

**COMPARATIVE STUDY ON DEPOSIT MOBILIZATION OF
HIMALAYAN BANK LIMITED AND
EVEREST BANK LIMITED**

By

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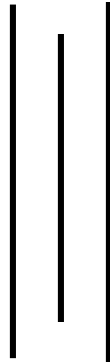
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DECLARATION

I hereby declare that the work report n this thesis entitled,“**COMPARATIVE STUDY ON DEPOSIT MOBILIZATION OF HIMALAYAN BANK LIMITED AND EVEREST BANK LIMITED**” submitted to Shanker Dev Campus, is my work done in the form of partial fulfillment of the requirement for Master of Business Studies (M.B.S) under the supervision of Mr. Shashi Kant Mainali and Mr. Rabindra Bhattari of Shanker Dev Campus.

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ABBREVIATIONS

&	And
AD	Anno Domini
ATM	Automatic Teller Machine
BS	Bikram Sambat
C.V.	Coefficient of Variance
CBS	Central Bureau of Statistics
CBs	Commercial Banks
EBL	Everest Bank Limited
FY	Fiscal Year
GDP	Gross Domestic Product
HBL	Himalayan Bank Limited
HMG	His Majesty of Government
I	Interest
i.e.	That is
INV	Investment
ISC	Industrial Service Center
LA	Loan and Advance
Ltd	Limited
MBS	Master of Business Studies
NEPSE	Nepal Stock Exchange
NGO	Non-Government Organization
NP	Net Profit
NRB	Nepal Rastra Bank
RBB	Rastriya Banijya Bank
SCT	Smart Choice Technology
SEB	Security Exchange Board
TC	Total Credit
TD	Total Deposit
TLF	Total Liquid Fund
TU	Tribhuvan University
UK	United Kingdom

CHAPTER - I

INTRODUCTION

1.1 General Background of the Study

The origin of the word “Bank” is linked to the Latin word “bancus”, Italian word “banca”, and French word “banquet” which all means a bench. Money lenders in the streets of major cities of Europe used benches for acceptance and payment of valuables and coins. And when they were unable to meet their liabilities, the depositors used to break their benches, the term “bankruptcy” is derived thereof. Since there is no unanimity, it is difficult to say exactly whether the term “bank” has been derived from “bancus”, “banca”, or German word “bank” meaning Joint Stock Company. Despite strong criticism from the church regarding charging interest, modern banking showed its seed in the medieval Italy. Bank of Venice, set up in 1157 in Venice, Italy is regarded as the first modern bank. Subsequently, Bank of Barcelona (1401) and Bank of Genoa (1407) were established. The Lombard migrated to England and other parts of Europe from Italy are regarded for their role in the development and expansion of the modern banking. Bank of Amsterdam (1609) was very popular. The Bank of Hindustan established (1770) is regarded as the first bank of India. Similarly Bank of England (1694) and Nepal Bank Limited (1994) is regarded as the first bank of England and Nepal respectively.

Simply bank is a place where money’s transactions happen. In the other words, bank is an organization that collects the various types of deposits from people. Bank

is a mediator of people because it takes deposits in one side and provides loan to them in other side.

A bank is an institution that provides financial service, particularly taking deposits and extending credit. Currently the term bank is generally understood as an institution that holds a banking license. Banking licenses are granted by bank regulatory authorities and provide rights to conduct the most fundamental banking services such as accepting deposits and making loans. There are also financial institutions that provide certain banking services without meeting the legal definition of a bank, so-called non-banking financial company. Banks nowadays do large numbers of financial transactions while financial institutions are authorized to do limited transactions only. Hence, a bank can be defined as the financial department store which renders a host of financial services besides taking deposits and giving loans. Some definitions of a bank are as follows,

“A bank is an organization whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to other for expenditure.”(Kent; 1978:25)

“Capital formation is one of the important factors in economic development. The capital formation leads to increase in the size of national output, income and employment, solving the problem of inflation, balance of payment and making the economy free from foreign debts burden. Domestic capital formation helps in making a country self-sustainable. According to classical economists, one of the main factors which helped capital formation is the accumulation of capital, profit made by the business community, constituted the major part of savings of the

community, and that savings were assumed to be invested. They thought capital formation indeed plays a decisive role in determining the level and growth of national income hence 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 strategic position in the process of economic development of an underdeveloped economy, which 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 will the living standard begin to improve in a developing country. 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 is easy 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, hence effective and efficient deposits mobilization could be very significant tool for sound economic development. Banking thus increases the supply of funds by collecting lodgments from public and 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*)

“For the development of any country first, it is required to have enough capital. It is the backbone for the development of the nation. Nepal lacks the adequate capital for its development planning. Due to this reason so many development planning are in pending. If there is enough capital available, it can invest into the profitable project and contribute little bit in the National GDP. Investment promotes economic growth and contributes to a nation’s wealth. When people deposit money in a saving account in a bank for example, the bank must invest by lending the funds of various business companies. These firms in return, may invest the money in new factories and equipments to increase their production. In addition borrowing from the banks, most issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issues 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 an expected future benefits. As a result, investment raises a nation’s standard of living.” (*The World Bank; 1966: 232*)

Commercial banks are the hearts of our economic system. 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 the 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 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. Commercial banks have today gained paramount trust in the public. Theirs' functions are not confined to just accepting deposits and giving loans but they also render a wide range of services covering different strata of the society. These types of services includes providing legal and exploitation free services, financial intermediation and capital creation, fund transfer, trade promotion, safety of valuables, employment, and collection of cheques, issue of credit cards, debit cards, travelers cheques, smart cards, and payments of utilities.

The Nepalese financial sector is composed of banking sector and non-banking sector. The banking sector comprises Nepal Rastra Bank (NRB) and commercial banks. The non-banking sector includes development banks, finance companies, micro-credit development banks, co-operative financial institutions, non-government organizations (NGOs) performing limited banking activities, and other financial institutions such as insurance companies, employee's provident fund, citizen investment trust, postal saving offices and Nepal Stock Exchange. After the induction of economic liberalization policy, particularly the financial sector liberalization, in 1990 that impetus in the establishment of new bank and non-banks financial institutions. Consequently by the end of mid-Jan 2008 altogether 235 banks and non-banks financial institutions licensed by NRB are in operation. Among these, 23 are "A" class commercial banks, 58 "B" class development banks, 79 "C" class finance companies, 12 "D" class micro-credit development banks, 16 saving and credit cooperatives, and 47 NGOs. Banking sector, being the largest financial sector, alone held more than 80% of the total assets and liabilities of the financial

system. Commercial banks group occupied the 82.11% followed by finance companies 10.52%, development bank 4.72%, micro-credit development banks 1.77%, and others 0.88%. Commercial banking sector held dominate share on the major balance sheet components of financial system. The total number of commercial bank branches operating in the country, at present, has reached to 574.

1.2 Brief Profile of the Selected Banks

1.2.1 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. Himalayan Bank Limited holds of a vision to become a leading bank of the country by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the bank. Its mission is to become preferred provider of quality financial services in the country. Similarly its mission is to become to become the bank of first choice.

Himalayan Bank's head office is located at Thamel and it has two other branches in Kathmandu valley at NewRoad and Maharajgunj. Beside these it has other nine other branches outside the Kathmandu valley. All these branches are integrated into Glob us, the single banking software where the Bank has made substantial investments. This has helped the bank to provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking.

Himalayan Bank offers a wide range of deposit products they are fixed deposit, saving deposit, current account, premium saving account, call deposit, bisheshs saving account, recurring saving account and jumbo term deposit. Corporate

loan (funded and non-funded), retail/consumer loans, small business enterprise loan and medium business enterprise loan are the range of loan products of Himalayan Bank. Similarly international banking, remittance services, safe deposit locker, card services, SMS banking and internet banking are also the products and services of Himalayan Bank.

1.2.3 Everest Bank Limited (EBL)

Everest Bank Limited (EBL) started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. It was managed by United Bank of India Limited(UBIL). Later on, UBIL handed over the management to the Punjab National Bank (PNB) India. PNB has been providing top management services and banking expertise to EBL. At Present, EBL has Twenty-Seven Branches that spread out around the nation with the objective of providing services to both the business community and the common people. The main branch is located at Baneshwor and other branches are at different parts of Nepal. It also has one representative office at New Delhi, India.

Everest Bank corporate vision is to evolve and position the bank as a progressive, cost effective and customer friendly institution providing comprehensive financial and related services; Integrating frontiers of technology and servicing various segments of society; Committed to excellence in serving the public and also excellence in corporate values. The bank's mission is to provide excellent professional services; Build and maintain a team motivated and committed workforce with high work ethos; Use latest technology aided at customer satisfaction and act as an effective catalyst for socio-economic developments.

The various ranges of Everest Bank products and services include deposit, loan and advances, trade finance activities, remittance facilities, foreign exchange, facilities for NRNs and merchant banking activities. The bank is in association with smart choice technology (SCT) is providing Automatic Teller Machine (ATM) services for its customers. The debit card can be used on more than 50 ATMs and over 250 points of sale across the nation. The bank is also managing the ATM at Tribhuvan International Airport for the convenience of the customers and the travelers.

1.3 Focus of the Study

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

The commercial banks can play a vital role in mobilizing the resources in developing as well as developed countries. Those institutions can induce the public to save their valuable funds. They can help to mobilize the society. In this way the savings can enter into banking channels from the informal sector. Banks are the financial intermediaries; they collect the surplus money as deposits from the surplus units and provide the deficit money as loans and advances to the deficit units. The activities and processes that are conducted to bridge the gap between surplus units and deficit units in the society is called Credit Creation process. This study deals with the liquidity, efficiency, profitability, and risk position of commercial banks as an aid to economic development of the country by making a survey of deposits and credits of commercial banks and their utilizations to fulfill the financial needs of different sectors of the economy.

1.4 Statement of the Problem

Capital plays an important role in the banking sector. It is required from the promotional stage up to the end of a banking sector. No banking transactions can be operated without capital. The capital is collected from two sources i.e. internal and external. Under external sources aids, grants and loans come whereas under internal sources are accumulating capital, taxes, public enterprises and public debts. Bank deposit, an internal source is dependable and permanent sources of capital accumulation. Over the past ten years, despite the negative real interest rate on deposits, deposit volumes have grown faster. However the degree to which the banking sector puts its deposits back into the economy has been stagnating in our country.

A deposit account is a current account at a banking institution that allows money to be deposited and withdrawn by the account holder with the transactions and resulting balance being recorded on the bank's books. Some banks charge a fee for this service while others pay the customers interests on the funds deposited. The term deposit is used by the banking industry in the financial statements to describe the liability owned by the bank to its depositors and not the funds (whether cash or cheques) themselves which are shown as an asset of the bank.

Mobilizing deposits is crucial in many developing countries like Nepal. Domestic funds provide a cheap and reliable source of funds for development, which is of great value for developing countries, especially when the economy has difficulty raising capital in international markets. Yet in many developing countries, there is a considerable amount of savings that are not intermediated through the formal

sector. In particular, there exists a significant savings potential in the rural sector in many developing countries. One of the reasons for lack of saving mobilization is that banks simply do not cater to significant parts of households. Indeed in many rural areas banks are and even in urban and semi-urban areas banks do not reach out to a significant proportion of the population.

This study specifically deals with the following issues:

- Which bank (HBL or EBL) have better deposit growth?
- Which bank (HBL or EBL) have higher loan and advances?
- Is there any difference on the investment of HBL and EBL?
- Is there any relationship of total deposits with loans and advances, total investment and net profit?

1.5 Objectives of the Study

The main objective of this study is to find out the difference in deposit mobilization of Himalayan Bank and Everest Bank Limited. Thus the specific objectives of this research are as follows:

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

1.9 Significance of the Study

Banking industry is an important institution for accelerating the process of development through deposit mobilization. In Nepal, banking industry has been

playing significant role for the overall financial and economic development of the country. According to the Nepal Rastra Bank research report, banking and financial institution are contributing around 10% to its national GDP. Our country consists of many rural areas but expansion of the banking services to rural areas are very limited due to the lack of proper infrastructure and sound policies and directives from the regulatory authority also. This study covers the deposit and credit portion of Himalayan Bank and Everest Bank, so it reveals the financial portion of the bank and occupies an important role in the series of the studies on HBL and EBL. The significances of the study are as follows:

- This study is very much important for Himalayan Bank Limited and Everest Bank Limited to develop plans and policies as per the findings and recommendations presented on this study.
- This research work may be extended in future by adding the sampling framework and research tools application.
- This study is also very important for the investors, customers, and personnel of the bank to make various decisions regarding deposit and loan and advances.
- This study could be very much helpful for all the people interested to know about the deposit mobilization in HBL and EBL.

1.10 Limitations of the Study

This study is subject to some constraints. The main focus of the study is to point out the financial position of banking sectors, particularly HBL and EBL. In Nepal preparation of multiple financial statements are very much common practices in private sectors, hence the findings and conclusions based on the available financial statements may not be perfectly correct and accurate in reality. Following are the major limitations of the study:

- The research design and analysis used on this study are based on the secondary data which covers the periods of last five fiscal years.
- Time and resource constraints have limit the area covered by the study, hence out of 26 commercial banks only HBL and EBL are included on the study.
- The accuracy of the research work is dependent on the data provided by the concerned banks and financial institutions.
- The major sources of the secondary data are limited to the financial statements of the concerned banks which are extracted from the progress report of related banks, Nepal Stock Exchange (NEPSE), Central Bureau of Statistics and other published and unpublished articles.
- Only selected statistical tools are used for the data presentation and analysis.

1.11 Organization of the Study

The study has been organized into following chapters in order to make the study easy to understand.

Chapter - I: Introduction:It is an introductory chapter which contains background of the study, profiles of the companies, statement of problem, objectives of the study, limitations of problem and organization of the study.

Chapter - II: Review of Literature:It is concerned with review of literature. It includes conceptual framework, review of books, review of research papers, and published and unpublished master's thesis

Chapter - III: Research Methodology:It is one of the most important chapters of the study which deals with the research methodology. It includes methodology used to achieve the objectives of the study, sources of data, population and sample, financial and statistical tools used.

Chapter - IV: Data Presentation and Analysis:It is analyzing chapter which deals with analysis and interpretation of data using financial and statistical tools. Major findings of the study have been presented at the end of this chapter.

Chapter - V: Summary Conclusion and Recommendation:It is the last part of the study which provides the summary, conclusion, recommendations for improving the future performance of the sample banks. Finally bibliography and appendices are also presented at the end of the thesis work.

CHAPTER - II

REVIEW OF LITERATURE

In this chapter 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 libraries and the documents available from relevant literatures and concerned commercial banks have been reviewed. 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 Evolution of Modern Banking

“The word bank is derived from the Italian banca, which is derived from German language and means bench. The terms bankrupt and ‘broke’ are similarly derived from bancarotta, which refers to an out of business bank, having its bench physically broken. Modern leaders in Northern Italy originally did business in open area, or big open rooms, with each leader working from his own bench or table.”(www.en.wikipedia.org/wiki/bank).

Modern banking originated in medieval Italy despite strong Christian prohibitions against usury according to the canon law, Florence, Genoa and Lecca became the centers of the finance and trade 12th and 13th centuries. Bank of Venice was the first bank which was established to finance for the monarch in his war. Bank of

Barcelona and Bank of Genoa was established at the years 1401 A.D. and 1407 A.D. respectively. The bankers of Lombardy were famous in England. Banking slowly spread in the rest of the Europe and by the late 19th century, in Barcelona, Spain even the clergy was engaged in banking. The German and Swiss rose to pre-eminence in 1480's A.D. In England banking began with the English Goldsmiths only after the 1640 A.D. The bank of Amsterdam was great of the 17th century and enjoyed the prestigious portions.

History of the banking tells us that the merchants are the banker who first evolved in the banking system by trading in commodities than the money. Their trading activities required the remittance of the money from one place to another. For this, they issued different documents which are traded as the money called draft and hundi in the modern days.

Goldsmith is also the developer of banking system. The goldsmith accepts various wealth of the public to keep in safe from theft in return goldsmiths take some charges with them. On the other hand they issue the evidence of the receiving valuables of the depositors which became the easier mode of payment. It became like the modern cheque as a medium of exchange and means of payments. Finally, the money lender of early age also contributed in the growth of banking to large extends.

“In spite of the establishment of the bank of England in 1694 A.D. the development of the modern banking institution had to wait another century and four decades until the passage of the banking Act of 1833 A.D. which provided freedom of establishment of the joint stock banks. While banking arouse far early and more

rapidly in some countries than in others, it was only in the 19th century that the modern joint stock commercial banking system developed in the leading countries of the world. When colonies were established in north and South America, old banking services were transferred to the new world." (*Vaidya; 1999:21*).

But in Nepal, before 1936 A.D. there were no banks at all. A few indigenous money leaders carried out all the monetary transactions. The need of the masses were not meet by them and as a matter of the fact a very large person of the production activities of the country still remains completely outside the par view of the organized banking system. So far as the banking development in the modern sense in Nepal is concerned Nepal Bank Ltd is the first institutional bank in Nepal which was established in 1937 A.D. its establishment was great achievement in the history of banking development in Nepal.

2.1.2 Concept of Commercial Bank

"A commercial banker is a dealer in money and substitutes for money and substitutions for money, such as cheque or bill of exchange. He also provides a variety of financial services." (*The New Encyclopedia Britannica;1985:60*).

"A commercial bank as one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions." (*Commercial Bank Ac;1974 :15*)

"Commercial banks are those banks that pull together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand of short notice. Commercial banks are restricted

to invest their funds in corporate securities. Their business is confined to financing the short term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant loans in the form of cash credits and overdrafts. Apart from financing, they also rendered services like collection of bills and cheques, safe keeping of valuables, financial advising etc. to their customers.” (Vaidya;2001:38).

“Banks collect money from those who have it to spare or who are saving it out of their income and lend this money out against goods security to those who require it.” (Crowther; 1985:58).

Hence, we can conclude from the above discussions that the commercial banks are established under the rules and legislations of the central bank of the country. It has to move as per the directives given by the central bank. 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.

2.1.11 List of Commercial Bank in Nepal

Table No. 2.1

S. No.	Names	Operation Date (A.D.)	Head Office
1	Nepal Bank Limited	1937/11/15	Kathmandu
2	RastriyaBanijya Bank	1966/01/23	Kathmandu
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu
4	NABIL Bank Limited	1984/07/16	Kathmandu
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu
6	Standard Chartered Bank Nepal Limited.	1987/01/30	Kathmandu
7	Himalayan Bank Limited	1993/01/18	Kathmandu
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu
9	Nepal Bangladesh Bank Limited	1993/06/05	Kathmandu
10	Everest Bank Limited	1994/10/18	Kathmandu
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu
12	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar,Rupendehi
13	Lumbini Bank Limited	1998/07/17	Narayangadh,Chitawan
14	Nepal Industrial & Commercial Bank Ltd.	1998/07/21	Biaratnagar,Morang
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara, Kaski
16	Kumari Bank Limited	2001/04/03	Kathmandu

17	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa
18	Siddhartha Bank Limited	2002/12/24	Kathmandu
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
20	Citizens Bank International Ltd.	2007/6/21	Kathmandu
21	Prime Bank Ltd	2007/9/24	Kathmandu
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu
24	DCBL Bank	2008	Kathmandu
25	NMB Bank	2008	Kathmandu
26	KIST Bank	2008	Kathmandu

Source: NRB;2008

2.1.12 Functions of Commercial Banks

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

a. Accepting Deposits

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, saving 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. Though 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 deposits.

iii. Fixed Deposits

Fixed deposit is the one, which a customer is required to keep a 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 Loan

Commercial bank collects funds by taking all kinds of deposits and then it mobilizes by providing loans and advances. Direct loans and advances are given to all types of persons 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 premiums rents etc. It collects checks, 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, others, 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 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 include the following:

- Assist foreign trade
- Offers security brokerage services
- Security brokerage service

2.1.13 Concept of Deposit and Deposit Mobilization

The excess of income over consumption required is saved. Such savings are deposited in commercial banks. Even amounts to be spent for consumption purposes are deposited in commercial banks. Payments for goods and services are made in cheques drawn on banks. Banking habit is growing fast. People deposit their earnings in commercial banks because bank vaults are safer than home coffers and interest paid by them on deposits add to earnings. It is the function of commercial banks to accept such deposits and 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 bank 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 active 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 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. 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 ever bank to the other.

ii. Fixed Deposit or Time Deposit

This is a kind of deposit in which amount will be deposited for a fixed period of time that money cannot be withdrawn before the expiry of time. So the money deposited in this account can be utilized by banks for medium or long term credit freely being confident that the depositor will not come to claim until the time lapses. 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 the context of Nepal, fixed deposit has been classified according to the following durations:

- Quarterly
- Semi-annually
- Annually

The rate of interest rate on fixed deposit depends upon the duration of time deposit.

iii. Call Deposit

“Call deposit incorporates the characteristics of current and saving deposit. Current 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 depositor and hence, is normally not published or announced 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; 1999:30)

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 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 not to pay interest for the customer of their savings. It is because in this type of deposit customer can withdraw the money

at any time or can withdraw daily and the bank could not employ the amount in profitable projects that is 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 is opened by the business persons. They are allowed to withdraw and deposit their money according to their needs. There is no limitation of withdrawing the money. Therefore, these types of deposits are 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; 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 saving into active saving. When discussing about resource mobilization we are mainly concerned with increasing the income of low-income and to make them able to save more and to invest against the collected amount in the development activities.

“It is quite understandable that comprehensive and highly objective credit policies are to be prepared and implemented effectively by the commercial banks. However, when the banks are to lend more and more credit as necessity the sources of such loans and advances become a matter of serious consideration. After satisfying the statutory obligations in terms of cash ratio and the like increased loans and advances can be made only if the deposits in the bank augment. Primarily, the deposit of the banking system would increase, if the structural change in one banking habits and practices and other institutional improvements and in progress in the country. 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 deposit out of loans received is between zero and one. Greater the degree of propensity deposit out of new loans larger will be the deposits with banks. High propensity to deposits out of loans reflects low desire of people to hold cash with themselves in relation to deposits. In other words, this indicates increased banking habit and practices among public at least of those who benefit through banks 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 need a huge amount of capital and the objective of mobilization is to collect the scattered capital in different form 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 savings, the extra money that the people have can flow forwards 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 is to mobilize deposit. It is because if the product of agriculture and industrial product increase it gives additional income which helps to save more and ultimately it plays a good role in deposit mobilization.

2.1.14 Deposit Mobilization

“Collecting scattered small amount of capital through different Medias and investing the deposited fund in productive sectors with a view to increase the income of the depositors is meant deposit mobilization. In other words, investing the collecting fund in the productive sectors and increasing the income of the

depositors, it also supports to increase the saving through the investment of increased extra amount.” (NRB; 1984:12)

“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 more to invest again the collected amount in the development activities.”(NRB; 1984:10)

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

In developing countries there is always shortage of the capital for the development activities. There is need of development in all sectors. It is not possible to handle 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 development works.

“To achieve the higher rate of growth and per capita income, economic development should be accelerated. “Economic development may be defined in a very broad sense as a process of raising income per head through the accumulation of capital.” (*Johnso; 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 the 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 formations”. (*RBB;2055B.S.: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 laying at their disposal”. (*NRB;2040B.S.:2*)

“Commercial banks are set up with a view to mobilize national resources. The first conditional of National Economic development is to be able to collect more and more deposit. In this context, the yearly increasing rate of commercial banks

deposit clearly shows the satisfactory progress of deposit mobilization". (*RBB; 2054B.S.:20*).

Commenting over the slow growth of deposits, 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. However, he believe, it is a temporary phenomenon and the remittance collection will bounce back in coming days. Finance alone is not sufficient for economic growth unless accompanied by investment i.e., conversion of available funds into productive equipment. In fact, finance is merely a means to productive investment. It can come to the aid of the economic growth only when it is put into productive uses. "The provision of finance alone will not guarantee development; unless realistic painstaking preparations have been made to execute useful projects, and unless these individual projects form an interrelated whole of a type likely to generate its own further finance, no process of financial mobilization however efficiently and smoothly organized, can take place of such preparation". (*U.N.; 1949: 118*)

"Nepal, though a developing economy has no shortage of financial resources, at least in the short run. There is lack of coordination among various policy measures and programs. Attention must, therefore, be directed to use the available resources productively". (*Pant; 1983:4*). Our commercial banks have to take notice of this, and are required to refashion their functions and outlook accordingly so as to make them effective instruments in the process of economic growth of the nation.

“The present changing context of the national economy calls for a substantial revitalization of commercial bank’s activities regarding the utilization of the resources. 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 is. The under-utilization of resources not only results in loss of income, but also goes further to discourage the collection of deposits”.(Pyakuryal; 1987:15).

From the above explanations and opinions, it becomes obvious that the success of commercial banks is mainly guided by the optimum utilization of the resources they have mobilized. How far our commercial banks have utilized their resources is a matter of further investigation which can be observed and checked in the light of loans and advances and investment they have made in different productive activities ensuring higher and constant returns both to the banks and the community as a whole. “The proper utilization of resources collected by the banks is essential not only for the banks, it is also equally essential from the national view point”.(Pyakuryal; 1987:17).At the same time, the commercial banks, being very sensitive entities of the society subject to the possible loss of public confidence, are required to maintain sufficient level of liquidity all the time to keep up the confidence of the people which is, of course, a major determinant of their survival and growth. “We have to keep in mind that the banks are not lending their own money, but furnish advances from the deposits they receive from the customers.”(Mathur;2003: 6).And the deposits are subject to withdrawal at any time except time deposits.

Thus, modern commercial banks have two fold responsibilities. On one hand, they have the liability to pay interest on deposits according to the terms and conditions issued by them, and on the other hand, they are also expected to pay dividends to their shareholders along with their prosperity and development. Both these responsibilities can be fulfilled only through successful mobilization of their resources. Commercial banks have to work within a framework of critical situations in the mobilization of resources. Their existence is possible only through the successful application of their funds from which they can earn profit. Therefore, “Some potential matching between security and productivity, risk and return, liquidity and profitability, etc, need to be chalked out to make best use of credit.” (*Shresth; 2006: 44*).

“It is really a very unfortunate matter that commercial banks have not initiated the role of playing as a promoter in the process of industrialization. As yet, commercial banks are not found dormant in identifying the potential entrepreneurs nor they have developed separate cells to manage and finance industries”.(*Shrestha; 2006:90*)

“The primary function of venture banks is to identify investment opportunities and then make profits out of the growth and the newly created productive investment.” (*Joshi;2005: 43*)

It is true in Nepalese context that without developing the priority sectors of the country, the goal of developing national economy remains unfulfilled. But it is equally true that the commercial banks have had very bitter experiences from the priority sector investments over the period, for they might be lacking in some

efficient intensive-cum-productive credit programs. Now it has been observed that the commercial banks, through a sound credit analysis mechanism, should develop various suitable and adaptable credit packages to make best use of their credit. They, along with the emphasis on the social responsibility and priority sectors of development, should be well aware of the 5 C's of credit, namely character, collateral, conditions, capacity, and capital. Besides maintaining desired level of liquidity and security, the commercial banks are required to diversify their investment searching for better investment opportunities in new areas of economic development. Review of pertinent literature also reveals that the role of commercial banks is changing in the present context and they are urged to discover a new horizon in the efficient and productive utilization of their resources.

2.1.15 Requirement for Deposit Mobilization

The following are some reasons why deposit mobilization is needed in a 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.
- 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. Deposit mobilization is necessary to increase their activities. Commercial banks are granting loan not only in productive sectors but also in other sectors like food, grains, gold and 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.

“Deposit mobilization plays a vital role for the economic development of an underdeveloped and developing country rather than developed one. It is because a developed country does not feel the need of deposit mobilization for capital formation due to developed capital markets in every sector. But in an under developed country and developing country, deposit mobilization plays a great role in such countries. Low National income, low per capita income, lack of technical knowledge, vicious cycle of poverty, lack of irrigation and fertilizer, pressure of over population, geographical conditions etc. are the main problems of economic development of an under developed country like Nepal. So far the developments of these sectors concerned, there is needs of more capital. Again, instead of the developments of a particular sector, the development of every sector should go side by side. So, the development process of these sectors on one side and to accumulate the scattered and unproductive sectors deposit on the other is the felt need of an under developed country. We can take this in our country's present context”. (*NRB; 1984:12*)

2.1.16 Advantages of Deposit Mobilization

The advantages of deposit mobilization are as follows:

i. 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 one side and it also helps to circulate the idle saving in productive sector on the other. This helps to create incentives to the depositors.

ii. 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 the idle money in productive sector. Again, it helps in money supply, which saves the country from deflation and helps central banks objective of monetary policy

iii. Capital Formation

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

iv. Development of Banking Habit

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

v. 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.

vi. 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.

vii. To Check up Miss-utilization of Money

Mostly our customs and habits are supported by social and religious beliefs. 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 check up miss utilization of money.

viii. Others

Deposit mobilization supports small savers by earning interest, helps to the development of rural economy, protects villagers from being exploitation of indigenous bankers, increases 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.

2.1.17 Loans and Advances

“The core function of commercial bank is the granting of credit. Although banks offer wide spectrum of financial serviced, lending has traditionally been their main function. Banks profess experience, expertise and flexibility in lending which give them a 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 wellbeing”. *(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 possibility of high rate of return. Banks loan 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 banks lending. Making loan is the principle economic functions of banks. Therefore, how well a bank performs it’s 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 country because bank’s territory and promote its economic activity.

Though 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

sanctioning 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 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.

2.1.18 Investment and Investment Policy

2.1.18.1 Investment

In general terms, investment means the use of money in the hope of making more money. It is defined as sacrifice of current consumption for future consumption whose objective is to increase future wealth. The sacrifice of current consumption takes place at the present with certainty and the investor expects 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 to invest now is a most crucial decision as the future level of wealth is not certain. Time and risk are the two conflicting attributes involved in the investment decision. Broadly, investment alternatives 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.

2.1.18.2 Investment Policy

The initial step setting investment policy involves determining the investor's objective and the amount of his or his invest able wealth. Because there is a positive 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 to attempt to make a lot of money while regarding that there is same chance that there is same chance that large losses may be incurred. Investment objective should be stated in terms of both risk and return.

2.1.18.3 Characteristics of Sound Investment Policy

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

i. Liquidity

People deposit money at bank in different account with confidence that the bank repay their money when they are in need. To maintain such confidence of the depositors, 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 to payment.

ii. 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 business 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.

iii. Profitability

Commercial banks can maximize its volume of wealth through maximization of return on their investment and lending. So, they may invest their funds 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.

iv. Legality

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

v. 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.

2.2 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.

2.2.3 Review of Journals and Articles

In this section effort has been made to examine and review of some related articles in different journals.

Bajracharya,(1999), in his article, *“Monetary Policy and Deposit Mobilization in Nepal”* has mentioned 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 .

Kafle,(1990),in his article, *“Monetary and Financial Reports in Nepal”* states that consolidation 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,(1997), in her article, *“The Business Voice of Nepal”* has presented the objective to make an analysis of contribution of CBs leading to the gross domestic product of Nepal. She has set hypothesis that there has been positive impact of

lending of CBs to the GDP. In research methodology, she 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.

Pyakural,(1987),in his article "*Workshop on Banking and National Development Nepal Paper*" 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 resources and profitability increment.

Sharma,(2000), in his article "*Banking the Future of Competitions*" 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 he 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 to. This is likely to prevail till competition tasks its full reign in the urban areas".

2.2.4 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. students. Some of the related studies are reviewed here.

Karki, (2001), in a study entitled, *“An Analysis of Deposit Mobilization of RBB, Lahan Branch Siraha District, Nepal”*. With the following relevant Objectives:

- How far the interest rates of deposit and credit have positive relationship with deposit collection and extending.
- How far the deposit of RBB, Lahan Branch efficiently mobilized.

The relevant conclusions of the study are as follows:

- The interest rate has not influenced the deposit collection as well as lending sector of the banks.
- Due to the lengthy lending, the credit experience is unsatisfactory.

Shah, (2001), has done research on *“Deposit Mobilization and Investment by Commercial Banks in Nepal”*. The Objectives of the study are:

- To examine the growth of deposit and relationship and interest rate and branch expansion.
- To analyze commercial bank’s loan and investment in terms of their nature.
- To compare the rate of return provided by commercial banks with return from invest on government securities and stock market.

The relevant conclusions of the study are as follows:

- The interest rate alone is not the reason for affecting. There may be other factors like money supply, inflation rate and other financial instruments.
- Commercial banks have moderate utilization of total deposit.
- Due to the low return and high risk on stock market and government securities commercial banks diversified total credit towards the loans and advance than investment on securities that is why low investment on securities by commercial banks.
- Declining in the net interest margin is because the decreased in the spread rate and ratio.

Bhandari, (2002), in his thesis paper *“A Study on Deposit Mobilization by the NBL”* has concluded that commercial banks play a crucial role in 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 diverted from the analysis of seven years data from 1970 to 1977 A.D. using Karls Pearson’s formula, percentage and ratio to meet the objective how far the bank is able to utilize the collected deposits.

Gupta, (2003), in his study entitled, *“Deposit and Reinvestment problem of Nepalese Commercial Bank (with special reference to the Nepal SBI Bank Ltd. and Everest Bank Ltd.)”*. Where the following relevant Objectives:

- To study deposit position of the banks.
- To analyze the reinvestment position.
- To analyze the gap between deposit and loan & advance and investment.

The relevant finding of the study is as follows:

- The deposit and its reinvestment in productive sector by commercial banks are not stable.
- The increasing investment and reducing loans and advances from total deposit are great problem for the banks to manage.
- The fluctuation in deposit, loan & advance and investment makes clear about adjustment problem for the banks.
- EBL has good deposit collection. It has maintained moderate investment policy on loan and advances.
- Risk and profitability analysis shows that EBL is in better than NSBI. Correlation analysis shows there is significant relationship between deposit, investment and loan & advance of both banks.

Tandukar, (2003), in a study entitled, *“Role of NRB in Deposit Mobilization of Commercial Banks(A study of Nepal Bangladesh Bank Ltd. and Everest Bank Ltd.)”*.

With the following relevant Objectives:

- To examine the role of NRB in deposit mobilization by commercial banks.
- To analyze the role of NRB in deposit mobilization by commercial banks.
- To analyze the financial position of the *Nepal Bangladesh Bank Ltd.* And *Everest Bank Ltd.* in terms of deposit collection and mobilization.
- To evaluate the liquidity, efficiency and profitability and risk position.
- To suggest applicable and appropriate suggestion for the improvement.

The major finding of the study is as follows:

- The Central banks are required to direct the commercial banks.

- Commercial banks should have move as per the direction given by the central banks.
- If commercial banks does not apply sound investment policy it will be in great trouble in future to collect it in time.
- Banks are important for the nation. It helps in the capital for the nation to the nation, which is important element for the economic growth of the country.

Rayamajhi, (2004), in his thesis work, *“A Study on Deposit Mobilization of Six Commercial Banks”* has concluded that commercial banks play a crucial role in accelerating the growth in the country. The bank mobilizes the savings of the people and diverts them into productive channels. The expansion of braches as more as possible to encourage the savings i.e. to increase the savings habit 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.

Ojha, (2008), in a study entitled, *“Deposit Mobilization of Commercial Banks”*. With the following relevant Objectives:

- To study the financial position of Nepal SBI Bank Ltd and Nepal Bangladesh Bank Ltd.
- To examine the trend od deposit of Nepal SBI Bank and Nepal Bangladesh Bank Ltd.
- To examine the trend of loan and investment position of Nepal SBI Bank Ltd and Nepal Bangladesh Bank Ltd.

- To suggest applicable and appropriate suggestion for the improvement of the selected commercial banks on the basis of finding.

The relevant conclusions of the study are as follows:

- The result shows the deposits and its mobilization by commercial banks are not stable.
- The deposit rate of Nepal SBI Bank is increased highly but Nepal Bangladesh Bank Ltd is in fluctuating trend.
- The mean ratio of cash and bank balance to deposit ratio of Nepal SBI Bank is slightly higher than Bangladesh Bank Ltd.
- Loan and Advance to total deposit ratio of Nepal SBI Bank is higher than Bangladesh Bank Ltd.
- The mean ratio of capital to total deposit ratio of Nepal SBI Bank is higher than Bangladesh Bank Ltd.
- The mean ratio of capital risk ratio of Nepal SBI Bank is higher than Bangladesh Bank Ltd. Its shows that Nepal SBI Bank can earn more profit than Bangladesh Bank Ltd.
- The growth ratio of Nepal SBI Bank is higher than Bangladesh Bank Ltd. Its shows that the performance in collecting deposit of Nepal SBI Bank is better than Bangladesh Bank Ltd.

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 concluded in commercial bank deposit mobilization so far, so here effort is made to do.

CHAPTER - III

RESEARCH METHODOLOGY

In this chapter, efforts have been made to present and explain specific research design for the sake of attaining the research objective. It describes the methods and process applied in the entire subject of the study. A sound and systematic methodology is required to carry out any study, if it is to be worthwhile. This chapter, therefore, is designed to throw light on the methodology used to undertake this study which aims at analyzing the overall performance of Everest Bank Limited and Himalayan Bank Limited and drawing some pertinent conclusions from this. It is the plan, structure and strategy of investigation, conceived to answer the research questions. The secondary data is mainly used to measure performance and trading activities related to selected companies.

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 sample statistical methods such as mean, C.V., trend line and correlation analysis have 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 EBL and HBL, as a sample. So that all concerned can achieve something from the study.

3.3 Nature and Sources of Data

The study is conducted on the basis of secondary data. The data relating to the investment, deposit, loan and advances, assets and profit are directly obtained from the Balance Sheet and Profit and Loss a/c of the concerned bank's annual reports. Supplementary data and information are also collected from number of institution and authoritative sources like NRB, NEPSE, SEB, web sites, etc.

3.4 Selection of Enterprises

There are nine joint venture banks out of 26 commercial banks all over Nepal. In this study the deposit mobilization procedure of Himalayan Bank Ltd. and Everest Bank Ltd. are studied. 26 commercial banks are taken as the population and EBL and HBL banks are chosen as the sample to find out the condition of deposit mobilization.

3.5 Methods of Analysis

Analysis is the systematic and careful examination of available facts so that certain conclusion can be drawn from it.

3.5.1 Ratio Analysis

a. 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 capacity of the concerned to repay its short term liability.

i) NRB Balance to Total Deposit

NRB has made the commercial banks to deposit certain fund of the commercial bank in the central bank which is changing time to time as the demand of the time.

The ratio is calculated as under:

$$\text{NRB balance to Total Deposit} = \frac{\text{NRB Balance}}{\text{Total Deposit}}$$

Where, Total Deposit = Current Deposits + Saving Deposits + Fixed Deposits + Other

ii) NRB Balance to Current and Saving Deposit

The NRB of Nepal has directed to the commercial bank to keep certain percentages of the total saving and current deposit amount in NRB balance. It is for the purpose of the liquidity to meet the demand of the customer.

$$\text{NRB Balance to Current and Saving Deposit Ratio} = \frac{\text{NRB Balance}}{\text{Current and Saving Deposit}}$$

iii) NRB Balance to Fixed Deposit

Fixed accounts mean an account of amounts deposited in a bank for certain period of time. The customers can renew the fixed deposit period after the expiry of the fixed time. The rate of interest in the fixed deposit is higher than that of other deposit. For this deposit NRB has directed to the commercial banks to keep certain percent of fixed deposit in the NRB balance for the purpose of the liquidity.

$$\text{NRB Balance to Fixed Deposit} = \frac{\text{NRB Balance}}{\text{Total Fixed Deposit}}$$

i. Total Liquid Fund to Total Deposit

Total liquid fund to total deposit ratio is the indication of the short term obligation capacity of the demand of the depositor money. Higher ratio shows the higher capacity of payment on demand of the money and vice-versa.

$$\text{Liquid Fund to Total Deposit} = \frac{\text{Total Liquid Fund}}{\text{Total Deposit}}$$

Where, Total Liquid Funds = Cash in Hand + Cash at Bank + Balance with NRB + Balance with their Financial Institution + Call Money + Balance Held Abroad – Balance with Domestic Bank.

b. Activity Ratio

Activity ratio is also called assets management ratio. It measures the efficiency of the bank to manage its assets in properly to earn high profit. Under this chapter following ratio are studied.

i. Loan and Advance to Total Deposit

This ratio reflects extend to which the commercial banks are success in maintaining in their assets on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of deposit on loan and advances and vice-versa.

$$\text{Loan and Advance to Total Deposit} = \frac{\text{Loan and Advances}}{\text{Total Deposit}}$$

ii. Investment to Total Deposit

This ratio measures extend to which the banks are able to mobilize their deposit on investment in various securities. A high ratio indicates the success in mobilizing deposit in securities and vice-versa.

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

iii. Loan & Advance and Investment to Total Deposit

Loan & Advance and Investment to Total Deposit ratio shows the relationship between Loan& Advance and Investment and Total Deposit. This ratio is calculated to know how the banks are mobilizing their deposit in the loan & advance and investment sector.

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

iv. Loan and Advance to Saving Deposit Ratio

Loan and advance to saving deposit ratio shows the relationship between the loan and advance or creditors and total saving account. It is calculated as under.

$$\text{Loan and Advance to Saving Deposit} = \frac{\text{Loan \& Advance}}{\text{Total Saving Deposits}}$$

v. Loan & Advance to Private Sector Lending to Total Credit Ratio

Loan and advance to private sector lending to total credit ratio shows the relationship between private sector lending and total credit. Commercial banks earn profit by mobilization of the deposit through outside asset and credit is one of the important tools to increase profit. Private sector lending is very much profitable if the loaner is trust worthy and it is very risky. Higher the percentage higher will be the profit and hence the higher will be the risk too.

$$\text{Credit to Private Sector Lending to Total} = \frac{\text{Loan Granted to the Private Sector}}{\text{Total Credit}}$$

Where, Total Credit = Loan and Advance

vi. Loan & Advance to Government Enterprises to Total Credit Ratio

Commercial banks have various options to mobilize their funds in the government sector. From the point of view of profit, commercial banks avoid to extend loan on this area. However, it has to invest certain portion of their total credit outstanding to the government enterprises.

$$\text{Credit to Government Enterprises to Total Credit} = \frac{\text{Total Credit to Govt. Enterprises}}{\text{Total Credit}}$$

Where, Total Credit = Loan and Advance

vii. Time Deposit to Total Deposit Ratio

Time deposit ratio shows the relationship between time deposit and total deposit. Time deposit is also called fixed deposit. Time deposit helps the bank to reduce the liquidity and in turn more profitable investment. The higher the ratio higher will be the change of mobilizing the fund with certainly.

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

c. Risk Ratio

Risk ratio is an important ratio. It measures the risk associated with the banking variables. A bank raise capital accepts deposits and finally grants loans. 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.

i. Capital Risk Ratio

Capital risk ratios are related between share capital and loan and advances or total credit is called capital risk ratio. Capital risk ratio of bank indicates how much assets value may decline before the position deposition and other creditors. Therefore, a bank must maintain adequate capital in relation to the nature and condition of its assets, its deposit liabilities and other corporate responsibilities.

$$\text{Capital Risk Ratio} = \frac{\text{Share Capital}}{\text{Risk Weightage Assets}}$$

Where, Risk Weightage Assets = Loan and Advances

ii. Credit Risk Ratio

Credit risk ratio is related into total loan and advances and total assets. It is very essential for a bank to inspect the project i.e. the risk involves in it to avoid default of non payment of loan before making investment on them. The main factor while the bank makes the decision on investment to utilize its collected fund is the risk. The risk behind making investment or granting loan or providing is measured by credit risk ratio.

$$\text{Credit Risk Ratio} = \frac{\text{Total Loan and Advance}}{\text{Total Assets}}$$

d. Capital Adequacy Ratio

The ratio has been one of the most controversial ratios. Excess capital decreases the profitability where as the less capital is the symbol of a weak capital structure. Therefore, a bank must maintain adequate capital in relation to the nature and condition of its assets, its deposit liabilities and other corporate responsibilities. Under this ratio following ratios are calculated:

i. Capital to Total Deposit Ratio

Capital to total deposit ratio shows the relationship between capital and total deposit. This ratio measures how much capital has been rowed by the bank in respect to the deposit.

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

ii. Capital to Total Credit Ratio

Capital to total credit ratio shows the relationship between total capital and total credit. It indicates how much capital is raised by the banks in respect to the credit.

$$\text{Capital to total credit ratio} = \frac{\text{Total Capital Fund}}{\text{Total Credit}}$$

Where, Total Credit = Loan and Advance

iii. Capital to Total Assets Ratio

Capital to total assets ratio measure the relationship between capital and assets. It is calculated as follows:

$$\text{Capital to Total Assets Ratio} = \frac{\text{Total Capital}}{\text{Total Assets}}$$

e. 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.

i. Net Profit to Total Working Fund Ratio

Return on total working fund measures the relationship between the working fund and profit of the bank. Hence, working fund includes those entire funds which are used for mobilizing to earn profit.

$$\text{Return to Total Working Fund} = \frac{\text{Net Profit}}{\text{Total Working Fund}}$$

Where, Total Working Fund = Total Deposit + Borrowings+ Capital

ii. Net Profit to Loan and Advances

Net profit to loan and advances ratio measures the earning capacity of commercial bank as its deposit mobilized on loan and advances. Higher the ratio greater will be the return and vice-versa.

$$\text{Where, Return on Loan and Advance} = \frac{\text{Net Profit}}{\text{Loan and Advance}}$$

iii. Net Profit to Total Equity Capital

Return to total equity capital ratio shows the relationship between net profit and equity capital. Shareholders are the member of the banks. Equity capital comes from the equity shareholders side. If the bank can mobilize its equity capital properly, they earn high profit and faith of the shareholders too. Equity capital is the ownership capital of the banks. The returns on equity capital measures the extent to which a bank is successful to mobilize its capital.

$$\text{Return on Equity} = \frac{\text{Net Profit}}{\text{Total Equity Capital}}$$

f. Growth Ratio

Growth ratio is directly related with 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.

- i. Growth ratio of total deposit
- ii. Growth ratio of total loans and advances
- iii. Growth ratio of total investment
- iv. Growth ratio of net profit

3.4.2 Statistics Analysis

Under descriptive statistics, arithmetic mean, standard deviation and Coefficient of Variation are calculated.

Arithmetic Mean

Arithmetic mean is the ratio of the sum of all the observations to the number of the observation. It 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.

$$\text{Arithmetic Mean } (\bar{x}) = \frac{\sum x}{n}$$

Standard Deviation

The measurement of the scatter ness of the mass of the 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.

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{1}{n} \sum_{i=1}^n (x - \bar{x})^2}$$

Coefficient of Variation

The coefficient of variance is the measure which is defined as the ratio of the standard deviation to the mean expressed in percent. 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 of

variance 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.

$$\text{Coefficient of Variation} = \frac{\sigma}{\bar{x}}$$

3.4.3 Correlation Analysis

Correlation Analysis is necessary in order to find out whether the selected variables in time series have any relation or not. If there is no correlation there would be no causality so this test is necessary. Correlation is a measure of the relation between two or more variables. The measurement scales range from -1.00 to +1.00. The value of -1.00 represents a perfect negative correlation, while a value of +1.00 represents a perfect positive correlation. A value of 0.00 or close to zero represents a lack of correlation.

$$\text{Correlation}(r) = \frac{\sum(X-\bar{X}) \cdot (Y-\bar{Y})}{\sqrt{\sum(X-\bar{X})^2 \sum(Y-\bar{Y})^2}}$$

The value of r lies between + 1, when r = + 1, it means there is perfect positive correlation between the variables where r = -1 it means there is perfect negative correlation between variables. However in practice such value of r, as + 1, -1 and 0 are rare.

3.4.4 Probable Error Analysis

The probable error is used to measure the reliability and test of significance of correlation coefficient. The probable of the coefficient is obtained as follows:

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

Where,

r = coefficient of correlation and

n = No. of pairs of observations.

- If the value of " r" is less than the probable error there is no evidenced correlation. i.e., the value of " r" is not at all significant.
- If the value "r" is more than six times the probable error the coefficient of correlation is practically certain i.e., the value of " r" is significant.
- If the value " r" is more than probable error and less than six times the probable error the coefficient of correlation is nothing can be concluded.
- Coefficient of correlation is expected to lie within the range of + P.E.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

The basic objective of this chapter is to analyze and elucidate the collected data following the conversion of unprocessed data to an understanding presentation. Thus this chapter is devoted to the presentation, analysis, interpretation and scoring the empirical findings from the study through definite course of research methodology.

Analysis of Deposit Mobilization and Loan Diversification Policy of CBs

4.1 Deposit Collection and Mobilization

The main objectives of commercial bank are to safeguard the money of depositors and deposit mobilization. The following table shows the situation Everest Bank Limited and Himalayan Bank Limited with relation to deposit collection and their percentage change.

Table 4.1

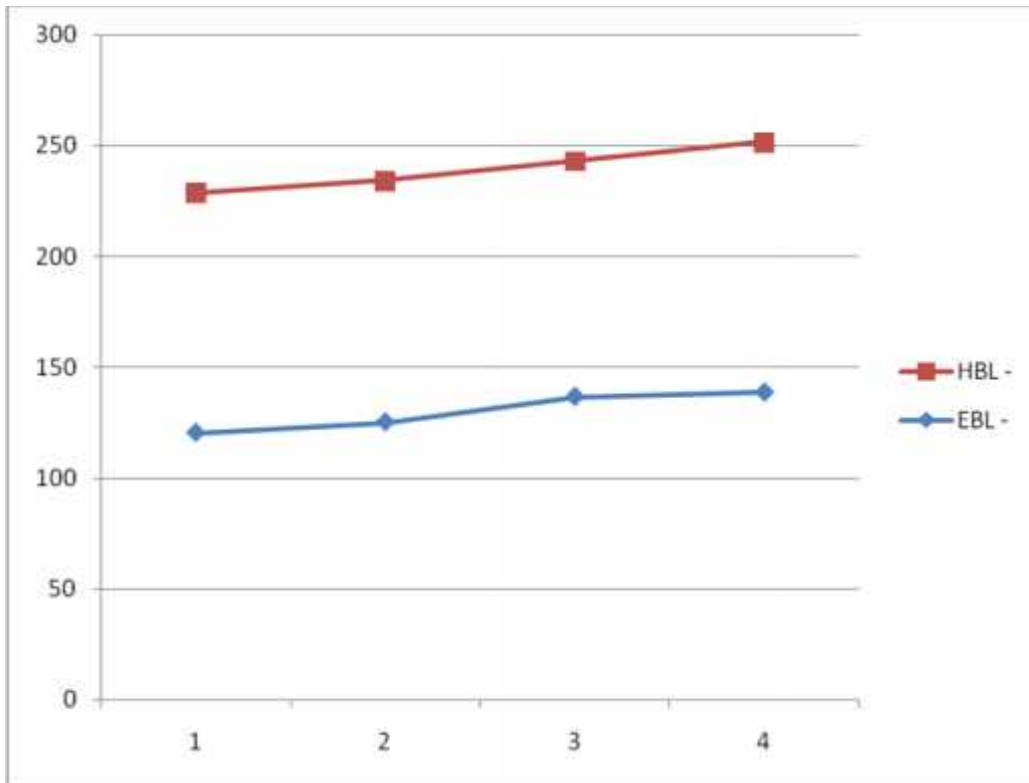
Change Based Index of Deposit Collection of EBL and HBL

(Rupees in million)

Years	Deposits			
	EBL	% Change	HBL	% Change
2004	6694.90	--	21002.80	--
2005	8064.00	20.45	22760.90	8.37
2006	10097.80	25.22	24831.10	9.10
2007	13802.50	36.69	26456.20	6.54
2008	19097.70	38.36	29905.80	13.04

Source: Annual Report of HBL and EBL

Figure No. 4.1



From the table (4.1) it is obvious that the change based index of deposit collection of EBL is increasing every year as compared to the preceding years. The minimum increasing percentage is 20.45% where as the maximum increase percentage is 38.36%. But it is clear through in the table that the deposit collection of HBL is inconsistent during the study period. The minimum increase percentage is 6.54% whereas the maximum increase percentage is 13.04%. Hence it is clear that the deposit collection of EBL is better than HBL.

Table 4.2

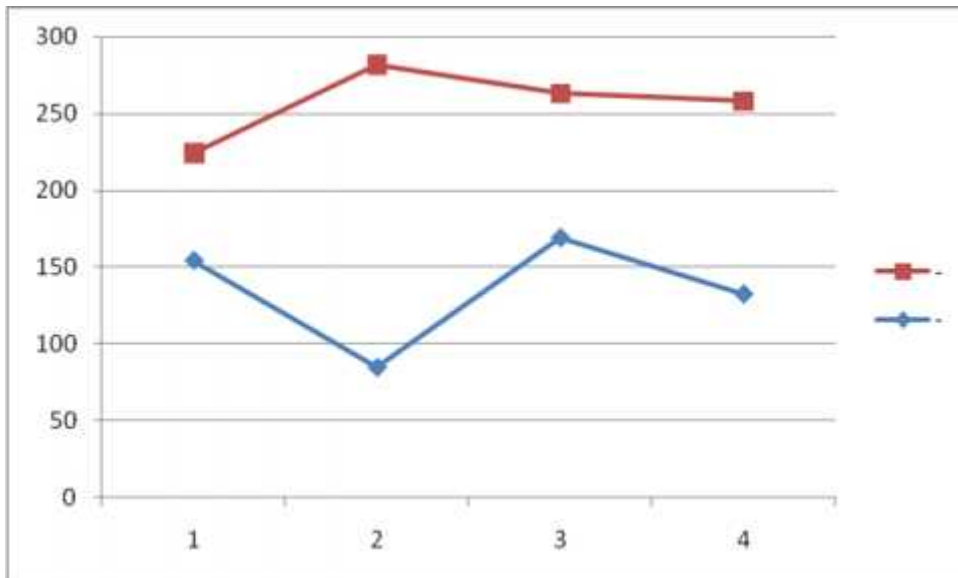
Change based index of investment of EBL and HBL

(Rupees in million)

Years	Investment			
	EBL	% Change	HBL	% Change
2004	1599.40	NA	3980.00	NA
2005	2466.40	54.21	2781.70	-30.11
2006	2100.30	-14.84	5469.70	96.63
2007	3548.60	68.96	5144.40	-5.95
2008	4704.60	32.58	6454.80	25.47

Source: Annual Report of HBL and EBL

Figure No. 4.2



From the table 4.2 it is obvious that the change based index of investment of EBL is increasing every year as compared to the preceding years. The minimum increasing percentage of EBL is -14.84% whereas the maximum increase percentage is 68.96%. Similarly, the minimum increasing percentage of HBL is -5.95% whereas the maximum increase percentage is 96.63%.

Table 4.3

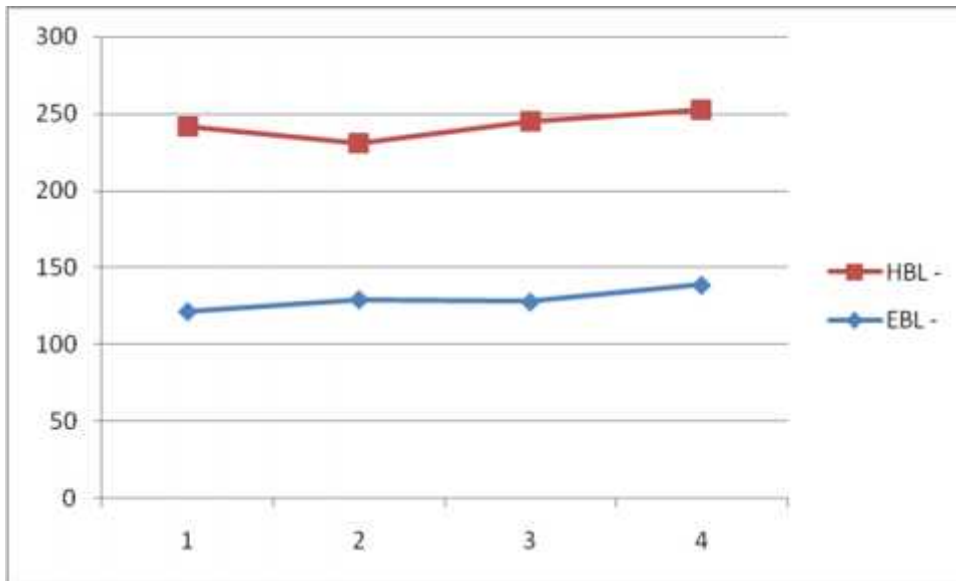
Change Based Index of Loan and Advances of EBL and HBL

(Rupees in million)

Years	Loans and Advances			
	EBL	% Change	HBL	% Change
2004	5030.90	NA	10894.20	NA
2005	6116.60	21.58	13081.70	20.08
2006	7914.40	29.39	13245.00	1.25
2007	10124.20	27.92	15515.70	17.14
2008	14059.20	38.87	17672.00	13.90

Source: Annual Report of HBL and EBL

Figure No. 4.3



From the above table 4.3 it is clear that the change based index of loans and advances of both the banks is in increasing trend. The minimum increasing percentage of EBL is 21.58% whereas the maximum increasing percentage is 38.87%. But the loan and advance of HBL is inconsistently increasing during the study period. The minimum increase percentage of HBL's is 1.25% whereas the maximum increase percentage is 20.08%.

4.2.1 Liquidity Ratio

Liquidity ratios measure the ability of the firm to meet its short term obligations. This is also called solvency ratio or working capital ratio. It is the relative proportion of current assets to current liabilities. Under liquidity ratios, the following ratios are examined.

4.2.1.1 NRB Balance to Total Deposit

NRB has made the commercial banks to deposit certain fund of the commercial bank in the central bank which is changing time to time as the demand of the time. The calculated ratio is shown in the following table:

Table 4.4

Calculation of Mean, S.D. and C.V. of NRB Balance to Total Deposit Ratio

(In Percentage)

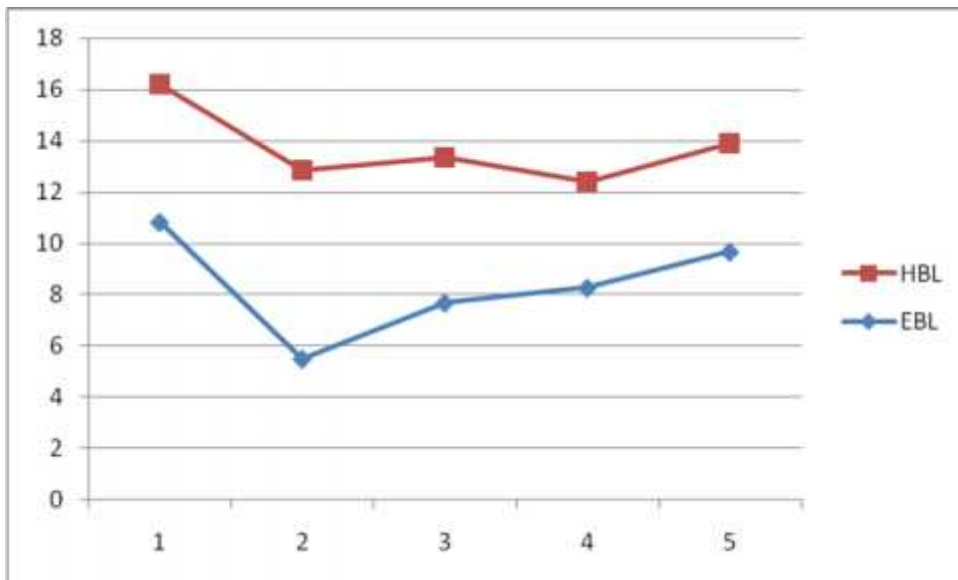
Years	EBL(%)	HBL(%)
2004	10.83	5.38
2005	5.48	7.38
2006	7.67	5.69
2007	8.26	4.13
2008	9.67	4.24
Mean (X)	8.38	5.36
S.D. (s)	2.03	1.52
C.V.	24.22	28.36

Source: Annex 01

In the table 4.4, the ratio of EBL and HBL has been obtained from the annex 01. Through this table it is analyzed the short term obligation capacity of the firm. It reveals that the average ratio of the balance with NRB to total deposit of EBL and HBL are 8.38% and 5.36% respectively. The maximum NRB balance to EBL is 10.83% in the year 2004 and the minimum NRB balance of EBL is 5.48% in the year 2005.

The maximum NRB balance of HBL is 7.38% in the year 2005 and the minimum NRB balance of HBL is 4.13% in the year 2007. The average ratio of EBL is greater than the average ratio of HBL. The C.V. of EBL is less than the C.V. of HBL i.e. 24.22 % < 28.36 % which indicates that the ratio of balance with NRB to total deposits of HBL has higher fluctuation in comparison to EBL.

Figure No.4. 4



4.2.1.2 NRB Balance to Current and Saving Deposit Ratio

The NRB of Nepal has directed to the commercial bank to keep minimum 8% of the total saving and current deposit amount in NRB balance. The calculated ratio is shown in the following table:

Table 4.5

Calculation of Mean, S.D. and C.V. of NRB Balance to Current and Saving Ratio

(In Percentage)

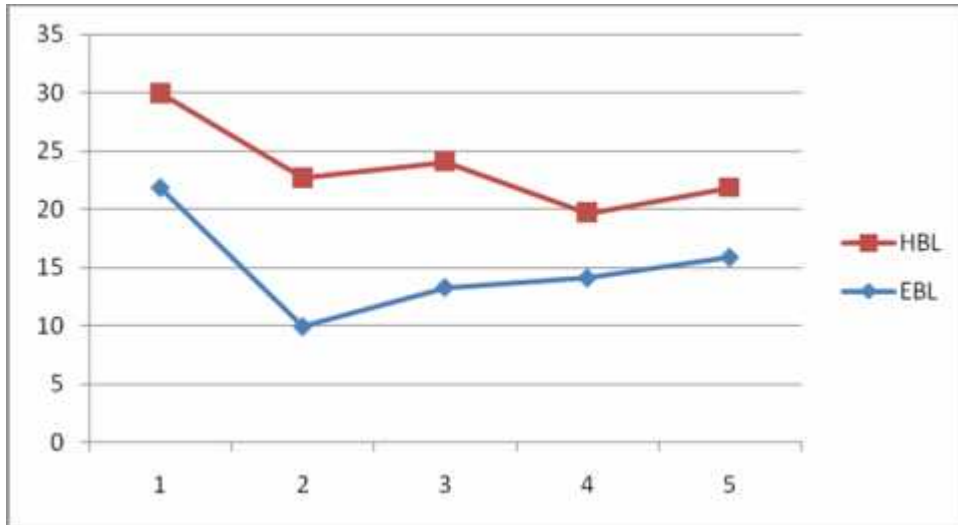
Years	EBL (%)	HBL (%)
2004	21.83	8.12
2005	9.93	12.76
2006	13.28	10.81
2007	14.10	5.58
2008	15.87	5.98
Mean	15.00	8.65
S.D.	2.50	3.56
C.V.	16.67	41.16

Source: Annex 02

The table 4.5 shows the ratio of EBL and HBL are obtained from the annex 02. Through this table it is analyzed the short term obligation capacity of the firm. It reveals that the average ratio of the balance with NRB to current and saving deposits of EBL and HBL are 15.00% and 8.65% respectively. EBL has the highest ratio 21.83% on NRB balance in the year 2004 and the lowest ratio 9.93% on NRB balance in the year 2005 where as HBL has the highest ratio 12.76% on NRB balance in the year 2005 and the lowest ratio 5.58% on NRB balance in the year 2007. The average ratio of EBL is greater than the average ratio of HBL i.e. 15.00% > 8.65%. It indicates from the point of view the strength of EBL and HBL regarding the liquidity position that EBL was better than HBL. The C.V. of HBL is greater than the C.V. of

EBL i.e. 41.16 % > 16.67 %. Lower C.V. is better than higher C.V. so that EBL reveals its consistency of ratios than other bank HBL. It indicates that the ratio of balance with NRB to current and saving deposits of HBL has higher fluctuation in comparison to EBL.

Figure No. 4.5



4.2.1.3 NRB Balance to Fixed Deposit Ratio

Fixed accounts mean an account of amounts deposited in a bank for certain period of time. For this deposit NRB has directed to the commercial banks to keep 6% of fixed deposit in the NRB balance for the purpose of the liquidity. The calculated ratio is shown in the following table:

Table 4.6

Calculation of Mean, S.D. and C.V. of NRB Balance to Fixed Deposit Ratio

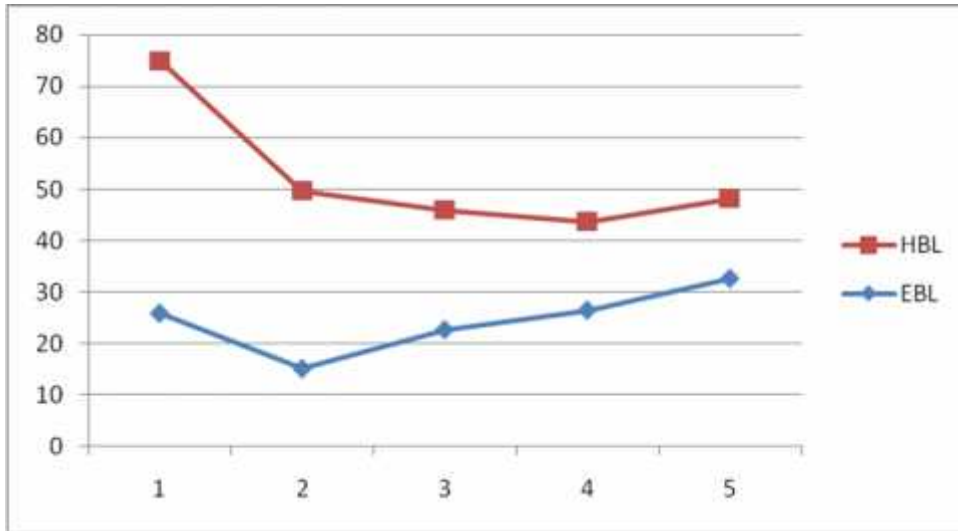
(In Percentage)

Years	EBL (%)	HBL (%)
2004	25.93	49.02
2005	15.25	34.48
2006	22.75	23.12
2007	26.51	17.21
2008	32.64	15.48
Mean	24.62	27.86
S.D.	7.27	8.59
C.V.	29.53	30.83

Source: Annex 03

In the table 4.6, the ratios of NRB balance to fixed deposits are in fluctuating trend in both banks. Both banks have maintained more than the standard set by NRB i.e. 6%. This shows that both banks have tied up their fund in excess deposit in NRB which ultimately affects the profitability negatively. The average ratio of EBL and HBL are 24.62% and 27.86% respectively which indicates the stronger liquidity position of HBL and EBL. The maximum NRB balance of EBL is 32.64% in the year 2008 and the minimum NRB balance of HBL is 49.02% in the year 2004 and the minimum NRB balance of HBL is 15.48% in the year 2008. The C.V. of EBL is less than the C.V. of HBL which means EBL is less risky than HBL

Figure No. 4.6



4.2.1.4 Total Liquid Fund to Total Deposit Ratio

Total liquid fund to total deposit ratio is the indication of the short term obligation capacity of the demand of the depositor money. The calculated ratio is shown in the following table:

Table 4.7

Calculation of Mean, S.D. and C.V. of Total Liquidity Fund to

Total Deposit Ratio

(In Percentage)

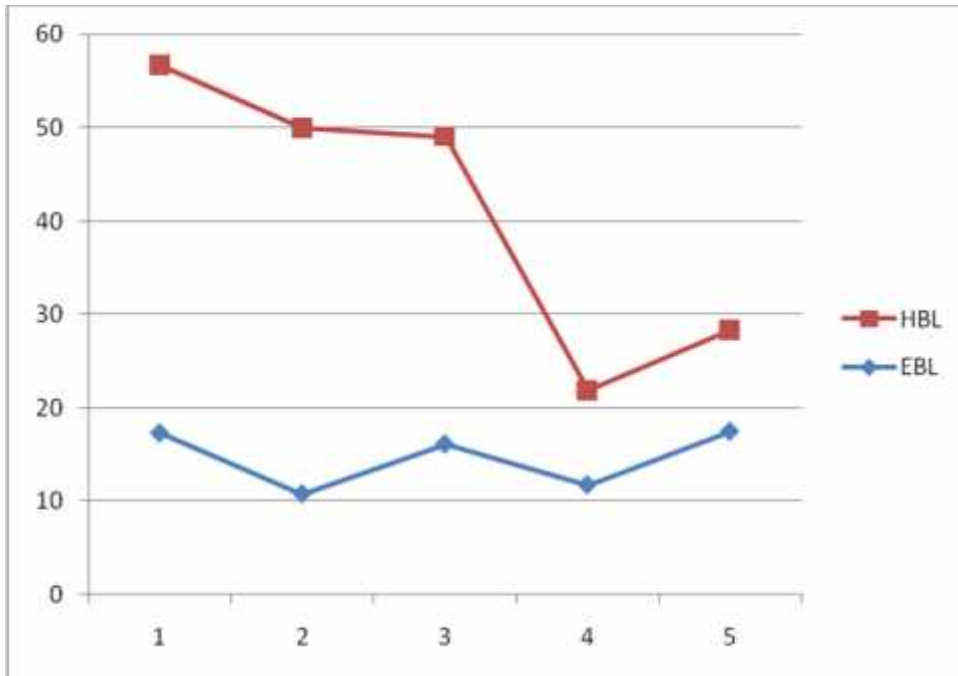
Years	EBL (%)	HBL (%)
2004	17.27	39.42
2005	10.79	39.13
2006	16.08	32.94
2007	11.73	10.12

2008	17.44	10.90
Mean	14.66	26.50
S.D.	3.25	14.96
C.V.	22.17	56.45

Source: Annex 04

From the above table 4.7, it is clear that the ratios of liquid assets to total deposits are fluctuating during study period. A high ratio of loan and advances indicates better mobilization of collected deposits and vice-versa. But it should be noted that too high ratio might not be better from liquidity point of view. The above comparative table shows that these two banks have mobilized their collected deposits in variable trend. Average ratios of both banks are 14.66% and 26.50% respectively. The maximum liquidity fund ratio of EBL is 17.44% in the year 2008 and the minimum liquidity fund ratio of EBL is 10.79% in the year 2005. The maximum liquidity fund ratio of HBL is 39.42% in the year 2004 and the minimum liquidity fund ratio of HBL is 10.12% in the year 2007. The C.V. of EBL is significantly lower than other bank EBL i.e. 22.17 % < 56.45 which implies that the average ratios of liquid assets to total deposits of EBL is more consistent to HBL.

Figure No. 4.7



4.2.2 Activity Ratio

Activity ratio is also called assets management ratio. It measures the efficiency of the bank to manage its assets in properly to earn high profit. Under this chapter following ratio are studied.

4.2.2.1 Loan & Advance to Total Deposit

This ratio reflects extend to which the commercial banks are success in maintaining in their assets on loan and advances for the purpose of income generation The calculated ratio is shown in the following table:

Table 4.8

Calculation of Mean, S.D. and C.V. of Credit to Total Deposit

(In Percentage)

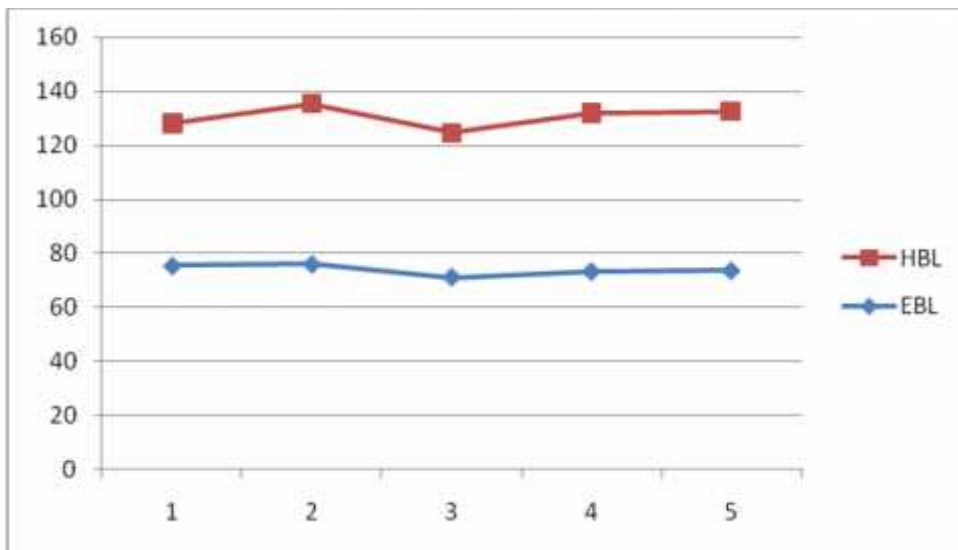
Years	EBL (%)	HBL (%)
2004	75.42	52.72
2005	76.03	59.43
2006	71.19	53.38
2007	73.35	58.65
2008	73.62	59.09
Mean	73.92	56.65
S.D.	1.98	2.86
C.V.	2.68	5.05

Source: Annex 05

The above table 4.8 shows the fluctuation in the ratios of credit to total deposit of EBL and HBL through the review period. The average ratio of credit to total deposit ratio of EBL and HBL are 73.92% and 56.65% respectively. EBL has the highest credit

ratio of 76.03% on total deposit in the year 2005 and the lowest credit ratio 71.19% on total deposit in the year 2006 where as HBL has the highest credit ratio 59.43% on total deposit in the year 2005 and the lowest credit ratio 52.72% on total deposit in the year 2004.. EBL average ratio is greater than the average ratio of HBL. This indicates that EBL had mobilized to total deposit on these study periods i.e. 73.92%. HBL had mobilized only 56.65% on the average. It is unable to mobilize the entire available deposit on this period. The C.V. of EBL is less than that of HBL.

Figure No. 4.8



4.2.2.2 Investment to Total Deposit

This ratio measures extend to which the banks are able to mobilize their deposit on investment in various securities. The calculated ratio is shown in the following table:

Table 4.9

Calculation of Mean, S.D. and C.V. of Investment to Total Deposit Ratio

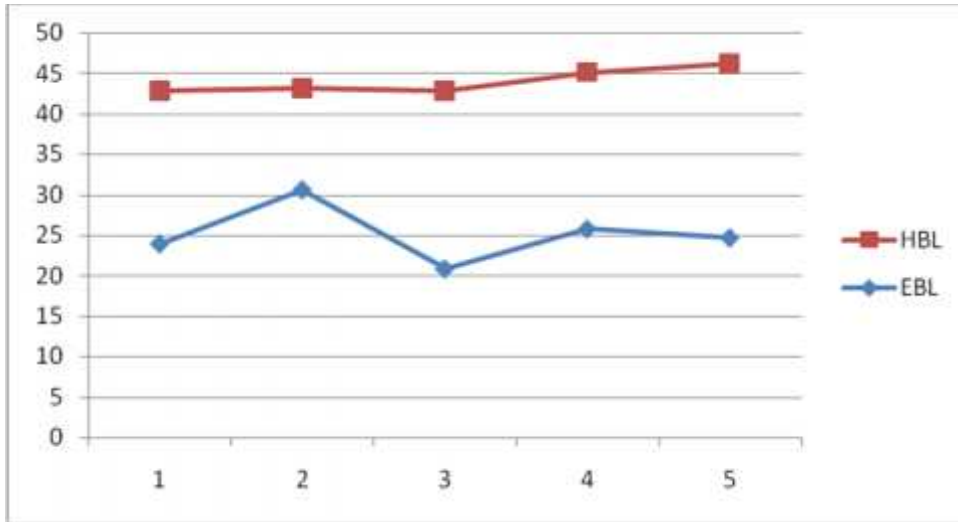
(In Percentage)

Years	EBL (%)	HBL (%)
2004	23.89	18.95
2005	30.59	12.64
2006	20.80	22.04
2007	25.71	19.44
2008	24.63	21.58
Mean	25.12	18.93
S.D.	4.03	4.34
C.V.	16.04	22.93

Source: Annex 06

From the above table 4.9, we can conclude that EBL has mobilized its collected deposits on investment better than HBL i.e. 25.12 % > 18.93%. EBL has the lowest ratio of 20.80% in the year 2006 and the highest ratio of 30.59% in the year 2005 where as HBL has the lowest ratio of 12.64% in the year 2005 and the highest ratio of 22.04% in the year 2006. The coefficient of variance of HBL is higher than that of EBL i.e. 22.93 % > 16.04 %.

Figure No. 4.9



4.2.2.3 Loan & Advance (Credit) and Investment to Total Deposit

Loan & Advance and Investment to total deposit ratio shows the relationship between Loan & Advance and Investment and total deposit. The calculated ratio is shown in the following table:

Table 4.10

Calculation of Mean, S.D. and C.V. of Credit to Total Deposit Ratio

(In Percentage)

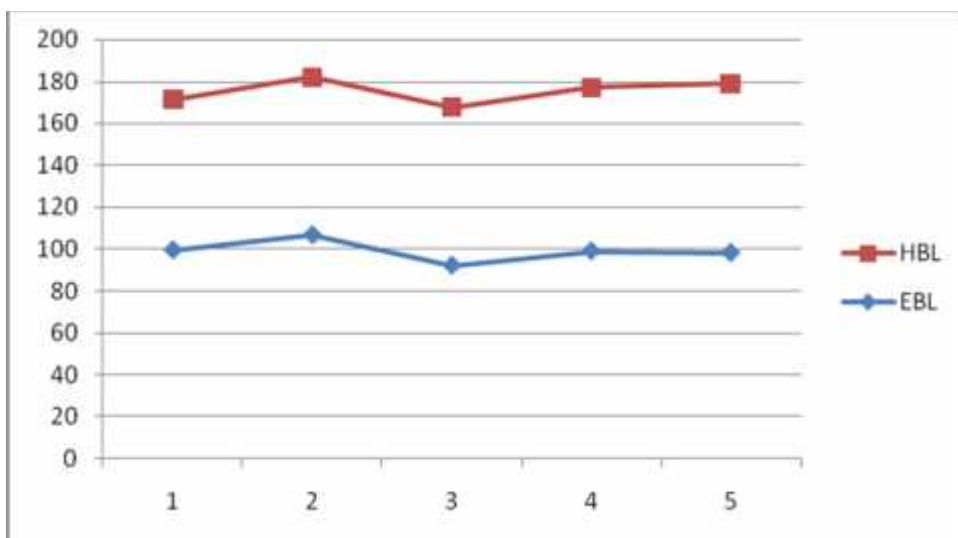
Years	EBL (%)	HBL (%)
2004	99.57	71.91
2005	106.83	75.18
2006	92.19	75.58
2007	99.06	78.09
2008	98.25	80.68

Mean	99.18	76.29
S.D.	6.00	2.55
C.V.	6.05	3.34

Source: Annex 07

From the above table 4.10, it is clear that EBL has greater volume of credit and investment in comparison to HBL average. The average ratio of EBL is greater than the average of HBL i.e. 99.19% > 76.29%. EBL has more fluctuation than HBL. The maximum credit and investment ratio of EBL is 106.83% in the year 2005 and the minimum credit and investment ratio of EBL is 92.19% in the year 2006. The maximum credit and investment ratio of HBL is 71.91% in the year 2004. The credit and investment volume EBL fluctuates at increasing and decreasing trend while HBL credit investment volume fluctuates at only increasing trend. The C.V. of HBL is less than the C.V. of EBL i.e. 3.34 % < 6.05 %.

Figure No. 4.10



4.2.2.4 Loan and Advance to Saving Deposit Ratio

Loan and advance to saving deposit ratio shows the relationship between the loan and advance or creditors and total saving account. The calculated ratio is shown in the following table:

Table 4.11

Calculation of Mean, S.D. and C.V. of Loan and Advance to Saving Deposit

(In Percentage)

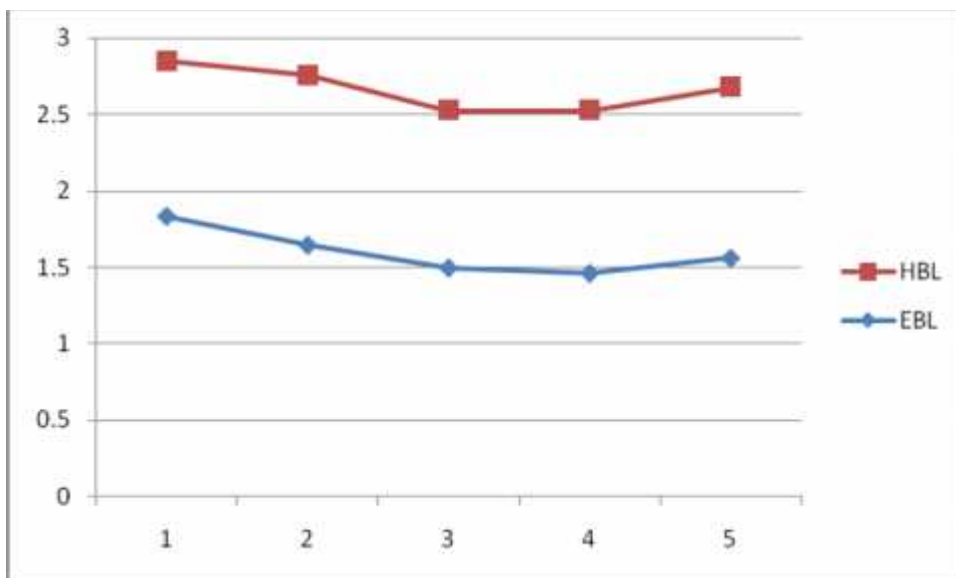
Years	EBL (%)	HBL (%)
2004	1.8309	1.0187
2005	1.6435	1.1124
2006	1.4956	1.0306
2007	1.4611	1.0640
2008	1.5590	1.1196
Mean	1.6	1.07
S.D.	0.08	0.04
C.V.	5.00	3.74

Source: Annex 08

The above table 4.11 shows that the ratio of loan and advance to saving deposits is in fluctuating trend in both banks. The fluctuating ratio of EBL is slightly greater than HBL. The average ratio of loans and advances to saving deposit ratios of EBL and HBL are 1.6% and 1.07% respectively which shows that HBL has lower loan and advance to saving deposit ratio than EBL. EBL has the highest loan and advance ratio 1.8309% on saving deposit in the year 2004 and the lowest loan and advance ratio

1.4611% on saving deposit in the year 2007 where as HBL has the highest loan and advance ratio 1.1196% on saving deposit in the year 2008 and the lowest loan and advance ratio 1.0187% on saving deposit in the year 2004. EBL indicates that saving deposit were better utilized in loan and advance. As a result the ratios go on decreasing. The C.V. of the HBL is lower than EBL i.e. 3.74 % < 5.00 % which shows that the saving deposits were more consistent to utilize loan and advance.

Figure No. 4.11



4.2.2. Loan & Advance (Credit) to Private Sector Lending to Total Credit Ratio

Credit to private sector lending to total credit ratio shows the relationship between private sector lending and total credit. The calculated ratio is shown in the following table:

Table 4.12

Calculation of Mean, S.D. and C.V. of Credit to Private Sector

Lending to Total Credit Ratio

(In Percentage)

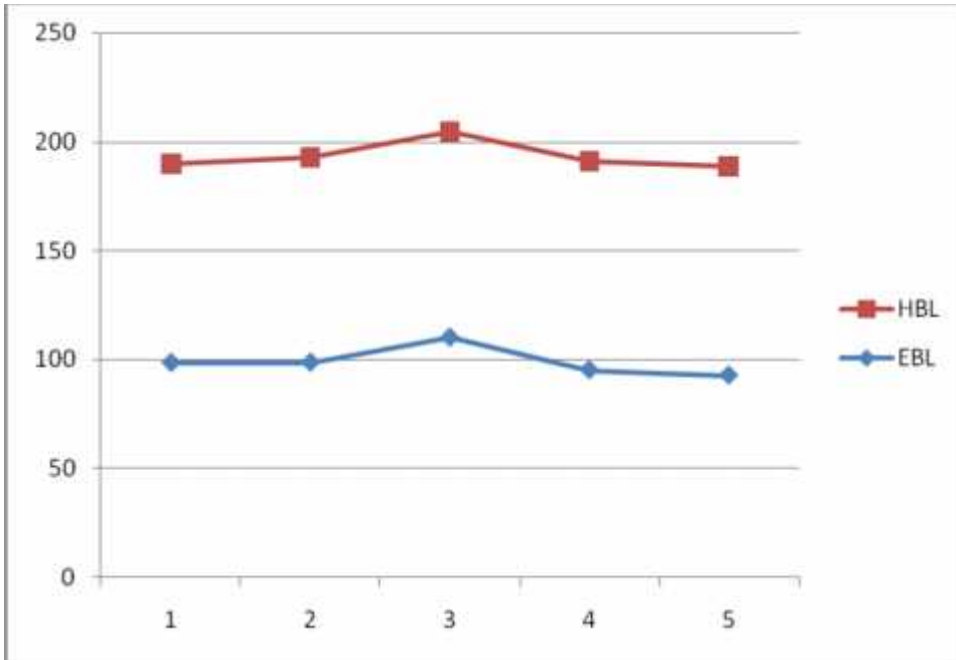
Years	EBL (%)	HBL (%)
2004	98.44	91.67
2005	98.63	94.14
2006	110.08	94.37
2007	95.13	96.10
2008	92.66	96.03
Mean	98.99	94.46
S.D.	7.70	1.05
C.V.	7.78	1.11

Source: Annex 09

The above table 4.12 clearly analyzes the credit extended by HBL and EBL in regards to the private sector. Credit extended to private sector average of EBL and HBL are 98.99% and 94.46% respectively of its total credit outstanding. The maximum credit to private sector lending ratio of EBL is 110.08% in the year 2006 and the minimum credit to private sector lending ratio of EBL is 92.66% in the year 2008. The maximum credit to private sector lending ratio of HBL is 96.10% in the year 2007 and the minimum credit to private sector lending ratio of HBL is 91.67% in the year 2004. EBL has extended higher than HBL and it didn't have mobilized deposit in the government enterprises. HBL has more fluctuation of credit deposit than EBL. The

CV of HBL is less than EBL i.e. 1.11 % < 7.78 % which reveals that the investment on private sector is more consistent in HBL.

Figure No. 4.12



4.2.2.6 Loan & Advance (Credit) to Government Enterprises to Total Credit Ratio

Commercial banks have various options to mobilize their funds in the government sector. From the point of view of profit, commercial banks avoid to extend loan on this area. However, it has to invest certain portion of their total credit outstanding to the government enterprises. The calculated ratio is shown in the following table:

Table 4.13

**Calculation of Mean, S.D. and C.V. of Credit to Government Enterprises to
Total Credit Ratio**

(In Percentage)

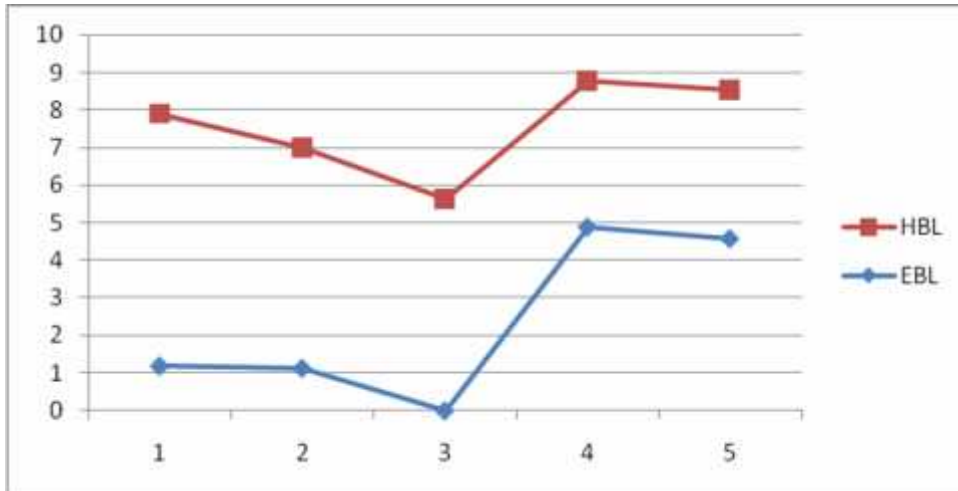
Years	EBL (%)	HBL (%)
2004	1.19	6.71
2005	1.13	5.86
2006	0.00	5.62
2007	4.88	3.90
2008	4.57	3.97
Mean	2.35	5.21
S.D.	2.45	1.05
C.V.	104.26	20.15

Source: Annex 010

The above table 4.13 clearly analyzes the credit extended by HBL and EBL in regards to the government enterprises. Credit extended to the government sector on average of EBL and HBL are 2.35% and 5.21% respectively of its credit outstanding. EBL has extended higher than HBL and it reveals the contribution of the nation development but it can reduce its profit. EBL has the highest credit to government enterprises ratio of 4.88% on total credit in the year 2007 and the lowest credit to government enterprises ratio 0% on total credit in the year 2006 where as HBL has the highest credit to government enterprises ratio 6.71% on total credit ratio in the year 2004 and the lowest credit to government enterprises ratio 3.90% on total credit in the year 2007. The CV of HBL is far lower than EBL i.e. 20.15 % < 104.26 %

which reveals that the investment on government enterprises is made more consistent in HBL.

Figure No. 4.13



4.2.2.7 Time Deposit to Total Deposit Ratio

Time deposit ratio shows the relationship between time deposit and total deposit. Time deposit helps the bank to reduce the liquidity and in turn more profitable investment. The calculated ratio is shown in the following table:

Table 4.14

Calculation of Mean, S.D. and C.V. of Time Deposit to Total Deposit Ratio

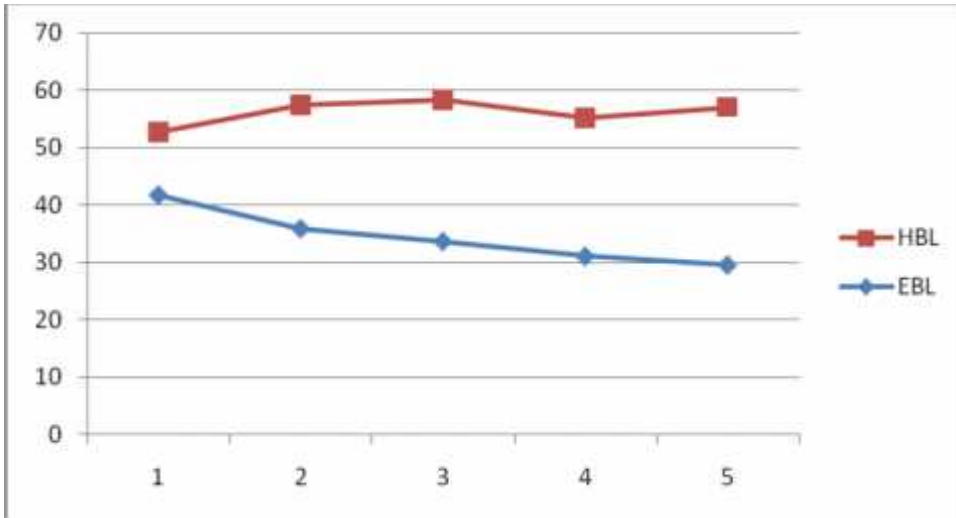
(In Percentage)

Years	EBL (%)	HBL (%)
2004	41.74	10.97
2005	35.94	21.40
2006	33.71	24.61
2007	31.14	24.00
2008	29.63	27.42
Mean	34.43	21.68
S.D.	2.80	2.47
C.V.	8.13	11.39

Source: Annex 011

The above table 4.14 shows the capacity of mobilizing the funds collected as deposit of the banks. The average ratio of EBL is 34.43% and the average ratio of HBL is 21.68%. The maximum time deposit ratio of EBL is 41.74% in the year 2004 and the minimum time deposit of EBL is 29.63% in the year 2008. The maximum time deposit ratio of HBL is 27.42% in the year 2008 and the minimum time deposit ratio of HBL is 10.97% in the year 2004. The average ratio of EBL is greater than the average ratio of HBL i.e. 34.43% > 21.68%. The CV of EBL is less than HBL which reveals that the time deposit on total deposit is made more consistent in EBL.

Figure No. 4.14



4.2.3 Capital Adequacy Ratio

The ratio has been one of the most controversial ratios. Excess capital decreases the profitability where as the less capital is the symbol of a weak capital structure. So banks have to maintain the adequate capital as well as per the directives given by NRB following ratios are calculated as under:

4.2.3.1 Total Capital to Total Deposit Ratio

Capital to total deposit ratio shows the relationship between capital and total deposit. The calculated ratio is shown in the following table:

Table 4.15

Calculation of Mean, S.D. and C.V. of Total Capital to Total Deposit Ratio

(In Percentage)

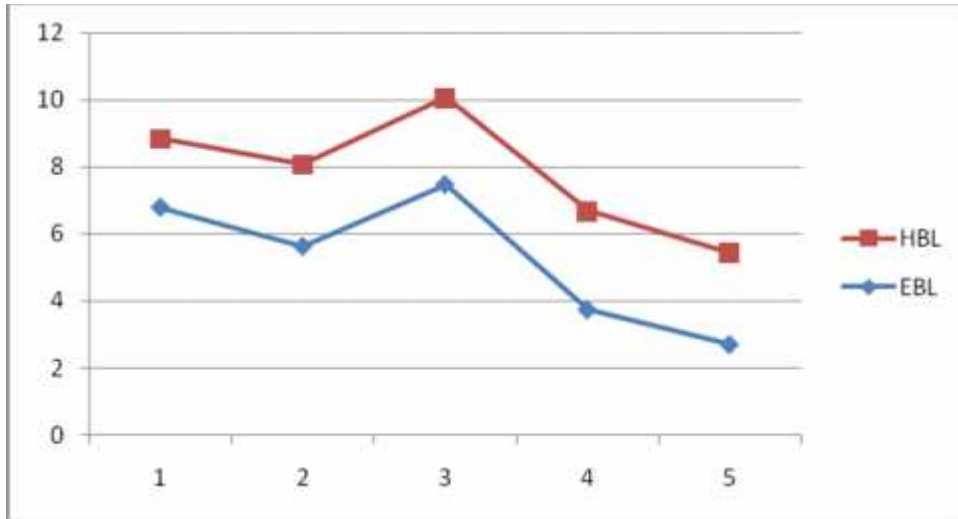
Years	EBL	HBL
2004	6.80	2.04
2005	5.64	2.44
2006	7.48	2.59
2007	3.75	2.92
2008	2.71	2.71
Mean	5.28	2.54
S.D.	2.10	0.20
C.V.	39.77	7.87

Source: Annex 012

The above table 4.15 shows the fluctuation in the ratios of total capital to total deposits of EBL and HBL throughout the review period. The average ratio of total capital to total deposit ratio of EBL and HBL were 5.28% and 2.54% respectively which shows that EBL had higher ratio and it had highly fluctuated in total capital but HBL had low fluctuating in total capital. EBL has the highest total capital ratio 7.48% on total deposit in the year 2006 and the lowest total capital ratio 2.71% on total deposit in the year 2008 where as HBL has the highest total capital ratio 2.92% on total deposit ratio in the year 2007 and the lowest total capital ratio 2.04% on total deposit ratio in the year 2004. On the other hand, the CV of the HBL is lower

than EBL i.e. 7.87 % < 39.77 % which shows that the capital maintained by HBL is more consistent compared to the other bank EBL.

Figure No. 4.15



4.2.3.2 Total Capital to Total Credit (Loan & Advance) Ratio

Capital to total credit ratio shows the relationship between total capital and total credit. The calculated ratio is shown in the following table:

Table 4.16

Calculation of Mean, S.D. and C.V. of Total Capital to Total Credit Ratio

(In Percentage)

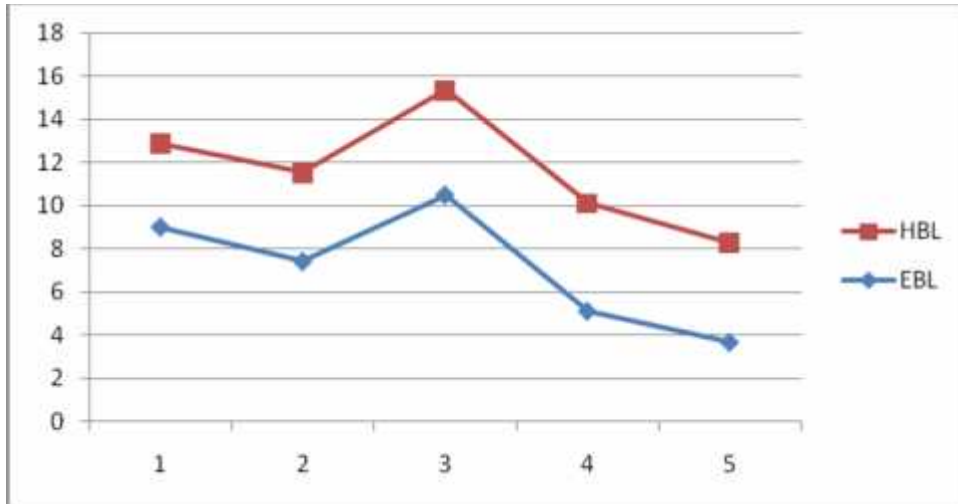
Years	EBL	HBL
2004	9.01	3.87
2005	7.42	4.10
2006	10.50	4.86
2007	5.12	4.98
2008	3.68	4.59
Mean	7.15	4.48
S.D.	2.98	0.39
C.V.	41.68	8.71

Source: Annex 013

The above table 4.16 shows the fluctuation in the ratios of total capital to total credit of EBL and HBL throughout the review period. The average ratio of total capital to total credit ratio of EBL and HBL are 7.15% and 4.48% respectively which shows that EBL has higher ratio and it has highly fluctuating in total capital to total ratios. EBL has raised much capital in respect to the credit and HBL has low raised capital in respect to total credit. The maximum total capital ratio of EBL is 10.50% in the year 2006 and the minimum total capital ratio of EBL is 3.68% in the year 2008. The maximum total capital ratio of HBL is 4.98% in the year 2007 and the minimum total capital ratio of HBL is 3.87% in the year 2004. The CV of HBL is lower than EBL

i.e. 8.71 % < 41.68 % which shows that the capital maintained by HBL is more consistent compared to bank EBL.

Figure No.4. 16



4.2.3.3 Capital to Total Assets Ratio

Capital to total assets ratio measure the relationship between capital and assets.

The calculated ratio is shown in the following table:

Table 4.17

Calculation of Mean, S.D. and C.V. of Total Capital to Total Assets Ratio

(In Percentage)

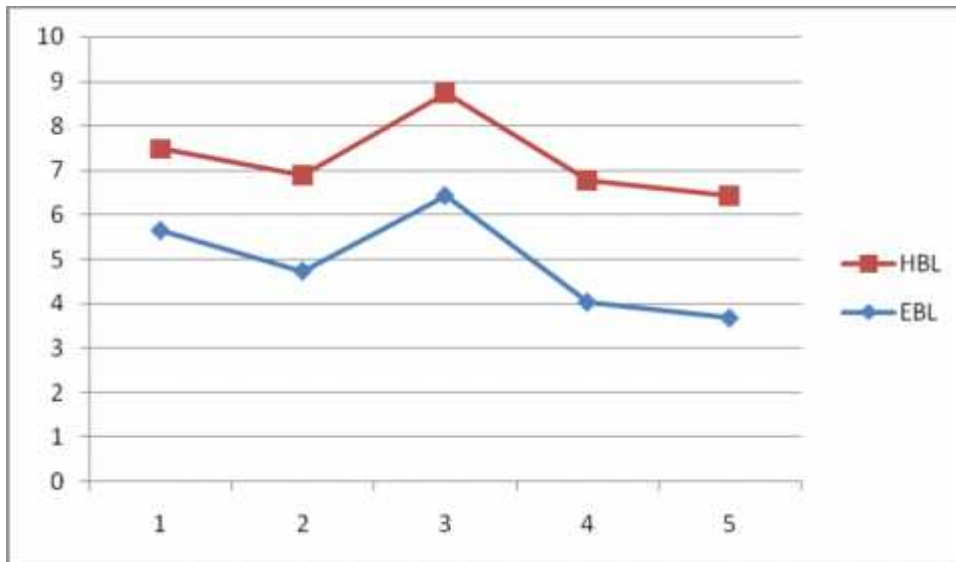
Years	EBL	HBL
2004	5.651	1.837
2005	4.735	2.161
2006	6.437	2.311

2007	4.034	2.735
2008	3.676	2.745
Mean	4.91	2.36
S.D.	1.14	0.39
C.V.	23.22	16.53

Source: Annex 014

The above table 4.17 shows the fluctuation in the ratios of total capital tot total assets of EBL and HBL throughout the review period. The average ratio of total capital to total assets ratio of EBL and HBL are 4.91% and 2.36% respectively which shows that EBL has higher the capital to total assets ratio and it is in the decreasing trend in respect to the total assets and that of HBL is in moderately fluctuating trend. EBL has the highest capital ratio of 6.437% on total assets in the year 2006 and the lowest capital ratio 3.676% on total assets in the year 2008 where as HBL has the highest capital ratio 2.745% on total assets in the year 2008 and the lowest capital ratio 1.83% on total assets in the year 2004. The CV of the HBL is lower than EBL i.e. 16.53 % < 23.22 % which shows that the capital maintained by HBL is more consistent in comparison to EBL.

Figure No. 4.17



4.2.4 Profitability Ratio

Profitability ratio is related into profit. It measures the overall banking operation of the company in regards to the profit. Profitability ratio is determined by the financial institution to find out their profit earning capacity on various kinds of deposits. Profit indicated the efficiency of the bank. A bank can make the profit through the sound lending policy and the quality of service it provides. If the profit is high, the efficiency of bank will be high. Following profitability ratios are calculated:

4.2.4.1 Return on Total Working Fund Ratio

Return on total working fund measures the relationship between the working fund and profit of the bank. The calculated ratio is shown in the following table:

Table 4.18**Calculation of Mean, S.D. and C.V. of Total Capital to Total Assets Ratio**

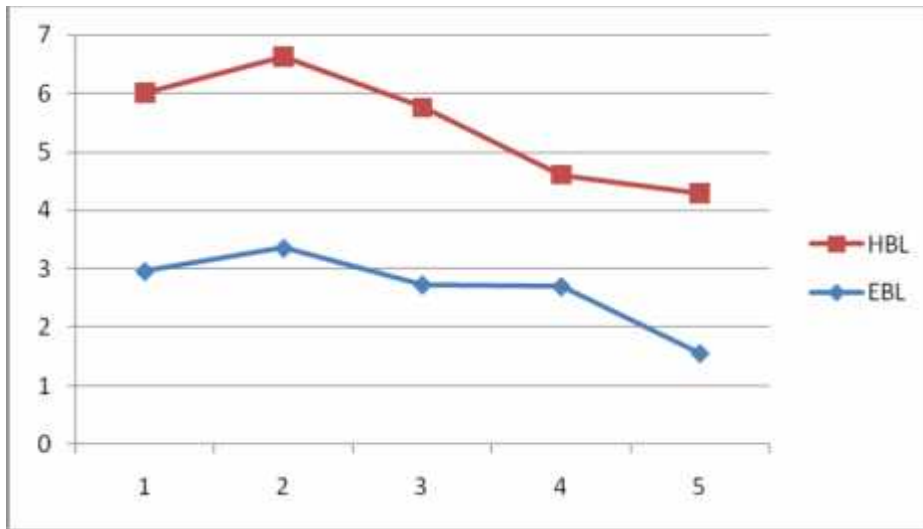
(In Percentage)

Years	EBL	HBL
2004	2.96	3.05
2005	3.36	3.27
2006	2.73	3.03
2007	2.70	1.91
2008	1.55	2.74
Mean	2.66	2.8
S.D.	0.75	0.59
C.V.	28.20	21.07

Source: Annex 015

The above table 4.18 shows the ratios of return to working fund ratio of EBL and HBL throughout the review period. The average ratio of return of working fund ratio of EBL and HBL are 2.66% and 2.8% respectively which shows that EBL has higher ratio. The maximum return of EBL is 3.36% in the year 2005 and the minimum return of EBL is 1.55% in the year 2008. The maximum return of HBL is 3.27% in the year 2005 and the minimum return of HBL is 1.91% in the year 2007. It is able to earn more profit than HBL. The CV of the HBL is lower than EBL i.e. 21.07 % < 28.20 % which shows that the earning net profit levels by HBL is more consistent compared to EBL.

Figure No. 4.18



4.2.4.2 Net Profit to Loan and Advance Ratio

Net profit to loan and advances ratio measures the earning capacity of commercial bank as its deposit mobilized on loan and advances. The calculated ratio is shown in the following table:

Table 4.19

Calculation of Mean, S.D. and C.V. of Return on Loan and Advance

(In Percentage)

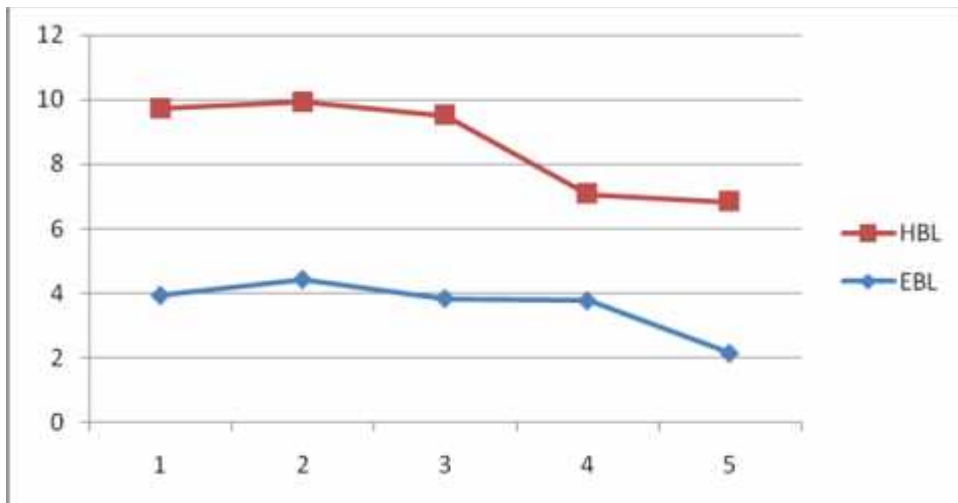
Years	EBL	HBL
2004	3.93	5.79
2005	4.42	5.51
2006	3.83	5.68
2007	3.76	3.31

2008	2.14	4.69
Mean	3.62	5.00
S.D.	0.98	1.08
C.V.	27.07	21.60

Source: Annex 016

The above table 4.19 shows the ratios of return on loan and advance ratio of EBL and HBL throughout the review period. EBL has the highest ratio 4.42% at 2005 and the lowest ratio 2.14% at 2008 year where as HBL has the highest ratio 5.79% at the end of the year 2004 and the lowest ratio is 3.31% at year 2007. The average ratio of return on loan and advance of EBL and HBL are 3.62% and 5.00% respectively. The CV of the HBL is lower than EBL i.e. 21.60 % < 27.07 % which shows that the earning net profit levels by HBL is more consistent compared to EBL.

Figure No.4. 19



4.2.4.3 Net Profit to total Equity Capital Ratio

Return to total equity capital ratio shows the relationship between net profit and equity capital. Shareholders are the member of the banks. The calculated ratio is shown in the following table:

Table 4.20

Calculation of Mean, S.D. and C.V. of Return on Loan and Advance

(In Percentage)

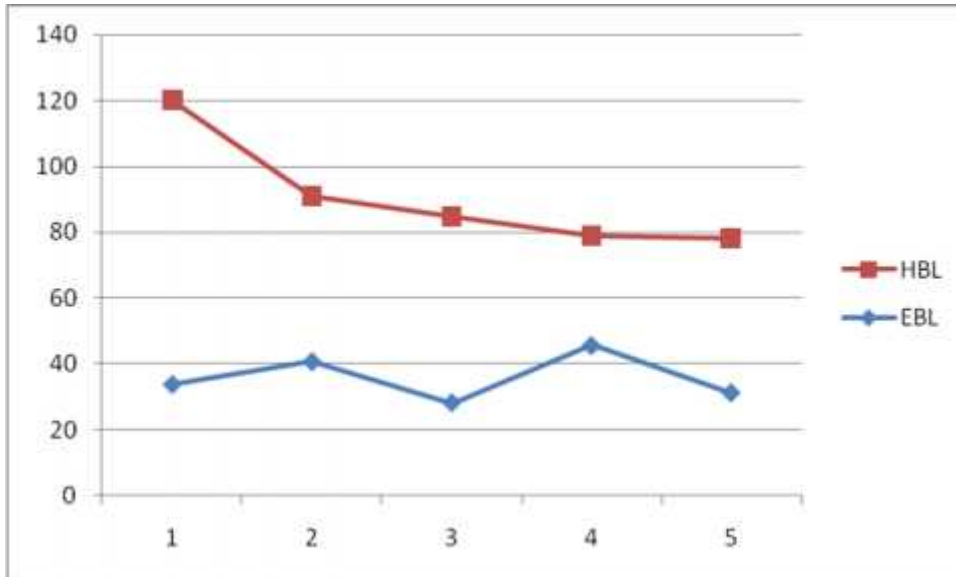
Years	EBL	HBL
2004	33.76	86.55
2005	40.75	50.17
2006	28.13	56.64
2007	45.71	33.33
2008	31.20	46.90
Mean	35.91	54.72
S.D.	8.19	9.83
C.V.	22.81	17.96

Source: Annex 017

The above table 4.20 shows that the ratios of return to equity capital ratio of EBL and HBL throughout the review period. The average ratio of return on equity ratio of EBL and HBL are 35.91% and 54.72% respectively, which shows that HBL has higher the ratio and it is able to earn more profit on equity capital than EBL. EBL has the highest net profit ratio 45.71% on equity capital in the year 2007 and the lowest net profit ratio 28.13% on equity capital in the year 2006 where as HBL has the

highest net profit ratio 86.55% on equity capital in the year 2004 and the lowest net profit ratio 33.33% on equity capital in the year 2007. The CV of the HBL is lower than EBL i.e. 17.96 % < 22.81 % which shows that the earning net profit levels by HBL is more consistent compared to bank EBL.

Figure No. 4.20



4.2.5 Risk Ratio

Risk ratio is very essential element. Risk ratio measures the risk associated with the banking variables. A bank raise capital accepts deposits and finally grant loan. These entire things come along with the risk. A bank must consider the risk associated with it. Higher the ratio higher will be the profit and vive-versa. Under this ratio following ratios are analyzed.

4.2.5.1 Capital Risk Ratio

Capital risk ratios are related between share capital and loan and advances or total credit is called capital risk ratio. The calculated ratio is shown in the following table:

Table 4.21

Calculation of Mean, S.D. and C.V. of Capital Risk Ratio

(In Percentage)

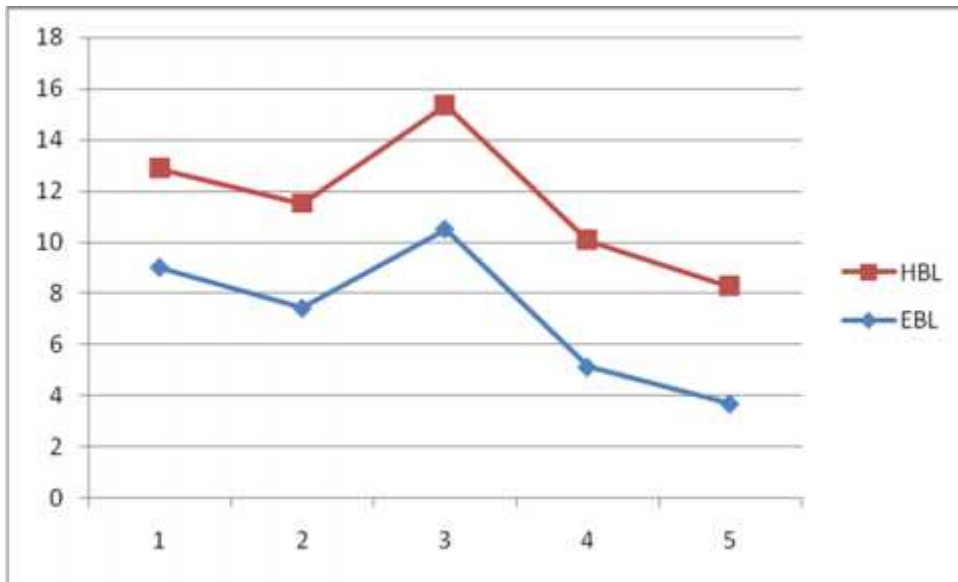
Years	EBL	HBL
2004	9.011	3.874
2005	7.421	4.100
2006	10.502	4.858
2007	5.1165	4.977
2008	3.684	4.588
Mean	7.15	4.48
S.D.	2.98	0.39
C.V.	41.68	8.71

Source: Annex 018

The above table 4.21 shows the fluctuation ratios of capital risk ratio of EBL and HBL throughout the review period. The average ratio of capital risk ratio of EBL and HBL are 7.15% and 4.48% respectively which shows that EBL has higher the ratio and it is able to attract deposits and inter bank funds, it makes higher profit than HBL. EBL

has the highest risk ratio 4.977% in the year 2007 and the lowest risk ratio 3.874% in the year 2004. The CV of the HBL is lower than EBL i.e. 8.71 % < 41.68 % which shows that the profit earning levels of HBL is more consistent compared to EBL.

Figure No.4. 21



4.2.5.2 Credit Risk Ratio

Credit risk ratio is related to total loan and advance and total assets. The calculated ratio is shown in the following table:

Table 4.22**Calculation of Mean, S.D. and C.V. of Credit Risk Ratio**

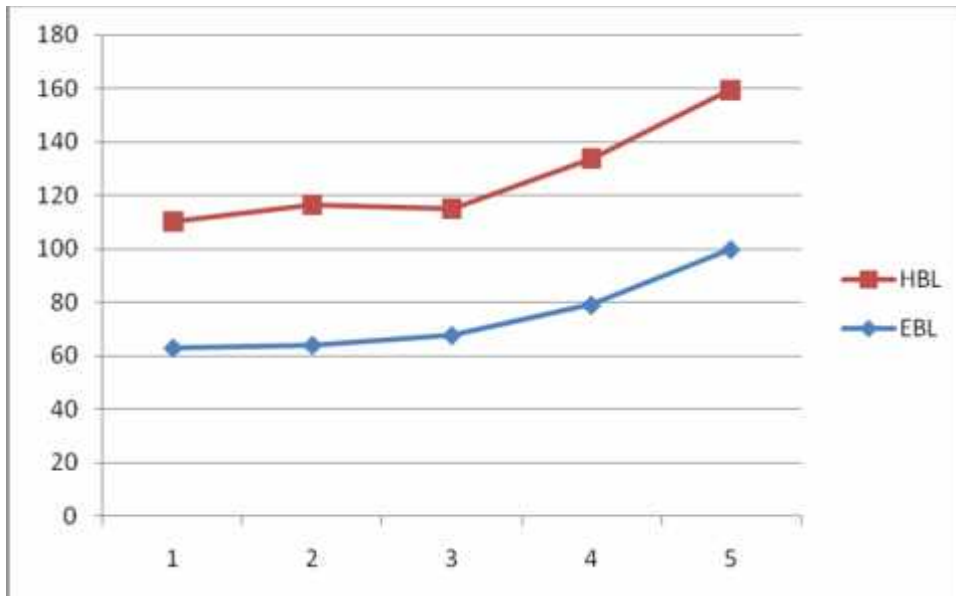
(In Percentage)

Years	EBL	HBL
2004	62.710	47.416
2005	63.809	52.712
2006	67.476	47.568
2007	78.847	54.950
2008	99.773	59.839
Mean	74.52	52.50
S.D.	15.54	5.25
C.V.	20.85	10

Source: Annex 019

The above table 4.22 shows the fluctuation in the ratios of credit risk ratio of EBL and HBL throughout the review period. The average ratio of credit risk ratio of EBL and HBL are 74.52% and 52.50% respectively which shows that EBL has higher the ratio and it is able to avoid default of non-payment of loan. EBL has the highest credit risk ratio 99.773% in the year 2008 and the lowest credit ratio 62.71% in the year 2004. HBL has the highest credit risk ratio 59.839% in the year 2008 and the lowest credit risk ratio 47.416% in the year 2004. The CV of HBL is lower than the EBL i.e. 10 % < 20.85 % which shows that the non performing assets in total loan and advance levels of HBL are more consistent in HBL.

Figure No.4. 22



4.2.6 Growth Ratio

Growth ratio is directly related to the deposit mobilization of commercial banks. It denotes that how well the banks are preserving their economic or financial position.

Growth ratio is calculated as follows:

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

Where,

D_n = Deposit Amount for n Periods

D_o = Current Deposit Amount

N = Number of Years Observed

G = Growth Rate during the Period

4.2.6.1 Growth Ratio of Total Deposit

The following table shows the growth rate of Total deposits of HBL and EBL from year 2004 to 2008. The calculated ratio is shown in the following table:

Table 4.23

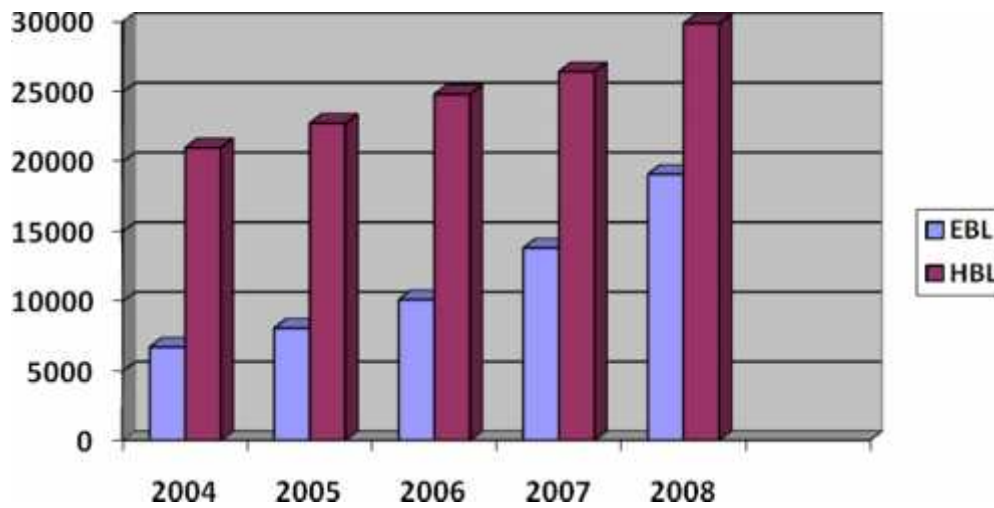
Growth Ratio of Total Deposit

Banks	2004	2005	2006	2007	2008	Growth (%)
EBL	6694.9	8064.0	10097.8	13802.5	19097.7	29.96
HBL	21002.8	22760.9	24831.1	26456.2	29905.8	9.24

Source: Annex 020

The above table 4.23 shows that the growth ratio of total deposit of EBL and HBL are 29.96% and 9.24% respectively. Since growth ratio of total deposit of EBL is higher, its performance of collecting deposit is better in comparison to other bank HBL.

Figure No.4. 23



4.2.6.2 Growth Ratio of Loan and Advances

The following table shows the growth rate of Loan and advances of HBL and EBL from year 2004 to 2008. The calculated ratio is shown in the following table:

Table 4.24

Growth Ratio of Loan and Advances

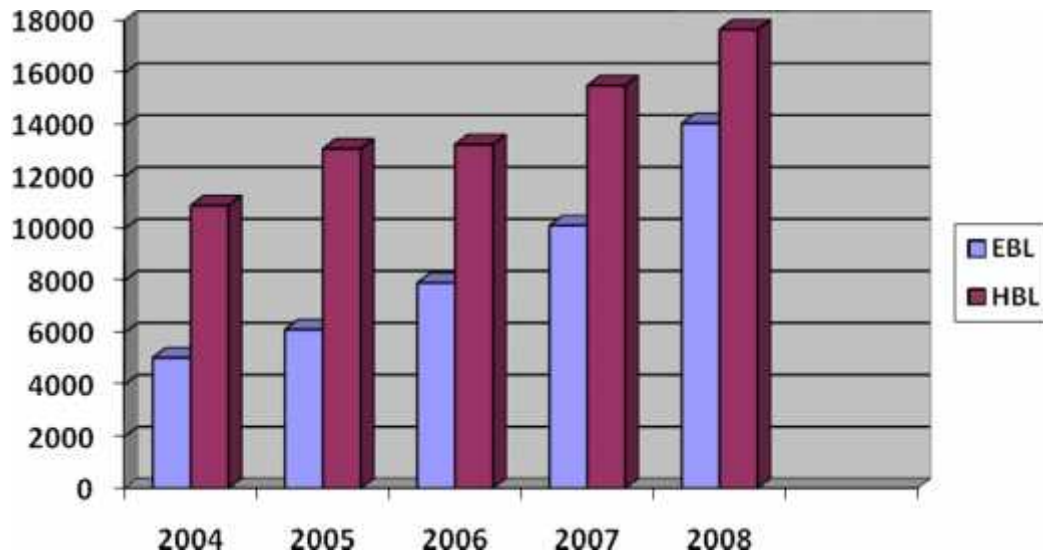
Banks	2004	2005	2006	2007	2008	Growth (%)
EBL	5030.9	6116.6	7914.4	10124.2	14059.2	29.29
HBL	11074.2	13081.7	13245.0	15515.7	17672.0	12.39

Source: Annex 021

The above table 4.24 shows that the growth ratio of loan and advances of EBL and HBL are 29.29% and 12.85% respectively which means that EBL has higher the growth ratio than HBL i.e. 29.29% > 12.85%. The loan and advances growth ratio off

EBL is approximately two and half times more than HBL, which shows that the performance of EBL in advancing loans is better in comparison to HBL.

Figure No. 4.24



4.2.6.3 Growth Ratio of Total Investment

The following table shows the growth rate of Total investment of HBL and EBL from year 2004 to 2008. The calculated ratio is shown in the following table:

Table 4.25

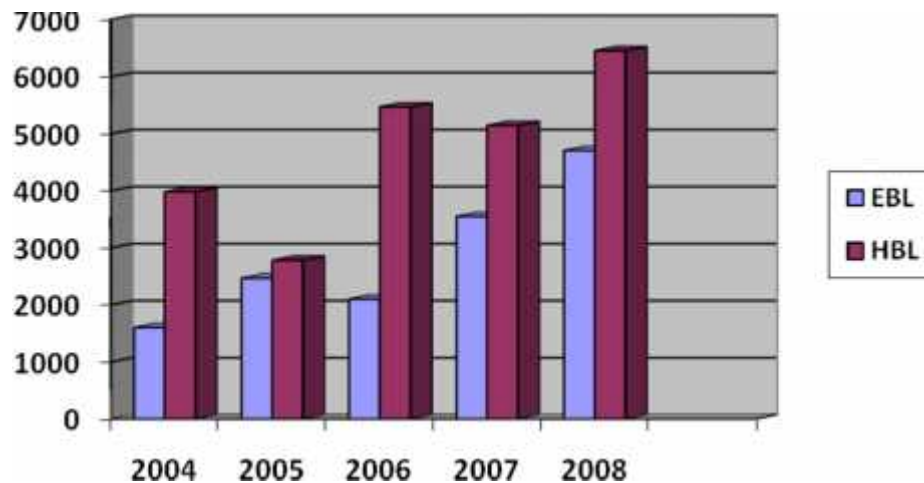
Growth Ratio of Total Investment

Banks	2004	2005	2006	2007	2008	Growth (%)
EBL	1599.4	2466.4	2100.3	3548.6	4704.6	30.96
HBL	3980.0	2781.7	5469.7	5144.4	6454.8	12.85

Source: Annex 022

The above table clearly shows that the growth ratio of total investment of EBL is higher than HBL which means EBL has higher investment in comparison with HBL.

Figure No. 4.25



4.2.6.4 Growth Ratio of Net Profit

The following table shows the growth rate of Net profit of HBL and EBL from year 2004 to 2008. The calculated ratio is shown in the following table:

Table 4.26

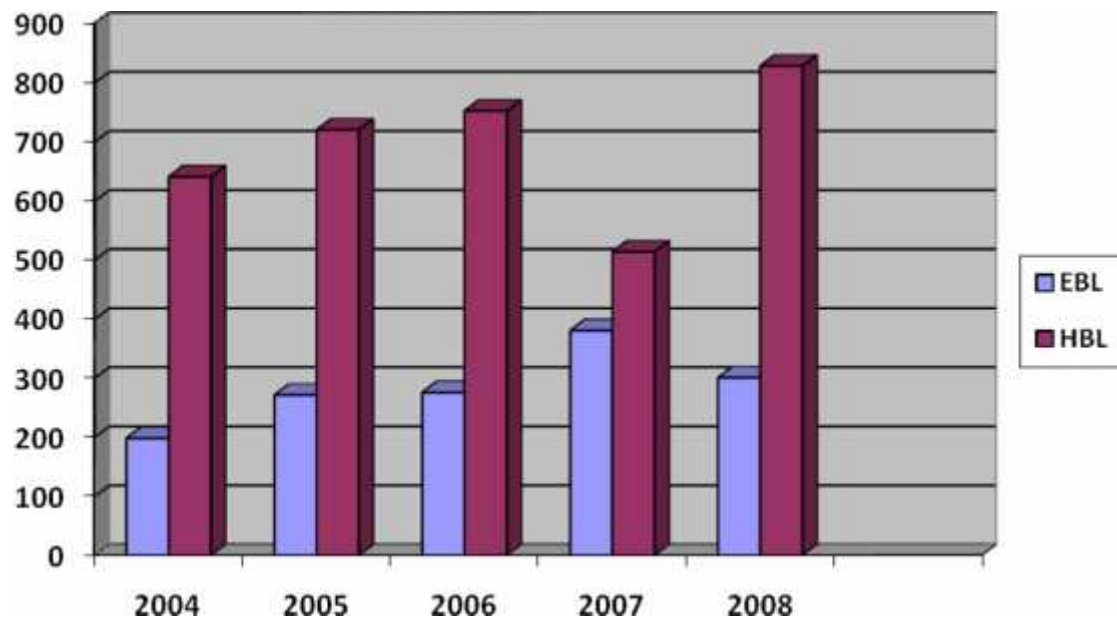
Growth Ratio of Net Profit

Banks	2004	2005	2006	2007	2008	Growth (%)
EBL	198.3	271.3	275.8	380.5	300.6	10.96
HBL	641.0	720.4	752.3	513.8	828.4	6.62

Source: Annex 023

The above table clearly shows that the growth ratio of net profit of EBL is higher than HBL (i.e. 10.96% > 6.62%) which means that the performance of EBL is better than HBL.

Figure No.4. 26



4.3 Simple Correlation Analysis

First of all, an attempt is made to determine the relationship that exists among those selected variables. For this purpose simple correlation has been computed and presented in Table 4.4.

Table 4.27

Correlation Analysis of Selected Variables of Everest Bank Limited

Correlation Between	r
TD and INV	0.9676
TD and NP	0.6226
TD and LA	0.999

Source: Annex 026

This correlation table gives a preliminary idea of the direction of the relationship between the selected variable of EBL. The higher correlation has been observed between total deposit and loan & advance, total deposit and investment, total deposit and total deposit and net profit.

There is a high positive relationship of total deposit between loan and advance, investment and net profit.

Table 4.28

Correlation Analysis of Selected Variables of Himalayan Bank Limited

Correlation Between	r
TD and INV	-0.877
TD and NP	-0.302
TD and LA	0.964

Source: Annex 027

The correlation table gives a preliminary idea of the direction of the relationship between the selected variable of HBL. That is, the higher correlation has been observed between total credit and total deposit. A lower negative correlation relationship has been observed between net profits. As regards investment, there exists higher negative relationship with the total deposit.

4.4 Probable Error Analysis

4.4.1 Probable Error Analysis of Everest Bank Limited (EBL)

Table 4.29

Calculation of Probable Error (P.E.) of Everest Bank Limited

Variables	r	P.E.	6 x P.E.	Result	Remarks
TD and INV	0.9676	0.0192	0.1152	$r > 6 \times P.E.$	Significant
TD and NP	0.6226	0.1847	1.1083	$P.E. < r < 6 \times P.E.$	Nothing can be concluded
TD and LA	0.999	0.0006	0.0036	$r > 6 \times P.E.$	Significant

Source: Annex 028

On the above calculation shows that the coefficient of the correlation between Total Deposit (TD) to Investment (INV), Loan & Advance (LA) is high positive correlation, so we conclude that “r” is significant. But the coefficient of the correlation between Total Deposit (TD) to Net Profit (NP) “r” is not at all

significant. This correlation indicated that management could take an appropriate decision for increasing in net profit.

4.4.2 Probable Error Analysis of Himalayan Bank Limited (HBL)

Table 4.30

Calculation of Probable Error (P.E.) of Himalayan Bank Limited

Variables	r	P.E.	6 x P.E.	Result	Remarks
TD and INV	-0.877	0.0696	0.4178	$r < P.E.$	Insignificant
TD and NP	-0.302	0.2741	1.6448	$r < P.E.$	Insignificant
TD and LA	0.964	0.0213	0.1280	$r > 6 \times P.E.$	Significant

Source: Annex 029

On the above calculation show that the coefficient of the correlation between Total Deposit (TD) to Loan & Advance (LA) is high positive correlation, so “r” is significant. But the coefficient of the correlation between Total Deposit (TD) to Investment (INV) and Net Profit (NP) “r” is not at all significant. This correlation indicated that management could take an appropriate decision for increasing in investment and net profit.

4.5 Major Findings

This study mainly aims at finding the differences between HBL and EBL regarding deposit mobilization with the help of its indicators.

For the purpose of this study, the necessary data on total deposit, investment, net profit, loans & advance and other variables were collected for the period of 2004-2008. Few years' data on the selected variables could not be collected due to unavailability of data and information. Deposit of the commercial banks is very important variable. The contribution of the deposit to the Net Profit is also higher in the banks record as found in this research. The collection of the deposit is must be taken by the commercial banks as the major functions relation to the others. To increase deposit is the most important function of the commercial banks.

Only increment of deposit does not give any returns 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 function i.e. collection of deposit through various schemes and granting those amounts as loan to the clients by providing various facilities.

Deposit Collection and Mobilization

In the case of EBL, it's collected deposit of Rs. 19097.7 million deposits. Extended as loan and advance as Rs. 14059.2 million in the year 2008 and made net profit Rs 300.6 million in the year 2008. HBL was able to collect Rs 29905.8 million deposits and extended as loan and advance as Rs. 17672.0 million and made net profit Rs. 828.4 million in the year 2008. In this analysis, it is clear that the deposit collection and mobilization of EBL is better than HBL. Compare to HBL, the EBL have higher mobilization of loan and advance.

Liquidity Ratio

According to the liquidity ratio, the overall liquidity ratio of EBL is stronger than that of HBL. It can conclude that EBL could discharge its depositor's obligation more comfortably. Those ratios are used to know the capacity of the concern to repay its short term liability.

Activity Ratio

According to activity ratio, the overall activity ratio of EBL is better than HBL. It can conclude that shows relation of two related items. EBL is able to mobilize the entire available deposit than HBL. These ratios reflect how efficiently the bank's managing its resources.

Capital Adequacy Ratio

According to capital adequacy ratio, EBL is stronger than other bank HBL. Capital adequacy ratio shows the position of different items. The capital maintained by HBL is more consistent compared to EBL.

Profitability Ratio

In the case of profitability ratio, overall profitability ratio of EBL is better than HBL. The earning capacity of the bank is measured by profitability ratio.

Risk Ratio

In the case of risk ratio, the risk ratio of HBL is less than the risk ratio of EBL. So that HBL bank is less risky than EBL.

Growth Ratio

In the case of growth ratio, the growth ratio of deposit collection and providing loan & advance of EBL is higher than HBL. The EBL also have higher investment growth in comparison with HBL.

CHAPTER-V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This study mainly aims at examining the relationship between the total deposit with other financial indicators of commercial banks with context to Himalayan Bank Limited and Everest Bank Limited. Its specific objectives are: (1) To analyze the deposit growth of HBL and EBL. (2) To analyze the proportion of the loans and advances of EBL and HBL. (3) To find out the investment volumes of HBL and EBL. (4) To find out the relationship of total deposits with loans and advances, total investment, net profit and interest rates.

This is perhaps the first study of its kind in Nepal that has made attempt to study the relationship between deposit and other financial indicators by considering the recent data and information.

With the purpose of analysis of the deposit, different controlled variables are considered. Such variables are undertaken to make the direction of analysis more clear and realistic. The different ratio analysis is useful for providing the rough idea about the deposit mobilization of the selected banks. The percentage change and index is calculated to find the magnitude of data over the period of time. The simple correlation is also performed to find the association between the variables.

5.2 Conclusions

In conclusion, it can be said that CBs should have optimum policy to collect the deposit in various accounts. Deposit is the major organ of commercial bank to live in the industry. Higher the deposit higher will be the chance of the mobilization of working fund and profit there to. Banks should not invest their funds haphazardly. It should be careful while advancing loan because loan is the blood of the CBs for survival. If commercial bank doesn't apply sound investment policy it will be in great trouble in future to collect it in time. Hence, there is the possibility of bankruptcy. Banks should invest their fund in various portfolios after the deep study of the project to be safe from being bankruptcy. If banks concentrate the investment in few organizations there is a high chance of default risk.

The role of bank is significant not only in mobilizing saving but also in making investment in the development of different sectors of economy. The role is prominent for reducing poverty and increasing employment opportunities in the country. Commercial banks are therefore called modern vehicle for the economic development of the country. Deposit is the major function of the commercial banks. Higher the deposit higher will be the chance of mobilization of funds. The banks should be very careful while granting loans and advances because loan is the life blood of the commercial banks. Therefore there will be great trouble to collect the loan in future which may makes the bank to become bankrupt.

According to activity ratio, the overall activity ratio of EBL is better than HBL. It can conclude that shows relation of two related items. EBL is able to mobilize the entire available deposit than HBL. These ratios reflect how efficiently the bank's managing

its resources. In the case of profitability ratio, overall profitability ratio of EBL is better than HBL. The earning capacity of the bank is measured by profitability ratio. In the case of profitability ratio, overall profitability ratio of EBL is better than HBL. The earning capacity of the bank is measured by profitability ratio. In the case of growth ratio, the growth ratio of deposit collection and providing loan & advance of EBL is higher than HBL. The EBL also have higher investment growth in comparison with HBL. In comparison EBL have Better performance than HBL, so that HBL have to take action for better performance in collection of deposit and its mobilization in profitable sectors.

Diversification is indeed needed to all the business houses but it has seen immense importance to commercial banks. Diversification of investment is very much important to commercial banks than other business houses because banks use the money of other people for the benefit of its own. And lastly, it can be said that banks are important for the country. It helps in the capital formation to the country which is the most important element for the economic growth of the country. In overall, it can be concluded that CBs life is totally dependent upon the deposit collection policy of the optimum deposit mobilization procedure. So that commercial banks should try to work hard for mobilization of saving and its diversification into different sectors, which should be professionally managed to ensure adequate rate of return on investment, such action should strategically well planned to be competitive with other agencies and also should be trust worthy.

5.3 Recommendations

Based on the analysis of data, the following recommendations are made:

Recommendations to Everest Bank Limited

- EBL is not successful in mobilizing their total deposit on loan and advance. Hence, it is suggested to increase the investment on loan and advances which helps to earn more profit.
- Deposit collection of EBL is too low as comparison to HBL. As it has concluded in the study the importance of deposit for the commercial bank. EBL is recommended to collect the deposit by initiating various new programs to attract the customer.
- EBL has invested a lot of money in Government necessary bills. Through it is risk free it yields very few to the bank. So it will be beneficial to EBL to mobilize the fund in risky high profitable projects rather than giving importance to the government treasury bills.
- To be a successful banker a bank must utilize depositor's money as loan and advance. Loan and advances is the largest item of the bank in the assets side of balance sheet which is risky and more profitable too.

Recommendations to Himalayan Bank Limited

- On the basis of credit to total deposit ratio, it lies in the second position. So it shows that the bank can not mobilize their total deposit to the bank. Hence, it is recommended to HBL. The bank should increase the ratio of credit to total deposit by increasing investment on loans and advances.
- Credit risk ratio of HBL has lowered than EBL. It is recommended to HBL, the bank should diversify its loan on various securities.

- Credit and investment to total deposit ratio of HBL has lowered than EBL. Hence, it is recommended to HBL, the bank should increase the ratio of credit and investment to total deposit.
- Growth ratio of total deposit and loan and advance of HBL is lower than EBL. Hence, it is recommended to HBL t increase the ratio of deposit and loan and advances.

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