CHAPTER - I

INTRODUCTION

1.1 Background

In today's world, capital formation is regarded as one of the important factors in economic development. It is also one of the biggest thresholds, especially in an economy with poor economic condition. Despite this fact, the next challenge is the effective mobilization and distribution of the capital collected from different sources. Effective distribution and mobilization of capital and funds can only enhance productivity, prosperity, and independency that lead to increase the size of national outputs, income and employment, solving the problem of inflation and balance of payments making the economy free from the burden of foreign debts, which has become one of major problems in the developing economies *(Higgins; 1968:804).*

According to the classical economists, one of the main factors that help for capital formation and is accumulation capital. They thought that capital formation indeed plays a decisive role in determining the level and growth of national income and economic development. It seems that the insufficient capital accumulation is the most serious limiting factors in developing countries. Due to the reason, many development planning are pending. Economists believe that capital occupies the central and strategic position in the process of economic development in an under developing economy and it lies in a rapid expansion of its capital investment. So, it attain a rate of growth of output which exceeds the rate of growth of population by the significant margin. Only with such a rate of capital investment, living standard is improve in developing country *(Higgins; 1968:804).*

Banks are often described as 'intermediaries' between the deficit and surplus of the financial resources, i.e. moving funds from savers (lenders) to investors (borrowers), because of their particular ability to create liquidity as demanded. Numerous services provided by commercial banks like accepting deposit, providing financial securities, granting loan, money exchanges, financial consultancy, fund transfer, etc. is the way towards effective mobilization of the collected funds. Banks utilize funds in suitable area and right sector. Banks cannot achieve its goals until and unless it mobilizes its deposits in right sectors. The commercial banks collect money in small amount from the surplus sector and gives to the deficit sector. While collecting money from surplus sector, bank gives the guarantee of repayment of money as well as a certain amount as interest. In the other hand, while giving money to the deficit sector as a loan, it charges certain percent as interest which is greater than the interest to make profit to pay interest on deposits, meet establishment expenses, meet liquidity of cash balance, reserves, and pay dividend to the shareholders in order to growth with stability. For this purpose the banks need to allocate available resources to different segments in such a manner that the banks can ensure adequate profitability while at the same time responding to policies laid down in accordance with national objectives *(Vaidhya; 1999:67).*

In this way, the commercial banks need to focus on lending and borrowing and to increase liquidity. This in turn encourages investment in productive sectors through resource allocation and increasing the overall level of spending in the economy.

Deposit mobilization is one of the essential tools for the economic development of an underdeveloped and developing countries whenever the developed countries are exceptional. It is because deposit collection for capital formation on capital market in every sector are developed in developed countries. Low national income, low per capita income, lack of technical knowledge, vicious cycle of poverty, lack of irrigation and fertilizer, pressure of population increase, geographical conditions etc. are the main problems of developing countries like Nepal. Thus, Banking increases the supply of funds by collecting lodgments from public and combining them with its capital and reserve fund. Their lodgments are accepted as current, saving and fixed accounts. However, they fall into demand and time deposits. The former payable as and when demand is made and later after the expiry of stated period *(Vaidhya; 1999:68).*

1.1.1 A Brief Introduction of Selected Commercial Banks

1.1.1.1 Himalayan Bank Ltd. (HBL)

The bank was incorporated in 1992 by a few distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial Banks of Pakistan. Banking operation was commenced from January 1993. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

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

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

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

The Corporate Vision, Mission and Objective of the HBL are as follows:

The Bank's Vision:

Himalayan Bank Limited holds of a vision to become a Leading Bank of the country by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the Bank.

The Bank's Mission:

The Bank's mission is to become preferred provider of quality financial services in the country. There are two components in the mission of the Bank; Preferred Provider and Quality Financial Services; therefore we at HBL believe that the mission will be accomplished only by satisfying these two important components with the Customer at focus. The Bank always strives positioning itself in the hearts and minds of the customers.

The Bank's Objective:

To become the Bank of first choice is the main objective of the Bank *(www.himalayanbank.com).*

1.1.1.2 Nepal Investment Bank Ltd. (NIBL)

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world.

With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, had acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

- A group of companies holding 50% of the capital
- Rashtriya Banijya Bank holding 15% of the Capital.
- Rashtriya Beema Sansthan holding the same percentage.
- The remaining 20% being held by the General Public (which means that NIBL is a Company listed on the Nepal Stock Exchange).

The Corporate Vision and Mission of the NIBL are as follows:

Vision

To be the most preferred provider of Financial Services in Nepal

Mission

To be the leading Nepali bank, delivering world class service through the blending of state-of-the-art technology and visionary management in partnership with competent and committed staff, to achieve sound financial health with sustainable value addition to all our stakeholders. We are committed to do this mission while ensuring the highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance *(www.nibl.com.np).*

1.2 Focus of the Study

The development of a nation depends upon its domestic resources. Banking sector plays vital role in allocation and utilization of such resources. Integrated and speedily development of a country is possible when competitive banking services reaches all the corners of the country. Banking sector development is very much essential for the overall development of the country.

The commercial banks can play a vital role in mobilizing the resources in developing as well as developed countries. Those institutions can induce the public to save their valuable funds. They can help to mobilize the society. In this way the saving can enter into banking channel from the informal sector. Banks are the financial intermediaries; they collect the surplus money as deposit from the surplus units and provide the deficit money as loans and advances to the deficit units. In between the activities and processes that are conducted to bridge the gap between surplus units and deficit units in the society is called Credit Creation process.

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

1.3 Statement of the Problem

Mobilizing fund is the most important factor for the promoters, shareholders and management. Deposit mobilization is one of the primary objectives of commercial banks. In today's age, when commercial banks are mushrooming, the competition among them has been a tough job and one can survive only if it could utilize its available funds properly. The present cutthroat competition has doomed many banks and those which are surviving are operating in critical stage. Very few of them are operating in profit as most of them are unable to satisfy their shareholders and clients in profitability and safe deposits. It is not because of lack of potential clients or adequate deposit, but they can't find profitable sector or opportunities to invest. Banking sectors are facing problems from the external environment of unstable political, legal, economic and social situations in Nepal. Banking sector are not able to grow to their potentials. Various policies launched by Nepal Rastra Bank may add advantage to the nation but they provide unnecessary interference in the daily transactions of the commercial banks. Major problem in the state owned commercial banks are overstaffing, corruption, negligence and cutthroat competition. Banks in Nepal are acting with mere objective of profit maximization. They are accepting deposit from the community and lending loans to investors, meeting their required criteria. Most of the banks are operating in the urban areas, focusing on the opportunities. They are just grabbing the opportunities rather than creating them. The problems specially related to deposit function of the Nepalese commercial banks of Nepal have been presented below:

- Are HBL and NIBL following the proper deposit mobilization?
- Is there any relationship of total deposits with loans and advances, total investment, net profit and interest rates?
- How far HBL and NIBL have been efficient in its operation?
- Is mobilization of deposit and investment policy effective and efficient?
- Is Bank maintaining sufficient liquidity position?

1.4 Objectives of the Study

The main objective of the study is to analyze the fund mobilizing policy and profitability analysis. The specific objectives of the study are as follows:

- To see the deposit collection and distribution composition of HBL and NIBL.
- To see the financial position of the HBL and NIBL in terms of Deposit and profitability.
- To see the relationship of deposit and investment, loan & advances, net profit and total assets of HBL and NIBL.
- To give suggestions and recommendations based on analysis.

1.5 Significance of the Study

The significance of the study can be highlighted through the following points:

- The study of fund mobilization policy would provide information to the management of the bank that would be helpful to take corrective action in the banking activities.
- From the study of fund mobilizing policy about bank, shareholders & companies would get information related to the fund mobilizing scheme of the bank & they may know how banks are mobilizing their fund and resources.
- General public can also get information about funds mobilizing activities of a bank with the help of the study.
- It is also beneficial for the government while formulating policies and rules regarding commercial banks.
- Effective fund mobilization activities are the cause to increase earnings of the banks.
- The study will serve to be guide to the management of banks, financial institutions, related parties, shareholders, general public (customers, depositors and creditors)

1.6 Limitation of the Study

Every research is limited with certain constraints. Likewise, this study is being undertaken as the partial fulfillment of the Master's Degree on Business Studies (MBS) within limited time and sources. The limitation to state as major are:

- The research design and analysis followed for this study are based on secondary data which only covers the period of last five fiscal years.
- Time and resources constraints may limit the area covered by the study.
- Due to limited time and resources, out of 32 commercial banks, only two of them are included in this study.
- The period covered by the study is from 2007/08 to 2011/12.
- The accuracy of the research work will depend on the data provided by concerned banks.
- The major sources of the secondary data are the financial statements of concerned

banks which are extracted from the progress report of related banks, Nepal Stock Exchange, Central Bureau of Statistics and other published and unpublished articles.

1.7 Organization of the Study

The study has been divided into five chapters as follows:

Chapter I: Introduction

This chapter covers the background of the study, focus of the study, statement of the problem, objective of the study, significant of the study and limitation of the study.

Chapter II: Review of Literature

This chapter is basically concerned with review of literature relevant to the topic "Deposit mobilization" of HBL and NIBL. Every study is very much based on past knowledge. The previous study cannot be ignored because they provide foundation of the present study.

Chapter III: Research Methodology

This chapter acknowledges the research methodology used in this study. It comprises research design, sources of data, method of analysis and its descriptive presentation.

Chapter IV: Presentation and Analysis of Data

It is analyzing chapter which deals with analysis and interpretation of data using financial and statistical tools. Major findings of the study have been presented at the end of this chapter.

Chapter V: Summary, Conclusion and Recommendation

This is the final chapter of the study and presents summary of the study, conclusion of the study and needful recommendations for further improvement of the financial performance of the selected banks and for investment decision for investors.

Besides these chapters, Bibliography and Appendix are also included at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

The literature of review in a research study accomplishes several purposes. It shares with the reader the results of other studies that are closely related to the study being reported. It relates a study to the larger ongoing dialogue in the literature about a topic, filling in gaps and extending prior studies. It provides a frame for establishing the importance of a study with other findings. This chapter highlights the conceptual frame work given by different authors, books, articles, legal provisions and directives, research paper, annual thesis report.

2.1 Conceptual Review

2.1.1 Concept of Bank

Basically, a bank is a financial institution which deals with deposit and advances and other related services which receives money from those who want to save in the form of deposits and it lends money to those who need it. Previously, the term Bank is derived from Latin word “Bancus”, French word “Banque” and Italian word “Banco”, referring to a Bench that displays coins of different countries on benches or tables, invests, exchanges and keeps record of funds and cash. These commercial and functional activities are regarded as banking activities. According to S. and S.'s definition of bank, "A banker or bank is a person/company carrying on the business of receiving money collecting drafts, for customers subject to the obligation of honoring cheques drawn upon them from time to time by the customers to the extent to the amount available on their customer" *(Shekher and Shekher; 1999).*

A bank is an institution, usually incorporated with power to issue its promissory notes intended to circulate as money (known as bank notes); or to receive the money of others on general deposit, to form a joint fund that shall be used by the institution, for its own benefit, for one or more of the purposes of making temporary loans and discounts; of dealing in notes, foreign and domestic bills of exchange, coin, bullion, credits, and the remission of money; or with both these powers, and with the privileges, in addition to these basic powers, of receiving special deposits and making collections for the holders of negotiable paper, if the institution sees fit to engage in such business *(Crowther; 1985:50).*

A banker takes deposit accounts, current accounts, issues and pay cheques of crossed and uncrossed for his customers. "The real business of the banker is to obtain deposits of money which he may use for his own profit by lending it out again" *(Crowther; 1981:52).*

Juatic Atkin stated that "Bankers never do make a payment to a customer in respect of a current account except upon demand. Hence, if banking activities are carried out by any person is subsidiary to some other business, he cannot be regarded as a banker, as stated by Paget. A bank refers to Central bank, Commercial bank, Development bank, Exchange bank, Saving bank, Cooperative bank, Merchant bank, Agricultural bank, Tourism bank, Housing bank, Equipment bank, Infrastructure bank and Mutual fund etc. They provide financial as well as non-financial services. It is a financial mediator between depositors or lenders and withdrawal or loaner. A bank plays an immense role that helps investors to invest in different sectors by giving a loan and providing other consultancy and agency services" *(Atkin; 1987:178).*

2.1.2 Concept of Commercial Bank

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

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

In the Nepalese context, Commercial Bank Act, 1974 defines "A commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions *(Commercial Bank Act; 1974:24).*

Commercial banks are those banks which perform all kinds of banking functions such as accepting deposits, advancing loans, credit creation and agency functions. They provide short term loan, medium-term loans and long-term loans to different business house and trading companies. NRB act 2031 has defined the meaning of commercial bank as the bank which performs the commercial functions *(Commercial Bank Act; 1974:26).*

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

A commercial bank can be defined as an institution which deals in money. 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).*

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

2.1.3 Types of Banks

There are several different types of banks which are formed due to their nature and objectives, which are as follows:

2.1.3.1 Central Bank

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

2.1.3.2 Commercial Bank

Commercial bank collects deposits, issue short-term credit, provides necessary facilities for trade, payments and renders various kinds of common commercial services. Nepal Bank Limited was established on 30th Kartik 1994 B.S. and is the first commercial bank in Nepal.

2.1.3.3 Agriculture Bank

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

2.1.3.4 Industrial Bank/ Development Bank

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

2.1.3.5 Savings Bank

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

2.1.3.6 Merchant Bank

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

2.1.3.7 Postal Savings Bank

Postal savings banks are savings associated with national postal systems. Japan and Germany are examples of countries with prominent postal savings banks.

2.1.3.8 Retail Bank

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

2.1.3.9 Land Development Bank

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

2.1.3.10 Universal Bank

Universal bank is a joint bank. It serves purposes of commercial banking and investment banking. It collects deposits and provides loans as commercial banks. Almost all large financial institutions are diversified and engaged in multiple activities. For example, Citigroup, a very large American bank, is involved in commercial and retail lending. It owns a merchant bank (Citicorp Merchant Bank Limited) and an investment bank (Salomon Smith Barney). It operates a private bank (Citigroup private bank). Finally, its subsidiaries in tax have offer offshore banking services to customers in other countries *(Johnson; 1990:198-199).*

2.1.4 Functions of Commercial Banks

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

a) Accepting Deposit

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

i. **Current Deposit: -** Current deposits are also known as demand deposits. The demand deposit in which an amount is paid immediately at the time of any account holder's demand is called demand deposit.
ii. **Saving Deposit:** - In saving deposits, there is restriction on the maximum amount that can be deposited and also withdrawals from the account. This deposit is suitable and appropriate for the people of middle class who have low income and small saving. The bank usually pays small interest to the depositors against their deposit.
iii. **Fixed Deposit:** - Fixed deposit is the one, which a customer is required to keep fixed amount with the bank of specific periods, generally by those who do not need money for the stipulated period. She/he is not allowed to withdraw the amount before expiry of the period. The rate of interest is higher than other deposit. The bank pays a higher interest as such on deposit.

b) Advancing Loans

Commercial bank collects funds by taking all kinds of deposits and then, mobilizes by providing loans and advances. Direct loans and advances are given to all types of person against the personal security of the borrowers or against the security of movable and immovable properties. There are various methods of advancing loans such as:

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

c) Agency Services

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

d) Credit Creations

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

e) Other Functions

Other functions of the commercial banks are as follows:

- Assist foreign trade
- Offers security brokerage services
- Financial advising
- Security brokerage service *(Joshi; 1990:56-60)*

2.1.5 Concept of Deposit

The excess of income over consumption requirement is saved. Such savings are deposited in commercial banks, even amounts to be spent for consumption purposes are deposited in commercial banks. Payment for goods and services is made in cheques drawn on banks. Banking habit is growing faster. People deposit their earnings in commercial banks because banks vaults are safer than home coffers and they pay interest according to the kind of deposits *(Vaidhya; 1999:99).*

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

2.1.6 Types of Deposit

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

a) Interest Bearing Deposit

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

(i) Saving Deposit

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

(ii) Fixed Deposit of Time Deposit

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

- Quarterly
- Semi-annually
- Annually
- Annually and above

(iii) Call Deposit

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

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

(iii) Recurring Deposit

Concept of recurring deposit was developed to encourage the thrift among people of fixed regular earning. In recurring deposit scheme, the depositor is required to deposit the fixed amount in each installment and is repaid fixed amount at maturity *(Dahal and Dahal; 1990:31).*

b) Non-Interest Bearing Deposit

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

(i) Current Deposit

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

(ii) Margin Deposit

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

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

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

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

It is quiet understandable that comprehensive and highly objective credit policies are to be prepared and implemented effectively by the commercial banks. However, when the banks are to lend more and more credit as necessity, the sources of such loans and advances become a matter of serious consideration. Primarily, the deposit of the banking system would increase, if the structural change in one banking habits and practices and other institutional improvements are in progress. Secondly, increase in bank deposits should emanate from increase in advances. The range of propensity to deposit out of loans received is between zero and one. Greater the degree of propensity to deposit out of new loans larger will be the deposits with banks. High propensity to deposit out of loans reflects low desire of people to hold cash with themselves in relation to bank deposits. In other words, this indicates increased banking habit and practices among the public at least of those who benefit through bank loans *(Joshi; 1990:57).*

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

Therefore, there is need of a huge amount of capital and the objective of deposit mobilization is to collect the scattered capital in different forms within the country. It is much more important to analyze the collected deposit in the priority sector of country. In the context of developing country like Nepal we have to promote our business and other sectors by investing the accumulated capital towards productive sectors. The need of deposit mobilization is felt to control unnecessary expenditure. If there is no saving, the extra amount that the people have, can flow towards buying unnecessary and luxury goods. Thus, the commercial banks are playing vital role for national development. Deposit mobilization is necessary to increase their activities. To increase saving is to mobilize deposit, it is because if the product of agriculture and industrial product increase it gives additional income which help to save more and ultimately it plays a good role in deposit mobilization *(Joshi; 1990:58).*

2.1.7 Deposit Mobilization

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

When we discuss about deposit mobilization, we are concerned with increasing the income of the low income group of people and to make them able to save more and invest the collected amount in the development activities *(NRB; 1984:24.12).*

Saving refers to that part of the total income which is more than the expenditure of the individual. In other words, saving = total income – total expenditure. Basically, saving can be divided into two parts voluntary saving and compulsory savings. Among deposited in different accounts of commercial bank, investment in government securities are some examples of voluntary saving. A commercial bank collects deposit through different accounts like fixed, saving and current *(NRB; 1984:24.14).*

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

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

Capital formation is possible through collecting scattered unproductive and small savings from the people. This collected fund can be utilized in productive sector to increase employment and national productivity. Deposit mobilization is the most dependable and important source of capital formation *(RBB; 1999:4.14).*

Deposits, such as current, saving and fixed deposits are the main part of the working capital. It is due to this reason that banks keep their deposit mobilization campaign always in full swing taking resort to every possible means lying at their deposit *(NRB, Nepal Bank Patrika; 1986:13.2).*

Commercial banks are set up with a view to mobilize national resources. The first condition of National Economic Development is to be able to collect more and more deposit. In these contexts, the yearly increasing rate of commercial banks deposit clearly shows the satisfactory progress of deposit mobilization *(RBB; 1998:3.20).*

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

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

The low growth in deposit mobilization could largely be attributed to the decline in remittance collection. The major reason for the modest growth in deposit mobilization, is largely due to high decline in remittance income, however, it is believed that, it is a temporary phenomenon and the remittance collection will bounce back in coming days *(www.kantipuronline.com).*

2.1.8 Need for Deposit Mobilization

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

- Capital is needed for the development of any sector of the country. The objective of deposit mobilization is to collect the scattered capital in different forms within the country.

- The need of deposit mobilization is felt to control unnecessary expenditure, if there is no saving, the extra money that the people have, can flow forwards buying unnecessary and luxury goods. So, the government also should help to collect more deposit, steeping legal procedures to control unnecessary expenditures.
- Commercial banks are playing a vital role for National Development. They are granting loan not only in productive sectors but also in other sectors like food grains, gold, silver etc.
- It is much more important to analyze the collected deposit in one priority sectors of a country. In our developing country we have to promote our business and other sectors by investing the accumulated capital towards productive sectors *(Joshi; 1990:57).*

2.1.9 Advantage of Deposit Mobilization

The advantage of deposit mobilizations are as follows:

- **Circulation of Idle Money**

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

- **To support Fiscal and Monetary Policy**

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

- **Capital Formation**

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

- **Development of Banking Habit**

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

- **To Support Government Development Projects**

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

- **To Promote Cottage Industries**

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

- **To Check up miss-utilization of Money**

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

- **Others**

Deposit mobilization supports small savers by earning interest. It also helps for the development of rural economy, protests villagers form being exploitation of indigenous bankers, increase investment incentives, provides facilities to the small farmers to purchase tools and fertilizers etc. So commercial banks play an important role for the economic development not only in a development country but also in a developing country *(Vaidya; 1999:69).*

2.1.10 Loans and Advances

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

Commercial bank provides loan to the public through which it creates the credit for the community. Commercial banks mobilize their funds mainly in loan and advances. Loan and advances is the risky assets. There is high ratio of risk on granting loan. Since, loan and advances is risky there is the possibility of high rate of return. Banks loans and advances contribute high ratio in the profit of the banks. It is the instrumental in creating and maintaining good deposit relationship which are essential for the furthering of bank's lending. Making loan is the principle economic functions of banks. Therefore, how well a bank performs its lending function has a great deal to do with the economic health of the country because bank loans support the growth of the new business and jobs within the bank's trade territory and promote its economic activity *(Vaidya; 1999:75).*

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

- How to be safe?
- How to meet demand?
- How to meet the cost?
- How to bring about the development in terms of achieving social objectives?

Generally a bank grants two types of loan i.e. short-term loan and long-term loan against the security. Security is necessary in case of the default of the payment. Banks can sell the property if due balance are not repaid in time with the interest *(Nigma; 1987: 134).*

2.1.11 Investment

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

According to economists, investment refers to any physical or tangible asset, for example, a building or machinery and equipment. On the other hand, finance professionals define an investment as money utilized for buying financial assets, for example stocks, bonds, bullion, real properties, and precious items. According to finance, the practice of investment refers to the buying of a financial product or any valued item with anticipation that positive returns will be received in the future. The most important feature of financial investments is that they carry high market liquidity. The method used for evaluating the value of a financial investment is known as valuation.

According to business theories, investment is that activity in which a manufacturer buys a physical asset, for example, stock or production equipment, in expectation that this will help the business to prosper in the long run. Investment is the commitment of money or capital to purchase financial instruments or other assets in order to gain profitable returns in the form of interest, income, or appreciation of the value of the instrument. Investment is related to saving or deferring consumption *(Musiela and Rutkwoski; 1998: 665).*

An investment involves the choice by an individual or an organization such as a pension fund, after some analysis or thought, to place or lend money in a vehicle, instrument or asset, such as property, commodity, stock, bond, financial derivatives (e.g. futures or options), or the foreign asset denominated in foreign currency, that has certain level of risk and provides the possibility of generating returns over a period of time. When an asset is bought or a given amount of money is invested in the bank, there is anticipation that some return will be received from the investment in the future.

Investment is a term frequently used in the fields of economics, business management and finance. It can mean savings alone, or savings made through delayed consumption. Investment can be divided into different types according to various theories and principles. While dealing with the various options of investment, the defining terms of investment need to be kept in mind *(Bodie and Merton; 2002: 202-203).*

2.1.12 Investment Policy

The initial step, setting investment policy, involves determining the investment objective and the amount of his or her investable wealth because there is a position relationship between risk and return for sensible investment strategies. It is not appropriate for an investor to say that his or her objective is to 'make a lot of money'. What is appropriate for an investor in this situation is to state that the objective is attempt to make a lot of money while regarding that there is same chance that large loss may be incurred. Investment objective should be stated in terms of both risk and return *(Clark; 2003:45).*

2.1.12.1 Characteristics of Sound Investment Policy

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

- **Liquidity**

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

- **Safety and Security**

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

- **Profitability**

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

- **Legality**

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

- **Purpose of Loan**

The loan should be utilized in purpose plan. Everything related with the customer should be examined before lending. If borrower misuses the loan granted by the bank they can never repay and bank will posses heavy bad debts. Detailed information about the scheme of the project activities should be examined before lending *(Vaidya; 1999:76).*

2.1.13 Deposit Mobilization Institution in Nepal

There are mainly seven types of deposit mobilization institutions in Nepal which are as follows:

- **Commercial Banks**

There are 32 Commercial banks in the country as July 2012 A.D.

- **Finance Companies**

At July 2009 A.D. there are 79 finance companies in operations throughout the country. Out of these 85 finance companies are operating in central development region and other 19 are rendering their services outside central development region.

- **Development Banks**

There are altogether 70 development banks including Agriculture Development Bank as July 2007 A.D. Out of these, 54 banks are operating in central development region.

- **Rural Development Banks**

There are 5 rural development banks, one in each five development region as December 2009 A.D.

2.2 Review of Journals / Articles

Sharma (2004) in the article *"Banking the further of Competition"* has said, due to the lack of investment avenues, banks are tempted to invest without proper credit appraisal and one personal guarantee, whose negative side effects would show colors only after 4 or 5 years. Again the writer said that "Private CBs have mushroomed only in urban areas where banking transactions in large volume is possible. The rural and sub urban areas mostly remain unattended.

Bajracharya (2007) in his article, *"A Study on Deposit and Credit of Commercial Banks in Nepal"* concluded that the credit deposit ratio would be 51.30%, other things remaining same in Nepal, which was the lowest under the period of review. Therefore he had strongly recommended that the joint venture banks should try to give more credit entering new field as far as possible, otherwise , they might not be able absorb even the total expenses.

Sharma (2009) in his article *"Monetary Policy and Deposit Mobilization in Nepal"*, has mentioned the mobilization of domestic saving is one of the prime objective of the monetary policy in Nepal. For this purpose commercial banks stood as the active and vital financial intermediary for generating resource in form of deposit of the private sector. So far providing credit to the investors in different aspects of the economy.

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

Gautam (2010) has analyzed in her articles, *"Financial Performance of Commercial Banks using both Descriptive and Diagnostic Approach"* in her study she has described the following paragraph:

The structure ratio of commercial banks shows that invest on the average of 75% of their total deposit on the government securities and the shares. The analysis of resources position of commercial banks should quit high percentage of deposit as cash reserve. Return ratio of all the banks shows that most of the time foreign banks have higher return as well as higher risk than Nepalese banks.

The debt-equity ratios of commercial banks are more than 100% in most of the time period under studies period. It led to concluded that the commercial banks are highly leveraged and highly leveraged and highly risky. JVBs had higher capital adequacy ratio but has been dealing everyday. In case of the analysis of the management achievement, foreign banks have comparatively higher total management achievement index.

Shrestha (2011) in his article, *"Deposit Mobilization, It Problems and Prospects"* has presented that following problem in the context of Nepal;

People do not have knowledge and proper education for institutional manner. They so do not know financial organizational process, withdraw system, depositing system etc. Financial intuitions do not want to operate and provide their services in rural areas. He has also recommended about how to mobilize the deposit collection by the financial institution by rendering their services in rural areas and by adding various services. By operating rural banking programs and unit, mobilized the deposit collection by the financial institutions by rendering their service in rural areas, by adding various services.
Nepal Rastra Bank must organize training programs to develop the skill human resources. By spreading a numbers of cooperative societies to develop mini banking services and improves the habit of public in deposit collection to the rural areas.

2.3 Review of Related Studies

Ghimire (2008), in the study "*Deposit Mobilization of Bank of Kathmandu Ltd. and Nepal SBI Bank Ltd*" has the main objective to examine the deposit mobilization of BOKL and NSBI. The specific objectives of the study are;

- To analyze the trend of deposit mobilization of BOK and SBI.
- To examine and analyze the various deposit services offered by BOK and SBI.
- To study the relationship of deposit and loans and advances of BOK and SBI.
- To identify the relationship of interest of deposits with the interest of loan of BOK and SBI.

The major findings of the study are;

- BOK has collected more deposit than SBI. The average deposit collection of BOK in the five year periods is Rs. 11085.09 millions, while that of SBI is Rs. 10403.16 millions.
- Current deposit is the main source of non-interest bearing deposit of both BOK and SBI. While savings deposit is the main source of interest-bearing deposit of BOK and fixed deposit is the main source of interest-bearing deposit of SBI.
- The total deposit has represented 86.46% of the total fund in BOK and 83.09% of the total fund in SBI, which indicates that the major source of fund of both the banks is deposit collection.

- In average, 9.01% of the total deposit of BOK and 10.03% of the total deposit of SBI has been mobilized in maintaining cash and bank balance. However, 5.51% of the total local deposit of BOK and 5.28% of the total local deposit of SBI has been mobilized to maintain the cash balance requirement in NRB.
- Similarly, 72.52% of the total deposit of BOK and 76.71% of the total deposit of SBI has been mobilized in loans and advances. Likewise, 27.50% of the total deposit of BOK and 27.04% of the total deposit of SBI has been mobilized in investment in government securities, corporate shares and debentures and others.
- The office overhead represents 1.11% of the total deposit BOK and 1.05% of the total deposit of SBI. Likewise, BOK has incurred 2.81% of the total deposit and SBI has incurred 3.24% of the total deposit as interest expenses, which has been paid to deposit holders.
- The net profit after tax to total deposit indicates that BOK has made 1.91% of the total deposit as net profit, while SBI has made 1.32% of the total deposit as net profit.

Regmi (2009) in his thesis *"Comparative Study on Deposit Mobilization between Everest Bank Limited and Himalayan Bank Limited",* has the main objective to identify the current situation of deposit mobilization of joint venture banks in Nepal. The specific objectives are as follows;

- To analyze the deposit growth of HBL and EBL.
- To analyze the proportion of the loans and advances of EBL and HBL.
- To find out the investment volumes of HBL and EBL.
- To find out the relationship of total deposits with loans and advances, total investment, net profit and interest rates.

The major findings of the study are;

- In the case of EBL, it's collected deposit of Rs. 19097.7 million deposits. Extended as loan and advance as Rs. 14059.2 million in the year 2007 and made net profit Rs 300.6 million in the year 2007. HBL was able to collect Rs 29905.8 million deposits and extended as loan and advance as Rs. 17672.0 million and made net profit Rs. 828.4 million in the year 2007.

- According to the liquidity ratio, the overall liquidity ratio of EBL is stronger than that of HBL. It can conclude that EBL could discharge its depositor's obligation more comfortably. Those ratios are used to know the capacity of the concern to repay it's short term liability. According to activity ratio, the overall activity ratio of EBL is better than HBL. It can conclude that shows relation of two related items. These ratios reflect how efficiently the bank's managing its resources.
- According to capital adequacy ratio, EBL is stronger than other bank HBL. Capital adequacy ratio shows the position of different items.
- In the case of profitability ratio, overall profitability ratio of EBL is better than HBL. The earning capacity of the bank is measured by profitability ratio.
- In the case of risk ratio, the risk ratio of HBL is less than the risk ratio of EBL. So that HBL bank is less risky than EBL.
- In the case of growth ratio, the growth ratio of EBL is higher than HBL.

Adhikari (2010) has conducted a research on *"A Comparative Study of Fund Mobilization of Commercial Banks.'* He had attempt to analyze fund mobilization of commercial banks with special two reference commercial bank Nabil Bank Limited and Everest Bank Limited with the help of different financial and statistical tools.

The specific objectives of her study are as follows:

- To explore the effectiveness of the selected joint venture bank in fund mobilization.
- To analyze the sources and uses of funds of the selected joint venture banks
- To study the factors affecting the fund mobilization
- To provide suggestions and recommendation on the basis of analysis.

The major findings of this study are as follows:

- Average ratio of cash bank balance to total deposit reveals that EBL has higher the ratio and Nabil had lower ratio which shows that the liquidity position of EBL is quit well than Nabil but CV of Nabil is lower than EBL which mean Nabil has more consistent ratio compare to EBL.

- The average ratio of credit and advance to total deposit of EBL is higher than Nabil deposit in credit and advance more than Nabil.
- Nabil is higher than EBL but CV ratio of EBL is lower than Nabil. It can be regarded that higher than EBL has utilized the fund from fixed deposit in better way than Nabil.
- The average debt equity ratio shows that Nabil has the higher average ratio than EBL that means the financial risk if this bank is also higher JVBs have used excessive amount of debt.

Baral (2011) in his thesis entitled *"Comparative Study on Deposit Mobilization of Kumari Bank Limited and Himalayan Bank Limited".* The main objective of this study is to analyze, evaluate and interpret their deposit mobilization. The specific objectives of the study are pointed out as under:

- To find out the relationship between deposits collection and distribution.
- To analyze the financial position of the sampled banks i.e. Himalayan Bank Limited and Kumari Bank Limited.
- To analyze the trends of deposit mobilization towards investment, loan and advances and investment of its projection for current 5 Years.
- To give suggestions and recommendations based on analysis.

The major findings of the study are;

- HBL has collected more deposit than KBL. The average deposit collection of KBL in the five year periods is Rs. 10617.28 millions, while that of HBL is Rs. 29575.48 millions.
- Current deposit is the main source of non-interest bearing deposit of both KBL and HBL. While savings deposit and fixed deposit are the main source of interest-bearing deposit of KBL and savings deposit is the main source of interest-bearing deposit of HBL. In average, KBL and HBL have collected Rs. 567.178 millions and Rs. 5284.96 millions from non-interest bearing deposit, while Rs. 10048.68 and Rs.

24290.52 millions have been collected from interest-bearing deposit by KBL and HBL respectively.

- The total deposit has represented 85.80% of the total fund in KBL and 89.26% of the total fund in HBL, which indicates that the major source of fund of both the banks is deposit collection.
- In average, 7.41% of the total deposit of KBL and 6.77% of the total deposit of HBL has been mobilized in maintaining cash and bank balance. However, 3.77 % of the total local deposit of KBL and 6.32% of the total local deposit of HBL has been mobilized to maintain the cash balance requirement in NRB.
- Similarly, 88.79 % of the total deposit of KBL and 59.03 % of the total deposit of HBL has been mobilized in loans and advances. Likewise, 15.84 % of the total deposit of KBL and 38.92 % of the total deposit of HBL has been mobilized in investment in government securities, corporate shares and debentures and others.
- In average, KBL has mobilized 1.49% of the total deposit in money at short call and notice, while HBL mobilized 3.25% only. Also, 1.52% and 2.08 % of the total deposit of KBL and HBL respectively has been mobilized to acquire fixed assets.

Subedi (2012), has conducted on the thesis work "*Fund Mobilization in Commercial Banks of Nepal; With Reference to NABIL and NIBL*" has the main objective to identify the current situation of fund mobilization of banks in Nepal. The objectives are as follows;

- To recognize the main source of fund and main mobilization of collected fund of NABIL and NIBL.
- To evaluate the liquidity position of the two banks.
- To analyze the efficiency of NABIL and NIBL in mobilizing fund in terms of profit

The major findings of the study are;

- NABIL collected Rs. 43686.58 millions as total fund in average, whereas NIBL collected Rs. 47027.44 millions as total fund in average. Hence, NIBL was more successful to collect higher amount of fund than NABIL.

- In average, 7.30% of the total fund was collected from shareholders' equity in NABIL, while in NIBL 7.53% of the total fund was collected from shareholders' equity. The average collection of total fund through shareholders' equity was higher in NABIL than in NIBL.
- NABIL collected 3.23% of the total fund through long term debt, while NIBL collected 2.37% of the total fund through long term debt. The long term debt of NABIL was dominated by long-term borrowing, while that of NIBL was dominated by debenture.
- The current liabilities covered 89.48% of the total fund in NABIL, while that covered 90.05% of the total fund in NIBL. In current liabilities, deposit was the main source of fund in both the banks.
- The major source of deposit was savings account in both the banks. The interest-bearing deposit was comparatively very higher than non-interest bearing deposit. Current deposit was the main source of fund in non-interest bearing deposit in both the banks.
- Among all the sources of fund, deposit was the major source of total fund in both the banks. The deposit represented 80.82% and 87.549% of the total fund in NABIL and NIBL respectively.
- The total fund of both the banks had been mainly mobilized in granting loan and advances. The mobilization rate of total fund in loan and advances was 60.98% in NABIL and 68.25% in NIBL.
- NABIL was more successful in fund mobilization in term of net profit. The net profit to total fund of NABIL (2.64%) was higher than that of NIBL (1.91%).

Pandit (2012) has conducted a study on *"A Study on Fund Collection and Mobilization of Commercial Banks (With Special Reference to SCBNL and NABIL)."* The main objective of the study is concentrated on reviewing the fund collection and mobilization in the commercial banks, especially in Nabil and SCBNL. The specific objectives of the study are as follows:

- To examine the performance of the selected commercial banks in term of fund collection and mobilization.

- To assess determinants of sampled banks fund collection and mobilization in commercial banks
- To evaluate the growth ratio of credit and advance and total investment with respective to growth rate of total deposit and net profit on sampled banks.

The major finding of this study are as follows:

- The average ratio of return on loan and advance of SCBNL is higher than Nabil. the variability ratio of SCBNL is lower than Nabil. It seems SCBNL has stable return.
- The average ratio of return on total working fund of Nabil is greater than SCBNL. whereas the variability ratio of SCBNL is lower than Nabil. It indicates that the return on total working fund of SCBNL is stable.
- The average ratio of total interest earned to total working fund of SCBNL is higher than Nabil. SCBNL is more successful to earn interest than Nabil . it reveals that SCBNL is mobilizing its working fund successfully so that it has high earning capacity.
- The average ratio of total interest paid to total working fund of SCBNL is lower than Nabil . It reveals that SCBNL has not paid interest as Nabil.
- Capital base of Nabil has been found significantly higher than SCBNL. Nabil has been able to generate high volume of profit from operation. That’s why it can be said that SCBNL has low volume of profit from operation than that of Nabil.
- SCBNL have been very successful in case mobilizing deposits during the study period. Whereas deposit collection of Nabil is lower in comparison to SCBNL is considered as a high liquidity sensitive bank.

2.3 Research Gap

All of the above research mentioned is primarily concerned with the mobilization of deposit mainly in loan and advances. The research made does not cover the mobilization of deposit in other short term investment. Thus, to fulfill the gap this study will try to employ the relationship of deposit mobilization with each uses of fund, including fixed assets as well without which the operation of daily transaction is almost impossible. The study also presents the deposit collection from each account. Further, the study examines the relationship between net profit and total deposit, investment and total deposit, loan and advances and total deposit through correlation analysis.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology means the analysis of specific topic by using proper method. In other words research methodology is a process of arriving to the solution of problem through planned and systematic dealing with collection, analysis and interpretation of the facts and figures. Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It is also considered as the path from which researcher can systematically solve the research problem.

3.1 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research question and control variance. To achieve the objectives of the study, descriptive as well as analytical research design have been used. This study is based on secondary data.

3.2 Population and Sample

There are 32 commercial banks all over the Nepal. In this study deposit mobilization procedures of Himalayan bank Limited and Nepal Investment Bank Limited are studied. 32 commercial banks are taken as the population and HBL and NIBL are chosen to find out the condition of deposit mobilization.

3.3 Nature and Sources of Data

The study is conducted on the basis of secondary data. The data relating to the investment, deposit, loan and advance, assets and profit are directly obtain from the balance sheet and profit and loss of the concerned banks annual reports. Supplementary data and information are collected from number of institution and authoritative sources like NRB, NEPSE, SEBON, web sites etc. For the additional informal and formal talks with the concerned head of the department of the banks were also been done.

3.4 Data Collecting Procedures

To collect the secondary data, published material such as books, journals, Internet web sites, online library and annual report of listed commercial banks. To collect these secondary data, the researchers visited campus library of SDC, TU central library, SEBON library. For presentation different tables were used and graphical presentations were also made. Similarly, the computation has been done with the help of using Microsoft Excel. On the other hand, the secondary data are collected through internet.

3.5 Tools of Analysis

To achieve the objectives of the study various financial and statistical tools have been used. The analysis of the study has been done according to the pattern of data available and to make the analysis more effective, convenience, reliable and authentic. The different calculated results obtained through financial, accounting and statistical tools are tabulated under different headings. Then they are compared with each other to interpret the results.

3.5.1 Financial Tools

Analysis and interpretation of various ratio should give experienced, skilled and analysis of a better understanding of the financial condition and performance of the form than they would obtain from analysis of the financial data alone. The type of analysis varies according to the specific interest of the party involved.

- **Cash and Bank Balance to Total Deposits Ratio**

Cash and bank balance to total deposits ratio measures the capacity of bank to meet unexpected demand made by depositors, i.e. current account holders, saving depositors, call and other depositor.

This ratio is computed by using the following formula:

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

- **Cash Reserve Ratio**

For the security of the deposit holders, NRB has made provision of making the cash reserve in NRB from the total deposit. The existing cash reserve requirement is 5.5%, while that till in previous year was 5%. Nonetheless, the reason behind such requirement is to ensure good liquidity in bank.

Cash Reserve Ratio = $\frac{\text{Cash Balance at NRB}}{\text{Total Local Deposit}}$

- **Loans and Advances to Total Deposit Ratio**

The ratio measures the bank's ability to mobilize the depositors fund to earn profit by providing loans and advances. It also measures the extent to which the banks are successful in mobilizing deposits for the purpose of profit generating. The ratio is calculated by dividing loans and advance by total deposits.

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

- **Investment to Total Deposit Ratio**

Besides granting loan and advances, the bank mobilizes its fund in investment in various sector like government securities, corporate shares and debentures, and other to gain interest and dividend income. Hence, this ratio measures how effectively the bank has mobilized its total deposit in investment.

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

- **Current Deposit to Total Deposit Ratio**

Current deposit is short-term non-interest bearing deposit. Current deposit is generally regarded as short-term obligation as it can be withdrawn without prior notice or with short notice.

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

- **Fixed Deposit Total Deposit Ratio**

Fixed deposit is a long-term and high interest bearing deposit. More fixed deposit may be an advantage if it can be invested in long-term credit. This ratio is calculated in order to find out the proportion of fixed deposit in total deposit. Fixed deposits are long-term deposit and banks can mobilize them on investment, loans and advances.

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

- **Saving Deposit to Total Deposit Ratio**

Saving deposit is short-term interest bearing deposit and it has medium rate of interest. Saving deposit is generally regarded as short-term obligation as it can be withdrawn without prior notice or with short notice. This ratio shows the proportion of saving deposits on total deposits. Saving deposit to total deposit ratio can be calculated by dividing the amount of saving deposits by the amount of total deposits.

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

- **Interest Expenses on Total Deposit Ratio**

This ratio measures what percent of the total deposit has been paid to the deposit holders in paying the interest. The lower the ratio is considered better. The ratio is calculated by dividing interest expenses by total deposits.

$$\text{Interest Expenses on Total Deposit Ratio} = \frac{\text{Interest Expenses}}{\text{Total Deposit}}$$

- **Net Profit Margin**

Net profit margin indicates margin of compensation left to the owners for providing their capital, after all expenses have met. It helps in determining the efficiency with which the affairs of the business are being managed. A net profit margin would enable the firm to withstand adverse economic conditions and low margin will have opposite implications.

Net Profit Margin = $\frac{\text{NPAT}}{\text{Interest Income}}$

- **Net Profit After Tax to Total Deposit Ratio**

Return on total deposit ratio measures how efficiently the deposits have been mobilized. It reveals the relationship between net profit after tax and total deposits. The ratio explains the ability of management in efficient utilization of deposits. The ratio is calculated as;

Return on Total Deposits Ratio = $\frac{\text{NPAT}}{\text{Total Deposits}}$

- **Return on Net Worth**

Return on Net Worth reflects how well the firm has used the resource of the owner's. The earning of satisfactory return is the most desirable objective of business as common or ordinary shareholders are entitled to the residual profits. It is calculated by dividing profit after tax by shareholders' equity.

Return on Net Worth = $\frac{\text{NPAT}}{\text{Net Worth}}$

3.5.2 Statistical Tools

Statistical methods are the mathematical techniques used to facilitate the analysis and interpretation of numerical data secured from groups of individuals or groups of observation from a single individual. The figures provide detail descriptions and tabulate as well as analyze data without subjectivity but only objectivity *(Joshi; 2002:159).*

a) Arithmetic Mean

Arithmetic Mean is the ratio of the sum of all the observations to the number of the observations.

It is denoted by $\overline{X}$.

We have,

$$\text{Mean} \quad (\overline{X}) = \frac{\sum X}{n}$$

Where,

$\sum X$ = Sum of all values of the observations

n = Number of observation

X = Values of variables

The arithmetic mean is a single value of selected series which represents them in average. Out of the various central tendencies, a mean is a one of the useful tools to find out the average value of the given data *(Gupta; 2004:414).*

b) Standard Deviation (S.D.)

The measurement of the scatterness of the mass of figure in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion. The greater the amount of dispersion, greater will be the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series. In this study, standard deviation of different ratio is calculated. It is denoted by‘s’.

$$\text{Standard Deviation (s)} = \sqrt{\frac{\sum\left(X - \overline{X}\right)^2}{n - 1}}$$

Where,

X = Expected return of the historical data.

N = Number of observations.

c) Coefficient of Variation (C.V.)

The coefficient of variance measures the ratio of the standard deviation to the mean expressed in percent. It is calculated as under: -

$$\text{C.V.} = \frac{\sigma}{\overline{X}} \times 100$$

Where,

σ = Standard deviation

$\overline{X}$ = Mean value of variances

Coefficient of variance is also useful in comparing the amount of variation in data groups with different mean. It is the relative measure of dispersion. A distribution with smaller coefficient is said to be more homogeneous than the other. On other hand, a series with greater coefficient of variance is said to be more variable of heterogeneous than the other *(Gupta; 2000:416).*

d) Coefficient of Correlation (r)

The coefficient of correlation measure the degree of relationship between two sets of sigma. There is various method of finding out coefficient of correlation but Karl Pearson's method is applied in the study. The result of correlation coefficient is always between -1 and +1. It is indicated by r. When r is +1, it means there is perfect relationship between two variables and vice-versa. When r = 0, it means there is no relationship between two variables. The compute formula is mentioned below: -

$$r = \frac{N\sum XY - \sum X \sum Y}{\sqrt{\left[N\sum X^2 - \left(\sum X\right)^2\right]}\sqrt{\left[N\sum Y^2 - \left(\sum Y\right)^2\right]}}$$

Where,

N = No. of observation

$\sum X$ = Sum of observation in series X

$\sum Y$ = Sum of observation in series Y

e) Probable Error

Probable error of the correlation coefficient is denoted by P.E. It is used for the testing the reliability of the calculated value of r. P.E. is defined by: -

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

Where,

P.E. = Probable Error

r = Correlation Coefficient

n = Number of Observation

f) 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 variables are repeated in the future or the past events affect the future events significantly. The future trend is forecasted by using the following formula: -

$$Y = a + b\,x$$

Where,

Y = The dependent variable

a = The region i.e. arithmetic mean

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

X = The independent variable

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

Presentation and analysis of data is the most important part in any research or dissertation. So, this chapter is said to be more effective and evaluative in the research process. Therefore analysis parts are presented in detail. Different required financial and statistical analysis which are related to the deposit mobilization are studied to evaluate and analyze the performance and condition of financial position of HBL and NIBL. Data are analyzed according to the figures in the table and mentioning the reasons of increasing and decreasing trend of the data.

4.1 Financial Analysis

Under this part of the study, the various financial ratios that are related to the collection and mobilization of the deposit of HBL and NIBL have been analyzed to meet the objectives of the study.

4.1.1 Collection of Deposit

The bank collects deposit from various sources. So under this, the sources and growth of deposit and the coverage of fund mobilization on total fund have been presented.

4.1.1.1 Deposit Collection Growth

Deposit is the major source of fund of each bank to run the business. So, the success of any financial institution also relies on the deposit collection increment. The deposit collection and the percentage change in deposit of NIBL and HBL have been presented in the Table 4.1.

Table 4.1

Deposit Collection Growth

(Rs in Thousands)

Fiscal Year	**HBL**		**NIBL**	
	Total Deposit	**% Change**	**Total Deposit**	**% Change**
2007/08	31842789	-	34451726	-
2008/09	34681345	8.91	46698100	35.55
2009/10	37611202	8.45	50094725	7.27
2010/11	40920627	8.80	50138122	0.09
2011/12	47730994	16.64	57010604	13.71
Mean	38557391	10.70	47678655	14.15
S.D.	6138908	5.89	8289825	14.69
C.V.%	15.92	55.05	17.39	103.80

Source: Annual Reports of HBL& NIBL (2007/08 to 2011/12) & Appendix I

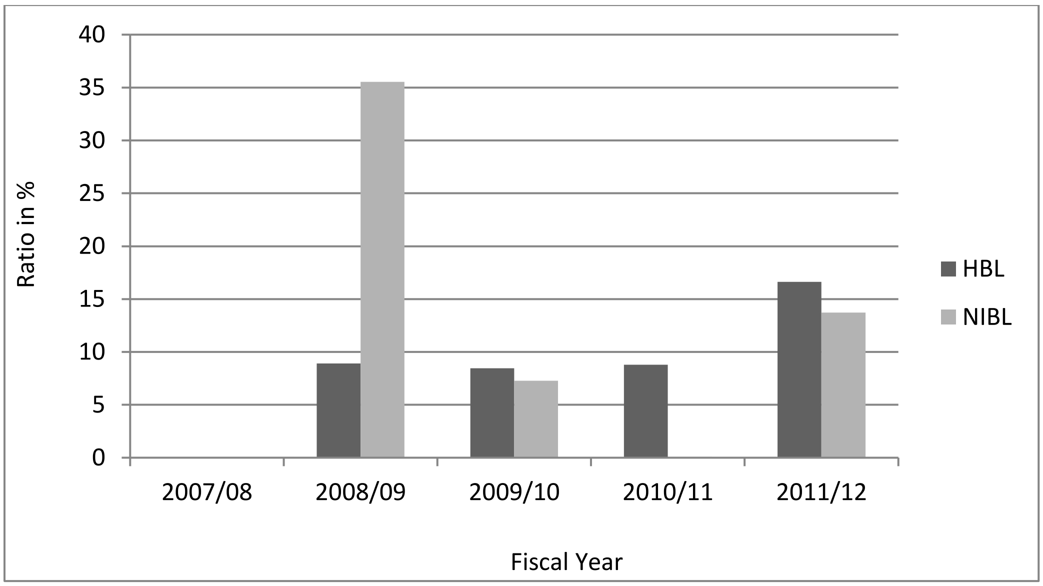
The above table has shown the deposit collection of the sampled banks and the percent change in the deposit collection in each year. The table has revealed that the deposit collection of HBL is in increasing trend. HBL has collected Rs. 31842789 thousands, Rs. 34681345 thousands, Rs. 37611202 thousands and Rs. 40920627 thousands and Rs. 47730994 thousands in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. In average, Rs. 38557391 thousands has been collected by HBL as deposit amount. The table has also depicted that the percentage change in deposit collection is highest (16.64%) in the fiscal year 2011/12 and lowest (8.45%) in the fiscal year 2009/10.

Similarly in HBL, the deposit collection amount of NIBL is also in increasing trend. NIBL has collected Rs. 34451726 thousands, Rs. 46698100 thousands, Rs. 50094725 thousands, Rs. 50128122 thousands and Rs. 57010604 thousands in the fiscal year 2007/08, 2008/09, 2009/1, 2010/11 and 2011/12 respectively. In average, Rs. 47678655 thousands has been collected as deposit amount by NIBL.

Comparing two banks, it can be concluded that NIBL is more successful than HBL in deposit collection, since the average deposit collection of NIBL (Rs. 47678655 thousands) is higher than that of HBL (Rs. 38557391 thousands). But, the deposit collection trend of HBL is more uniform than that of NIBL, since the C.V. on deposit collection of HBL (15.92%) is lower than that of NIBL (17.39%).

Figure 4.1

Deposit Collection Growth



4.1.1.2 Sources of Deposit Collection

The banks collect deposit from various sources. Mainly, current, savings and fixed deposit are the major sources of deposit collection. Besides them, margin, call and other deposit also play significnat role in deposit collection. The current, margin and other deposit collection are called non-interest bearing deposit, for which the bank does not have to pay interest to the deposit holders. While in contrast, savings, fixed and call deposit are called the interest bearing deposits. The sources of deposit collection of HBL and NIBL encompassing all the aforementioned deposits have been presented in the Table 4.2.

Table 4.2

Sources of Deposit Collection of HBL and NIBL

(Rs In Thousands)

Deposits	Fiscal Year					Mean	
	2007/08	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**Rs.**	**%**
HBL							
Current	4784216	3218225	3745624	3694249	4584233	4005309	81.83
Margin	645187	665173	946872	1219365	971296	889578.6	18.17
Other							
Non-Interest Bearing	**5429403**	**3883408**	**4692496**	**4913615**	**5555530**	**4894890**	**12.70**
Savings	17972440	20061047	16294680	15994563	21915374	18447621	54.80
Fixed	6423874	6377132	11328639	13507370	11866679	9900739	29.41
Call	2017072	4359766	5295389	6505078	8393410	5314143	15.79
Interest Bearing	**26413386**	**30797945**	**32918708**	**36007012**	**42175464**	**33662503**	**87.30**
Total Deposit	**31842789**	**34681345**	**37611202**	**40920627**	**47730994**	**38557391**	**100**
NIBL							
Current	3138669	3756570	4025820	4042693	6611306	4315012	85.55
Margin	607063	727990	648803	779475	871120	726890.2	14.41
Other							
Non-Interest Bearing	**3745732**	**4484561**	**4805294**	**4701496**	**7482426**	**5043902**	**10.58**
Savings	13688766	17066252	14324256	13490307	17276028	15169122	35.58
Fixed	7944232	11633380	16825148	18378300	20057476	14967707	35.11
Call	9072995	13513906	14140026	13568019	12194672	12497924	15.79
Interest Bearing	**30705994**	**42213539**	**45289431**	**45436626**	**49528177**	**42634753**	**89.42**
Total Deposit	**34451726**	**46698100**	**50094725**	**50138122**	**57010604**	**47678655**	**100**

(Source: Annual Reports of HBL & NIBL)

The table shows the deposit composition of HBL and NIBL during the study period 2007/08 to 2011/12. The table has revealed that the non interest bearing deposit of HBL is in fluctuating trend and interest bearing deposit along with the total deposit of HBL are in increasing trend. The non interest bearing deposit includes current deposit, margin deposit and other deposit. The average current deposit, margin deposit and other deposit of HBL is Rs. 4005309, thousands, Rs. 889578.6 thousands and Rs. 00.00 thousands respectively. And the interest bearing deposits comprise savings deposit, fixed deposit and call deposit. The average savings deposit, fixed deposit and call deposit of HBL is Rs. 18447621 thousands, Rs. 9900739 thousands and Rs. 5314143 thousands respectively. Out of the total deposit of HBL, 87.30% of total deposit is occupied by interest bearing deposit and remaining 12.70% by non interest bearing deposit. The saving deposit is the major source of deposit collection in HBL out of interest bearing deposit.

Similarly, in NIBL, both the interest bearing deposit and non-interest bearing deposit are in increasing trend. The non-interest bearing deposit is highest (Rs. 7482426 thousands) in the fiscal year 2011/12 and lowest (Rs. 3745732 thousands) in the fiscal year 2007/08. In average, NIBL has collected Rs. 5043902 thousands from non-interest bearing deposit; current, margin and other. Similarly, the interest bearing deposit is lowest (Rs. 30705994 thousands) in the fiscal year 2007/08 and highest (Rs. 49528177 thousands) in the fiscal year 2011/12. In average, Rs. 42634753 thousands has been collected from interest bearing deposit. Likewise saving deposit is the major source of deposit collection in NIBL. Out of total deposit of NIBL the interest-bearing deposit has dominated by 89.42% and remaining 10.58% form noninterest bearing deposit.

Comparing two banks, it can be concluded that interest bearing deposit is the major source of deposit in which savings deposit is the major source of interest bearing deposit in both HBL and NIBL.

4.1.2 Deposit Mobilization

The bank collects deposit to mobilize it in the income generating assets. So, effective mobilization of deposit is crucial for the sustainability of the banks.

4.1.2.1 Cash and Bank Balance to Total Deposit Ratio

To have sufficient liquidity to pay the current liabilities the bank needs to have adequate cash and bank balance. Thus, what percentage of total deposit of HBL and NIBL has been represented by cash and bank balance is measured in the table below.

Table 4.3

Cash and Bank Balance to Total Deposit Ratio

(Rs in Thousands)

Fiscal Year	HBL			NIBL		
	CBB	TD	Ratio (%)	CBB	TD	Ratio (%)
2007/08	1448143	31842789	4.55	3754942	34451726	10.90
2008/09	3048527	34681345	8.79	7918003	46698100	16.96
2009/10	3866490	37611202	10.28	6815890	50094725	13.61
2010/11	2964650	40920627	7.24	8140371	50138122	16.24
2011/12	6362296	47730994	13.33	11803751	57010604	20.70
Mean			8.84			15.68
S.D.			3.29			3.69
C.V.%			37.18			23.51

Source: Annual Reports of HBL& NIBL (2007/08 to 2011/12) & Appendix I

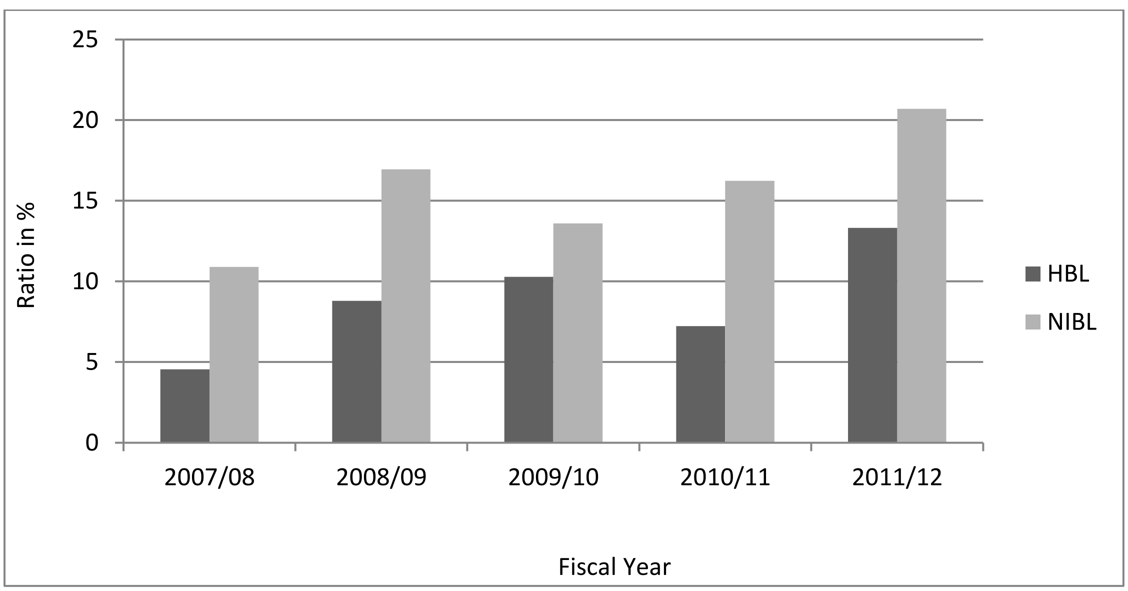
The above table illustrates the mobilization of total deposit to maintain cash and bank balance in order to have enough liquidity. The cash and bank balance in HBL is in fluctuating trend, along with the increasing total deposit. The cash and bank balance to total deposit ratio of HBL ranged from 4.55% in the fiscal year 2007/08 to 13.33% in the fiscal year 2011/12. In average, 8.84% of the total deposit collection has been mobilized in maintaining cash and bank balance by HBL. The standard deviation and coefficient of variation in such ratio are 3.29% and 37.18% respectively.

So on, the cash and bank balance to total deposit in NIBL also is in fluctuating trend. The ratio has ranged from 10.90 % in the fiscal year 2007/08 to 20.40 % in the fiscal year 2011/12 in NIBL. In average, NIBL has mobilized 15.68 % of the total deposit to maintain cash and bank balance. The coefficient of variation and standard deviation on the ratio are 3.69% and 23.51% respectively.

Comparing two banks on the basis of cash and bank balance to total deposit, it can be concluded that NIBL (15.68%) has mobilized higher portion of total deposit in maintaining cash and balance than HBL (8.84%) does in order to have sufficient liquidity position.

Figure 4.2

Cash and Bank Balance to Total Deposit Ratio



4.1.2.2 Cash Reserve Ratio

Each bank has to operate its activities as per the direction set out by Nepal Rastra Bank. According to the directives of NRB, the cash balance at NRB should be 5%

of the total local deposit in the fiscal year 2007/08, and 2010/11, 5.5% in fiscal year 2008/09 & 2009/10 and 6.5% in the fiscal year 2011/12. Thus, cash reserve ratio measures, whether the bank has effectively mobilized the local deposit to implement the NRB directives.

Table 4.4

NRB Balance to Total Local Deposit Ratio (CRR)

(Ratio in %)

Fiscal Year	NRB Requirement %	HBL	NIBL
2007/08	5	5.13	10.91
2008/09	5.5	6.67	10.32
2009/10	5.5	6.67	7.77
2010/11	5	5.75	7.67
2011/12	6	8.72	13.6
Mean		6.59	10.05
S.D.		1.36	2.46
C.V.%		20.63	24.50

Source: Annual Reports of HBL& NIBL (2007/08 to 2011/12) & Appendix I

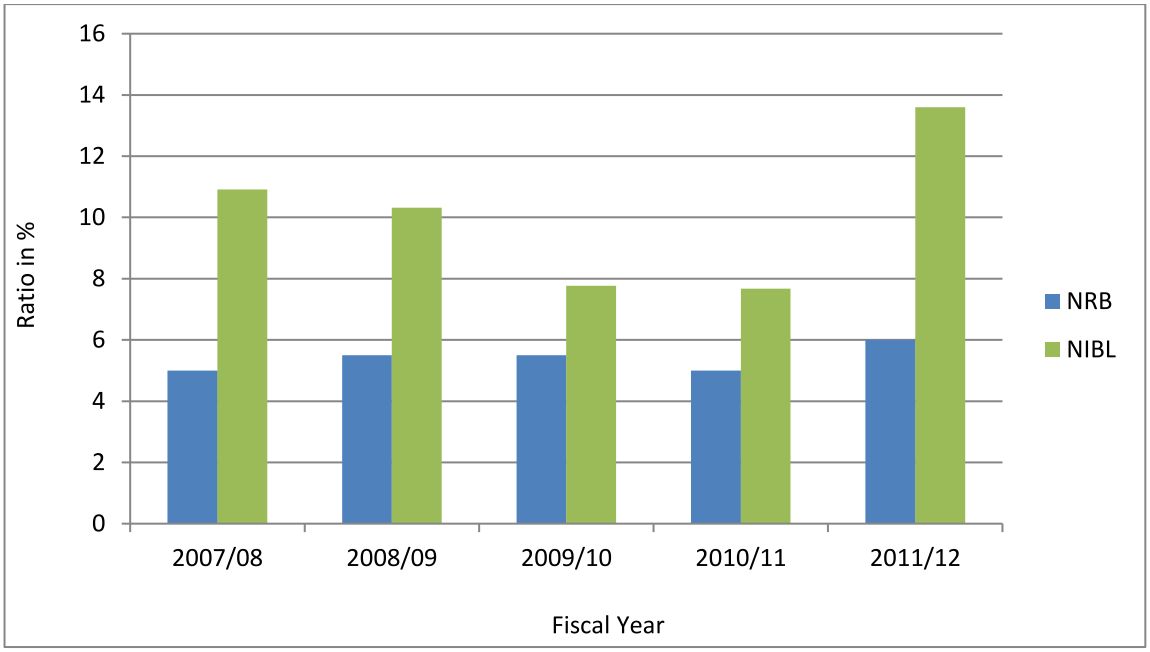
The above table depicted the cash reserve ratio of the sampled banks. The table showed that the CRR maintained by HBL is in fluctuating trend for during the study period, i.e. ranged from 5.13% in the fiscal year 2007/08 to 8.72% in the fiscal year 2011/12. The cash reserve ratio indicated that the liquidity position of HBL is quite good, since the ratio is greater than the ratio directed by NRB in each fiscal year of study.

Similarly, the CRR in NIBL is in decreasing trends except in fiscal year 2011/12 and ranged from 7.67% in the fiscal year 2010/11 to 13.60% in the fiscal year 2011/12. In average, NIBL maintained 10.05% as the cash reserve ratio. The table depicted that NIBL able to meet the standard set by NRB for CRR in all the fiscal year.

It can be concluded that the liquidity position of NIBL is satisfactory than that of HBL. But, the liquidity policy adopted by HBL is more stable than that of NIBL.

Figure 4.3

Cash Reserve Ratio



4.1.2.3 Loan and Advances to Total Deposit Ratio

Bank grants loan and advances to gain interest income, which is the main source of income. To examine what portion of the total deposit has been mobilized by HBL and NIBL, the loan and advances to total deposit ratio has been computed.

Table 4.5

Loan and Advances to Total Deposit Ratio

(Rs. In Thousands)

FY	HBL			NIBL		
	LA	**TD**	**Ratio**	**LA**	**TD**	**Ratio**
2007/08	19497520	31842789	61.23	26996652	34451726	78.36
2008/09	24793155	34681345	71.49	36241207	46698100	77.61
2009/10	27980629	37611202	74.39	40318308	50094725	80.48
2010/11	31566976	40920627	77.14	41095514	50138122	81.96
2011/12	34965434	47730994	73.26	41636999	57010604	73.03
Mean			71.50			78.29
S.D.			6.10			3.41
C.V.%			8.53			4.35

Source: Annual Reports of HBL& NIBL (2007/08 to 2011/12) & Appendix I

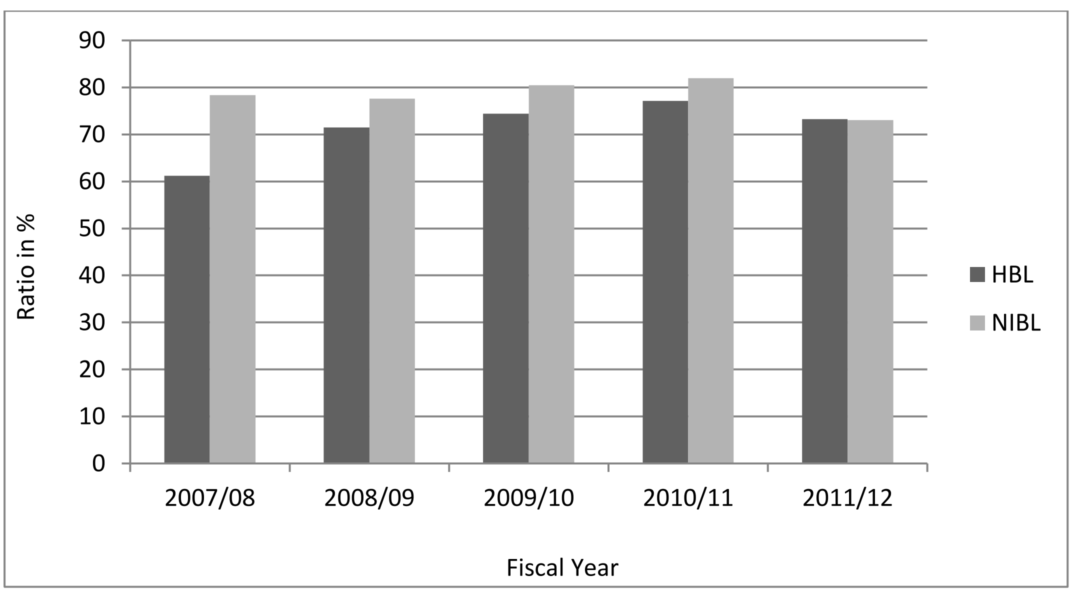
The above table shows the loan and advances to total deposit of HBL and NIBL. The table depicts that the ratio of loan and advances to total deposit of HBL is in increasing trend during the periods except year 2011/12, i.e. 61.23% in the fiscal year 2007/08 and has increased to 77.17% in the fiscal year 2010/11. In average, HBL has mobilized 71.50% of the total deposit in granting loans and advances.

Similarly, the loan and advance to total deposit ratio in NIBL in fluctuating trend during the study period. The ratio is lowest, 73.03%, in the fiscal year 2011/12 and highest, 81.96%, in the fiscal year 2010/11. In average, 78.29% of the total deposit has been mobilized in providing loans and advances and the coefficient of variation on such ratio is 4.35% only.

From the above analysis, it can be concluded that NIBL is aggressive then HBL in mobilizing the total deposit in loans and advances. Further, the variability in the ratio is more consistent in NIBL than in HBL.

Figure 4.4

Loan and Advances to Total Deposit Ratio



4.1.2.4 Investment to Total Deposit Ratio

The banks mobilizes its deposit collection in investment in various sectors like government securities, corporate shares and debentures and others like certificate of deposit, mutual fund to earn interest, dividend and capital gain. The mobilization of total deposit in investment of HBL and NIBL has been presented in the Table 4.6.

Table 4.6

Investment to Total Deposit Ratio

(Rs. In Thousands)

Fiscal Year	HBL			NIBL		
	Investment	Total Deposit	Ratio	Investment	Total Deposit	Ratio
2007/08	13340177	31842789	41.89	6874024	34451726	19.95
2008/09	8710691	34681345	25.12	7399812	46698100	15.85
2009/10	8444910	37611202	22.45	8635530	50094725	17.24
2010/11	8769939	40920627	21.43	7423106	50138122	14.81
2011/12	10031580	47730994	21.02	10438487	57010604	18.31
Mean			26.38			17.23
S.D.			8.82			2.02
C.V.%			33.42			11.74

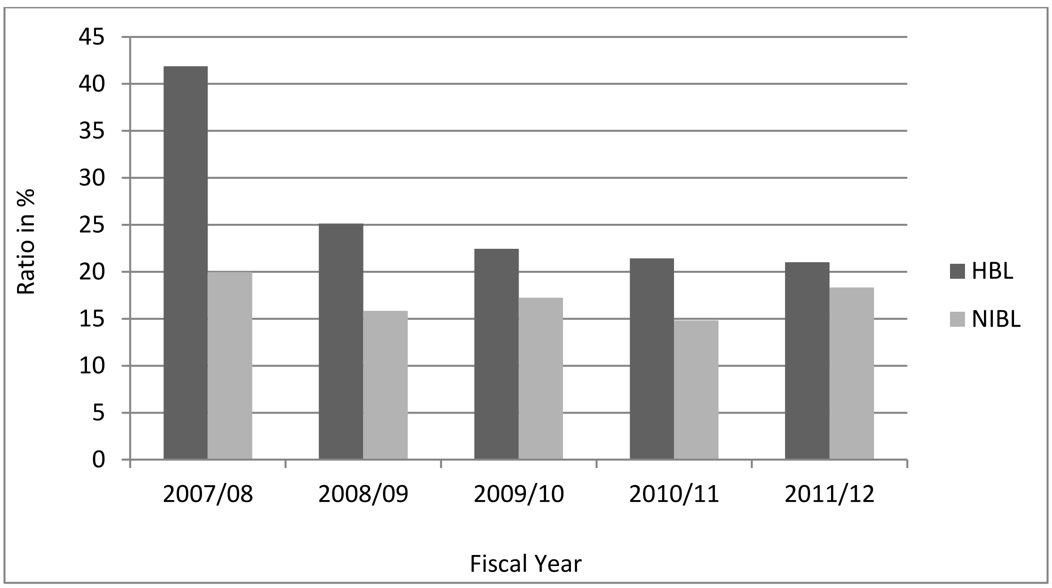
Source: Annual Reports of HBL& NIBL (2007/08 to 2011/12) & Appendix I

The above table shows the investment to total deposit ratio of HBL and NIBL. The above table depicts that the mobilization of total deposit in investment of HBL has decreasing during the periods. The investment to total deposit of HBL has ranged from 21.02% in the fiscal year 2011/12 to 41.89% in the fiscal year 2007/08. In average, 26.38% of the total deposit has been mobilized in investment. The coefficient of variation on such ratio is 33.42%.

In contrast to HBL, the ratio in NIBL is in fluctuating trend. The ratio is 19.95% in the base year 2007/08, and then is 15.85%, 17.24%, 14.81% and 18.31%in the fiscal year 2008/09, 2009/10, 2010/11 and 2011/12 respectively. In average, 17.23% of the total deposit disbursed as investment. In addition, the coefficient of variation of 2.02% indicates highly consistency in the ratio. Comparing two banks, it can be concluded that the mobilization of total deposit in investment is greater in HBL (26.38%) than in NIBL (17.23%) so on, the ratio is more consistent in NIBL (C.V. = 2.02%) than in HBL (C.V. = 8.82%).

Figure 4.5

Investment to Total Deposit Ratio



4.1.2.5 Current Deposit to Total Deposit Ratio

Current deposit includes only the amount of current deposit account. It is no interest bearing account. Generally, short-term deposit is not beneficial to the bank, as it cannot be invested on long-term basis. Therefore lower ratio shows higher short-term liquidity position of the bank.

Table 4.7

Current Deposit to Total Deposit Ratio

(Rs. In Thousands)

Fiscal Year	HBL			NIBL		
	CD	TD	Ratio	CD	TD	Ratio
2007/08	4784216	31842789	15.02	3138669	34451726	9.11
2008/09	3218225	34681345	9.28	3756570	46698100	8.04
2009/10	3745624	37611202	9.96	4025820	50094725	8.04
2010/11	3694249	40920627	9.03	4042693	50138122	8.06
2011/12	4584233	47730994	9.60	6611306	57010604	11.60
Mean			10.58			8.97
S.D.			2.51			1.54
C.V.%			23.72			17.15

Source: Annual Reports of HBL& NIBL (2007/08 to 2011/12) & Appendix I

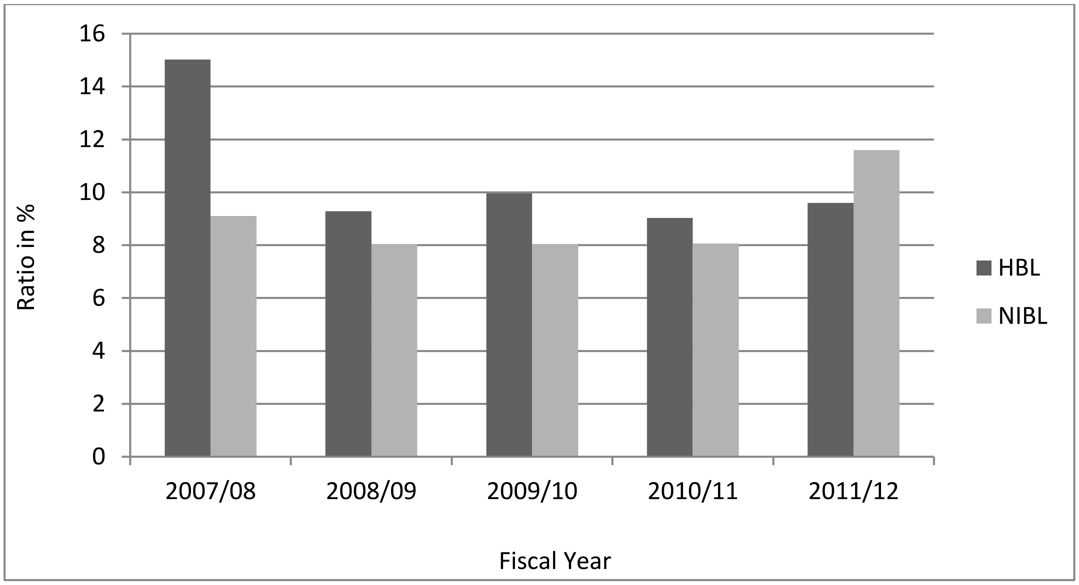
The above table shows the ratio of current deposit to total deposit of HBL and NIBL. In current deposit bank does not give any interest. But bank gives any time money and overdraft facilities to the beliefs person or depositors. The table depicted that the ratio is in fluctuating trend during the study period in HBL. The ratio ranged from 9.03% in the fiscal year 2010/11 to 15.02% in the fiscal year 2007/08. In average, 10.58% of the total deposit is collected from current accounts and the coefficient of variation in the ratio is 23.72%.

Similarly, the ratio is in fluctuating trend in NIBL. The ratio is highest, 11.60%, in the fiscal year 2011/12 and lowest, 8.04%, in the fiscal year 2008/09 and 2009/10. Within the five year periods, NIBL collected 8.97% of the total deposit through current account in average, and the coefficient of variation in the ratio is 17.15%.

On the basis of current deposit to total deposit, it can be concluded that HBL requires more liquidity than NIBL to meet the demand of current deposit holders, since the ratio of current deposit to total deposit of HBL is higher than NIBL.

Figure 4.6

Current Deposit to Total Deposit Ratio



4.1.2.6 Fixed Deposit to Total Deposit Ratio

Fixed deposit accounts means an account of amount deposited in a bank for a certain period of time .A person can renew the fixed deposit account after the expiry of the fixed time period. The rate of interest in the fixed deposit is higher than that of other deposit accounts. The higher the proportion of fixed deposits, the lower the proportion of current, saving or short-term deposit in the total deposit. This situation shows higher short-term liquidity position of the bank. The following table shows the fixed deposit position and percentage of fixed deposit with comparison to the total deposit.

Table 4.8

Fixed Deposit to Total Deposit Ratio

(Rs. In Thousands)

Fiscal Year	HBL			NIBL		
	Fixed Deposit	Total Deposit	Ratio	Fixed Deposit	Total Deposit	Ratio
2007/08	6423874	31842789	20.17	7944232	34451726	23.06
2008/09	6377132	34681345	18.39	11168711	46698100	23.92
2009/10	11328636	37611202	30.12	16825148	50094725	33.59
2010/11	13507370	40920627	33.01	18378300	50138122	36.66
2011/12	11866679	47730994	24.86	20057476	57010604	35.18
Mean			25.31			30.48
S.D.			6.26			6.48
C.V.%			24.75			21.26

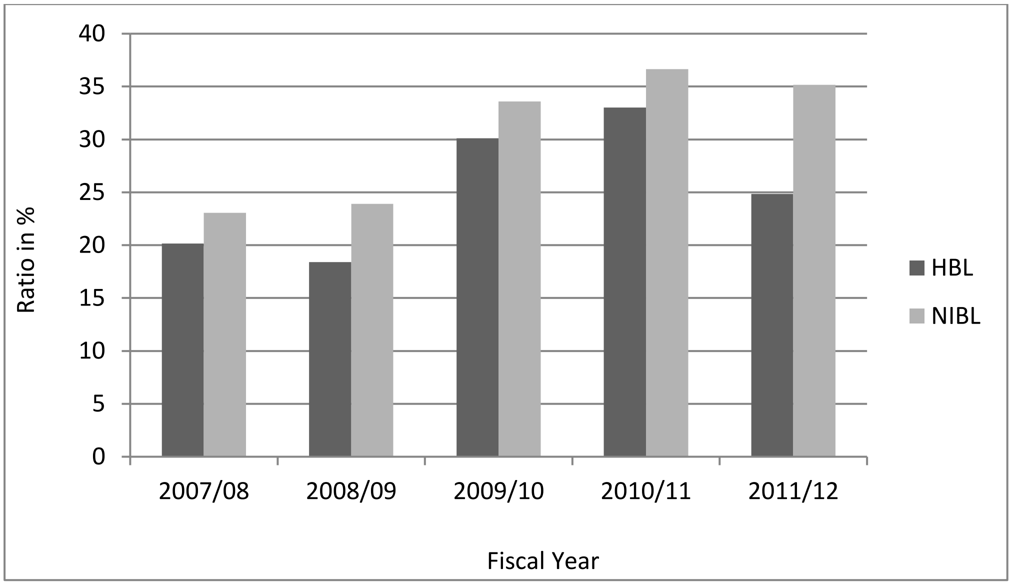
Source: Annual Reports of HBL& NIBL (2007/08 to 2011/12) & Appendix I

The above table shows the fixed deposit to total deposit ratio of HBL and NIBL during the five fiscal year period. The above table showed that the ratios of fixed deposit to total deposit of HBL are in fluctuating trend. The ratios are 20.17%, 18.39%, 30.12%, 33.01% and 24.86% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. In an average 25.31% of the deposit is collected through fixed deposit amount by HBL and the coefficient of variation in the ratio is 24.75%. Likewise, the fixed deposit to total deposit ratio of NIBL is also found to be in fluctuating trend. The ratio is highest, 36.66%, in the fiscal year 2010/11 and lowest, 23.06%, in the fiscal year 2007/08. In average, 30.48% of the deposit collection of NIBL came from fixed deposit amount.

Form the above analysis on the basis of fixed deposit to total deposit ratio, it can be concluded that the ratio is higher in NIBL then HBL.

Figure 4.7

Fixed Deposit to Total Deposit Ratio



4.1.2.7 Saving Deposit to Total Deposit Ratio

The deposit in saving account has also become one of the vital features of commercial banks. The saving account holder doesn't have the same facility of withdrawn money as the current account holders. If the customer wants to withdraw more money from the bank, in this situation they can withdraw the amount according to their need.

Table 4.9

Saving Deposit to Total Deposit Ratio

(Rs. In Thousands)

Fiscal Year	HBL			NIBL		
	Saving Deposit	Total Deposit	Ratio	Saving Deposit	Total Deposit	Ratio
2007/08	15784769	31842789	49.57	13688766	34451726	39.73
2008/09	17972441	34681345	51.82	17066252	46698100	36.55
2009/10	20061047	37611202	53.34	14324255	50094725	28.59
2010/11	16294680	40920627	39.82	13490307	50138122	26.91
2011/12	15994564	47730994	33.51	17276028	57010604	30.30
Mean			45.61			32.42
S.D.			8.57			5.48

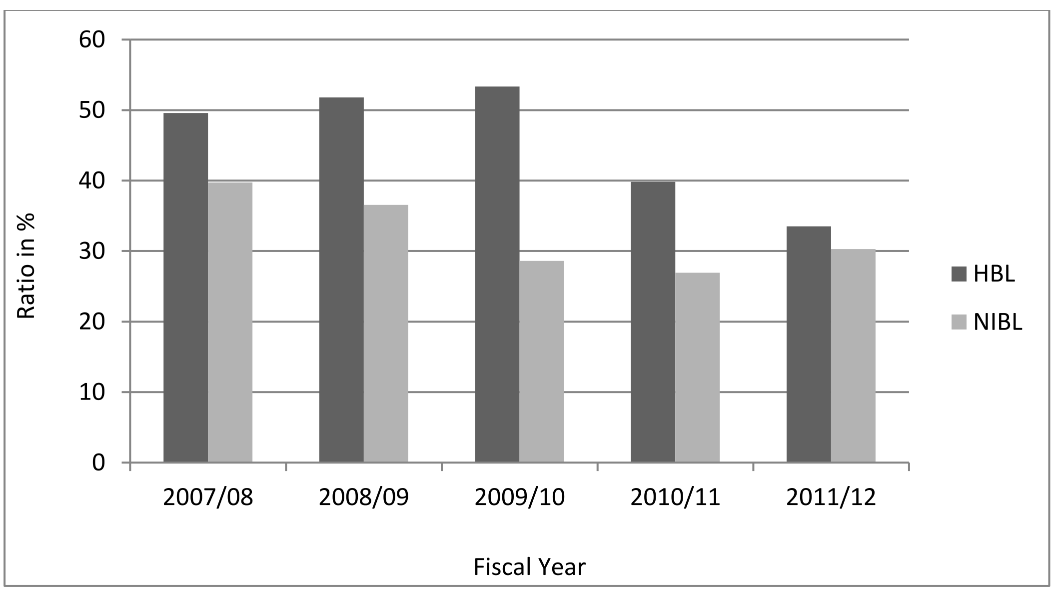
C.V.%			18.79			16.90

Source: Annual Reports of HBL& NIBL (2007/08 to 2011/12) & Appendix I

The above table indicates that the amount deposited in saving account of HBL and NIBL form the fiscal year 2007/08 to 2011/12. The above table shows the fluctuating trend of saving deposit in the part of increasing trends of total deposit in both of the banks. The saving deposit to total deposit of HBL follows fluctuating trends and ranged from 33.51% in fiscal year 2011/12 to 53.34% in the fiscal year 2009/10. The average saving to total deposit of HBL is 45.61% with 18.79% of coefficient of variation of the ratio. Similarly, the saving deposit to total deposit ratio of NIBL also in fluctuating trends. The ratios are 39.73%, 36.55%, 28.59%, 26.91% and 30.30 in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The average collection of saving deposit on total deposit of NIBL is 32.42%. On the basis of saving to total deposit HBL collect higher saving deposit then NIBL.

Figure 4.8

Saving Deposit to Total Deposit Ratio



4.1.2.8 Interest Expenses on Total Deposit Ratio

This ratio measures what percent of the total deposit has been paid to the deposit holders in paying the interest. The lower the ratio is considered better. The interest expenses on deposit ratio of HBL and NIBL has been presented in Table 4.11.

Table 4.10

Interest Expenses on Deposit Ratio

(Rs. In Thousands)

Fiscal Year	HBL			NIBL		
	IED	TD	Ratio	IED	TD	Ratio
2007/08	823745	31842789	2.59	992158	34451726	2.88
2008/09	934778	34681345	2.70	1686973	46698100	3.61
2009/10	1553530	37611202	4.13	2553847	50094725	5.10
2010/11	2414807	40920627	5.90	3620337	50138122	7.22
2011/12	2816441	47730994	5.90	3814411	57010604	6.69
Mean			4.24			5.10
S.D.			1.63			1.88
C.V.%			38.45			36.90

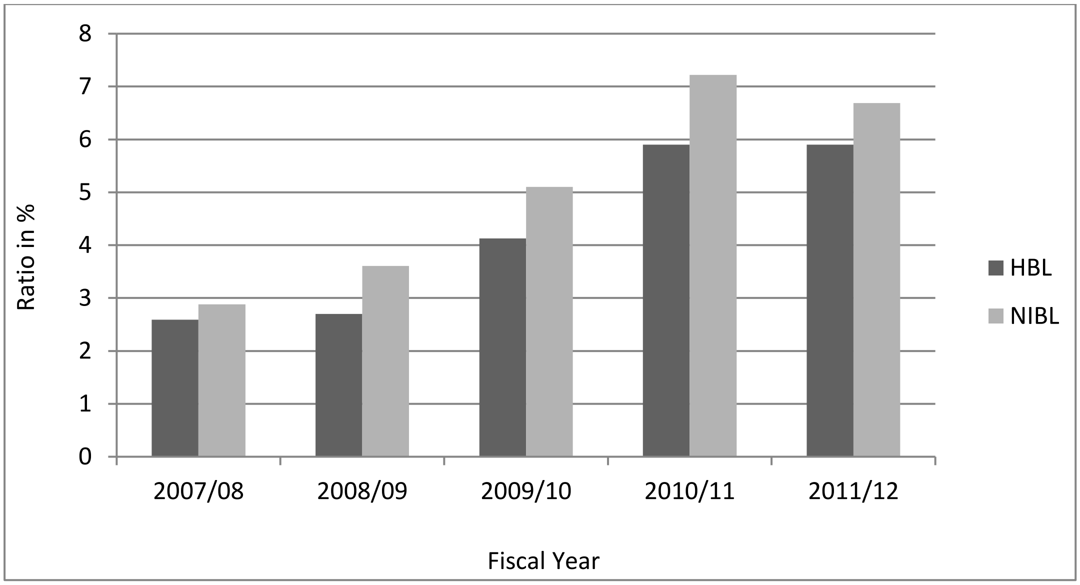
Source: Annual Reports of HBL& NIBL (2007/08 to 2011/12) & Appendix I

The table has depicted the interest expenses incurred by the HBL and NIBL in relation to the deposit collection in the fiscal year 2007/08 to 2011/12. The table shows that HBL has been increasing trend the interest expenses in deposit to total deposit in each year. In average, HBL has incurred 4.24 % of the total deposit as interest expenses. So on the ratio in NIBL also is in increasing trend except in final fiscal year. The ratio is 2.88% in the fiscal year 2007/07, which has increased to 7.22% in the final fiscal year 2010/11. In average, the interest expense has represented 5.10% of the total deposit collection in NIBL and the coefficient of variation in such ratio is 36.90% indicates inconsistency in the ratio.

Comparing two banks on the basis of interest on total deposit to total deposit ratio, it can be concluded that HBL (4.24%) is more successful than NIBL (5.10%) to significantly reduce the interest expenses in relation to the total deposit.

Figure 4.9

Interest Expenses on Deposit Ratio



4.1.3 Profitability Ratio

Profitability ratio indicates the degree of success in achieving desired profit. This ratio measures how effectively the company manages its fund to earn profit. This ratio is regarded as the most essential element for the commercial bank growth and survival. Profitability ratios are the measurement of effectiveness. So with the help of these ratios, one decides whether to invest in a particular firm or not. Profit is the difference between total revenue & total expense over a period of time. Profitability ratios are used to indicate the overall efficiency of the fir. There are many measures of profitability. Higher degree of profitability ratio shows better financial position & performance to the firms.

4.1.3.1 Net Profit Margin

Net profit mean net profit divided by net revenues, often expressed as a percentage. This number is an indication of how effective a company is at cost control. The higher the net profit margin is, the more effective the company is at converting revenue into actual profit.

Table 4.11

Net Profit Margin

(Ratio in %)

Fiscal Year	HBL	NIBL
2007/08	41.58	26.4
2008/09	39.96	24
2009/10	22.13	23.9
2010/11	25.46	18.2
2011/12	24.65	15.5
Mean	30.76	21.60
S.D.	9.24	4.55
C.V.	30.05	21.07

Source: Annual Reports of HBL& NIBL (2007/08 to 2011/12) & Appendix I

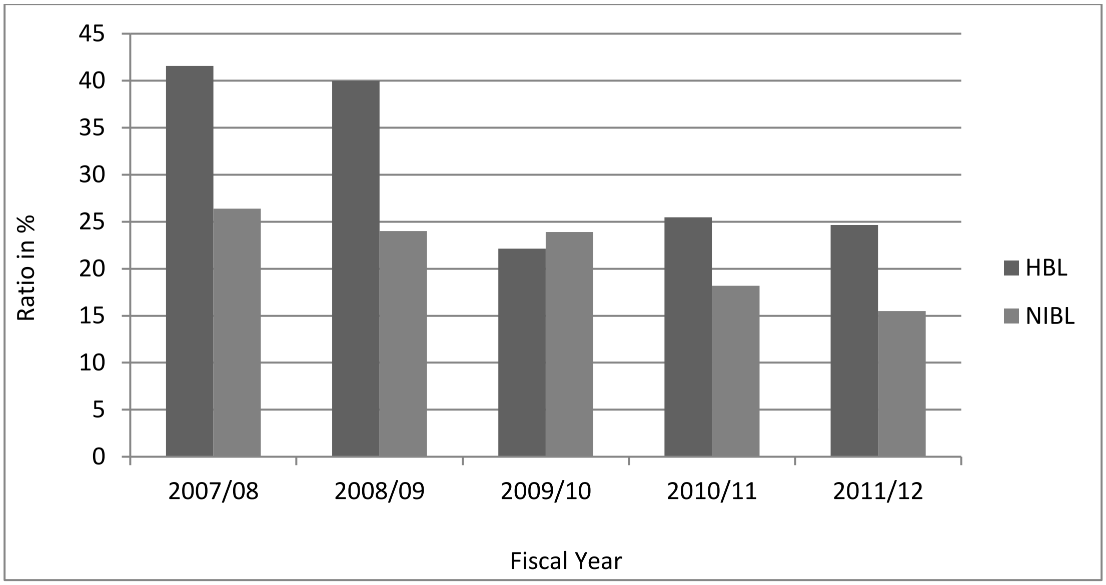
The above table shows the net profit margin of the HBL and NIBL. The table showed that the net profit margin of HBL is in fluctuating trend. The net profit margin ratio of HBL is ranged from 22.13% in the fiscal year 2009/10 to 41.58% in the fiscal year 2007/08. In average, the net profit margin of HBL is 30.76% and the coefficient of variation in the ratio is 30.05%.

Likewise, the net profit margin of NIBL is in decreasing trend during the study period i.e. 24% in the fiscal year 2007/08 then decreased to 15.50% in the fiscal year 2011/12. In average, NIBL is able to kept 21.60% as the net profit margin.

The above analysis shows that HBL (30.76%) is more successful than NIBL (21.60) in controlling the operating and other non operating cost; as a result their net profit margin is higher.

Figure 4.10

Net Profit Margin



4.1.3.2 Net Profit after Tax to Total Deposit Ratio

This ratio measures the efficiency of bank in mobilizing the total deposit to achieve net profit. The higher the ratio is considered better. This ratio delineates what percentage of the total deposit has been represented by net profit. The net profit after tax to total deposit of HBL and NIBL has been presented in the Table 4.12.

Table 4.12

Net Profit after Tax to Total Deposit Ratio

(Rs. In Thousands)

Fiscal Year	HBL			NIBL		
	NPAT	TD	Ratio	NPAT	TD	Ratio
2007/08	635869	31842789	2.00	696732	34451726	2.02
2008/09	752835	34681345	2.17	900619	46698100	1.93
2009/10	508798	37611202	1.35	1265949	50094725	2.53
2010/11	892115	40920627	2.18	1176641	50138122	2.35
2011/12	958638	47730994	2.01	1039276	57010604	1.82
Mean			1.94			2.13
S.D.			0.34			0.30
C.V.%			17.53			13.91

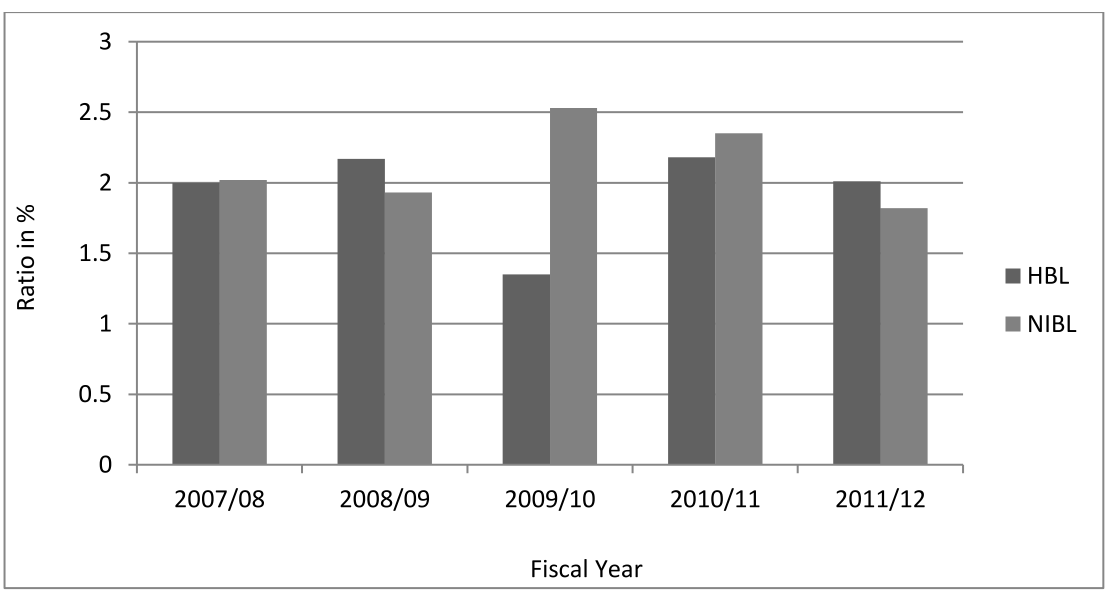
Source: Annual Reports of HBL& NIBL (2007/08 to 2011/12) & Appendix I

The above table indicates that the net profit to total deposit ratio of HBL has been found to be in fluctuating trend. . The net profit to total deposit of HBL in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 is 2.00%, 2.17%, 1.35%, 2.18 % and 2.01% respectively. In average, the net profit to total deposit is 1.94% within the five years period and the coefficient of variation in such ratio is 17.53%. Similarly, the table has verified that the net profit to total deposit ratio of NIBL has been found to be in fluctuating trend. The ratio ranged from 1.93% in the fiscal year 2008/09 to 2.53% in the fiscal year 2009/10. The average net profit to total deposit ratio is 2.13% and the coefficient of variation in the ratio is 13.91%, indicating consistency.

Comparing two banks on the basis of return on total deposit, it can be concluded that the NIBL is more efficient than HBL in converting deposit collection into net profit. Also, it can be conclude that with per Rs. 100 deposit collection, HBL makes Rs. 1.94 net profit, and NIBL makes Rs. 2.13 net profit.

Figure 4.11

Net Profit after Tax to Total Deposit Ratio



4.1.3.3 Return on Net Worth

This ratio shows the capacity of the banks to utilize its owner's fund. It helps to judge whether the company has earned satisfactory return for its shareholders or not. Higher ratio represents the sound management and efficient mobilization of owner's equity. This ratio is thus a great interest to present as well as prospective shareholders and a great concern to management.

Table 4.13

Return on Net Worth

(Rs. In Thousands)

Bank	HBL			NIBL		
Fiscal Year	NPAT	Net Worth	Ratio (%)	NPAT	Net Worth	Ratio (%)
2007/08	635869	2513004	25.30	696732	2686786	25.93
2008/09	752835	3119835	24.13	900619	3907840	23.05
2009/10	508798	3628640	14.02	1265949	4585393	27.61
2010/11	892115	3995400	22.33	1176641	5159760	22.80
2011/12	958638	4632000	20.70	1039276	6049941	17.18
Mean			21.30			23.31
S.D.			4.43			3.98
C.V.			20.79			17.06

Source: Annual Reports of HBL& NIBL (2007/08 to 2011/12) & Appendix I

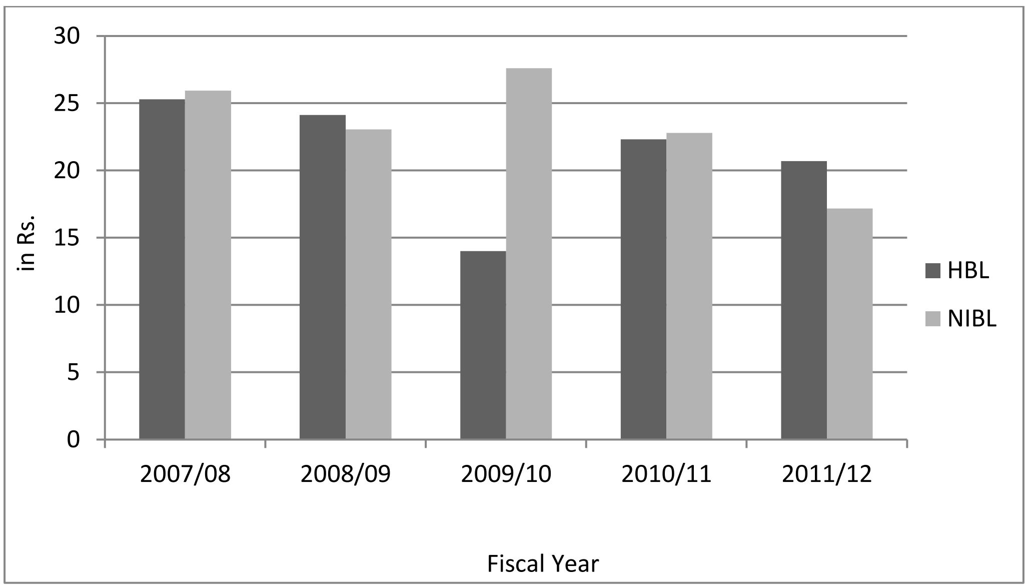
The above table exhibits the return of equity of sampled banks during the fiscal year 2006/07 to 2010/11. The above table shows that the return on shareholders' equity of HBL is in fluctuating trends during the periods taken for research. The ratio is lowest in the fiscal year 2009/10 i.e.14.02% and highest in the fiscal year 2007/08 i.e. 25.30%. The table shows that HBL generated 21.74% of shareholders' equity as net profit in average.

Similarly, the ratio in NIBL fluctuated during the period and ranged from 22.80% in the fiscal year 2010/11 to 27.60% in the fiscal year 2009/10. In average, the shareholders' of NIBL received 25.22% return from their investment.

From the above analysis it can be conclude that the return on equity ratios of NIBL (25.22%) is higher than that of HBL (21.74%) and there is more consistency in the ratio of NIBL than of NIBL.

Figure 4.12

Return on Net Worth



4.1.3.4 Return on Total Assets Ratio (ROA)

Return on equity establishes the relationship between net profit after tax and shareholder's equity. This ratio judges the effectiveness in using the total fund supplied by the owners and creditors. Higher ratio shows the higher return on the assets used in the business thereby, indicating effective use of the resources available and vice-versa. This ratio helps the management in identifying the factors that have a bearing on overall performance of the firm. Higher return on total assets indicates the higher efficiency in the utilization of total assets and vice-versa.

Table 4.14

Return on Total Assets

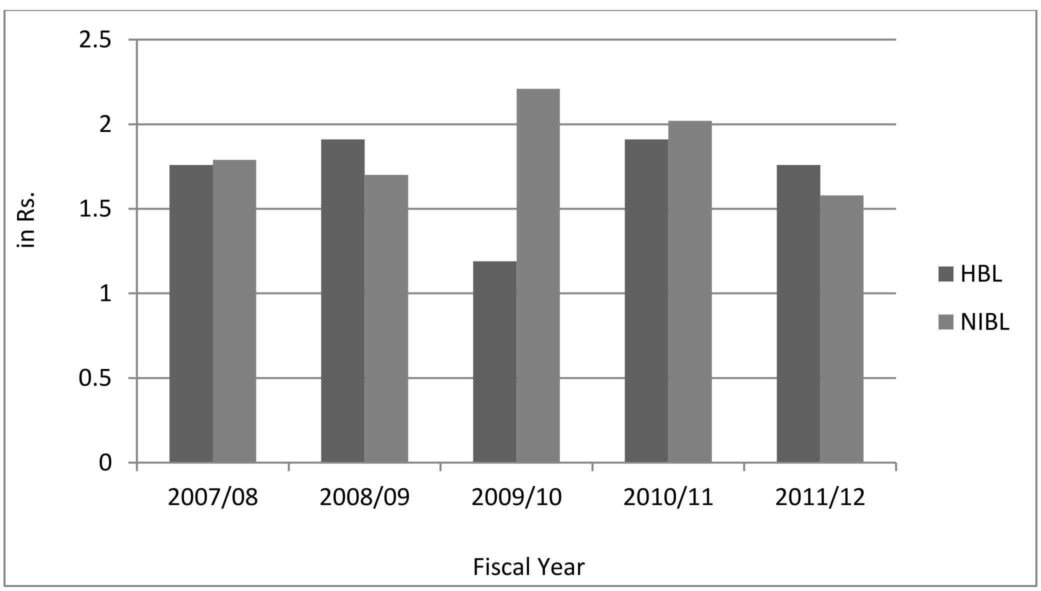
(Rs. In Thousands)

Bank	HBL			NIBL		
Fiscal Year	**NPAT**	**Total Assets**	**Ratio (%)**	**NPAT**	**Total Assets**	**Ratio (%)**
2007/08	635869	36175531	1.76	696732	38873306	1.79
2008/09	752835	39320322	1.91	900619	53010803	1.70
2009/10	508798	42717124	1.19	1265949	57305413	2.21
2010/11	892115	46736204	1.91	1176641	58356827	2.02
2011/12	958638	54364428	1.76	1039276	65756232	1.58
Mean			1.71			1.86
S.D.			0.30			0.25
C.V.			17.47			13.58

Source: Annual Reports of HBL& NIBL (2007/08 to 2011/12) & Appendix I

Figure 4.13

Return on Total Assets



The above table and figure shows the return on total assets of HBL and NIBL. The above table depicts that the return of total assets of HBL is in fluctuating trends during the study period. The ratio stared form 1.47% in 2006/07 and moved to 1.91% in the final fiscal year 2010/11. In average, the HBL generated 1.65% of its total assets investment as net profit. Similarly, the ratio followed fluctuated trend in NIBL, i.e. from 1.82% in the fiscal year 2006/07 decreased to 1.70% in the fiscal year 2008/09, and eventually increased to 2.21% in the fiscal year 2009/10 and finally decreased to 2.02% in final year. NIBL converted 1.91% of its total assets in net profit in average with 10.74% coefficient of variation.

Comparing the return on assets of HBL and NIBL, the return on assets of NIBL (1.91%) is higher than that of HBL (1.65) which clearly indicated that NIBL is more successful in generating profit from the investment in total assets than HBL.

4.1.3.5 Earnings per Share (EPS)

Earnings per share measure the profit available to the each equity holders. EPS does not indicate how many dividends are being paid on each share. It only measures the overall operational efficiency of the bank. It is the profit after tax figure that is dividend by the number of common shares to calculate the value of earnings per share. This figure tells us what profit the common shareholders for every share held have earned.

Table 4.14

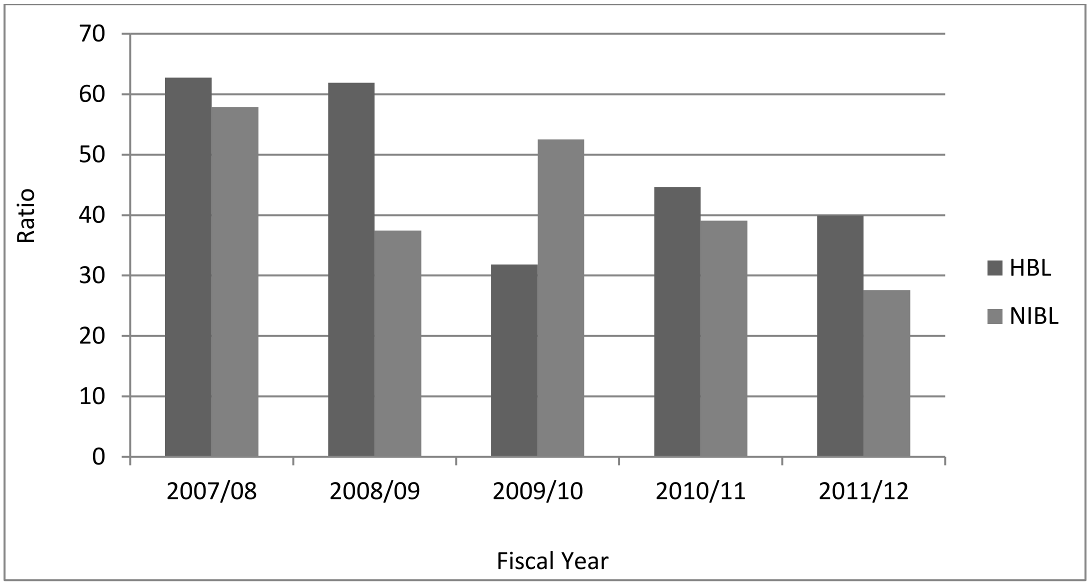
Earnings per Share

Bank	**HBL**			**NIBL**		
Fiscal Year	**No of Shares**	**EAC**	**Ratio (Rs.)**	**No of Shares**	**EAC**	**Ratio (Rs.)**
2007/08	10135125	635877743	62.74	12039154	696705842	57.87
2008/09	12162150	752837085	61.90	24070689	900725182	37.42
2009/10	16000000	508800000	31.80	24090977	1265980841	52.55
2010/11	20000000	893200000	44.66	30113721	1176603317	39.07
2011/12	24000000	958560000	39.94	37661553	1039458863	27.60
Mean			48.21			42.90
S.D.			13.68			12.21
C.V.			28.38			28.45

Source: Annual Reports of HBL& NIBL (2007/08 to 2011/12) & Appendix I

Figure 4.14

Earnings per Share



The above table and figure shows an analysis of earnings per share of sampled years of HBL and NIBL. The earnings per share of HBL is in fluctuating trends. The earnings per share of HBL are Rs.60.66, Rs. 62.74, Rs.61.90, Rs. 31.80 and Rs.44.16 in the fiscal year 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 respectively where as the ratios of NIBL also is in fluctuating trends . The ratio ranged from Rs. 37.42 in the fiscal year 2008/09 to Rs. 62.57 in the fiscal year 2006/07. Higher average ratio indicates that HBL is able to earn more profit per share to the common shareholders than that of NIBL, EPS has been criticizes as the measure of profitability, because it does not considered the amount of asset of capital required to generate that level of earning.

4.2 Statistical Analysis

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

4.2.1 Correlation Analysis

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

4.2.1.1 Correlation Analysis between Loan & Advances and Total Deposit

Let the dependent variable, loan and advances be denoted by denoted by Y and the independent variable, total deposit be denoted by X. Then the correlation between these two variables of HBL and NIBL has been presented in the following table.

Table 4.16

Correlation Analysis between Loan and Advances and Total Deposit

(Rs. In Thousands)

Fiscal Year /Bank	HBL		NIBL	
	Loan and Advances	**Total Deposit**	**Loan and Advances**	**Total Deposit**
2007/08	19497520	31842789	26996652	34451726
2008/09	24793155	34681345	36241207	46698100
2009/10	27980629	37611202	40318308	50094725
2010/11	31566976	40920627	41095514	50138122
2011/12	34965434	47730994	41636999	57010604
Correlation Coefficient (r)	0.9645		0.9587	
Coefficient of Determination (r2)	0.9303		0.9191	
Probable Error (P.E)	0.0210		0.0244	
6 × P. E.	0.1262		0.1464	
Remarks	Significant		Significant	

Source: Annual Reports of HBL& NIBL (2007/08 to 2011/12) & Appendix II

The above table measures the relationship between loan & advances and deposit of HBL and NIBL. The table shows that the correlation coefficient between loan & advances and total deposit is 0.9645 in HBL and 0.9587 in NIBL. This perfect correlation between loan & advances and total deposit in each bank indicates that with the increment/decrement in total deposit, the loan and advances of each bank increases/decreases.

Further the coefficient of determination of 0.9303 in HBL and 0.9191 in NIBL indicates that 93.03% change in loan and advances of HBL and 91.91% change in loan and advances of NIBL is explained by change in total deposit of respective banks. Similarly, since the value of ‘r’ is greater than the 6 P.E. of HBL (r = 0.9645 > 6 P.E. = 0.1262) and NIBL (r = 0.9587 > 6 P.E. = 0.1464), it can be considered that the relationship between loan and advances and total deposit is statistically significant in each bank. The correlation coefficient between loan & advances and deposit of NIBL is higher than that of HBL.

4.2.1.2 Correlation Analysis between Investment and Total Deposit

Let the dependent variable, investment be denoted by denoted by *Y* and the independent variable, total deposit be denoted by *X*. Then the correlation between these two variables of HBL and NIBL has been presented in the following table.

Table 4.17

Correlation Analysis between Investment and Deposit

(Rs. In Thousands)

Fiscal Year /Bank	HBL		NIBL	
	Investment	Total Deposit	Investment	Total Deposit
2007/08	13340177	31842789	6874024	34451726
2008/09	8710691	34681345	7399812	46698100
2009/10	8444910	37611202	8635530	50094725
2010/11	8769939	40920627	7423106	50138122
2011/12	10031580	47730994	10438487	57010604
Correlation Coefficient (r)	-0.3708		0.8082	
Coefficient of Determination (r2)	0.1375		0.6532	
Probable Error (P.E)	0.2602		0.1046	

6 × P. E.	1.5610	0.6277
Remarks	Insignificant	Significant

Source: Annual Reports of HBL& NIBL (2007/08 to 2011/12) & Appendix II

The above table shows the correlation analysis between investment and total deposit of HBL and NIBL. The above table has indicated that there exists positive correlation coefficient between investment and total deposit in NIBL but negative in HBL. The correlation coefficient between investment and total deposit of HBL is -0.3708 and NIBL is 0.8082. Also, the coefficient of determination indicates that 65.32 % variation in investment of NIBL is explained by change in total deposit.

Since the value of 'r' is lower than the calculated 6 P.E. in HBL (r = -0.3708 < 6 P.E. = 1.5610) it can be said that there exists statistically insignificant relationship between investment, which means that it is uncertain to say that investment increases/decreases with the increase/decrease in total deposit and total deposit and in NIBL the value of 'r' is higher than the calculated (r = 0.8082 > 6 P.E. = 0.6277), it can be said that there exists significant relationship between total investment and total deposit, which means investment increases/decreases with the increase/decrease of total deposit.

4.2.1.3 Correlation Analysis between Net Profit and Total Deposit

Let the dependent variable, net profit be denoted by denoted by *Y* and the independent variable, total deposit be denoted by *X*. Then the correlation between these two variables of HBL and NIBL has been presented in the following table.

Table 4.18

Correlation Analysis between Net Profit and Deposit

(Rs. In Thousands)

Fiscal Year /Bank	HBL		NIBL	
	Net Profit	Total Deposit	Net Profit	Total Deposit
2007/08	635869	31842789	696732	34451726
2008/09	752835	34681345	900619	46698100
2009/10	508798	37611202	1265949	50094725
2010/11	892115	40920627	1176641	50138122
2011/12	958638	47730994	1039276	57010604
Correlation Coefficient (r)	0.7169		0.7413	
Coefficient of Determination (r2)	0.5139		0.5495	
Probable Error (P.E)	0.1466		0.1359	
6 × P. E.	0.8797		0.8153	
Remarks	Insignificant		Insignificant	

Source: Annual Reports of HBL& NIBL (2007/08 to 2011/12) & Appendix II

The above table represents the relationship between net profit and total deposit of HBL and NIBL. The table shows that the correlation coefficient between net profit and total deposit of HBL is 0.7169 and that of NIBL is 0.7413. The coefficient of determination indicates that 51.39% change in net profit of HBL and 54.95% change in net profit of NIBL is explained by the change in total deposit of the respective banks.

Since, the value of ‘r’ is lower than the 6 P.E. in HBL (r = 0.7169< 6 P.E. = 0.8797) it can be considered that there exists insignificant relationship between net profit and total deposit and in NIBL the value of ‘r’ is higher than the 6 P.E (r = 0.7413 > 6 P.E. = 0.8153), it can be considered that there exists insignificant relationship between net profit and total deposit.

4.2.1.4 Correlation Analysis between Total Assets and Total Deposit

Let the dependent variable, total assets be denoted by denoted by *Y* and the independent variable, total deposit be denoted by *X*. Then the correlation between these two variables of HBL and NIBL has been presented in the following table.

Table 4.19

Correlation Analysis between Total Assets and Total Deposit

(Rs. In Thousands)

Fiscal Year /Bank	HBL		NIBL	
	Total Assets	**Total Deposit**	**Total Assets**	**Total Deposit**
2007/08	36175531	31842789	38873306	34451726
2008/09	39320322	34681345	53010803	46698100
2009/10	42717124	37611202	57305413	50094725
2010/11	46736204	40920627	58356827	50138122
2011/12	54364428	47730994	65756232	57010604
Correlation Coefficient (r)	0.9999		0.9989	
Coefficient of Determination (r2)	0.9998		0.9978	
Probable Error (P.E)	0.0001		0.0007	
6 × P. E.	0.0004		0.0040	
Remarks	Significant		Significant	

Source: Annual Reports of HBL& NIBL (2007/08 to 2011/12) & Appendix II

The above table represents the relationship between total assets and total deposit. The table shows that there is perfectly positive correlation coefficient between total assets and total deposit in HBL (0.9999) and in NIBL (0.9989). The coefficient of determination indicates that 99.98% change in total assets of HBL and 99.78% change in total assets of NIBL is explained by the change in total deposit of the respective banks.

Since, the value of ‘r’ is greater than the 6 P.E. in both HBL and NIBL; it can be considered that there exists significant relationship between total assets and total deposit, and hence total assets increases/decreases with the increase/decrease of total deposit.

4.3 Major Findings of the Study

From the above financial and statistical analysis related to the deposit mobilization, the following major findings have been drawn;

- NIBL is more successful than HBL in deposit collection, since the average deposit collection of NIBL (Rs. 47678655 thousands) is higher than that of HBL (Rs. 38557391 thousands). But, the deposit collection trend of HBL is more uniform than that of NIBL, since the C.V. on deposit collection of HBL (15.92%) is lower than that of NIBL (17.39%).
- Comparing two banks on the basis of cash and bank balance to total deposit, it can be concluded that NIBL (15.68%) has mobilized higher portion of total deposit in maintaining cash and balance than HBL (8.84%) does in order to have sufficient liquidity position.
- The liquidity position of NIBL is satisfactory than that of HBL. But, the liquidity policy adopted by HBL is more stable than that of NIBL.
- NIBL is aggressive then HBL in mobilizing the total deposit in loans and advances. Further, the variability in the ratio is more consistent in NIBL than in HBL.
- Comparing two banks, it can be concluded that the mobilization of total deposit in investment is greater in HBL (26.38%) than in NIBL (17.23%) so on, the ratio is more consistent in NIBL (C.V. = 2.02%) than in HBL (C.V. = 8.82%).
- On the basis of current deposit to total deposit, it can be concluded that HBL requires more liquidity than NIBL to meet the demand of current deposit holders, since the ratio of current deposit to total deposit of HBL is higher than NIBL.
- On the basis of fixed deposit to total deposit ratio, it can be concluded that the ratio is higher in NIBL then HBL.

- Comparing two banks on the basis of interest on total deposit to total deposit ratio, it can be concluded that HBL (4.24%) is more successful than NIBL (5.10%) to significantly reduce the interest expenses in relation to the total deposit.
- HBL (30.76%) is more successful than NIBL (21.60) in controlling the operating and other non operating cost; as a result their net profit margin is higher.
- Comparing two banks on the basis of return on total deposit, it can be concluded that the NIBL is more efficient than HBL in converting deposit collection into net profit. Also, it can be conclude that with per Rs. 100 deposit collection, HBL makes Rs. 1.94 net profit, and NIBL makes Rs. 2.13 net profit.
- The return on equity ratios of NIBL (25.22%) is higher than that of HBL (21.74%) and there is more consistency in the ratio of NIBL than of NIBL.
- Comparing the return on assets of HBL and NIBL, the return on assets of NIBL (1.91%) is higher than that of HBL (1.65) which clearly indicated that NIBL is more successful in generating profit from the investment in total assets than HBL.
- The correlation coefficient between loan & advances and total deposit is 0.9645 in HBL and 0.9587 in NIBL. Similarly, since the value of ‘r’ is greater than the 6 P.E. of HBL (r = 0.9645 > 6 P.E. = 0.1262) and NIBL (r = 0.9587 > 6 P.E. = 0.1464), it can be considered that the relationship between loan and advances and total deposit is statistically significant in each bank.
- The correlation coefficient between investment and total deposit of HBL is -0.3708 and NIBL is 0.8082.
- The analysis shows that there is perfectly positive correlation coefficient between total assets and total deposit in HBL (0.9999) and in NIBL (0.9989). Since, the value of ‘r’ is greater than the 6 P.E. in both HBL and NIBL; it can

be considered that there exists significant relationship between total assets and total deposit, and hence total assets increases/decreases with the increase/decrease of total deposit.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Deposit of the commercial bank is very important variable. The collection of the deposit is must taken by the commercial bank as the major functions relation to the others. In fact, the main function of the banks revolves within the collection of deposit and effective mobilization of the deposit. Thus, there is no doubt that to increase deposit is the most important function the commercial bank.

Only increment of deposit does not give any return to the bank. A bank must have sound investment policy for the mobilization of the available fund as deposit. A deposit is that liabilities of the commercial banks which is returnable in demand at any time. So, sound investment policy has appeared to be very necessary to the commercial bank. A commercial bank mainly focuses on its two functions, i.e. collection of deposit through various schemes and granting those amounts as loan to the clients by providing various facilities.

To examine the health of deposit mobilization in commercial banks of Nepal, the two commercial banks, namely Nepal Investment Bank and Himalayan Bank, have been taken to represent the total of thirty two commercial banks. To achieve the objectives set out in first chapter, only secondary sources of data, which truly represent the banking situation, has been used. The data has been collected from the annual reports of the respective banks, and analyzed with the aid of different financial and statistical tools.

For the convenience, the whole study has been organized in five main chapters. The first chapter deals with the introduction, the second chapter deals with the review of concepts, and related studies, the third chapter deals with the method applied for analyzing the data collected, the fourth chapter deals with the analysis and interpretation, and finally the fifth chapter deals in summarizing the study, making conclusion and providing recommendations for further enhancement.

5.2 Conclusion

The main objective of the study is to analyze comparative deposit mobilization of the two selected commercial banks Nepal Investment Bank Ltd and Himalayan Bank Limited. On the basis of analysis in chapter four the following conclusions are drawn.

NIBL is more successful than HBL in deposit collection, since the average deposit collection of NIBL is higher than that of HBL. But, the deposit collection trend of HBL is more uniform than that of NIBL, since the C.V. on deposit collection of HBL is lower than that of NIBL. Comparing two banks on the basis of deposit composition, it can be concluded that interest bearing deposit is the major source of deposit in which savings deposit is the major source of interest bearing deposit in both HBL and NIBL. On the basis of cash and bank balance to total deposit, it can be concluded that NIBL has mobilized higher portion of total deposit in maintaining cash and balance than HBL does in order to have sufficient liquidity position.

The liquidity position of NIBL is satisfactory than that of HBL. But, the liquidity policy adopted by HBL is more stable than that of NIBL. From the above analysis, it can be concluded that NIBL is aggressive then HBL in mobilizing the total deposit in loans and advances. Further, the variability in the ratio is more consistent in NIBL than in HBL. The mobilization of total deposit in investment is greater in HBL than in NIBL and the ratio is more consistent in NIBL than in HBL.

The average collection of saving deposit on total deposit HBL is higher than NIBL. Comparing two banks on the basis of interest on total deposit to total deposit ratio, it can be concluded that HBL is more successful than NIBL to significantly reduce the interest expenses in relation to the total deposit. HBL is more successful than NIBL in controlling the operating and other non operating cost; as a result their net profit margin is higher.

On the basis of return on total deposit, it can be concluded that the NIBL is more efficient than HBL in converting deposit collection into net profit. The return on equity ratios of NIBL is higher than that of HBL and there is more consistency in the ratio of NIBL than of NIBL. Likewise the return on assets of HBL and NIBL, the return on assets of NIBL is higher than that of HBL which clearly indicated that NIBL is more successful in generating profit from the investment in total assets than HBL.

The statistical analysis helps to conclude that there exist perfect correlation between the loan and advances and total deposit and between net profit and total deposit and the relationship is statistically significant. However, the relationship between investment and total deposit is statistically insignificant, in HBL but significant in NIBL.

5.3 Recommendations

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

- Since deposit has remained the main source of fund in each bank, it would be better if HBL launches new scheme for deposit collection to challenge the competitors.
- The main source of deposit in HBL is savings deposit and in NIBL is fixed deposit and savings deposit. The Bank should find out new areas/sectors for investing collected deposits from which it can generate maximum profit. In the 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 interest expenses to total deposit of NIBL is higher than that of HBL, it is recommended that NIBL should have high control over the interest expenses in deposit by promoting the non-interest bearing account.
- The bank is strongly recommended to operate new branches in non-representing rural areas for more deposit collection and more utilization of the funds as wells as to increase the transactions and to provide financial services and facilities to more customers.

- The profit margin of NIBL is lower than that of HBL so NIBL should control the operating and other non operating cost to their net profit margin.
- The return on total deposit of HBL is lower than that of NIBL. So it would be better if HBL try to maximize the deposit collection through non-interest bearing deposit in order to increase profit.

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