A STUDY OF INVESTMENT POLICY OF JOINT VENTURE COMMERCIAL BANKS
(with reference to Nabil Bank Limited and Standard Chartered Bank Nepal Limited)

A Thesis

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RECOMMENDATION

This is to certify that the thesis

Submitted by
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"A study of Investment Policy of Joint Venture Commercial Banks"

has been prepared as in the form as per the fulfillment of the partial requirement for the Master's Degree in Business Studies of the Faculty of Management, Tribhuvan University. This thesis is forwarded for examination.

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Declaration

I, Hereby declare that the work reported in the thesis entitled ***A study of Investment Policy of Joint Venture Commercial Banks*** Submitted to office of Dean faculty of Management Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements for the Master's of Business Studies (MBS) under the Supervision of ***Mr.Joginder Goet,and*** **Mrs.Sneha Lata Kafle** ***Shanker Dev Campus, Tribhuvan University.***

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ABBREVIATION

B.S.	:	Bikram Sambat
BOKL	:	Bank of Kathmandu
C.V	:	Coefficient of Variation
EBL	:	Everest Bank Limited
EPS	:	Earning Per Share
F/Y	:	Fiscal Year
HBL	:	Himalayan Bank Ltd.
JVB	:	Joint Venture Bank
NABIL	:	Nabil Bank Ltd.
NBBL	:	Nepal Bangladesh Bank Ltd.
NBL	:	Nepal Bank Limited
NIBL	:	Nepal Investment Bank Ltd.
NIDC	:	Nepal Industrial Development Corporation
NRB	:	Nepal Rastra Bank
NSBL	:	Nepal State Bank of India Ltd.
PEr.	:	Probable Error
r	:	Coefficient of Correlation
RBB	:	Rastriya Banijya Bank
Rs.	:	Rupees
S.D	:	Standard Deviation
SCBNL	:	Standard Chartered Bank Nepal Ltd.

CHAPTR I

INTRODUCTION

1.1 Background of the Study

Nepal is a land-locked a country situated between two Asian giants China & India, both having well developed economic condition. The development of a country is measured by its economic indices. Nepal, like any other country has been laying emphasis on the up liftmen of its economy. The process of economic development depends upon various factors. Financial institutions are viewed as catalyst in the process of economic growth. The mobilization of domestic resources, capital formation and its proper utilization plays an important role in the economic development of a country. Every financial institution, big or small, be it a commercial bank or a finance company or a cooperative bank play an important role in the development of a country.

Commercial banks are major financial institutions, which occupy quite an important place in the economy because through the deposits they collect they provide much needed capital for the development of industry, trade and business and other deficit sectors, thereby contributing to the economic growth of the nation.

"Investment in the actual sense refers to the sacrifice of current dollars for future dollars" (Sharpe, 1986: 9). Investment involves two attributes, time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all and the magnitude of which is uncertain. In some cases the element of time predominates (for example, government bonds). In other case, risk is more dominant (for example call option on common stock). In yet others, both time and risk play a dominant role (for example share of common stock).

Investment is the use of money to earn profit. It can be said that investment in concerned with the proper management of the investors wealth, which are the sum of the current income and the present value of all future income. Fund to be invested come from assets already owned, borrowed money and saving or foregone consumption. By foregoing today and investing the saving, investors expect to enhance their future consumption possibilities i.e. the fund is invested to increase wealth. Investors also seek to manage their wealth effectively obtaining the most from it, while protecting it from inflation, taxes and other possible harms.

"Investment policy involves determining the investors objectives and the amount of his or her inevitable wealth. It is not appropriate for an investor to say that his objective is to make a lot of money"(Clarke, 1989: 10). What is appropriate for an investor in this situation is to state that the objective is to earn a profit while recognizing that there exist some chances of incurring large losses. Investment objectives should be stated in terms Capital formation, considered to be one of the important factors in economic development leads to increase the size of national output, income and employment solving the problem of inflation, balance of payments and making the economy free from any burden of foreign debts. Domestic capital formation helps in making a country self-sustainable.

“Capital formation was the accumulation of capital. Profit made by the business community constituted the major part of saving of the community and that savings was assumed to be invested. They thought capital formation indeed plays a decisive role in determining the level and growth of national income and economic development” **(American institute of banking, 1972,:162).** It seems unquestionable that the insufficient capital accumulation is the more serious limiting factors in developing countries. In the view of many economists, capital occupies the central and strategic position in the process of economic development. .It seems unquestionable that the insufficient capital accumulation is the more serious limiting factor in undeveloped countries.

In the view of many economists, capital occupied central and strategic position in the process of economic economy lie in the rapid expansion of the rate of its capital investment. So that it development in an under developed attains a rate of growth of output which exceeds the rate of growth of population by the significant margin only with such a rate of capital investment will the living standard begin to improve in a developing country. In developing countries the rate of saving is quite low and exiting institution are half successive in mobilizing such saving as most people have incomes so low that vertically all current income be spent in marinating a substantial level of consumption.
"For the development of the nation it is required to have enough capital, without adequate capital investment may not be possible, formation of the adequate capital through the

financial institution like finance company banks etc is important" **(Encyclopedia 1966,:232)**.

Generally Bank is an institution, the essential operation of which is to make the monetary transaction possible in a sound and effective way. Bank accepts deposits of money from those who save and lend to those who need credit for some purpose. Bank accumulates idle money from general public by offering attractive or sound interest and lends it to the fund seekers in the economy Investment in fixed assets would be possible where by productivity could grow, employment could be generated and finally national economy could be enhanced. Banks are also found to be involved in a number of agency services of remitting and collecting cash on be half of its clients by opening bank drafts and letter of credit facility etc.

Besides, the main task of bank is to mobilize idle resources into productive sector by collecting it from scattered sources and generating profit. Banks also facilitates people to carry out their financial transaction in every sector such as organization, industries, agriculture trade and needy people as well. Bank accepts deposits in numerous forms depending upon the nature of savers and banks own product offering strategy .Some of the common deposits are saving, fixed and call deposits etc. the cost of deposits to the banks varied as central bank has freed up the commercial bank to offer the interest rate on their own.

However, it's said that the average cost of deposits for the bank is 4%.Development of nation banking sector of that country is responsible and must be strong. The financial sector like bank is a vast field, which helps in reducing poverty, increase in life style of people, increase employment opportunities and there by developing the society of a country as a whole development of a country depends upon adequate saving and invested in productive sector which is inspired by banking activities. Due to the low income there is fewer saving .people spend all the money in consumption of necessary items. People who have a lot of money also consume precious goods; people have no idea the investment in productive line. Banks are the main sources which motivate people to save their earnings. Banks collect the saving of people in the form of deposits collection and investment in the productive area. They give the loan to the people; banks mobilize deposit collected from people.

The importance of the banking as the nerve centre of economic development cannot be over emphasized and it is said that which are the need of and great wealth of country has got to be kept very scared just as water of irrigation good banks are for the country's and trade. The development of a country is always measured by its economic development through indices. Therefore every country has given emphasis on uplifting of a country can hardly be carried forward with out the assistances of financial institution. They are the indispensable part of the development process It is the fact that the unorganized financial system leads the country. Therefore, central bank plays a major role and keeping the financial system of a country organized by providing those guidelines and directions.

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

Recognizing the true fact of developing country," Nepal cannot ignore the importance of commercial banks. Realizing it, HMG of Nepal has been adopted the economy liberalization policy. Due to liberalization policy made by government, the number of bank has been increased and there has emerged the tough competition among them" **(Banking and financial statistics, 1997: 37**).

1.1.1 Historical Development of commercial banks in Nepal

The word 'bank' generally denotes commercial bank. It is believed that the word 'bank' was derived from the French word 'Benque' and Italian word 'Banqo'. Literally, a bank means doing the transaction of money sitting on a bench. The first bank of its kind was established on 1148 A.D. in Genoa and on 1157 in Venus. However, in Nepalese context, a formal banking system was introduced only in 1973 with the establishment of Nepal Bank Ltd. which is regarded as the mount institution of modern banking system of Nepal. Prior to the establishment of this bank, the banking needs of people, were fulfilled to certain extent only by organized financial institution the 'Tezarath Addha' but the services offered by it were not sufficient. Actually, the formation of high quality board, 'Udhyog Parisad' was indeed a land mark in opening a new avenue in the field of banking and commerce accordingly. NBL was established in November 1937 under Nepal Bank Act as joint venture between government and private sector and replace the 'Tejarath Addha' by taking over its operation. Since then, Nepalese have been able to enjoy the banking services in an organized way.

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

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

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

1.1.2 An Introduction to the Selected Commercial Banks

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

1.1.2.i Nabil Bank Limited

Nabil Bank Limited commenced its operation on 12 July 1984 as the first joint venture bank in Nepal. Dubai Bank Limited, Dubai (later acquired by Emirates Bank International, Dubai) was the first joint venture partner of Nabil. Currently, NB (International) Limited, Ireland is the foreign partner. Nabil Bank Limited had the official name Nepal Arab Bank Limited till 31st December 2001. Nabil is pioneer in introducing many innovative products and marketing concept in banking sector of Nepal. Now days Nabil bank has different cards like visa electronic debit card, local currency visa and master card, USA dollar Master Card and foreign currency travel Master Card. The ownership of Nabil is composed as:

Subscription	% Holding
Foreign ownership	50%
Financial Institution (Employees Provident Fund)	20%
Nepalese Public share holder	30%
Total	**100%**

1.1.2.ii Standard Chartered Bank Nepal Limited

Standard Charted Bank Nepal Ltd. was incorporated on January 1987 with 15 percent shareholding of general public, 35 percent of Nepal Bank Ltd., and 50 percent of

Grindlays Bank, London. Later, Standard Charted Banking Group purchased Grindlays's shareholdings and now the bank is known as Standard Charted Bank Nepal Ltd.

The recent statistics published by central bank shows that bank has a total capital of 1576.3 million rupees that includes Rs.374.6 million's paid up capital, Rs. 749.3 million's general reserve, Rs. 245.2 million's retained earnings, and other reserves of Rs. 274.3 million.

Similarly, this bank has a total deposit of RS.23050.5 million, and it has borrowed rupees RS.10.2 million. Likewise, it has total investment of Rs. 8644.9 million and loans and advances of RS.8905 million.

1.2 Focus of the study

This study focuses on the history of the deposit mobilization of total commercial banking system and two sampled banks NBL and SCBNL. This study is made the especial aim of observing the deposit mobilization position of total commercial banking system in Nepal and comparing the deposit mobilization position of NBL representing the government owned commercial bank and SCBNL representing the private sector commercial bank. Therefore the study certainly focuses on the elements related to deposit mobilization. The study focuses on the analysis of efficiency of deposit mobilization of total commercial banking system and two sampled banks.

1.3 Statement of the Problem

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

Precisely, these problems could be numerically categorized into the following four broad groups, and they are being explained as well.

Banks Have Not Been Able to Utilize Their Deposits Efficiently:

The recent trend observed in banking industry is that they have not been able to fully utilize their deposit fund by mobilizing it into productive sectors. Due to the deteriorating economic scenario, management of the banks, and the attitude of the board of directors, they have been able to lend about 60 percent of total deposits only.

Portion of Cost Bearing Deposits to Total Deposits is high:

Referring to the Banks' composition of deposit liabilities, it can be said that they are holding too much of cost bearing deposits.

Safety of the Public Funds:

Banks are merely the financial intermediaries that accept the deposits from the savers and invest or lend the funds to the funds seekers in the economy. Therefore, issues related to the banks' investments, and lending certainly affect the Protection of funds deposited by the savers. Definitely, there are some rules and regulations prescribed by the central bank such as the recent one which compels the banks to issue their capital equal to a billion rupees. However, banks' loan investments, capital structures, existing management slacks etc. do not represent that the public funds deposited at the banks are safe.

Excessive Money Creation:

Commercial banks deserve the power to create money and credit because the public readily accept claims on bank deposits, particularly checks, credit and debit cards, and computer entries, in payment for goods and services. In addition, the law requires individual banks to hold only a fraction of the amount of deposits received from the public as cash reserves, thus freeing up a majority of incoming funds for making loans and other investments.

This capacity of banks to create money and deposits has a number of important influences on the financial system and the economy as a whole. Banks can invest up to their money or deposit multiplier and money created by banks is also instantly available for spending. Therefore, unless carefully controlled by the central bank, it can fuel inflation.

1.4 Objectives of the Study

Banks provide both the deposit and credit services to the public. They accept the funds from the savers as deposits and lend the funds to the fund seekers in the economy. Therefore, banks can run effectively and efficiently only if they can mobilize their deposits fund at their prescribed area and realize those disbursed amounts timely. In totality, the proposed study aims to analyze how far the banks have been able to achieve these objectives.

The basic purposes of this study are:

1. To analyze the financial factors like liquidity management, efficiency and profitability position in relation to deposit mobilization of commercial banks.
2. To observe the deposit mobilization position of government owned commercial banks and private sector commercial banks.
3. To observe the trend of deposit and loan investment.
4. To provide suggestions on the basis of major findings.

1.5 Significance of the study

The quality and coverage of a bank's fund mobilizing policy reflects the degree of healthiness of the bank and eventually the national economy. In order to accomplish the optimum utilization of the scarce economic resource, the capital, banks must successfully formulate their fund mobilizing policy and effectively implement it as well. So, the role of commercial banks in supplying the credit in the economy is vital.

The proposed study is believed to be beneficial for a number of individuals, groups, and organizations directly or indirectly. Some of the direct beneficiaries of the study could be named as lenders, creditors, investors, and depositors of the banks. However, borrowers can also achieve some sort of advantages from the study. These beneficiaries and the kind of benefits they receive from the proposed study are being explained as follows:

Investors, the owners of the banks could be benefited from the study as the study aims to identify the overall deposits fund management by the banks. In other words, it facilitates to understand the investors the exact cost and composition of the deposit liabilities.Depositors are the primary supplier of the funds in the banking system. They could also be benefited from the study as it tries to identify the status of their deposits i.e. those sectors where their money has been invested.

Borrowers are the fund seekers in the economy who are believed to be involved in the economic transactions very actively. They can receive the advantages from the study as well by acquiring the information about the current and expected cost of capital in the market.Those related issues such as the cost and composition of deposits, trend analysis of deposits, etc. of commercial banks might facilitate to advance the study ahead.This study is aimed to find out the deposit mobilization position of commercial banks and is expected to find the reasons of weak performance in some extent, if any .That will certainly help the policy makers to take the right steep for the betterment of the condition.

1.6 Limitations of the Study:

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

I. The research work will be made on the basis of latest four years' data from fiscal year 2003to 2007.

II. Time is a limit for the study.

III. Simple statistical and financial tools are used for the analysis.

IV. Study is made on the basis of secondary data only.

V**.** The usage of transaction period of the selected banks has been determined by the specific nature and availability of data.

1.7 Organization of the study

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

1 Introduction

The first chapter includes the introduction of the study that considers the background of the study, historical development of commercial bank in Nepal , statement of problem, significance of the study, objective of the study, focus of the study, limitation of the study, and the organization of the study.

2 Review of Literature

This is the second chapter of the report. It includes the conceptual review and review of related studies. Conceptual review considers the study of books and other publications related to the concept of commercial bank, concept of deposit and concept of deposit mobilization. And the review of related studies includes the study of past studies made on the deposit related topics especially the studies related to the deposit mobilization of commercial banks.

3. Research Methodology

This chapter contains the tools and techniques these are applied on the study. The financial and statistical tools which are used for the analysis and presentation of data are described in this chapter.

4 Presentation and analysis of data

This is the major chapter of the study. It contains the presentation of data and analysis of the data that specify the findings of the study. Data are presented on the basis of objective of the study. This chapter contains the major findings of the study too. It helps the searcher to find out what is going on about the deposit mobilization in Nepal and selected commercial banks.

5 Summaries, Conclusion and Recommendation

This is the last chapter of the study that contains summary of the study, conclusion of the study and some recommendations to the related banks and policy makers for making the deposit mobilization position of related banks and total commercial banking system better than that is.

CHAPTER- II

REVIEW OF LITERATURE

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

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

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

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

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

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

- To identify the problem in other words it provides a basis for identifying the areas for future research.
- To determine the methodology for research works.
- To draw delineation and scope for studies.
- To avoid unintentional replication of previous studies.
- To interpret the result in precise manner.

2.1 Conceptual Review

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

2.1.1. Concept of Deposits

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

It is important that the commercial banks deposit policy is the most essential policy for its existences. The growth of banks depends primarily upon the growth of its deposit. The volume of funds that management will use for creating income, through loans and investment is determined largely by the bank policy governing deposits. When the policy is restrictive, the growth of bank is restarted or accelerated with the liberalization in the deposit policy. In banking business the volume of credit extension much depends upon the deposit base of a bank." The deposit creating power of commercial banks forces to raise the assets along with the liabilities side of the balance sheet. In other words, assets give raise to liabilities. Traditionally, the deposit structure of a commercial bank was though to be determined by the depositors and not by bank management. There are regular changes in this view in the modern banking industry **"(Vidya; 1999:68).**

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

"Bank deposits arise in two ways the first when the banker receives cash & credits a customer's a/c, it is known as a primary or a simple deposit. Such primary deposits are made from the initiative of depositors. The second, when banks advance loans, discount bills, provide overdraft facilities; make investments through bonds & securities. This is called derived deposits of derivative deposits. They add to the supply off money. Banks actively create such deposits **"(The Encyclopedia Britanica, 1981:700).**

2.1.1.1 Types of Deposits

At the outset it is necessary to know what a deposit is. Commercial bank Act 2031, defines deposits is the amounts deposited in a current, saving or fixed a/c of a bank or financial institution. People in general, the businessmen; the industrialist & other individuals deposit money in a bank. Bank, flows such amount as loan & invest in different sectors to earn profit. Usually, a bank accepts three types of deposits. They are current, saving & fixed deposits. But in other countries we find more than three deposits. In Nepal, banks grant permission to their customers to open three types of a/c under various terms & conditions. This classification is made on different theoretical & financial basis. Therefore, deposits of bank are classified on the following basis:

i. Demand Deposits
ii. Saving Deposits

iii. Fixed deposits

i. Demand Deposits

The deposit in which an amount is immediately paid at the time of any a/c holder's demand is called demand deposits. In another words, we can say this type of demand deposit as current a/c. current a/c means an a/c of amounts deposited in a bank, which may be drawn at any time on demand. Its transaction is continual & such deposit can't be invested in the productive sector, so such type of amount remains as stock in the bank. Though the bank can't gain profit by investing it in new sector after taking from the customers, this facility is given to the customer. Therefore, the bank doesn't give interest on this account. From such deposit, the merchant & traders are benefited more than the individual. The bank should pay as many times as the checks is sent until there is deposit in his a/c. the bank can't impose any condition & restrictions in demand deposit. An institution or an individual, who usually needs money daily, precedes their acts & transaction through such deposit. The current a/c is very important for the customers of bank.

In any institution, which carries out cash transaction, there is possibility of corruption; misuses & fraud. There should be a provision of separate employees for the recovery of the cash & for the payment of the cash. The current a/c is necessary to collect and buy the bills, to use the facility of over-draft, letter of credit, remittance etc. Current deposit on the one hand, saves time & labor & on other hand, the bank keeps the accurate of the a/c holders, so it is a great facility for the customers. Therefore, it has a great importance.

ii. Saving Deposits

The bank can collect capital through the saving deposit as well. This deposit is also important & its necessity & scope is not negligible. According to the Commercial bank Act 2031, saving accounts means an a/c of amounts deposited in a bank for savings purposes. This account is suitable & appropriate for the people of middle class, farmers and the labors who have low income, official & small businessmen. This saving deposit bears the features of both of the current & fixed period deposits. Generally, most accounts are opened saving deposit in a bank.

Therefore, the deposit is popular in people in general. According to internal rules or banks some banks demand a small amount & some banks demand a great deal of money to open saving account. Different banks have made different rules. Some banks have made one hundred thousand, some banks have made two hundred thousand, some have three hundred thousand, some have five hundred thousand & some have not fixed the limitation. So, there is divergence as to how much amount of money can be withdrawn. Banks give some interest on it.

iii. Fixed Deposits

Under the commercial Bank Act 2031: Fixed Account means an account of amounts deposited in a bank for certain period of time. The customers opening such account deposit their money in this account, for a fixed period. In the other words, it is called time deposit because this account is deposited for a certain period.

Usually, only the person or institution who wants to gain more interest opens such type of account. The period of time can be 3 months, 6 months, 9 months, 1 year, 2 years, 3 tears, 4 years, 5 years etc. More interest rate is payable in this deposit than other deposit. Both parties the bank & the customers can take benefit from this deposit. The banks invest this money on the productive sector & gains profit & the customers too can be made his financial transaction stronger by getting more interest from this deposit. The amount in the saving deposit must be returned to the customers after date is expires. The amount can't be withdrawn before the fixed time

2.1.1.2. Deposits Mobilization

"Collecting scattered small amount of capital through different Medias & investing the deposited fund in productive sector with a view to increase the income of the depositor is meant deposit mobilization. In the other words, investing the collecting fund in the productive sectors & increasing the income of the depositor, it also supports to increase the saving through the investment of increased extra amount**" (NRB, 1984 no.24,:10-12).**

When we discuss about Deposit Mobilization, "we are concerned with increasing the income of the low income group of people & to make them able to save more & to invest again the collected amount in the development activities.

The main objective of Deposit Mobilization is to convert idle saving into active saving **" (NBL, 2037 N0.4,:7).**

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 & Compulsory Savings. Amount deposited in different accounts of Commercial Bank, investment in government securities are some examples of voluntary saving. A commercial bank collects deposit through different accounts like fixed, saving & current.

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

To achieve the higher rate of growth and per capita income, economic development should be accelerated. "Economic development may be defined in a very broad sense as a process of raising income per head through the accumulation of capital **(Johnson, 1965, p:11).** but how capital can be accumulation in the development countries there are two ways one from the external and other from the internal sources. In the first gap foreign Aid, Loans and grants are the main. While in the later, financial institution operating with in the country, play in a dominant role. In the context of Nepal, commercial bank is the main financial institution which can play very important role in the resource mobilization for the economic development in the country. Trade, industry, agriculture and commerce should be developed for the economic development.

Economic development so defined is necessary and sufficient to generate rate of saving and investment. The generation of high rates of saving and there by investment is possible only through the commercial banks. Commercial banks occupies greater role in economic development by generating the saving towards the desired sectors from one place to another, communicating with its branches and agencies in different part of the country and the world and advising to the commercial people." Increasing the income of the low income group of people and making them able to save more, deposit mobilization helps to invest the collected deposit in desired sector**" (NRB, 1984, no.24,:25).**

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

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

Insurance of bank deposits, creation of proper atmosphere can increase deposits and the development of severity of capital markets with the helps of banks will prove effective in mobilizing the available floating resources in the country **(Ghosal and Shrma, 1965,:92).** Capital formation is possible through collecting scattered unproductive and small saving from the people. This collected fund can be utilized in productive sector to increase employment and national productivity. Deposit mobilization is the most dependable and important sources of capital formation **(RBB, 2055 No.4,:14).** Banking transaction refers to the acceptance of deposits from the people for granting loan and advances, and returning the accepted deposit at demand or after the expiry of a certain period.

According to banking rules and regulations, this definition clearly states that Deposit mobilization is the starting point of banking transactions. Banking activities can be increase as much as we can mobilize the accumulated deposit effectively.

Deposit, such as current, saving and fixed are the main part of the working Capital. it is due to this reason that banks keep their deposit mobilization campaign always in full swing taking resort every possible means laying at their deposal. “A Commercial bank changes the scattered unproductive small saving into Lon able & active savings. The bank not only collect saving, but also it provides incentives to the saver & help them to be able to save more" **(RBB, 2054 No.3,:15).** Commercial banks are set up with a view to mobilize national resources. The first condition of National Economic Development is to be able to collect more & more deposit. In this context, the yearly increasing rate of commercial banks deposit clearly shows the satisfactory progress of deposit mobilization.

2.1.1.2.1 Need for Deposits Mobilization

The following are some reasons for why Deposit Mobilization is needed in a developing country like Nepal. Workshop report "Deposit Mobilization why & how" Group "A" states the following points as the need for deposit mobilization **(NRB, 1984, No.24,:10-12).**

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

It is much more important to canalize the collected deposit in the priority sector of a country. In our developing country's we have to promote our business & other sectors by investing the accumulated capital towards productive sectors.

The need of deposit mobilization is felt to control unnecessary expenditure. If there is no saving, the extra money that the people have, can flow forwards buying unnecessary & luxury goods. So, the government also should help to collect more deposit, steeping legal procedures to control unnecessary expenditures.

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

To increase saving is to mobilize deposit. It is because if the production of agricultural & industrial products increases, it gives additional income, which helps to save more, & ultimately it plays a good role in deposit mobilization. Deposit mobilization plays a vital role for the economic development of an under developed & developing country, rather than developed on e. it is because, a developed country does not feel the need of deposit mobilization for Under Developed Country (UDC) & developing country.

Deposit mobilization plays a great role in such countries. Low National Income, Low per Capita Income, lack of technical know, vicious cycle of poverty, lack of irrigation & fertilizer, pressure of population increase, geographical condition etc. are the main problem of Economic Development of an UDC like Nepal. So far the developments of these sectors concerned, there is needs of more capital. Again, instead of the development of a particular sector, the development of every sector should go side by side. So, the development process of these sectors on one side & to accumulate the scattered & unproductive sectors deposit on the other is the felt need of an UDC. We can take this in out country's present context.

2.1.1.2.2 Advantages of Deposit Mobilization

Following points as the advantages of deposit mobilization:

Circulation of Idle Money

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

To Support Fiscal and Monetary Policy

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

To Promote Cottage Industries

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

Formation of Capital

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

Development of Banking Habit

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

To Check up Miss Utilization of Money

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

To Support Government Development Project

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

Co-ordination between Different Sectors

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

Others

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

2.1.2. Concept of Commercial Bank

"A Bank is a business organization that receives and holds deposits of funds from others make loans or extends credits and transfer funds by written order of depositors" **(Encyclopedia America 1984-85, vol.13,:302)**.

"A Commercial banker is a dealer in money and substitutes for money, such as cheque or bill of exchange. He also provides a variety of financial services**" (The New Encyclopedia Britannica, 1985 vol. 14,:605).**

"Commercial bank" a bank dealing with the general public, accepting deposit from and making loans to large numbers of household and small firms. Such banks are known in the UK as retail or high street banks. They also provide various services for depositors, including provision of cash and credit cards, storage facilities for valuables and documents, foreign exchange, stockbrocking, mortgage finance and executor services. Commercial banks are contrasted with central banks, and with investment, merchant and other specialist banks which deal little with the general public **"(Oxford dictionary of economics 2004,: 65).**

“The American institute of banking has laid down for functions of the commercial banks i.e. Receiving and handling deposits handling payment for its clients, granting loans and investment and creating money by extension of credit” **(Encyclopedia America 1984-85, vol.14,: 605).** Principally, commercial bank accepts deposits and provides loans, primarily to business firms thereby facilitating the transfer of funds on the economy. In the Nepalese context, **commercial bank act, 1974** defines “a commercial bank as one which exchanges money, deposits money accepts deposits, grants loans, and performs commercial banking functions".

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

Commercial Banks are those banks who pool together the savings of the community and arrange for their productive use. They supply the financial needs of moderns business by various means. They accept deposits from the public on the condition that they are repayable on demand of on short notice. Commercial Banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short terms needs of trade and industry such as working capital financing. They can not finance in fixed assets. They grant loans in the forms of cash credits and overdrafts. Apart from financing they also render services like collection of bills and checks, safe keeping of valuables financing advising etc. to their customers.

A commercial bank can be defined as an institution which deals in money in words of Crowther "Banks collect money from those who have it to 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).**

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

2.1.2.1. Role of Commercial Banks in Nepal

For all countries of the world and more so far the developing countries like Nepal, fast Economic Development is one of the most important aspects of developmental activities. However, it is obvious that unless the development of the important sector like agriculture, industry, trade, and commerce are achieved, envenomed development is impossible. For all the development, the regular supply of financial resources is a prerequisite.

Finance is thus like fuel for providing energy to move tempo of economic development and institutions naturally , serve as reservoir for supplying and controlling the stream of that fuel i.e. finance the commercial banks which are the financial institutions dealing with activities of agriculture industry, trade and commerce play the most important role for the business activities of the world. The objectives of the commercial banks are to mobilize the idle resources in productive uses collecting them from scattered and various sources. Its role in economic development is thus immense in order to bring out mobility of resources to meet the ever increasing needs of financing or the various economic activities.

These institutions are now trying best to contribute more and more services and facilities for the uplifting of national economy. They have become the core of financial system by holding the deposits; they make fund available through their lending and investing activities to different borrowers like individuals, business firms and even to the government. They ultimately facilitate the flow of goods and services from producer to consumers and to the financial activities of the government. It is quite clear that commercial banks are the most important institutions of capital formation that imply mainly saving, investment and productions which ultimately lead to the economic development of a country.

The role of commercial banking in the economy is obviously a prime prerequisite for the formulations of the bank policy as the role shapes, the nature and character of the bank. The deposit minded bankers may overstress conservation liquidity while the loan minded banker may under emphasize safety. Often Commercial Bank performs a number of interrelated functions. There are not only the custodians of the community's money but the suppliers of its liquidity. For these banks customers who seldom borrow money from the bank an important function may be the acceptance and safe keeping of deposits.

But those customers who often take loans from the bank, the credits creation function may be the most important. "The commercial bank is different from the other banks especially from central bank. In appearance the main distinction between Central Bank and a Commercial Bank is that now-a-days the Central bank does not much banking, but the more fundamental difference is one of aim.

The main objective of the Commercial Bank is to make profit whereas the Central Bank thinks of the effects of its operations on the working of the economic system. The Commercial has the shareholders and is expected to the best it can for them but the

Central Bank by contrast is usually owned by the government. The Commercial Bank may be few or many and they are to be found business with the general public all over the country. But, there is only one central bank in each country. Its market operations are mainly impersonal and are confided to what is necessary for influencing the country's financial business in the directions citrated by economic policy**" (Sayers, 1972,:17-18).**

Commercial Banks are those banks that are engaged in commercial banking transactions and exclude from this description such banks are established for achieving certain specific goals such as co-operatives, agricultural and industrial banks, much wider activities in relation to the Economic Development of the country have been empowered to the banks. Apart from strictly performing commercial functions, Commercial Banks so described in the act are empowered to perform such functions as undertaking of agency business. In the issue of Shares & Debentures for public corporations guaranteeing & underwriting foreign exchange business under the restriction imposed by Foreign Exchange Act, Rules, Orders & Notifications; advancing loans for period not exceeding one year against the security of the jewelers , gold & silver ornaments the mortgage of land & buildings, for acquiring plant & machinery ; and receiving deposits of government money according to the order of HMG in those places where there are no branches of the NRB or RBB or where the NRB gives its consent to remit through bills of exchange and checks in Nepal and foreign countries and so on.

Nepal being an underdeveloped country, its industries, agriculture, sectors has been expanding. It provides the credit facilities for the development of agriculture in cases where Agricultural Development Banks & Cooperative Societies do not enter into the field. The agriculture sector needs more & more capital for the improved methods of farming viz. the fertilizers, equipment, irrigation facilities etc. require obliviously more investment. Thus role commercial bank in promoting agriculture sector is increasing in many of other countries, especially in developing countries like Nepal.

The economy of our country is dominated by agricultural sector. This could be exemplified about 76 % of the total population is engaged in agriculture & about 40 % of the national income comes from the agriculture. Similarly, about 51% of the export trade is in agricultural product. Also if we take into account of the major industries of

Nepal, they are mainly based on agriculture. This is very clear that in such a country the financial help to the agriculture sector is most urgent & indispensable for strengthening the base of national economic structure.

Nepal being an under developed country, majority of the farmers in the villages are very poor. They do not have the sufficient capital to invest in this sector. The commercial bank has an important role to play here by helping the agriculture sector through two channels:

1. By providing fixed capital to Agricultural Development Bank by purchasing its Shares of debentures

2. By giving direct credit facility to the farmers on the mortgage of their land, house, food grains & other cash crops like jute, tobacco etc.

As the agricultural development needs capital, the commercial banks are helping by providing financial help to the farmers & they are able to invest or utilize the fund in different ways that make them increase agricultural product. Thus in order to accelerate the tempo of economic development of Nepal, the government & the commercial banks should play crucial role in the agriculture sector of the economy. Thus the sound development and wide geographical average of commercial banks particularly in agriculture is a prerequisite in accelerated & sustained economic growth. In recent years even through the commercial banks have made rapid progress in mobilizing financial resources they are still insufficient in their lending policies.

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

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

The role of Commercial Banks is indispensable for industrial development of Nepal. Due to insufficiency of capital, industries are depending more & more upon the supply of capital by the banks. It would not be exaggeration to state that commercial banks are mainly responsible for whatever the financial institutions like ABD/N, NIDC have already been established for the development of agricultural & industrial sector of the country. The commercial banks are also continuously participating in these activities.

Being a mountainous country many places are very remote & sometimes it requires many weeks to approach some of the places. Due to lack of transport & communication facilities & other geographical causes, the country has been still facing the problem of imbalances economic growth. The scattered capital of the country is unable to solve the problem of imbalance of the economy growth. Commercial Banks have their appropriate role to play here by expanding their branches in the differently hilly & Terai regions availing loan to the local people. In industrial sector, Commercial Banks are providing the necessary financial help for the industrial establishment in the country. They provide short & medium term loan to purchase machineries, tools, raw materials etc. & introduce new & developed techniques of production.

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

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

So, the role of Commercial Banks is extremely important for the development of industries, trade, commerce, agriculture etc. of the country. In fact, no nation can develop itself without the development of these banks. It is not only true in the capitalist countries but also true in the socialist countries & the mixed economic countries like Nepal as well.

2.1.2.2 Functions of Commercial Banks

Commercial Banks are directly related with the people. Commercial Bank is an important bank. Its functions are very attractive for people. Although these banks are truly inspired with the objectives of gaining profit, here Commercial Banks are also established to accelerate common people's economic welfare & facility, to make available loan to Agriculture, Industry & Commerce & to provide the banking services to the public & the state. Along with other functions, the main functions of commercial banks are to accept deposits from the people & to lend to those who demand it. Numerically, these functions could be categorized into the following functions:

i. Liquidity Function
ii. Savings Function
iii. Wealth Function
iv. Payment Function
v. Credit Function
vi. Policy Function

2.1.2.2.a Credit Creation by Commercial Banks

The creation of credit or deposit is one of the most important functions of commercial banks. Bankers are dealer of money who deal others people's money. Banks generate profits by accepting cash through demand deposits and advance loan on credit to customers. When a bank advances a loan, it does not pay the amount in cash. But it opens a current account in his name and allows him to withdraw the required sum by checks. But very often, the customer retains certain amount with the bank in a deposit. In this way, the bank creates credit on deposits the process is explained how the credit is created by the help of deposits.

In the modern banking industry, actual cash withdraws from the deposit are very negligible. The bank usually synchronizes the withdrawals and deposits from their past experiences. Thus a bank lends a large part of the money he receives in deposits. If the bank has more primary deposit, he can lend more keeping small cash in reserve day to day transactions. The bank knows the customers will withdraw money by cheques which will be deposited by his creditors in the same bank or some other bank where they have their accounts. Such cheques which are deposited in others bank are settled through clearing houses. The same procedure is follows in other banks. In this way, the bank is able to create credit or deposit by keeping small cash in reserves & lending the remaining amount. Therefore, the loans make an increase in the total amount of deposits. These deposits are called derived deposits.

On the other hand, when a bank advances money by discounting a bill of exchange, the proceeds of the bill are credited to the customer's account. The deposits of the customers will then increase. More deposit can make more lending by banks. This is also one of the ways of creating credit.

We know that the bank provides overdraft facility to a customer on the basis of some security. The bank enters the amount of the overdraft in the existing account of the customers & the customer is allowed to overdraw his account up to the fixed limit subject to the condition that the amount overdrawn from time to time is more than fully covered by the market value of the securities lodged with the bank. The amount may be used to buy goods & services. He can make payment by issuing cheques in settlement of his transactions. This process gives the bank an additional supply of money which did not exist before.

"A bank also creates a deposit by making investments by buying government bonds& securities. The bank pays for the bond through a cheque on itself to the central bank. If it buys security from others, it creates the amount in the account of the seller, provided he is the bank's customers. Otherwise it pays by cheque which is deposited in some other bank. In all such cases, liabilities & assets in the banking system on the whole are increased. Thus loans by create deposits or credit is created by banks**" (Vidya, 2001,:42-44).**

When funds are plentiful, market rate generally tend to decline, banks seek loan aggressively & therefore lower their rates induce marginal borrower to come into the market. When funds are scarce banks arise their rates & come potential borrower may differ the use of credit or seek it elsewhere.

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

2.1.2.3 Resources of Nepalese Commercial Banks

Commercial banks may have various resources but the most important three sources for their daily operation and further advancing are as follows:

i. Capital

So for as the capital funds are concerned, it is only a nominal source. Therefore it can not be used for investment purpose. This capital fund consists of two elements; paid of capital and general reserve.

ii. Deposits

Deposits are the main resources of commercial banks for issuing loans. Deposits are received from various forms and on the name of different accounts. There are mainly three types of deposits: current, saving and fixed. In a developing country like Nepal, where the majority of the people are still poor, saving deposits have played a significant role for the development of the country. Therefore the main source of raising capital is that of deposits. "The deposit function of the banker is important because it has to aggregate small sum of money lying scattered here and there twenties, fifties and hundred. Singly these sums have no economic efficiency what so ever but they can accomplish Herculean tasks when they are aggregate and employed by the banker**"** **(Roland, 1962,: 20).**

iii. Internal and External Borrowing

Internal and external borrowings are very important for a developing county like Nepal being and underdeveloped country; commercial bank cannot fulfill the necessities of the society. Therefore commercial banks are allowed to borrow from both two sources external and internal. Generally external borrowing means the borrowing from foreign banks, foreign government, international banks for reconstruction and development

(IBRD).Internal monetary fund (IMF)etc. internally commercial banks can borrow from only one source that is from NRB.

2.2. Review of Related Studies

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

2.2.1 Review of Articles

Bajracharya, through his article **"Monetary Policy & Deposit Mobilization in Nepal"** has concluded that the mobilization of domestic savings is one of the monetary policies in Nepal. For this purposes commercial banks stood as the vital & active financial intermediary for generating resources in the form of deposit of the private sector so for proving credit to the investor's in different aspects of economy **(Bajracharya, 2047 BS,:93-97).**

Fry, in the article, **"Resources Mobilization & Financial Development in Nepal"** says that the interest rate fixing authorities causes adverse effect on income distribution. Interest rate affects the savings & its mobilization. A high interest rate diverts the resources from unproductive tangible assets into financial claim. For Nepalese people & Nepalese undeveloped money & capital market, interest can be taken as an important weapon in mobilizing the internal resources. Higher interest rate pushed people to some money & it allows people to invest into best opportunities **(Fry, 1974,:15).**

Joshi the chief officer of NRB in the topic **"Rural Saving Mobilization in Nepal"** states that: The ability to save & the incentive to save are the two major determinants of saving. The incentive to save as reflected in NRB real interest rate policy can be stretched for with profit. It is highly probable that the further increase in the growth rate of financial saving can materialize if a flexible policy is pursued to keep real interest rate at a positive level **(Joshi, 1994,:65-66).**

Eventually the deposit expansion is to be bounded constrained by the low saving ability of the people as indicated by stagnant per capita GDP over the past decade. For a sustained growth of deposits or of overall saving rate what is needed more is to increase the income level of the people in order therefore to make saving mobilization strategy effective & successful policy measures should be taken considering two aspects of the strategy. In short run, policy should focus on the appropriate steps to tap saving within the existing banking framework while the long run measures should be adopted with a review to raising the investment rate & making it more productive.

The researchers suggest the following points to increase and to extend volume of credit;

a. Effective publicity and attractive prizes.
b. Branch expansion policy.
c. Extend the house saving account.
d. Revision in interest rate policy.
e. Credit planning.
f. Win the confidence of local people.
g. Investment in priority sector.

Pradhan, in his article "**Deposit Mobilization, its Problem and Prospects"** has presented that deposit is the life-blood of every financial institutions, like commercial bank, finance company, and co-operative or non-government organization. He further adds in consideration of most of banks and finance companies, the latest figure dopes produce a strong feeling that serious review must be made of problems and prospects of deposit sector. Leaving few joint venture banks, other organizations rely heavily, on the business deposit and credit disbursement **(Pradhan, 2053 BS,:9-10).**

The writer has highlighted following problems of deposit mobilization in Nepalese context.

i. Most of the Nepalese do not go for saving in institutional manner, due to the lack of good knowledge. However, they are very much used of saving be it in the form of cash or ornaments. Their reluctance to deal with institutional system is governed by the lower level of understanding about financial organization process, withdrawn system, and availability of deposing facilities and so on.

ii. Unavailability of the institutional services in rural areas.

iii. Due to lesser office hours of banking systems people prefers holding and cash in the personal possession.

iv. No more mobilization and improvement of the employment of deposits and loan sectors.

The writer has also recommended for the prosperity of deposit mobilization which are as follows;

a. By providing sufficient institutional services in the rural areas.
b. By cultivating the habit of using rural banking unit.
C. By adding services hour system to bank.
d. NRB could also organize training programs to develop skilled man power.
E. By spreading co- operative to the rural areas for development of mini-branch services to these backward areas**.**

Kafle in his article entitled "**NRB and its Policies for Monetary Control"** opines that liberalization, the effect on deposit seems to be positive in the later period as it increased from 17.74 to 21062%of nominal GDP. And, this, there was a positive effect on saving mobilization, however in the case of loan and advances, commercial banks were found to be underlet because the percentage of loans and advances to nominal GDP was only 100.6 & 11.9in the two period respectively **(Kafle,2053 B.S.:15).**

MR. Bhatta, on his article "**financial policies to prevent financial crisis**" has given more emphasis on Nepalese financial market sector. He has mention the financial crisis occurred in China, Mexico, South Asia, Russian Federation Ecuador, Brazil & Argentina. This crisis affected all this economic by posing negative effect in their real output. He has also focused on Nepalese financial market, which is directly effected by the national and international events. The most effected event was September 11 incident in the U.S.A., have added more to the fragility in the global financial market. In present context in many part of the world, the move towards liberalization is getting its momentum on one hand and process of economic development is being threatened due to various anticipated incidents on the other. He has define a financial crisis is a description to financial markets in which adverse selection and moral hazard problems become much worse, so that financial markets are unable to efficiently channel funds to those who have the most productive investment opportunities.

He has given light on the dynamics of financial crisis dividing it into three stages. Also he has suggested the policies to prevent financial crisis. Following policies are supposed to be applicable for preventing financial crisis.

1. Prudential supervision.
2. Accounting standards &disclosure requirements.
3. Legal and judicial system.
4. Monetary policy and price stability.
5. Exchange rate regimes and foreign exchange reserves.
6. Capital controls.
7. Restrictions on foreign denominated debt.
8. Reduction of the role of the state owned financial institution.
9. Encouraging market based discipline.
10. Entry of foreign banks.
11. Limitation of too-big –to fail in the corporate sector.
12. Sequencing financial liberalization etc.

Lastly he has conducted that there is no doubt that the key to preventing future financial crisis is to implement sound domestic economic policies and build robust financial institutions. The experiences of the crisis hit countries, especially during the decade of nineties, has proved that a country opening to liberalized economic policy should adopt sequencing policies constraining the pace of participation on the global market place until a sound domestic infrastructure can be put into place **(Bhatta,2054 B.S.).**

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

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

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

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

In view of above aspects 'following strategies are adopted'

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

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

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

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

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

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

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

Shrestha has drowned following conclusion-

1. The survival of the banks depends upon its own financial health and various activities.

2. In order to develop and expand the portfolio management activities successfully, the investment management mythology of a portfolio manager should reflects high standard and give their clients the benefits of global strength, local insights and prudent philosophy.

3. With the disciplined and systematic approval to the selection of appropriate countries, financial assets and the management of various risks; the portfolio manager could enhance the opportunities for each investor to earn superior return over time.

4. The Nepalese banks having greater network and access to national and international capital markets have to go for portfolio management activities for the increment of

their fee based income as well as to enrich the clients based and to contribute in national economy.

2.3 Review of Previous Thesis

In time of research of secondary sources it found that some student from T.U. and other management campus have conducted several thesis works. Some of them are supposed to be relevant for this study is presented below.

Karmacharya, in this thesis paper," **(A study on the deposit mobilization by the Nepal bank ltd.)** during eight years study period has concluded that the utilization side of Nepal Bank Ltd. has been weak as compare to the collection of resources.

Main objects are as follows

1. To discuss Deposited mobilization and investment policy of Napal Bank Limited.

2. To analyze the trends of deposits utilization towards total investment and loan and advances and its projection for next five years.

Main finding are as flows

1. NBL has maintained high growth rates in total deposit, loan and advances but it has moderate position in investment.

2. There is significant relationship between deposit and loan and advances and outside assets and net profit of NBL.

Thapa, in her thesis paper, **(A comparative study on investment policy of Nepal Bangladesh bank ltd. and other joint venture banks of Nepal)** has compared the investment activities NBBL with only two of the joint venture banks.

Main objects are as follows

1. To evaluate liquidity, activity and profitability ratios of NBBL in comparison with NBL and industry average.

2. To analyze relationship of loan and advance and total investments with total deposit and net profit of NBBL and to compare it with that of NBL and industry average.

Main finding are as flows

1. NBBL has good deposit collection, enough loan and advance and investment in government securities. It has comparatively better liquidity position than NBL.

2. NBBL is in comparatively better position regarding issue of loan and advance but it does not have good position regarding investment in shares and debentures of other companies, off balance sheet operation. Loan Loss ratio shows low quality of loan and advance.

This study conducted by Pant entitled, “A study of deposit collection and utilization of commercial banks in Nepal" with the main objectives:

1. To find out whether commercial banks have been able to collect deposit from different sector.
2. To find out whether banks are to satisfy financial need of economy.
3. To find out relationship between deposits and loans. .

Main finding of the study

1. Deposits are collected much from individuals and deposits from organization are very low.

2. Loans are granted more to the commercial sector and a little amount to the agriculture and industrial by commercial banks. They cannot utilize the deposit properly. The writer further found, there is positive relation between deposits and loan.

A study conducted by Pradhan entitled; **(A study on investment policy of NBL, 1980)** has tried to find out to what extent NBL has been able to utilized mobilized deposits. This is concerned only from 2029 to 2034 B.S..

Main object of this study

1. To analyze the risk and return ratios of commercial banks.

2. To evaluate the financial performance of JVB's.

3. To study existing investment policies taken by NBL in various sectors.

Main finding of the study

1. NBL has the highest return on shareholders’ fund and total assets. It has also been successful in mobilizing its deposits as investments.

2. Looking at the investment portfolio, NBL has investment highest amount of funds in government securities.

Agrawal, in the thesis entitled, **(A study on deposit and investment position of Yeti Finance Company Ltd**., **2002)** has tried to examine the trend of deposit position and investment position of the Yeti finance company. That study was conducted on the basis of secondary data and used various financial tools to analyze the data. Study just covered only period of five years i.e. 1997 to 2001 **(Agrawal, 2000).**

Main object of the study

1. To discuss fund mobilization and investment policy of YFCL.
2. To evaluate the liquidity, efficiency, profitability and risk position of YFCL.

Main finding of the study

1. Deposit policy is not stale but has highly fluctuating trend and investment is gradually in increasing trend.
2. There is highly positively correlation between total deposit and total investment the researcher concluded that Finance Company has been found profit oriented, ignoring the social responsibility which is not a fair strategy to sustain in long run.

Tandukar, in the thesis entitled **(Role of NRB in deposit mobilization of commercial banks, 2003)**

Main object of this study

1. To examine role of NRB in deposit collection by the commercial banks
2. To analyze the trend, of deposits mobilization towards total investment and loan and advances.

Main finding of the study

1. The researcher has found that it can be said that all new directives of NRB of commercial banks are effective and it is good for both nation and the future of the banks but the loan classification and provisioning seems to be little bit uncomfortable to the commercial banks.
2. Deposit and loan and advances of NBBL are higher than EBL but in case of the investment EBL is able to mobilize more funds than NBBL in this sector.

Khadka in his thesis paper, **(A study on the investment policy of Nepal Arab Bank ltd. In comparison other joint venture banks in Nepal,1998)** He has compared investment policy of NAB ltd. with Nepal Grind lays Bank Limited (NGB) and Nepal Indosuez Bank Ltd. his study is based on five years period from 1992 to 1996. He has taken only two banks to compare the investment policy NAIL among thirteen commercial banks in Nepal.

Main object of the study

1. To find out relationship between total investments, deposits, loan and advances, net profit and outside asset and compare them.

2. To compare investment policies of concerned banks and discuss the fund mobilization of sample banks.

3.To analyze the risk position of both bank.

Main finding of the study

1. Both joint venture banks to be careful in increasing profit in real sense to maintain the confidence of shareholders, depositors and customers.

2. NGB to utilizing risk assets and shareholders funds to gain highest profit margin, reduce its expenses, and cheaper fund for more profitability.

3. NGB has invested a high portion of total working fund in government securities and shares & debentures of other companies.

4. The profitability position of NGB is better than NIBL.

Gautam (2006) has conducted a thesis research entitled "Investment portfolio Analysis of JVB's".

The specific objectives of the study were:

a) To analyze the risk and return ratios of commercial banks.

b) To evaluate the financial performance of JVB's.

c) To provide suggestion package based on the analysis of data.

Main finding of the study

1. SCBNL has the highest return on shareholders' fund and total assets. It has also been successful in mobilizing its deposits as investments. NABIL and EBL have invested high amounts of deposits as loan and advances in comparison to SCBNL, NABIL and HBL.

2.Among the JVB's, looking at the investment portfolio, EBL has investment highest amount of funds in government securities, NBB has invested highest amount of funds on shares and debentures and NABIL has invested highest amount of funds in NRB bonds in comparison to other JVB's.

CHAPTER III
RESEARCH METHODOLOGY

3.1 Introduction

Research methodology describes the method and process applied in the study. This chapter describes the methodology employed in the study. Research methodology refers to various sequential steps these are adopted by a researcher in studying a problem with certain objectives**.** In other words, research methodology describes the method and process applied in the entire aspect of the study. It is the process of arriving at a solution of the problem through planned and systematic dealing with the collection, analysis, and interpretation of facts and figures. Research is a systematic method of finding right solutions for the problem where as research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology refers to the various methods of practices applied by the researcher in the entire aspect of the study.

The basic objectives of this study is to evaluate the fund mobilizing policy of standard chattered bank has got in the whole commercial JVBS of Nepal & recommend the useful & meaningful, points. So that all concerned can achieve something from this study. To accomplish this goal, the study follows the research methodology described in this chapter.

3.2 Research Design

A research design is the arrangement of conditions for collection & analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure**.** Research design is the plan, structure & strategy of investigation conceived. So as to obtain answers to research questions & to control variances. To achieve the objective of the study, description & analytical research design have been used.

Basically, the proposed study is mainly based on two types of research design namely descriptive and analytical. Descriptive research design describes the general attitude of the Nepalese depositors, business environment, problems regarding the deposits mobilization aspects etc. Similarly, the analytical research design makes a through analysis of gathered facts and information and critically evaluates it as well.

Some statistical & accounting tools have also been applied to examine facts and descriptive techniques have been adopted to evaluate funds mobilizing performance of standard charted bank & Nepal Bank Limited & these are compared with the deposit mobilization position of commercial banks in aggregate.

3.3 Sources of Data

This study is conducted on the basis of secondary data. The data relating to the investment, deposit, loan & advances, assets, & profit are directly obtained from the balance sheet & profit & loss a/c of concerned bank's annual reports. Supplementary data & information are collected from number of institution & regulating authorities like NRB, security exchange board, Nepal stock exchange Ltd, ministry of finance budget speech of different fiscal years, economic survey & national planning commission etc.

According to the need & objectives, all the secondary data are compiled. Processed & tabulated in time series. In order to judge the reliability of data provided by the banks & other sources, they were compiled with the annual reports of auditors. Formal & informal talks to the concerned head of the department of the bank were also helpful to obtain the additional information of the related problem.

Similarly, various data & information are collected from the periodic economic journals, managerial magazines & other published & unpublished reports & documents from various sources. This research study would be based on the secondary data that are available in the published form.

Specifically, the required data for the study has been collected from the concerned organizations and a number of publishers. In other words, it has been gathered from a number of books, journals, articles, reports, etc. Some of the major types and sources of data are as follows:

- Banking and financial statistics of Nepal Rastra Bank.
- Annual report of Nepal bank ltd.
- Annual Reports of Standard Charted Bank Nepal Ltd.
- Central Bank's directives to Commercial Banks:

- Statistics Nirdesika 2059
- Directive I to II
- Consortium Financial Directive
- Main Economic Indicators
- Recent macro economic situation of Nepal, 2004/2005

3.4 Population & Sampling of the study

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

3.5 Method of Analysis

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

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

3.6 Necessary tools and techniques for the study

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

3.6.1 Financial analysis (Ratio Analysis)

In this unit the financial position of the banks are observed. Especially the ratio analysis technique is applied for financial analysis of total commercial banking system and sampled banks in this unit. An arithmetical relationship between two figures is known as ratio. It is computed by dividing one item of relationship with the other. Ratio simply means one number expressed in terms of another.

Ratio analysis is a technique of analysis & interpretation of financial statement. To evaluate the performances of an organization by creating the ratios from the figure of different accounts consisting in balance sheet & income statement is known as ratio Analysis. Ratio analysis is also very helpful for decision making. From the information provided by ratio analysis with the help of financial statement are very useful for making decision on any financial activity. Due to inter-firm comparison ratio analysis also serves as a stepping stone to remedial measures. It helps management in evolving future market strategies'.

I. Liquidity Ratios

Liquid Assets to Total Assets ratio $= \dfrac{\text{liquid assets}}{\text{Total assets}}$

Liquid fund to total deposit ratio $= \dfrac{\text{liquid fund}}{\text{Total deposits}}$

Cash and bank balance to current assets ratio $= \dfrac{\text{cash and bank balance}}{\text{Current assets}}$

ii. Assets Management Ratios

Total deposit to total liabilities ratio $= \dfrac{\text{Total deposit}}{\text{Total liabilities}}$

Loan and advances to total deposit ratio $= \dfrac{\text{loan and advances}}{\text{Total deposits}}$

Total investment to total deposit ratio $= \dfrac{\text{Total investment}}{\text{Total deposits}}$

Loan and advances to total assets ratio $= \dfrac{\text{loan and advances}}{\text{Total assets}}$

Investment on government bond to

total deposit ratio = $\frac{\text{Investment on government bond}}{\text{Total deposit}}$

iii. Profitability Ratios

Interest income to total income ratio = $\frac{\text{Interest income}}{\text{Total income}}$

Return on loan and advances ratio = $\frac{\text{Net profit}}{\text{Loan \& adv}}$

Return on total assets ratio = $\frac{\text{Net profit}}{\text{Total assets}}$

Interest expenses to total expenses = $\frac{\text{Interest expenses}}{\text{Total expenses}}$

iv. Growth Ratios

Growth ratio of deposit

Growth of loan and advances

Growth of investment

Growth of return

Standard Deviation

The measurement of the scatter ness 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, larger will be the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as home gently of a series; a large standard deviation means just the opposites. In this study, standard deviation of different ratio is calculated.

$$S.D. = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2}$$

Co-efficient of variance (C .V)

The co-efficient of variance is the relative measurement of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in percentage. It is calculated as.

$$C.V = \frac{S.D}{Mean} \times 100\%$$

Where,

$$\text{Standard deviation (S.D.)} = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2}$$

3.6.2 Statistical tools

3.6.2.I Coefficient of Correlation Analysis (r)

"Correlation is the statistical tools that we can use to describe the degree to which one variable in linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of sigma. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 & -1. When r = +1, it means there is perfect relationship between two variables & vice versa. When r= 0, it means there is no relationship between two variables. The Pearson's formula is:

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

Probable error of correlation is calculated by following formula**.**

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

3.6.2.II Least Square Linear Trend

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

$$Y = a + bx$$

Where,

Y = Dependent variable. X= independent variable

a = Y intercept b= slope of the trend line

3.6.2.3 Test of hypothesis (t- test)

To test the validity of our assumption, if sample size is less than 30, t – test is used 30". Applying t – test in the context of small sample, the '+' value is calculated first & compared with the table value of '+' at a certain level of significance for value of 't' exceeds the table value (say 0.05). We inter that the difference is significant at 5% level. But if it is less than the concerning table value of the difference, it is not treated as significant.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Data Presentation and Analysis

This is an analytical chapter, where an attempt has been made to analyze and evaluate major financial items, which have an impact on investment management and fund mobilization of NABIL and SCBNL. There are many types of financial ratios. In this study those ratios are calculated and analyzed that are crucial in evaluating fund mobilization of commercial banks.

4.1.1 Financial Tools

Financial analysis involves identifying the financial strength and weakness of the organization by presenting the relationship between items of the balance sheet. For the purpose of this study, ratio analysis has been mainly used for the analysis of data.

Various financial ratios related to investment management and fund mobilization, have been presented and discussed in order to evaluate and analyze the performance of two joint venture banks, namely NABIL and SCBNL. The ratios are designed and calculated to highlight the relationship between financial items and figures. These calculations are based on financial statements of concerned JVB's. The financial ratios that are calculated for the purpose of this study are:

A : Liquidity ratio

B : Asset Management ratio

C : Profitability ratio

D : Risk ratio

E : Growth ratio

A) Liquidity Ratios

Liquidity ratios measure the firm's ability to meet its current obligation. The following ratios which measure the liquidity position of banks are calculated:

i) Current Ratio

This ratio is calculated by dividing current assets by current liabilities. (For detail see appendix –3).

The current ratios of NABIL and SCBNL are given in the table below:

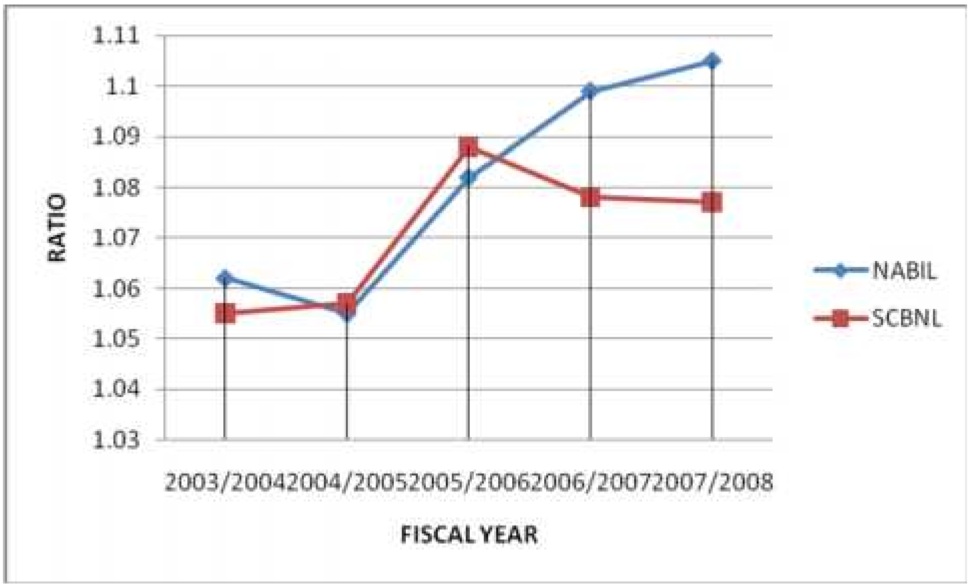
Table No. 2

Current Ratio (Times)

F/Y	NABIL	SCBNL
2003/2004	1.062	1.055
2004/2005	1.055	1.057
2005/2006	1.082	1.088
2006/2007	1.099	1.078
2007/2008	1.105	1.077
Mean	1.0806	1.071
S.D.	0.0197	0.0129
C.V.	1.82%	1.20%

Figure No. 1

Current Ratio (Times)



It is clear from the above table that both NABIL and SCBNL have maintained current assets more than their current liabilities. This is a sign that both banks are capable enough to pay their current obligations. NABIL has the highest current ratio in F/Y 2007/08 i.e., 1.105 and the lowest in F/Y 2003/2004 i.e., 1.055.

Similarly SCBNL has a high current ratio of 1.088 in F/Y 2005/2006and a low of 1.055 in F/Y 2003/2004. The averages mean ratio of NABIL is slightly higher than SCBNL; i.e. 1.0806 >1.071. This shows that NABIL's liquidity position is slightly better than that of SCBNL. The lower degree of standard deviation and coefficient of variation suggest that both the banks have maintained consistency in their ratios. Though as per the conventional rule current ratio should be 2:1 but for banks and other financial institutions any current ratio above 1 also considered healthy and sound.

In order to bring about consistency in this research, checks subject to clearing have been excluded from cash and bank balance and included in other assets.

ii)Cash and Bank Balance to Total Deposit Ratio

This ratio is calculated by dividing cash and bank balance by total deposits. (For details see appendix –4). The cash and bank balance to total deposits ratio of NABIL and SCBNL are given below:

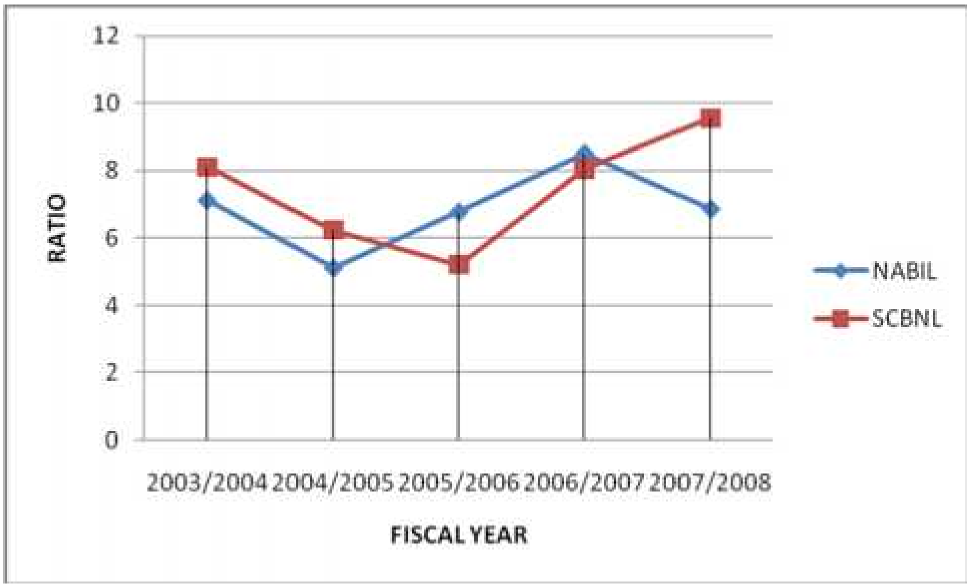
Table No. 3

Cash and Bank Balance to Total deposit ratio (%)

F/Y	NABIL	SCBNL
2003/2004	7.12	8.12
2004/2005	5.13	6.23
2005/2006	6.78	5.21
2006/2007	8.5	8.06
2007/2008	6.87	9.56
Mean	6.88	7.44
S.D.	1.0728	1.5348
C.V.	15.59%	20.63%

Figure No. 2

Cash and Bank Balance to Total deposit ratio (%)



The above table shows that the cash and bank balance to total deposit of both NABIL and SCBNL are in fluctuating trend. NABIL had a high ratio of 8.50% in F/Y 2006/2007 and a low ratio of 5.13% in F/Y 2004/2005. Similarly, SCBNL has a high of 9.56% in F/Y 2007/2008 and a low of 5.21% in F/Y 2004/2005. The averages mean ratio of SCBNL is slightly higher than NABIL i.e., 7.44%>6.88%. This shows, SCBNL readiness to meet customer requirement better than NABIL. The C.V. of NABIL of is slightly lower than that of SCBNL i.e., 15.59%<20.63%. On its basis, it can be concluded that NABIL's ratios are more consistent than that of SCBNL.

Although the above ratios implies a slightly better liquidity position of SCBNL, a high ratio of non-earning cash and bank balance indicates the banks unavailability to invest its fund in income generation areas that might have helped it to improve its profitability.

iii)Cash and Bank Balance to Current Assets Ratio

This ratio is calculated by dividing cash and bank balance by current assets (for detail see appendix-5). The Cash and bank balance to current assets ratio are presented in the following table.

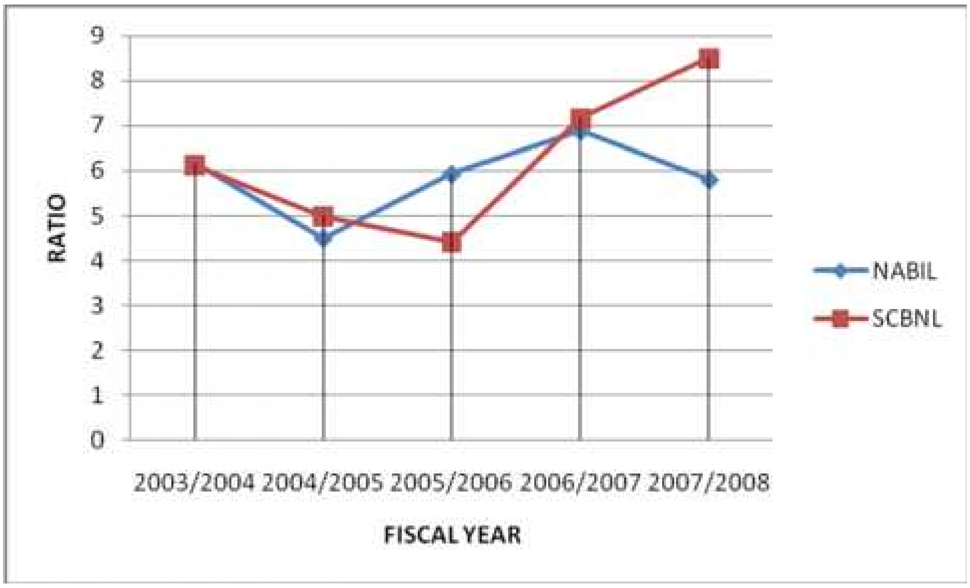
Table No. 4

Cash and Bank Balance to current asset ratio (%)

F/Y	NABIL	SCBNL
2003/2004	6.16	6.13
2004/2005	4.49	5
2005/2006	5.93	4.42
2006/2007	6.88	7.17
2007/2008	5.8	8.51
Mean	5.85	6.25
S.D.	0.7698	1.475
C.V.	13.16%	23.60%

Figure No. 3

Cash and Bank Balance to current asset ratio (%)



There above table shows that the cash and bank balance to current assets of both NABIL & SCBNL are in a fluctuating trend. NABIL has maintained a high ratio of 6.88% in F/Y 2006/07, and a low ratio of 4.49% in 2004/05. Similarly, SCBNL has a high of 8.57 in F/Y 2007/08 anticipating higher cash requirement depositors in this F/Y. It has a low ratio of 4.42% in F/Y 2005/2006.

The average mean ratio of SCBNL is slightly higher than NABIL. The C.V. of SCBNL is greater than that of NABIL i.e., 23.6%>13.16%. It shows SCBNL ratios are less consistent than that of NABIL. The above table does not show any significant difference between the JVB's with regards to meeting customer's daily cash requirement. Both have fared well in meeting their depositor's daily cash requirement and investing the surplus fund in other productive areas.

iv)Investment on Government Securities to Current Assets Ratio

This ratio is calculated by dividing investment on government securities by current assets. The Investment on Government securities to current assets ratio of NABIL and SCBNL are tabulated below:

Table No. 5

Investment on Government Securities to Current Assets Ratio (%)

F/Y	NABIL	SCBNL
2003/2004	8.35	20.05
2004/2005	15.1	25.03
2005/2006	23.24	31
2006/2007	21.56	31.86
2007/2008	21.94	33.43

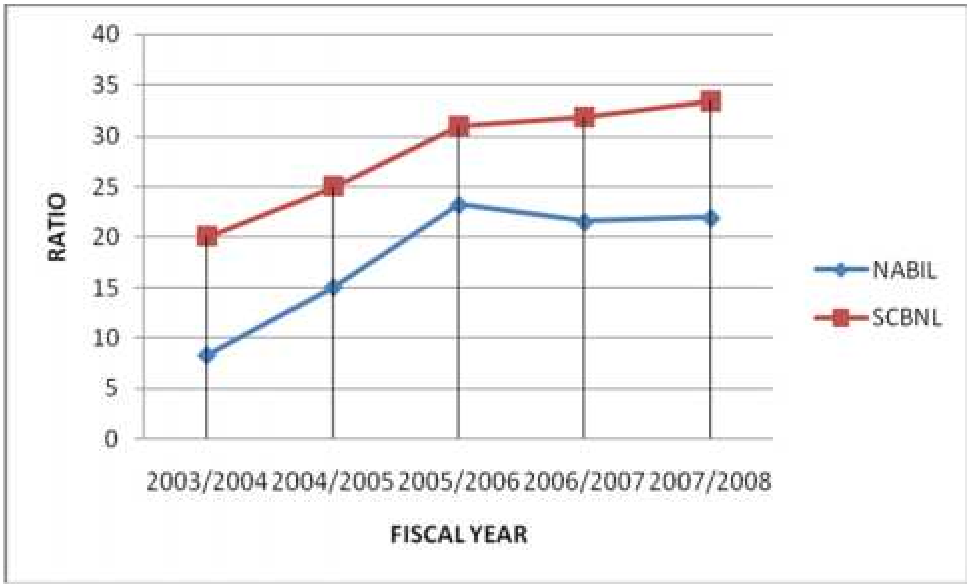
Mean	18.04	28.27
S.D.	5.606	5
C.V.	31.08%	17.69%

The above table clearly depicts that the investment on Government securities to current assets of both the sample banks have a fluctuating trend. Never the less, both have tried to maintain consistency from F/Y 2004/2005 onwards.

From the above five year picture, it is evident that the average mean ratio of SCBNL is higher than that of NABIL i.e. 28.27%>18.04%. This shows that a greater portion of current assets of SCBNL comprises of government securities. Also, SCBNL's investments in government securities to current assets have an increasing trend over the years. From the point of view of C.V. SCBNL's ratios have been more consistent. NABIL has been more consistent in its ratio post F/Y 2004/05. From the above analysis it is clear that NABIL has made lesser investment in government securities as it has injected more funds on other productive sectors. The reason behind SCBNL higher ratio could be attributed to more deposit collection and unavailability of other secured and profitable investment sectors. The balance sheet of SCBNL post 2004/05 shows that total fund invested in government securities is more than the loan & advances it has made. Investment on government securities to current assets ratio of NABIL & SCBNL is graphically shown as follows:

Figure No. 4

Investment on Government Securities to Current Assets Ratio of NABIL and SCBNL



v) *Loan and Advances to Current Assets Ratio*

This ratio is calculated by dividing total loan and advances by current assets (for detail see appendix-7). The ratios are presented in the following table.

Table No. 6

Loan and advances to current assets ratio (%)

F/Y	NABIL	SCBNL
2003/2004	41.82	28.67
2004/2005	46	29.55
2005/2006	44	30.52
2006/2007	48.75	28.43
2007/2008	51.06	28.15
Mean	46.33	29.06
S.D.	3.29	0.866
C.V.	7.00%	2.98%

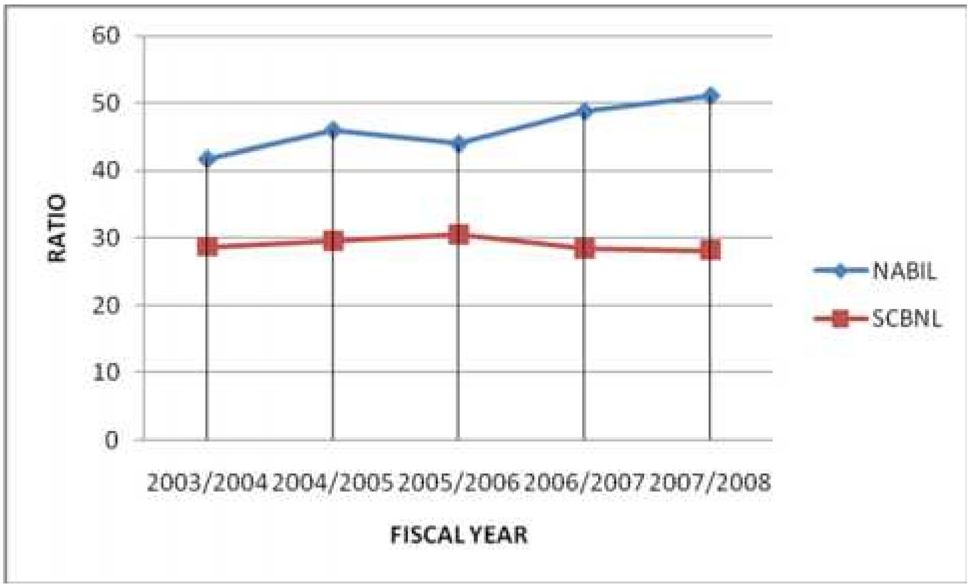
The above table clearly shows favorable increasing trend of loan and advances of NABIL during the study period. The average mean ratio of NABIL is higher compared to SCBNL i.e. 46.33>29.06. SCBNL has experienced an increasing trend of loan and advances upto F/Y 2005/2006. There after it has witnessed a decrease in loan and advances as a percentage of current assets. NABIL had had a high ratio of 51.06% in 2007/08 and a low ratio of 41.82% in F/Y 2003/2004. Similarly SCBNL has experienced a high ratio of 30.52% in F/Y 2005/2006 and a low of 28.15% in F/Y 2007/2008.

The above analysis reveals that NABIL has been more successful in identifying profitable investment sectors and increasing its earning. The same does not hold true for SCBNL, whose efforts seems to be more focused on investing in risk free assets, rather than increasing its loan and advances volume and subsequent earnings from it.

The loan and advances to current assets ratios of NABIL and SCBNL are graphically shown as follows:

Figure No. 5

Loan and Advances to current asset ratio of NABIL & SCBNL



B) Asset Management Ratios

The following ratios measure the asset management ability of NABIL and SCBNL.

i)Loan and Advances to Total Deposit Ratio

This ratio is calculated by dividing total loan and advances by total deposits. (For details see appendix-8).

The data tabulated below shows the loan and advances to total deposit ratio of NABIL and SCBNL.

Table No: 7

Loan and Advances to Total Deposit Ratio (%)

F/Y	NABIL	SCBNL
2003/2004	56.43	38
2004/2005	52.56	36.82
2005/2006	50.31	35.97
2006/2007	60.34	32
2007/2008	60.55	31.63
Mean	56.03	34.88
S.D.	4.096	2.588
C.V.	7.31%	7.42%

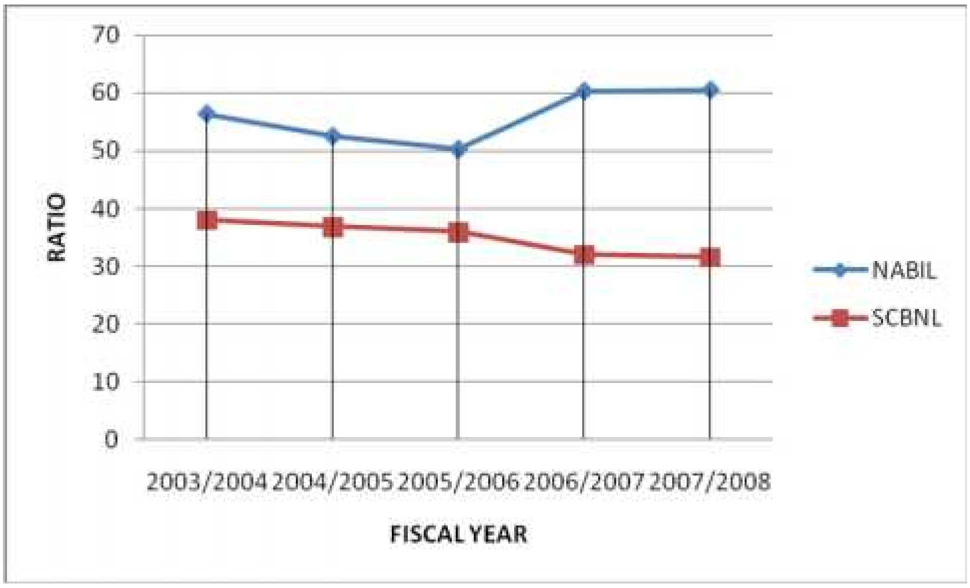
The above table shows that the loan and advances to total deposit of both the banks have a fluctuating trend. NABIL had a high ratio of 60.55% in F/Y 2007/08and a low ratio of 50.31% in F/Y 2005/06. Accordingly, SCBNL had a high of 38% and a low of 31.63%. SCBNL's loan and advances to total deposit has had a decreasing trend over the years. The mean ratio of NABIL is almost twice that of SCBNL i.e. 60.55%>31.63%. NABIL seems to be strong in terms of mobilization of its total deposits as loan and advances when compared to SCBNL.

In terms of C.V., both seem to be equally consistent.It can be concluded that, NABIL has been more successful in mobilizing its total deposits as loan and advances than SCBNL. On the contrary, a high ratio should not be perceived as a better state of affairs from the point of view of liquidity, as loan and advance are not as liquid as cash and bank balance and other investment. In portfolio management of bank various factors such as availability of funds, liquidity requirements, central bank norms etc. needs to be taken into account.

Figure No. 6

Loan and Advances to Total Deposits

Ratio of NABIL and SCBNL



ii)Total Investment to Total Deposit Ratio

This ratio is calculated by dividing total investments by total deposits (For detail see apendix-9)

The data tabulated below shows the total investment to total deposit ratio of NABIL and SCBNL.

Table No. 8

Total Investment to Total Deposit Ratios (%)

F/Y	NABIL	SCBNL
2003/2004	9.79	26.65
2004/2005	48.64	61.95
2005/2006	52.88	58.58
2006/2007	44.85	52.22
2007/2008	41.33	53.68
Mean	39.5	50.62
S.D.	15.34	12.48
C.V.	38.84%	24.65%

The above table shows a highly fluctuating trend in total Investment to total deposit of NABIL and SCBNL. NABIL has a high ratio of 52.88% and a low ratio of 9.79%. SCBNL, on the other hand had a high ratio of 61.95% and a low ratio of 26.65% in F/Y2005/2006 and20032/2004 respectively.

SCBNL has a high mean ratio than NABIL i.e., 50.62%>39.50%. From mean ratio perspective, SCBNL has been more successful in mobilization of deposits on various forms of investment.

From C.V.'s viewpoint, both the sample banks have been inconsistent, with SCBNL being little better in terms of consistency than NABIL.

In conclusion, the above analysis reveals that SCBNL has been more successful in mobilizing its resources on various forms of investment. What is worth mentioning is that Interest on Treasury Bills, Inter bank lending and placements are at an all time low level, so SCBNL has not done itself justice by investing in low yield less risky and risk free assets.

Total deposits, loan and advance and total Investment of NABIL and SCBNL are presented in the bar diagram below.

Figure No. 7

Total Investment, Loan & Advances and Total Deposit of Nabil (2003/04 to 2007/2008)

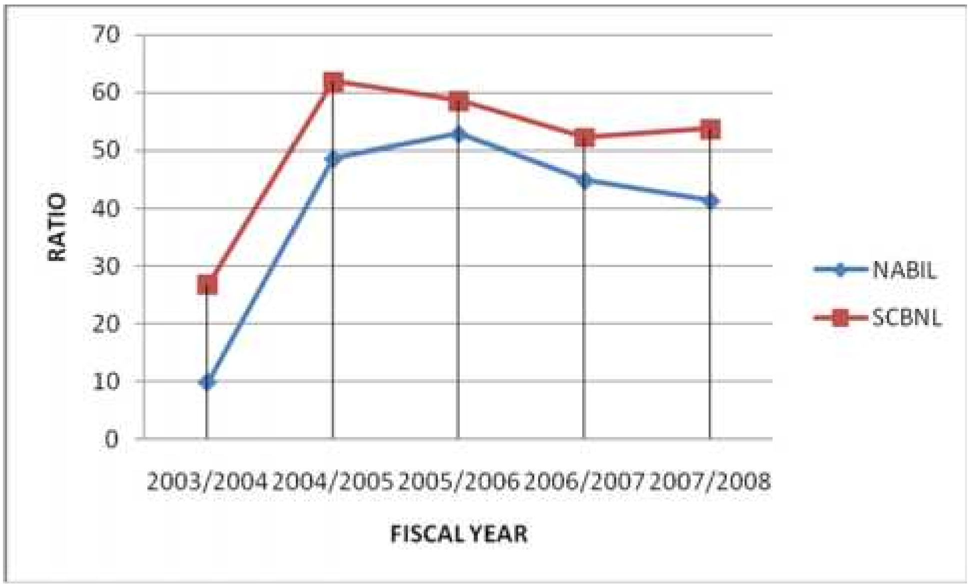
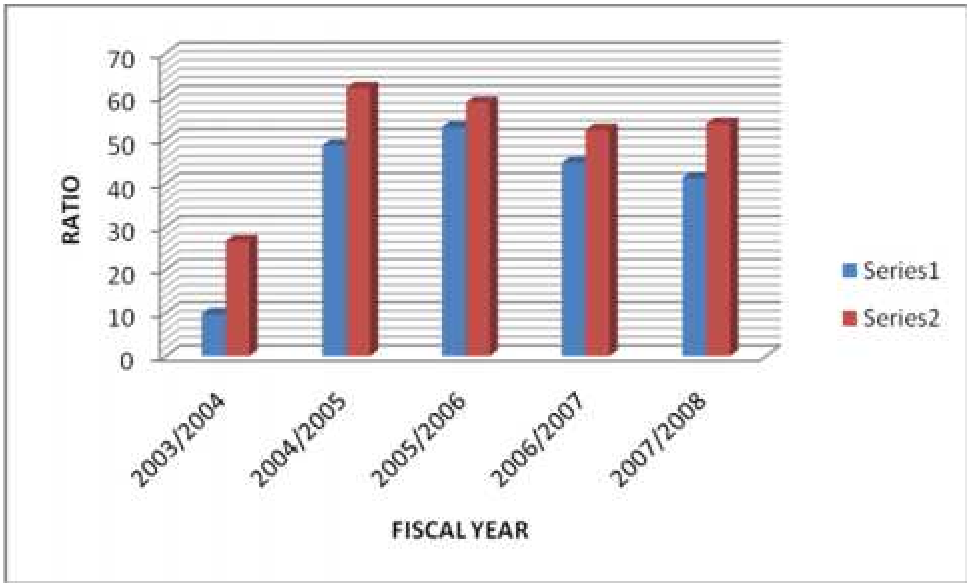


Figure No. 8

Total Investment, Loan & Advances and Total Deposit of SCBNL (2003/04 to 2007/2008)



iii) Loan and Advances to Total Working Fund Ratio

This ratio is computed by dividing loan and advances by total working fund. The following table exhibits the ratio of loan and advances to total working fund of NABIL and SCBNL during the study period.

Table No. 9

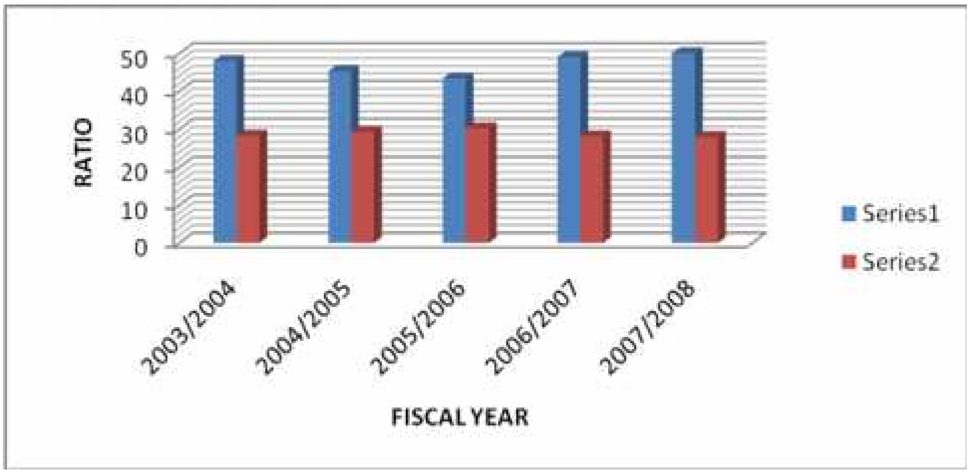
Loan and Advances to Total Working Fund Ratio

F/Y	NABIL	SCBNL
2003/2004	48	28.36
2004/2005	45.32	29.35
2005/2006	43.36	30.34
2006/2007	49	28.16
2007/2008	50	28
Mean	47.14	28.84
S.D.	2.449	1.977
C.V.	5.20%	6.86%

The above table shows a fluctuating trend of loan and advances total working fund of NABIL and SCBNL. NABIL has maintained highest ratio of 50% in F/Y 2007/08 and a low ratio of 43.36% in F/Y 2004/05. Similarly, SCBNL has maintained a high ratio of 30.34% in F/Y 2005/06 and a low ratio of 28% in F/Y 2007/08.

NABIL also has a high average ratio of loan and advances to total working fund than SCBNL i.e. 47.14%>28.84%. It reveals the strength of NABIL in mobilizing its total assets as loan and advances. NABIL's CAR (capital adequacy ratio) stands at a comfortable 13.56% against NRB mandatory requirement of 12%. This surplus capital gives it an added advantage to assume more risk-weighted asset within NRB prescribed norms.

Figure No. 9



iv)Investment in Government Securities to Total Working Fund Ratio

This ratio is calculated by dividing Investment on government securities by total working fund. The following table shows that ratios of NABIL and SCBNL.

Table No. 10

Investment in Government Securities to

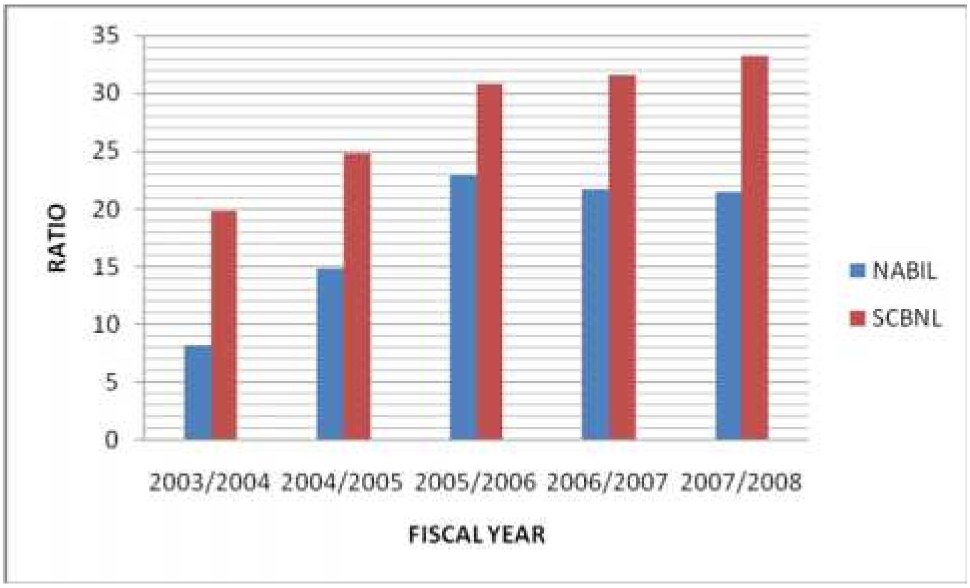
Total Working Fund Ratio

F/Y	NABIL	SCBNL
2003/2004	8.2	19.83
2004/2005	14.88	24.85
2005/2006	22.9	30.81
2006/2007	21.67	31.56
2007/2008	21.47	33.22
Mean	17.82	28.05
S.D.	5.57	4.99
C.V.	31.26%	17.79%

Figure No. 10

Investment in Government Securities to

Total Working Fund Ratio



The above table reveals that SCBNL has had an increasing trend of Investment of Government securities to total working fund over the study period while NABIL has had more of a fluctuating trend. NABIL has a higher ratio 22.90% in F/Y 2005/06 and a low ratio of 8.20% in F/Y 2003/2004. Similarly, SCBNL has had a high ratio of 33.22% in F/Y 2007/08 and low ratio of 19.83% in 2003/2004.

When mean ratio is considered, NABIL seems to be slightly weaker than SCBNL in mobilizing of total assets as Investment in Government securities i.e. (17.82%<28.05%).

Also, when we compare C.V. of both, it reflects that ratios of NABIL are less consistent than SCBNL i.e., (31.26%>17.79%).

From the above analysis, we can conclude that SCBNL has invested larger portion of working fund in government securities than NABIL. The ratios also indicates that both the banks have no concrete or certain investment policy with regards to what percentage of working fund to be invested in purchasing government securities.

v) Investment on Share and Debentures to Total Working Fund Ratio.

The Investment on share and debentures to total working fund ratio of NABIL and SCBNL has been shown in the following table.

Table No. 11

Investment on Share and Debentures to

Total Working Fund Ratio

F/Y	NABIL	SCBNL
2003/2004	0.107	0.067
2004/2005	0.103	0.058
2005/2006	0.124	0.06
2006/2007	0.134	0.053
2007/2008	0.13	0.047
Mean	0.12	0.057
S.D.	0.0124	0.005
C.V.	10.33%	8.77%

The above table clearly reveals that both the banks have invested miniscule percentage of total working fund in purchasing share and debentures of other companies. In either case the ratio percentage is less than 0.2%. NABIL has invested slightly higher amount of total working fund on shares and debenture than SCBNL. it also has a mean ratio higher than SCBNL. It indicates that NABIL has been more successful in mobilizing it funds as Investment in shares and debenture than SCBNL, though the fund invested is marginal.

The above table also shows NABIL's increasing trend in Investment on shares and debentures except for F/Y 2007/08, where as SCBNL has had a fluctuating trend through out the period of study.

In terms of C.V. both the banks have remained fairly consistent though SCBNL's variability is slightly less than that of NABIL i.e., (8.77%<10.33%).

C) Profitability Ratio

The following ratios are calculated under profitability ratios:

i) Return on Loan and advances ratio

This ratio is calculated by dividing net profit by loan and advances. The following table shows the return on loan and advances ratio of NABIL and SCBNL during the study period.

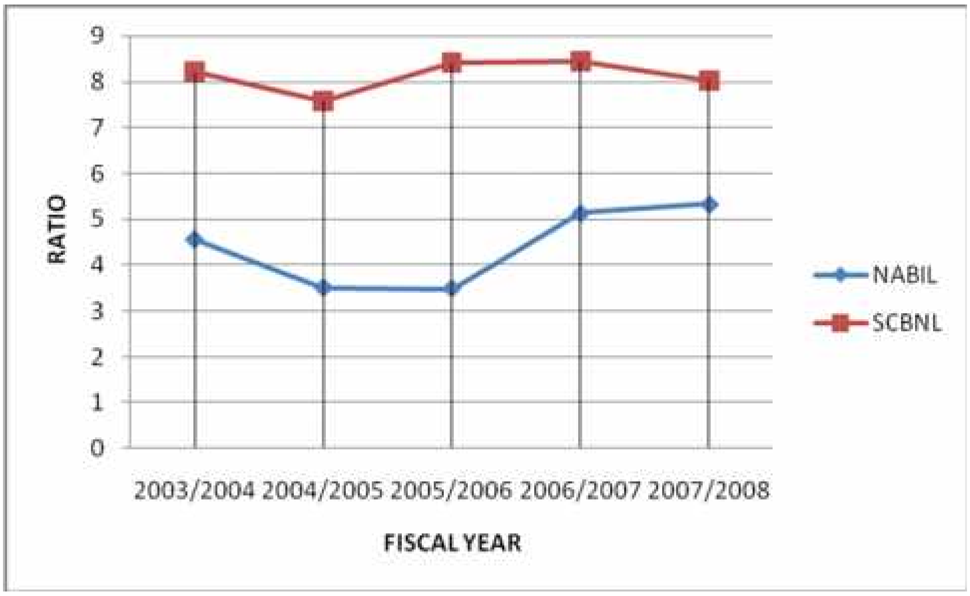
Table No. 12

Return on Loan and Advances Ratio (%)

F/Y	NABIL	SCBNL
2003/2004	4.56	8.22
2004/2005	3.50	7.58
2005/2006	3.48	8.41
2006/2007	5.13	8.45
2007/2008	5.33	8.03
Mean	4.40	8.14
S.D.	0.7848	0.3165
C.V.	17.84%	3.89%

Figure No. 11

Return on Loan and Advances Ratio (%)



The above table shows that the ratio of return on loan and advances of SCBNL are better than NABIL in all F/Y, through they have a fluctuating trend. NABIL's ratios have witnessed a decreasing trend upto F/Y 2005/06, thereafter they have an increasing trend. NABIL has recorded a high ratio of 5.33% in F/Y 2007/08, and a low ratio of 3.48% in F/Y 2005/06. Similarly, SCBNL recorded a high of 8.45% in F/Y 2006/07 and a low of 7.58% in F/Y 2005/06. Similarly, SCBNL recorded a high of 8.45% in F/Y 2006/07 and a low of 7.58% in F/Y 2004/05.

The comparison of mean ratio reveals that SCBNL has a higher ratio than NABIL i.e., 8.14%>4.40%. This shows that SCBNL has been more successful in maintaining its higher return on loan and advances than NABIL.

C.V. of SCBNL is significantly lower than NABIL i.e. 3.89%>17.84%. It proves that NABIL has higher variability of ratio than SCBNL.

In conclusion, it can be said that NABIL's profit earning capacity by utilizing available resources in weaker compared to SCBNL, but nevertheless NABIL is making significant improvements in this regard.

ii)Return on Total Working Fund Ratio

This ratio is calculated by dividing net profit by total working fund. The data tabulated below reflects the profitability position with respect to total assets of NABIL and SCBNL.

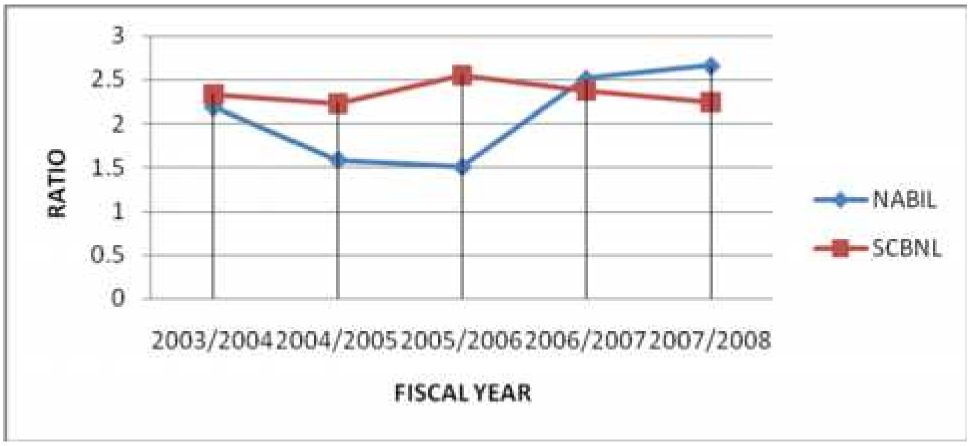
Table No. 13

Return on total working fund ratio (%)

F/Y	NABIL	SCBNL
2003/2004	2.19	2.33
2004/2005	1.59	2.23
2005/2006	1.51	2.55
2006/2007	2.51	2.38
2007/2008	2.66	2.25
Mean	2.09	2.35
S.D.	0.4686	0.1146
C.V.	22.42%	4.88%

Figure No. 11

Return on total working fund ratio (%)



The above table reveals that the ratio of return on total working fund is in decreasing trend in case of NABIL upto F/Y 2005/06. From F/Y 2005/06 the ratio has an increasing trend. It has surpassed SCBNL in F/Y 2002/03, 2006/07. NABIL has had a high ratio of 2.66% in F/Y 2007/08 and a low ratio of 1.51% in F/Y 2005/06. Similarly, SCBNL has had a high of 2.55% and a low of 2.23% in F/Y 2005/06 and 2004/05 respectively.

SCBNL has a slightly high mean ratio than NABIL i.e., 2.35>2.09. It reveals that SCBNL has been able to earn high profit on total working fund in comparison to NABIL. One point worth making here is that NABIL has managed and utilized it assets more efficiently than SCBNL from F/Y 2006/07 onwards and its return on assets have also been higher. SCBNL has not managed its assets well post F/Y 2005/2006. Its return on total assets has also been lower in comparison to NABIL in F/Y 2006/07 and 2007/08.

From the viewpoint of C.V., SCBNL's ratios are more consistent than NABIL i.e. 4.88% < 22.42%. Both banks need to exert more effort in mobilizing its working assets more efficiently.

iii)Total Interest Earned to Total Working Fund Ratio

This ratio is calculated by dividing total interest earned by total assets. The following table shows interest earned to total working fund ratio of NABIL and SCBNL during the review period.

Table No. 14

Total Interest earned to total asset (%)

F/Y	**NABIL**	**SCBNL**
2003/2004	6.97	6.25
2004/2005	6.90	6.42
2005/2006	6.25	5.40
2006/2007	6.15	4.70
2007/2008	5.86	4.36
Mean	6.43	5.43
S.D.	0.4355	0.8162
C.V.	6.77%	15.03%

The above table reflects a decreasing trend in interest earning ratio of both the banks. NABIL has had a high ratio of 6.97% in F/Y 2003/2004 and a low ratio of 5.86% in F/Y 2007/2008. Similarly, SCBNL has experienced a high of 6.42% in F/Y 2004/2005and a low of 4.36% in F/Y 2007/2008.

The average Interest earning ratio of NABIL is 6.43% where as the same for SCBNL is 5.43%. This reflects that NABIL has been stronger in terms of interest earning power w.r.t. total working fund than SCBNL.

From the above analysis, we can conclude that NABIL has been able to earn high interest on its total assets i.e., it has been more successful in mobilizing its assets to generate high income. The decreasing trend of interest earning ratio w.r.t. total working fund is a matter of concern, and both the banks need to look for ways to improve upon their interest earnings.

iv)Total Interest Earned to Total Operating Income Ratio

This ratio is calculated by dividing total interest earning by net operating income. The following table shows interest earned to total operating income ratio of NABIL and SCBNL.

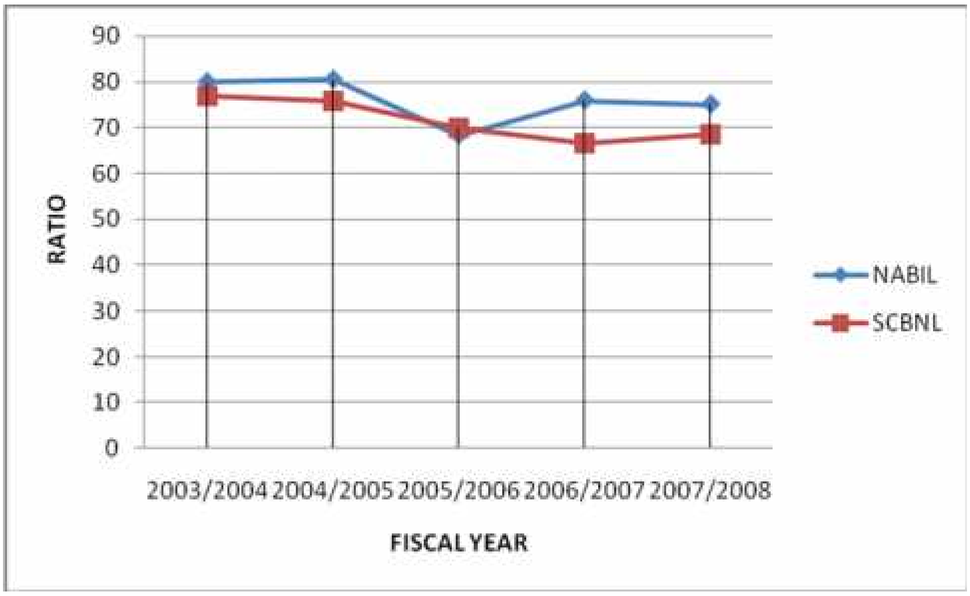
Table No. 15

Interest Earned to Total Operating Income Ratio (%)

F/Y	NABIL	SCBNL
2003/2004	79.96	77.00
2004/2005	80.51	75.78
2005/2006	68.34	70.00
2006/2007	75.93	66.60
2007/2008	75.10	68.51
Mean	75.97	71.58
S.D.	4.37	4.09
C.V.	5.75%	5.72%

Figure No. 12

Interest Earned to Total Operating Income Ratio (%)



The above table shows that both the banks have a fluctuating trend of Interest earning ratio w.r.t total operating income. SCBNL moreover has had a decreasing trend of Interest earned to total operating income ratio except for F/Y 2007/08. The higher and lower ratios of NABIL are 80.51% in F/Y 2004/2005 and 68.34% F/Y 2005/2006 respectively. SCBNL has had a high of 77% in F/Y 2003/2004 and a low of 66.60% in F/Y 2006/2007.

The mean ratio of NABIL is higher than SCBNL i.e., 75.97%>71.58%. On the basis of mean ratio, we can say that NABIL has been more successful in earning higher amount of interest income out of total operating income.

On the other hand, the variability in Interest earned to total operating income of both the banks are similar. Both have been equally consistent in their ratios.

From the above analysis, it can be concluded that NABIL has mobilized its funds in interest bearing assets better than SCBNL. It is also evident that SCBNL has given more priority to non-fund based income to earn higher profit than NABIL. NABIL needs to increase its income from off balance sheet operation as well.

v)Total Interest Earned to Total Outside Assets Ratio

This ratio is calculated by dividing total interest earned by total outside asset. The following table shows interest earned to total outside assets

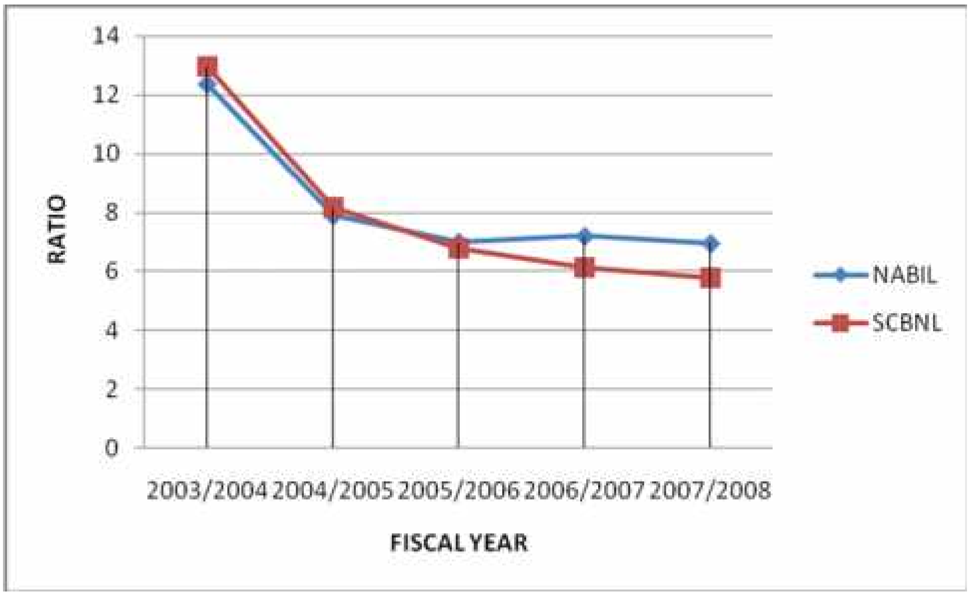
Table No. 16

Total Interest Earned to Total Outside Assets Ratio

F/Y	NABIL	SCBNL
2003/2004	12.37	12.95
2004/2005	7.90	8.16
2005/2006	7.00	6.77
2006/2007	7.20	6.12
2007/2008	6.96	5.77
Mean	8.29	7.95
S.D.	2.069	2.628
C.V.	24.96%	33.06%

Figure No. 13

Total Interest Earned to Total Outside Assets Ratio



The above table reflects a fluctuating trend in Interest earned to total outside assets in case of NABIL, where as SCBNL ratios have a decreasing trend.

NABIL has recorded a high ratio of 12.37% in F/Y 2003/2004 and a low ratio of 6.96% in F/Y 2007/2008. SCBNL has had a high ratio of 12.95% in FY 2003/2004 and a low ratio of 5.77% in F/Y 2007/2008.

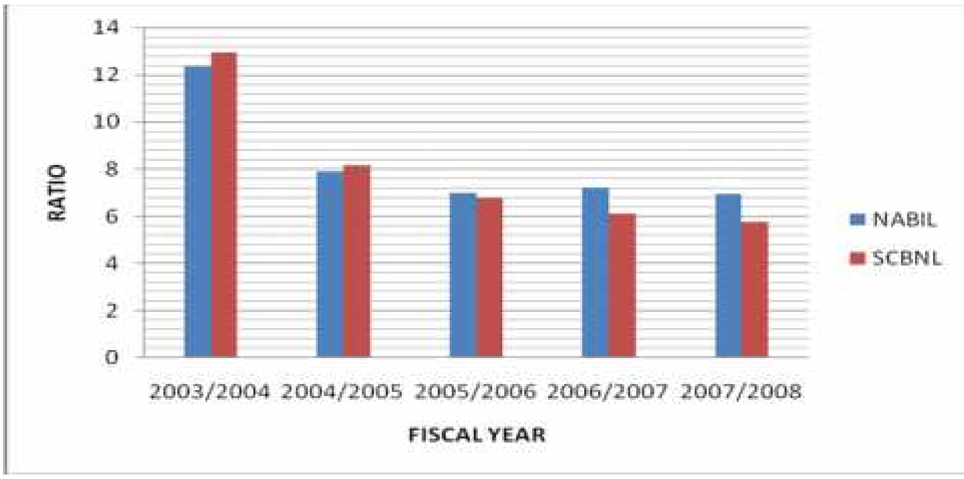
In case of mean ratio, NABIL has a higher ratio than SCBNL i.e. 8.29%>7.95%. It is clear that NABIL has earned higher amount of interest on its outside assets in comparison to SCBNL. The C.V. of NABIL is quite lower than SCBNL (i.e. 24.96%<33.6%). This indicates that NABIL ratios are more stable than SCBNL.

From the above analysis, it can be concluded that NABIL seems to be more successful in earning high interest on its outside assets than SCBNL.

Total Interest earned to total outside assets ratios of NABIL and SCBNL are graphically presented as follows:

Figure No. 14

Total Interest Earned to Total Outside Assets Ratio (%)



vi)Total Interest Paid to Total Working Fund Ratio

This ratio is calculated by dividing total interest paid by total working fund. The following table shows the total interest paid to total interest paid to total working fund ratio of NABIL and SCBNL for the five-year study period.

Table No. 17

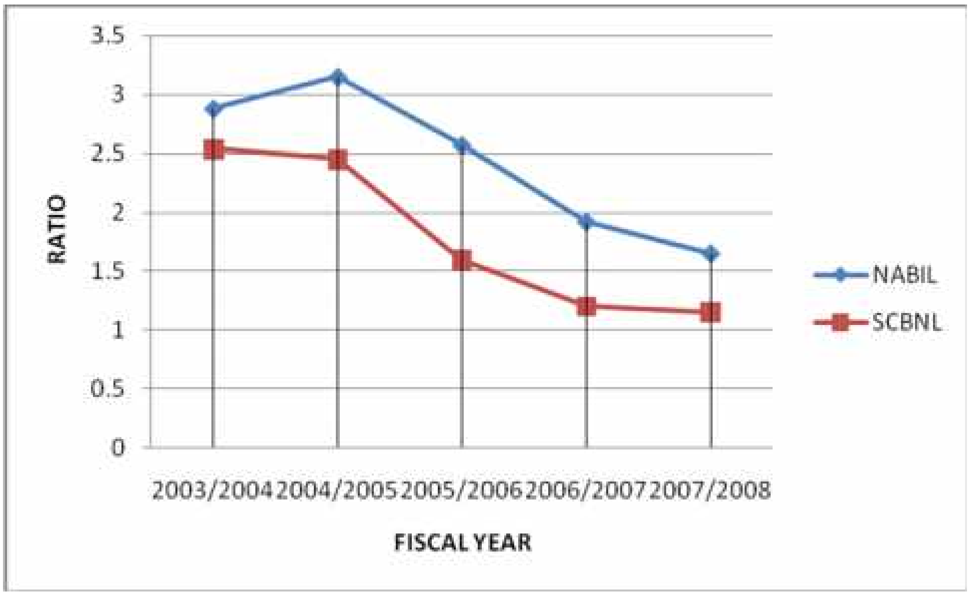
Total Interest Paid to Total Working Fund Ratio (%)

F/Y	NABIL	SCBNL
2003/2004	2.88	2.54
2004/2005	3.15	2.45
2005/2006	2.57	1.60

2006/2007	1.92	1.20
2007/2008	1.65	1.15
Mean	2.43	1.79
S.D.	0.567	0.735
C.V.	23.33%	41.06%

Figure No. 15

Total Interest Paid to Total Working Fund Ratio (%)



The above table shows a decreasing trend in total Interest paid to total working fund ratio of both the banks except for F/Y 2004/2005 in case of NABIL. The decrease in Interest expenses can be attributed to an all time low Interest rate offered by banks on deposits, lower interest rates on inter-bank taking, and bank borrowings.

The average ratio of SCBNL with regards to total interest paid to total working fund ratio is slightly lower than that of NABIL i.e. 1.79%<2.43%. In terms of C.V., SCBNL ratios are more stable than that of NABIL.

Overall, we can say that SCBNL is in a better position form interest payment point of view that NABIL. SCBNL seems to have collected its funds from cheaper sources than NABIL.

D) Risk Ratio

The following risk ratios have been used to measure the risk involved in financial operation of NABIL and SCBNL.

i) Liquidity Risk Ratio

Liquidity risk is calculated by dividing cash and bank balance by total deposits. The following table shows the liquidity risk interest in NABIL and SCBNL.

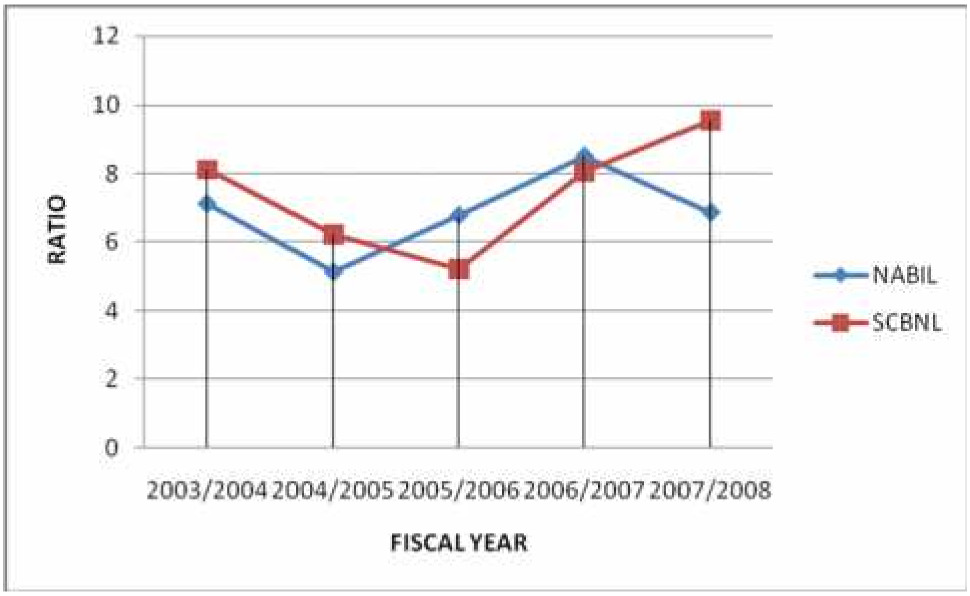
Table No. 18

Liquidity Risk Ratio (%)

F/Y	NABIL	SCBNL
2003/2004	7.12	8.12
2004/2005	5.13	6.23
2005/2006	6.78	5.21
2006/2007	8.50	8.06
2007/2008	6.87	9.56
Mean	6.88	7.44
S.D.	1.0728	1.5348
C.V.	15.59%	20.63%

Figure No. 16

Liquidity Risk Ratio (%)



The above table shows that the liquidity risk ratios of both the banks have fluctuating trend. NABIL has recorded a high ratio of 8.50% and a low ratio of 5.13%. Similarly, SCBNL has recorded a high of 9.56% and a low of 5.21%.

When mean ratio are taken it is found that SCBNL's liquidity risk is lower than that of NABIL i.e. 7.44>6.88. SCBNL has more cash & bank balance than NABIL to meet its current obligations. On the other hand,too much idle cash might have an adverse impact on profitability. A trade off between liquidity and profitability must be maintained at all times.

On comparison of C.V.'s of both the banks, NABIL ratio's seems to be more stable and consistent than SCBNL.

ii) Credit Risk Ratio

This ratio is calculated by dividing total loan and advances by total assets. The following table shows the comparative credit risk ratio of NABIL and SCBNL.

Table No. 19

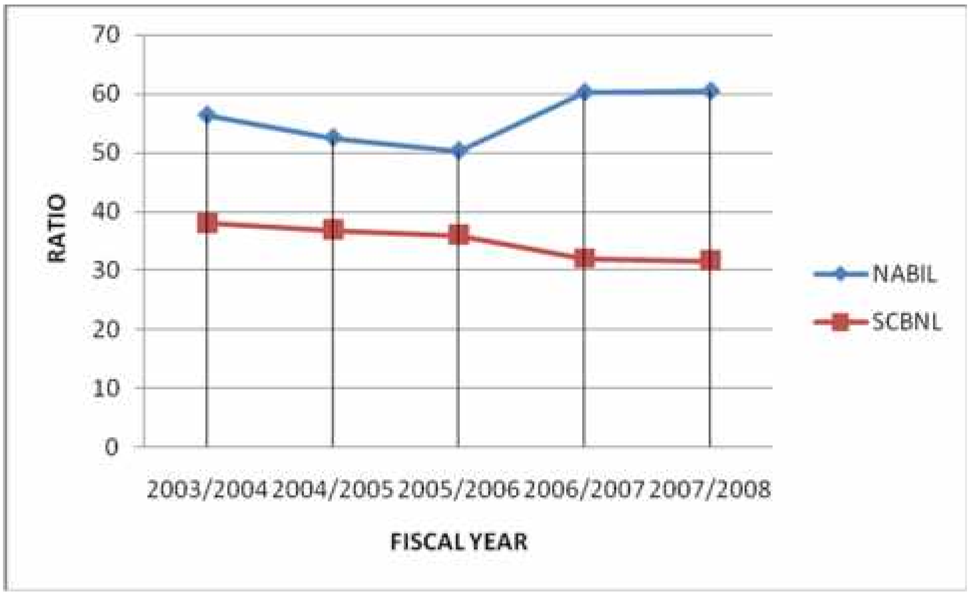
Credit Risk Ratio (%)

F/Y	NABIL	SCBNL
2003/2004	56.43	38.00
2004/2005	52.56	36.82
2005/2006	50.31	35.97

2006/2007	60.34	32.00
2007/2008	60.55	31.63
Mean	56.04	34.88
S.D.	4.097	2.590
C.V.	7.31%	7.43%

Figure No. 17

Credit Risk Ratio (%)



The above table shows that NABIL ratios are in a decreasing trend till F/Y 2005/2006. There after they have an increasing trend. The ratios of SCBNL have a decreasing trend.

NABIL has witnessed a high ratio of 60.55% in F/Y 2007/2008 and a low ratio of 50.31% F/Y 2005/2006. Similarly, SCBNL has had a high ratio of 38% in F/Y 2003/2004 and a low ratio of 31.63% in F/Y 2007/2008.

The mean ratio of SCBNL is lower than that of NABIL ie.,34.88%<56.04%.This indicates that NABIL has more exposure to credit risk than its counterpart. The decreasing trend of SCBNL's ratios project a picture that SCBNL is trying to reduce its credit risk. From the point of view of C.V., both banks seem to have had consistent ratios during the study period.

4.1.2 Statistical tools

Under this topic, some statistical tools such as coefficient of correlation analysis between different variables, trend analysis of deposits, loan and advances, Investment and net profit as well as hypothesis test (t- statistic) are used to achieve the objectives of the study. These statistical tools are as follows:

A) Coefficient of Correlation Analysis

Under this topic, Karl Pearson's coefficient of correlation is used to find out the relationship between deposit and loan and advances, deposit and total investment, outside assets and net profit, deposits and net profit, deposits and interest earned, loan and advances and interest paid, total working fund and net profit.

i)Coefficient of Correlation Between Deposits and Loan and Advances

The coefficient of correlation between deposits and loan and advances measures the degree of relationship between them. In our study, we have taken deposit as an independent variable denoted by (x) and loan and advance as dependent variable (y). The main objective of calculating 'r' between these two variables is to justify whether deposits are significantly used as loan and advances or not.

The following table shows the value of 'r' r^2, PEr and 6PEr between total deposits and loan and advances of NABIL and SCBNL during the study period (for detail see Appendix A_1 and A_2).

Table No. 20

Correlation between Deposit and Loan and Advances

Bank	**Evaluation Criteria**			
	R	**R^2**	**P_{ER}**	**$6P_{ER}$**
NABIL	0.4630	0.2144	0.2366	1.4190
SCBNL	0.9740	0.9487	0.0154	0.0924

In the above table the coefficient of correlation between deposit and loan and advances in case of NABIL is 0.463. This indicates that there is a positive relationship between deposit and loan and advances. The calculated value of (r^2) or coefficient of determination is 0.2144. This means 21.44% of variation of the dependent variable (loan and advances) has been explained by the independent variable (deposit). When the value of 'r' i.e., 0.4630 is compared with six times the probably error or 6PEr. i.e., 1.419, we can say that there is no significant relationship between deposits and loan advances because 'r' is lower than six times PE.r i.e. 0.4630<1.419. The coefficient of correlation 'r' between deposits and loan and advances incase of SCBNL is 0.974, which gives us an indication of higher positive correlation between them. Similarly, the value of coefficient of determination (r^2) is found to be 0.9487. This shows that 94.87% variation of dependent variable (loan and advances) has been explained by the independent variable (deposits). The value of 'r' is greater than six times PE.r. i.e.

0.974>0.0924. This further shows that the value of 'r' is significant. In other words, there is significant relationship between deposit and loan and advances.

From the above analysis, we can conclude that both the banks show positive relationship between deposits and loan and advance. The relationship is highly significant in case of SCBNL and the value of (r^2) shows higher percentage of dependency. In case of NABIL the relationship is less significant and (r^2) shows lower percentage of dependency. It indicates SCBNL has been more successful in utilizing its deposits in a proper manner than NABIL. Further, the increase in loan and advance is due to effective mobilization of deposits, and other factors have marginal role in increase in loan and advances.

ii) Coefficient of Correlation between Deposit and Total Investment.

Coefficient of correlation between deposit and total investment measures the degree of relationship between these two variables. Here deposit is taken as independent variable (x) and the variable dependent on deposits is total investment, which is denoted by (y). The purpose of calculating 'r' is to judge whether deposits are significantly mobilized as Investments or not.

The following table shows the value of 'r' (r^2) P_{Er} & $6P_{Er}$ of NABIL and SCBNL during the study period.

Table No. 21

Correlation between Deposit and Total Investment

Bank	**Evaluation Criteria**			
	R	**R^2**	**P_{ER}**	**6 P_{ER}**
NABIL	0.8703	0.7574	0.0730	0.4383
SCBNL	0.8630	0.7448	0.0768	0.4610

The coefficient of correlation 'r' between deposits and total investment in case of NABIL is 0.8703, which indicates a positive correlation between deposits and total investment. Coefficient of determination (r^2) is 0.7574. This means 75.74% of variation of the dependent variable has been explained by independent variable. The value of 'r' i.e. 0.8703 is also greater than six times P_{Er}. This states that there exists a significant relationship between deposits and total investment.

The coefficient of correlation 'r' between deposits and total investment in case of SCBNL is 0.8603, which indicates a positive relationship between the two variables. The coefficient of determination (r^2) is 0.7448. This indicates that 74.48% of the variation of the dependent variable has been explained by independent variable. Moreover 'r' is greater than six times $P_{E.r}$, which further states that there is a significant relationship between deposits and total investment.

In conclusion, it can be said that both the banks show significant relationship between total deposits and total investment.

iii)Co-efficient of Correlation between Outside Assets and Net Profit.

Coefficient of correlation 'r' between outside asset and net profit measures the degree of relationship between these two variables. The main objective of calculating coefficient of correlation between outside asset and net profit is to justify whether the net profit is significantly correlated with total outside assets or not.

The following shows the value of 'r' 'r^2' PE.r. & $6P_{Er}$. of NABIL and SCBNL during the study period.

Table No. 22

Correlation between Outside Assets and Net Profit

Bank	**Evaluation Criteria**			
	r	**r^2**	**P_{Er}**	**$6P_{Er}$**
NABIL	-0.108	0.0117	0.2976	1.786
SCBNL	0.1138	0.0129	0.2972	1.7833

The coefficient of correlation 'r' between outside assets and net profit in case of NABIL is –0.108, which indicates a negative relationship between these two variables. Th coefficient of determination (r^2) is 0.0117, which indicates than 1.17% of the variation of the dependent variable, has been explained by independent variable. The value of 6pEr i.e. 1.786 is greater than the value of 'r' i.e. –0.108. This states that there exists an insignificant relationship between outside assets and net profit of NABIL.

The coefficient of correlation between outside assets and net profit in case of SCBNL is 0.1138, which indicates a low positive relationship between the two variables. The value of (r^2) is 0.0129 which highlights that 1.29% of the variation of the dependent variable has been explained by the independent variable. Likewise when we compare 6PEr with the value of 'r' we can say that there exists no significant relationship between outside assets and net profit because 'r' is lower than six times PE.r. i.e., 0.1138<1.7833. Thus SCBNL has no significant correlation between mobilization of outside assets and net profit.

Thus, in view of above we can conclude that the relationship between outside assets and net profit incase of both the banks is insignificant. The low percentage of dependency as shown by (r^2) suggests that other factors have a greater role to play in increase in net profit.

iv)Coefficient of Correlation between Deposit and Net Profit.

The coefficient of correlation between deposit and net profit measures the degree of relationship between these two variables. Here, deposit is independent variable (x) and net profit is dependent variable (y). The main purpose of calculating between these two variables is to justify whether net profit is significantly correlated with deposits or not.

The following table shows the value of r, r^2, P_{Er} & 6_{Er} of NABIL and SCBNL during the study period (for detail see Appendix A_7 and A_8).

Table No. 23

Correlation between Deposit and Net Profit

Bank	**Evaluation Criteria**			
	r	**r^2**	**P_{Er}**	**$6P_{Er}$**
NABIL	-0.5470	0.299	0.211	1.266
SCBNL	0.8303	0.6894	0.0935	0.5612

The coefficient of correlation between deposits and net profit in case of NABIL is –0.547, which indicates a negative relationship between deposits and net profit. It has been able to increase its net profit despite shedding of RS. 2 billion in deposits. The coefficient of determination (r^2) is 0.299, which indicates 29.9% of the variation of the dependent variable (net profit) has been explained by the independent variable (deposits). The value of 6PEr is greater than 'r' i.e. 1.266>-0.547. This states that there exists an insignificant relationship between deposits and net profit.

The coefficient of correlation between deposits and net profit in case of SCBNL is 0.8303, which indicates a positive relationship between these variables. The value of (r2) is 0.6894 indicates that 68.94% of the variation of the dependent variable has been explained by the independent variable. The value of 'r' is greater than 6PEr i.e. 0.8303>0.5612, which further states that these exists a significant relationship between deposit and net profit.

From the above analysis, we can conclude that NABIL shows negative relationship or insignificant relationship and SCBNL shows positive relationship between deposit and net profit. The value of (r^2) in case of NABIL shows lower percentage of dependency and the same in case of SCBNL shows higher percentage of dependency. The increase in net profit in case of SCBNL is due to effective mobilization of deposits and other factors have a lesser role to play in increase in net profits. SCBNL has been more successful in mobilization of its deposits to yield higher profits year after year.

***V)Co-efficient of Correlation between Deposits and Interest* Earned**

The coefficient of correlation between deposits and interest earned measure the relationship between these two variables. Here deposit is independent variable (x) and interest earned is dependent variable (y). The main objective of calculating 'r' between these two variables is to justify whether deposit is significantly used to earn interest or not.

The following table shows the values of r, r^2, PEr & $6P_{Er}$ of NABIL and SCBNL during the study period.

Table No. 24

Correlation between Deposit and Interest earned

Bank	**Evaluation Criteria**			
	r	$\mathbf{r^2}$	$\mathbf{P_{Er}}$	$\mathbf{6P_{Er}}$
NABIL	0.793	0.6825	0.1120	0.6712
SCBNL	-0.2794	0.07806	0.2776	1.666

The coefficient of correlation 'r' between deposit and interest earned in case of NABIL is 0.793, which indicates a positive relationship between these variables. When deposits increased, the interest income subsequently increased but when it fell the interest income also fell. The coefficient of determination (r^2) is 0.6825, which shows that 68.25% of the variation of dependent variable has been explained by independent variable. The value of six times PEr is less than 'r' i.e. 0.6712<0.793. This states that there is a significant relationship between deposit and interest earned.

The coefficient of correlation 'r' between deposit and interest earned in case of SCBNL is –0.2794, which projects a negative relationship between these variables. It's interest income has decreased despite an increase in total deposits. The coefficient of determination (r^2) is 0.07806, which shows that 7.806% of the variation of dependent variable has been explained by the independent variable. The value of 'r' i.e. –0.2794 is considerably less than six times PEr. This shows that there is insignificant relationship between interest earned and total deposits.

In conclusion, we can say that the relationship between deposit and interest earned in case of NABIL is highly significant with NABIL showing higher percentage of dependency and the relationship between the variables is insignificant in case of SCBNL. In case of NABIL effective mobilization of deposits has had a major role to play in its earnings, where as other factors are responsible in the earnings of SCBNL.

vi)Coefficient of Correlation between Loan and Advances and Interest Paid

The coefficient of correlation between loan and advances and interest paid measures the relationship between these two variables. Here, loan and advances is independent variable (x) and interest paid is dependent variable (y). The purpose of calculating 'r' between these variables is to establish whether increase in loan advances has any role to play in decrease in Interest expenses and vice-versa.

The following table shows the values of r, r^2, P_{Er} and $6P_{Er}$ of NABIL and SCBNL during the period of study.

Table No. 25

Correlation between Loan and Advances and Interest Paid

Bank	**Evaluation Criteria**			
	r	**r^2**	**P_{Er}**	**$6P_{Er}$**
NABIL	-0.2193	0.048	0.2867	1.72
SCBNL	-0.6460	0.4174	0.1754	1.0526

The calculated values of 'r' of both the banks reflect a negative relationship between loan and advances and Interest paid. The coefficient of determination (r^2) in case of SCBNL shows a higher degree of dependency than NABIL.

The values of PEr is considerably greater than 'r' in both the cases, which states that there isn't any significant relationship between loan and advances and interest paid for the above mentioned banks.

In conclusion no relationship could be established between the variables of both the banks.

vii)Coefficient of Correlation between Total Working Fund and Net Profit

The coefficient of correlation between these variables measures the degree of relationship between them. In our analysis, total working fund is taken as independent variable (x) and net profit is taken as dependent variable (y). The main objective of calculating 'r' is to justify whether total working fund is significantly used to generate earnings or in other words whether total working fund and net profit are significantly correlated or not.

The following table shows the value of r, r^2, P_{Er}, and $6P_{Er}$ between these two variables of NABIL and SCBNL.

Table No. 26

Correlation between Total Assets and Net Profit

Bank	**Evaluation Criteria**			
	r	**r^2**	**P_{Er}**	**$6P_{Er}$**
NABIL	-0.3191	0.1018	0.2705	1.6228
SCBNL	0.2596	0.0674	0.2808	1.6848

The coefficient of correlation 'r' between total assets and net profit is case of NABIL is –0.3191 which indicates a negative relationship between these variables. The coefficient of determination (r^2) is 0.1018, which shows that only 10.26% of the variation of the dependent variable has been explained by independent variable. The value of 6PEr is greater than 'r' i.e. 1.6228>-0.3191. This further states that there exists an insignificant relation between the variables.

The coefficient of correlation 'r' between total assets and net profit is 0.2596, which shows a positive relationship between total working fund and net profit. The coefficient of determination (r2) is 0.0674, which indicates that 6.74% of the variation of the dependent variable has been explained by the in dependent variable. The value of 6PEr is greater than 'r', which states that there is no significant relationship between these variables.

B. Trend analysis and projection for next five years

This is known as time series analysis. The objectives of this analysis are to analyze the trend of deposit collection, its utilization and net profit of NABIL and SCBNL. This topic analyzes the trend of deposits, loan and advances, total investment and net profit and its projection for the next five years the basis of past performance and records available.

The projections are based on the following assumptions:

- The bank will run in this present position i.e. trend will repeat itself.
- Other things will remain constant or unchanged.
- The economy will remain in the present stage.
- Nepal Rastra Bank will not change its guidelines relating to commercial banks.
- The forecast will hold true only when the limitation of least square method is carried out.

i)Analysis of Trend value of Total Deposit

Under this topic, based on the trend values of deposit from F/Y 2003/2004 to 2007/2008, an attempt has been made to forecast the projection for next five years, i.e. upto F/Y 2013/2014.

The following table shows the trend value of deposits from F/Y 2003/2004 to 2007/2008 (For detail refer Appendix A_{15} & A_{16})

Table No. 27

Trend Values of Total Deposit of NABIL and SCBNL

Rs. in Million

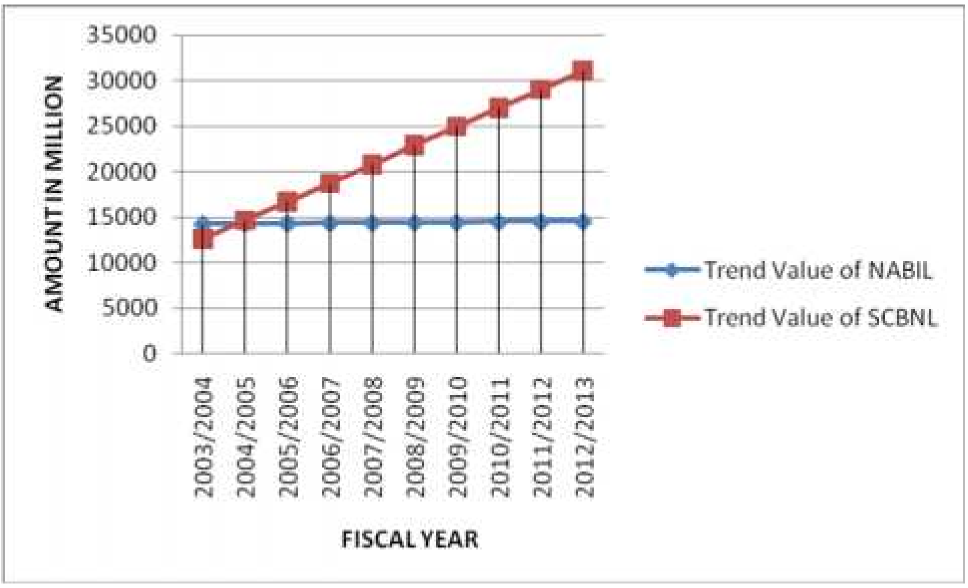
F/Y	Trend Value of NABIL	Trend Value of SCBNL
2003/2004	14280.79	12647.97
2004/2005	14309.56	14699.12
2005/2006	14338.33	16750.27
2006/2007	14367.10	18801.42
2007/2008	14395.87	20852.57
2008/2009	14424.64	22903.72
2009/2010	14453.41	24954.87
2010/2011	14482.18	27006.02
2011/2012	14510.95	29057.17
2012/2013	14539.72	31108.32

From the above comparative table it is clear that trend values of SCBNL is in an increasing trend. If other things remain unchanged the total deposit of NABIL is predicted to be RS. 14539.72 million and that of SCBNL to be more than two times the deposit of NABIL by the end of F/Y 2012/2013 i.e. Rs. 31108.32 million.

From the above trend analysis, it is quite obvious that SCBNL's deposit collection is proportionately much better than NABIL from F/Y 2004/2005 onwards. The trend values of total deposit of both NABIL and SCBNL are fitted in the trend lines given in figure 17.

Figure No. 17

Trend Values of Total Deposit of NABIL and SCBNL



ii) Analysis of Trend Values of Loan and Advances

Here, the trend values of loan and advances of NABIL and SCBNL have been calculated for five years from F/Y 2002/2003 to 2006/2007 and the forecast for next five years. i.e. from F/Y 2007/2008 to F/Y 2011/2012 has been made (for detail refer Appendix-A_{17} and A_{18})

Table No. 28

Trend Values of Loan and Advances of NABIL and SCBNL

Rs. in Million

F/Y	Trend Value of NABIL	Trend Value of SCBNL
2003/2004	7507.23	4937.56
2004/2005	7753.62	5353.36
2005/2006	8000.01	5769.16
2006/2007	8246.40	6184.96
2007/2008	8492.79	6600.76
2008/2009	8739.18	7016.56
2009/2010	8989.57	7432.36
2010/2011	9231.96	7848.16
2011/2012	9478.35	8263.96
2012/2013	9724.74	8679.76

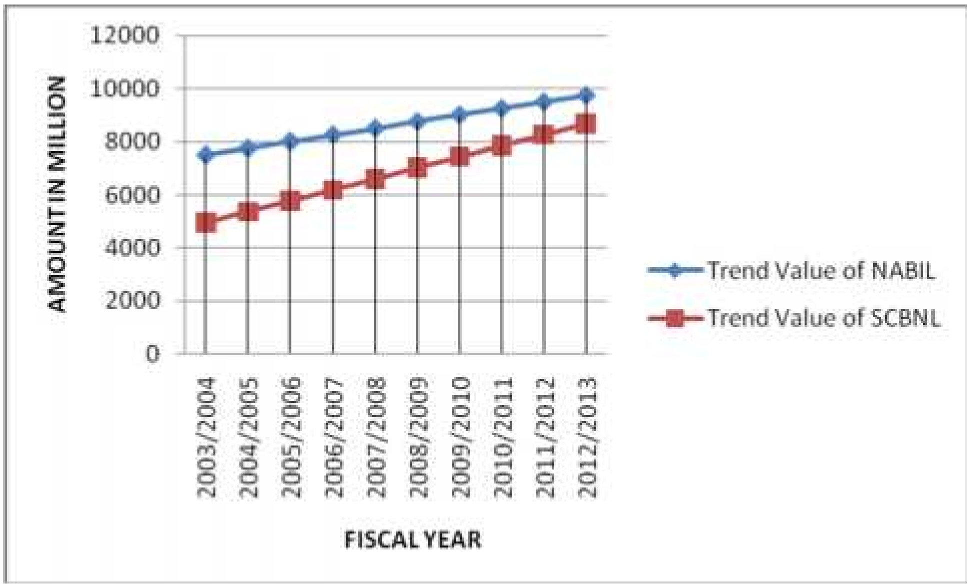
The above table clearly shows that the loan and advance of both the banks are in an increasing trend. Assuming that other things will remain constant, the loan and advances of NABIL at the end of F/Y 2012/2013 is predicted to be Rs. 9724.74 million. Similarly, the projection for SCBNL at the end of F/Y 2012/2013 is Rs 8679.76 million.

From the above trend analysis, it is quite clear that NABIL's loan and advances in relation to SCBNL is comparatively higher through out the trend projection period.

The above trend values of loan and advances of NABIL and SCBNL are fitted in the trend line given in Figure No. 18

Figure No. 18

Trend values of loan and advances of NABIL and SCBNL



iii) Analysis of Trend Values of Total Investment

Under this topic, based on the trend values of Investment from F/Y 2002/2003 to 2007/2008, an attempt has been made to forecast the projections for next five years i.e. upto F/Y 2012/2013.

The following table shows the trend value investment from F/Y 2002/2003 to F/Y 2011/2012 (for detail refer Appendix A_{19} and A_{20})

Table No. 29

Trend Values of Investment of NABIL and SCBNL

Rs. in Million

F/Y	Trend Value of NABIL	Trend Value of SCBNL
2003/2004	4305.01	5416.71
2004/2005	5054.70	7098.65
2005/2006	5804.39	8780.59
2006/2007	6554.08	10462.53

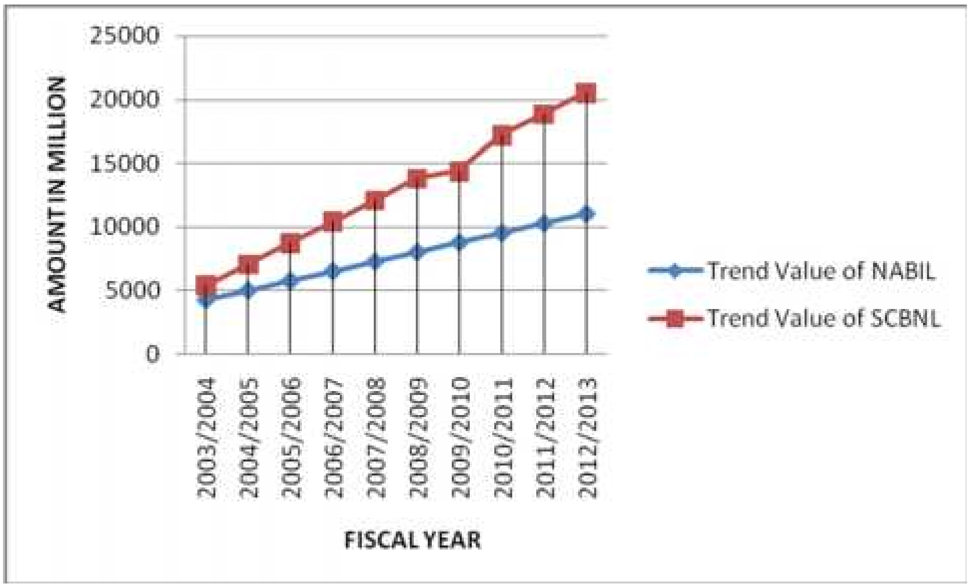
2007/2008	7307.77	12144.47
2008/2009	8053.46	13826.41
2009/2010	8803.09	14408.35
2010/2011	9552.78	17190.29
2011/2012	10302.47	18872.23
2012/2013	11052.16	20544.17

From the above table it is clear that the trend value of both the banks are in an increasing trend. If other things remain uncharged total investment of NABIL is predicted to be Rs. 11052.16 in F/Y 2012/2013 and that of SCBNL to be Rs. 20544.17 million. These values are highest under the review period.

The above table reveals that SCBNL's total investment is higher than that of NABIL through out the trend projection period. It can be said that both NABIL and SCBNL have followed the policy of maximizing their investment. The above calculated trend values of NABIL and SCBNL are fitted in the trend line given in Fig No. 19.

Figure No. 19

Trend values of Investment of NABIL and SCBNL



iv) Analysis Trend Values of Net Profit

Under this topic, based on the trend values of net profit from F/Y 2003/2004 to 2007/2008, an attempt has been made to forecast the projections for next five years i.e. upto F/Y 2012/2013.

The following table shows the trend value of net profit from F/Y 2003/2004 to F/Y 2012/2013 (for detail refer Appendix A_{21} and A_{22})

Table No. 30

Trend Value of Net Profit of NABIL and SCBNL

Rs. in Million

F/Y	Trend Value of NABIL	Trend Value of SCBNL
2003/2004	277.28	396.17
2004/2005	315.01	432.82
2005/2006	352.74	469.47
2006/2007	390.47	506.12

2007/2008	428.20	542.77
2008/2009	465.93	579.42
2009/2010	503.66	616.07
2010/2011	541.39	652.72
2011/2012	579.12	689.37
2012/2013	616.85	726.02

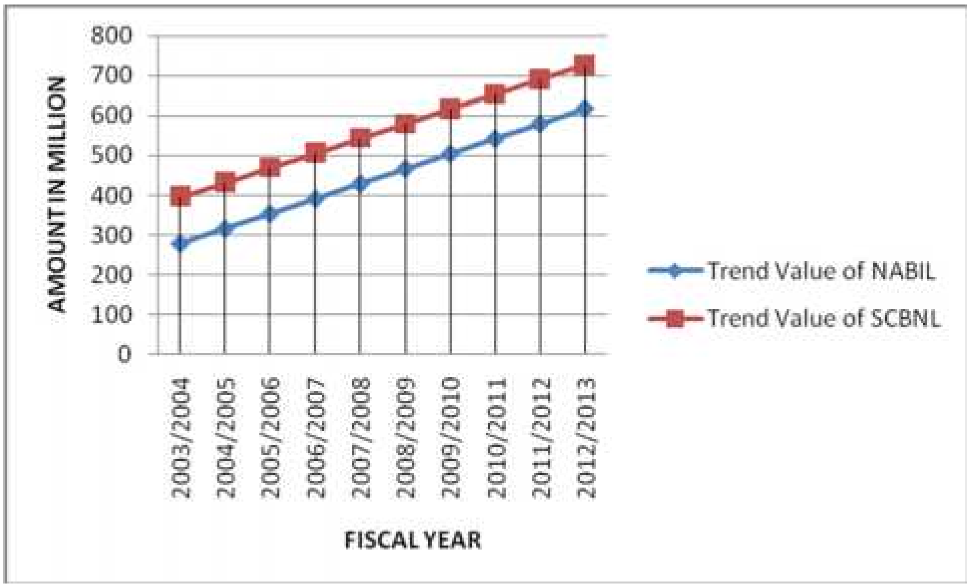
From the above comparative table it is clear that the trend value of both the banks are in increasing trend. Other things remaining the same the trend value of both the banks are in increasing trend. The trend value of NABIL will be highest in F/Y 2012/2013 i.e. Rs.616.85 million. In case of SCBNL net profit will be Rs 726.02 million in F/Y 2012/2013, which is the highest under the review period.

SCBNL's net profit is higher than that of NABIL through the review period. It can be said that both the banks have followed the policy of maximizing their net profit.

However, we can draw a conclusion that SCBNL has utilized its fund better than NABIL to earn higher amounts of profit. The above calculated trend values of net profit of NABIL and SCBNL are fitted in the trend live given in figure 20.

Figure No. 20

Trend value of Net Profit of NABIL AND SCBNL



C. Test of Hypothesis

Under this topic, an effort has been made to test the significance level regarding the parameter of the population on the basis of sample drawn from the population. The following stops have been followed in the test of hypothesis.

- i) Formulating of hypothesis
- \- Null Hypothesis
- \- Alternative Hypothesis
- ii) Computing the test statistic
- iii) Fixing the level of significance
- iv) Deciding two tailed or one tailed test
- v) Having decision

i) t-test

In this research study the sample is small i.e., n =5. Hence, to deal with small sample 't' test is used. Suppose we want to test if two independent samples have been drawn from two normal population having the same means, the population variances being equal.

We set up the Null hypothesis Ho: ⥣ = ⥣y i.e., the samples have been drawn from the normal population, or the sample means $\bar{x}$ and $\bar{y}$ do not differ significantly. Under the assumption that $a^2 = 6a^2$ i.e., population variances are equal but unknown, the test statistic under Ho is:

$$= \frac{\bar{x} \, Z \, \bar{y}}{\sqrt{S2 \mid \sqrt{\frac{1}{n_1} \Gamma \frac{1}{n_2}}}} \qquad \surd \quad \text{... w.d.f.} \quad n_1 + n_2 - 2$$

Where $\bar{x} = \frac{x}{n_1}$ $\qquad \bar{y} = \frac{y}{n_2}$

And $S^2 = \frac{1}{n_1 \Gamma n_2 \, Z2}$ $[\ (x \, Z \bar{x})^2 \ \Gamma \ (y \, Z \bar{y})2]$

is an unbiased estimate the common population variance 6^2 based on both the samples. By comparing the tabulated value of 't' for $n_1 + n_2 - 2$ d.f. at the desired level of significance. Usually 5% we reject or retain the mull hypothesis H_o.

(a) Test of Hypothesis on Loan and Advances to Total Deposit Ratio of NABIL and SCBNL.

Let loan and advances to total deposit of NABIL and SCBNL be denoted by X and Y respectively.

Calculated S^2 = 14.56 (for detail see Appendix A_{22})

Solution:

Null Hypothesis (H_0): $\Uparrow_1 = \Uparrow_2$ i.e., there is no significant difference between mean ratio of loan and advances to total deposit of NABIL and SCBNL.

Alternative Hypothesis (H_1): $\Uparrow_1 = \Uparrow_2$ i.e., there is significant difference between mean ratio of loan and advances to total deposit of NABIL and SCBNL.

Test Statistic

Under H_0, the test statistic is

$$t = \frac{\bar{x} \, Z \, \bar{y}}{\sqrt{S^2} \ \frac{1}{n^1} \Gamma \frac{1}{n^2}} \qquad (\text{with .... d.f.} = n_1 + n_2 - 2)$$

$$= \frac{56.04 \, Z 34.88}{\sqrt{14.56} \ \frac{1}{5} \Gamma \frac{1}{5}} \qquad = \frac{21.16}{2.41}$$

$$t = 8.78$$

Decision:

The tabulated value of t for 8 d.f. at 5%level of significance is 2.306. Since calculated 't' is much greater than tabulated 't' it is highly significant. Hence H_0: $\Uparrow_1 = \Uparrow_2$ is rejected at 5% level of significance and we can conclude that there is significant difference between mean ratios of loan and advances to total deposit of NABIL and SCBNL.

b) Test of Hypothesis on total Investment to Total Deposits Ratio NABIL and SCBNL.

Let, the total investment to total deposit ratio of NABIL and SCBNL be denoted by X and Y.

Calculated S^2 = 246.53 (for detail see Appendix A_{23})

Solution:

Null Hypothesis (H_0): $⥣_1$ = $⥣_{2\ \text{i.e.}}$, There is no significant difference between the mean ratios of total investment to total deposit of NABIL and SCBNL.

Alternative Hypothesis (H_1): $⥣_1$ # $⥣_{2\ \text{i.e.}}$, There is significant difference between the mean ratio of total investment to total deposit of NABIL and SCBNL.

Test Statistic

Under $H_{0,}$ the test statistic is

$$t \quad = \quad \frac{\bar{x} \, Z \, \bar{y}}{\sqrt{S^2}\ \frac{1}{n^1} \Gamma \frac{1}{n^2}} \qquad \text{(with .... d.f.} = n_1 + n_2 - 2)$$

$$= \quad \frac{39.50 \, Z 51.22}{\sqrt{246.53}\ \frac{1}{5} \Gamma \frac{1}{5}} \quad = \quad \frac{Z11.72}{9.93}$$

$$t \quad = \quad 1.18$$

Decision:

The tabulated value of t for 8 d. of at 5% level of significance is 2.306. Since calculated is less than tabulated value of 't' it is not significant. Hence H0: $⥣_1 = ⥣_2$ is accepted at 5% level of significance and we may conclude that there is no significant difference between mean ratios of total investment to total deposit of NABIL and SCBNL.

c)*Test Of Hypothesis On Investment in Government Securities to Current Assets Ratio Of NABIL AND SCBNL.*

Let, the total Investment in Government securities to current assets ratio of NABIL and SCBNL be denoted by X and Y.

Calculated S^2 = 35.28 (for detail see Appendix A_{24})

Solution:

Null Hypothesis (H_0): $⥣_1 = ⥣_2$ i.e., there is no significant difference between the mean ratio of Investment in Government securities to current assets of NABIL and SCBNL.

Alternative Hypothesis (H_1): $\mu_1 \neq \mu_2$ i.e., there is significant difference between the man ratio of Investment in Government securities to current assets of NABIL and SCBNL.

Test Statistic:

Under H_0, the test statistic is

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{S^2\left(\frac{1}{n_1} + \frac{1}{n_2}\right)}} \qquad \text{(with .... d.f.} = N_1 + N_2 - 2)$$

$$= \frac{18.04 - 28.27}{\sqrt{35.28\left(\frac{1}{5} + \frac{1}{5}\right)}} = \frac{-10.23}{3.76} = -2.72$$

$$t = 2.72$$

Decision:

The tabulated value of t for 8 d.f. at 5% level of significance is 2.306. Since calculated 't' is greater than tabulated 't' it is significant. Hence null Hypothesis H_o: $\mu_1 = \mu_2$ is rejected at 5% level of significance and we may conclude that there is significant difference between the mean ratios of Investment in Government securities to current assets ratio of NABIL and SCBNL.

d) Test of Hypothesis on Return on Loan and Advance Ratio

Let the return on loan and advance of NABIL and SCBNL be denoted by X and Y.

$S^2 = 0.4476$ (for detail see Appendix – A_{25})

Solution:

Null Hypothesis (H_o): $\mu_1 = \mu_2$ i.e., there is no significant difference between the mean ratio of return on loan and advances of NABIL and SCBNL.

Alternative Hypothesis (H_1): $\mu_1 \neq \mu_2$, i.e. there is significant difference between the mean ratio of return on loan and advances of NABIL and SCBNL.

Test Statistic

Under H_0 the test statistic is

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{S^2\left(\frac{1}{n_1} + \frac{1}{n_2}\right)}} \qquad \text{(with .... d.f.} = N_1 + N_2 - 2)$$

$$= \frac{4.4 - 8.14}{\sqrt{.4476\left(\frac{1}{5} + \frac{1}{5}\right)}} = \frac{-3.74}{0.423} = -8.84$$

$$t = 8.84$$

Decision:

The tabulated value of 't' at 5% level of significance is 2.306. Since calculated 't' is much greater than tabulated value of 't' it is highly significant. Hence Null Hypothesis Ho: $\mu_1 = \mu_2$ i.e., is rejected and Alternative Hypothesis H_1: $\mu_1 \neq \mu_2$ is accepted at 5% level of significance and we can conclude that there is significant difference between the mean ratio of return on loan and advances of NABIL and SCBNL.

e)Test of Hypothesis on Total Interest Earned to Total Outside Assets:

Let, the total interest earned to total outside assets of NABIL and SCBNL be denoted by X and Y respectively.

Calculated $S^2 = 55.96$ (for detail see Appendix- A_{26})

Solution:

Null Hypothesis (Ho): $\mu_1 = \mu_2$ i.e., there is no significant difference between the mean ratio of total interest earned to total outside assets of NABIL and SCBNL.

Alternative Hypothesis (H_1): $\mu_1 \neq \mu_2$ i.e., there is significant difference between the mean ratio of total interest earned to total outside assets of NABIL and SCBNL.

Test Statistic

Under H_0 the test statistic is

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{S^2\left(\frac{1}{n_1} + \frac{1}{n_2}\right)}} \quad \text{(with .... d.f.} = N_1 + N_2 - 2)$$

$$= \frac{8.29 - 7.95}{\sqrt{55.96\left(\frac{1}{5} + \frac{1}{5}\right)}} = \frac{0.34}{4.73}$$

$$t = 0.0719$$

Decision:

The tabulated value of 't' at 5% level of significance is 2.306. Since calculated value of 't' is much less than tabulated value of 't' it is not significant. Hence, Null Hypothesis (H_o): $\mu_1 = \mu_2$ is accepted at 5% level of significance and we can conclude that there is no significant difference between total interest earned to total outside assets of NABIL and SCBNL.

4.2 Major findings of the Study

Having completed the basic analysis required for this study, the final and the most important task of the researcher is to enlist the findings. This will give meaning to the desired result. A comprehensive summary of the major findings of this study is presented below.

The main findings of the study derived from the analysis of financial data of NABIL and SCBNL are given below.

4.2.1 Liquidity Ratio

The liquidity position of NABIL and SCBNL reveals that:

* From the analysis of current ratio it is found that the mean ratio of NABIL is slightly higher than SCBNL. The ratio of both the banks are highly consistent. The mean current ratio of both the banks is greater than 1.
* The mean ratio of cash and bank balance to total deposits of SCBNL is slightly higher than NABIL. SCBNL has better liquidity position than NABIL because of high percentage of liquid assets. This shows SCBNL readiness to meet its customer requirement. On the contrary, a high liquidity also indicates the inability of the bank to mobilize its current assets. The ratios of NABIL are more consistent than SCBNL.
* The mean ratio of cash and bank balance to current assets of SCBNL is slightly higher than NABIL. This shows SCBNL's greater capacity to meet its customer's daily cash requirement than NABIL. The ratios of NABIL are less variable and more consistent than SCBNL.
* The mean ratio of investment in Government securities to current assets of SCBNL is higher than NABIL. This shows that SCBNL has invested more of its fund in Government securities than NABIL. The ratios of SCBNL are less variable and more consistent than NABIL.
* The mean ratio of loan and advances to current assets of NABIL is comparatively higher than SCBNL. The variability of ratios of NABIL is slightly greater than SCBNL.

From the above findings, we can conclude that the liquidity position of SCBNL is comparatively better than NABIL. It has the highest cash and bank balance to total deposit, cash and bank balance to current assets. SCBNL is in a better position to meet its daily cash requirement. NABIL has a higher current ratio, which justifies that it is also capable enough to meet its current obligations. SCBNL's mean investment in Government securities is better than NABIL. The higher degree of variability in Investment in Government securities of SCBNL during the study period shows lack of concrete policy of the bank in this regard.

4.2.2 Asset Management Ratio

The asset management ratio of NABIL and SCBNL reveals that:

* The mean ratio of loan and advances to total deposit ratio of NABIL is higher than SCBNL. In terms of consistency both have been stable in their ratios.

* The mean ratio of total investment to total deposits of SCBNL is higher than NABIL. The ratios of SCBNL are more consistent and less variable than NABIL.

* The mean ratio of loan and advances to total working fund of NABIL is higher than SCBNL. The ratios of NABIL are less variable and more consistent than NABIL.

* The mean ratio of Investment in Government securities to total working fund ratio of SCBNL is higher than NABIL. The ratios of SCBNL are less variable and more consistent than NABIL.

* The mean ratio of Investment in shares and debentures to total working fund ratio of NABIL is slightly higher than SCBNL. NABIL ratios are more variable than that of SCBNL.

From the above findings we can conclude that NABIL has been more successful in mobilization of its total deposits and working fund as loan and advances. On the other hand, SCBNL appears to be stronger in mobilization of total deposits and working fund as investment in risk free government securities. NABIL has fared better in purchasing shares and debentures of other companies, but both have invested marginal amount under this heading. Both the banks have successfully managed their assets towards different income generation activities.

4.2.3 Profitability Ratios

The profitability ratios of NABIL and SCBNL reveal that,

* The mean ratio of return on total loan and advances of SCBNL has been found to be significantly greater than NABIL. The ratios of SCBNL are less variable and more consistent than NABIL.

* The mean ratio o return on total working fund of SCBNL is slightly higher than NABIL. The ratios of NABIL are less consistent and more variable than SCBNL.

* The mean ratio of total interest earned to total working fund of NABIL is higher than SCBNL. NABIL's ratios are more stable and less variable than SCBNL.

* The mean ratio of total interest earned to total operating income of NABIL is higher than SCBNL. Both the banks have been fairly consistent in their ratios.

* The mean ratio of total interest earned to total outside assets of NABIL is higher than SCBNL. The ratios of NABIL are more consistent than SCBNL.

* The mean ratio of total interest paid to total working fund ratio of SCBNL is lower than NABIL. However, SCBNL ratios are more variable than NABIL ratios.

On the basis of above, we can conclude that SCBNL has been more successful in maintaining its higher return on loan and advances and total working fund. On the other hand, NABIL has been more successful in term of earning power w.r.t. total working fund and outside assets. NABIL has been more successful in mobilization of its funds in interest bearing assets to earn higher interest income than SCBNL. SCBNL is in a better position than NABIL from interest payment point of view. NABIL has paid higher interest than SCBNL, whereas the latter seems to have collected its funds from cheaper sources than NABIL.

4.2.4 Risk Ratios

The Risk ratio of NABIL and SCBNL reveals that,

* The mean liquidity risk ratio of SCBNL is lower than NABIL. On the contrary, NABIL's ratios are more uniform then SCBNL.
* The mean credit risk ratio of SCBNL is lower than NABIL. Both the banks have been fairly consistent in their ratios.

Based on above findings we can conclude that SCBNL has lower liquidity risk and credit risk than NABIL. NABIL has greater exposure to risk in its financial operations than SCBNL.

4.2.5 Growth Ratio

* The mean growth rate of deposits of SCBNL is significantly higher than NABIL.
* The mean growth rate of total loan and advances of SCBNL is higher than NABIL.
* The mean growth rate of total investment of NABIL is significantly higher than SCBNL.
* The mean growth rate of net profit of NABIL is higher than SCBNL.

Based on the above findings, we can conclude that, SCBNL has been more successful in increasing its deposits and loan and advances during the study period, whereas, NABIL has been more efficient in terms of increasing its investment and net profit, but less successful in deposit collection. While other banks have initiated a host of measures and schemes to attract customer deposits, NABIL's strategy of shedding deposits seemS to be off the tune. NABIL needs to seriously rethink its strategy.

4.2.6. Co-efficient of Correlation Analysis

Co-efficient of correlation analysis between different variables of NABIL and SCBNL reveals that:

* SCBNL has a higher value of coefficient of correlation between deposits and loan and advances than NABIL.

*	The co-efficient of correlation between deposits and total investment of NABIL is slightly higher than SCBNL.

*	The co-efficient of correlation between outside assets and net profit in case of NABIL is negative, whereas the co-efficient of correlation between the same variables in case of SCBNL has a lower positive value.

*	The co-efficient of correlation between deposit and net profit in case of NABIL to negative, where as SCBNL has a higher value of coefficient of correlation.

*	The coefficient of correlation between deposits and interest earned in case of SCBNL is negative, whereas NABIL has a higher value of coefficient of correlation.

*	The coefficient of correlation between total working fund and net profit in case of NABIL is negative, whereas the same has a lower positive value in case of SCBNL.

In conclusion, we can say that there is a significant relationship between deposit and loan and advances, deposits and total investment, deposit and net profit in case of SCBNL, and the relationship is insignificant between outside assets and net profit, deposit and net profit, deposit and interest earned, loan and advances and interest paid, total assets and net profit.

Incase of NABIL, three exists a significant relationship between deposits and total loan and advances, deposits and total investment, deposits and interest earned, whereas the relationship is insignificant between deposit and net profit, deposit and interest earned, loan and advances and interest paid, total assets and net profit, outside assets and net profit.

4.2.7 Trend Analysis and projection for next five years

The trend analysis of deposits, loan and advances, total investment and net profit and its projection for next five years of NABIL and SCBNL reveals that:

*	The deposits of both the banks have an increasing trend. The total deposit of NABIL is predicted to be 14539.72 million and that of SCBNL to be 31108.32 million at the end of F/Y 2011/2012. The deposit collection of SCBNL is much better than NABIL.

*	The loan and advance of both the banks have an increasing trend. The total loan and advance of NABIL is predicted to be 9724.74 million and that of SCBNL to be 8679.76 million at the end of F/Y 2011/2012. The loan and advances of NABIL is much better compared to SCBNL.

*	The total investments of both the bank have an increasing trend. The total investment of NABIL is projected at 11052.16 million and that of SCBNL at 20544.17 million by the end of F/Y 2012/2013. SCBNL seems to have a much-focused policy with regards to total investment than NABIL.

* The net profits of both the banks are in an increasing trend. The net profit of NABIL and SCBNL is predicted at 616.85 million and 726.02 million respectively by the end of F/Y 2012/2013. The position of SCBNL with regard to utilization of the fund to earn profit is better than NABIL.

4.2.8 Test of Hypothesis

The test of significance regarding the parameter of the population, on the basis of sample drawn from the population reveals that:

* There is significant difference between mean ratio of loan and advances to total deposit of NABIL and SCBNL.
* There is no significant difference between mean ratio of total investment to total deposit of NABIL and SCBNL.
* There is significant difference between the mean ratio of investment in government securities to current assets ratio of NABIL and SCBNL.
* There is significant difference between mean ratio of return on loan and advances of NABIL & SCBNL.
* There is no significant difference between mean ratio of total interest earned to total outside assets of NABIL and SCBNL.

CHAPTER – V

SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This study reveals that the current ratio of both the banks is greater than 1, which should be considered satisfactory. The liquidity position of SCBNL is better than NABIL. The cash and bank balance of SCBNL w.r.t. deposits is greater than NABIL. This puts, SCBNL in a better position w.r.t. meeting customer requirement than NABIL. In contrast, a high ratio of non-earning cash and bank balance is an indication of bank's unavailability to invest its fund in income generation areas. The cash and bank balance of SCBNL w.r.t. current assets is higher than NABIL. This shows greater capacity of SCBNL to meet its customer's cash requirement but that does not mean NABIL can not meet its daily customer cash requirement. SCBNL needs to invest its funds in more productive sectors.

SCBNL has invested more portions of its current assets and total working fund in government securities than NABIL. This is due to lack of other secured and profitable investment sector, whereas NABIL has invested more of its fund in other productive sectors.

NABIL has been more successful in mobilization of its total deposits and working fund as loan and advances and achieving higher profits in comparison to SCBNL. In contrast, a high ratio is not better from the point of view of liquidity, since loan and advances are less liquid than cash and bank balance.

NABIL has invested more of its funds in purchasing shares and debentures of other companies than SCBNL.

From the point of view of profitability, SCBNL seems to be more successful than NABIL w.r.t. profit earning capacity by utilizing available resources. NABIL has been more successful in terms of interest earning power. It has been more successful in mobilizing its funds in interest bearing assets to earn higher interest income. SCBNL is in a better position to meet its interest expenses as it has collected its fund from cheaper sources than NABIL.

The liquidity risk and credit risk of SCBNL is comparatively lower than NABIL. NABIL has more exposure to risk than SCBNL.

SCBNL has been successful in maintaining a steady growth rate on deposits and loan and advances year after year. The average growth rate of total investment and net profit of NABIL is higher than SCBNL. SCBNL's growth in deposits can be accounted to its credibility, security and high quality service. From the analysis of coefficient of correlation, we can say that both the banks show positive relationship between deposit and loan and advances, deposits and total investment. There exists a positive relationship between deposits and net profit in case of SCBNL and also between deposits and interest earned in case of NABIL.

Both the banks show insignificant relationship between deposits and interest earned, loan and advances and interest paid total assets and net profit, outside assets and net profit.

There is an insignificant relationship between deposits and net profit in case of NABIL.

The trend value of deposits, loan and advances, investment and net profits of NABIL and SCBNL are in an increasing trend. The trend values of deposits, investment and net profit of SCBNL are proportionately higher than NABIL in all the years. The trend value of loan and advances of NABIL is proportionately better than SCBNL in all the years.

From the test of hypothesis, we can say that there exists a significant difference between the mean ratios of loan and advance to total deposit, investment in government securities to current assets, return on loan and advances of NABIL and SCBNL.

The test of hypothesis on mean ratios of total investment to total deposit, total interest earned to total outside assets show there is no significant difference in the ratios of NABIL and SCBNL.

5.2 Conclusion

Banks are the very necessary elements of the economy of a country. The word banks generally denote the commercial banks. The commercial bank helps in the formation of capital that is the most important for the economic growth of the country. The commercial banks, in Nepal are doing well but they are not giving satisfactory result due to some, internal and external factors. The deposits and its investment in productive sector by commercial banks are not stable and these are going thoroughly by the time passes on. A deposit is indeed the major organ of commercial banks. Higher the deposit higher will be the capacity of investment and higher will be the chance of mobilization of fund and make the satisfactory profit for the long term sustainability of an organization.

Banks should be careful while granting loan because loan is the blood of commercial banks for survival. If commercial bank does not adopt the sound investment policy, it will be in greater trouble in future in the collection of loan amount. Banks should invest its funds in various portfolios after the profound study of the project. It keeps the bank far from the problem of default of payment that certainly keeps the bank safe from the bankruptcy. Diversification of investment is very much important for banks because a bank uses the money of people for the benefit of the depositors and the benefit of its own.

From the analysis made in last chapter it is found that total commercial banking system, NABIL and SCBNL are able to mobilize of their deposits to the loan and advance and in investment. This figure show the stronger position of NABIL than SCBNL in deposit mobilization but comparing the return ratios, i.e. interest income to total income ratio NABIL has smaller return than SCBNL (i.e. 70.84<78.82). It means both the banks are efficient in deposit mobilization but NABIL is weak in collecting interest and even the principal amount of the loan. The analysis of growth of deposit, loan and advance and the investment also reflects the weak position of NABIL in deposit mobilization in comparison to SCBNL.

Analyzing the trend of investment of both sampled banks there are increasing trend and there is no significant difference between the trend values of the NABIL and SCBNL. But the trend values of loan and advance to total deposit ratio of NABIL is falling during the study period. This value of SCBNL is increasing during the same period. It means SCBNL is managing its loan and advance well. But NBL is sifting from loan and advance to secured investment.

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

Every sector is facing the problem in Nepal due to the violence and political instability. The commercial banking system also could not escape out from this situation. All the banks within this system have been facing the problem but this problem of NABIL became great, because this is the government owned commercial bank which is serving even in remote areas by largest number of branches. Most of the loans became the bad debt due to the unfavorable economic environment. But the positions of this bank have been falling due to the managerial inefficiency and political interference in the management in some extent.

5.3 Recommendations

On the basis of analysis, findings, following recommendations are made. The banks can make use of these recommendations to overcome their weakness, inefficiency and improve their present fund mobilization and their overall investment policy.

Increase Deposits

SCBNL, backed by its credibility, high quality service and security has been able to increase its deposit collection consistently. While other banks are coming up with a host of measures to increase their deposits, NABIL's strategy of selective shedding of unprofitable deposits seems off the tune. NABIL is recommended to rethink its strategy and collect more deposits. Since the past few years, banks have been targeting depositors through a large variety of deposit schemes and facilities. NABIL, itself introduced a saving plus deposit scheme a few years back to target high-end depositors, but the growth in deposits does not look convincing. Like others, it also needs to come up with various incentives, schemes, and facilities to increase deposits. As of now, the minimum balance required to operate an account is Rs. 30000, which is too high. The minimum balance ceiling should be brought down to attract small depositors and entrepreneurs.

Nabil has so far been providing ATM facilities through its own premises. The ATM facilities need further expansion. For this, bank needs to identify potential locations.

Increase Investment in productive sectors

SCBNL has given more priority to invest its fund in government securities and depositors money has been less utilized as loan and advances. Though securities issued by government are risk free but such instruments after lower interest rate. SCBNL should identify less risky and profitable investment sectors and invest in them. SCBNL has been following a wait, watch and act policy towards investment in productive sectors for a long time. Despite the uncertain security and political situation in the country, the macro-economic indicators and good. Once the political and security conditions improve, a good turn-around in the economy is expected and unless SCBNL quickly acts it might be left behind in the race.

Increase Consumer Lending

Currently the size of the consumer lending market is estimated at Rs. 10 billion (Himalayan News Services, March 28). Housing and vehicle finance have become two important and viable sectors with minimum risk. However, the market has not been fully exploited. Retail lending of EBL alone accounts for 20 percent of the total loan portfolio, which is the highest among the commercial banks in Nepal. The sale of automobiles recorded a two-digit growth in the past five years and the real estate business, especially in urban areas is doing much better, thanks to consumer financing. Both NABIL and SCBNL are recommended to increase their investment in consumer loan sector by offering competitive interest rates.

Increase Investment in share and Debentures

Both the banks have invested nominal percentage of its funds in shares and debentures of other companies. They are recommended to invest more in shares and debentures of financial and non-financial companies across different sectors including government comporations. This will encourage overall economic development of the country.

Increase Investment in Deprived and Priority Sectors

NRB has directed the banks to extend a certain percentage of loan and advances to the deprived and priority sector. Both the banks are recommended to adhere to the directives issued by NRB and invest more in these sectors. NRB should also speed up its supervision and monitoring in this regard. It should ensure that such directives are put into practice in letter and spirit.

Commence Margin Lending

The introduction of margin lending by NBL at 6.5% per annum against shares of selected companies can be viewed as a new opportunity for investment. Bank sources claim to have already disbursed over Rupees 500 million in a month to margin clients. Since NABIL and SCBNL have sound liquidity position and also as their cost of fund is lower, the banks could embark on margin lending after conducting appropriate feasibility study.

Effective Portfolio Management

Portfolio management refers to the allocation of funds into different components of its assets, having different degree of risk and varying rate of return in such a manner that the conflicting goals of maximum yield and minimum risk can be achieved. The portfolio condition of the banks should be regularly revised from time to time. Appointing an investment specialist as a portfolio manager or assigning the task of portfolio management to Manager Finance and Planning could prove beneficial.

Enhancement of OBS Operation

The fee-based activities include commission, discount and fees. They yield high return to the bank. NABIL is not in a better position with regard to income from off-balance sheet activities. It is recommended to enhance the off-balance sheet operations as well.

Increase Branches in Rural Areas

Integrated and speedy development of the country is possible only when competitive banking services reaches nooks and corners of the country. NABIL and SCBNL have shown no interest to open branches in rural areas. Both the banks are recommended to expand their branches and banking services and facilities in rural areas and communities to accelerate their economic development. NRB sould implement policies to encourage banks, which provide extensive services while distincentivising those who are not responsive to the banking needs of the community, including the underprivileged.

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