CHAPTER - I

INTRODUCTION

1.1 Background of the Study

The word “banking” has been derived from French word “Benque” and Italian word “Banca” which means accumulation of money. In Italian business house, banking was called benchi and the word was received from the German word banch which means bank in English. Thus the first meaning of bank is derived from Italian and then from German.

A bank is an establishment of the custody of money, which it pays out on customers’ orders. In other words, bank is an organization that collects the various types of deposit from people. Bank is a mediator between people because it takes deposits in one side and provides the loan to them in other side.

Nowadays, the term bank is generally understood as an institution that holds a banking license. Banking license are granted by bank regulatory authorities and provide rights to conduct the most fundamental banking services such as accepting deposits and providing loans. There are also financial institutions that provide certain banking services without meeting the legal definition of a bank, called non-banking financial company. Banks have a long history, and have influenced economics and politics for centuries. The word bank is derived form the Italian banca, which is derived from German language and means bench. The terms bankrupt and “broke” are similarly derived from banca rotta, which refers to an out of business bank, having its bench physically broken. Money lenders in Northern Italy originally did business in open areas, or big open rooms, with each lender working form his bench or table.

Financial development is one of the key indicators of economic growth for any country and financial institution grant regular energy for investments, which is needed for economic development. Capital formation is one of the important factors for economic development. The capital formation leads to increase in the size of national output, income and employment, solving the problem of inflation, balance of payment and making the economy free from the burden of foreign debts. Domestic capital formation helps in making a country self-sustainable. 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 savings of the community and that saved was assumed to be invested. They thought capital formation indeed plays a decisive role in determining the level and growth of national income and economic development. It seems unquestionable that the insufficient capital accumulation is the most serious limiting factor in underdeveloped countries. In the views of many economists, capital occupies the central and strategies position in the process of economics development in an underdeveloped economy lies in a rapid expansion of the rate of its capital investment so that it attains a rate of growth of output which exceeds the rate of growth of population by the significant margin. Only with such a rate of capital investment, the living standard in a developing country begins to improve. In developing countries, the rate of saving is quite low and existing institutions are half successful in mobilizing such saving as most people have incomes so low that vertically all current income must be spent in maintaining a subsistence level of consumptions (Higgins, 1968:804).

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

Enough capital is required for the development of any country. It is the backbone for the development of the nation. Nepal lacks the adequate capital for its development planning. Due to this reason many development planning are pending. If there is enough capital available, it can be invested into profitable projects and contribute to the National GDP. Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in a saving account in a bank for example, the bank must invest by lending the funds for various business companies. These firms in return, may invest the money in new factories and equipments to increase their production. In addition to this borrowing from the banks, it must issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issue bonds to obtain funds to invest in capital incentive project, as the construction of dams, roads and schools. All such investments by individuals, business and government involve a presto sacrifice of income to get and expected future benefits. As a result, investment raises a nation's standard of living (The World Bank, 1966:232).

Banks today have gained paramount trust of the public. They hold the deposit of millions of persons, government and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and government. Thus, their task is to provide a collecting point for saving of relatively small average amount from a large number of individual sources and invest them into a productive and needed sector of the country, so as to develop the nation. The importance of commercial banks may be measured in a number of ways. Banks are still the principal means of making payments, through the checking accounts, credit cards and electronic transfer services they offer. In the same way commercial banks are important because of their ability to create money from excess reserves made available from the public's deposits.

There are currently 27 commercial banks, 60 development banks, 79 finance companies, 64 micro finance non-governmental organizations, 7125 saving and credit co-operatives, and 23 insurance companies, employees provident and one citizen investment trust in Nepal. The stock market is in infancy stage in terms of number of the companies listed and the ratios of market capitalization and turnover to GDP.

1.2 Development of Banking System in Nepal

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

As the specific date of the beginning of money and banking deal in Nepal is not obvious, it is speculated that during the region of the King Mandev, the coin 'Manank' was in use. Historical example as to the pre-modern banking system was found in 723 A.D. when Gun Kam Dev, the king of Kathmandu had brought money to rebuild and rule Kathmandu (NRB- Nepal Bank Patrika, 2037:37). During the reign of Gun Kam Dev, the coin 'Gunank' was in use. Historically, we find the evidence of minted coin of Amshuverma in 7^{th} Century. At the end of 8^{th} century, Shankhadhar, a merchant of Nepal, paid all the outstanding loans of the Nepali people and started a new era (Nepal Sambat). Sadashiva Dev in 12^{th} century introduced silver coins. Jayasthiti Malla, ruler of Kathmandu classified people into 64 different casts on the basis of their occupation towards the end of the 14^{th} century. At that time, king Malla had given the responsibility to a caste of society called ‘Tankadhari’ whose occupation is to collect and lend money. So, they can be called as traditional bankers. In the same century, copper coins were used by King Ratna Malla of Kathmandu, silver coins by Mahendra Malla and the gold coins by the last Malla King of Kathmandu Jaya Prakash Malla.

Coin Mohar had been used by the great king Prithivi Narayan shah in his name, after the unification of Nepal. During the reign of Ranodip Singh, an office named ‘Tejarath’ was established in Kathmandu in 1933 B.S. It is used to provide loans to the government officials and the people against deposit of gold and silver. It was the first institutional financial intermediaries at the time. Although it played a vital role in the banking system, it provided credit facility to only the government officials.

Though all the banking activities were not performed by Tejarath Adda, during the tenure of the Prime Minister Ranodip Singh, modern banking practices began with the establishment of the first banking institution, Nepal Bank Limited. The Nepal Bank Limited was established in 30^{th} Kartik 1994 B.S. as a joint venture of the government and private individuals. Before the inception of this bank, the traditional ways of banking seem to be in existence even today.

The central bank helps the government to control, direct and formulate other monetary policies. Nepal Rastra Bank was set up in 2013 B.S. as central bank and since then it has contributed to the growth of financial sector. Speedy development of the country is possible only when comparative banking service reaches each and every corners of the country. Government has set up Rastriya Banijya Bank in 2022 B.S. as a fully government owned commercial bank and agriculture development bank was established in 2024 B.S.

Table 1.1

List of Licensed Commercial Banks

Commercial Banks	Established Date	Operation Date	Head Office
1. Nepal Bank Limited	1994/07/30	1994/07/30	Kathmandu
2. Rastriya Banijya Bank	2022/10/10	2022/10/10	Kathmandu
3. NABIL Bank Ltd.	2041/03/29	2041/03/29	Kathmandu
4. Nepal Investment Bank Ltd.	2042/11/16	2042/11/16	Kathmandu
5. Standard Chartered Bank Ltd.	2043/10/16	2043/10/16	Kathmandu
6. Himalayan Bank Ltd.	2049/10/05	2049/10/05	Kathmandu
7. Nepal SBI Bank Ltd.	2050/03/23	2050/03/23	Kathmandu
8. Nepal Bangladesh Bank Ltd.	2050/02/23	2050/02/23	Kathmandu
9. Everest Bank Ltd.	2051/07/01	2051/07/01	Kathmandu
10. Bank Of Kathmandu Ltd.	2051/11/28	2051/11/28	Kathmandu
11. Nepal Credit & Comm. Bank Ltd.	2053/06/28	2053/06/28	Siddharthanagar
12. Lumbini Bank Ltd.	2055/04/01	2055/04/01	Narayangadh
13. Nepal Ind. & Commerce Bank Ltd.	2055/04/05	2055/04/05	Biratnagar
14. Machhapuchre Bank Ltd.	2057/06/17	2057/06/17	Pokhara
15. Kumari Bank Ltd.	2056/08/24	2057/12/21	Kathmandu
16. Laxmi Bank Ltd.	2058/06/11	2058/12/21	Birgunj
17. Siddhartha Bank Ltd.	2058/06/12	2059/09/09	Kathmandu
18. Agricultural Dev. Bank Limited	2024/11/7	2024/11/7	Kathmandu
19. Global Bank Ltd.	2063/09/12	2063/09/12	Birgunj
20. Bank of Asia Nepal	2064/06/25	2064/06/25	Kathmandu
21. Citizens Bank Limited	2064/01/7	2064/01/7	Kathmandu
22. Prime Bank Limited	2064/06/7	2064/06/7	Kathmandu
23. Sunrise Bank Limited	2064/06/25	2064/06/25	Kathmandu
25. Development Credit Bank Ltd.	2057/9/12	2057/9/12	Kathmandu
26. Kist Bank Ltd.	2065/01/14	2065/01/14	Kathmandu
27. Mega Bank Ltd.	2067/04/07	2067/04/07	Kathmandu

(*Source: Mirmire – 2011, NRB)*

1.3 Profile of the Selected Banks

1.3.1 Himalayan Bank Limited (HBL)

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

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

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

The bank at present has Nine branches in Kathmandu Valley namely Thamel, Newroad, Maharajgunj, Dillibazar, Teku, Syambhu, Baneshwor, sorakhutte and Chabahil. Beside, it has twenty three branches outside the Kathmandu Valley namely Bhaktapur, Patan, Banepa, Tandi, Bharatpur, Birgunj, Hetauda, Bhirawa, Biratnagar, Pokhara, Dharan, Butwal, Nepalgunj , Itahari, Palpa, Ghorahi, Trishuli, Damak Baglung Parsha,Dhangadi and Gorkha. The bank is also operating a counter in the premise of the Royal Palace. The Bank has a very aggressive plan of establishing more branches in different parts of the kingdom in near future.

Himalayan Bank has always been committed to provide a quality service to its valued customers, with a personal touch. All customers are treated with utmost courtesy as valued clients. The Bank, wherever possible, offers tailor made facilities to its clients, based on the unique needs and requirements of different clients. To further extend the reliable and efficient services to its valued customers. HBL has adopted the latest banking technology. This has not only helped the bank to constantly improve its service level but has also prepared the bank for future adaptations to new technology. The bank already offers unique services such as short message sent (SMS) banking and internet banking to customers and will be introducing more services in the near future (www.himalayanbank.com).

1.3.2 Kumari Bank Limited (KBL)

This bank was established on 2056/08/24 B.S. and started its operations as the fifteenth commercial bank of Nepal from 2057/12/21 B.S. (April 03, 2001). under the company act 2021 B.S. with an objective of providing competitive and modern banking services in the Nepalese financial market, under the commercial bank act 2031. The bank has paid up capital of Rs. 1,304,935,920.00 of which 70% is contributed from promoters and remaining from public.

- Founded in April 03, 2001
- Corporate Office , Durbar Marg
- Capital
  - Authorized Capital Rs. 1,600,000,000.00
  - Issued & Paid-Up Capital Rs. 1,304,935,920.00
- Branches
  - 19 Outside valley
  - 9 Inside valley
- ATMs
  - Total - 23

Kumari Bank Ltd has been providing wide - range of modern banking services through 28 points of representations located in various urban and semi urban part of the country, 19 outside and 9 inside the valley. The bank is pioneer in providing some of the latest / lucrative banking services like E-Banking and SMS Banking services in Nepal. The bank always focus on building sound technology driven internal system to cater the changing needs of the customers that enhance high comfort and value. The adoption of modern Globus Software, developed by Temenos NV, Switzerland and arrangement of centralized data base system enables customer to make highly secured transactions in any branch regardless of having account with particular branch. Similarly the bank has been providing 365 days banking facilities, extended banking hours till 7 PM in the evening, Utility Bill Payment Services, Inward and Outward Remittance services, Online remit Services and various other banking services.

Visa Electron Debit Card, which is accessible in entire VISA linked ATMs (including 23 own ATMs) and POS (Point of Sale) terminals both in Nepal and India, has also added convenience to the customers. The bank has been able to get recognition as an innovative and fast growing institution striving to enhance customer value and satisfaction by backing transparent business practice, professional management, corporate governance and total quality management as the organizational mission.

The key focus of the bank is always center on serving unfulfilled needs of all classes of customers located in various parts of the country by offering modern and competitive banking products and services in their door step. The bank always prioritizes the priorities of the valued customers.

The bank in association with smart choice technology (SCT) has been providing automatic teller machine (ATM) services for its customers. EBL debit card services can be accessed at more than 25 ATMs and over 250 point of sales across the nation. The bank is also managing the ATM at Nepal Electricity Authority Airport for the convenience of the customers and the travelers, the first and the only bank in Nepal to place ATM outlet at the Airport (www.kumaribankltd.com).

1.4 Focus of the Study

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

The commercial banks can play a vital role in mobilizing the resources in developing as well as developed countries. These institutions can induce the public to save their valuable fund. They can help to monetize the society. In this way the savings can enter into the banking channel from the informal sector. Banks are the financial intermediaries; they collect the surplus money in the form of deposit and provide loans to deficit sectors. In between, they follow credit creation process. In this way they bridge gap between surplus sector and deficit sector.

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

1.5 Statement of the Problem

Nepal is underdeveloped country and rapid economic development is the basic need of the country. Development by its means is not problems within a short period and it takes a long time. For the proper development of a country, it has to build up infrastructure. In Nepal, the process of development started only after 2013 B.S. when the first five year plan came into practice.

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

The negligence and corruption made by management level, over-staffing, lack of social obligation, lack of proper control and directions are the reasons that are facing by the Nepalese commercial banks. New entry of banks and financial companies has made the tough competitions between them. Most of the people of Nepal are illiterate and people are unaware about the banking system. These commercial banks are active only in urban sector because they can grab great opportunity for the maximization of profit. Rural areas are being neglected. There are only five rural development banks active in Nepal and the banking transactions are also minimal in comparison to the operating expenses of the bank. The problems specially related to deposit mobilization of commercial banks in Nepal have been presented below: -

- Development works need short, medium and long term credit. But commercial banks provide only short term credit except in case of priority sector.
- About 84% people of the total population live in the rural area due to imbalance in the growth of banking in the country and are deprived of the banking facilities.
- Commercial banks of Nepal are considered as an efficient bank but how far are they efficient?
- More than 30% of people of our country are lying under the marginal poverty line. Therefore, it affects deposit mobilization.

1.6 Objective of the Study

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

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

1.7 Significance of the Study

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

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

- This study is important to banks to make policies based on recommendations and suggestions in this thesis.

- This study may encourage the researchers to research further.
- It is important for investors, customers and personnel of bank to take various decisions regarding deposits and loan and advances.
- This study is important to know how well the bank is utilizing its deposit.

1.8 Limitations of the Study

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

- This research design and analysis followed for this study are based on secondary data which covers the period of last five fiscal years.
- Time and resources constraints may limit the area covered by the study.
- Due to limited time and resources, out of 27 commercial banks, only two of them are included in this study.
- The period covered by the study is from 2004/05 to 2008/09 A.D.
- The accuracy of the research work will be dependent on the data provided by concerned banks.
- The major sources of the secondary data are the financial statements of concerned banks which are extracted from the progress report of related banks, Nepal Stock Exchange, Central Bureau of Statistics and other published and unpublished articles.

1.9 Organization of the Study

The first chapter includes general background of the study, historical perspective of banking industry, overview of sample banks, statements of the problem, objectives of the study, significance of the study and limitation of the study. The second chapter, Review of Literature contains the review of related books, journals, and past research works. Similarly the third chapter expresses the way and the technique of the studying applied in the research process. It includes research design, population and sample, data collection procedure and processing, tools and methods of analysis. The fourth chapter is the important chapter in which collected and processed data are presented, analyzed and interpreted with using financial tools as well as statistical tools. Finally, the fifth and the last chapter provide the summary of the study, conclusion and recommendations which are forwarded to the related banking industry for utilization and mobilization of their deposits.

CHAPTER - II

REVIEW OF LITERATURE

In this chapter, a relevant study has been made to know the opinion of other researchers and authors related to deposit mobilization of commercial banks in Nepal. Only the relevant literatures have been reviewed. Every possible effort has been made to grasp knowledge and information that is available from the concerned commercial banks. This chapter helps to take adequate feedback to broaden the information base and inputs to my study. In this chapter inputs are reviewed as follows.

2.1 Conceptual Review

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

2.1.1 Modern Banking in Nepal

Nepal Bank Ltd. is the first modern bank of Nepal. It is taken as the milestone of modern banking of the country and was established in 1994 B.S. From the beginning, it has rendered the following services to the customers: -

a. Accept deposit.
b. Extend loan.
c. Render customer-related service i.e. issue of bill of exchange, hundies.
d. Invest in government bonds and securities.
e. Perform agency function.
f. Act as banker to the government.

Until mid 1940s, only metallic coins were used as medium of exchange. So the Government of Nepal felt the need of separate institution or body to issue national currencies and promote financial organization in the country. Hence, the NRB Act 1955 was formulated. Accordingly, Nepal Rastra Bank was established in 2013 B.S. as a central bank of Nepal.

A sound banking system is important for smooth development of banking system. It can play a key role in the economy. It gathers saving from all over the country and provides liquidity for industry and trade (Singh 2062:13). In 2014 B.S., Industrial Development Bank was established to promote the industrialization in Nepal, which was later converted into Nepal Industrial Development Corporation (NIDC) in 2016 B.S.

Rastriya Banijya Bank was established in 2022 B.S., as the second commercial bank of Nepal. The financial shapes of these two commercial banks have a tremendous impact on the economy. That is the reason why these banks still exist in spite of their bad position.

As the agriculture is the basic occupation of major Nepalese, the development of this sector plays the prime role in the economy. So, separate Agricultural Development Bank was established in 2024 B.S. This is the first institution in agricultural financing.

After that for more than two decades, no more banks have been established in the country. Only after declaring free economy and privatization policy, Government of Nepal encouraged the foreign banks for joint venture in Nepal. As a result, Nepal Arab Bank Ltd. (NABIL) was established in 2041 B.S. This is the first modern bank with latest banking technology.

Then lots of commercial banks have been opened in the country. Nepal Indosuez Bank was established in 2042 B.S. as a private joint venture Bank. Nepal

Grindlays Bank was established as a joint venture between ANZ Grind lays and Nepal Bank Ltd. This bank is now known as Standard Chartered Bank since July 2001. The growth of modern banking has started only after the opening of Nepal Indosuez Bank and Nepal Grindlays Bank. In 2049 B.S., Himalayan Bank Ltd. was established with a joint venture with Habib Bank of Pakistan. It started its operation with paid-up capital of Rs. 60 millions. Nepal SBI Bank Ltd. is a joint venture between Employees Provident Fund and State Bank of India which was established in 2050B.S. The State Bank of India holds 50% of the equity. Nepal Bangladesh Bank was established in 2051 B.S. in technical collaboration with IFIC Bank Ltd. of Bangladesh. After that Everest Bank Ltd. started its operation in 2051 B.S. It entered into joint venture with Punjab National Bank of India (PNB). PNB holds 20% equity stakes in the banks. Bank of Kathmandu was established with a joint venture with Siam Commercial Bank of Thailand. Nepal Bank of Ceylon is a Joint venture with a leading bank of Sri Lanka. Lumbini Bank was established in the year 2055 B.S. in Narayangadh. This is the first regional Bank of Nepal. Nepal Industrial and Commercial Bank was established in 2055 B.S. It does not have any joint venture yet. But it has employed senior managers from India to handle its operation. Machhapuchre Bank started its operation from 2056 B.S. with its head office in Kathmandu. This bank has introduced internet banking which is a Hi-Tech Banking system of the world. Lately, Laxmi Bank was established in 2058 B.S. Its head office is situated in Kathmandu.

Now there are 27 commercial banks in Nepal. Among them, some banks have been opened by private sector in joint venture with foreign banks. Other commercial banks later established in the country. These commercial banks have played a very significant role in creating banking habit among the people, widening area and serving business communities and the government in various ways.

2.1.2 Concepts of Commercial Bank

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

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

In the Nepalese context, commercial bank act, 1974 A.D. defines “A commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions (Commercial Bank Act, 1974 A.D.)

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

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

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

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

2.1.3 Types of Banks

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

2.1.3.1 Central Bank

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

2.1.3.2 Commercial Bank

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

2.1.3.3 Agriculture Bank

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

2.1.3.4 Industrial Bank/ Development Bank

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

2.1.3.5 Savings Bank

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

2.1.3.6 Merchant Bank

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

2.1.3.7 Postal Savings Bank

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

2.1.3.8 Retail Bank

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

2.1.3.9 Land Development Bank

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

2.1.3.10 Universal Bank

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

2.1.4 Functions of the Commercial Banks

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

a) Accepting Deposit

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

i. **Current Deposit: -** Current deposits are also known as demand deposits. The demand deposit in which an amount is paid immediately at the time of any account holder's demand is called demand deposit. Through the bank can't gain profit by investing it in new sector after taking from the customer, this facility is given to the customer. Therefore, the bank does not give interest on this account.

ii. **Saving Deposit: -** In saving deposits, there is restriction on the maximum amount that can be deposited and also withdrawals from the account. This deposit is suitable and appropriate for the people of middle class who have low income and small saving. The bank usually pays small interest to the depositors against their deposit.

iii. **Fixed Deposit: -** Fixed deposit is the one, which a customer is required to keep fixed amount with the bank of specific periods, generally by those who do not need money for the stipulated period. She/he is not allowed to withdraw the amount before expiry of the period. The rate of interest is higher than other deposit. The bank pays a higher interest as such on deposit.

b) Advancing Loans

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

There is various method of advancing loans e.g.

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

c) Agency Services

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

d) Credit Creations

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

e) Other Functions

Other functions of the commercial banks are as follows :-

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

2.1.5 Concept of Deposit and Deposit Mobilization

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

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

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

a) Interest Bearing Deposit

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

(i) Saving Deposit

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

(ii) Fixed Deposit of Time Deposit

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

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

(iii) Call Deposit

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

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

(iv) Recurring Deposit

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

b) Non-Interest Bearing Deposit

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

(i) Current Deposit

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

(ii) Margin Deposit

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

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

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

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

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

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

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

2.1.6 Deposit Mobilization

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

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

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

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

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

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

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

Commercial banks are set up with a view to mobilize national resources. The first condition of National Economic Development is to be able to collect more and more deposit. In these contexts, the yearly increasing rate of commercial banks deposit clearly shows the satisfactory progress of deposit mobilization (RBB, Upahar, 2054:3.20).

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

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

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

2.1.7 Requirement for Deposit Mobilization

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

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

2.1.8 Advantage of Deposit Mobilization

The advantage of deposit mobilizations are as follows: -

- **Circulation of Idle Money**

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

- **To support Fiscal and Monetary Policy**

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

- **Capital Formation**

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

- **Development of Banking Habit**

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

- **To Support Government Development Projects**

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

- **To Promote Cottage Industries**

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

- **To Check up Misuse of Money**

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

- **Others**

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

2.1.9 Loans and Advances

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

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

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

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

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

2.1.10 Investment and Investment Policy

2.1.10.1 Investment

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

2.1.10.2 Investment Policy

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

2.1.10.3 Characteristics of Sound Investment Policy

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

õ **Liquidity**

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

- **Safety and Security**

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

- **Profitability**

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

- **Legality**

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

- **Purpose of Loan**

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

2.1.11 Deposit Mobilization Institution in Nepal

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

õ **Commercial Banks**

There are 27 Commercial banks in the country as July 2009 A.D. The number of commercial banks branches as December 2009 A.D. is 739.

õ **Finance Companies**

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

õ **Development Banks**

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

õ **Rural Development Banks**

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

2.2 Review of Related Studies

In this segment it has tried to write the major findings of the various related articles issued by various magazines on different time period and the major findings and analysis of the various thesis that are found to be related to the study.

In this section effort has been made to examine and review of some related articles in different economic journals. World Bank discussion papers, magazines, newspapers and other related books.

Pyakural, Bishowambhar (1987) in the article writes, "The present changing context calls for a substantial revitalization of the resource. How much they have gained over the years depends chiefly on how far they have been able to utilize their resources in an efficient manner. Therefore, the task of utilization of resources is as much crucial as the mobilization. The under utilization of resources not only results in loss of income but also goes further to discourage the collection of deposit," Thus in his paper he has emphasized on proper utilization of mobilized resources and profitability increment

Kafle, Ramesh (1990) in the topic, *"Monetary and Financial Reports in Nepal"* states that consideration and liberalization of interest rate reform measure are initiated with a view to provide more option to commercial banks in the mobilization of savings and portfolio management through market determined interest and lending rates.

Shrestha, Sunity (1997) in the article has presented the objective to make an analysis of contribution of CBs leading to the gross domestic product of Nepal. The writer has set hypothesis that there has been positive impact of lending of CBs to the GDP. In research methodology, the writer has considered GDP as the dependent variable and various sectors of lending viz. agriculture, industrial, commercial, service and general and social sectors as independent variables. A multiple regression techniques have been applied to analyze the contribution.

The multiple analyses show that the entire variable except service sector lending has positive impact on GDP. Thus in conclusion the writer has accepted the hypothesis i.e. there has been positive impact on GDP by the lending of CBs in various sectors of economy, except service sector investment

Pradhan, Shekhar Bahadur (1999) has presented a glimpse on investment in different sector through his article "*Deposit Mobilization, its problem and* *prospects"*. The writer has expressed that "Deposit is the life blood of any financial institution, commercial bank, finance company, co- operative or non government organization." The writer has also added "In consideration, nearly three dozen of finance companies latest figures does produce a strong feeling that a serious review must be made of problem and prospects of deposit sector."

Bajracharya, Bodi B. (1999) has mentioned in the article *"Monetary policy and deposit mobilization in Nepal"* The mobilization of domestic savings is one of the prime objectives of the monetary policy in Nepal. For this purpose CBs stood as the active and vital financial intermediary for generating resource in form of deposit of the private sector. So far providing credit to the investors is a different aspect of the money.

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

F. Morris in the discussion paper *"Latin America's banking system in 1980's A.D."* has concluded that most of the banks concentrated on compliance with central bank rules on resources requirement, credit collection and interest rates. While analyzing loan portfolio quality, operating efficiency and soundless of bank investment management has largely been overlooked. The huge losses now find in the bank's portfolio in many developing countries and testimony to the poor quality of this ever sight investment function.

The writer adds that mismanagement in financial institution has involved inadequate and over optimistic loan appraisal, tax recovery, high risk diversification of lending and investments, high risk concentration, connected and insider lending, loan mismatching. This has led many banks of developing countries to the failure of 1980s A.D. (Morris, 1990:81).

2.2.1 Review of Thesis

Under this segment, it has tried to find out the major conclusion and recommendations of the previous study made by the T.U. student. The unpublished thesis which is found relevant to the study is as follows: -

Karmacharya (1978), in the thesis work *"A Study on Deposit Mobilization by the NBL"* has concluded that commercial banks play a crucial role in accelerating growth of a country. The bank mobilizes the savings of the people and diverts them into productive channels. The expansion of branches as more as possible to encourage the savings i.e. to increase the savings habits of people and thereby to mobilize the available financial resources efficiently and effectively in a productive way and concluded that the branch expansion helps to collect more deposits and utilize the available resources. The conclusion is derived form the analysis of seven days data from 1970 A.D. to 1977 A.D. using Karl's Pearson's formula, percentage and ratio to meet the objective; the writer has analyzed how far the bank is able to utilize the collected deposits.

Joshi (1989), in the thesis work, *"A Study of Financial Performance of CBs"* concluded that liquidity position of CBs is satisfactory, local CBs have higher deposit equity ratio than joint venture banks. Loan and advances has been the main form of the investment. Assets utilization for earning purpose is two third of total assets. The main sources of these banks are interest from loan and advances, the fund that the profitability position of NABIL is stronger than that of other CBs.
The writer compares all CBs i.e. local CBs with joint venture banks. Local CBs are operating under government regulation and limitation, so they cannot operate

freely and are not able to provide different facilities and services like other joint venture banks which are operating independently with help of foreign investors who provide them good management as well as technical and business support.

Paudyal, (2004), *"Funds Mobilization of Commercial Banks in Nepal"* researched by Paudyal has tried to examined the funds mobilizations of the commercial banks and had concluded that the efficient mobilization of fund is more important than collection of one deposit. Also the writer said lower is the investment lower will be the capital formation. If there is high ratio of investment of the available fund this will create huge capital formation which is important to the economic growth of the nation and development of nation. At last the writer recommended that the commercial banks should concern their behavior in the efficient mobilization of the resources to get the profit.

Rajamajhi, (2005) has conducted on the thesis work. *"A Study on Deposit Mobilization of Six Commercial Banks"* has concluded that commercial banks play a crucial accelerating the growth in the country. The bank mobilizes the savings of the people and diverts them into productive channels. The expansion of branches as more as possible to encourage the savings i.e. to increase the savings habits of people and thereby to mobilize the available financial resources efficiently and effectively in a productive way and concluded that the branch expansion helps to collect more deposits and utilize the available resources. The conclusion is derived from this analysis.

The review of above relevant thesis has no doubt enhanced the fundamental understanding and foundation knowledge base which is prerequisite to make this study meaningful and positive. Although numbers of article have not been published and various research work have not been conducted in commercial bank deposit mobilization so far, so here effort is made to do.

CHAPTER - III

RESEARCH METHODOLOGY

In the previous chapter, the role of commercial banks and its functions for the economic development of a nation has been discussed and the review of literature with possible review of relevant books, articles and thesis, and research findings has been done along with the function of commercial banks and types of deposits. This has equipped the researcher to make choice of research methodology to support the study in realistic terms with sound empirical analysis. "Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view". In other word research methodology describes the method and process applied in the entire subject of the study. This topic deals with the research design, nature of data collection, processing of data and statistical tools used.

3.1 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research question and control variance. To achieve the objectives of the study, descriptive as well as analytical research design have been used. This study is based on secondary data. Some samples such as statistical tools such as Mean, C.V., P.E., Trend line and Correlation analysis has been applied to examine the facts of data. Not only data but also recommendations and suggestions are also derived from the study by taking the KBL and HBL, as a sample. So that all concerned can be achieved something from the study.

3.2 Research Hypothesis

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

- õ Himalayan Bank Limited
- õ Kumari Bank Limited

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

3.3 Source and Nature of Data

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

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

3.4 Population and Sample

There are six joint venture banks out of 27 commercial banks all over Nepal. In this study the deposit mobilization procedures of Himalayan Bank Limited and Kumari Bank Limited are studied. 27 commercial banks are taken as the population and KBL and HBL banks are chosen as the sample to find out the condition of deposit mobilization.

3.5 Method of Data Analysis

To achieve the objectives of the study various financial and statistical tools have been used. The analysis of the study will be done according to the pattern of data available and to make the analysis more effective, convenience, reliable and authentic.

The different calculated results obtained through financial, accounting and statistical tools are tabulated under different headings. Then they are compared with each other to interpret the results.

3.5.1 Financial Tools

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

1. Liquidity Ratio

The ability of a bank to meet its short term obligation is known as liquidity. It reflects the short term financial strength of the bank. These ratios are used to know the capacity of the concern to repay its short term liability. Under this the following ratios are computed.

- NRB balance to total deposit.
- NRB balance to current and saving deposit
- NRB balance to fixed deposit
- NRB liquid fund to total deposit

2. Activity Ratio

Activity ratio reflects the firm’s efficiency in utilizing its assets. Activity ratios measure the effectiveness of the employment of the resources in a business concern.

Under this ratio, the following ratios are computed.

- Credit to total deposit
- Investment to total deposit
- Credit and investment to total deposit
- Time deposit to total deposit
- Loans and advances to saving deposits ratios
- Credit to government enterprises to total credit.
- Credit to private sector to total credit.

3. Capital Adequacy Ratio

This ratio has been one of the most controversial issues. Excess capital than required capital reduce the profitability where as less than capital is a symbol of a weak capital structure. So banks have to maintain the adequate capital as well as per the directives given by NRB.

- Capital to total deposit
- Capital to total credit
- Capital to total asset

4. Risk Ratio

Risk Ratio is an important ratio. It measures the risk associated with the banking variable. A bank raise capital accepts deposit and finally grant loan. A bank must consider the risk associated with it. Higher the ratio higher will be the profit and vice versa. Following ratios are considered under these ratios: -

- Capital risk ratio
- Interest risk ratio
- Credit risk ratio

5. Profitability Ratio

Maximization of profit is the main objective of each and every bank. It is very necessary to earn maximum profit for the successful running of a bank concern. According to Lord Keynes, profit is the engine that drives the business enterprises. The profit is also important to preserve the existence of bank as well as strengthen and expand it.

- Net profit to total working fund ratio
- Net profit to loan and advances
- Net profit to total equity capital

6. Percentage Change Ratio

Percentage is used to measure the changing position of different amount. The following formula is used to find out the annual change.

$$\text{Annual Percentage Change} = \frac{\text{Amount of This Year} - \text{Amount of Last Year}}{\text{Amount of Last Year}}$$

7. Growth Ratio

Growth ratio is directly related to the fund mobilization and investment management of a commercial bank. It represents how well the commercial bank maintaining the economic and financial position. Following ratios are considered under this ratio: -

- Growth ratio of total deposit
- Growth ratio of total loan and advances
- Growth ratio of total investment
- Growth ratio of net profit

3.5.2 Statistical Tools

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

a) Arithmetic Mean

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

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

We have,

$$\text{Mean} \quad (\bar{X}) \ X \frac{X}{n}$$

Where,

X	=	Sum of all values of the observations
n	=	Number of observation
X	=	Values of variables

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

b) Standard Deviation (S.D.)

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

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

Where,

X = Expected return of the historical data.

N = Number of observations.

c) Coefficient of Variation (C.V.)

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

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

Where,

± = Standard deviation

X = Mean value of variances

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

d) Correlation of Coefficient

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

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

Where,

N = No. of observation

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

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

e) Probable Error

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

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

Where,

P.E. (r) = Probable error of correlation coefficient

r = Correlation coefficient

n = Number of observation.

f) Trend Analysis

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

$$Y = a + b x$$

Where,

Y = The dependent variable

a = The region i.e. arithmetic mean

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

X = The independent variable

CHAPTER – IV
DATA PRESENTATION AND ANALYSIS

4.1 Financial Analysis

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

4.1.1 Collection of Deposit

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

4.1.1.1 Deposit Collection Growth

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

Table 4.1

Deposit Collection Growth

(Rs In Million)

FY	**KBL**		**HBL**	
	Deposit	**% Change**	Deposit	% Change
2004/05	6268.95	30.39	24814.01	12.74
2005/06	7768.96	23.93	26490.85	6.76
2006/07	10557.42	35.89	30048.42	13.43
2007/08	12780.15	21.05	31842.79	5.97
2008/09	15710.92	22.93	34681.34	8.91
Mean	10617.28	26.84	29575.48	9.56
S.D.	3796.30	6.16	3988.13	3.40
C.V.%	35.76	22.95	13.48	35.55

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

The table 4.1 has shown the deposit collection of the sampled banks and the percent change in the deposit collection in each year. The table has revealed that the deposit collection of KBL is in increasing trend. KBL has collected Rs. 6268.95millions, Rs. 7768.96millions, Rs. 10557.42 millions, Rs. 12780.15 millions and Rs. 15710.92 millions in the fiscal year 2004/05, 2005/06, 2006/07 2007/08 and 2008/09 respectively. In average, Rs. 10617.28 millions has been collected by KBL as deposit amount. The table has also depicted that the percentage change in deposit collection is highest (35.89%) in the fiscal year 2006/07 and lowest (21.05%) in the fiscal year 2007/08.

Alike in KBL, the deposit collection amount of HBL is also in increasing trend. HBL has collected Rs. 24814.01 millions, Rs. 26490.85 millions, Rs. 30048.42 millions, Rs. 31842.79 millions and Rs. 34681.34 millions in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. In average, Rs. 29575.48 million has been collected as deposit amount by HBL. Also the percentage change in deposit collection is highest (13.43%) in the fiscal year 2006/07 and lowest (5.97%) in the fiscal year 2007/08.

Comparing two banks, it can be concluded that HBL is more successful than KBL in deposit collection, since the average deposit collection of HBL (Rs. 29575.48 millions) is higher than that of KBL (Rs. 10617.28 millions). Also, the deposit collection trend of HBL is more uniform than that of KBL, since the C.V. on deposit collection of HBL (35.55%) is lower than that of KBL (35.76%).

Figure 4.1

Deposit Collection Growth

4.1.1.2 Sources of Deposit Collection

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

Table 4.2

Sources of Deposit Collection (Rs In Million)

Deposits	**FY**					**Mean**	
	2004/05	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**Rs.**	**%**
KBL							
Current	279.36	350.82	403.80	601.72	780.10	483.16	4.33
Margin	69.10	**56.72**	87.73	109.64	97.90	84.218	0.76
Other	……	……	……	……	……		
Non-Interest Bearing	**348.46**	**407.54**	**491.53**	**711.36**	**877.00**	**567.178**	**5.09**
Savings	1515.56	2317.84	4461.37	4138.81	4170.31	3320.778	29.78
Fixed	2302.09	3162.83	2776.48	3799.56	4527.05	3313.602	29.71
Call	2102.84	1880.73	2827.70	4124.55	6135.57	3414.278	30.62
Interest Bearing	**5920.59**	**7361.40**	**10065.55**	**12062.92**	**14832.94**	**10048.68**	**90.11**
Total Deposit	**7741.65**	**8975.78**	**10557.09**	**12774.28**	**15710.92**	**11151.9**	**100**
HBL							
Current	5045.16	5028.15	5589.58	4784.23	3118.22	4713.07	15.94
Margin	586.04	488.03	375.03	645.17	665.17	551.89	1.87
Other							
Non-Interest Bearing	**5631.20**	**5516.18**	**5964.61**	**5429.40**	**3883.39**	**5284.96**	**17.87**
Savings	12852.41	14582.86	15784.77	17972.44	20061.05	16250.71	54.95
Fixed	6107.43	6350.20	8201.13	6423.87	6377.13	6691.95	22.63
Call	222.96	41.61	97.91	2017.07	4359.77	1347.86	4.56
Interest Bearing	**19182.80**	**20974.67**	**24083.81**	**26413.38**	**30797.95**	**24290.52**	**82.13**
Total Deposit	**24814.01**	**26490.85**	**30048.42**	**31842.79**	**34681.34**	**29575.48**	**100.00**

(Source: Annual Reports of KBL & HBL)

The table shows the deposit composition of KBL and HBL. The table has revealed that both the interest bearing and non-interest bearing deposit of KBL are in increasing trend, along with the total deposit. The non interest bearing deposit; current, margin and other, is Rs. 348.46 millions, Rs. 407.54 millions, Rs. 491.53 millions, Rs. 711.36 millions and Rs. 877.00 millions and the interest bearing deposit; Savings, Fixed and Call, is Rs. 5920.59 millions, Rs. 7361.40 millions, Rs. 10065.55 millions, Rs. 12062.92 millions and Rs. 14832.94 millions in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively.

Within non-interest bearing deposit, the current account, which has ranged from Rs. 279.36 millions in the fiscal year 2004/05 to Rs. 780.10 millions in the fiscal year 2008/09, has occupied the major portion, while the interest-bearing deposit of KBL is dominated by Savings deposit, which has ranged from Rs. 1515.56 millions in the fiscal year 2004/05 to Rs. 4170.31 millions in the fiscal year 2008/09. In overall, the Savings deposit is the major source of deposit collection in KBL. In average, KBL has collected Rs. 567.178 millions from non-interest bearing deposit and Rs. 10048.68 millions from interest bearing deposit.

However, in HBL, both the interest bearing deposit and non-interest bearing deposit are in fluctuating trend. The non-interest bearing deposit is highest (Rs. 5964.61 millions) in the fiscal year 2006/07 and lowest (Rs. 3883.39 millions) in the fiscal year 2008/09. In average, HBL has collected Rs. 5284.96 millions from non-interest bearing deposit; current, margin and other. Similarly, the interest bearing deposit is highest (Rs. 30797.95 millions) in the fiscal year 2008/09 and lowest (Rs. 19182.80 millions) in the fiscal year 2004/05. In average, Rs. 24290.52 millions has been collected from interest bearing deposit.

In HBL bank as well, the saving deposit, ranging from Rs. 12852.41 millions in the fiscal year 2004/05 to Rs. 20061.05 millions in the fiscal year 2008/09, has dominated the interest bearing deposit. However, unlike in KBL, the fixed deposit, ranging from Rs. 2302.09 millions in the fiscal year 2004/05 to Rs. 4527.05 millions in the fiscal year 2008/09, has dominated the interest-bearing deposit. And, also the fixed deposit is the major source of deposit collection in KBL.
Comparing two banks, it can be concluded that savings deposit is the major source of deposit in HBL and fixed deposit is the major source of deposit in KBL.

4.1.1.3 Total Deposit to Total Fund

Besides deposit, the shareholders equity, long term debt and other current liabilities are also the sources of fund for bank. So, to determine the coverage of total deposit in total fund of KBL and HBL, the total deposit to total fund ratio has been presented in the Table 4.3.

Table 4.3

Total Deposit to Total Fund Ratio

FY	KBL			HBL		
	TD	TF	Ratio	TD	TF	Ratio
2004/05	6,268.95	7428.30	84.39	24814.01	27418.16	90.50
2005/06	7,768.96	9010.28	86.22	26490.85	29460.39	89.92
2006/07	10,557.42	11918.31	88.58	30048.42	33519.14	89.65
2007/08	12,780.15	15026.60	85.05	31842.79	36175.53	88.02
2008/09	15,710.92	18538.56	84.75	34681.34	39320.322	88.20
Mean			**85.80**			**89.26**
S.D.			**1.70**			**1.09**
C.V.%			**1.98**			**1.22**

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

The table shows that the coverage of total deposit in total funding is in fluctuating trend in each year in both the banks. Although, both the deposit and total fund are in increasing trend, the fluctuating ratio between them has indicated that the pace of growth between them is not the same. The funding of assets from total deposit in KBL is 84.39%, 86.22%, 88.58%, 85.05% and 84.75% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. In average, KBL has collected 84.75% of the total fund through deposit. Also, the coefficient of variation in such ratio is 1.98% only, which has indicated high uniformity.

Similarly, the collection of deposit to fund the total assets in HBL is 90.50%, 89.92%, 89.65%, 88.02% and 88.20% in the fiscal year 2004/05, 2005/06, 20063/07, 2007/08 and 2008/09 respectively. In average, 89.26 % of the total fund collected is from total deposit. The coefficient of variation on such collection is 1.22 %, indicating high consistency.

Analyzing two banks on the basis of deposit collection to total fund, it can be concluded that the major source of fund of both banks is deposit collection. In both banks, deposit collection is greater than four-fifth of the total fund. However comparing two banks, it can be considered that the uses of total deposit to fund total assets is greater in HBL than in KBL, since the average deposit collection to total fund in HBL (89.26%) is higher than that in KBL (84.75%).

Figure 4.2

Total Deposit to Total Fund Ratio

4.1.2 Deposit Mobilization

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

4.1.2.1 Cash and Bank Balance to Total Deposit Ratio

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

Table 4.4

Cash and Bank Balance to Total Deposit Ratio

(Rs in Million)

FY	KBL			HBL		
	CBB	TD	Ratio	CBB	TD	Ratio
2004/05	443.37	7428.30	7.07	2014.47	24814.01	8.12
2005/06	389.63	9010.28	5.02	1717.35	26490.85	6.48
2006/07	672.11	11918.31	6.37	1757.34	30048.42	5.85
2007/08	933.84	15026.60	7.31	1448.14	31842.79	4.55
2008/09	1,776.30	18538.56	11.31	3068.53	34681.34	8.85
Mean			**7.41**			**6.77**
S.D.			**2.35**			**1.73**
C.V.%			**31.73**			**25.59**

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

The table shows the mobilization of total deposit to maintain cash and bank balance in order to have enough liquidity. The cash and bank balance in both the selected banks are in fluctuating trend, along with the increasing total deposit. So on, the cash and bank balance to total deposit in each bank is in fluctuating trend. In KBL, the ratio is 7.07 % in the base year 2004/05, which has decreased to 5.02 % in the fiscal year 2005/06, and increased to 6.37 %, 7.31%, 11.31% in the fiscal year 2006/07, 2007/08, 2008/09 respectively. In average, 7.41% of the total deposit collection has been mobilized in maintaining cash and bank balance. The standard deviation and coefficient of variation in such ratio are 2.35% and 31.73% respectively.

Similarly, the ratio has ranged from 4.55 % in the fiscal year 2007/08 to 8.85 % in the fiscal year 2008/09 in HBL. In average, HBL has mobilized 6.67 % of the total deposit to maintain cash and bank balance. The coefficient of variation and standard deviation on the ratio are 25.59% and 1.73% respectively.

Comparing two banks on the ground of cash and bank balance to total deposit, it can be concluded that KBL (7.41%) has mobilized higher portion of total deposit in maintaining cash and balance than HBL (6.77%) does in order to have sufficient liquidity position. But, the uniformity in ratio is more in HBL (C.V. = 25.59%) than in KBL (C.V. = 31.73%).

Figure 4.3

Cash and Bank Balance to Total Deposit Ratio

4.1.2.2 Cash Reserve Ratio

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

Table 4.5

NRB Balance to Total Local Deposit Ratio

Fiscal Year	NRB Requirement %	CRR %	
		KBL	**HBL**
2004/05	5	3.44	7.86
2005/06	5	2.71	5.92
2006/07	5	3.65	5.92
2007/08	5	1.91	5.13
2008/09	5.5	7.13	6.76
Mean		**3.77**	**6.32**
S.D.		**2.00**	**1.04**
C.V.%		**53.07**	**16.41**

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

The table has depicted the mobilization of total deposit to maintain minimum cash reserve ratio by KBL and HBL. The table shows that KBL has kept 3.44%, 2.71%, 3.65%, 1.91% and 7.13% of the total local deposit collected in NRB as CRR. The bank has remained unable to maintain sufficient cash reserve ratio in the fiscal year 2004/05 and 2007/08, when the minimum cash balance provision directed by NRB is 5.0% of the total local deposit. However in average, KBL has kept 3.77% cash reserve ratio, and the coefficient of variation on such ratio is 53.07%, which is highly inconsistent.

Similarly, HBL has maintained 7.76%, 5.92%, 5.92%, 5.13% and 6.76% of the total local deposit as cash balance in NRB respectively. This indicates that HBL has able to meet the provision in all fiscal years. In average, HBL kept 6.32% of the total local deposit as cash balance in NRB. The coefficient of variation on cash reserve ratio is 16.41%, which has indicated consistency.

Finally, it can be concluded that HBL was able to keep the cash reserve ratio set out by NRB but not by KBL. The CRR maintain by KBL (3.77%) has less than the cash reserve ratio of HBL (6.67%) in NRB in average.

Figure 4.4

Cash Reserve Ratio

4.1.2.3 Loan and Advances to Total Deposit Ratio

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

Table 4.6

Loan and Advances to Total Deposit Ratio

FY	KBL			HBL		
	LA	**TD**	**Ratio**	**LA**	**TD**	**Ratio**
2004/05	5584.63	6,268.95	89.08	12424.52	24814.01	50.07
2005/06	6891.85	7,768.96	88.71	14642.56	26490.85	55.27
2006/07	8929.01	10,557.42	84.58	16997.98	30048.42	56.57
2007/08	11335.09	12,780.15	88.69	19497.52	31842.79	61.23
2008/09	14593.35	15,710.92	92.89	24973.16	34681.34	72.01
Mean			**88.79**			**59.03**
S.D.			**2.94**			**8.27**
C.V.%			**3.31**			**14.01**

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

The table delineates that the mobilization of total deposit in granting loan and advances of KBL is in fluctuating trend. However, KBL has utilized maximum amount of deposit collection to disburse loan and advance. KBL has mobilized 89.08%, 88.71%, 84.58%, 88.69% and 92.89% of the total deposit in loan and advances. In average, 88.79 % of the total deposit has been mobilized in loan and advances. And the coefficient of variation in such loan and advances is 3.31%, which has indicated highly uniformity in the ratio.

Similarly, HBL has also mobilized more than 50% portion of its deposit collection in disbursing loan and advances. The loan and advances to total deposit has ranged from 50.07% in the fiscal year 2004/05 to 72.01% in the fiscal year 2007/08. In average, 59.03% of the total deposit has been utilized in granting loan and advances. And the coefficient of variation in such ratio is 14.01%. It has increasing trend of mobilizing its total deposit in loan and advance.

Comparing two banks, it can be considered the mobilization of total deposit collected in loan and advances is greater in KBL (88.79%) than that in HBL (59.03%).

Figure 4.5

Loan and Advances to Total Deposit Ratio

4.1.2.4 Investment to Total Deposit Ratio

The banks mobilizes its deposit collection in investment in various sectors like government securities, corporate shares and debentures and others like certificate of deposit, mutual fund to earn interest, dividend and capital gain. The mobilization of total deposit in investment of KBL and HBL has been presented in the Table 4.7.

Table 4.7

Investment to Total Deposit Ratio

FY	KBL			HBL		
	Inv.	**TD**	**Ratio**	**Inv.**	**TD**	**Ratio**
2004/05	1190.27	6,268.95	18.99	11692.34	24814.01	47.12
2005/06	1394.95	7,768.96	17.96	10889.03	26490.85	41.10
2006/07	1678.42	10,557.42	15.90	11822.98	30048.42	39.35
2007/08	2138.80	12,780.15	16.74	13340.18	31842.79	41.89
2008/09	1510.83	15,710.92	9.62	8710.69	34681.34	25.12
Mean			**15.84**			**38.92**
S.D.			**3.67**			**8.24**
C.V.%			**23.18**			**21.17**

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

The above table depicts that the mobilization of total deposit in investment of KBL has decreasing during the periods. The investment to total deposit of KBL has ranged from 9.62% in the fiscal year 2008/09 to 18.99% in the fiscal year 2004/05. In average, 15.84% of the total deposit has been mobilized in investment. The coefficient of variation on such ratio is 23.18%.

Similarly in HBL, 47.12%, 41.10%, 39.35%, 41.89% and 25.12% of the total deposit has been mobilized in investment sector, like government securities, corporate share and debentures, and others, to earn interest income and dividend, in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. In average, HBL bank has utilized 38.92% of the total deposit in investment and the coefficient of variation in such ratio is 21.17%.

Comparing two banks, it can be concluded that the mobilization of total deposit in investment is greater in HBL (38.92%) than in KBL (15.84%) so on, the ratio is more consistent in HBL (C.V. = 21.17%) than in KBL (C.V. = 23.18%).

Figure 4.6
Investment to Total Deposit Ratio

4.1.2.5 Money at Short Call and Notice to Total Deposit Ratio

Besides loan and advances & investment, the bank mobilizes its total deposit in money at short call and notice to earn interest income. The money at short call and notice to total deposit ratio of KBL and HBL have been presented in the Table 4.8.

Table 4.8
Money at Short Call and Notice to Total Deposit Ratio

FY	KBL			HBL		
	MSCN	TD	Ratio	MSCN	TD	Ratio
2004/05	90.00	6,268.95	1.44	441.08	24814.01	1.78
2005/06	145.00	7,768.96	1.87	1005.28	26490.85	3.79
2006/07	372.22	10,557.42	3.53	1710.02	30048.42	5.69
2007/08	55.36	12,780.15	0.43	518.53	31842.79	1.63
2008/09	30.00	15,710.92	0.19	1170.79	34681.34	3.38
Mean			**1.49**			**3.25**
S.D.			**1.33**			**1.66**
C.V.%			**89.35**			**51.13**

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

Besides, loan and advances and investment, money at short call and notice is another source of interest generating assets. The table shows that KBL has mobilized 1.44%, 1.87%, 3.53%, 0.43% and 0.19% of the total deposit in money at short call and notice in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. In average, 1.48 % of the total deposit is utilized in money at short call and notice by KBL. However, the coefficient of variation of 89.35 % on such ratio has shown high inconsistency.

Likewise, the mobilization of total deposit in money at short call and notice is in fluctuating trend in HBL. HBL has practiced to invest in money at short call to total deposit ratio is 1.78% in the fiscal year 2004/05, which has increased to 3.79% in the fiscal year 2005/06 then again increased to 5.69% in the fiscal year 2006/07, and has decreased to 1.63% in the fiscal year 2007/08. In average, 3.25% of the total deposit has been mobilized in money at short call and notice. The coefficient of variation in the ratio is 51.13%, indicating inconsistency.

Comparing KBL with HBL, it can be considered that the mobilization of total deposit in money at short call and notice is higher in HBL (3.25%) than in KBL (1.49%). Also, the ratio in HBL (C.V. = 51.13%) is more consistent than in KBL (C.V. = 89.35%).

Figure 4.7
Money at Short Call and Notice to Total Deposit Ratio

4.1.2.6 Fixed Assets to Total Deposit Ratio

Besides income generating assets, the bank needs funds to acquire fixed assets to operate its daily activities. Hence, the mobilization of total deposit in fixed assets of KBL and HBL bank has been presented in the Table 4.9.

Table 4.9

Fixed Assets to Total Deposit Ratio

FY	KBL			HBL		
	FA	TD	Ratio	FA	TD	Ratio
2004/05	82.98	6,268.95	1.32	295.82	24814.01	1.19
2005/06	91.93	7,768.96	1.18	540.82	26490.85	2.04
2006/07	189.32	10,557.42	1.79	574.06	30048.42	1.91
2007/08	222.00	12,780.15	1.74	795.31	31842.79	2.50
2008/09	247.83	15,710.92	1.58	952.19	34681.34	2.75
Mean			**1.52**			**2.08**
S.D.			**0.26**			**0.60**
C.V.%			**17.28**			**28.84**

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

The table delineates the mobilization of total deposit in acquiring fixed assets. The table has shown that the ratio of fixed assets to total deposit of KBL in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 was 1.32%, 1.18%, 1.79%, 1.74% and 2.45% respectively. In average, 1.52% of the total deposit has been utilized by KBL in purchasing fixed assets. However, the coefficient of variation of 17.28% has indicated inconsistency in the ratio.

Similarly, HBL has mobilized 1.19%, 20.04%, 1.91%, 2.50% and 2.75% of the total deposit in acquiring fixed assets in the fiscal year 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 respectively. In average, 2.08% of the total deposit has been mobilized in fixed assets. The coefficient of variation in the ratio is 28.84%, indicating uniformity in the ratio.

Comparing two banks, it can be concluded that the mobilization of total deposit in fixed assets is greater in HBL (2.08%) than in KBL (1.52%).

Figure 4.8

Fixed Assets to Total Deposit Ratio

4.1.2.7 Office Overhead to Total Deposit Ratio

This ratio measures the mobilization rate of total deposit in paying office overhead expenses. The lower the ratio is considered better. The office overhead to total deposit ratio of KBL and HBL is presented in the table below.

Table 4.10

Office Overhead to Total Deposit Ratio

FY	KBL			HBL		
	OH	**TD**	**Ratio**	**OH**	**TD**	**Ratio**
2004/05	71.81	6,268.95	1.15	277.37	24814.01	1.12
2005/06	88.68	7,768.96	1.14	329.70	26490.85	1.24
2006/07	104.08	10,557.42	0.99	322.86	30048.42	1.07
2007/08	148.14	12,780.15	1.16	344.32	31842.79	1.08
2008/09	184.50	15,710.92	1.17	398.32	34681.34	1.15
Mean			**1.12**			**1.13**
S.D.			**0.08**			**0.07**
C.V.%			**6.85**			**6.08**

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

The table shows the mobilization of total deposit collection in paying office overhead expenses. The table has shown that the overhead expenses to total deposit of KBL is 1.15%, 1.14%, 0.99%, 1.16% and 1.17% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09. In average, 1.12% of the total deposit has been mobilized in meeting office overhead expenses. The coefficient of variation of 6.85% has indicated consistency in the ratio.

However in HBL, the office overhead expenses to total deposit has followed fluctuating trend. In average, 1.13% of the total deposit has been mobilized in paying office overhead expenses. The coefficient of variation on such ratio is 6.08%.

Comparing two banks, it can be considered that the mobilization of total deposit in paying office overhead is almost equal in KBL (1.12%) and in HBL (1.13%).

Figure 4.9

Office Overhead to Total Deposit Ratio

4.1.2.8 Interest Expenses on Deposit Ratio

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

Table 4.11

Interest Expenses on Deposit Ratio

FY	KBL			HBL		
	IED	**TD**	**Ratio**	**IED**	**TD**	**Ratio**
2004/05	234.88	6,268.95	3.75	525.74	24814.01	2.12
2005/06	330.32	7,768.96	4.25	631.87	26490.85	2.39
2006/07	389.30	10,557.42	3.69	732.61	30048.42	2.44
2007/08	463.37	12,780.15	3.63	773.26	31842.79	2.43
2008/09	760.50	15,710.92	4.84	839.55	34681.34	2.42
Mean			**4.03**			**2.36**
S.D.			**0.52**			**0.14**
C.V.%			**12.82**			**5.74**

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

The table has depicted the interest expenses incurred by the sampled bank in relation to the deposit collection. The table shows that KBL has been fluctuating trend the interest expenses in deposit to total deposit in each year. In average, KBL has incurred 4.03 % of the total deposit as interest expenses.

So on the ratio in HBL is in fluctuating trend. The ratio is 2.12% in the fiscal year 2004/05, which has increased to 2.39% in the fiscal year 2005/06, again has increased to 2.44% in the fiscal year 2006/07, and 2.43% in the fiscal year 2007/08 and finally has decreased to 2.42% in the fiscal year 2008/09. In average, the interest expense has represented 2.36% of the total deposit collection. The coefficient of variation in such ratio is 5.74%.

Comparing two banks, it can be concluded that HBL (2.36%) is more successful than KBL (4.03%) to significantly reduce the interest expenses in relation to the total deposit.

Figure 4.10

Interest Expenses on Deposit Ratio

4.1.2.9 Net Profit after Tax to Total Deposit Ratio

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

Table 4.12

Net Profit after Tax to Total Deposit Ratio

FY	KBL			HBL		
	NPAT	TD	Ratio	NPAT	TD	Ratio
2004/05	84.20	6,268.95	1.34	308.28	24814.01	1.24
2005/06	103.67	7,768.96	1.33	457.46	26490.85	1.73
2006/07	170.26	10,557.42	1.61	491.82	30048.42	1.64
2007/08	174.93	12,780.15	1.37	635.87	31842.79	2.00
2008/09	261.44	15,710.92	1.66	752.83	34681.34	2.17
Mean			**1.46**			**1.75**
S.D.			**0.16**			**0.36**
C.V.%			**10.94**			**20.33**

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

The above table indicates that the net profit to total deposit ratio of KBL has been found to be in fluctuating trend. . The net profit to total deposit of KBL in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 is 1.34%, 1.33%, 1.61%, 1.37% and 1.66 % respectively. In average, the net profit to total deposit is 1.46 % within the five years period and the coefficient of variation in such ratio is 10.94%.

Similarly, the table has verified that except in the fiscal year 2006/07, the net profit to total deposit ratio of HBL has been found to be in increasing trend, which means that growth speed of net profit is greater than the growth speed of total deposit. The average net profit to total deposit ratio is 1.75% and the coefficient of variation in the ratio is 20.33%, indicating inconsistency.

Comparing two banks, it can be concluded that the HBL is more efficient than KBL in converting deposit collection into net profit. Also, it can be assumed that with per Rs. 100 deposit collection, KBL makes Rs. 1.46 net profit, and HBL makes Rs. 1.75 net profit.

Figure 4.11

Net Profit after Tax to Total Deposit Ratio

4.2 Statistical Analysis

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

4.2.1 Correlation and Regression Analysis

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

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

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

Table 4.13

Correlation and Regression Analysis between Loan and Advances and Deposit

Correlation Between LA and Deposit					
Bank	**r**	**r^2**	**P.E.**	**6 P.E.**	**Remarks**
KBL	0.9959	0.9918	0.00247	0.0148	Significant
HBL	0.9764	0.9534	0.0141	0.0844	Significant
Regression Line of LA and Deposit					
Bank	**a**	**b**	**Regression Equation**		
KBL	-10019.53	0.94	LA = - 10019.53 + 0.94 TD		
HBL	-32978.86	1.11	LA = -32978.86 + 1.11 TD		

(Source: Appendix – II)

The above table measures the relationship between loan & advances and deposit. The table shows that the correlation coefficient between loan & advances and total deposit is 0.9959 in KBL and 0.9764 in HBL. This perfect correlation between loan & advances and total deposit in each bank indicates that with the increment/decrement in total deposit, the loan and advances of each bank increases/decreases.

Further the coefficient of determination of 0.9918 in KBL and 0.9534 in HBL indicates that 99.18% change in loan and advances of KBL and 95.34% change in loan and advances of HBL is explained by change in total deposit of respective banks. Also, since the value of ‘r’ is greater than the 6 P.E. of KBL (r = 0.9959 > 6 P.E. = 0.0148) and HBL (r = 0.9734 > 6 P.E. = 0.0844), it can be considered that the relationship between loan and advances and total deposit is statistically significant in each bank.

Similarly, the regression line of loan & advances on total deposit has enlightened that with per rupee increment in total deposit, the loan & advances of KBL increases by Rs. 0.94, if the variable -10019.53 remains constant, and the loan & advances of HBL increases by Rs. 1.11, if the variable -32978.86 remains uniform.

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

4.2.1.2 Correlation and Regression Analysis between Investment and Total Deposit

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

Table 4.14

Correlation and Regression Analysis between Investment and Deposit

Correlation Between Investment and Deposit					
Bank	**r**	**r^2**	**P.E.**	**6 P.E.**	**Remarks**
KBL	0.5650	0.3192	0.2054	1.232	Insignificant
HBL	-0.3313	0.1097	0.2685	1.611	Insignificant
Regression Line of Investment and Deposit					
Bank	**a**	**b**	**Regression Equation**		
KBL	- 2148.44	0.053	Inv. = - 2148.44 + 0.053 TD		
HBL	15466.09	-0.141	Inv. = 15466.09 - 0.141 TD		

(Source: Appendix – II)

The above table has indicated that there exists positive correlation coefficient between investment and total deposit in KBL but negative in HBL. The correlation coefficient between investment and total deposit of KBL is 0.5650 and HBL is -0.3313. Also, the coefficient of determination indicates that 31.92 % variation in investment of KBL is explained by change in total deposit.

However, since the value of 'r' is lower than the calculated 6 P.E. in both KBL (r = 0.5650 < 6 P.E. = 1.232) and HBL (r = -0.3313 < 6 P.E. = 1.611), it can be said that there exists no significant relationship between total investment and total deposit, which means that it is uncertain to say that investment increases/decreases with the increase/decrease in total deposit.

Further, the regression line of total investment on total deposit indicates that with per rupee increment in total deposit, the investment amount of KBL increases by Rs. 0.053, if the variable -2148.44 remains stable and the investment amount of HBL decreases by Rs. -0.141, if the variable 15466.09 remains uniform.

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

4.2.1.3 Correlation and Regression Analysis between Net Profit and Total Deposit

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

Table 4.15

Correlation and Regression Analysis between Net Profit and Deposit

Correlation Between Net Profit and Deposit					
Bank	**r**	**r^2**	**P.E.**	**6 P.E.**	**Remarks**
KBL	0.9786	0.9576	0.0128	0.0766	Significant
HBL	0.9684	0.9378	0.0188	0.1125	Significant
Regression Line of Net Profit and Deposit					
Bank	**a**	**b**	**Regression Equation**		
KBL	1391.39	0.053	NPAT = 0.053 TD +1391.39		
HBL	-697.64	0.0415	NPAT = 0.0415TD - 697.64		

(Source: Appendix – II)

The above table represents the relationship between net profit and total deposit. The table shows that the correlation coefficient between net profit and total deposit of KBL is 0.9786 and that of HBL is 0.9684. The coefficient of determination indicates that 95.76% change in net profit of KBL and 93.78% change in net profit of HBL is explained by the change in total deposit of the respective banks.

Since, the value of 'r' is greater than the 6 P.E. in both KBL (r = 0.9786 > 6 P.E. = 0.0766) and HBL (r = 0.9684 > 6 P.E. = 0.1125), it can be considered that there exists significant relationship between net profit and total deposit, and hence net profit increases/decreases with the increase/decrease of total deposit.

Similarly, the regression line of net profit on total deposit indicates that the net profit of KBL increases by Rs. 0.053, if the variable 1391.39 remains constant, and that of HBL also increases by Rs. 0.0415, if the variable -697.64 remains constant, with the same per rupee increment in total deposit.

Comparing two banks, it can be concluded that the net profit of both the banks increases equally with the same per rupee increment in total deposits. However, the correlation coefficient of KBL is greater than that of HBL.

4.2.2 Trend Analysis

To predict the value of deposit collection amount, the mobilization rate of deposit on loan and advances, investment and the value of net profit in the fiscal year 2009/10 to 2013/2014, trend analysis has been done.

4.2.2.1 Deposit Collection

Let the deposit collection amount of bank be denoted by *Y* and the time period be denoted by *X*, then the regression line of dependent variable, deposit, on independent variable, time period, be given by;

$$Y_{KBL} = 10617.28 + 2389.51X$$

$$Y_{HBL} = 29575.48 + 2508.66X$$

Table 4.16

Trend Analysis of Deposit Collection

FY	KBL		HBL	
	Actual	Trend	Actual	Trend
2004/05	6,268.95	5838.254	24814.01	24558.162
2005/06	7,768.96	8227.767	26490.85	27066.822
2006/07	10,557.42	10617.28	30048.42	29575.482
2007/08	12,780.15	13006.793	31842.79	32084.142
2008/09	15,710.92	15396.306	34681.34	34592.802
2009/10		17785.819		37101.462
2010/11		20175.332		39610.122
2011/12		22564.845		42118.782
2012/13		24954.358		44627.442
2013/14		27343.871		47136.102

(Source: Appendix – III)

The table shows that the predicated value of deposit collection of KBL in the fiscal year 2009/10, 2010/11, 2011/12, 2012/13 and 2013/14 will be Rs. 17785.819, 20175.332, 22564.845, 24954.358 millions and Rs. 27343.871 millions respectively. The table has revealed that the deposit collection will have positive relationship with the time. In each year the deposit collection of KBL will increase by Rs. 10617.28 millions, if the variable 2389.51 remains constant.

Similarly, the estimated value of deposit collection of HBL in the fiscal year 2009/10, 2010/11, 2011/12, 2012/13 and 2013/14 will be Rs. 37101.462 millions, 39610.122, 42118.782, 44627.442 and Rs. 47136.102 millions respectively. Also, the deposit collection will increase by Rs. 29575.48 millions in each year.

Comparing two banks, it can be concluded that deposit collection of HBL will also remain higher than KBL in the fiscal year 2009/10 to 2013/14. And also the speed of growth of deposit collection of KBL will be higher than HBL in the forthcoming years.

Figure 4.12

Trend Analysis of Deposit Collection

4.3 Major Findings of the Study

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

- HBL has collected more deposit than KBL. The average deposit collection of KBL in the five year periods is Rs. 10617.28 millions, while that of HBL is Rs. 29575.48 millions.
- Current deposit is the main source of non-interest bearing deposit of both KBL and HBL. While savings deposit and fixed deposit are the main source of interest-bearing deposit of KBL and savings deposit is the main source of interest-bearing deposit of HBL. In average, KBL and HBL have collected Rs. 567.178 millions and Rs. 5284.96 millions from non-interest bearing deposit, while Rs. 10048.68 and Rs. 24290.52 millions have been collected from interest-bearing deposit by KBL and HBL respectively.
- The total deposit has represented 85.80% of the total fund in KBL and 89.26% of the total fund in HBL, which indicates that the major source of fund of both the banks is deposit collection.
- In average, 7.41% of the total deposit of KBL and 6.77% of the total deposit of HBL has been mobilized in maintaining cash and bank balance. However, 3.77 % of the total local deposit of KBL and 6.32% of the total local deposit of HBL has been mobilized to maintain the cash balance requirement in NRB.
- Similarly, 88.79 % of the total deposit of KBL and 59.03 % of the total deposit of HBL has been mobilized in loans and advances. Likewise, 15.84 % of the total deposit of KBL and 38.92 % of the total deposit of HBL has been mobilized in investment in government securities, corporate shares and debentures and others.

- In average, KBL has mobilized 1.49% of the total deposit in money at short call and notice, while HBL mobilized 3.25% only. Also, 1.52% and 2.08 % of the total deposit of KBL and HBL respectively has been mobilized to acquire fixed assets.
- The office overhead represents 1.12% of the total deposit KBL and 1.13% of the total deposit of HBL. Likewise, KBL has incurred 4.03% of the total deposit and HBL has incurred 2.36% of the total deposit as interest expenses, which has been paid to deposit holders.
- The net profit after tax to total deposit indicates that KBL has made 1.46 % of the total deposit as net profit, while HBL has made 1.75 % of the total deposit as net profit.
- The correlation between loan and advances and total deposit indicates that the loan and advances of both the banks increases with the increase in total deposit of the corresponding banks. The correlation coefficient between loan and advances and total deposit of KBL is 0.9959 and HBL is 0.9764.
- Similarly, the correlation between investment and total deposit of KBL is 0.5650 and HBL is -0.3313. However, the relationship between investment and total deposit of both the banks is statistically insignificant.
- Also, the net profit of the both banks has statistically significant relationship with the total deposit of the corresponding banks. The correlation coefficient between net profit and total deposit of KBL is 0.9786 and HBL is 0.9684.
- The trend value of total deposit of KBL will be Rs. 17785.819 millions and 20175.332 millions and that of HBL will be 37101.462 millions and 39610.122 millions in the fiscal year 2009/10 and 2010/11 respectively.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

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

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

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

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

5.2 Conclusion

On the basis of data analysis, it can be concluded that HBL is more successful in collecting deposit than KBL in each year. However, the deposit collected amount has indicated that the deposit collection policy of KBL is more stable compared to that of HBL. The sources of deposit have verified that savings deposit and fixed deposit are the main source of deposit in KBL and savings deposit is the main source of deposit in HBL. However, the interest-bearing deposit is collected more than the non-interest bearing deposit in both the banks. In addition, it can be concluded that the deposit is the main source of fund in both the banks, and the contribution of deposit in fund collection is more in HBL than in KBL.

The deposit mobilization ratio aids to conclude that the mobilization rate of deposit to have sufficient liquidity is quietly more in KBL than in HBL. However, KBL do not kept the sufficient balance in NRB out of the total local deposit collection as directed by Nepal Rastra Bank. Further, the mobilization rate of deposit collected in loan and advances is higher in KBL compared to that in HBL. And, the deposit mobilization rate in investment, like in government securities, corporate shares and debentures, foreign banks and local licensed institutions, mutual fund, SWIFT etc., is higher in HBL than KBL. Also, the deposit mobilization rate in money at short call and notice to gain interest income, fixed assets to operate daily activities, and office overhead to reduce liabilities, is more in HBL compared to that in KBL. So on, it can be concluded that the deposit collection of KBL is more costly than that of HBL and the average interest expenses to total deposit ratio of KBL is more than that of HBL. Likewise HBL has remained more efficient in deposit mobilization than KBL, since the net profit to total deposit is greater in HBL than that in KBL. In overall, it can be concluded that both the banks has given more priority to loan and advances while mobilizing collected deposit.

The statistical analysis helps to conclude that there exist perfect correlation between the loan and advances and total deposit and the relationship is statistically significant. And, the pace of growth in loan and advances with the same amount increment in total deposit is higher in KBL than in HBL. However, the relationship between investment and total deposit is statistically insignificant, and thus it can be considered that total investment does not increase/decrease with the increase/decrease in total deposit. In contrast, the relationship between net profit and total deposit is positively correlated and statistically significant and thus total deposit has equal impact in net profit value in both the banks. Eventually, it can be predicted that HBL will continue to collect higher amount of deposit than KBL.

5.3 Recommendations

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

- Since deposit has remained the main source of fund in each bank, it would be better if KBL launches new scheme for deposit collection to challenge the competitors.
- The main source of deposit in KBL is savings and fixed deposit and in HBL is savings deposit. It would be better if both the bank try to maximize the deposit collection through non-interest bearing deposit in order to increase profit.

- Both the banks need to examine the requirement of liquidity level and thus keep appropriate liquid assets to meet the short-term liabilities. Further, both banks should strictly maintain the cash reserve ratio as directed by NRB.
- Both banks have flown the most of the fund available in loan and advances and thus did focus on the short-term investment. It would be better if the banks quest new sectors of investment that are fruitful and thus mobilize deposit.
- Since the interest expenses to total deposit of KBL is higher than that of HBL, it is recommended that KBL should have high control over the interest expenses in deposit by promoting the non-interest bearing account.
- The bank is strongly recommended to operate new branches in non-representing rural areas for more deposit collection and more utilization of the funds as wells as to increase the transactions and to provide financial services and facilities to more customers.
- Finally, an efficient and capable project oriented research department should be developed so that it should be able to study different aspects of management such as credit collection procedure are viability of project appraisal, supervision and entrepreneurship etc. and to provide practical suggestion to develop efficient and sound deposit mobilization.

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