financial and economic development by way of deposit mobilization. Deposits are the obligation of the commercial banks.

The problem of economic development of a developing country is a problem of real growth. Only considering real factor can't solve this problem, because, nowadays financial and monitoring factors have a tremendous effect on the growth process. For the development of the country's economy, sound and co-ordinate fiscal and monetary policy plays an important role even in underdeveloped country like Nepal. For this, the role of commercial banks becomes crucial in the task of capital formation, which is, no doubt, a key variable in the economic development of a country. Scattered resources hold no meaning unless and until they are mobilize and utilize efficiently in some productive sectors.

Commercial banks contribute to the process of capital formation by converting dispersed saving into meaningful capital investments in order to aid industry, trade, commerce, agriculture and other sectors for the economic development of a nation. It should not be forgotten that a country could hardly achieve its goal of economic development with a strong capital base. Commercial banks play a pivotal role in

performing such base for financial and economic development by way of deposit mobilization. Deposits are the obligation of the commercial banks.

So commercial banks must allocate the funds in different loan and advances and investment. Here proper efficiency in mobilizing the deposits has to be maintained. So the purpose of this study is to know the efficient utilization of the accumulated deposits. To fulfill the main objectives following specific objectives are formulated.

- To examine the deposit and investment trend of EBL.
- To find out the interest income from deposit and interest expenses to investment of EBL.
- To find out the relationship between deposit and investment of EBL.
- To compare the performance of deposit and investment of EBL.

This study suffers from different limitations; it considers one bank for the sampled of total commercial banks in Nepal. Time and resources 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 organizations and respondents.

5.2 Conclusion

It can be concluded from the observance and analysis of above data the commercial bank should move as per the direction given by the central bank. Bank should have optimum policy to collect the deposit in various accounts. Deposit is the major organ of commercial banks to live in the industry. Higher the deposit higher will be the chance of the mobilization of working fund and profit there to. Bank should invest in different sector very carefully, while advancing loan because loan is the blood of commercial banks for survival. If commercial banks do not apply sound investment policy it will be in great trouble in future to collect it in time. Hence the possibility of bankruptcy there too. Bank should invest their fund in various portfolios after the deep study of the project to be safe from being bankruptcy. If banks concentrate the investment in few organizations, there is high chance of default risk. Diversifications are indeed need to all the business houses but it has seen immense importance to commercial banks. Diversification of investment is very much important to commercial bank than other business houses because banks use the money to other people for the benefit of its own. And lastly is can

be said that banks are important for the nation. It helps in the capital formation to the nations, which is the most important element for the economic growth of the country. Capital helps to solve the various problems arising in the country. And fixed deposit controls the measure economic activity of the nation. Therefore, it is very important for the policymakers to adopt appropriate policy with calculated interest rate so that large capital can be mustered at very low capital cost encouraging the industrial and commercial activity eventually leading to better economic growth, socio-economic development, employment opportunity, etc. In overall it can be concluded that the role of NRB in Deposit Mobilization of commercial banks has positive impact and EBL bank also helps in this process for countries growth.

5.3 Recommendation

Through the analysis from the above study, a few recommendations are referred below, which if implemented, may help further to EBL.

- Nowadays, in the competitive banking industry, the Bank should attract more depositors by providing improved and new services and facilities.
- In order to serve the customer smoothly and swiftly, the bank should avoid manual techniques and adopt office automation.
- Ethics of staff impresses the customers and create interest to improve the performance of the company. Hence, full co-operation from staff must be obtained. Customers satisfactions are affected by the services provided by the bank, which will effect the collection of deposits. The bank should also provide the training programmed to the employees for the professional development.
- Interest rate structure should be carried out and an appropriate interest rate policy should be formulated so as to attract more savings of the general public.
- The Bank should find out new areas/sectors for investing collected deposits from which it can generate maximum profit. In context of present scenario of the country, health and education can be considered as the best sector for investment, which are more secure and can generate a reasonable profit.
- Since the national economy is approaching towards recession period, all the financial institutions should work towards improving the economic development of the country. The financial institutes should encourage internal

business, industries and export rather than imports, so as to reduce the outflow of currencies.

- The bank has to create the conducive environment for the revival of sick investment and has to analyze the necessity of Mobilizing additional resource to revive the overall banking sector.
- The fee based activities of bank are found very to be very popular and also has become important in banking sector. These are commission discount and fees, so the bank has increase the off balance sheet transaction to increase the Profit.
- Nepal is full of poor people where there is less saving. Considering it Nabil should target their business segment in the middle family . For this they have to keep the affordable minimum balance to open the account, which help to expand customer and deposit amount.
- The liberal policy of NRB to establish new financial institution and bank, branch is challenging to the profit the banks which also promoting unhealthy competition. So Nabil is suggested to make a fair competition in the market and should adopt the policy to live and let to live others which make them to compel to think the optimum policy in turn.

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Appendix I

Trend Analysis of Total Deposit

The trend line $Y = a + bX$ ----- (A)

Let's assume that middle year be 3, then $X = t - 3$

Year	t	Total Deposit (Y)	X= t-3	XY	X ²
2063/064	1	13802.44	-2	-27604.9	4
2064/065	2	18186.2	-1	-18186.2	1
2065/066	3	23976.3	0	0	0
2066/067	4	33322.95	1	33322.95	1
2067/068	5	36932.31	2	73864.62	4
		$\sum y = 126220.2$	$\sum X = 0$	$\sum xy = 61396.49$	$\sum x^2 = 10$

Since, $\sum X = 0$

The two normal equations obtained from the above equations will be

$$\sum Y = na \quad \text{----- (i)}$$

$$\sum XY = b\sum X^2 \quad \text{----- (ii)}$$

Since, n = number of years under study = 5, the value of 'a' and 'b' can be calculated by solving equation (i) and (ii).

From equation (i)

$$\sum Y = na$$

$$\text{Or, } 126220.2 = 5 \times a$$

$$\text{Or, } a = 25244.04$$

Again, from equation (ii)

$$\sum XY = b\sum X^2$$

$$\text{Or, } 61396.49 = b \times 10$$

$$\text{Or, } b = 6139.62$$

Now, putting the value of 'a' and 'b' in the equation of trend line (A),

$$Y = a + bX$$

$$\text{Or, } Y = 25244.04 + 6139.62X$$

Appendix II

Trend Analysis of Total Credit

The trend line $Y = a + bX$ ----- (A)

Let's assume that middle year be 3, then $X = t - 3$

Year	t	Total Credit (Y)	X= t-3	XY	X ²
2063/064	1	14001.82	-2	-28003.6	4
2064/065	2	18648.41	-1	-18648.4	1
2065/066	3	23398.66	0	0	0
2066/067	4	29833.15	1	29833.15	1
2067/068	5	23564.67	2	47129.34	4
		$\Sigma y=109446.7$	$\Sigma X=0$	$\Sigma xy=30310.44$	$\Sigma x^2=10$

Since, $\Sigma X = 0$

The two normal equations obtained from the above equations will be

$$\Sigma Y = na \quad \text{----- (i)}$$

$$\Sigma XY = b \Sigma X^2 \quad \text{----- (ii)}$$

Since, n = number of years under study = 5, the value of 'a' and 'b' can be calculated by solving equation (i) and (ii).

From equation (i)

$$\Sigma Y = na$$

$$\text{Or, } 109446.7 = 5 \times a$$

$$\text{Or, } a = 21889.34$$

Again, from equation (ii)

$$\Sigma XY = b \Sigma X^2$$

$$\text{Or, } 30310.44 = b \times 10$$

$$\text{Or, } b = 3031.04$$

Now, putting the value of 'a' and 'b' in the equation of trend line (A),

$$Y = a + bX$$

$$\text{Or, } Y = 21889.34 + 3031.04X$$

Appendix III

Calculation for Mean value, & Correlation between Total Deposit & Total Credit of EBL

Year	Deposit (X ₁)	Credit (X ₂)	x ₁ =X ₁ - \bar{X}_1	x ₂ =X ₂ - \bar{X}_2	x ₁ · x ₂	x ₁ ²	x ₂ ²
2063/64	13,802.44	14,001.82	-11,441.60	-7,887.52	90,245,871.72	190,507,349.95	196,050,963.31
2064/65	18,186.20	18,648.41	-7,057.84	-3,240.93	22,873,979.51	330,737,870.44	347,763,195.53
2065/66	23,976.30	23,398.66	-1,267.74	1,509.32	-1,913,422.80	574,862,961.69	547,497,289.80
2066/67	33,322.95	29,833.15	8,078.91	7,943.81	64,177,309.89	1,110,418,996.70	890,016,838.92
2067/68	36,932.31	23,564.67	11,688.27	1,675.33	19,581,686.00	1,363,995,521.94	555,293,672.21
N ₁ = 5 N ₂ = 5	∑ X ₁ =126,220.20	∑ X ₂ =109,446.71			∑ x ₁ ·x ₂ = 194,965,424.31	∑ x ₁ ² = 3,570,522,700.72	∑ x ₂ ² 2,536,621,959.77

For Total Deposit,

$$\text{Mean } (\bar{X}) = \frac{\sum X_1}{N_1} = \frac{126,220.20}{5} = 25244.04$$

For Credit,

$$\text{Mean } (\bar{X}) = \frac{\sum X_2}{N_2} = \frac{109,446.71}{5} = 21889.34$$

Correlation between Deposit & Credit,

$$(r_{12}) = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

$$= \frac{194,965,424.31}{\sqrt{3,570,522,700.72 \times 2,536,621,959.77}} = 0.84$$

$$r^2 = 0.84^2 = 0.70$$

For Probable Error,

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.84^2}{\sqrt{5}} = 0.1316 \text{ or } 13.16\%$$

$$6PE = 6 \times 0.1316 = 0.789$$

Appendix IV

Calculation for Mean value, & Correlation between Fixed Deposit & Saving Deposit of EBL

Year	Fixed Deposit (X ₁)	Saving Deposit (X ₂)	x ₁ =X ₁ - \bar{x}_1	x ₂ =X ₂ - \bar{x}_2	x ₁ · x ₂	x ₁ ²	x ₂ ²
2063/64	4242.35	6929.22	-2518.74	-4256.91	10722068.08	17997533.52	48014089.81
2064/65	5626.67	9029.25	-1134.42	-2156.88	2446816.66	31659415.29	81527355.56
2065/66	6446.18	11883.86	-314.91	697.73	-219722.29	41553236.59	141226128.50
2066/67	7049.98	14728.33	288.89	3542.20	1023297.92	49702218.00	216923704.59
2067/68	10440.28	13360.01	3679.19	2173.88	7998098.49	108999446.48	178489867.20
N ₁ = 5	Σ X ₁	Σ X ₂			Σ x ₁ ·x ₂ =	Σ x ₁ ² =	x ₂ ² =
N ₂ = 5	=33805.46	=55930.67			21970558.86	249911849.88	666181145.66

For Fixed Deposit,

$$\text{Mean } (\bar{X}) = \frac{\sum X_1}{N_1} = \frac{33805.46}{5} = 6761.09$$

For Saving Deposit,

$$\text{Mean } (\bar{X}) = \frac{\sum X_2}{N_2} = \frac{55930.67}{5} = 11186.13$$

Correlation between Deposit & Credit,

$$(r_{12}) = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

$$= \frac{21970558.86}{\sqrt{249911849.88 \times 666181145.66}} = 0.75$$

$$r^2 = 0.75^2 = 0.56$$

For Probable Error,

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.75^2}{\sqrt{5}} = 0.1956 \text{ Or } 19.56\%$$

$$6PE = 6 \times 0.1956 = 1.174$$