

**PROBLEMS AND PROSPETS OF NEPALESE
COMMERCIAL BANKS IN RELATION TO DEPOSIT
MOBILIZATION**

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ABBREVIATION

ABBS	–	Anywhere Branch Banking System
AD	–	Anno Dominie
ATM	–	Automated Teller Machine
BOKL	–	Bank of Kathmandu Limited
BS	–	Bikram Sambat
CBS	–	Commercial Banks
CRR	–	Cash Reserve Ratio
DSCP	–	Deprive Sector Credit Program
EBL	–	Everest Bank Limited
FY	–	Fiscal Year
GDP	–	Gross Domestic Product
HBL	–	Himalayan Bank Limited
IBRD	–	International Bank for Reconstruction and Development
i.e.	–	That is
IMF	–	International Monetary Fund
JVB's	–	Joint Venture Banks
LC	–	Letter of Credit
MBL	–	Machhapuchhre Bank Limited
MBS	–	Master of Business Study
NBL	–	Nepal Bank Limited
NIBL	–	Nepal Investment Bank Limited
NIDC	–	Nepal Industrial and Development Corporation
NPAT	–	Net Profit After Tax
NPL	–	Non Performing Loan
NRB	–	Nepal Rastra Bank
PNC	–	Prithivi Narayan Campus
PSCP	–	Priority Sector Credit Program
RBB	–	Rastriya Banijya Bank
WTO	–	World Trade Organization

CHAPTER-I

INTRODUCTION

This chapter is concerned with introductory phenomenon of the study. It highlights the problems that commercial banks are facing at present in relation to deposit collection and mobilization. It also explains why the research is carried out and what it aims.

1.1 Background of the study

1.1.1 General Background

Economic condition is one of the most remarkable distinctions. In this universe, there are many countries whose economic condition is very high with per capital of income more than \$30,000 while there are such countries whose economic condition is very low with per capital income of less than \$200 per annum. These countries are trying to uplift their economic conditions. But during 2002, significant improvement has been visible in the global economic and financial situation. After suffering with economic and financial crisis in recent years South Korea, Japan, Thailand, America, Malaysia, Singapore etc are recovering their economic condition gradually. Among the Nepalese neighboring countries, China and India's economic condition is growing very rapidly.

Capital formation is one of the important factors in economic development. The capital formation leads to increase in the size of national output, income and employment, solving the problem of inflation and balance of payments and making the economy free from the burden of foreign debts.

Domestic capital formation helps in making a country self-sustainable. According to classical economists, one of the main factors which helped capital formation was the accumulation of capital. Profit made by the business community constituted the major part of the savings of the community and what was saved was assumed to be invested. Thus, capital formation plays a crucial role in determining the level and growth of national income and economic development. It seems unquestionable that the sufficient capital accumulation is the most serious limiting factor in underdeveloped countries. In the view of many economists, capital occupies the central and strategies position in the process of economic development in an underdeveloped countries. In developing countries, the rate of saving is quite low and existing institutions are half successful in mobilizing such savings as most people have income so low that vertically all current income must be spent in maintaining a subsistence level of consumption.

For the development of any country first, it is required to have enough capital. It is the backbone for the development of the nation. Nepal lacks the adequate capital for its development planning. If there is enough capital available, it can be invested into the profitable project and contribute little bit in the National GDP. Investment promotes economic growth and contributes to a nation's wealth when people deposit money in a saving account in a bank for example, the bank must invest it by lending the funds to various business companies. These firms in return may invest the money in new factories and equipments to increase their production. In addition borrowing from the banks, most issue stocks and bonds that they sell to issues bonds to obtain funds to invest in such project, as the construction of dams, roads and schools etc. All such investments by individuals, business and government involves appropriate income to get an expected future benefits. As a result, investment raises a nation's standard of living.

Nepal is least developed among developing countries of the world. Nepalese people are very poor. One of the causes of pervasive poverty is the lack of economic resources and slow rate of national economic growth. For proper and efficient utilization of resources, it needs proper plan and strategy development and for plan, huge amount of capital investment is required. About 42% of total population of Nepal is steeped in absolute poverty line. The per capita income of Nepal is only \$200. The lack of effective and trained human resources, lack of advance technology and economy based on traditional agriculture are the main causes of poverty. Due to low per capital income, there is lack of saving and capital formation.

For the development of a country, it is very important to have an adequate saving, which can be invested in productive sector. Due to the low income, there is less saving. People spend all the money in consumption of necessary item. Some rich people who save money also invest in the precious metal and some also hoards it. People have no idea about the investment in productive sector. Commercial banks are the main source, which motivate people to save their earnings. Banks collect the saving of people in the form of deposit collection and invest it in the productive area. They give the loan to the needy people. Commercial banks mobilize the deposit in different sector which is collected form the people.

Realizing the importance of the commercial banks HNG/N has been adopting the economy liberalization policy in establishing the commercial banks. Due to liberalization policy made by government there is increase in both number of finance companies and there has emerges the tough competition between them. At present there are 25 Commercial Banks. 428 Bank branches, 59 Finance Company, 5 Rural Development Bank, 20 Development Bank, 21 Co-operatives and 44 Non-government Micro Finance Companies in Nepal.

1.2 Historical Background of the Study

Banking in true sense of term started with the inception of Nepal Bank Limited (NBL) on the 30th Kartik, 1994 B.S. since its inception it carried out functions of a commercial bank, NBL paid more attention to profit generating activities. This is the first financial institution of the nation.

The economic and industrial development was stopped in Nepal since the Second World War. After 2007 B.S. the banking activities of Nepal were not satisfactory due to political instability. At first Nepal Bank Ltd. was given the authority and established Nepal Rastra Bank (2013 Baishakh 14 B.S) in Nepal. It issued Nepali notes on 7th Falgun 2016 B.S. for the first time. This bank has been the central bank of Nepal to look after the banking need of the country with the following objectives:-

To secure countrywide circulation of Nepalese currency, to mobilize capital for economic development and stipulation in trade and industries, to stop dual monetary system, to provide for issuance of notes, to achieve stability in its exchange rate, to apply monetarism in all part of the kingdom and to develop banking system in Nepal.

The Central Bank plays a significant role in developing country to develop the banking system for the mobilization of resources and using them in the priority areas to match development plan. So Nepal Rastra Bank has been authorized to play this role.

Rastriya Banijaya Bank was another important bank to be established in Nepal in 2022 B.S. The purpose of this bank was also to provide the facilities for the economic welfare of the general public. After the establishment of this bank, most of the branches and exchange counter of NRB (Nepal Rastra Bank) were gradually handed over to this bank. It's main features were to contribute to the development of the banking system through out the country. Particularly the remote areas lying in the hilly regions which were not served by commercial bank. To fulfill the growing credit requirement and also to collect more deposits for the development projects, NRB adopted liberal policy and provided many facilities to probable bankers of Nepal and abroad. After this many joint venture banks began to establish.

Nepal Arab Bank Limited was the first joint venture bank of Nepal. Nepal Arab Bank Limited which was established in 2041 B.S. was the outcome of joint venture with Dubai Bank Limited of United Arab Emirates. Nepal Indosuez Bank (currently known as Nepal Investment Bank) was the second bank established under the joint venture in 2042 B.S. This bank is a joint venture between Nepalese and French partners. Another bank with a joint venture between Nepal and United Kingdom, established in 1987 A.D. was Nepal Grindlays Bank (currently known as Standard Chartered Bank).

After the restoration of democracy in 2046 B.S. NRB adopted more liberal attitude in opening of commercial banks. It also followed market oriented liberal economic policy for competitive banking system to attract private sector as well as foreign investor with their capital / skill and technology in banking business. The process of registration, while opening new commercial banks were simplified and commercial banks were given the facilities to maintain the interest rate based on competition according to open market policy.

Due to the liberal policy in establishing the commercial banks, other commercial banks came into existence during the 1990's under the foreign collaboration. At present there are altogether 25 commercial banks in operation in Nepal which are as listed below:-

<i>S.N.</i>	<i>Commercial Banks</i>	<i>Head Office</i>
1	Nepal Bank Ltd	Kathmandu
2	Rastriya Banijya Bank	Kathmandu
3	NABIL Bank Ltd.	Kathmandu
4	Nepal Investment Bank Ltd.	Kathmandu
5	Standard Chartered Bank Ltd.	Kathmandu
6	Himalayan Bank Ltd.	Kathmandu
7	Nepal SBI Bank Ltd.	Kathmandu
8	Nepal Bangladesh Bank Ltd.	Kathmandu

9	Everest Bank Ltd.	Kathmandu
10	Bank of Kathmandu Ltd.	Kathmandu
11	Nepal Credit & Commercial Bank Ltd.	Siddgarthanagar
12	Lumbini Bank Ltd.	Narayangadh
13	Nepal Industrial & Commercial Bank Ltd.	Biratnagar
14	Machhapuchhre Bank Ltd	Pokhara
15	Kumari Bank Ltd.	Kathmandu
16	Laxmi Bank Ltd.	Birgunj
17	Sidhartha Bank Ltd.	Kathmnadu
18	Agricultural Development Bank Ltd.	
19	Global Bank Ltd.	Birgunj
20	Citizen Bank Ltd.	
21	Sunrise Bank Ltd.	Kathmandu
22	Bank of Asia Ltd.	Kathmandu
23	Prime Bank Ltd.	Kathmandu
24	NMB Bank Ltd.	Kathmandu
25	Kist Bank Ltd.	Kathmandu

1.3 Statement of Problems

As we mentioned above the financial institutions occupy the vital role in development of the nation. The development of country depends on well organized financial sector in the country. But developing countries like Nepal are facing many problems in developing the financial sector. First of all we have very few institutions in this area and they are not in good condition. Every part of financial sector is facing one or more problems which ultimately affect the development of our country.

The major problem in almost all under development countries and Nepal is no exception than that of capital formation and proper utilization. In such countries, the CBs have to take on more responsibilities and act as development banks, due to the lack of other specialized institutions. In this situation, CBs have to play vital role by accepting deposits and providing various types of loans. The development of the country is directly related to the volume of loan but the problem of lending has become vary for developing country like Nepal.

Further more, the credit extended by CBs to agriculture and industrial sector is not satisfactory to meet the growing need of the present day. Even if, NRB has made it mandatory to invest in priority sectors like agriculture, small scale industries and services, all CBs have not financed their loans to this sector.

At present many CBs are working in Nepalese financial sector, however, service quality of CBs is not satisfactory yet. There is raised criticism that CBs have served only richer communities not the poor. The branches of CBs are also confined in the capital city and urban area CBs are interested to invest in only some big industrial and commercial houses. This has directly had negative impact on economic growth.

These are the main reasons for crisis in the CBs and on the whole national economy as well. Thus present study will make modest attempt to analyse the problems and prospect of commercial banks in relation to deposit mobilization. The research problems identified are as follows:

- 1) What are the problems of commercial banks in relation to deposit mobilization?
- 2) Is there any prospect to grow of CBs in Nepalese financial sector?
- 3) What is the priority and Deprive sector Lending of CBs?
- 4) What is the trend of deposit collection of selected CBs?

1.4 Objective of the Study

The general objective of the study is to find out the problems and prospect of commercial banks in relation to deposit mobilization. The followings are the specific objectives:

- 1) To analyse the problem of commercial banks in relation to deposit mobilization.
- 2) To measure the trend of deposit collection over the past five year period.
- 3) To analyse the possibilities in the growth of commercial banking sector.
- 4) To access the priority and Deprive sector lending of selected Commercial Banks.
- 5) To provide the workable suggestions and possible guidelines to improvements of performance of CBs and expected solution of the problem faced by them.

1.5 Need and Significance of the Study

The existence of a well commercial banking is one of the strength of an efficient financial sector. But as we stated earlier that every part of the CBs is facing more or less problem by which they are unable to meet the desired objective. So, the study is focused on a subject problems and prospect of commercial banks in relation to deposit mobilization.

CBs main business is collection of spread saving from the masses as deposit and flow to essential and productive sectors. But they are facing problems in it. This has therefore attempted to analyze the problems faced by CBs in relation to deposit mobilization and provide a useful feedback. This is useful for improvement of CBs themselves.

Moreover, this study may be important for researchers, scholars, banking sector, students, government and other parties. So, it will be helpful to those who want to study further detail and widely in this field, similarly, the study encourages the general public about where to invest further or not and depositors can take decision to deposit their money.

1.6 Limitation and Scope of the Study

This study is simply a partial study for the fulfillment of Master Degree (MBS). This study is not far from several limitations, which weaken the hearth of the study, e.g. time period, reliability of financial and statistical tools used and other variations. This study is limited by the following factors:

-) There are many parts of financial sector but the study concerned about CBs only.
-) This study is based on both secondary as well as primary data; therefore, the accuracy of result and concussions highly depends upon the reliability of these data.
-) Although CBs are facing many problems but the study focuses on problems related to deposit mobilization. And prospects CBs are affected by many factors, such as economy, legal environment, development of industry and trade etc. of our countries as well as foreign countries. But the study draws conclusion on the base of available of primary and secondary data from relevant sector.
-) There are 25 CBs in Nepal, however, this study covers only four banks to study. It has been assumed that these banks represent all Nepalese commercial banks.
-) The secondary data is about 5 years period only i.e. from fiscal year 2003/04 to 2007/08. Hence, the conclusion drawn confines only to the above period.

1.7 Organization of the Study

The whole study has been divided into five chapters. Each chapter is devoted to some aspects of the study. The five major chapter of the study are as follows:

-) The first chapter deals with introductions, which includes general background, historical background, statement of problems, objectives of the study, need and significance of the study, scope and limitation of the study and organization of the study.

-) The second chapter deals with the review of literature. In this chapter, various books, reports, article of journals and newspapers, and previous thesis related to present study are reviewed.
-) Likewise, chapter three presents various methods and process employed for the study, which includes rational of the selection of the study area, research design, nature of data, population and samples, data collection technique, method of data analysis and interpretation and tools etc.
-) Fourth chapter deals with presentations and analysis of collected data and information through definite course of research methodology.
-) Ultimately, fifth chapter discusses summary, conclusion of main findings, recommendations and suggestions for further improvement. Besides these, bibliography and appendices are also included.

CHAPTER-II

REVIEW OF LITERATURE

This chapter basically concerned with review of literature relevant to the problems and prospects of commercial banks in relation to deposit mobilization. Every possible effort has been made to grasp knowledge and information that is available from libraries, concerned commercial banks, books, articles, journals, national and international publications and other information bureaus. This chapter is divided into following two parts.

2.1 Conceptual Review

This sub-chapter presents the theoretical aspect of the study. It indicates the concept of commercial bank, functions of commercial bank, concept of investment, problem and challenges of commercial bank in Nepal, concept of deposit, sources of deposit and its uses.

2.1.1 Conceptual Review of Financial Institutions

Financial institution generally functions as the mediator, who collects the idle money scattered in the country and society providing different services and facilities and invest those fund in productive sector to generate profit. There are many thinkers who have defined the meaning of financial institution in their own way. According to the dictionary of modern economics, “A financial intermediary, not a bank which may obtain fund from, its own capital resources by accepting deposit (usually from fixed deposit) or even by borrowing from others institutions and which it on lends for a variety of purpose especially to finance hire purchase contracts, but also leasing.” (Khadka and Singh, 2000)

In developing countries, there is always shortage of the capital for the developmental activities; there is need of development in all sectors. It is not possible to handle and develop all the sectors by government alone at a time. Private people also cannot undertake large business because the per capita income of the people is very low while their propensity to consume is very low and capital formation is very low. Therefore, their saving is not sufficient for carrying on developmental works. (Johnson, 1965)

Therefore, to achieve the high rate of growth and per capita income, economic growth should be accelerated. Economic development so defined is necessary and sufficient to generate high rate up saving and investment. The generation of high rate of saving and there by investment is possible the commercial bank. Banking is the epicentre of economic development. (Fry, 1974:36)

Among different financial intermediaries, commercial banks are also the major ones. Integrated and speedy development of the country is possible only when banks occupy quite and important role in the frame work of every economy because it provides certainty to the industry, business and capital for the development of the industry, trade and business investing the fund colleted as deposit.

2.1.2 Concept of Commercial Bank

Banks are organizations whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to other for expenditure. Commercial banks are those financial intermediary collection and disbursement of funds from surplus units to deficit unit.

According to the commercial bank act 1974, a commercial banks mean, a bank which operates currency exchange transaction, accept deposit, providing loans and performs dealing relating to commerce and other than those banks have been specified from the co-operative, agriculture, industry of like any other specific objective.

Commercial banks are the heart of our financial systems. They hold the deposit of million of persons, government and business units. They make fund available through their lending and investing activities to borrow individuals, business units and government. (Shrestha, 2007)

Summarizing the above definition, commercial banks are financial institutions that offer the widest range of financial services specially credit, saving and payment service and perform the widest range of financial functions of any business firm in the economy. This multiplicity of bank services and functions has led to bank being labelled “Financial supermarket”

2.1.3 Function of Commercial Banks

American institute of banking has, fixed out four major functions of commercial banks. Receiving payments, handling payment, making loan and investing and creating money by extension of credit.

The modern commercial banking transaction starts from the deposit made by the general publics and other organization. The amount receive by the bank as deposit will be invested in the profit earning sector like advancing loan, agency function, purchase and sale of foreign exchange and creation of credit. However, the major functions of commercial bank are as follows.

1) Accepting Deposit

Commercial banks accept deposit from the public under various accounts namely fixed account, current account, saving account and other account. The commercial banks are fully authorized to collect the fund from various sources. In addition, the accumulated money is disbursed in the productive sector by providing credit that helps the banks to raise their fund more effectively.

2) Agency Function

-) There are various agency service rendered by the commercial bank
-) Transfer the fund
-) Purchase and sale of share and securities for the customers
-) Collection of customer fund
-) Payment of insurance premium
-) Trustee and executor
-) Acts as correspondence

3) Disbursement of Loans

The primary function of the commercial bank is providing credit facility to borrow. Bank lending contributes a lot to the economy in term of financing, agriculture, industrial and commercial activities of the nation. There are various Type of loan and advance.

-) Cash Credit
-) Overdraft
-) Demand/ Term Loan
-) Trust Receipt Loan
-) Bill/cheque Purchase/discount
-) Money at call and short notice.

4) Facilitating Foreign Trade

The commercial bank efficiently arrange for the amount of foreign exchange required by business organization. Moreover, foreign trade transactions have been facilitated by the issuance of commercial letter of credit.

5) Consultancy

Banks are large organization. They can expand their function to consultancy business. In this function, bank hire financial, legal and market experts, to provide advices to customers in regarding investment, trade, income tax etc.

6) Remittance

Banks provide the facilities of remittance to the customer and earn some service charge. Generally, a bank provides such facility through cheque, bank drafts, letter of credit etc. Remittance plays an important role in the modern national as well as international trade.

7) Bank Guarantee

Customers are provided the facility of bank guarantee by modern commercial banks. When customers have to deposit certain fund in governmental officers or courts for specific purpose such as legal case, bank can present it self as the guarantee for the customer instead of depositing fund by customer. Bank provides such facility only, when the customer have sufficient fund in their account.

2.1.4 Objective and Importance of Commercial Bank

Commercial banks bring into being the most important ingredient of the money supply. They demand deposit through the creation of credit in the form of loan and investment. Commercial banks perform a variety of objective and importance which can be divided as follows:

1) Freedom from Exploitation of the Economy

Before the starting of banking system in Nepal, Merchant trader, goldsmith and money lender used to provide loans to the money borrower by keeping gold, silver and land as mortgage and charge high interest rate on it. Due to this interest rate money borrowers have to sell their assets in low price. This causes high distance between poor and rich people. Therefore, the objective of the commercial bank is to establish organization banking system to make free the public from the economic exploitation.

2) Mobilize Saving

Depositors are inspired to save their deposits in bank because of interest provided by bank. Depositor's increase to deposit their saving in bank if the interest rate provided by bank is higher and vice versa. Therefore, the objective and importance of the bank to mobilize the saving in the productive sector.

3) Capital Formation

One of the most important objectives of commercial bank is to increase the rate of capital formation. Bank collects the idle cash from public and distributes it to the needy trade, business houses and government as loan. These activities increase the expected investment and increase the rate of capital formation.

4) Foreign Investment

Commercial bank played an important role on attracting foreign investment by familiarizing the investors (i.e. multinational companies, organization, institution, and bank) with relevant Nepalese financial rules and regulation and practices through their publication.

5) Banking Techniques

The commercial bank in Nepal begs the credit for the introduction of new banking techniques, such as hypothecation and syndicating under the guidance of NRB. Other area of expertise are forward cover for foreign exchange transaction by important and exporters merchant banking, inter bank market for money and securities, arranging foreign currency loan etc. these and other innovation techniques in the international banking system have been introduced to NRB by financial institutions, commercial banks and joint venture banks.

2.1.5 Resource of Nepalese Commercial Bank

Commercial banks have mainly three sources for their advancing. They are as follows:

1. **Capital:** As far as the capital fund is concerned, it is only a nominal source. Therefore, it can be used for investment purposes. This capital fund consists of two elements: paid up capital & General reserve.
2. **Deposit:** Deposit is the main resource of the banks for advancing loans. It is received from different forms and accounts. They are mainly three types of deposits viz. saving, fixed and current. The main source of raising capital is deposits. Sudharsanam (1976) rightly says, “the deposit function of the bank is important because it has to aggregate small sums of money lying scattered here and there like twenties, fifties and hundreds. Singling these sums has no economic efficiency what so ever but they can accomplish Herculean tasks when they are aggregated and employed by the banker.”
3. **Internal and External Borrowing:** Internal and external borrowings are the very important for a developing country like Nepal. Commercial banks alone cannot fulfill the necessity of the society. Therefore, they are allowed to borrow from two sources, external and internal. Generally, external borrowing means the borrowing from foreign bank, foreign government, IBRD, IMF etc. Internally, the banks can borrow from only one source, i.e. from NRB. It is important that the commercial bank’s deposit policy is the most essential policy for its existence. The growth of bank primary depends upon the growth of its existence. The volume of funds that management will use for creating income, through loans and investment, is determined largely by the bank’s policy governing deposit policy. In other words, when the policy is restrictive, the growth of bank is restarted or accelerated with the liberalization in the deposit policy. Banking business, the volume of credit extension much depends upon the deposit base of a bank. The deposit created

power of the banks forces to raise the assets along with the liabilities side of the balance sheet. In other words, assets give rise to liabilities. Traditionally, the deposit structure of a commercial bank was thought to be determined by the depositors and not to be bank's management. There are regular changes in this view in the modern banking industry. Thus, the banks have evolved from relatively passive acceptors of deposits to achieve bidders for funds. Deposit is one of the aspects of the bank liabilities that management has been influencing through deliberate action.(Vaidya, 1999)

2.1.6 Concept of Deposit

Deposits are the main source of funds by providing certain rate of interest. Commercial bank calls for the deposit from the customer. There are different types of deposit accepted by the bank but current, fixed and saving are the major three types of deposits. These different types of deposits are used for lending the money to different sector such as agriculture, productive work, trade, irrigation and industry. The deposits will be led to increase the working capital of the bank. So in a developing country like Nepal deposit have played a significant role for the development of the country. Commercial bank act 1974, defines, Deposit as the amount deposit in a current, saving or fixed amount of a bank of financial.

The deposits function of the banks is important because it has to aggregate small sums of money lying scattered here and there twenties, fifties and hundreds. Singly these sums have no economic efficiency what so ever. But they can accomplish Herculean task when they are aggregated and employed by the bankers. (Harish, 1965)

We may think of a deposit as something that has been turned over to someone else for safe- keeping. The person receiving whatever to us handover assumes a responsibility, he gives something, a promise.

Basically deposits are categorized in three heading for accounting and financial analysis purpose.

1) Fixed Deposit

Under Commercial Bank Act 2063, fixed account means accounts of amounts deposited in a bank for certain period of time. The customers deposit their money in this account for fixed period. In other words, it is called time deposit because this amount is deposited for certain period. Usually, only the person or the institution that want to gain more interest open such types of accounts. The period of time can be 3 month, 6 month, 9 month, 1 year, 2 year, 3 year, 5 year etc. more interest rate is payable in this deposit than other deposits. Both parties, the bank and the customers, can take benefits form this deposit. The bank invests this money on the productive sector gaining profit. The amount collected in the fixed deposit must be returned to the customer after the date is expired. f fixed time.(Bhandri, 2003)

2) Demand Deposit

The deposit in which an amount is immediately paid at the time of any holder's demand is called demand deposit. In other words, it can also call as current account. Current account means an account of amount deposited into bank, which may be drawn at any time on demand. Its transaction is continual and such deposits cannot invested in productive sector. So, such type of account remains as stock in the bank. Though, the bank cannot gain profit by investing it in new sector after taking from the customer, this facility is given to customers. Therefore, the bank does not give interest on this account. From such deposit, the merchants and traders are benefited more than the individuals. They should pay many times as the cheque is forwarded until there is deposit in his/her account. The bank cannot impose many condition and restriction in demand deposit. An institution or an individual, who usually needs money daily, precedes his/her acts and transactions through such deposit. The current account is very important for the customers of the bank.

3) Saving Deposit

Banks accept saving deposit from individual and non profit making organization. The purpose of saving deposit is to encourage the habit of saving

among the common people and institutions. Saving deposit attract which is normally less than that of long term deposit but more than of short term deposit. (Dhal, 1999:28)

The commercial banks accept deposit from the public also under the saving account. These accounts are opened to promote the saving of the middle class and lower class people. The interest provided on saving bank deposit is lower than that allowed on fixed deposit account but higher than that allowed to current account. It is calculated on the lowest balance kept during the month or daily balance. The bank supplies bank statement which must be presented along with the withdrawal from it if a customer wants to withdraw money. Most of the banks now allow withdrawal by the means of cheques.

4) Call Deposit

Call deposit incorporates the characteristics of current and saving deposit. Current in the sense, it can be withdrawal at call and saving in a sense the deposit earns interest. The companies not entitled to open saving account can open call account. Interest rate on call deposit is negotiable between the bank and depositor and hence, is normally not published/ announced in public. Interest rate is applied on daily average balance and withdrawal restriction is not imposed on call deposit but the balance should not go below on agreed level. (Dahal, 1999:30)

5) Provident Fund Deposit

The employee of any organization, whose certain percentage of the salary deposit monthly, bimonthly, or tri-monthly in continuously and gets back the total amount with interest only after the retirement, is known as employee provident deposit. It is similar to recruiting deposit but differences between then is get back the amount. After certain fixed period the total amount with interest will be returned in recruiting deposit whereas only after retirement of job the total amount with interest will get back in employee provident fund.

2.1.7 Concept of Investment

“Investment” as a term is quite confusing and multifaceted. In pure financial sense the subsequent use of the term investment will be in the prevalent financial sense of the placing of money in the hand of other for their use, in return for proper instrument entitling the holders to fixed income payments or the participation in expected profits. But manufacturing and trading firms the term investment will be those long term expenditures that aim at increasing plant capacity of efficiency or at building up goodwill, thereby producing an increase return over a period. Whereas according to an economist views, investment is as a productive process by means of which additions are made to capital equipment.

For our purpose, in the study of financial institution’s the investment and investment problem will revolve around the concept of managing the surplus financial assets in such a way, which will lead to the wealth maximization and providing a significant future source of income. Thus, the investment for insures purpose will be management of the surplus resource in such a way as to make it work for providing benefits to the owners by increasing to total assets simultaneously providing benefits to the supplier of the funds by letting third party to use such resource. However, the investment needs to be a procedural task. It must follow a definite investment process which definitely begins from the formulation of proper investment policy. (Sharp, Alexander and Bailey, 1995:10)

Investment in its simplest form means employing money to generate more money in future, it is the sacrifice of current rupees for future rupees, return is the primary motive of investment, but it always entails same degree of risk. (Sharma Paudel and Bhandari, 2003:2)

An investment may be defined, as the current commitment of funds for a period of time to derive future flow of fund that will compensate the investing unit for the time. The funds are committed for the expected rate of inflation and also the uncertainty involves in the future flow of the funds.

From the above definition, the financial investment is a form of this general or extended sense of term. It means an exchange of financial claims—stock and bonds (collective termed securities) real estates mortgages etc. The term financial investment is often used by investors to differentiate between the pseudo investment concept of the consumer and the real investment of the business semantics aside there is still a difference between an “investment in a ticket on a horse and the construction of a new plant between pawning of a watch and the planting of a field of corn”. Some investment are simply transaction among people other involve nature, the latter are real investment, the former are financial investment.

2.1.8 Meaning of Some Important Terms

This study has been made to clear the meaning of some important terms, which are frequently used in this study.

1) Loan and Advance

The loan granted by the banks to a customer is debited to their account and credited to the account of these customers in the banks. This business is much profitable to the bank because by its own credit it grants loan and advance. The commercial banks grant loan and advance against good securities i.e. such securities which are easily saleable in the market. They do not accept securities which are subject to depreciation. It is said by some one that secured are those securities which are subject to payment in due date, which can be easily sold in the market if necessary and which are free from the risk of depreciation. Generally commercial banks grant loan and advances for short period only. When the loan is granted, pass book of bank statement and cheque books are supplied to the customers. The customers can withdraw money from the banks to the extent of their loans only. So far the interest by the customer is concerned. Interest is charge on the whole amount.

2) Investment on Government Securities, Share and Debenture

Though a commercial bank can earn some interest and dividend from the investment on government securities, share and debenture, it is not the major source of income. It is treated as a secondary source of banking business. A commercial bank may extend credit by purchasing government securities, bond and share for several reasons.

-) There are the highly marketable securities if the banks need liquidity immediately it can be converting into cash.
-) Bank can fulfill its burden of expected withdrawals by depositors or large loan demand of its customers.
-) It may also be forced to invest because the demand for loans has decreased or is not sufficient to absorb its excess reserves.

3) Investment on Other Company's Share and Debenture

Most of the commercial banks invest their excess funds to the share and debenture of the other financial and non-financial companies, due to excess fund but least opportunity to invest. Those funds are much more profitable sectors and to meet the requirement of Rastra Bank's directives. Now a days, the commercial banks have purchase share and debenture of regional development bank. NIDC's and other developments sectors.

4) Other Use of Funds

Commercial bank must maintain the bank balance with NRB as prescribed by the bank of Nepal. Similarly, they have to maintain the cash balance in local currency in the vault of the bank. Again some part or the fund has to be used for the balance in foreign bank and to purchase fixed assets.

5) Off-balance Sheet Activities

Off balance sheet activities involve contracts for the future purchase or sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities on balance sheet. Some examples of these

items are letter of credit, latter of guarantee, bills of collection etc. These activities are very important; as they are the good source of profit to bank through they have risk. Now-a-days, some economists and finance specialists to expand the modern transaction of a bank stressfully highlight such activities.

2.1.9 Problems of Banking in Nepal

Modern banking system in Nepal was introduced after the establishment of Nepal Bank Limited in 1994 B.S. After that the banks were gradually established for example Nepal Rastra Bank, Rastriya Banijya Bank, Agricultural development Bank. Later after the introduction the commercial bank act (1974), many commercial banks are opened in the joint investment. Likewise, under the development bank act (1995), the development banks are opened. Therefore these all banks are not free from some problems. They are explained as follows.

1) Political Influence up on Bank

In fact, one of the many problems faced by banks in Nepal is political influence upon the bank. It is not good to have political influence in professional organization. It does not give positive signal to professionals. It will not display capability of bank.

There are many banks established in joint investment. Therefore, there is no possibility of all types of banks being free from the politics. There arise many anomalies in banks from political influence. For example, unqualified person may get appointment in bank, there can be more staff than necessity, relativity and mercy exists in it. The loan provided by the bank will not be used for and in proper purpose place. Different political person may gather and political talk may prevail over work. The situation may be such that the qualified and capable person may be deprived of work. Therefore, there should not be political influence in banks. But unfortunately, the banks are not free from political influence which has created several effects. It is not good signal for the development of banking sector.

2) Banks are not free from Corruption

Though, corruption is not rampant in banks as in other sectors of country. The banks have directly or indirectly suffered from corruption. We have heard rumours from times to time that there is corruption in banks. Corruption takes place in banks in different ways. Some examples are: corruption in appointment, promotion of the officials. Likewise the corruptions take place when banks provide loan to someone. Not only this, there may also be corruption evasion of tax, with the intension to earn money. In reality, there are many forms of corruption. It is bad signal for banking area.

3) Lack of Investment in Productive Sector

The objective of the bank is to gain and more profit by accepting deposits from different sectors to invest it to large industries and business organizations. In other words to collect savings scattered in different places of the country and to invest such collection in productive sector is the main objective of the bank. But commercial banks are not investing their capital in the productive sector properly. Hence, the investment should be mobilized more scientifically, but investment made by banks in productive sector is very low in quantity. It is observed that banks have centralized their means and sources upon import business that the banks are inspired with the conceptions to earn much by increasing foreign import trade rather than developing the national occupations.

4) Unhealthy Competition Among Banks

There is no doubt that there is lack of healthy competition among banks in Nepal. It is clear that in fact, banking system can't be developed properly without banking competition. There are few banks that are engaged in the old functions. They are not able to create the situation of competition by presenting the new programs. They have not lured the customers, by applying the new banking technologies to the people. There will be no development of banking until there is banking competition.

5) Irregular Mobilization of Deposits and Recovery of Loan

Irregular mobilization of deposits and recovery of loan is one of the problems appeared in banking sector. A very unhealthy activity is growing in banking sector form it. In the course of banking business, banks collect a great deal of money as deposit from different person, organizations and institutions. The bank with the aim of gaining profit, provide such amount to different persons, organizations and institution of different places. Sometimes, it is not invested in the proper place, in the course of following such loan. Similarly, it does not show interest to recover the loan regularly. After the loan is provided by the bank, regular inspection and monitoring are not made to know whether the debtor has used the loan in appropriate areas or not. Due to this reason, there is a great amount of un-recovered bank loans.

Others Problems

- 1) Some of the banks do not have appropriate credit and investment policy.
- 2) Banks in numbers and inspection area extended with the use of new device.
- 3) Failure due to political pressure of banks specially, the government banks to comply with the direction given by the Nepal Rastra Bank.
- 4) Lack of banking transaction, inadequate quality and the lack of bank in rural area.
- 5) Lack of clear policy of investments of loan, banks in concentrates their work to earn profit in short time; lack of feeling of responsibility towards the nation.

2.1.10 Challenges of Banking Sector in Nepal

Today the banking products and services are getting more complex and sophisticated day by day. Most basic transaction can be completed through the new delivery channels such as ATMs, internet, mobile phone. Bank has extended business hour like ' evening counter' Holiday Banking , Any where banking etc. The modern technology in the banking sector has provided

enormous benefits to consumers in terms of ease and cost of transaction. However, it has also brought new challenges for the central bank and other concerned authorities in the developing an efficient and effective supervisory regime. (Singh 2063)

Major challenges of the banking sector currently facing are briefly discussed as follows.

) High Volume of Non Performing Loans

One of the universal accepted indicators of the health of the banking sector of a country of the level of NPL. Nepalese banks seem to be in critical position due to having a higher level of NPL. Average level of banking industry is 13.54 percent. Although NPL of the banking sector has been declining gradually it still leaves a lot to be desired. High level of NPL is not a matter of concern only for the public sector banks; it is equally alarming for some of the private sector banks e.g. Lumbini banks, Nepal Bangladesh bank and Nepal credit and commerce Bank. Out of the 19 commercial Banks, NPL of eight commercial banks is more than the international benchmark.

) Weak Corporate Governance

The Nepalese banking sector lacks good corporate governance. Still some of the promoters/directors and senior management view the banking business as their family business and try to exploit the bank's resources to best suit their needs. Although, the regulations have been drafted specifying the desired activities from the bank's stakeholders, the banks and their stakeholders fail to realize that the directives are only the minimum standards desired of them and that are expected to demonstrate the highest form of corporate ethics and values. They should realize that banking business is very sensitive business, which is based on people's faith.

) Changing Technology

Technology has been changing at a rapid pace. The extremely rapid development in the information technology including computer, telephone,

internet, ATM etc has revolutionized the banking business worldwide. Some banks of Nepal have started electronic banking services, but still public sector banks are operating in traditional manner. Obviously, technology has brought new avenues to the banking sector while new risks have also surfaced at the same time.

) **Weak Real Sector**

Amidst inflow of remittance, the Nepalese banking sector has been facing the management of growing liquidity. Because of weak real sector, private sector credit off-take has been low. Getting good lending opportunity is a challenge for the banks.

) **Increasing Competition**

Competition in the banking system in Nepal has been increasing rapidly. There has been large increase in the number of banks and non-bank financial organizations in Nepal in the past decade. At the same time, due to political crises in the country, the economy of the country has remained more or less stagnant thereby fuelling the competition among the banks for larger share in the market. Competition in the banking sector is likely to increase further from 2010 onwards when foreign banks are allowed to operate their branches as per the provision made during the WTO accession.

) **Lack of Trained Man power**

Lack of the trained man power of the concerned sector and growing intra organization brain drain is regarded as a danger signal of the existing healthy competition, and leading to other challenges like the leakage of secrecy and inefficiency at last.

2.1.11 Priority and Deprived Sector Lending of Commercial Banks in Nepal

The Government of Nepal and Nepal Rasta Bank (NRB) have considered deprived sector credit as an effective tool for reducing poverty. Previously, NRB has introduced the priority sector credit program to make

mandatory lending by the commercial banks in the sectors prioritized by the NRB.

This idea was initiated in 1990s when NRB introduced the "Deprived Sector Credit Program (DSCP)" in order to meet the micro credit demand of the poorer and weaker section of the society. The NRB, while introducing the DSCP, had segregated priority sector credit into two segments, i.e. 9 percent for the priority sector credit programs (PSCP) and 3 percent for DSCP, totaling 12 percent to the agriculture, cottage industry and services sector.

In this program CBs are required to lend from 0.25 (for newly established bank) to 3 percent (for those banks having three years of existence) of their total loan portfolio to the poorest sector. This is mandatory program and if the banks fail to achieve the target, they are penalized for the shortfall. The penalty is charged as per the NRB Act and such penalties are deposited into NRB's profit and loss account.

2.2 Review of Related Studies

2.2.1 Review of Related Books

Campbell and Cracaw (2000) in this book, "The banking industry has historically faced two fundamental, interrelated problems that have made regulation necessary. The problems arises from the basic structure of the bank balance sheet: banks are highly leveraged with short-term, highly liquid debt known as deposits. The first problem is that the short maturity or highly liquid nature of deposits means that banks are constantly exposed to the prospect that some depositors could withdraw their funds. In the extreme case, a large number of depositors could run on the bank and so force it to attempt to liquidate large amount of its assets or loan. This liquidation can result in losses that end up driving the bank into insolvency. The second problem is that their high leverage creates an incentive for banks to take on very risky assets, or loans that could also drive the bank into insolvency."

Madura, (1999) has pointed about bank failures. He said that, “the cause of failure is often to one or more of the following characteristics”

First, fraud with in the bank could have existed. Fraud represents a wide range of activities, including embezzlement of funds.

Second, a high loan default percent can lead to failure. Although, banks recognize the potential consequence of a high loan default percentage, some continue to fail for this reason anyway. A through examination of any bank may show a general emphasis toward a specific industry- such as oil, shipbuilding, aerospace, agriculture or national defence systems that makes it vulnerable to a slowdown in that industry (or related one). Moreover, no matter how well a bank diversifies its loan portfolio is susceptible to a recessionary cycle.

The third reason for bank failure is a liquidity crisis. If a rumour of potential failure for a particular bank circulates, depositors may begin to withdraw funds from the bank, even though the bank is insured by the FDIC. The panic can even occur when the rumour is not justified. Under these conditions, a bank may be unable to attract a sufficient amount of new deposits, and its existing deposit accounts will subside. Once deposit withdrawals begin, it is difficult to stop the momentum.

The fourth reason for bank failures is increased competition. Deregulation has made the banking industry more competitive. When banks offer more competitive rates on deposit and loan, the result is a reduced net interest (spread rate) margin, and possibly failure if the margin is not large enough to cover other non interest expenses and loan losses.

Santomero and Babbel (2001) has pointed out; “commercial banks and other depository institutions are in an inherently unstable situation. To some extent, they have liquid liabilities and frozen or at least illiquid, assets. Their assets are largely in loans that have fixed future dates for payments; there is little banks can do accelerate the payments in the event that immediate cash required. Their liabilities, on the other hand, are largely checking and saving

deposits, which, in large measure, can be converted to cash and withdrawn immediately. In this sense, they are liquid. These conditions provide the fuel necessary for a run on a bank and a full-blown banking panic. All that is needed is a spark to ignite a run. The spark usually comes in the form of a rumour, which may be true or false, that some economic event has reduced the value of the bank's assets and impaired its ability to meet its obligation to depositors.

This may lead to a panic, where a run at one bank precipitates run at other, inherently healthy, banks. The contagion to other banks arises due to the incomplete information that bank depositors and equity holders have about the soundness of their banks. They know that banks may fail due to deterioration in general economic condition as well as due to problems that are peculiar to a particular bank. At any point in time, investors have only imperfect estimates as to whether the causes affecting a particular failing bank will have more widespread impact. As a precautionary measure, they may seek to withdraw their funds from other banks. If enough investor to do this, even the best-managed bank will suffer from liquidity problems and panic will ensue. The problem with a panic is not that the weak banks fail but that many of the ones operating on a perfectly sound basis will also fail. The disruption to the economy from such a phenomenon is greater than society is willing to accept.

Bhandari (2003) defines the word deposit, Deposit is the source of capital for the commercial bank, it is divided in fixed, saving and current deposit. Bank flows such amount as loan and investment into different sectors to earn the profits.

Garg (1998) has concluded, The deposit may also out of loans granted by the bank or through the process of discounting customer's bills. In the case, they are know as, "created deposit" and it actual practice the amount of such deposit is much larger than from of right to receive cash.

He added, deposit may have right to receive cash. These may be in the form of cheque, bills, promising notes etc. owing to them. What the bankers do

in these cases is that he collects them and credits, the customer's amount with the proceeds.

2.2.2 Review of Journals/ Articles

Under this heading, presents the review of the relevant studies and research articles published in different economic journals, dissertation papers, magazines, newspaper, websites and other related materials have been consulted.

Karki (1997) in his article, "Nepalese financial sector: Challenges and some solutions" says that "Although, the financial sector developed rapidly, this sector is facing the challenges. The financial liberalization process looks little bit faster than the rate of overall economic development raising the question of sequence of the financial liberalization itself that is not matching with the pace development in the Nepalese context. Going through by such faster liberalization process, the financial sector through expanded in terms of the number of institution but the volume of transaction and financial deepening could not match with the size of financial institutions.

The other challenges include high NPL of banking sector, dominance of informal credit, concentration of financial activities in the capital city and other urban area as well as in the big industrial and commercial houses, inaccessibility of credit to the large section of people below poverty and weak financial situation of public sector commercial as well as development banks, along with mushrooming grow of saving credit co-operatives with out the NRB's control and supervision, unhealthy competition among the banks and FIs, less effective of indirect monetary instrument like open market operations etc."

Pradhan (1996) has conducted in his articles, "Karja pravaha: Ak bibechna" the main problem of banking sector is unhealthy competition. He said at the time of loan disbursement, the banks don't think whether he/she or company is suitable for it or not. But they think which bank can disburse loan

comparatively high. The competition is focused on increasing profit. But it will increase non-performing loans that make a loss at last.

Thapa (2003) has expressed his article, "Managing Banking Risk" bank and financial institutions are fast growing industries in the developed world and also emerging as cornerstones for other developed and underdeveloped nations as well. But the growth or the double of the same industry has proved to be a driving force for slowing down the economy in many cases.

He mentions about the various banking risks in this article. He classified risk into two groups: Diversifiable and Undiversifiable. Diversifiable risk can be minimized by maintaining an optimum and diversified portfolio but undiversifiable risk is correlated across borrowers, countries and industries. Such risk can not be under the control of banks and firms.

He also maintained, some of the major environmental problems of the Nepalese banking sector are undue government intervention (in the state-owned banks), relatively weak regulatory framework, although significant improvement has been made in the last five years but still not competitive enough when we consider the international standard, meagre corporate governance and the biggest of all is lack of professionalism. The only solution to mitigate the banking risk is to develop the rapidly needed commitment, eradication of corrupt environment, especially in disbursement of lending, and to formulate prudent and conducive regulatory framework.

Pradhan (1996) in his article entitled, "Deposit mobilization: its problem and prospect" has presented that deposit is the life-blood of every financial institution be it commercial bank, finance company, co-operative or non-government organization. He further adds in consideration of most of banks and finance companies, the latest figures do produce a strong feeling that a serious must be made of problems and prospects of deposit sectors. He has highlighted following problem of deposit mobilization in Nepalese context.

- 1) Most of the Nepalese people do not go for saving in institutional manner, due to lack of knowledge, however, they are very much used of saving be it in the form of casher ornament. Their relevance to deal with institutional system is governed by the lower level of understanding about financial organization process with draw system. Availability of depositing facilities and so on.
- 2) Unavailability of the institutional service in rural area.
- 3) Due to lesser office hours of banking system
- 4) No more mobilization and improvement of the employment of deposit and loan sector.

Bhatta (2000) has presented about the, “financial policies to prevent financial crisis.” has given more emphasis on Nepalese financial market sector. He has mentioned the financial crisis occurred in China, Mexico, South Asia, Russian Federation Ecuador and Brazil and Argentina. This crisis affected all these economic by posing negative effects in their real output. He had also focused on Nepalese financial market, which is directly effected by the national and international events.

In the present context in many parts of the world, the move toward liberalization is getting its momentum on one hand and the process of economic development is being threatened due to various unanticipated incidents on the other, he has defined a financial crisis is a description to financial market in which adverse selection and moral hazard problems because 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 to the dynamics of financial crisis dividing it into three stages. He has also suggested the policies to prevent financial crisis. Following policies are supposed to be applicable for preventing financing crisis.

-) Accounting standard and disclosure requirement.
-) Legal and judicial system

-) Prudential supervision
-) Exchange rate regimes and foreign exchange reserve.
-) Monetary policy and price stability.
-) Encourage market based discipline.
-) Reduction of the role of the state owned financial institution.
-) Sequencing financial liberalization etc.

Sharma (2000) in his article entitled, “Banking the future on competition” has presented that, the commercial banks are established and operating in urban areas his findings are:

-) Commercial banks are establishing and providing their services in urban areas only. They do not have interest to establish in rural area. Only the branches of few banks are running in these sectors.
-) They do not properly analyse the credit system.
-) They have maximum tax concession.

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

Bajracharya (1990) has conducted a research on the, “Monetary Policy and Deposit mobilization in Nepal.” He has presented that mobilization of the domestic saving is one of the prime objective of the monetary policy in Nepal. And commercial banks are the most active financial intermediary for generating resource in the form of deposit of private sector and providing credit to the investors in different sector of the country.

Paudel (2002) in his article entitled, “Banking Challenge Ahead.” focuses in the potential areas where banks should invest to right the prevailing economic recession. Currently, growth in the profitability of joint venture

banks has been mainly due to external factor such as the foreign exchange rate but to the growth into real sector of the economy, therefore, to sustain the current financial position in the long run, banks should identify new areas by marketing their credit in important sub-sector such as hydroelectricity, tourism, irrigation etc.

Paudel further writes the deposit collection is another factor which is necessary for banks to balance their operation and generate sufficient surplus in their cash flow. In recent year, growth rate of banks deposits has declined to about 16% compared against 23% of the past mobilization of internal resources in the country demand that banks attract more financial resources from the public.

Kafle (2002) has conducted “Expanding financial market” in his article said, “The financial sector of the Nepalese economy has been functionally growing over the years. This in itself is a positive sign. But, so far as proper use of financial resources is concerned, the experience of banking sector should to be carefully examined.”

Again he said, “The cases of bad debt must be manageable level. However, everything is not in the right track in our banking sector. The Nepal Bank Limited the nation’s oldest commercial bank, and Rastriya Banijya Bank another commercial banks established at government level, are reported to have greater number of bad debt cases. The presence of such situation is needed, not good for the promotion and development of banking sector in the country.”

Morris (1990) in his discussion paper, “Latin America’s banking system in the 1990’s” has concluded that most of banks concentrated on compliance with central bank’s rules on resource requirement, credit allocation, and interest rate. While analyzing loan portfolio quality, operating efficiency and soundness of bank investment management has largely overlooked. The huge losses are found in the bank’s portfolio in many developing countries and testimony to the poor quality of this ever sight investment function.

The writer added that mismanagement in financial institution has involved inadequate and over optimistic loan appraisal, tax, loan recovery, high risk diversification of lending and investment, high risk concentration connected and insider lending, loan mismatching. This has led many banks of developing countries to failure.

2.2.3 Review of Related Dissertations

This section concerned with the previous research works done by different scholars in the various aspect of commercial banks such as problem and prospect, deposit structure, resource mobilization, etc. Some of them as supported to relevant for the study are presented below.

Pant (1976) has conducted, “A study on the deposit and loan and Its utilization.” He tries to examine the resources collection and utilization. He has pointed that the commercial banks have failed to utilize their resource due to lending for short term only. So that, he has suggested that all commercial bank should give preference on long term lending sector for the better utilization of the deposits and improvement of their existing situation.

Pant has tried to show the deposit position and utilization. He has not explained the risk factor as his main focus is deposit collection. This can't show and analyse the financial position and proper investment policy.

Bajrachrya (1981) has conducted, “A study on Deposit and Loan and Advance of Nepal Bank Limited” for six year period. He has found that there was increase trend in deposit but there was up and down position in the case of loans and advance. It is due to the cause of changes in the rate of interest, however, the loan and advance position is at less satisfactory level during that period. But it showed that the resources of the bank were not fully utilized. The bank has invested a lot in long term investment instead of granting loans, those investment were found in the form of development bonds issued by Nepal Government. Therefore, in order to have the proper utilization of the source of the bank, the bank should expand its credit facility and should disregard long

term investment in those sectors. Finally, he has concluded that the deposits as well as advance must increase proportionately in order to maintain balance.

Shrestha (1993) in research, “Investment planning of Commercial Bank in Nepal” has made remarkable effort to examine the investment planning of commercial bank in Nepal. On the basic of the study, she conclude that bank portfolio(loans and investment) of commercial banks has been influenced by the variable securities rate, and investment planning of commercial bank in Nepal is directly traced to fiscal policy of government and heavy regulatory procedure of central bank. So, the investment is not made in professional manner investment planning and operation of commercial bank in Nepal has not been found satisfactory in term of profitability, liquidity, safety productive and social responsibility to overcome this problem. She has suggested that “Commercial bank should take their investment function with proper business attitude and should perform lending and investment operation efficiently with proper analysis of the projects.”

Shahi (1999) has conducted a research on, “Investment policy of Commercial banks and compare NBL with JVBS” in his study he found that NBL was comparatively less successful than of JVBs. He predicted that in following days NBL could not mobilize and utilize its resources as efficiently as the JVBs to maximize the returns and may lag behind in the comparative market of banking. Further more he pointed that, NBL had not made any effective strategy to win the confidence of shareholders, depositors and all customers.

At the end of the thesis he recommended to NBL that it must invest more funds in government securities instead of keeping them idle. It should be keeping in the mind the proverb, “something is better than nothing” Being a semi- government bank, NBL could not keep its eyes closed from the profit motive. It should be careful in increasing profit in a real sense to maintain the confidence of shareholders and its customers. Further he recommended to all banks that the bank should make continuous efforts to new competitive and

high yielding investment opportunities to optimize its investment portfolio. The bank should develop and “innovative approach to marketing” and formulated new strategies for serving customers in a more convenient and satisfactory way. It should provide quality credit and initiate several loan recovery programs.

Gupta (2003) has conducted research on the topic of “Deposit and reinvestment problem of Nepalese commercial banks” said that strength thing and institutionalization of the commercial banks are very important to have a meaningful relationship between commercial banks and national development through shift of credit to the productive industrial sectors. At the same time the series of reforms is also needed such as consolidation of commercial banks, directing attention to venture capital financing, appropriate risk return trade by linking credit to timely repayment schedules, avoiding imperfection, allowing flexibility in lending, one window service from NRB, need of strong supervision and monitoring from NRB, diversity scope of activities for commercial banks, professional culture within commercial banks etc. All these are necessary to ensure better future performance of commercial banks that have already been established and growing in Nepal.

The commercial bank in Nepal must work hard to prove that they are really efficient and viable agencies for mobilization of deposit and its utilization into productive sectors are professionally managed and competent enough to ensure adequate rate of return on investment and are strategically well planned to be competitive.

Manandhar (2004) has conducted, “Problems and Prospects of Banking Sector in Nepal.” In her thesis paper, she has found the major problems of banking sector are as follows:

-) The deposit collection of bank is expanded, but its increasing rate is decreasing every year. The investment and loan and advance of banks are increasing every year. But the increasing rate of investment is higher than loan and advance.

-) In recent year investment opportunities have decreased due to political situation of the country.
-) CBs are unable to invest in tourism, industrial area and trade etc. because of exceptional situation.
-) Interest rate in both deposit and credit decreases every year because of low credit flow and high deposit.
-) Cash reserve ratio of NBL and RBB is very high, but CRR of non- government bank is lower.
-) The liquidity position of all banks is very higher and CBs prefer to invest in short term loans and securities. They are more concentrated about liquidity and interested in less risky investments. So, Nepalese financial sector can't fulfill its requirement of long term funds from this sector.
-) CBs must compete not only with organized sector but also with un- organized sectors, because people from remote areas must depend on moneylenders, goldsmiths, and landlords etc. whose interest is very high.
-) Mushrooming grow of financial institution and co- operatives increases the competitors of CBs.
-) In rural branch, there is a resources problem because of lower collection of deposit in rural area. CBs have to face more loss by disburse of loan in rural areas instead of keeping it as liquid funds.

Her study also focused on possibilities in the growth of CBs. In her study period she found the following possibilities in the growth of CBs.

-) Deposit collections of all banks are in increasing trend. And RBB's deposit collection position is proportionately better than that of the other banks.
-) From the trend value of total investment, it has been found that the expected amount is in increasing trend. And it has been seems that investment of NBL is increasing rapidly than other banks.

-) Total source of all banks are in increasing trend.
-) The total borrowings of all banks are increasing regularly and non-government banks have higher rate of growth.

At the end of her study, she recommended that non- government banks are interested in rich people and urban areas only. They should serve every people. It generates more profit to them and can serve to country.

Baral (2007) has conducted a research on, “Deposit collection and Investment Pattern of Machhapuchchhre Bank Limited.” The basic finding of this study was that total deposit collection percentage of MBL has been increasing trend followed by decreasing trend till-end.

-) The percentage of saving deposit to total deposit shows rise sharply.
-) The percentage of fixed deposit to total deposit is increasing trend.
-) The current deposit and margin deposit has been also increasing trend.
-) The call deposit of the MBL is sharply increasing trend in starting year, but finally it has been decreasing in fiscal year 2005/2006.

Therefore, he has recommended that the fixed deposit position of MBL is very good. So, he has suggested to increase the weight of fixed deposit in total deposit without ignoring other types of deposit. In case of call deposit, it has been increasing trend up to 5th year but in the final year it has been moved downwards. So, the bank should maintain its ratio consistent otherwise the scarcity of liquidity may rise.

At the end of his thesis, he has also focused on investment. The investment is very important for commercial bank and it is the main function of commercial banks. Investment means use of their resources in different income generating sector. The study shows that trend of sector wise loan investment is in increasing range. It is recommended to keep wide vision in investment while utilizing their resource and investment in different sector.

Malla (2007) has conducted the “Problem and Prospects of Commercial Banking sector in relation to deposit mobilization” in his thesis, he concluded that CBs are most popular and service oriented sector but he also found there are some major problems that affects banking and financial sector. The main problem was created by political intervention and influences. By the political situation, the government only make the policy but they can not implement it in any financial sectors. And also political parties activities like banda and strikes are the burning problem not only for the banking sector but also the problem of whole country. In these days CBs are facing many problems due to political instability. The banks can not open new branches as planned before. So, NBL and RBB have closed some branches and some are merged with other branches. Due to these causes, the collection and utilization of deposit of CBs are not satisfactory. Hence deposit collection ratio has decreasing trend.

In these above problem, he also recommended that to improve political situation and resource utilization of CBs, the good strategy and policy must be formed, political intervention with banking sector must be banned, and clear policies and supervision must be conducted for the development of banking sector.

There are various studies have been conducted in the past on intellectual studies such as: Deposit collection and Investment Pattern, Deposit mobilization and its problems and prospects, Monetary policy and Deposit mobilization, Problems and Prospects of Banking sector in Nepal etc. And previous researchers also covered all the commercial banks and some were either case study between commercial banks, and some were on particular branch. But this study focused on some particular sample banks. The data used in previous study is only secondary data, but in this study secondary and primary data are also simultaneously used.

This study is also assumed as an emerging aspect in CBs. Therefore, an effort has been contributed on the problems and prospects of commercial banks in relation to deposit mobilization. This study is mainly focused on priority and deprive sector of deposit mobilization of CBs and problems and prospects related to deposit mobilization. Moreover, this study has not done by previous researcher as separately. Thus, to fulfill this gap this study has been conducted.

CHAPTER – III

RESEARCH METHODOLOGY

Introduction

The first two chapters laid foundation stone for the introduction of problem and prospects of commercial banks in relation to deposit mobilization and review of literature that nourished our knowledge about the past research which is really an asset for any newcomers in this field. The next foremost step to wards the objective is to set research methodology to support this study in realistic terms with empirical analysis.

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 describes the methods and process applied in the entire subject of the study.

This chapter refers to the overall approach to the research process, from the theoretical underpin to the collection and analysis of the data.

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy procedure. Research design is the plan, structure and strategy of investigation conceived. So as to obtain answers to research questions, to control variances and to achieve objective of the study, description and analytical research design have been used. This study is based on primary as well as secondary data. Some simple statistical methods such as trend line and correlation analysis have been applied to examine the facts of data.

3.2 Population and Sample

There are altogether 25 commercial banks working all over Nepal. In this study deposit mobilization of four sample banks (i.e. Himalayan Bank, Everest Bank, Nepal Investment Bank and Bank of Kathmandu) are studied.

So, 25 commercial banks are taken as the population and four banks are chosen as the sample to find out effectiveness of deposit mobilization.

3.3 Selection of Enterprises

The present study has selected four banks in order to meet the objective of problem and prospect of commercial bank in relation to deposit mobilization out of 25 banks licensed and operated in the country. The banks selected for study are: Bank of Kathmandu, Nepal Investment Bank, Himalayan Bank Limited and Everest Bank Limited. While selecting the enterprises, this study has cautiously screened the database of the banks in operation and finally selected two banks i.e. BOKL and NIBL representing from the domestic capital base banks and two banks i.e. EBL and HBL out of joint venture banks. The current status of commercial banks in Nepal is:

	Number
Government owned and semi Government owned bank	3
Joint Venture Banks	5
Domestic capital based banks	17
Total	25

3.4 Sources of Data

The required data information for analysis is directly collected from the annual reports of sample banks and primary data are collected through questionnaire to banking official. Supplementary data and information are collected from number of institution like PN Campus Library, T.U. Central Library and Documentation Section of T.U. Library, NRB Central Office etc.

All the data are compiled, processed and tabulated in the time series as per the need and objectives. Formal and informal talks to the concerned persons of the department of the bank were also helpful to obtain the additional economic journals, bulletins, magazines etc.

3.5 Method of Data Analysis

To achieve the objectives of the study, various financial as well as statistical tools have been used in this study. The analysis of data will be done according to pattern of data available. Because of limited time and resources, some simple analytical statistical tools such as percentage change, coefficient of correlation and method of least square are adopted in this study. Similarly, some accounting tools such as growth ratio analysis has also been used for financial analysis.

3.5.1 Financial Tools

Percentage Change

This ratio is calculated to measure the acceleration or retardation of any variable to the company in each year. This helps the bank to identify the degree how the variable is moving in each year. It also helps the bank to take the suitable direction. It is calculated in following way:-

$$\text{Annual percentage change} = \frac{\text{Amount of this year} - \text{Amount of last year}}{\text{Amount of last year}}$$

Growth Ratio

The growth ratio represents how well the bank is maintaining its financial and economic position. For calculation of growth rate, the following formula is used.

$$A_n = A_o (1+g)^n$$

Where,

$$A_n = \text{Total amount in the year}$$

$$A_o = \text{Total amount in initial year}$$

g = Growth rate of amount during the study period

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

To examine and analysis following growth ratios are calculated in this study:

1. Growth ratio of total deposit.
2. Growth ratio of total credit
3. Growth ratio of investment
4. Growth ratio of profit

3.5.2 Statistical Tools

Some important statistical tools are used to achieve the objective of this study. In this study, statistical tools such as coefficient of correlation analysis and least square liner trend have been used. The basic analysis written in point below:

- a) Co-efficient of correlation between different variables.
- b) Trend analysis of important variables.
- c) Least square method.

3.6 Coefficient of Correlation

This analysis identifies and interprets the relationship between two or more variables. In the case of highly correlated variables, the effect on one variable may have effect on other correlated variable. Under this topic, Karl Person's co-efficient has been used. To find out the relationship between the following variables:

- 1) Co-efficient of correlation between total deposit and Loan and Advance
- 2) Co-efficient of correlation between total deposit and Investment.

To find out the co-efficient of correlation between above variables, this formula has been used.

$$\text{Karl Pearson's Coefficient of Correlation (r)} = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

Where,

$x = X - \bar{X}$ = Deviation taken from exact A.M. of X series.

$y = Y - \bar{Y}$ = Deviation taken from exact A.M. of Y series.

x = A.M. of X series

y = A.M of y series

This tool analyzes the relationship between these variables and helps the banks to make appropriate policy regarding deposit collection and fund utilization.

3.7 Trend Analysis

The general tendency of the time series data to increase or decrease or stagnate during a long period of time is called simple trend. Under this following subtopics have been presented.

- 1) Trend analysis of total deposit and for past five year.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

In this chapter the analysis part is presented in detail. This chapter is mainly concerned with the presentation of collected data in suitable tables and figures as well as the analysis and presentation of those collected data in a suitable manner using various statistical and financial tools. Different types of ratios have been calculated to reach in the conclusion of the study.

4.1 Deposit Position

Deposit is that amount which is deposited by savers in commercial banks of other financial institutions for safe keeping as well as for earning the interest from it. Deposits are the main sources of resources to meet growing demands of financial existence. The existence of commercial banks basically depends upon the mobilization of deposits. The commercial banks may function when they have adequate deposits. Higher the volume of deposit, higher will be the volume of profit. So, a commercial bank first of all tries to mobilize as much deposits as possible. One of the main objectives of commercial bank is to safeguard the amount deposited by the general depositors and its mobilization in an effective manner. The following tables show the situation of commercial banks in relation to deposit collection and its utilization in the recent years.

4.1.1 Deposit Position of HBL

The following table shows the amount of deposit collection by Himalayan Bank Ltd. throughout the study period of 2003/04 to 2007/08. The table also presents the percentage change in deposit amount of HBL during the study period.

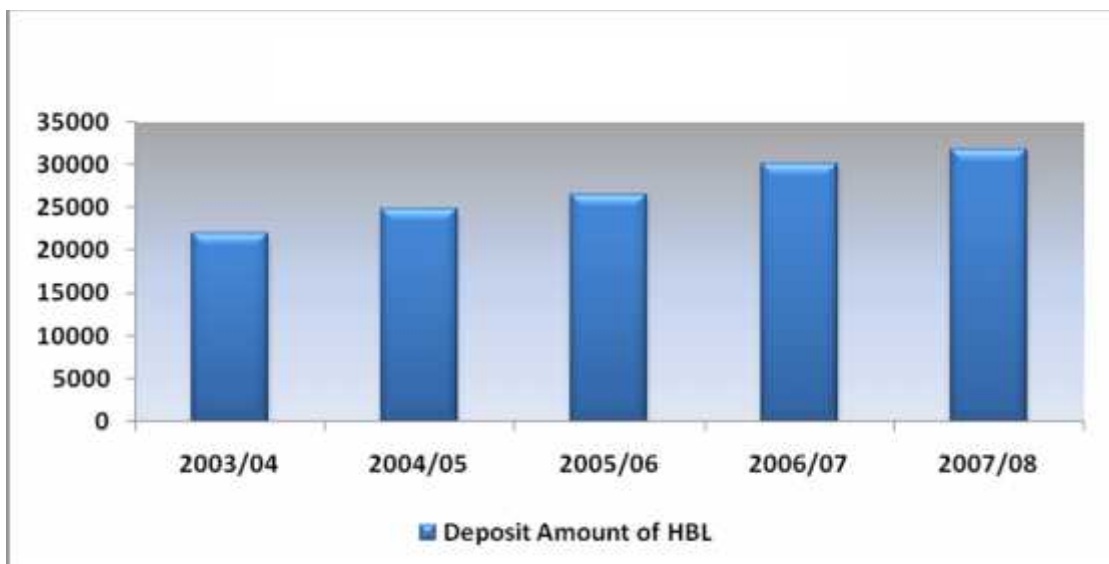
Table No. 4.1
Deposit Position and Rate of Change in HBL

(In Million Rs.)

Year	HBL	Change
2003/04	22010.33	-
2004/05	24814.01	12.73%
2005/06	26490.85	6.75%
2006/07	30048.42	13.43%
2007/08	31842.78	5.97%

Source: Annual Reports of HBL

Figure No. 4.1
Deposit Amount of HBL



The above table and figure shows the total deposit amount of HBL during the study period 2003/04 to 2007/08. The total deposit amount of HBL during the study period is in increasing trend. From the table and figure it can be considered that HBL is fully utilizing its resources effectively for collecting the deposit throughout the study period. The amount of total Deposit of HBL during the initial study period is 22010 million rupees. It has been increased subsequently in the other years and the amount increased by more than 50 percent in 2007/08 amounting to 31842 million rupees.

4.1.2 Deposit Position of EBL

The following table shows the amount of deposit collection by Everest Bank Ltd. throughout the study period of 2003/04 to 2007/08. The table also presents the percentage change in deposit amount of EBL during the study period.

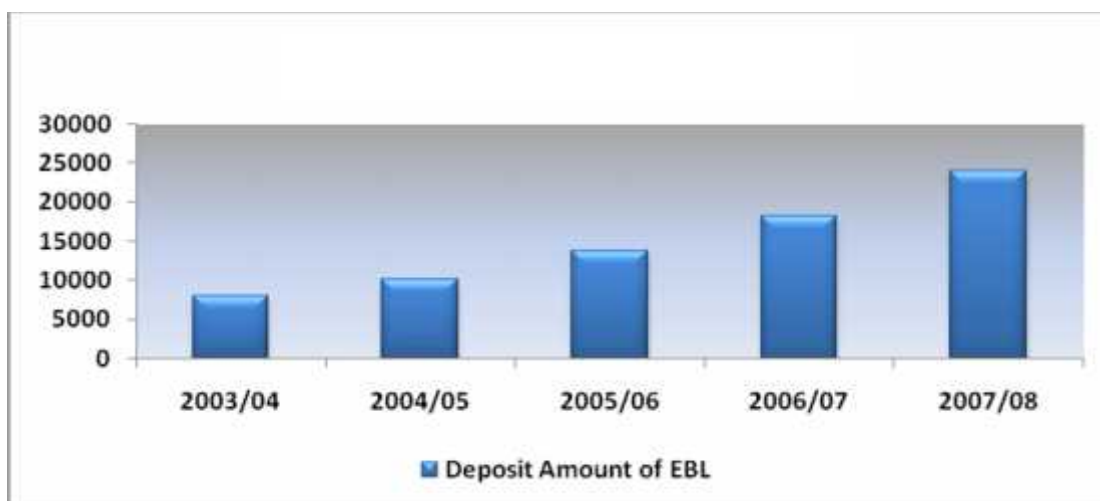
Table No. 4.2
Deposit Position and Rate of Change in EBL

(In Million Rs.)

Year	Deposit	% Change
2003/04	8063.9	-
2004/05	10097.77	25.22%
2005/06	13802.4	36.68%
2006/07	18186.2	31.76%
2007/08	23976.3	31.83%

Source: Annual Reports of EBL

Figure No. 4.2
Deposit Amount of EBL



The above table and figure shows the total deposit amount of EBL during the study period. The amount of total deposit by EBL during the study period is in increasing trend. The deposit amount was 8063 million rupees in 2003/04 and the amount increased to 23976 million rupees in 2007/08, which is around 300 percent increase. It means the deposit amount of EBL has been increased substantially during the study period.

4.1.3 Deposit Position of NIBL

The following table shows the amount of deposit collection by Nepal Investment Bank Ltd. throughout the study period of 2003/04 to 2007/08. The table also presents the percentage change in deposit amount of NIBL during the study period.

Table No. 4.3

Deposit Position and Rate of Change in NIBL

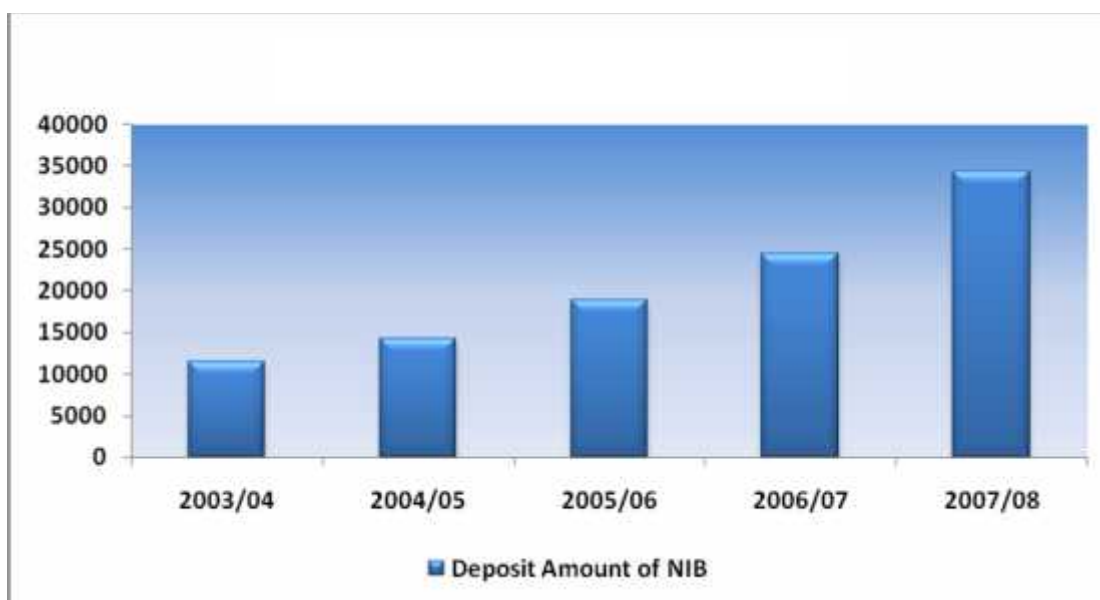
(In Million Rs.)

Year	Deposit	% Change
2003/04	11524.68	-
2004/05	14254.57	23.68%
2005/06	18926.30	32.77%
2006/07	24488.85	29.39%
2007/08	34451.62	40.68%

Source: Annual Reports of NIB

Figure No. 4.3

Deposit Amount of NIBL



The above table and figure shows the total deposit amount of NIBL during the study period. The amount of total deposit by NIBL during the study period is also in increasing trend like other sample banks.

The deposit amount of NIBL during the first year of study period 2003/04 was 11524 million rupees, which increased to 34451 million rupees during 2007/08 which is more than 300 percent in itself. So from the above data it can be concluded that the bank management is pretty capable in collecting deposit throughout the study period.

4.1.4 Deposit Position of BOKL

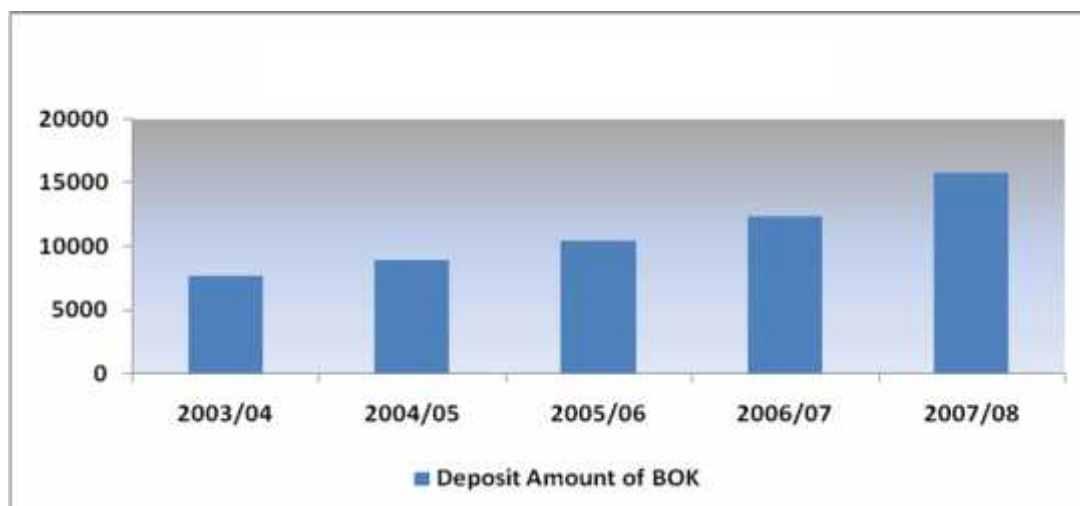
The following table shows the amount of deposit collection by Bank of Kathmandu Ltd. throughout the study period of 2003/04 to 2007/08. The table also presents the percentage change in deposit amount of BOKL during the study period.

Table No. 4.4
Deposit Position and Rate of Change in BOKL
(In Million Rs.)

Year	Deposit	% Change
2003/04	7742.0	-
2004/05	8943.0	15.52%
2005/06	10485.0	17.42%
2006/07	12388.0	18.15%
2007/08	15833.0	27.81%

Source: Annual Reports of BOKL

Figure No. 4.4
Deposit Amount of BOKL



The above table and figure shows the total deposit amount of BOKL during the study period. The total deposit amount of BOKL during the study period is in increasing trend as like other sample banks during the study period. The amount of deposit of BOKL in 2003/04 was 7742 million rupees and the amount increase to 15833 million rupees in 2007/08 which is more than 100 percent increase in itself.

4.2 Credit Position

The total credit includes the amount of loans and advances and investment. Bank provides the loan by accepting the security of debtors. It depends upon the interest rate structure of loans. The low interest rate attracts the people to take loan and advances from the bank. Commercial banks supply loan to their clients for different purpose of sector like agriculture, industrial, trade and miscellaneous. The following table shows the total investment by the sample banks during the study period.

Table 4.5
Amount of Total Investment by the Sample Banks

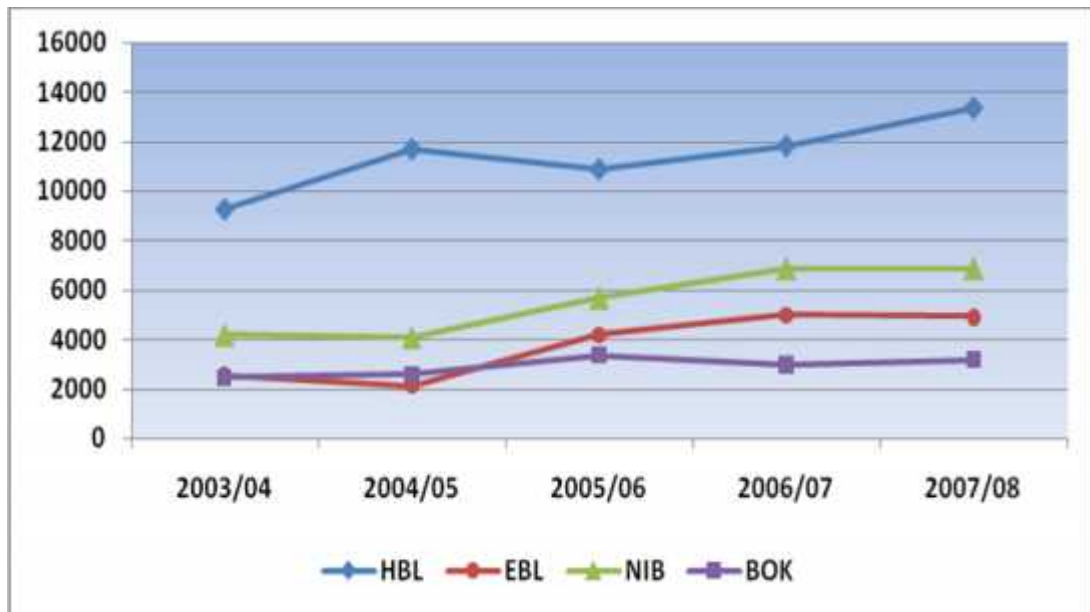
(In Million Rs)

Year/Banks	HBL	EBL	NIB	BOK
2003/04	9292.1	2535.7	4172.48	2477.0
2004/05	11692.34	2128.9	4074.18	2598.0
2005/06	10889.0	4200.5	5672.86	3374.0
2006/07	11823.0	4984.3	6868.65	2993.0
2007/08	13340.17	4906.5	6874.02	3204.0

Source: Annual Reports of the Respective Banks

Figure No. 4.5

Amount of Total Investment by the Sample Banks



The above table and figure shows the total investment by the sample banks during the study period. From the above table and figures it's clear that the investment made by HBL is greater in comparison with the investment made by other sample banks. The total investment made by BOKL is less in comparison with the investment made by other sample banks. The total investment of NIBL during the study period is in increasing trend but the investment made by HBL, EBL and BOKL is in fluctuating trend.

HBL has invested 9292 million rupees in 2003/04 and the amount of investment increased to 11692 million rupees in the subsequent year but in 2005/06 the amount decreased to 10889 million rupees. The amount of investment became 13340 million rupees in the last year of the study period. Similarly the total investment made by EBL is minimal in comparison with the invested amount of other sample banks. The investment by EBL in 2003/04 was 2535.7 million rupees. The amount increased to 4200 million rupees in 2005/06. The amount of total investment by EBL in FY 2006/07 and 2007/08 has been increased substantially.

The total investment by NIBL during the study period is in fluctuating trend. The amount of Investment in 2004/05 decreased to 4074 million from

4172 million rupees of 2003/04. Then the amount of investment is being increased in the subsequent years.

Similarly, the total investment by BOKL is also in fluctuating trend. The amount of investment by BOKL in FY 2003/04 is 2477 million rupees. Then after, the amount of investment is slightly increasing except in FY 2006/07 where the amount has been decreased to 2993 million rupees from 3374 million of 2005/06.

4.2.1 Analysis of Total Loans and Advances

Loans and advances are the major component in total assets, which indicates the ability of banks to canalize its current assets in the form of loan and advance to earn high return. If sufficient loan and advances cannot be granted, it should pay interest on those utilized current assets funds and may lose earnings. So commercial banks provide loan and advances in appropriate level to find out portion of current assets, which is granted as loan and advances.

4.2.1.1 Loan and Advances of HBL

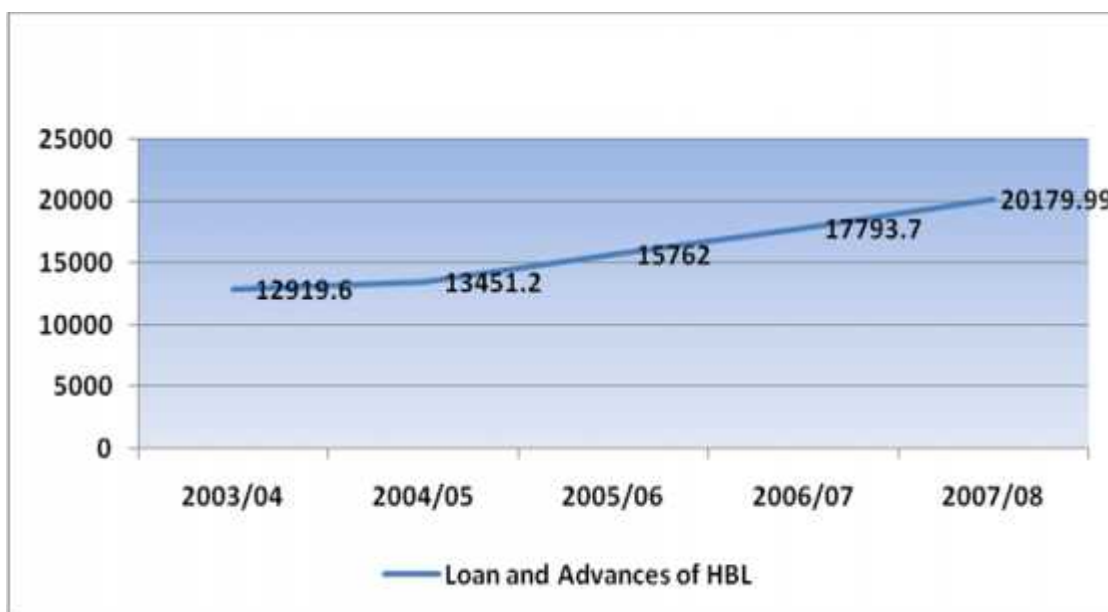
The main use of fund of the bank is to make loan and advances, which produces main sources of the income in the form of interest. The amount of loan and advances of HBL is presented in the following table.

Table No. 4.6
Loan and Advances and Its Change of HBL

(In Million Rs.)		
Year	Loan and Advance	Change
2003/04	12919.6	-
2004/05	13451.2	4.1%
2005/06	15762.0	17.18%
2006/07	17793.7	12.89%
2007/08	20179.99	13.41%

Source: Annual Report of HBL

Figure No. 4.6
Loan and Advances of HBL



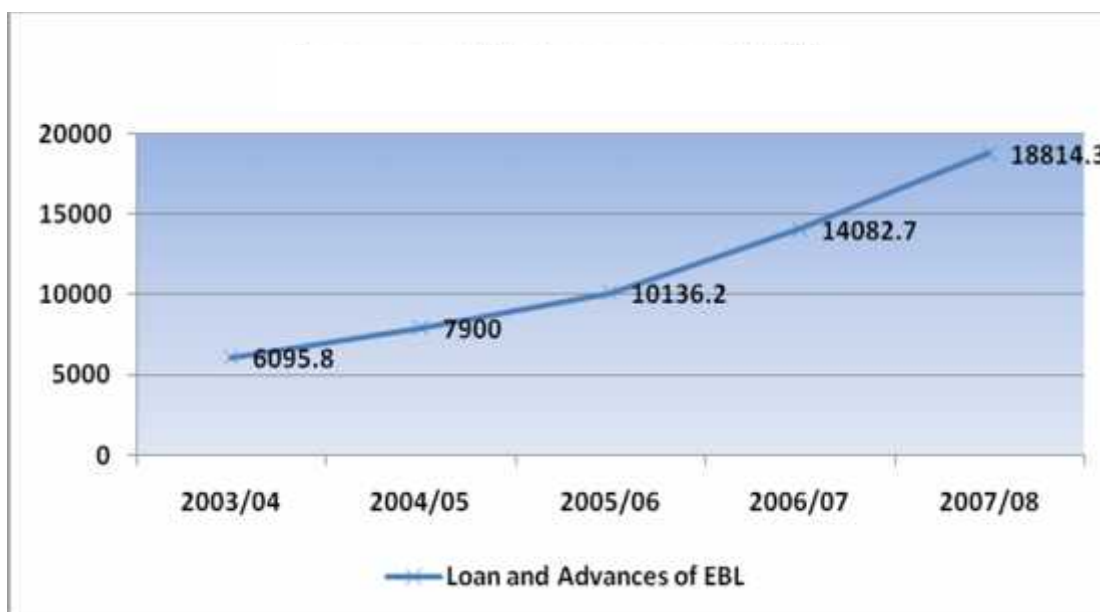
From the above table and figure, it can be concluded that the loan and advances of HBL is in increasing trend. The amount of loan and advances by HBL in the FY 2003/04 was 12919.6 million rupees, which ultimately increased to 20179.99 million rupees in fiscal year 2007/08 which is about 100 percent increase in itself. From the above data it can be seen that the amount of loan and advance is increasing in a steady rate throughout the study period.

Table No. 4.7
Loan and Advances and Its Change of EBL
(In Million Rs.)

Year	Loan and Advance	Change
2003/04	6095.8	-
2004/05	7900.00	29.59%
2005/06	10136.2	28.30%
2006/07	14082.7	38.94%
2007/08	18814.3	33.59%

Source: Annual Reports of EBL

Figure No. 4.7
Loan and Advances of EBL



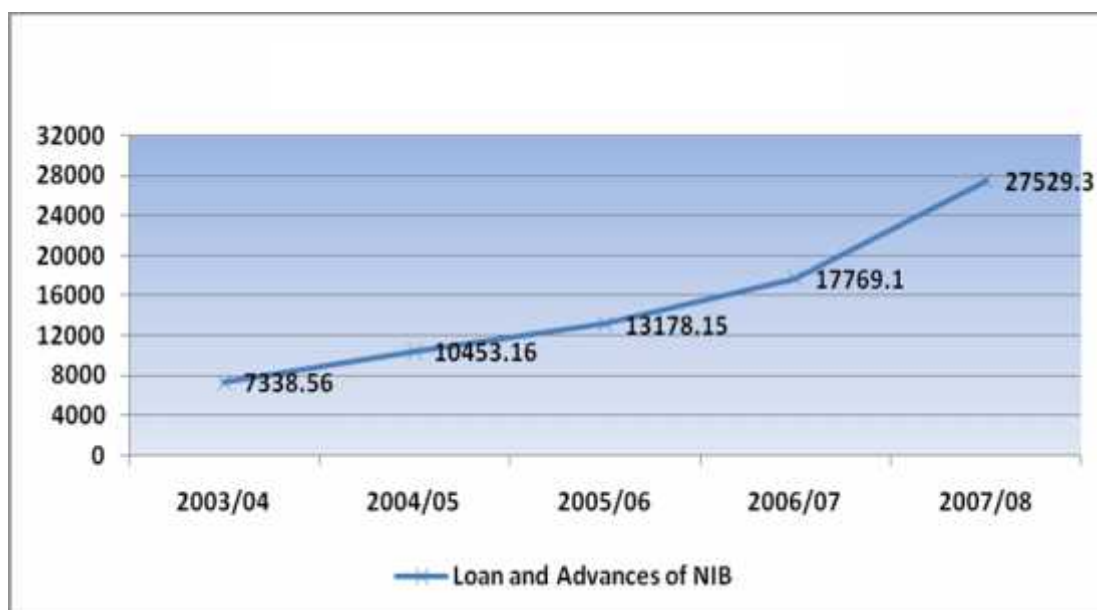
From the above table and figure it can be concluded that the loan and advances of EBL is smoothly increasing throughout the study period. The amount of Loan and advance was 6095.8 in FY 2003/04, which ultimately increased to 18814.3 in FY 2007/08. The increase in loan and advance in FY 2007/08 is more than 300 percent from the value of base year FY 2003/04. As compared to other sample banks the amount of loan and advances of EBL is pretty higher which can be considered as a risk to the bank.

Table No. 4.8
Loan and Advances and Its Change of NIBL
(In Million Rs.)

Year	Loan and Advance	Change
2003/04	7338.56	-
2004/05	10453.16	42.44%
2005/06	13178.15	26.06%
2006/07	17769.1	34.84%
2007/08	27529.3	54.93%

Source: Annual Reports of NIBL

Figure No. 4.8
Loan and Advances of NIBL



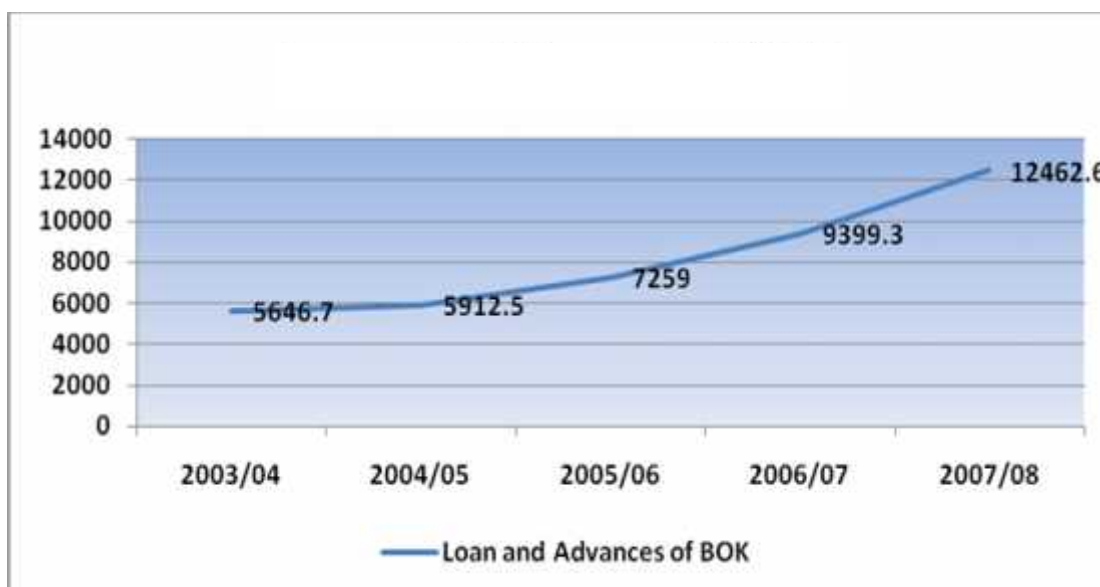
From the above table and figure it can be concluded that the amount of loan and advances of NIBL has been increased significantly throughout the study period. The amount of loan and advance of NIBL in FY 2003/04 was 7338.56 million rupees which increased to 10453.16 million rupees in FY 2004/05 and then the amount increased to 13178.15 million rupees in FY 2005/06. The percentage change in Loan and advance of NIBL is higher in FY 2007/08, where the amount has been increased to 27529.3 million rupees from 17769.1 million rupees of FY 2006/07. As the huge amount of loan and advances flow by a financial institution is considered as a risk, NIBL is in little riskier position from the loan and advances point of view.

Table No. 4.9
Loan and Advances and Its Change of BOKL
(In Million Rs)

Year	Loan and Advance	Change
2003/04	5646.7	-
2004/05	5912.5	4.70%
2005/06	7259.0	22.77%
2006/07	9399.3	29.48%
2007/08	12462.6	32.59%

Source: Annual Reports of BOKL

Figure No. 4.9
Loan and Advances of BOKL



The above table and figure shows the loan and advances amount of BOKL. From the above table and figure it can be concluded that the loan and advances amount of BOKL is in increasing trend. The amount was 5646.7 million rupees in the beginning FY of the study period which ultimately increased to 12462.6 million rupees in FY 2007/08. As compared to the total deposit of BOKL over the study period the loan and advances amount of BOKL is utilized properly. The percentage growth of loan and advances of BOKL throughout the study period too seems to be in a significant proportion.

4.3 Ratio Analysis

The Ratio Analysis is used to compare a firm's financial performance for a specific period of time. With the help of ratio analysis, quantitative judgment can be done regarding financial performance of firms.

In this Study, following ratios has been calculated and analyzed:

4.3.1 Loan and Advance to Total Deposit Ratio

This ratio can be calculated by dividing loans and advances by total deposits. This ratio can be stated as:

$$\frac{\text{Loan \& Advances}}{\text{Total Deposit}} \times 100$$

This ratio actually measures the essence to which banks are successful to mobilize their total deposit on loan and advances for the purpose of profit generation. The following table No 4.10 exhibits the ratio of loan and advances to total deposits of sample banks for the review period.

Table No 4.10

Loan and Advance to Total Deposit Ratio

Year	HBL	EBL	NIB	BOK
2003/04	58.7%	75.6%	63.67%	72.94%
2004/05	54.21%	78.24%	73.33%	66.11%
2005/06	59.5%	73.44%	69.63%	69.23%
2006/7	59.22%	77.44%	72.55%	75.8%
2007/8	63.37%	78.47%	79.90%	78.72%

The above table shows the total loan and advances to total deposit ratio of the sample banks. The ratio of BOKL and EBL shows that, they have comparatively invested higher portion of their deposits into lending than the HBL and NIBL, HBL lent high as 63.37% in year 2007/8. NIBL has a total lending of more than 60% in the study period where as EBL seems to be following an aggressive lending policy by lending more than 73% of the total deposits.

4.3.2 Total Investment to Total Deposit Ratio

This ratio can be calculated by dividing total investment by total deposits. i.e. $\frac{\text{Total Investment}}{\text{Total Deposit}} \times 100$

Total investment consists of investment on Government securities, investment on debentures and bonds, shares in subsidiary companies, shares in other companies etc. The following table represents the total investment to total deposit ratio.

Table No 4.11

Total Investment to Total Deposit Ratio

Year	HBL	EBL	NIB	BOK
2003/04	42.22%	31.45%	36.20%	32%
2004/05	47.12%	21.07%	28.58%	29.05%
2005/06	41.10%	30.43%	29.97%	32.22%
2006/07	39.35%	27.40%	28.04%	24.16%
2007/08	41.89%	30.98%	19.95%	20.23%

The above table shows that the investment to total deposit ratio of sample commercial banks. HBL has invested around 47% of the total deposits in 2004/5 however in the following year the same data showed decreasing trend i.e. 47.012%, 41.10%, 39.35%, 41.89% respectively. Similarly EBL seems to have invested around 31% of the total deposit in the year 2003/4 and the same data is in fluctuating trend by 21.08%, 30.43% & 27.40% & 30.98%. NIBL have invested of 36.20% of the total deposits in the year 2003/4 and the same data has been decreased to 19.95% in the last year .Similarly, BOKL have invested of 32.22% of its total deposits in the year 2005/6 and it is in decreasing trend up to 20.23% in the last year. This analysis shows that HBL seems to be ahead in investing its total deposits more than other sample banks.

4.3.3 Liquidity Ratio of Sample Banks

A liquidity ratio measures the ability of the firm to meet the current obligations. Liquidity ratios are used to judge a firm's ability to meet short-term obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community liquidity provided honor strength health and prosperity to an organization.

In this section raw form of data which are collected from various sources are changed into an understanding presentation using financial as well as statistical tools.

Table 4.12

Liquidity Ratio of Sample Banks

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
HBL	9 %	17 %	13 %	11 %	11 %	12%
EBL	10%	13%	15%	11%	11%	12%
NIB	17%	21%	16%	14%	12%	16%
BOK	8%	10%	9%	12%	11%	10%

Source: Annual Reports of the Respective Banks

From the above table, it can be concluded that the sample banks of this research has maintained satisfactory level of liquidity during the review period. HBL has maintained 9% of total deposits as its liquidity in FY 2003/04 and then 17%, 13%, 11% and 11% in 2004/05, 2005/06, 2006/07 and 2007/08 respectively. EBL has maintained 10% of its total deposits as liquidity in FY 2003/04 and then 13%, 15%, 11% and 11% in FY 2004/05, 2005/06, 2006/07 and 2007/08 respectively. NIBL also has maintained satisfactory level of liquidity throughout the study period. The liquidity percentage of NIBL throughout the study period is 17%, 21% 16%, 14% and 12% respectively. The liquidity position of BOKL is somewhat less than rest of the other sample banks. The liquidity percentage of BOKL is 8%, 9%, 10%, 12% and 11% respectively. The average percentage of liquidity of the sample banks is 12%, 12%, 16% and 10% respectively. From the above calculations the liquidity position of NIBL is pretty strong and that BOKL is weak.

4.3.3.1 Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance an assets that contribute the bank's first line of defense and consist of cash in hand foreign cash in hand, cheque and other cash items, balance in other banks and balance held aboard. The cash and bank balance to total deposit Ratio can be calculated by dividing total cash and bank

balance by total deposit. I.e. $\frac{\text{Total cash \& bank balance}}{\text{Total Deposit}} \times 100$

The following table No 4.13 shows the cash & bank balance total deposit ratio of the sample banks.

Table No 4.13
Cash & Bank Balance to Total Deposit Ratio

Year	HBL	EBL	NIBL	BOK
2003/4	10.76%	10.15%	10.65%	13.63%
2004/5	9.89%	16.04%	9.40%	11.96%
2005/6	10.27%	11.74%	12.33%	12.62%
2006/7	11.54%	13.15%	9.96%	12.72%
2007/8	6.18%	13.33%	10.89%	9.96%

Source: Annual Reports of the Respective Banks

The above table shows the ratio of cash and bank balance to total deposit. In the beginning of the review period this ratio is higher than 10% of all sampled banks but it seems to be in decreasing trend up to 6% in the last analysis which helps to conclude that, the sample banks have sound cash and bank balance position. It implies the better liquidity position of the sample banks. In contrast, a high ratio of earning cash and bank balance may be unfit, which indicates the banks inability to invest funds in income generating areas. This, it may invest in more productive sectors, Short form marketable securities and treasury bills etc. Ensuring enough liquidity will lead the bank to improve its profitability. But the liquidity ratio is in decreasing trend, so it can be said that they have been doing well in recent years and it may help in the growth of banking sector.

4.3.4 Growth Ratio of Sample Banks

Growth ratio represents how well the financial institutions are maintaining their economic and financial position. Here these growth ratios are analyzed and interpreted which are directly related to the fund mobilization and investment management of a commercial bank. Under this topic, four types of

growth ratio i.e. growth ratios of total deposit, loan advances, total investment and net profit growth ratio can be calculated as follows:

$$A_n = A_o (1+g)^n$$

Where,

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

A_o = Total amount of the initial year

G= Growth rate of the amount during the study period.

N=Total no of study period

The following table shows the growth ratio of sample banks.

Table No 4.14
Growth Ratio of Sample Banks

Type/Banks	HBL	EBL	NIBL	BOKL
Deposit	9.68%	31.3%	31.48%	19.58%
Loan& Advances	11.93%	32.45%	39.25%	21.88%
Investment	9.47%	17.94%	13.34%	6.57%
Profit	24.43%	49.80%	46.26%	29.58%

The above table shows the growth ratio of sampled banks HBL & BOKL has deposit ratio 9.68 and 19.58% growth rate in total deposit. While comparing the growth rate HBL & NIBL has highest growth rate i.e. 31.48% and 31.48% respectively. In the case of loan and advances NIBL is highest i.e.39.25% where as EBL has32.45%BOKL has 21.88% and HBL 11.93%. Similarly the growth rate of investment of HBL is 9.47% EBL is 17.94% NIBL is 13.34% and BOKL is 6.57% where as the growth rate of net profit is highest of EBL & HBL i.e.49.80 & 46.26 while comparing HBL & BOKL i.e. 24.73 and 29.58%.

4.3.5 Return on Total Deposit Ratio

This ratio measures the degree of NPAT by using total deposit. In other words, it reveals the relationship between NPAT and total Deposit with an explanation of deposits. This ratio is a mirror of bank's overall financial performance as well its success in profit generation. Return on total deposit ratio can be computed by using following formula.

$$\text{Return on Total Deposit Ratio} = \frac{\text{NPAT}}{\text{Total Deposit}} \times 100$$

Table No. 4.15

Return on Total Deposit Ratio HBL

(In million)

Year	2003/4	2004/5	2005/6	2006/7	2007/8
Deposit	22010.3	24814.0	26490.9	30048.4	31939.87
NPAT	263.05	308.28	457.46	491.82	654.39
NPAT/Deposit	1.20%	1.69%	1.72%	1.63%	2.05%

Table No. 4.16

Return on Total Deposit Ratio EBL

(In million)

Year	2003/4	2004/5	2005/6	2006/7	2007/8
Deposit	8063.9	10097.7	13802.4	18186.2	23976.3
NPAT	143.5	170.8	237.2	296.4	491.5
NPAT/Deposit	1.78%	1.69%	1.72%	1.63%	2.05%

Table No. 4.17

Return on Total Deposit Ratio NIBL

(In million)

Year	2003/4	2004/5	2005/6	2006/7	2007/8
Deposit	11524.68	14254.57	18926.30	24488.86	34451.63
NPAT	152.67	232.15	350.54	501.39	698.67
NPAT/Deposit	1.32%	1.63	1.85%	2.047%	1.91%

Table No. 4.18
Return on Total Deposit Ratio BOKL

(In million)

Year	2003/4	2004/5	2005/6	2006/7	2007/8
Deposit	7742.0	8943	10485	12388	15833
NPAT	127.47	139.53	202.44	361.49	431.45
NPAT/Deposit	1.64%	1.56%	1.93%	2.9%	2.7%

The above table reveal that return on total deposit of the concerned banks. In the beginning HBL has 1.20% and increased to 2.05% year 2007/8. Similarly, EBL has 1.78% in beginning year & it increased up to 2.05% at last year. NIBL has 1.32% at the beginning year and increased 2.047% in the year 2006/7 & then decreased up to 1.91%. Similarly, BOKL has in increased trend. In the beginning year BOKL has 1.64% and increased to 2.07% as highest in the year 2007/8.

4.3.6 Loan Disbursement to Priority and Deprive Sector

Priority & deprived Sector credit program based on area development approach have been implemented through directions of NRB. Agriculture, cottage industries and service sector have been recognized as the deprived sectors. The current situation of priority and deprived sector lending of the sample banks has been presented as follows:

4.3.6.1 Deprived Sector Lending to Total Lending Ratio

This ratio measures the how well commercial banks are investing their funds to the priority and deprived sector. The ratio can be calculated by diving priority and deprived sector lending by the total lending. Commercial banks are lending more than 2% and highest of 10.71% .BOKL has highest portion of priority sector lending ratio. So, it shows that all the sample banks are investing in the priority sector and deprived sector. But all banks can't flow loan as the required percentage.

Table No. 4.19**Deprived Sector Lending to Total Loan and Advances Ratio of HBL**

(In Million Rs)

Year	2003/4	2004/5	2005/6	2006/7	2007/8
Deprived sector Lending	385.1	416.9	495.2	533.7	626.0
Total Lending	12919.6	13451.2	15762.0	17793.7	20179.9
% of Deprive Sector Lending to Total Lending	2.98	3.09	3.14	2.99	3.10

Source: Banking & Financial statistics of NRB 2003/4 - 2007/8

The above table shows the deprived sector lending by HBL during the study period. The deprived sector lending ratio is calculated by dividing the deprived sector lending by total lending. The deprived sector lending ratio of HBL is in fluctuating trend. This ratio is at 2.98% in the FY 2003/04 and then the ratio increased to 3.09%, and then to 3.14% in 2005/06 then in the subsequent year this ratio decreased to 2.99%. In FY 2007/08, as the total lending of the bank increased up to 20179.9 million rupees, the ratio also rose to 3.10%. From the above data it can be concluded that the deprived sector lending ratio of HBL is in increasing trend.

Table No. 4.20**Deprived Sector Lending to Total Loan and Advances Ratio of EBL**

(In Million Rs)

Year	2003/4	2004/5	2005/6	2006/7	2007/8
Deprived sector Lending	172.85	225.12	297.0	370.6	523.8
Total Lending	6095.8	7900.0	10136.2	14082.7	18814.3
% of Deprive Sector Lending to Total Lending	2.83%	2.85%	2.93%	2.63%	2.78%

Source: Banks & Financial statistics of NRB 2003/4 - 2007/8

The above table shows the deprived sector lending in total lending of EBL throughout the study period. The total deprived sector lending of EBL

throughout the study period is in increasing trend and has increased up to three fold but the deprived sector lending is in somewhat fluctuating trend. This ratio is in increasing trend up to fiscal year 2005/06 and then after the ratio decreased to 2.635 in 2006/07 from 2.93 of 2005/06. The deprived sector lending ratio of EBL is 2.78% in FY 2007/08. So that from the above data and calculations it can be concluded that EBL is lending a satisfactory level of loan to the deprived sector as per NRB directives.

Table No. 4.21

Deprived Sector Lending to Total Loan and Advances Ratio of NIBL

(In Million Rs)

Year	2003/4	2004/5	2005/6	2006/7	2007/8
Deprived Sector Lending	180.5	282.96	365.4	514.6	620.3
Total Lending	7338.5	10453.2	13178.2	17769.10	27529.3
% of Deprive Sector Lending to Total Lending	2.45%	2.70%	2.77%	2.89%	2.25%

Source: Banks & Financial statistics of NRB 2003/4 - 2007/8

The above table shows the deprived sector lending of NIBL. NIBL has also maintained the portion of deprived sector lending among total lending satisfactorily. The deprived sector lending ratio of NIBL in FY 2003/04 was 2.45% which subsequently increased to 2.70%, 2.77% and 2.89% respectively in FY 2004/05, 2005/06, 2006/07. But in FY 2007/08 the portion of deprived sector lending decreased to 2.25% which indicates that NIBL is being pretty incapable in lending to the deprived sector as per the NRB directive.

Table No. 4.22
Deprived Sector Lending to Total Loan and Advances Ratio of BOKL

(In Million Rs)

Year	2003/4	2004/5	2005/6	2006/7	2007/8
Deprived Sector Lending	241.3	297.7	433.0	188.3	531.1
Total Lending	5646.7	5912.5	7259.0	9399.3	12462.6
% of Deprive Sector Lending to Total Lending	4.27%	5.03%	5.96%	2.0%	4.26%

Source: Banks & Financial statistics of NRB 2003/4 - 2007/8

The above table shows the deprived sector lending by BOKL among the total lending. Among all other sample banks the deprived sector lending by BOKL is highest. The bank has a total deprived sector lending ratio as 4.27% in 2003/04 which increased to 5.03% in 2004/05. In FY 2005/06 the ratio further increased to 5.96% but in 2006/07 the ratio, dramatically decreased to 2.0% and again increases to 4.26% in 2007/08.

4.3.6.2 Priority Sector Lending to Total Lending Ratio

The following table shows the Priority Sector Loan Statement of Sample Banks.

Table No 4.23
Priority Sector Loan Statement of HBL

(In Million Rs)

Year	2003/4	2004/5	2005/6	2006/7	2007/8
Priority Sector Lending	873.3	769	347.0	407.4	339.56
Total Lending	12919.6	13451.2	15762.0	17793.7	26179.9
% of Priority Sector Lending to Total Lending	6.76%	5.71%	2.20%	2.28%	1.29%

Source: Banks & Financial statistics of NRB 2003/4 - 2007/8

The above table shows the priority sector lending by HBL during the review period. From the above table, it can be concluded that the priority sector loan of HBL is in decreasing trend. The ratio of priority sector lending was 6.76% in FY 2003/04 and then the ratio decreased to 5.71% in 2004/05, 2.20% in 2005/06, 2.28% in 2006/07 and 1.29% in 2007/08. From the above data it can be concluded that the ratio of priority sector lending is decreasing as if the total lending amount of HBL is increasing.

Table No 4.24
Priority Sector Loan Statement of EBL

(In Million Rs)

Year	2003/4	2004/5	2005/6	2006/7	2007/8
Priority Sector	619.95	718.601	847.3	1259.3	936.52
Total Lending	6095.8	7900.0	10136.2	14082.7	18814.3
% of Priority Sector Lending to Total Lending	10%	9.09%	8.36%	8.94%	4.97%

Source: Banks & Financial statistics of NRB 2003/4 - 2007/8

The above table shows the priority sector lending ratio of EBL throughout the review period. As that of HBL the priority sector lending ratio of EBL is also decreasing throughout the study period. From this data it can be concluded that the commercial banks are decreasing the portion of lending in priority sector these days. The ratio of priority sector lending of EBL was 10% in FY 2003/04 and the data has been decreased to 4.97% in the last FY of review period.

Table No 4.25
Priority Sector Loan Statement of NIBL

(In Million Rs)

Year	2003/4	2004/5	2005/6	2006/7	2007/8
Priority Sector	561.1	706.3	693.0	485.7	493.27
Total Lending	7338.5	10453.2	13178.2	17769.10	27529.3
% of Priority Sector Lending to Total Lending	7.6%	6.75%	5.25%	2.73%	1.79%

Source: Banks & Financial statistics of NRB 2003/4 - 2007/8

The above table shows the priority sector lending of NIBL during the study period. As like other commercial banks this ratio too is decreasing in case of NIBL. The priority sector lending ratio of NIBL in FY 2003/04 was 7.6% and the data decreased to 1.79% in FY 2007/08. From this fact and figure it can be concluded that the commercial banks are being uninterested to lend in the priority sector these days.

Table No 4.26
Priority Sector Loan Statement of BOKL

Year	(In Million Rs)				
	2003/4	2004/5	2005/6	2006/7	2007/8
Priority Sector	605.2	423.6	312.6	283.0	359.16
Total Lending	5646.7	5912.5	7259.0	9399.3	12462.6
% of Priority Sector Lending to Total Lending	10.71%	7.16%	4.30%	3.01%	2.88%

Source: Banks & Financial statistics of NRB 2003/4 - 2007/8

Similarly in case of BOKL too, the portion of priority sector lending is decreasing throughout the study period. The ratio of priority sector lending of BOKL is 10.71%, 7.16%, 4.30%, 3.01% and 2.88% respectively throughout the review period. As the amount of total lending is increasing in one hand and the amount of priority sector lending is decreasing in another hand, the commercial banks are being quite uninterested in investing in the priority sector areas.

4.4 Interest Rate Spread of Sample Banks

Interest rate spread is difference in rate at which bank earn through investment & rate offered in attracting deposits and borrowings. Higher the spread rate higher will be the income of the bank.

The Following table 4.27 shows the weighted average interest rate spread of listed bank.

Table No 4.27
Weighted Average Interest Rate Spread

Year	HBL	EBL	NIBL	BOKL
2003/04	3.25	4.0	5.98	3.41
2004/05	3.19	4.1	4.3	3.95
2005/06	3.8	4.0	3.9	3.37
2006/07	3.57	3.9	3.99	4.04
2007/08	3.53	4.05	4.0	4.9
Average	3.47	4.01	4.4	3.9

Source: Annual Reports of Respective Banks

From the above table it is clear that the interest spread rate difference between interest paid to the depositors in the same as NRB directives requirement i.e. 5% so NRB is not successful to maintain to maintain spread rate to 5% Therefore it is big problem to CBs because the main income of CBs is difference between interest paid and received. Banks have to manage all expenses through it. And the spread rate seems very low of all sample banks.

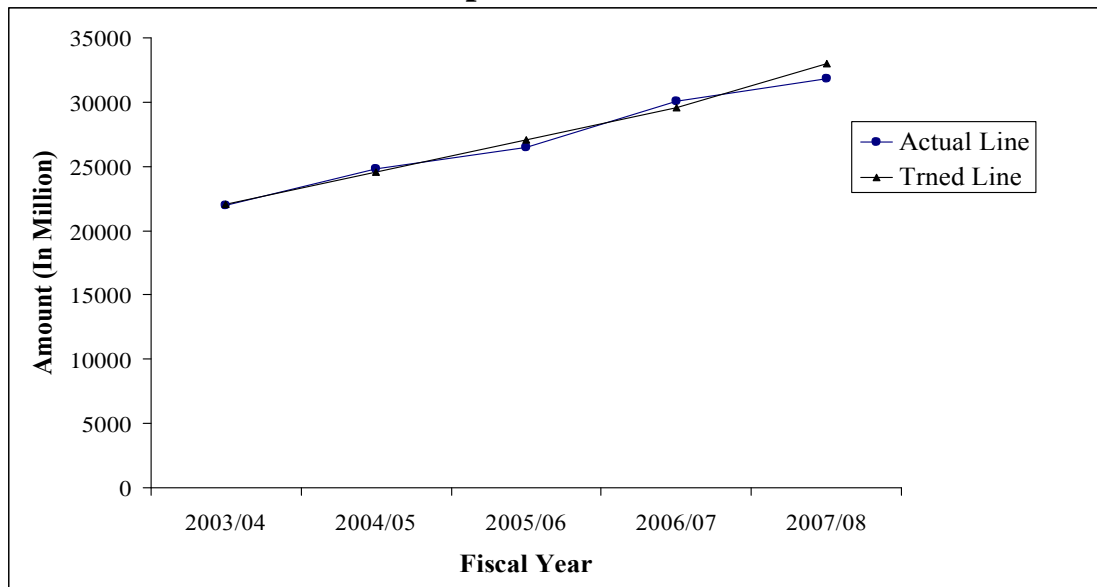
4.5 Trend Analysis

Deposit included current, saving and fixed deposit, call deposit and other. Under this topic and effort has been made to calculate the trend of total deposit of four sample banks.

Table 4.28
Trend of Deposit Collection of HBL

Year (X)	Deposit (Y)	$x = X - 2005/06$	x^2	xy	YC
2003/04	22010.33	-2	4	-44020.66	22061.4
2004/05	24814.01	-1	1	-24814.61	24551.35
2005/06	26490.85	0	0	0	27041.28
2006/07	30048.42	1	1	30048.42	29531.2
2007/08	31842.75	2	4	61685.56	33021.4
	$Y = 135206.39$	$x = 0$	$x^2 = 10$	$xy = 24899.31$	

Figure No. 4.10
Trend of Deposit Collection of HBL

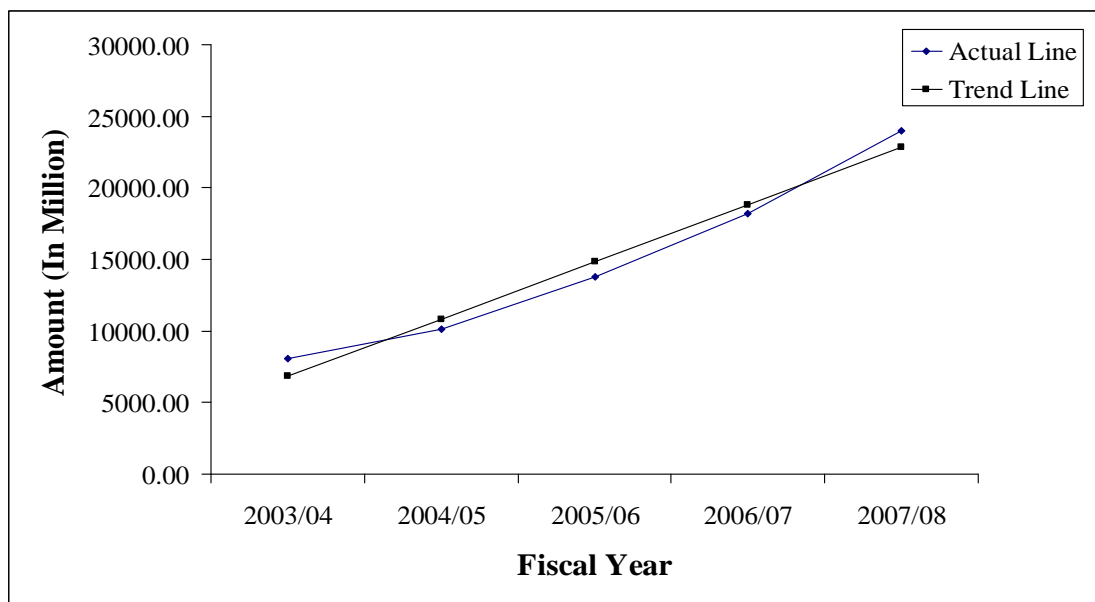


Given trend line derived from trend values and trend value, are obtained by applying statistical tools of time series (i.e. least square) to table No 4.28 the actual value and trend values both are vertically using. So, the trend line is extremely rising upward and actual curve is also vertically upward slopping. So, from the above table and figure, we can conclude that the deposit collection of HBL is increasing trend.

Table 4.29
Trend of Deposit Collection of EBL

Year (X)	Deposit (Y)	$x = X - 2005/06$	x^2	xy	C
2003/04	8063.9	-2	4	-16127.8	6842.67
2004/05	10097.77	-1	1	-10097.77	10825.31
2005/06	13802.4	0	0	0	14825.31
2006/07	18186.2	1	1	18186.2	18816.63
2007/08	23976.3	2	4	47952.6	22867.95
	$Y = 74126.57$	$x = 0$	$x^2 = 10$	$xy = 39913.23$	

Figure No. 4.11
Trend of Deposit Collection of EBL



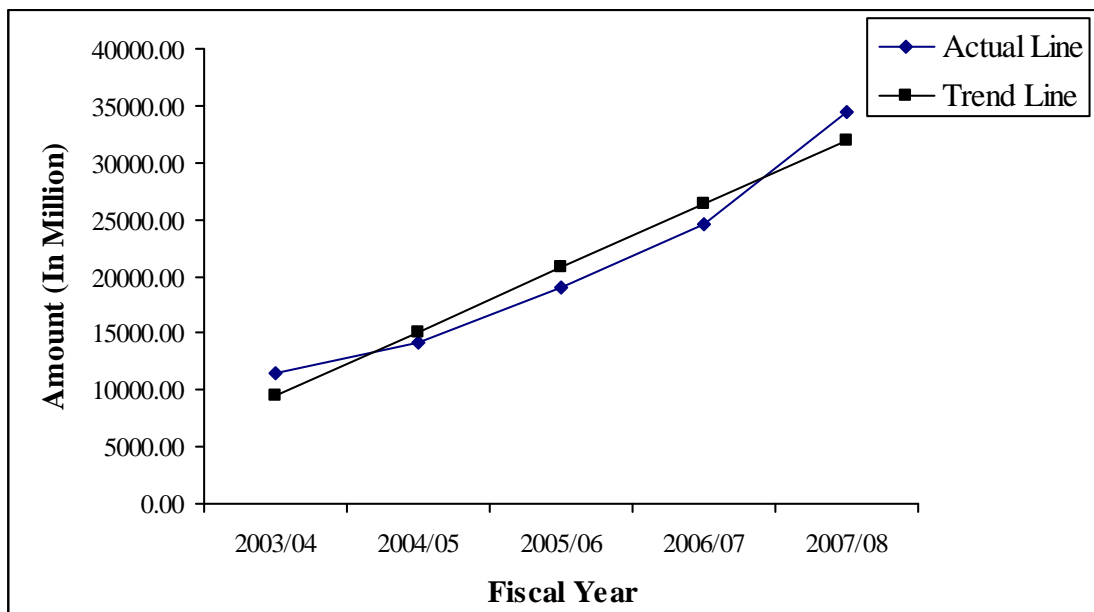
From the above table and figure, it can conclude that trend of deposit collection of EBL is increasing trend. The actual value and trend value of deposit both are upward slopping.

Table 4.30
Trend of Deposit Collection of NIBL

(Rs. In Millions)

Year (X)	Deposit (Y)	$x = X - 2005/06$	x^2	xy	YC
2003/04	11524.68	-2	4	-23649.36	95110572
2004/05	14254.57	1	1	-14254.57	15120.39
2005/06	18926.30	0	0	0	20729.21
2006/07	24488.85	1	1	24488.85	263308.02
2007/08	34451.62	2	4	68903.24	31946.84
	$Y = 103646.02$	$x =$	$x^2 = 10$	$xy = 56088.16$	

Figure No. 4.12
Trend of Deposit Collection of NIBL



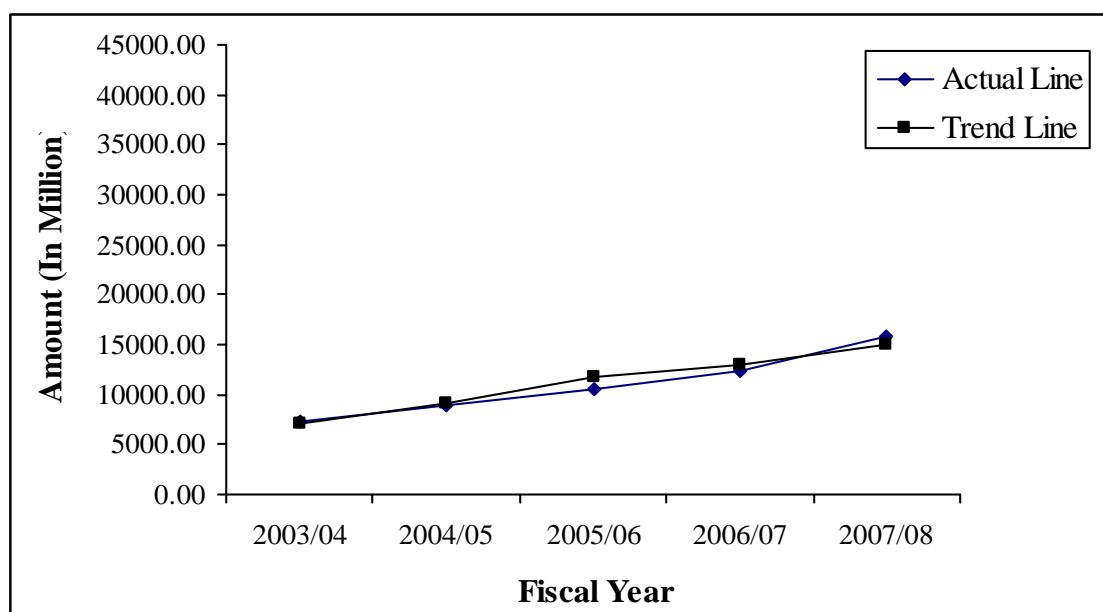
From the above table and figure we can say that the actual line & trend line both are upward slopping. So, we can conclude that the deposit collection of deposit collection is increasing trend.

Table 4.31
Trend of Deposit Collection of BOKL

(Rs. In Millions)

Year (X)	Deposit (Y)	$x = X - 2005/06$	x^2	xy	YC
2003/04	7242.0	-2	4	-15484	7152.8
2004/05	8943.0	1	1	-8943	9115.5
2005/06	10485.0	0	0	0	11678.2
2006/07	12388.0	1	1	12388	13040.9
2007/08	15833.0	2	4	31666	15003.6
	Y = 55291.0	x =	$x^2 = 10$	$xy = 19627$	

Figure No. 4.13
Trend of Deposit Collection of BOKL



From the above table & Figure, we can conclude that the trend of deposit collection of BOKL is increasing trend. The actual line and trend line both are vertically upward slopping.

4.6 Analysis of Primary Data

A questionnaire was conducted to know about the perception of respondents regarding problem and prospects of commercial banks in relation to deposit mobilization. There were 19 respondents who provide their valuable opinion about the matter. The source however, was collected from banking official. Their opinions are as follows:

Regarding the effect of government rules, NRB directives and political instability, the question was raised. By analyzing the data in this matter more than 63% respondents believe that NRB directive/Government rules and political instability shows medium effect on bank performance.

The question was tried to ask about the effect of unhealthy competition and unorganized financial sector, in this matter, more than 81% respondent believe that the unhealthy competition and unorganized financial sector can create problem of banking sector.

The another question was raised about the existing monetary & fiscal policy, more than 83% respondent believes that existing monetary policy can not contribute access of poorest of the poor.

The question was also focused about the effect of WTO policy after 2010 (International financial institutions are allowed to open their branches in Nepal) in this matter, majority of the respondents agreed that there is possibility of high competition and medium opportunity to the domestic commercial banking sector.

Regarding the motives of investing in the commercial banking sector, the question was raised, in this matter, more than 51% respondents believe that the reasons for investing commercial banking sector is higher profit throughout any risk having more transparency.

The question was focused about the existing global crisis, more than 70% respondents give their opinion, the existing global crisis directly and indirectly affect the deposit collection and will also affect its utilization. And

the question also ask about the challenges of global crisis, majority of the respondents believe the global crisis may decrease LC business, remittance and public confidence may loose.

The question was raised to know about the competition between commercial banks and other financial institution. In this matter, more than 91% respondent believe that the competition between commercial banks and other financial sector seems unhealthy. One bank's policy directly or indirectly affects another banks.

The question was also willing to know about the promotional activities of bank. In this matter, most of the respondent comments their views to grow their promotional activities, the banks depends on their slogan, dealing, reliable product and services, effective advertisement, public relation, community service etc. Some banks have their slogan like, "Service with the personal touch, Community service in banking, Bank for all, the banks that cares." which can directly and indirectly attract to the customer.

At last the question was raised to know the suggestion to improve deposit collection and utilization of the banks. In this matter, most of the respondent suggested that financial institutions are concerned on urban areas. But most of the people live in rural area. They are doing their financial transaction in an unorganized way. So, banks should go beyond the limit of urban areas. Banks should organized awareness programs about banking. So that more people will come to banks without any hesitation.

Banks should improve their service quality, it should provide attractive interest rate, modern banking facilities like (ABBS service, internet banking, ATM, mobile banking etc) and net worth should be expanded through which the banks can improve their deposit collection and its utilization.

4.7 Statistical Analysis

4.7.1 Coefficient Correlation between Deposit and Loan and Advances

In this analysis Karl Pearsons coefficient of correlation has been used to find out the relationship between variables. Correlation analysis describe the relationship between variables is positive or negative. It helps to determine whether:

-) A positive or negative relationship exists.
-) The relationship is significant or insignificant and establishes cause and effect relation if any.

For the purpose of decision making interpretation are based on following terms.

If $r=0$, There is no relationship between variables

If $r<0$, There is negative relationship between the variables

If $r>0$, There is positive relation

If $r=+1$, the relation is perfectly positive.

If $r=-1$, the relation is perfectly negative

Coefficient of Correlation between Deposit and Loan and Advances of HBL

The below table shows the value of r and r^2 between deposit and loan and advance. In this analysis, deposit is independent variable (x) and loan and advance is dependent variable (y). (Detail in Appendix)

Table No 4.32

Coefficient of correlation (r)	Coefficient of determination (r^2)
0.991	0.983

Source: Appendix

From the above table it is found that coefficient of correlation between deposit and loan and advance is 0.991. It shows positive relationship between the two variables. It reveals that the movement of deposit and loan and advance is found in similar direction. If deposit increases, then loan and advance also increase and vice versa. The value of coefficient of determination (r^2) is 0.983 mean that 98.3% of the total variation or changes in the value of loan and advances and total deposits.

Table No 4.33

Coefficient of Correlation between Deposit and Loan and Advances of EBL

Coefficient of correlation (r)	Coefficient of determination (r²)
0.998	0.996

Source: Appendix

From the above table it is found that coefficient of correlation between deposit and loan and advance is 0.998. It shows positive relationship between the two variables. It reveals that the movement of deposit and loan and advance is found in similar direction. If deposit increases, then loan and advance also increase and vice versa. The value of coefficient of determination (r²) is 0.996 means that there is 99.6% of the total variation or changes in the value of loan and advances and total deposits.

Table No 4.34

Coefficient of Correlation between Deposit and Loan and Advances of NIBL

Coefficient of correlation (r)	Coefficient of determination (r²)
0.996	0.992

Source: Appendix

From the above table it is found that coefficient of correlation between deposit and loan and advance is 0.996. It shows positive relationship between the two variables. It reveals that the movement of deposit and loan and advance is found in similar direction. If deposit increases, then loan and advance also increase and vice versa. The value of coefficient of determination (r²) is 0.992 means that there is 99.2% of the total variation or changes in the value of loan and advances and total deposits.

Table No 4.35

Coefficient of Correlation between Deposit and Loan and Advances of BOKL

Coefficient of correlation (r)	Coefficient of determination (r²)
0.992	0.98

Source: Appendix

From the above table it is found that coefficient of correlation between deposit and loan and advance is 0.992. It shows positive relationship between the two variables. It reveals that the movement of deposit and loan and advance is found in similar direction. If deposit increases, then loan and advance also increase and vice versa. The value of coefficient of determination (r^2) is 0.98 means that there is 98% of the total variation or changes in the value of loan and advances and total deposits.

4.7.2 Correlation Coefficient between Deposit and Investment

J Correlation Coefficient between Deposit and Investment of HBL

The below table shows the value of r and r^2 between deposit and loan and advance. In this analysis, deposit is dependent variable (x) and loan and advance is independent variable (y). (Detail in Appendix)

Table No 4.36

Coefficient of correlation (r)	Coefficient of determination (r^2)
0.945	0.893

Source: Appendix

From the above table it is found that coefficient of correlation between deposit and investment is 0.945. It shows positive relationship between the two variables. It reveals that the movement of deposit and investment is found in similar direction. If deposit increases, then the total investment also increases and vice versa. The value of coefficient of determination (r^2) is 0.893 means that there is 89.3% of the total variation or changes in the value of investment and total deposits.

J Correlation Coefficient between Deposit and Investment of EBL

The below table shows the value of r and r^2 between deposit and loan and advance. In this analysis, deposit is dependent variable (x) and loan and advance is independent variable (y). (Detail in Appendix)

Table No 4.37

Coefficient of correlation (r)	Coefficient of determination (r²)
0.999	0.998

Source: Appendix

From the above table it is found that coefficient of correlation between deposit and investment is 0.999. It shows that there is positive relationship between the two variables. It reveals that the movement of deposit and investment is found in similar direction. If deposit increases, then the total investment also increases and vice versa. The value of coefficient of determination (r²) also is 0.998 means that there is 99.8% of the total variation or changes in the value of investment and total deposits.

J Correlation Coefficient between Deposit and Investment of NIBL

The below table shows the value of r and r² between deposit and loan and advance. In this analysis, deposit is dependent variable (x) and loan and advance is independent variable (y). (Detail in Appendix)

Table No 4.38

Coefficient of correlation (r)	Coefficient of determination (r²)
0.909	0.826

Source: Appendix

From the above table it is found that coefficient of correlation between deposit and investment is 0.909. It shows positive relationship between the two variables. It reveals that the movement of deposit and investment is found in similar direction. If deposit increases, then the total investment also increases and vice versa. The value of coefficient of determination (r²) is 0.826 means that there is 82.6% of the total variation or changes in the value of investment and total deposits.

J Correlation Coefficient between Deposit and Investment of BOKL

The below table shows the value of r and r² between deposit and loan and advance. In this analysis, deposit is dependent variable (x) and loan and advance is independent variable (y). (Detail in Appendix)

Table No 4.39

Coefficient of correlation (r)	Coefficient of determination (r²)
0.79	0.62

Source: Appendix

From the above table it is found that coefficient of correlation between deposit and investment is 0.79. It shows positive relationship between the two variables. It reveals that the movement of deposit and investment is found in similar direction. If deposit increases, then the total investment also increases and vice versa. The value of coefficient of determination (r²) is 0.62 means that there is 62% of the total variation or changes in the value of investment and total deposits.

4.8 Major Findings of the Study:

4.8.1 Findings from Primary Data

1. Unhealthy competition, political instability and unorganized financial sector could create problem to the commercial banking sector of Nepal.
2. The existing monetary policy can not contribute the poorest of poor.
3. Open financial policy after 2010 can create moderate opportunity and high competition to the domestic commercial banks.
4. Due to the current global crisis our national remittance and L/C business have been decreased day by day. So, the collection of deposit and its utilization may be affected.
5. Most of the banks are focused in urban area, so the people of rural areas are far from the banking service.

4.8.2 Findings from Secondary Data

1. During the study period, the total deposit amount of all the sample banks were found to be in an increasing trend. The amount of total deposit is highest in case of NIBL and the amount of total deposit is lowest in case of BOKL.

2. The total amount of loan and advances of the entire sample bank is found to be in an increasing trend. Among the sample banks, NIBL is found to be the highest amount of lending and BOKL is found to be the lowest amount of lending.
3. The sample banks of this research have maintained satisfactory level of Liquidity during the review period. HBL has maintained 9% of total deposits as its liquidity in FY 2003/04 and then 17%, 13%, 11% and 11% in 2004/05, 2005/06, 2006/07 and 2007/08 respectively. The liquidity position of BOKL is somewhat less than rest of the other sample banks. The liquidity percentage of BOKL is 8%, 9%, 10%, 12% and 11% respectively. The average percentage of liquidity of the sample banks is 12%, 12%, 16% and 10% respectively. From the above calculations the liquidity position of NIBL is strong and that of BOKL is weak.
4. In the beginning of the review period cash and bank balance to total deposit ratio is higher than 10% of all sampled banks but it seems to be in decreasing trend up to 6% in the last analysis which helps to conclude that, the sample banks have sound cash and bank balance position. It implies the better liquidity position of the sample banks. In contrast, a high ratio of earning cash and bank balance may be unfit, which indicates the banks inability to invest funds in income generating areas. Thus, it may invest in more productive sectors, short form marketable securities and treasury bills etc. Ensuring enough liquidity will lead the bank to improve its profitability. But the liquidity ratio is decreasing trend, so it can be said that they have been doing well in recent years and it may help in the growth of banking sector.
5. The growth ratio of sampled banks HBL & BOKL have deposit ratio 9.68 and 19.58% growth rate in total deposit. While comparing the growth rate HBL & NIBL have highest growth rate i.e. 31.48% and 31.48% respectively.

6. The deprived sector lending ratio of HBL is in fluctuating trend. This ratio is at 2.98% in the FY 2003/04 and then the ratio increased to 3.09%, and then to 3.14% in 2005/06 then in the subsequent year this ratio decreased to 2.99%. In FY 2007/08, as the total lending of the bank increased up to 20179.9 million rupees, the ratio also rose to 3.10%. The total deprived sector lending of EBL throughout the study period is in increasing trend and has increased up to three fold but the deprived sector lending is in somewhat fluctuating trend. NIBL also has maintained the portion of deprived sector lending among total lending satisfactorily. The deprived sector lending ratio of NIBL in FY 2003/04 was 2.45% which subsequently increased to 2.70%, 2.77% and 2.89% respectively in FY 2004/05, 2005/06, 2006/07. But in FY 2007/08 the portion of deprived sector lending decreased to 2.25% which indicates that NIBL is being incapable in lending to the deprived sector as per the NRB directive. Among all other sample banks the deprived sector lending by BOKL is highest. The bank has a total deprived sector lending ratio as 4.27% in 2003/04 which increased to 5.03% in 2004/05. In FY 2005/06 the ratio further increased to 5.96% but in 2006/07 the ratio, dramatically decreased to 2.0% and again increases to 4.26% in 2007/08.
7. The priority sector loan of HBL is in increasing trend. The ratio of priority sector lending was 6.76% in FY 2003/04 and then the ratio decreased to 5.71% in 2004/05, 2.20% in 2005/06, 2.28% in 2006/07 and 1.29% in 2007/08. Like of HBL the priority sector lending ratio of EBL is also decreasing throughout the study period. From this data it can be concluded that the commercial banks are decreasing the portion of lending in priority sector these days. The ratio of priority sector lending of HBL was 10% in FY 2003/04 and the data has been decreased to 4.97% in the last FY of review period. As other commercial banks this ratio too is decreasing in case of NIBL. The priority sector lending ratio of NIBL in FY 2003/04 was 7.6% and the

data decreased to 1.79% in FY 2007/08. Similarly in case of BOKL too, the portion of priority sector lending is decreasing throughout the study period. The ratio of priority sector lending of BOKL is 10.71%, 7.16%, 4.30%, 3.01% and 2.88% respectively throughout the review period. As the amount of total lending is increasing in one hand and the amount of priority sector lending is decreasing in another hand, the commercial banks are being quite uninterested in investing in the priority sector areas.

8. The coefficient of correlation between deposit and loan and advance of all the sample banks were found to be positive. It shows positive relationship between the two variables. It reveals that the movement of deposit and loan and advance is found in similar direction. If deposit increases, then loan and advance also increase and vice versa.
9. The coefficient of correlation between deposit and investment of all the sample banks were found to be positive. It shows positive relationship between the two variables. It reveals that the movement of deposit and investment is found in similar direction. If deposit increases, then investment also increases and vice versa.

CHAPTER - V

SUMMARY, CONCLUSION & RECOMMENDATIONS

5.1 Summary

For the development of the country's economy, mobilization of savings in the productive sector is very important. For this role commercial banks play crucial role in the task of capital formation, which is no doubt, a key variable in the economic development of the country. Scattered resources hold no meaning unless and until they are mobilized and utilized efficiently in some productive sectors. Commercial banks contribute to the process of capital formation by converting dispersed savings into meaningful capital investments in order to aid the nation. It is the institution which deals with other people's money. It should not be forgotten that a country could hardly achieve its goal of economic development without a strong capital base. So, commercial banks play a vital role in performing such base for financial and economic development by the way of deposit mobilization. It is true that a strong financial institution is the great need in the developing country like Nepal because all the economic conditions are based on the financial institutions and the development of a country depends upon the active participation of the banks in the different activities in the country.

Deposits are the obligation of the commercial banks. So, commercial banks must allocate the funds in different loans & advances and investments. The main objective of the study is to examine the relationship between total deposits and total credits. Besides this, the other objective is to examine the trend of deposit mobilization of HBL, EBL, NIBL and BOKL and to determine the utilization of the deposits of these banks.

During the study period, the total deposit amount of all the sample banks were found to be in an increasing trend. The amount of total deposit is highest

in case of NIBL and the amount of total deposit is lowest in case of BOKL. The total amount of loan and advances of the entire sample bank is found to be in an increasing trend. Among the sample banks, NIBL was found to be the highest amount of lending and BOKL was found to be the lowest amount of lending.

There was unhealthy competition among the commercial banks. One bank's policy directly or indirectly affect another. In current situation, there are various unorganized financial sectors has been increased day by day which also brings challenges to the commercial banking sector.

The sample banks of this research have maintained satisfactory level of Liquidity during the review period. HBL has maintained 9% of total deposits as its liquidity in FY 2003/04 and then 17%, 13%, 11% and 11% in 2004/05, 2005/06, 2006/07 and 2007/08 respectively. EBL has maintained 10% of its total deposits as liquidity in FY 2003/04 and then 13%, 15%, 11% and 11% in FY 2004/05, 2005/06, 2006/07 and 2007/08 respectively. NIBL also has maintained satisfactory level of liquidity throughout the study period. The liquidity percentage of NIBL throughout the study period is 17%, 21% 16%, 14% and 12% respectively. The liquidity position of BOKL is somewhat less than rest of the other sample banks. The liquidity percentage of BOKL is 8%, 9%, 10%, 12% and 11% respectively. The average percentage of liquidity of the sample banks is 12%, 12%, 16% and 10% respectively. From the above calculations the liquidity position of NIBL is pretty strong BOK is weak.

Deprive sector lending of sample banks was found in increasing trend. But priority sector lending was in decreasing trend. In the year 2003/2004 deprive sector lending 6.75% and it was decreased up to 2.88% at the year 2007/2008.

Besides this, in credit sector, it is found that the correlation between total deposit and the loans granted to different sector such as productive sector loan, service industry loan and constructive loan, there is positive relation. It indicates that the relationship between the two is significant. In the productive

sector loan, the total deposit amount is in increasing trend but the credit amount is not stable. It is in fluctuating trend. In case of constructive sector loan and service industry loan it is found that the credit amount is in increasing overall the study period. So we can conclude that with the establishment of new banks and financial institutions, people get opportunity to keep their savings in these conditions. From these savings, commercial banks mobilize efficiently in different productive sector for the economic development of the country.

5.2 Conclusion

Economic liberalization policy of the government has encouraged the establishment and growth of commercial banks in the country within short span of time. In a situation when the existing financial institutions, especially government's commercial banks were unable to supply credit timely and carry capital market activities. Private joint venture commercial banks have contributed a lot. In Nepal up to now, there are 25 commercial banks.

The commercial bank in Nepal is doing well but they are not giving satisfactory results due to some internal and external factors. The deposits and its investment in productive sectors are not stable. That's why they are not earning more profit.

Deposit is the major organ of the commercial banks. Higher the deposit higher will be the chances of mobilization of funds. The bank should be very careful while granting loans and advances because loan is the life blood to the commercial banks for the survival. If commercial banks do not apply short investment policy, it will be a great trouble to collect the loan in future, to save the bank from the bankruptcy.

In the analysis, it shows that the NIBL is successful to collect the scattered resources because the deposit collection of this bank is in increasing position. But the bank should improve to mobilize its fund to the productive sector through which it can provide service for the future.

It is also observed that the increment in the loan and advances supplied by the banks in percentage within 5 years period is less than that of the increment in the collection of deposits and credit of all the sample banks seems medium. Correlation co-efficient reveals that there is higher relationship between total deposits and total credits. Correlation co-efficient also shows that there is positive relation between total deposit and investment. So, it can be concluded that the banks are in better position but they should try to work hard for mobilization of saving and its canalized into productive return on investment and are strategically well planned to be competitive with other agencies and are trust worthy.

In the analysis, it shows that the position of deposit collection of sample banks are satisfactory where as the deposit collection of all banks are in increasing but fluctuating trend which shows that the commercial banks can utilize their deposit as per their wish because deposit is the major organ of commercial banks. Higher the deposit higher will be the chances of mobilization of fund.

It is also observe that the problem of banking sector are unfair competition, not proper utilization of research and development, no uniform rules and regulation through which these problem create difficulties in performance of banks.

In the study period, it shows that the deprived sector lending of sample banks are in increasing trend. They are lending in deprived sector as per NRB directives. But the priority sector lending are not satisfactory. It seems in decreasing trend. They are not performing well as per NRB directives of priority sector lending.

5.3 Recommendations

The problems related to deposit mobilization have been already discussed. Now at the end of the study the following recommendations can be advanced for the improvement of the deposit mobilization of the sample banks.

1. The banks should try to carry out different schemes which may help to increase the deposit collection of the bank to get success in the field of cut throat competition. The sample banks should decrease their minimum bank balance and the amount needed to open an account for promoting and mobilizing small investor's fund.
2. There was unfair competition between banks so banks should play fair game and strategic based on their effectiveness and efficiency.
3. There was no proper research and development further growth of commercial banks. So that research and development department must be created for sustainable development and further growth, through which commercial banks can run efficiently in future. Commercial banks also mobilized their fund in rural area to show their identity. And they should not be centralized and city oriented
4. The sample bank should decrease their minimum bank balance and the amount needed to open an account for promoting and mobilizing small investor's fund.
5. The banks should make a continuous efforts to explore new, competitive and high yielding investment opportunities to optimize their investment portfolio.
6. Lending rates should be changed according to the bearing capacity of the people. It should not be more than average rate of return. So low interest rate on credit is recommended.
7. Banks should make plan to open their forthcoming branches in rural sector so that large number of people living in rural sector might be able to take advantages of banking facilities. As most of the joint ventures are operated only in the urban sector. They should explore the potentiality of the rural branches by taking local resources.

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