CHAPTER ONE
INTROUDUCTION

1.1 Background of the Study

Capital formation is one of the important factors leads to increase in the size of national output income and employment, solving the problem of inflation and balance of payment and foreign debts. Domestic capital formation helps in making a country self sustainable. According to classical economist, one of the main factors which helped capital formation was the accumulation of capital. Profit made by the business community constituted the major part of savings the community and the saved has assumed to be invested. They thought capital formation indeed plays a deceive role in determining the level and growth of national income and economic development. In the view of many economists, capital occupies the central and strategies position in the process of economic development in an underdeveloped economy lies in a rapid expansion of the rate of its capital investment so that it attains a rte of growth of output which exceeds the rate of growth of population by the significant margin. Only with such rate of capital investment will the living standard begin to improve in developing country. In developing countries, the rate of saving is quite low and existing institutions are half successful in mobilizing such savings as most people have incomes so low that vertically all current income must be spent in maintain a subsistence level of consumption.

Investment is an essence of the national economy. Banking system is the integral part of investment system in productive sector. It involves the sacrifice of current rupees for future rupees. It is concerned with the allocation of present fund for later reward, which is uncertain. When people deposit money in a saving account in bank for example; the bank must invest the money in new factories and equipments to increase their production. In addition borrowing from the banks most issues 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 such project such as the construction of dams, roads and schools. All such investments by individuals business and government involves a presto sacrifice of income to get an expected future benefits. As a result, investment raises a nation's standard of living.

For the development of any country, the financial sector of that country in responsible and must be strong. The financial sector is vast field, which comprises of banks cooperatives, insurance companies, financial companies, stock exchange, foreign exchange markets, mutual funds etc. These institutions collect idle and scattered money from the general public and finally invest in different enterprises of national economy that consequently help in reducing poverty, increase in life style of people, increase employment opportunities and thereby developing the society and country as a whole. Thus, today's concept, the financial institutions and commercial banks has become one of the bases for the measuring level of economic development of nation.

Commercial banks are the main source which motivates people to save their earnings. Bank deals in accepting the saving of people in the form of deposit collection and invest it in the productive area. They give the loan to the people against real and financial assets. They transfer monetary sources from savers to users. In other words, they are intermediate between lender and receiver of fund they mobilize the depositor fund.

1.1.1 General Background of Banks in Nepal

Commercial banks are the suppliers of finance for trade land industry, which plays vital role in the economic and financial life of the country. They help in the formation of capital by investing the savings in productive areas. Rural people of under developed countries like Nepal need various banking facilities to enhance its economy. In most of the countries, the banks are generally concentrated in urban and semi-urban sectors. They neglect rural sector due to heavy risk and low return, which is in fact, the main key to economic development without it other sectors of economy cannot be flourished.

1.1.1.1 History of Banking Development

The modern banking system has not evolved at once, it has passed through several stages before reaching the present sage. Crowther has described merchants, goldsmiths and money lenders as ancestors of modern banking: The Merchants had to remit money from one place to another. It was difficult to carry physical money, so they used letters for trading and these gave birth to negotiable instruments. The goldsmiths used to have safe to valuables. They used to take deposits in the form of money and ornaments and charge commission. They issued receipt to the depositor which gave birth to bank notes.

Money lenders used to give loan to the needy public out of their own treasury. As all the money deposited were not withdrawn at the same time, goldsmiths and money lenders started to offer interest on deposits and started to utilizing funds in the form of loans to the needy people, while maintaining certain fraction of deposit with them.

In the history of modern banking we cannot forget the bank of Casa De San Giorgio in Genoa established in 1148, Bank of Venice set up in 1157 in Italy which is regarded as first modern bank. Subsequently Bank of Barcelona (1401), Bank of Amsterdam(1601) in Holland and Bank of Hamburg(1610) in Germany was established. The bank of England was established in 1694 but the growth of banks accelerated only after the introduction of Banking Act 1833 in U.K.

1.1.1.2 Commercial Bank Concept

Commercial banks are those financial institutions, which deals in accepting deposits from persons and institutions and giving loans against securities. They provide working capital needs or trade, industry and even to agriculture sectors. Moreover commercial banks also provide technical and administrative assistance to industries trades and business enterprises.

Under the Commercial Bank Act 1947, the commercial banks are those banks which provide short term and long term debts whenever necessary for trade and commerce. They accept deposits from the public and grant loans in different form, purchase and discount the bill for exchange, promissory notes exchange foreign currency.

A commercial bank is one which exchange money, deposits money accepts deposit, grants loan and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industry of for such specific purpose (Nepal Commercial Bank Act 1974).

The American institute of banking has laid down the four major functions of the commercial bank such as receiving and handling payments for its clients, making loan and investments and creating money by extension of credit (American Institute of Banking, 1972).

Meanwhile, under the free enterprises system like USA, the interest of the nation as well as that of the individual stockholders are supposed to be best served by vigorously profit seeking. But profit is a sole objective of an enterprise and it should not be evaluated just on the basis of the profit earned. Neither the bank nor the community will be best served if the banker unreasonably sacrifices the safety his fund or liquidity of his bank is an effort to increase income (American Institute of Banking, 1972).

1.1.1.3 Development of commercial banks in Nepal

Nepal’s unorganized banking system existed with the existence of money lenders, shahuji, goldsmiths etc. Historically we find the evidence King Gunakama Dev borrowed money to rebuild Kathmandu city in the beginning of the eight century. At the end of the same century a merchant named Shakhadhar introduced ‘Nepal Sambat’ after freeing all the people of Kathmandu from the debt. Similarly different types of coins made from different types of metals were used by different Malla kings at different interval of time. King Jayasthiti Malla of Kantipur classified the people in 64 classes among one of them was ‘Tankadhari’, who were the people involved in monetary transactions. After the unification of the country by king Prithivi Narayan Shah, an institution named ‘Taksar’ was established to issue coins in scientific manner. During the reign of Ranodip Singh an office named ‘Tejarath Adda’ was established in 1933 B.S whose main function was to provide loans to government employees and public against deposit of gold and silver.

The organized banking sector started in Nepal with the establishment of ‘Nepal Bank Limited’ as first commercial bank in 30 Kartik 1994 B.S under Nepal Bank Act 1994 B.S. The banking sector of Nepal gained momentum with the establishment of central bank, ‘Nepal Rastra Bank’ in 14 Baishak 2013 B.S under Nepal Rastra Bank Act 2012 B.S. To overcome the limitations of Nepal Rastra Bank, ‘Nepal Banijya Bank’ was established on 10 Magh 2022 B.S to perform all function of commercial bank. Similarly ‘Agriculture Development Bank’ was established on 7 Magh 2024 B.S to boost the agriculture sector.

Nepal Rastra Bank has given approval to operate thirty one commercial banks. Those banks are listed in annex I.

1.1.2 Profiles of the Selected Banks

For the study purpose, studying all the commercial banks is not feasible, so two commercial banks having Nepalese promoters have been selected for comparative analysis.

Standard Chartered Bank Nepal Limited (SCBNL), formerly known as Nepal Gridlays Bank Limited has its head office in Kathmandu and has been in operation since 1987. It is a Joint Venture operation, registered in Nepal, with 50 percent of the shares held by Standard Chartered Grindlays Bank, 33 percent by Nepal Bank Limited, the country's oldest and largest financial institution and 17 percent by the Nepalese public. On 31 July 2000, Standard Chartered Bank concluded the acquisition of ANZ Grindlays Bank Limited from the Australia and New Zealand Banking Group Limited. With this acquisition, 50 percent shares of Nepal Grindlays Bank Limited (NGBL) previously owned by ANZ Grindlays Bank Ltd. leading to the name change of the Bank to standard Chartered Bank Nepal Limited with effect from 16 July 2001. It has a corporate office in New Baneshwor Kathmandu. Branch offices at, Bhairahawa, Biratnagar, Birgunj, Butwal, Dharan, Heteauda, Lalitpur, Lakeside (Pokhara), Narayangadh, Nepalgunj, Newroad, Teku¸ Extension counters UN counter, B.P. Koirala Institute of Health Sciences (Dharan), British Gurkhas, PPO Pokhara, Manipal counter(Manipal Hospital).

Today the bank is an integral part of Standard Chartered Group having ownership of 75% in the company with 25% shares owned by the Nepalese Public. The bank enjoys the status of the largest international bank currently operating in Nepal.

Kumari Bank Limited (KBL)

Kumari Bank Limited (KBL) came into existence as the fifteenth commercial bank by starting its banking operation from Chaitra 21, 2057 B.S. with an objective of providing competitive and modern banking services in Nepal. The bank has authorized capital of 1600 million and paid up capital of Rs. 1485 million, of which 70 % is contributed from promoters and remaining from public.

Kumari Bank Limited has been providing wide-range of modern banking services through 28 points of representation located in various urban and semi-urban part of the country, 19 outside and 9 inside the valley. It has a corporate office in Durbar Marg, Kathmandu, branch offices at Putalisadak, New Road, Biratnagar, Ithari, Britamod, Birgunj,Bhirahawa, Damauli, Baglung, Pokhara, Dryport, National Medical College (Birgunj), Narayangadh, Butwal, Urlabari, Kawasoti, Nepalgunj, Salyan, Surkhet, Tulsipur, Dhangadi, Sauraha, Kumaripati, Gongabu, Baneshwor, Chabahil, Koteshwor, Budhanilkantha. The bank has adopted Globus Banking Software, developed by Temenos NV, Switzerland, and arrangement of centralized data base system to all branches. The bank has also been providing visa debit card, which has access on ATMs (including 30 own ATMs) and POS (point of sale) terminals both in Nepal and India. The bank has been providing 365 days banking facilities, extended banking hours till 7 PM in the evening, utility bill payment services, inward and outward Remittance services, Online Remit services, E-banking, SMS Banking and various other banking services.

Within 10 years of its establishment, the bank has been able to recognize itself as an innovative and growing institution striving to enhance customer value and satisfaction by backing transparent business practice, professional management, corporate governance and total quality management as the organizational mission.

1.1.3 Introduction to Deposits of Standard Chartered Bank Limited

Standard chartered bank limited also collects deposits through different types of deposits. In general following types of accounts are used:

a) Saving Account

The saving account is a transactional interest bearing account wherein a deposit is placed with the bank for an unspecified period of time and the depositor can withdraw or transfer the funds whenever required through different means. The main features and benefits of saving account are ATM card, Online banking service, Free cheque book for accounts maintaining the stipulated balance of NPR 100,000.

b) Current Account

The current account is a transactional non-interest bearing account wherein a deposit is placed with the bank for an unspecified period of time and the depositor can withdraw or transfer the funds whenever required through different means. The current account allows the accountholders to carry out business transactions in an efficient and hassle free manner. . The main features and benefits of current account are ATM card, Online banking service, Free cheque book for accounts maintaining the stipulated minimum balance of NPR.

c) Fixed Deposit

A fixed deposit account is an interest bearing account, where a fixed amount is held at fixed interest rate and is repayable at a fixed future date as agreed at the time of placement of deposits. The main features and benefits of fixed deposit are an investment alternative, which is safe and allows funds to be placed for a fixed period with interest rate guaranteed for that period, interest bearing account etc.

d) Kiddy Bank Account

Kiddy Bank Account is a variant of savings account, which can be opened in the name of children below 16 years of age, for their future savings. The main features and benefits of kiddy bank account are higher interest rate than that of the normal saving account, No restriction in deposits, lower minimum balance requirement etc.

e) Access Plus Account

Access Plus Account is a variant of Savings Account, specially designed for young people (students/graduates/young/professionals). Access Plus Account is a convenient way to start your own banking journey with standard chartered. The main features and benefits of Access Plus Account are easy and 24 hour access to funds through our ATM network, 25% discount on draft, no account maintenance fees etc.

f) Diva Account

Diva Account is a variant of Savings Account, specifically designed for the modern woman who wants value for her money. It includes free ATM card for the first year and accidental death insurance (for accounts maintaining balance of NPR 25,000 and above).

g) Safe Deposit Lockers

Safe Deposit Locker is a special facility provided to our customers for keeping their valuables or important documents safely. The customers can access the locker any time during the Bank's business hours. Each locker has a separate number and is fitted with a double key lock, which ensures the safety of your lockers.

1.1.4 Introduction to Deposits of Kumari Bank Limited

Kumari bank collects deposits through different types of interest bearing and non interest bearing deposits. Following are the different types of deposits used to collect funds:

a) Saving Deposits

Kumari Bank Limited has different types of savings accounts .The minimum balance in this account NRS.10000. The interest ranges from 4% to 5% depending upon the type of the deposit. The interest is paid on the monthly minimum balance. This type of account is opened in both local and foreign currency.

b) Current Deposits

Current deposits comprise the major portion of the total deposit of Kumari Bank Limited. No interest is provided in this account. There is no restriction in the withdrawal and the minimum balance is Rs.1000.00. This type of account is opened in both local and foreign currency.

c) Call Account

Call Account is major source of deposits of Kumari Bank Limited. Mostly large corporate houses and big institutions open this type of account. The rate of interest is fixed by negotiation between the bank and the depositors.

d) Margin Account

Kumari Bank margin account for various purposes like for issuance of letter of credit, bank gurantee, safe deposit locker etc. No interest is paid on the amount collected and the amount depends upon the nature of the purpose.

f) Fixed Deposits

Kumari Bank accepts different types of fixed deposits of different period providing different rates of interest. The interest ranges from 2% to 9.75 % for individual customers for the duration of 14 days to 2 years and above. The interest rate of the institutional fixed deposit ranges from 9.50 % to 9.75 % for the duration of 1 year to 2 years and above.

1.2 Statement of the Problems

Nepal is underdeveloped country and rapid economic development is the basic need of the country. Development by its means is not possible within a short period and it takes a long time for the proper development of a country, it has to build up infrastructure. In Nepal, the process of development started only after 1956 A. D. when the first five year plan came into practice.

Capital in fact, plays the leading role for the economic development of a country. But in Nepal, there is shortage of capital. There are various sources of accumulating capital internal and external sources. Under external sources: aid, grants and loans are the main sources. In internal sources: accumulating capital, taxes, public enterprises, public debt are the popular in our country. But due to underdevelopment, poverty, lack of banking knowledge the desired capital for the development of the country cannot be accumulated from those internal sources. So, it can be said that in Nepal’s present situation bank deposit is dependable and permanent sources of capital accumulation.

The need of deposit mobilization for economic development of a country is no more to question. But we are facing an acute problem of resources mobilization. We have 31 commercial banks in Nepal which are very much considered to be vital financial institution to mobilize domestic resources. Under the prevalence of these situations the study has try to deal with following problems.

- What is the relationship between deposit and loans and advances?
- What is the effectiveness of deposit mobilization of commercial banks?
- How far the interest rates of deposits have positive relationship with the deposit collection of commercial banks?
- What is the increasing or decreasing trend of deposit mobilization of commercial banks?

1.3 Objectives of the Study

The objective of the study has been to examine relationship between the amount of total deposit and amount of total credit granted by the commercial banks.

The main objectives of the study are:

- To analyze the relationship between deposits and loans & advances.
- To evaluate of fund mobilization of commercial banks.
- To examine how far the interest rates of deposits have positive relationship with the deposit collection of commercial banks.
- To explore the impact of an interest rates of loan on the credit extended by commercial banks.

1.4 Significances of the Study

Deposits and loans are like the life and blood for any commercial bank. Commercial banks acts like agent between surplus and deficit units of the economy. The deposit of banks provides the funds needed for investments in various activities. The importance of deposit and its mobilization very important in our country where there is deficit for funds for investing in different sectors. Banks plays a vital role in channeling the money from the savers to needy. Deposit management for any commercial bank is very important task. Banks has to pay great attention in collecting deposit and mobilizing it .Hence the study is intended to examine the performance of commercial banks in deposit collection and its mobilization. So this study is useful for shareholders, researcher, public and managers who would conduct study on deposits and its mobilization.

These studies will significance for the shareholders who are identifying either investment or not. This study also will helpful for further researcher in the way of their work. It will give the guidelines for planning and further study of any researcher. This study helpful for those people who wants to have insight knowledge about the topic. deposit includes the idle money of the public, bank being the inter-mediator to accept this sort of money and help to analyze this in productive sector .this study will significance for the country because investment leads to create new employment opportunity in the economy .ultimately due to new employment the purchasing power of the economy increase and finally GDP and growth of the economy occurs. These studies will significance for the managers who are related with deposit & it's mobilized and who wants more information about the knowledge of techniques.

1.5 Limitations of the Study

This study is conducted for the partial fulfillment of Master Degree in M.B.S. and prepared within time constraints which will weaken adequacy of the study. Whereas, researcher try to keep the report more feasible, accurate and fulfill even there are some limitations. These limitations can be point out in the following points:

- The accuracy of the finding depends on the reliability of available information.
- This study covers only limited year's period i.e. 5 fiscal years from 2062/63 to 2066/67.

- The qualitative factors such as growth, expansion, policies, quality of services, effectiveness of management etc have been ignored.
- The availability of various resources also acts as constraints.
- This study concentrates on deposit collection and utilization by commercial banks.

1.6 Organizations of the Study

The study has been classified into five chapters. The titles of each of these parts are follows:

Chapter I; Introduction: The first chapter includes various aspects of present study like Background of the Study, Focus of the Study, Statement of Problem, Objective of the Study, Significance of the Study and Limitation of Study.

Chapter II; Review of Literature : The second chapter deals with the study of related books, and research work which are already published and conducted by different experts and researcher in the field of financial mobilization.

Chapter III; Research Methodology : The third chapter deals research methodology process such as, research design, nature and source of data, population and sampling of the study, methods tools of analysis of data viz. quantitative and qualitative tools and at last definition of key terms.

Chapter IV; Presentation and Analysis of Data: The forth chapter introduces the main aspect of the study. It deals with data collection procedure and presentation of data with different statistical and financial tools, and findings of the study.

Chapter V; Summary, Conclusion and Recommendations: The fifth chapter presents summary, conclusion and recommendations.

CHAPTER TWO
REVIEW OF LITERATURE

2.1 Conceptual Framework

Review of literature can be defined as the process of reviewing the studies or other relevant research works done in the subject matter so that all the past studies and conclusions and the deficiencies may be known. It helps to know the pat research works in the related topics and its outcome and offer vital links with various trends and phases in the researches. It helps to identify problems, determine methodology for the research work and avoid unintentional replication of previous research work and help to interpret the significance of research's results in a precise manner. An effective research is based upon the past knowledge, a survey of past literature helps to eliminate the duplication of what has been done. A review of previous related research helps to formulate a satisfactory structure for the new project.

To explore the relevant and true facts for the research purpose, this chapter highlights the literature available related to the study. An attempt has been made to look into bank publication, periodicals and center bank's rules and regulations. In addition, informal interviews with bank personnel and a few customers/ borrowers have been aimed to receive.

2.2 Conceptual Review

Bank is an institution which deals in money and credit. Banks are the institution which acts as an intermediary between different kinds of people and institutions who are in need of money and who can supply money at certain rate of interest. A bank simply carries out the work of exchanging money, providing loan, accepting deposits and transferring the money.

The 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 (Bhuvan Dahal, 2002).

Commercial Bank means a bank which operates currency exchanges transactions, accepts deposits, provides loans, perform dealing, relating to commerce except the banks which has been specified for the co-operative agricultural industry of similar other specific objectives (Commercial Bank Act 2031).

2.3 Concepts of Deposits

People earn money spends it for various purposes and the remaining or the difference between the income and expenditure is the savings. One can use that portion of income in various ways like investing in securities, lending to others, keeping it in the safe lockers or simply depositing it in the banks. Deposits are the excess money of the individuals deposited in the banks and financial institutions in different types of accounts.

Commercial Bank act defines deposits 'as the amount deposited in current, saving or fixed accounts of a bank or financial institution.' Deposits are the starting point of banking transactions. Deposits are the source of the funds for its operations and for the individuals it is the safeguard of money with certain percent of return. The functioning and the growth of banks depends upon the size and the growth of its deposits. Deposits are like the blood for any commercial banks, without adequate amount of deposits no commercial banks and operate and survive. Banks collects deposits through various accounts. The major types of deposits are explained below:

2.3.1 Types of Deposit

There are different types of deposits. But for this study, major three types of deposit are taken. They are:

Current Deposit

A current deposit is a running account with amounts being paid into and drawn out of the account continuously. These accounts are also called demand deposits or demand liabilities since the banker is under an obligation to pay money in such deposits on demand. The account never becomes time barred, because the limitation does not run until a demand is made by the customer on the bank for the payment of deposit. These accounts are generally opened by business houses, public institutions, corporate bodies and other organization whose banking transactions are numerous and frequent. As these deposits are payable on demand, banker is obliged to keep larger cash reserves than are needed in the case of fixed and savings deposits. This type of account is just a facility offered by the bank to its customers. So such deposit doesn’t yield any interest return.

The deposit in which an amount is immediately paid at the time of any account holder’s demand is called demand deposit (Bhandari, 2003). Its transaction is continual & a very small portion of such deposit can be invested in the productive sector. Though the bank cannot gain significant profit by investing it in new sector, this is one of the facilities given to the customer. Therefore, the bank doesn’t give interest on this account. For this study this types of deposit is not suitable.

Saving Deposit

According to Commercial Bank Act 2031 saving account means “An account of amounts deposited in a bank for savings purposes.” The saving deposit bears the features of both of the current and fixed period's deposits. Saving accounts are mainly meant for non-trading customers who have some potential for saving and who don't have numerous transactions entering their account. While opening the account the minimum compensating balance differ according to the banks rule. Similarly there is also divergence as to how much amount of money can be withdrawn. But if the customers want to withdraw more money from the bank which is not allowed by it but if s/he gives pre-information to the banks, s/he can withdraw more money. The bank fixes the minimum and maximum amount of withdraw able through a cheque from this deposit. If the bank goes into liquidation, priority is given to the saving deposit than current and fixed deposits while repaying the liabilities.

Fixed Deposit

Fixed deposits constitute a very important resource for banks as bank need not keep greater reserve in respect of such deposits. Under the commercial Bank Act 2031, "Fixed account means as account of amounts deposited in a bank for certain period of time." The customers opening such account deposit their money in the account for a fixed period. Usually, only the person or institution who wants to gain more interest opens such type of account. High interest rate is paid to this deposit as compare to saving deposits. The bank and the customer can take benefit from this deposit. The bank invests this money on the productive sector and gains profit and the customer too can be made his financial transaction stronger by getting more interest from this deposit. The principal amount with interest must be returned to the customer after expiry of fixed time.

In England these deposits are repayable subject to a period of notice and hence known as time deposit or time liabilities means that these are withdraw able subject to a period of notice and not on demand (Radhaswamy & VasuDevan, 1979). Fixed deposit receipt is not transferable by endorsement and certainly not negotiable. However the debt covered by the fixed deposit receipts can be assigned. Bank generally gives loans up to 90% of the deposit against the security of the deposit. For this bank charge some interest higher than the interest allowed on the deposit.

2.3.2 Importance of Deposit

Deposit arises from saving. An individual's income equals consumption plus saving. S/he deposits the saved part of income in the bank and gets interest from it. Banks in turn lend this money and earn profit by charging high interest rates. The borrowers from banks, invests this fund in productive sectors yielding more return than the interest on borrowed fund. This investment leads to create new employment opportunity in the economy. Ultimately due to new employment the purchasing power of the economy increases and finally GDP and growth of the economy occurs. It means that the deposit has very important role in the economy. There is a direct relationship between deposit of banks and the investment in the economy. If the volume of deposit is low, the investment in the economy also lags behind due to lack of resources. The deposit of banks is the accumulated capital which can directly be invested. There is a great need of such deposit in the developing countries. Deposit includes the idle money of the public, bank being the inter-mediator to accept this sort of money and help to canalize this in productive sector. So the importance of banks and financial intermediaries is larger in present context.

2.4 Concepts of Deposit Mobilization

Banks collects funds in the various form of deposits. Banks has to pay interest on that deposits so banks cannot keep the money in their vault, it has to move the funds in the productive sectors to earn enough return so that the interest can be paid and the bank itself can earn some profit form the process. Thus deposit mobilization is the process of moving the collected funds to the productive sectors to gain something in return. Deposit mobilization is the second important functions of any bank as without it no bank can survive. If the bank cannot mobilize its deposits it cannot earn enough money to pay the interest to the depositors and earn profit. Deposit mobilization is moving the funds to gain from it. The success of any commercial bank depends on the efficient mobilization of its deposits. Deposit mobilization is scattering the collected fund in the different sectors to gain form the process.

2.4.1 Features of Sound Lending and Fund Mobilization Policy

Income and profit of the financial institutions like commercial banks and financial institutions depend upon its lending procedure, lending policy and mobilizing collected fund through investing in different securities. The greater the credit created by the bank the higher will be the profitability. Some required features of sound lending policy and fund mobilization is explained as under:

a) Safety and Security

Financial institutions should inlets their deposit in profitable and secured sectors. They should not invest their fund in securities of those companies whose securities are too much depreciated and fluctuated because of risk of loss factors. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable. In this case MAST should be applied for the investment.

Where,

M = Marketability

A = Ascertain ability

S = Stability

T = Transferability

b) Legality

Each and every financial institution follow the rules and regulation of the company, government and various directions supplied by Nepal Rastra Bank, Ministry of Finance and on while issuing securities and mobilizing their fund. Illegal securities will bring out any problems to the investors. Lastly, the reputation and goodwill of the firm may be lost.

c) Liquidity

Liquidity is the position of the firm to meet current or short-term obligations. General public or customers deposit their savings at the banks in different accounts having full confidence of repayment by the banks whenever they require. To show a good current position and maintain the confidence, every firm must keep proper cash balance with them while investing in different securities and granting loan for excess fund.

d) Profitability

To maximize the return on investment and lending position, financial institutions must invest their collected fund in proper sectors. Finally they can maximize their volume of wealth. Their return depends upon the interest rate, volume of loan its time period and nature of investment on different securities and sectors.

e) Tangibility

A commercial bank should prefer tangible security to an intangible one. Though it may be considered that tangible properly doesn’t yield an income a part from intangible securities, which have lost their value due to price level inflation.

f) Purpose of Loan

Banks and other financial institutions must examine why loan is required to the customer. If customers do not use their borrowings, they can never repay and the financial institutions will have heavy bad debts. So, they should collect detailed information about the plan and scheme of the borrowing.

g) Diversification

A firm can invest its deposit collection in various securities to minimize the risk. So, all the firms must diversify their fund or make portfolio investment. Diversification helps to earn a good return and minimize the risks and uncertainty. So, the firms are making portfolio investment with different securities of different companies.

2.5 Sources of Fund

In the economic activities there are so many sources of fund. In these sources, issuing share and borrowing loan from different sector. The sources of funds can be categorized in two ways.

A. Owned Funds/ Equity Capital of Bank

Following are the sources of owned funds:

a) Ordinary Share

Ordinary shares are the bank's strong and reliable sources of funds. Banks promoters issue ordinary shares to the public in fixed number. Banks collects the fund by selling fixed ordinary shares to the public by adopting fixed rules and regulation. These public make shareholders after purchasing the issued share.

b) Preference Share

It is that kind of share which receive dividend and after liquidation money before ordinary share. But in Nepal, bank cannot issue preference share. But some situation it can issue preference share by taking permission from Nepal Rastra Bank.

c) Bonus Share

Company issue the extra share to the shareholder from the saving from profit and reserve fund by capitalizing these funds is known as bonus share. Bank issue shares to shareholders instead of banks amount. From this share, bank collects some share of funds.

d) Retained Earning

Banks earns profit by investing the funds in different sector through the principle of profit earning. Banks invests its fund in productive or profitable industries and business. Bank earns some amount from these investments.

e) Reserve Fund

Bank separates some share of capital in reserve funds in the time of banking activities. The reserve funds size based on banks earning and rules and regulation. Banks must separate some share of amount from profit in reserve fund. Banks have been earning by investing the reserve funds in liquid sector.

f) Undistributed Dividend

Bank does not distribute all profit to the shareholders. Banks invest some amount from profit by not distributing to shareholders. By this, the invested profit makes sources of funds to the banks.

B. Borrowed Fund of Bank

Bank collects the funds from another source except owned funds. Another source is borrowing from different sector. These types of funds collect borrow and debt capital. Following are the sources of the borrowed fund:

a) Selling of Debenture

Debenture means a “Rinpatra” which is issued by company by keeping or not keeping assets securities for collection of funds. If bank need a fund, it can collect capital by issuing debenture. The money also collects bank capital, which is collected by issuing debenture.

b) Deposits

The bank performs two-fold functions, i.e. the receipt of the deposits and granting the loans. The bank borrows money by accepting different types of deposits. The bank attracts the deposits from the public. The bank not only undertakes to take care of the deposits but also agrees to honors the demands of the depositor for withdraw of money from the deposits. Deposits accepted by the bank are of different types. They are:

- **Current Deposit**

  It is also known as demand deposit. A customer can open a current account with a bank by making an initial of Rs. 100. Any amount may be deposited in this account. The bank makes a small charge on the customer having current deposit account.

- **Saving Deposit**

  In this deposit, there are restriction on the maximum amount that can be deposited and also withdrawals from the account. The bank may not permit more than one or two withdrawals during a week.

- **Fixed Deposit**

  A fixed deposit is one where a customer is required to keep a fixed amount with the bank for specific periods. He is not allowed to withdraw amount before expiry of the period. The rate of interest is higher than on other deposit account during this period the bank is free to make use this money for granting loans and advances.

c) Loan from the Central Bank

NRB is the central bank of Nepal. All banks should operate their banking activities by maintaining the rules and regulations directed by the NRB. In the time of necessity, NRB provides the loans for the banks. The loan granted by the central bank is a bank capital.

d) Loan from the Financial Institutions

Financial institutions also provide loan for the banks. Bank can receive loans from financial institutions in the form of borrowing. The loan granted by the financial institutions is also a bank capital.

e) Loan from Commercial Banks

If banks need money, it receives money from other commercial bank also in the form of borrowing. Banks fulfill the need of cash by taking loan from other banks. It is also the types of bank capital.

2.6 Review of Related Studies

2.6.1 Review of Journals/Articles, Research Papers

In this subject, effort has been made to examine and review some of the related articles published in different economic journals, Bulletin of World Bank, dissertation papers, newspapers, researchers view and findings towards fund mobilization and other related books.

Banks are that kind of institutions, which deals with money and substitutions for money. They deal with credit and credit instrument. Effective circulation of credit is more significant for the banks. Unsteady and unevenly flow of credit harms the economic situation of the nation. Because of this, collected funds or deposits should be invested and mobilized into the right sector. An investment of fund decides the life and death of the banks.

An investment is a commitment of money that is expected to generate additional money. Every investment entails sacrifice for a future uncertain benefit (Clark, 1991).

Cheney and Moses (1995) are concerned with the objective of investment and indicate that the risk is in proportion with the degree of returns. They write, The investment objective is to increase systematically the individual’s wealth, defined as assets minus liabilities. The higher the level of the desired wealth, the higher must be received. An investor seeking higher return must be willing to face higher level of risk.

Charles P. Jones (1999), emphasizing on the proper management of an investor’s wealth says, Investment is the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor’s wealth, which is the sum of current income and present value of all future income.

Gittman and Jochnk (1990), Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns.

Sakespeare Baidya (1997) has an elaborated definition on “Investment” which beseeches of sound investment policy and covers wider aspects. He writes, a sound investment policy of bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to the depositors and banks on the other hand. Moreover, risk in banking sector tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually springs from significant amount of loans that have become uncollectible due to mismanagement, illegal economic downturn. Therefore, the banks investment policy must be such that it ensures sound and prudent in order to protect public funds.

Further in details he deals with what type of loan do banks make? And, how much of loan is to be invested? The banks make a variety of loans to a wide variety of customers from many different purposes from purchasing automobile to construct of homes and making trade with foreign countries. There, no uniform rules can be laid down to determine the portfolio of bank. The environment in which the bank operates influences its investment policy. The nature and availability of funds and assets also differ widely from region to region within a country or country to country. For example, the scope of operating a bank in Jumla will be different from the scope of a bank operating in Kathmandu. The investment policy to be applied in Kathmandu may not be applicable to the customer of Jumla because the demand for loans is less in rural areas whereas it is higher in urban areas.

Bhalla V.K. (1997) has derived a three basic concept of investment. He says, Banks are those institutions which accepts deposits from the public and in return provide credit to trade, business and industry that directly makes a remarkable impact on the economic development of a country. To collect fund and collect as a good investment is a very risky job. Ad-hoc investment decision leads the bank out of the business thereby drawn the economic growth of a country. Hence sound investment policy is another secret of a successful bank.

Shrestha Sunity (1997) has analyzed in her article, “Financial Performance of Commercial Banks Using Both Descriptive and Diagnostic Approach.” In her studies she has concluded that the structural ratio of commercial banks show that banks invest on the average 75% of their total deposit on the government securities and the shares. The analysis of resources position of commercial banks should quit high percentage of deposit as cash reserve. Return ratio of all the banks show that most of the time foreign banks have higher return as well as higher risk than Nepalese banks. The debt-equity ratios of commercial banks are more than 100% in most of the time period under study period. It led to conclude that the commercial banks are highly leveraged and highly risk. Joint venture banks had higher capital adequacy ratio but has been dealing every day. In case of the analysis of the management achievement foreign banks have comparatively higher total management achievement index.

Asian Weekly News Paper Report, published from Hong Kong, competition between joint venture banks made them to collect large amount as deposit. In same way, Nepal’s two Joint Venture Nepal Arab Bank Ltd. and Himalayan Bank Ltd. are positioned among 500 biggest banks of Asia region. This evaluation is based on the total assets, deposit, loan investment, net income and profit and investment on shares (Kantipur Daily, 2001)

Shrestha Ramesh Lal (1988) in his article, “A Study on Deposit and Credit of Commercial Banks in Nepal” concluded that the credit deposit ratio would be

51.30%, other things remaining the same in Nepal, which was the lowest under the period of review. Therefore, he had strongly recommended that the joint venture banks should try to give more credit entering new field as far as possible, otherwise, they might not be able to absorb even the total expenses.

Bajracharya Bodi B. (2047), in his article, "Monetary Policy and Deposit Mobilization in Nepal" that the mobilization of domestic saving is one of the prime objectives of monetary policy in Nepal. For this purpose, commercial banks stood as the active and vital financial intermediary for generating resources in form of deposit of the investors in different aspects of the economy.

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

Sharma Bhaskar (2000) has found same results that all the commercial banks are establishing and operating in urban areas, in this study, "Banking the Future on Competition." His achievements are:

Commercial banks are establishing and providing their services in urban areas only. They do not have interest to establish in rural areas. Only the branch of Nepal Bank Ltd. and Rastriya Banijya Bank Ltd. are running in those sectors. Commercial banks are charging higher interest rate on lending and they have maximum tax concession. They do not properly analyze the system.

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

Pradhan Shekhar Bahadur (2053) in his articles, “Deposit Mobilization, Its Problem and Prospects” He has presented that the people do not have knowledge and proper education for saving in institutional manner. So, they know financial organizational process, withdrawal system, depositing system. He suggest that the financial institutions do not want to operate and provide their services in rural areas. He has also recommended about how to mobilize the deposit collection by the financial institutions by rendering their services in rural areas, by adding various services and operating rural banking programmers. Nepal Rastra Bank must organize training programmers to develop the skilled human resources. Spreading a numbers of co-operative societies to develop mini banking services and improves the habits of public on deposit collection to the rural areas.

2.6.2 Review of Previous Theses

Before this study, various studies regarding the various aspects of commercial banks such as deposit mobilizing policy, financial performance, and investment policy, lending policy, interest rate structure, resource mobilization and capital structure have conducted several thesis works. Some of them, which are relevant for this study, are presented below:

Thapa Samiksha (2001), in her thesis paper “A Comparative Study on Investment Policy of Nepal Bangladesh Bank Ltd. and other Joint Venture Bank of Nepal” she has compared the investment activities of NBBL with only two Joint Venture Bank i.e. Nepal Arab Bank Ltd. and Nepal Grindlays Bank Ltd. by taking five years data. She has recommended in two ways:

She has suggested about investment in government securities, OBS operation loan recover act, sound credit collection policy, and project oriented approach, effective portfolio management, and innovative approach to bank marketing and banking facilities. She has suggested about liberal policy and coat management strategy.

Sapkota Udday Prasad (2002), in his thesis paper "A Study on Fund Mobilizing Policy of Standard Chartered Bank Ltd in Comparison to Nepal Bangladesh Bank Ltd and Himalayan Bank Ltd" having main objectives to examine the fund mobilizing policy adopted by three joint venture banks viz. SCBNL, NBBL and HBL and the way these banks mobilized their funds during five year study period i.e. from 1996/97 to 1999/2000.

He found the overall condition of SCBNL seems in satisfactory position in comparison to NBBL and HBL. In other words, he recommends that banks are strongly recommended to provide information about its services, facilities and extension of their services towards rural areas. These three banks are recommended to increase cash and bank balance to meet the need of investment and demand of loan and advances. And banks are to be investing its funds in the purchase of shares and debentures of other financial, non-financial companies, hotels and government companies.

Mr. Sapkota has not explained about the risk ratios which have to be faced by these joint venture banks. His study cannot show the fund mobilizing policy of the selected banks for the succeeding years because of time limitation i.e. up to 1999/2000.

While reviewing the books and articles and previous studies, it is found that banks are not just the storehouse of the country's wealth but are the reservoirs of resources necessary for economic development and employment generation. There are still different obstacles in the effective operation of the commercial banks in Nepal. Therefore these obstacles should be eradicated for the economic development of Nepal.

Dangol Neeta (2003), in her thesis paper "The impact of interest rate on financial performance of commercial banks of Nepal." The major objectives of the researcher are to show the relation between the investment portfolio and the interest structure of financial institutions. Another word present the relationship between deposits, loan/advances & interest and show the relation between profitability and the interest rate structure of the financial institutions.

She found the interest rate is one of the most important variables in the financial literate. The impact of interest rate on various aspects of the economy has been a matter of discussion for a long time .among the various variables said to have been affected by the interest rate, investment portfolio, profitability and other aspect of the individual commercial banks are surely the most discussed one. In other word, research design is conceptual framework created by researcher.

She concluded that most of the commercial banks contradict the general financial theories. The relation between amounts of deposit and interest rates, on deposit in general concept most be positive. But deposit are increasing depict the decreases in the general level of interest. The result of such phenomenon is that there are fewer investment opportunities for the banking sectors as well as general investors.

Bhatta Sashi (2004), in the topic "Interest Rate and its effect on Deposit and Lending", in this study, the disseminator tries to portrait the relation of interest rate with deposit and lending amount. Her findings and the findings made by Mr Chettri are seems to be different. According to Mr Chettri's finding, all the relation matches with the theory but Mrs Bhatta's finding on deposit was not as per theory. But other matters are same as Mr Chettri's. He conclude that the deposit rates of all sample banks under study are in decreasing trend; meaning that every year deposit rates of sample banks under study have decreased. Lending rates of all sample banks under study are also in decreasing trend; means that every year lending rates of sample banks under study have decreased. The analysis shows that interest rates on lending are far higher than deposit rates of sample banks. The correlation coefficient between these two variables, (deposit rate and lending rate) of sample banks comes highly positive. The simple correlation coefficient between deposit rate and deposit amount of sample banks were highly negative. But out of them, correlation coefficient analysis of one sample bank is found to be negative. It means that in that case the theory doesn't match the analysis. So writer conclude that the result appears in that study was different than the theory.

The correlation analysis between lending rate and lending amount of all sample banks under study comes highly negative. This relation between two variables (lending rate and lending amount) of sample banks matches with the theory which says with the increase in lending rate, lending amount decreases and vice-versa. So she concluded that lending rate is the most important determinant of loan and advances of all commercial banks. This makes clear that borrower's seem more interest conscious.

Finally, there is significant relationship between deposit rate and deposit amount and lending rate and lending amount of almost all commercial banks except one. Test of significance for correlation coefficient between inflation rate and deposit and lending rate shows that these variables are not correlated.

Karmacharya M.N. (2005), in his thesis paper "A Study on the Deposit Mobilization by the Joint Venture Banks" has mentioned that the bank has successfully maintained its liquid asset position but could not mobilize its resources efficiently. He has concluded that Nepal Bank's utilization side is weak as compare to the collection of resources. He suggested for extending its branches, so NBL's deposit collection and also long-term as well as short-term credit may increase. He has recommended not to consider security factor only but to provide loan to genuine projects without securing.

Pokharel Jhabindra (2006), a study made on the topics "Determinants of Interest Rates in Nepalese Financial Markets" also give some ideas about the interest rates in Nepalese markets. Though, this thesis tried to identify the factors that shape the interest rates in Nepalese markets, it also tried to explore the relationship between the interest rate, deposits, credit rates and inflation. He used descriptive research design.

He recommended that as the NRB has authority to control and stimulates the financial systems especially money market, it is also the information sources for public and other concerned parties. So, NRB should publish information in time and also should increase its information dissemination activities to provide knowledge to the depositors, lenders and other concerned parties so that they can make their decision correctly.

Mandala Mahendra (2007), in his thesis paper "A Comparative Financial Performance Appraisal of Joint Venture Banks.", has studied primarily three Joint Venture Banks i.e. NABIL, NGBL and Nepal Indosuez Bank Ltd. His main objectives is to find out the both banks, NGBL and NABIL have mobilized the debt funds in proper way for generating more return but Nepal Indosuez Bank (NIBL) could not mobilize as NABIL and NGBL. He has recommended that all the banks should provide their facilities in rural areas and encourage the small entrepreneur's development program, play merchant role, mobilize the deposit funds in productive sectors and grant priority to the local manpower.

He has not attempted to show the investment policy and concentrated only on financial performance of JVBs, therefore if cannot represent the performance appraisal of JVBs. His study is comparative study of only three JVBs.

Maharajan Shrijana(2008), in her thesis paper "Deposit Mobilization of Commercial Banks in Nepal" has study the four banks HBL, SBL, NBL and SCBNL. The focus of the study concentrates about the meaning of commercial banks and their functions mainly consists the study of deposit. The characteristics of bank loan reflect on the position of bank deposit and aggregate allocation of credit on different sectors of economy. She has recommended mobilizing the deposit to make profitability position in the market. It should reduce its unnecessary expenses and cost to maximize the profit margin. These banks are strongly recommended to give more importance to invest more funds in government securities instead of keeping them idle.

Nirmita Hada (2009), has conducted a study in the topics "Deposit and its Mobilization of commercial banks (with reference to Kumari Bank Ltd. and Siddhartha Bank Ltd.)". She has tried to summarize the advantages of deposit mobilization on her research. The deposit positions of commercial banks are increasing every year. More and more people are using banking system and depositing cash in commercial banks. The deposit collection mechanisms of commercial banks are properly executed. In the context of the sample bank Kumari Bank is able to collect more amount of deposit than Siddhartha Bank. The commercial banks are able to collect deposit in all form current, saving fixed and call. The majority portion of the total deposit is dominated by call deposit which is over 30% of the total deposit and after that saving deposit comprises over 20% of the total deposit. The portion of interest free deposit cannot also be neglected; commercial banks are able to increase such type of deposits also. The loans and advances of commercial banks are in increasing trend. The total loan of sample banks is Rs.42 million out of total deposit of Rs.47million. This shows that commercial banks are able to mobilize deposits in the form of loan and advances. Also there is positive correlation between total deposit and loan and advances. In the comparison of both sample bank Kumari Bank is able to grant more credit in the form of loan and advances.

She recommended that the commercial banks should increase the rate of interest offered in deposit to attract more customers because newly established banks and other financial institution are offering more interest rate. Commercial should seek newer alternative of investment besides traditional ones to move away from the limited market. Investing in hydro projects could be an alternative.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

Research is common parlance refers to a search for knowledge. The Webster International Dictionary gives a very inclusive definition of research as a careful critical inquiry or examination in seeking facts and principles: diligent investigation in order to ascertain something.

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher, studying his research problem among with the logic behind them.

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain object(s) in view. It describes the methods and processes applied in an entire aspect of the study. In fact, research methodology is a systematic way of solving the research problems.

A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of study, the applied methodology will be used. The research methodology used in the present study is briefly mentioned below.

3.2 Research Design

Research design indicates a plan of action to be carried out in connection with proposed research work. The research design is descriptive and core prescriptive in this study because the historical secondary data have been mainly deployed for analysis. A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 1992).

The research examines the facts and postulates in certain frameworks on details and supplies the important information on subject matter, summary of the study, major findings of the study, recommendations, conclusion etc. are the most significant information among them, they are derived with the help of some financial and statistical tools were adapted to evaluate the deposit mobilization of Commercial Banks viz. SCBNL and KBL in consideration not only to research about them but also to facilitate among them.

3.3 Nature and Sources of Data

The study is mainly based on secondary data. The secondary sources of data collections are those that have been used from published on used by someone previously. The secondary sources of data are Balance Sheet, Profit & Loss account and literature publication of the concerned banks. The NEPSE report of the concerned bank has furnished some important data to this research work. Some supplementary data and information have been collected from the authoritative sources like Nepal Rastra Bank, Nepal Stock Exchange Limited, Security Exchange Board, Economic Survey, National Planning Commission, different journals, magazines and other published and unpublished reports documented by the authorities.

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

3.4 Population and Sample

There are altogether 31 commercial banks functioning all over the country as a population of the study. Among them 2 commercial banks are taken as a sample for comparative study. They are:

- Standard Chartered Bank Nepal Ltd. (SCBNL)
- Kumari Bank Ltd.(KBL)

These banks are compared as per deposit mobilization procedure, that they are adopting to mobilize their collected funds as well as own funds.

3.5 Data Analysis Tools

Presentation and analysis of the data is the core of each and every research work. This study requires some financial and statistical tools to accomplish the objective of the study. The financial and statistical tools are most reliable. In this study various financial, statistical and accounting tools have been used. These tools make the analysis more effective, convenience, reliable and authentic.

The various results obtained with the help of financial, accounting and statistical tools are tabulated under different headings. Then they are compared with each other to interpret the results. Two kinds of tools have been used to achieve the certain goals.

- Financial Tools
- Statistical Tools

3.5.1 Financial Tools

Financial tools basically help analyze the financial strength and weakness of a firm. Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concerned especially to take output and loan management decision. Ratio analysis is used to compare form's financial performance and status that of the other forms or to it overtime. Even thought there are many ratios of analyze and interpret the financial statement, those ratios that are related to the investment to the investment operation of the bank are have been covered in this study. the following types of ratios have been used in this study.

Ratio Analysis

Ratio analysis is the powerful tool of financial analysis. A ratio is defined as the indicated quotient of two mathematical expressions the relationship between two or more things (Merriam, 1975). In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The relationship between two accounting figure expressed mathematically, is known as a financial ratio or simply a ratio. An accounting figure conveys meaning when it is related to some relevant information (Pandey, 1975).

A ratio is a mathematical relationship between two variables. It is significant for financial analysis. It also helps us to predict the future performance of a company based on study of ratios of earlier years.

Thus, ratio analysis is the part of whole process of analysis of financial statements of any business or industrial concerned especially to take output and credit decision. Ratio indicates a quantitative relationship, which can be, in turn, used to make a qualitative judgment. Even though there are various types of ratios to analyze and interpret the financial statement, only six types of ratios have been taken in this study, which are related to fund mobilization of the banks. They are presented below:

A. Liquidity Ratios

Liquidity ratios are applied to measure the ability of the firms to meet short term obligations. It measures the speed of firms to convert the firms asset into cash to meet deposit withdraws and other current obligations. This is quick measure of the liquidity and financial strength of the firm.

Liquidity ratios examine the adequacy of funds, the solvency of the firm's ability to pay its obligation when due (Hampton, 1995). Various types of liquidity ratios are applied in these studies, which are explained below:

i) Cash and Bank Balance to Total Deposit

Cash and bank balance are the most liquid current assets of a firm, cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositors immediately. This ratio is computed dividing the amount of cash and bank balance by the total deposits. It can be presented as,

$$Cash\ and\ Bank\ Balance = \frac{Cash\ and\ Bank\ Balance}{Total\ Deposit}$$

Where, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance held abroad. Total deposits consist of deposits on current account, saving account, fixed account, money at call and short notice and other deposits.

ii) Cash and Bank Balance to Current Assets Ratio

This ratio measures the percentage of liquid assets i.e. cash and bank balance among the current assets of a firm. Higher ratio shows the higher capacity of firms to meet the cash demand. This ratio is calculated dividing cash and bank balance by total current assets and can be calculated as,

$$Cash\ and\ Bank\ Balance\ to\ Current\ Assets\ Ratio = \frac{Cash\ and\ Bank\ Balance}{Current\ Assets}$$

Hence, cash and bank balance includes cash in hand, foreign cash and foreign banks.

iii) Investment on Government Securities to Current Assets Ratio

This ratio is used to find the percentage of current assets invested on government securities, treasury bills and development bonds. It can be mentioned as:

$$Investment\ on\ Government\ Securities\ to\ Current\ Assets = \frac{Investment\ on\ Government\ Securities}{Current\ Assets}$$

Where, Investment on government securities involves treasury bills and development bonds etc.

B. Assets Management Ratios

The asset management ratios, measures how effectively the firm is managing its assets. These ratios are designed to answer this question: does the total amount of each type of asset as reported on the balance sheet seem reasonable or not. If a firm has excessive investments in assets then its capital costs will be unduly high and its stock price will suffer **(**Brigham, 1992).

In this study this ratio is used to indicate how efficiently the selected banks have arranged and invested their limited resources. The following financial ratios related to fund mobilization are calculated under asset management ratio and interpretation is made by these calculations.

i) Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out how successfully the selected banks are utilizing their total collections or deposits on loan and advances for the purpose of earning profit. Greater ratio shows the better utilization of total deposits. This ratio can be obtained dividing loan and advances by total deposits, which can be shown as,

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

ii) Total Investment to Total Deposit Ratio

Investment is one of the major sources of earning of profit. This ratio indicates how properly firm's deposits have been invested on government securities and shares and debentures of other companies. This ratio is computed by using following formula:

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

Where, total investment includes investment on government securities, investment on debentures and bonds, share in subsidiary companies, shares in other companies and other investments.

iii) Loan and Advances to Total Working Fund Ratio

The main element of total working fund is loan and advances. This ratio indicates the ability of selected banks in terms of earning high profit from loan and advances. Loan and advances to working fund ratio can be obtained dividing loan and advances amount by total working fund. That is formulized as,

$$Loan\ and\ Advances\ to\ Total\ Working\ Fund = \frac{Total\ Loan\ and\ Advances}{Total\ Working\ Fund}$$

Where, total working fund includes total amount of assets given in balance sheet which refers to current assets, net fixed assets, total loans for development banks and other sundry assets except off balance sheet items i.e. letter of credit, letter of guarantee etc.

iv) Investment on Government Securities to Total Working Fund Ratio

Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage. It can be obtained by:

$$Investment\ on\ Government\ Securities\ to\ Total\ Working\ Fund = \frac{Investment\ on\ Government\ Securities}{Total\ Working\ Fund}$$

Where, investment on government securities includes investment on debentures, bonds and shares of other companies.

v) Investment on Shares and Debentures to Total Working Fund Ratio

Investment on shares and debentures to total working fund ratio shows the investment of banks on the shares and debentures of other companies in terms of total working fund. This ratio can be obtained dividing on shares and debentures by total working fund. It is calculated as:

$$Investment\ on\ Shares\ and\ Debentures\ to\ Total\ Working\ Fund = \frac{Investment\ on\ Shares\ and\ Debentrues}{Total\ Working\ Fund}$$

Where, total investment includes investment on government securities, investment on debenture and bonds, shares of other companies.

C. Profitability Ratios

Profit is only appeared when there is positive difference between total revenues and total cost over a certain period of time. Profitability ratios show the combined effects of liquidity, assets management, and debt on operating results. Profitability ratios are very helpful to measure the overall efficiency of operations of a firm. It is a true indication of the financial performance of each and every business organization. Here profitability ratios are calculated and evaluated in terms of the relationship between net profit and assets. Profitability of the firms can be presented through the following different ways:

i) Return on Loan and Advances Ratio

Return on loan and advances ratio shows how efficiently the banks have utilized their resources to earn good return from provided loan and advances. This ratio is computed dividing net profit (loss) by the total amount of loan and advances and can be mentioned as,

$$\text{Return on Loan and Advances} = \frac{\text{Net Profit (Loss)}}{\text{Loan and Advances}}$$

ii) Return on Total Working Fund Ratio

Return on total working fund ratio measures the profit earning capacity of the banks by utilizing available resources i.e. total assets. If the bank's well managed and efficiently utilized its working fund, it will get higher return. Maximizing taxes, this in the legal options available will also improve the return. It is computed as:

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

iii) Total Interest Earned to Total Working Fund Ratio

This ratio reflects the extent to which the banks are successful in mobilizing these total assets to acquire income as interest. This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the income as interest. We have,

$$\text{Total Interest Earned to Total Working Fund} = \frac{\text{Total Interest Earned}}{\text{Total Working Fund}}$$

iii) Total Interest paid to Total Working Fund Ratio

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher interest expenses on total working fund and vice-versa. This ratio is calculated as:

$$Total\ Interest\ Paid\ to\ Total\ Working\ Fund = \frac{Total\ Interest\ Paid}{Total\ Working\ Fund}$$

D. Risk Ratios

Generally, risk means uncertainty which lies in the business transaction of investment management. When a firm wants to bear risk and uncertainty, profitability and effectiveness of the firm is increased. This ratio checks the degree of risk involved in the various financial operations. For this study, following risk ratios are used to analyze and interprets the financial data and investment policy.

i) Liquidity Risk Ratio

The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit, as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash and bank balance but this reduces profitability. When the bank makes loans its profitability increases and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated by dividing cash and bank balance to total deposit.

$$Liquidity\ Risk\ Ratio = \frac{Cash\ and\ Bank\ Balance}{Total\ Deposit}$$

ii) Credit Risk Ratio

Bank utilizes its collected funds in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally credit risk ratio shows the proportion of nonperforming assets in the total investment plus loan and advances of a bank. It is computed as:

$$Credit\ Risk\ Ratio = \frac{Total\ Investment + Total\ Loan\ and\ Advances}{Total\ Assets}$$

E. Growth Ratios

The growth ratios represent how well the commercial banks are maintaining their economic and financial position. The higher ratios represent the better performance of the selected firms to calculate, check and analyze the expansion and growths of the selected banks the following growth ratios are calculated. Growth ratios are directly related to the fund mobilization and investment of those firms.

i) Growth ratio of total deposits
ii) Growth ratio of total investment
iii) Growth ratio of loan and advances
iv) Growth ratio of net profit

3.5.2 Statistical Tools

In this study, some important statistical tools have been used to present and analyze the data for achieving the objectives. Such as coefficient of correlation between different variables has been used, which are presented below:

õ **Arithmetic Mean**

Mean is a single value related from a group of values to represent them in some way, a value, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group (Gupta, 1992). There are various types of mean. Arithmetic mean (AM, Simple & Weighted), median, mode, geometric mean, harmonic mean are the major types of averages. The most popular and widely used measure representing the entire data by one value is the AM. The value of the AM is obtained by adding together all the items and by dividing this total by the number of items.

Mathematically:

Arithmetic Mean (AM) is given by,

$$\overline{X} = \frac{\sum X}{n}.$$

Where,

$\overline{X}$ = Arithmetic mean

$\sum x$ = Sum of all the values of the variable X

n = Number of observation

õ **Correlation and Regression**

Correlation is defined as the "relationship" (of association) between (Among) the one dependent variable (or factor) and one (or more than one) independent variable (s) or factor (s). In the other words, correlation is the relationship between (or among) two or more variables (I.e. Only one variable dependent and one or more variable (s) independent).

Regression is the statistical tool which is used to determine the statistical relationship between two (or more) variables and to make estimation (of prediction) of one variable on the basis of the other variable(s). In the other words, regression is that statistical tool with the help of which the unknown value of one variable can be estimated (or predicts) on the basis of known value of the other variable. Assuming that the two variables are closely related. We can estimate the value of the one variable from the given value of another.

The analysis used to describe the average mathematical relationship between two variables is called "simple linear regression analysis". "Simple" because there is only one independent variable and linear" because the relationship between the independent and dependent variables is assumed to be linear.

Prediction (or estimation) is one of the major problems in almost all spheres of human activity. The estimation 9 or prediction) of future production, consumption prices, investments, sales, profits, income etc. are very important to businessman or economist.

Correlation of coefficient, r $= \frac{N.\sum XY - \left(\sum X\right).\left(\sum Y\right)}{\sqrt{N.\sum X^2 - \left(\sum X\right)^2}.\sqrt{N.\sum Y^2 - \left(\sum Y\right)^2}}$

Where,

N = Number of pairs of observation.

X= Variable

Y = Variable

r = correlation of coefficient

The relationship between the two variable can be measured either by graphical method (scatter diagram) of by numerical calculation method.

The numerical measurement of relationship between the two variables is denoted by the symbol "r" whose values arranges from $-1 \le r \le +1$

Interpretation:

i) If r=0, there is no relationship between the variables

ii) If r<0, there is negative relationship between the variables

iii) If r>0, there is positive relationship.

iv) If r=+1, the relationship is perfectly positive

V) If r=-1, the relationship is perfectly negative

õ **Probable Error (P.E)**

Probable error is measured for testing the reliability of an observed value of correlation coefficient. It is computed to find the extent to which it is dependable. If correlation coefficient is greater than 6 times P.E the observed value of r is said to be significant, otherwise nothing can be concluded with certainty. But if the calculated (r) is less than the P.E correlation is not at all significant. It is calculated by using following formula:

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

Where,

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

r = Correlation coefficient

n = Number of observations

Conclusion:

(i) If r<6 P.E. the value of 'r' is not significant no matter how high r value is i.e. there is no evidence of correlation between the variables.

(ii) If r > 6.P.E, the value of r is significant i.e correlation is significant.

CHAPTER FOUR
DATA PRESENTATION AND ANALYSIS

Presentation and analysis of the data is the core of each and every research work. This study requires some financial and statistical tools to accomplish the objective of the study. The various results obtained with the help of financial, accounting and statistical tools are tabulated under different headings. As the main objective of the study is to analyze the deposit mobilization of selected banks; the necessary financial facts and figures as well as descriptive information are gathered through the financial statement. The major variables for the study are cash and bank balance, total investment, investment on government securities and share and debenture and fixed deposit in commercial banks.

Financial Ratio Analysis is a tool, through which economic and financial position of organization can be fully to X-rayed. It is the indicated quotient of two mathematical expressions, and as the relationship between two or more things. Therefore, to find out the position of investment in government securities of sample commercial banks, the following ratios are examined.

4.1 Liquidity Ratios

Liquidity ratios are applied to measure the ability of the firms to meet short term obligations. It measures the speed of firms to convert the firms asset into cash to meet deposit withdraws and other current obligations. This is quick measure of the liquidity and financial strength of the firm.

4.1.1 Cash and Bank Balance to Total Deposit

This ratio is computed dividing the amount of cash and bank balance by the total deposits.

Table: 4.1
Cash and Bank Balance to Total Deposit

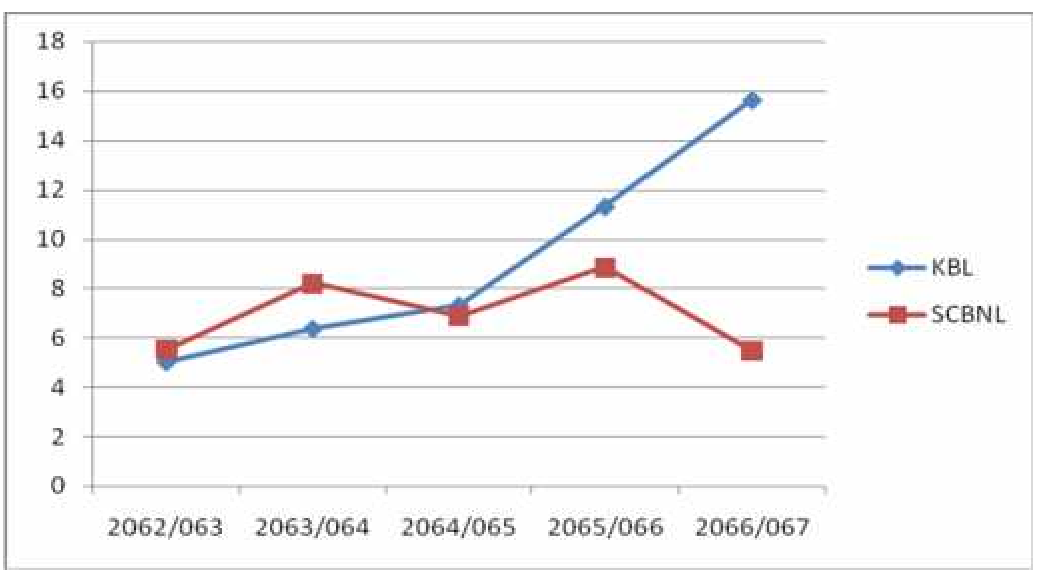
(Ratio in %)

Fiscal Year	KBL	SCBNL
2062/063	5.02	5.53
2063/064	6.37	8.2
2064/065	7.31	6.89
2065/066	11.31	8.87
2066/067	15.63	5.48
Average	**9.128**	**6.99**
S.D	3.87	1.37
C.V	42.38	19.63

Source: Annex II, III, IV & V

The table 4.1 reveals that cash and bank balance to total deposit ratio of KBL is 9.12 percent in an average in the period under study whereas SCBNL has 6.99 percent. The average ratio of KBL is higher than SCBNL. The ratios of banks are found to be in fluctuating. The higher ratio is 15.63 percent in FY 2066/067 for KBL, and 8.87 percent in FY 2065/066 for SCBNL. The S.D is 3.87 and 1.37 for KBL and SCBNL respectively. As well as the C.V. for KBL is 42.38 and SCBNL is 19.63. These facts are shown in the figure 4.1 to make easier to understand.

Figure: 4.1
Cash and Bank Balance to Total Deposit



4.1.2 Cash and Bank Balance to Current Assets Ratio

This ratio is calculated dividing cash and bank balance by total current assets.

Table: 4.2
Cash and Bank Balance to Current Assets Ratio

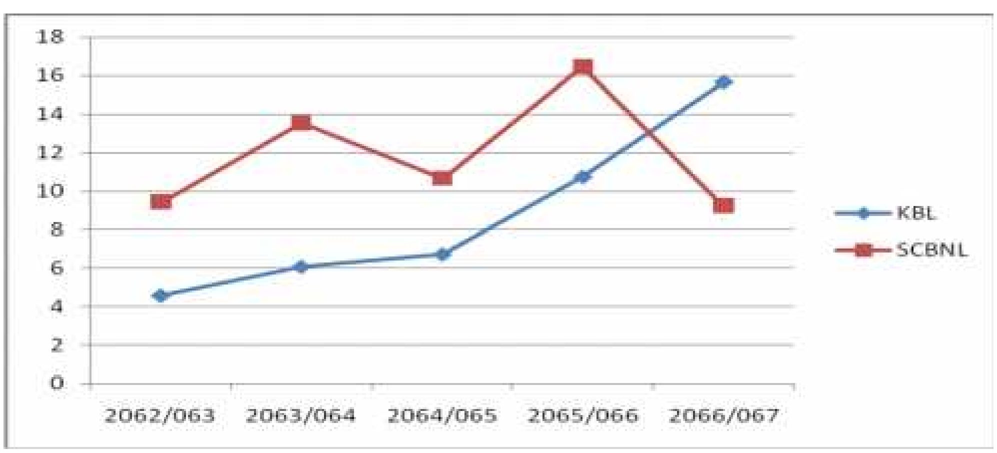
(Ratio in %)

Fiscal Year	KBL	SCBNL
2062/063	4.57	9.41
2063/064	6.07	13.55
2064/065	6.71	10.65
2065/066	10.72	16.47
2066/067	15.64	9.21
Average	**8.74**	**11.85**
S.D	4.00	2.78
C.V	45.80	23.43

Source: Annex II, III, IV & V

From the table 4.2 it is depicted that Cash and Bank Balance to Current Assets ratio of KBL is 8.74 percent in an average in the period under study whereas SCBNL has 11.85 percent. The average ratio of SCBNL is higher than KBL. The higher ratio is 15.64 percent in FY 2066/067 for KBL and 16.47 percent in FY 2065/066 for SCBNL. The S.D is 4.00 and 2.78 for KBL and SCBNL respectively. As well as the C.V. for KBL is 45.80 and for SCBNL is 23.43. These facts are shown in the figure 4.2 to make easier to understand.

Figure: 4.2
Cash and Bank Balance to Current Assets Ratio



4.1.3 Investment on Government Securities to Current Assets Ratio

This ratio is used to find the percentage of current assets invested on government securities, treasury bills and development bonds.

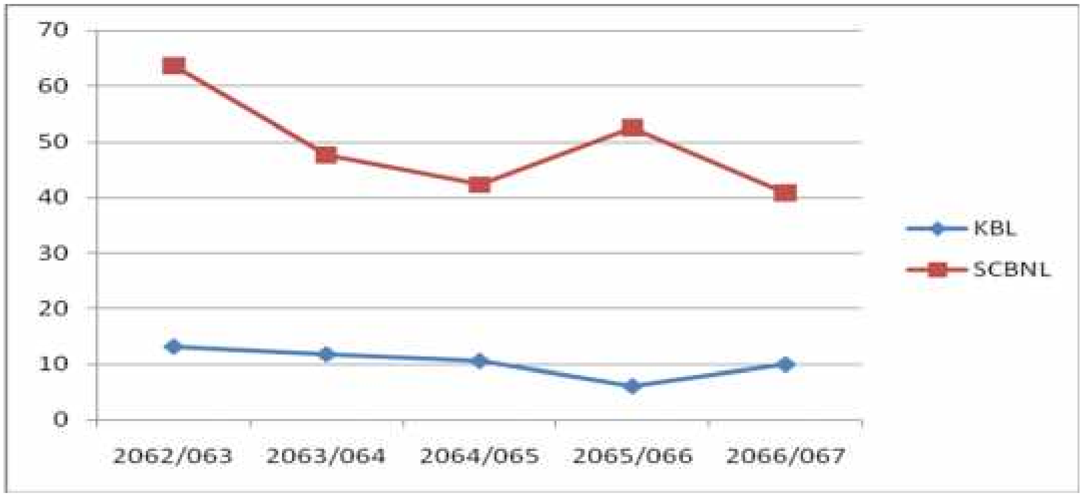
Table: 4.3
Investment on Government Securities to Current Assets Ratio
(Ratio in %)

Fiscal Year	KBL	SCBNL
2062/063	13.07	63.66
2063/064	11.72	47.65
2064/065	10.55	42.28
2065/066	6.16	52.49
2066/067	9.93	40.73
Average	**10.286**	**49.362**
S.D	2.32	8.27
C.V	22.60	16.75

Source: Annex II, III, IV & V

The table 4.3 shows that Investment on Government Securities to Current Assets ratio of KBL is 10.28 percent in an average in the period under study whereas 49.36 percent in an average for SCBNL. The average ratio of SCBNL is higher than KBL. The ratios of the banks are found to be in fluctuating. The higher ratio is 13.07 percent in FY 2062/063 for KBL and 63.66 percent in FY 2062/063 for SCNBL and the lowest ratio is 6.16 percent in FY 2065/066 for KBL and 40.73 percent in FY 2066/067 for SCBNL. The S.D is 2.32 and 8.27 for KBL and SCBNL respectively. As well as the C.V. for KBL, and SCBNL are 22.60 and 16.75 respectively. These facts are shown in the figure 4.3 to make easier to understand.

Figure: 4.3
Investment on Government Securities to Current Assets Ratio



4.2 Assets Management Ratios

The asset management ratios, measures how effectively the firm is managing its assets. In this study this ratio is used to indicate how efficiently the selected Commercial Banks have arranged and invested their limited resources. The following financial ratios related to deposit mobilization are calculated under asset management ratio and interpretation is made by these calculations.

4.2.1 Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out how successfully the selected banks are utilizing their total collections or deposits on loan and advances for the purpose of earning profit. This ratio can be obtained dividing loan and advances by total deposits.

Table: 4.4
Loan and Advances to Total Deposit Ratio

(Ratio in %)

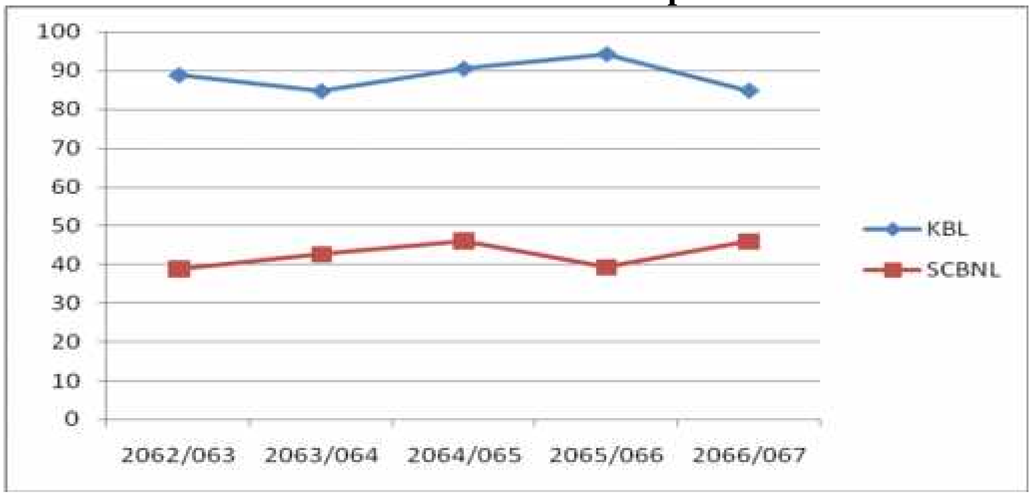
Fiscal Year	KBL	SCBNL
2062/063	88.71	38.75
2063/064	84.59	42.61
2064/065	90.39	46.12
2065/066	94.17	39.27
2066/067	84.71	45.98
Average	**88.514**	**42.546**
S.D	3.62	3.15
C.V	4.09	7.41

Source: Annex II, III, IV & V

From the table 4.4 it is depicted that Loan and Advances to Total Deposit ratio of KBL is 88.51 percent in an average in the period under study whereas that of SCNBL is 42.54 percent in an average. The average ratio of KBL is higher than SCBNL. The ratios of the banks are found to be in fluctuating.

The higher ratio is 94.17 percent in FY 2065/066 for KBL, and 46.12 percent in FY 2064/065 for SCNBL and the lowest ratio is 84.59 percent in FY 2063/064 for KBL and 38.75 in FY 2062/063 for SCBNL. The S.D is 3.62 and 3.15 for KBL and SCBNL respectively. As well as the C.V. for KBL, and SCBNL is 4.09 and 7.41 respectively. These facts are shown in the figure 4.4 to make easier to understand.

Figure: 4.4
Loan and Advances to Total Deposit Ratio



4.2.2 Total Investment to Total Deposit Ratio

Investment is one of the major sources of earning of profit. This ratio indicates how properly firm's total deposits have been invested on different sectors of other companies.

Table: 4.5
Total Investment to Total Deposit Ratio

(Ratio in %)

Fiscal Year	KBL	SCBNL
2062/063	17.96	55.67
2063/064	15.9	54.99
2064/065	16.74	46.74
2065/066	9.62	57.24
2066/067	13.18	56.41
Average	**14.68**	**54.21**
S.D	2.98	3.81
C.V	20.29	7.03

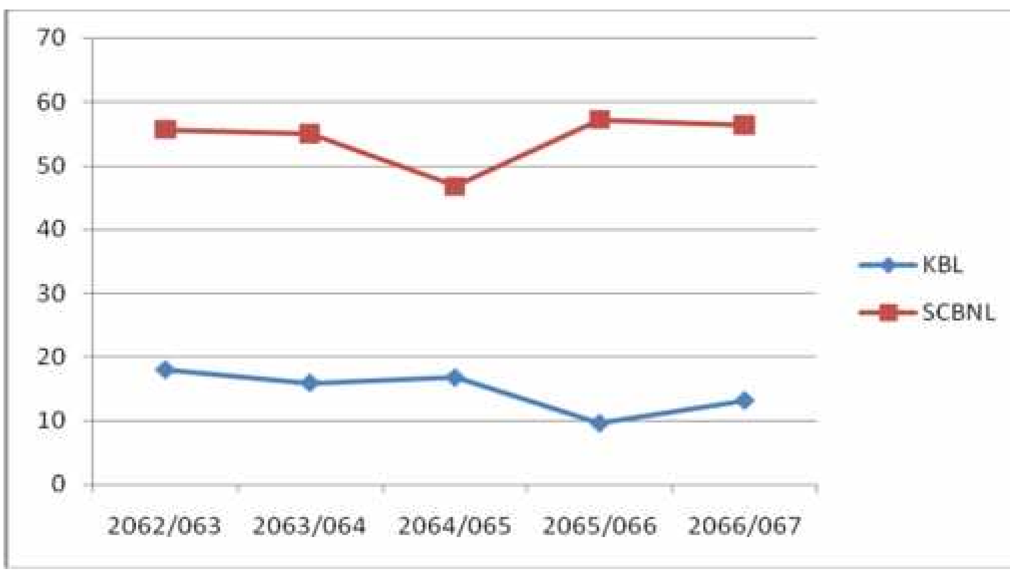
Source: Annex II, III, IV & V

From the table 4.5 it is depicted that Total Investment to Total Deposit ratio of KBL is 14.68 percent in an average in the period under study whereas that of

SCNBL is 54.21 percent in an average. The average ratio of SCBNL is higher than KBL. The ratios of the banks are found to be in fluctuating.

The higher ratio is 17.96 percent in FY 2062/063 for KBL and 57.24 percent in FY 2065/066 for SCBNL and the lowest ratio is 9.62 percent in FY 2065/066 for KBL and 46.74 percent in FY 2064/065 for SCBNL. The S.D is 2.98 and 3.81 for KBL and SCBNL respectively. As well as the C.V. for KBL, and SCBNL are 20.29 and 7.03 respectively. These facts are shown in the figure 4.5 to make easier to understand.

Figure: 4.5
Total Investment to Total Deposit Ratio



4.2.3 Loan and Advances to Total Working Fund Ratio

This ratio indicates the ability of selected banks in terms of earning high profit from loan and advances. Loan and advances to working fund ratio can be obtained dividing loan and advances amount by total working fund.

Table: 4.6
Loan and Advances to Total Working Fund Ratio

(Ratio in %)

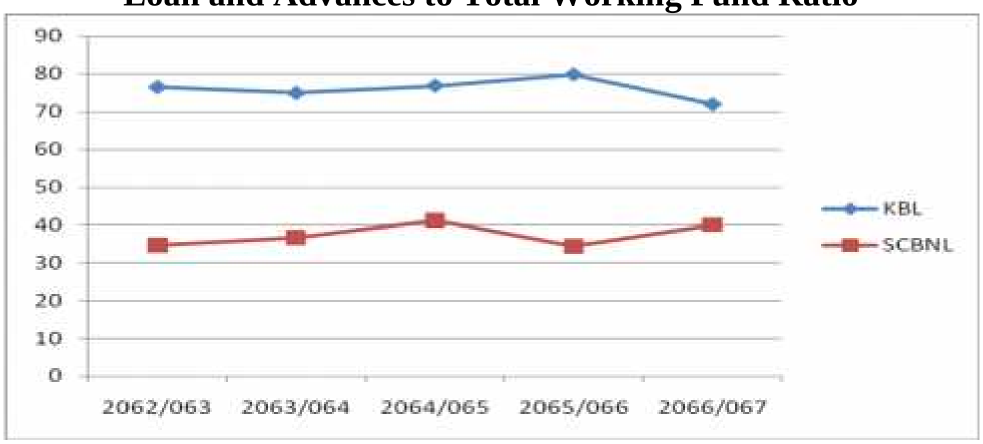
Fiscal Year	KBL	SCBNL
2062/063	76.49	34.68
2063/064	74.93	36.73
2064/065	76.88	41.15
2065/066	79.81	34.47
2066/067	71.95	40.01
Average	**76.01**	**37.41**
S.D	2.57	2.73
C.V	3.38	7.30

Source: Annex II, III, IV & V

From the table 4.6 it is depicted that Loan and Advances to Total Working Fund ratio of KBL is 76.01 percent in an average in the period under study whereas that SCBNL has 37.41 percent in an average. The average ratio of KBL is higher than SCBNL. The ratios of the banks are found to be in fluctuating.

The higher ratio is 79.81 percent in FY 2065/066 for KBL and 41.15 in FY 2064/065 for SCBNL and the lowest ratio is 71.95 percent in FY 2066/067 for KBL and 34.47 percent in FY 2065/066 for SCBNL. The S.D is 2.57 and 2.73 for KBL and SCBNL respectively. As well as the C.V. for KBL and SCBNL is 3.38 and 7.30 respectively. These facts are shown in the figure 4.6 to make easier to understand.

Figure: 4.6
Loan and Advances to Total Working Fund Ratio



4.2.4 Investment on Government Securities to Total Working Fund Ratio

Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage.

Table: 4.7
Investment on Government Securities to Total Working Fund Ratio
(Ratio in %)

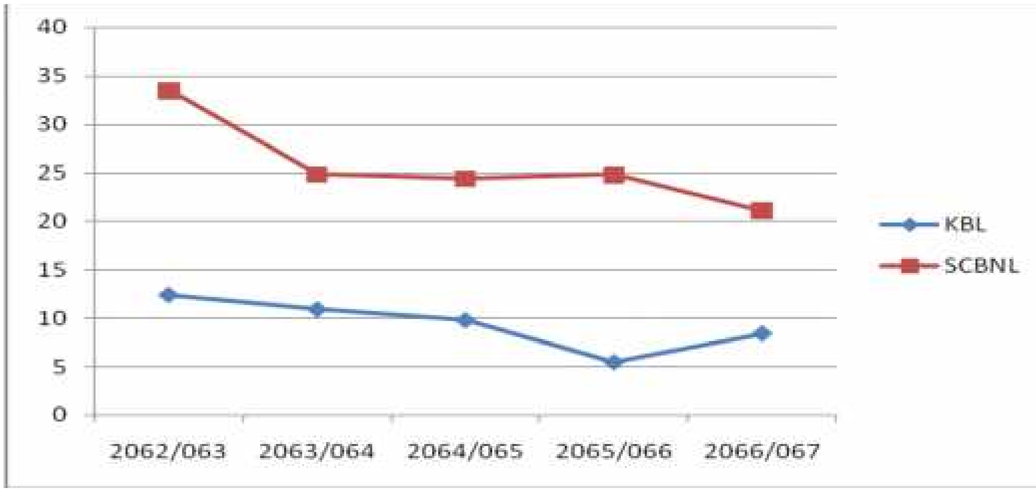
Fiscal Year	KBL	SCBNL
2062/063	12.37	33.51
2063/064	10.89	24.86
2064/065	9.78	24.41
2065/066	5.5	24.83
2066/067	8.43	21.10
Average	**9.39**	**25.74**
S.D	2.34	4.13
C.V	24.89	16.04

Source: Annex II, III, IV & V

From the table 4.7 it is shown that Investment on Government Securities to Total Working Fund ratio of KBL is 9.39 percent in an average in the period under study whereas that of SCNBL is 25.74 percent in an average.. The average ratio of SCBNL is higher than KBL. The ratios of the banks are found to be in fluctuating. The higher ratio is 12.37 percent in FY 2062/063 for KBL, 33.51 percent in FY 2062/063 for SCNBL and the lowest ratio is 5.5 percent in FY 2065/066 for KBL and 21.10 percent in FY 2066/067 for SCBNL.

The S.D is 2.34 and 4.13 for KBL and SCBNL respectively. As well as the C.V. for KBL and SCBNL are 24.89 and 16.04 respectively. These facts are shown in the figure 4.7 to make easier to understand.

Figure: 4.7
Investment on Government Securities to Total Working Fund Ratio



4.2.5 Investment on Shares & Debentures to Total Working Fund Ratio

Investment on shares and debentures to total working fund ratio shows the investment of Commercial Banks on the shares and debentures of other companies in terms of total working fund. This ratio can be obtained dividing on shares and debentures by total working fund.

Table: 4.8
Investment on Shares and Debentures to Total Working Fund Ratio
(Ratio in %)

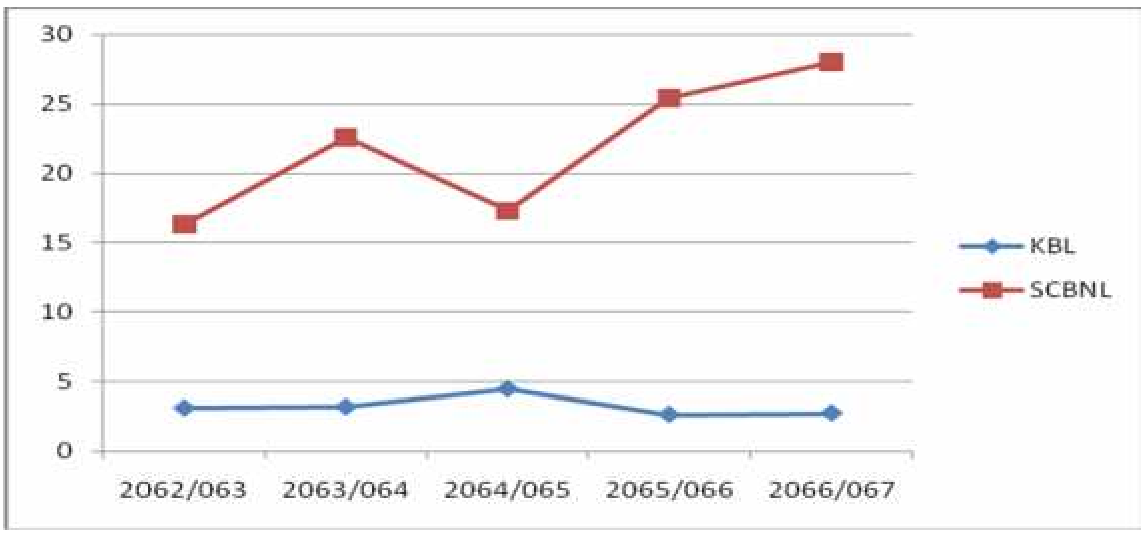
Fiscal Year	KBL	SCBNL
2062/063	3.11	16.31
2063/064	3.19	22.54
2064/065	4.46	17.29
2065/066	2.65	25.42
2066/067	2.76	27.99
Average	**3.23**	**21.91**
S.D	0.65	4.53
C.V	19.97	20.65

Source: Annex II, III, IV & V

The table 4.8 it is reveals that Investment on Shares and Debentures to Total Working Fund ratio of KBL is 3.23 percent in an average in the period under study whereas that of SCBNL is 21.91 percent in an average. The average ratio of SCBNL is higher than KBL. The ratios are found to be in fluctuating. The higher ratio is 4.46 percent in FY 2064/065 for KBL and 27.99 percent in FY 2066/067 for SCBNL. The S.D is 0.65 and 4.53 for KBL and SCBNL respectively. As well as the C.V. for KBL and SCBNL are 19.67 and 20.65 respectively. These facts are shown in the figure 4.8 to make easier to understand.

Figure: 4.8

Investment on Shares and Debentures to Total Working Fund Ratio



4.3 Profitability Ratios

Profit is only appeared when there is positive difference between total revenues and total cost over a certain period of time. Profitability ratios show the combined effects of liquidity, assets management, and debt on operating results. Profitability ratios are very helpful to measure the overall efficiency of operations of a firm. It is a true indication of the financial performance of each and every business organization. Here profitability ratios are calculated and evaluated in terms of the relationship between net profit and assets. Profitability of the firms can be presented through the following different ways:

4.3.1 Return on Loan and Advances Ratio

Return on loan and advances ratio shows how efficiently the banks have utilized their resources to earn good return from provided loan and advances.

Table: 4.9
Return on Loan and Advances Ratio

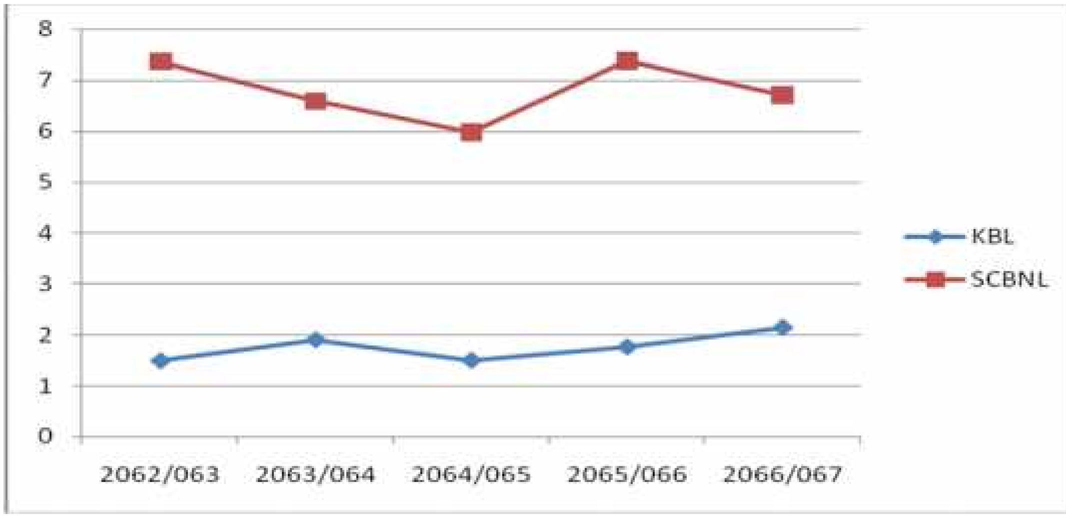
(Ratio in %)

Fiscal Year	KBL	SCBNL
2062/063	1.5	7.37
2063/064	1.91	6.59
2064/065	1.51	5.97
2065/066	1.77	7.39
2066/067	2.15	6.71
Average	**1.77**	**6.81**
S.D	0.25	0.53
C.V	13.96	7.81

Source: Annex II, III, IV & V

From the table 4.9 it is depicted that Return on Loan and Advances ratio of KBL is 1.77 percent in an average in the period under study whereas that of SCBNL has 6.81 percent in an average. The average ratio of SCBNL is higher than KBL. The ratios of the banks are found to be in fluctuating. The higher ratio is 2.15 percent in FY 2066/067 for KBL and 7.39 percent in FY 2065/066 for SCBNL and the lowest ratio is 1.50 percent in FY 2062/063 for KBL and 5.97 percent in FY 2064/065. The S.D is 0.25 and 0.53 for KBL and SCBNL respectively. As well as the C.V. for KBL and SCBNL are 13.96 and 7.81 respectively. These facts are shown in the figure 4.9 to make easier to understand.

Figure: 4.9
Return on Loan and Advances Ratio



4.3.2 Return on Total Working Fund Ratio

Return on total working fund ratio measures the profit earning capacity of the banks by utilizing available resources i.e. total assets. If the bank's well managed and efficiently utilized its working fund, it will get higher return.

Table: 4.10
Return on Total Working Fund Ratio

(Ratio in %)

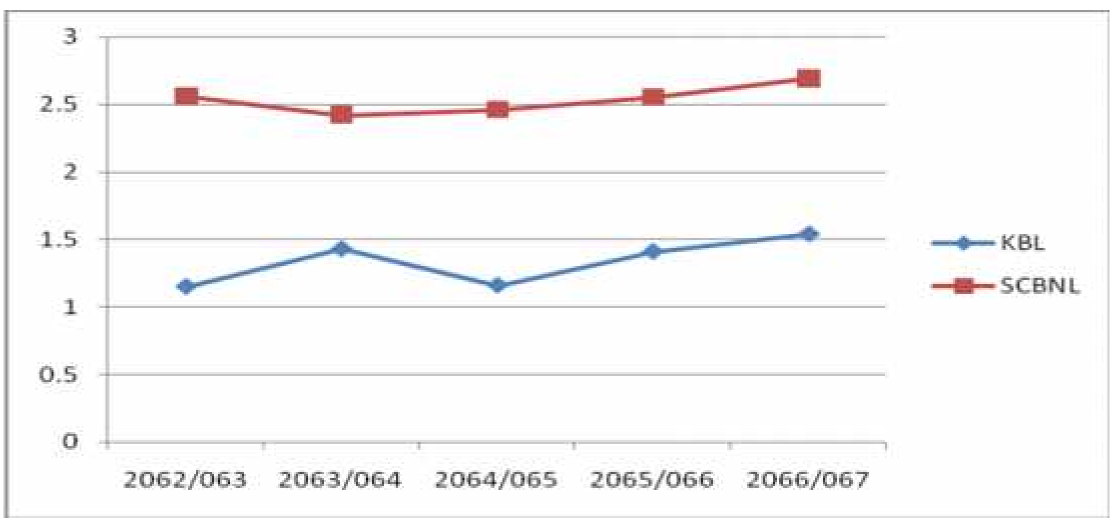
Fiscal Year	KBL	SCBNL
2062/063	1.15	2.56
2063/064	1.43	2.42
2064/065	1.16	2.46
2065/066	1.41	2.55
2066/067	1.54	2.69
Average	**1.34**	**2.54**
S.D	0.16	0.09
C.V	11.65	3.69

Source: Annex II, III, IV & V

From the table 4.10 it is depicted that Return on Total Working Fund ratio of KBL is 1.34 percent in an average in the period under study whereas that of SCBNL is 2.54 percent in an average for period. The average ratio of KBL is lower but the higher ratio in an average is 2.69 for SCBNL. The ratios of the banks are found to be in fluctuating.

The higher ratio is 1.54 percent in FY 2066/067 for KBL and 2.59 percent in FY 2066/067 for SCBNL and the lowest ratio is 1.15 percent in FY 2062/063 for KBL and 2.42 percent in FY 2063/064 for SCBNL. The S.D is 0.16 and 0.09 for KBL and SCBNL respectively. As well as the C.V. for KBL is 11.65 and SCBNL is 3.69. These facts are shown in the figure 4.10 to make easier to understand.

Figure: 4.10
Return on Total Working Fund Ratio



4.3.3 Total Interest Earned to Total Working Fund Ratio

This ratio reflects the extent to which the banks are successful in mobilizing these total assets to acquire income as interest. This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund.

Table: 4.11

Total Interest Earned to Total Working Fund Ratio

(Ratio in %)

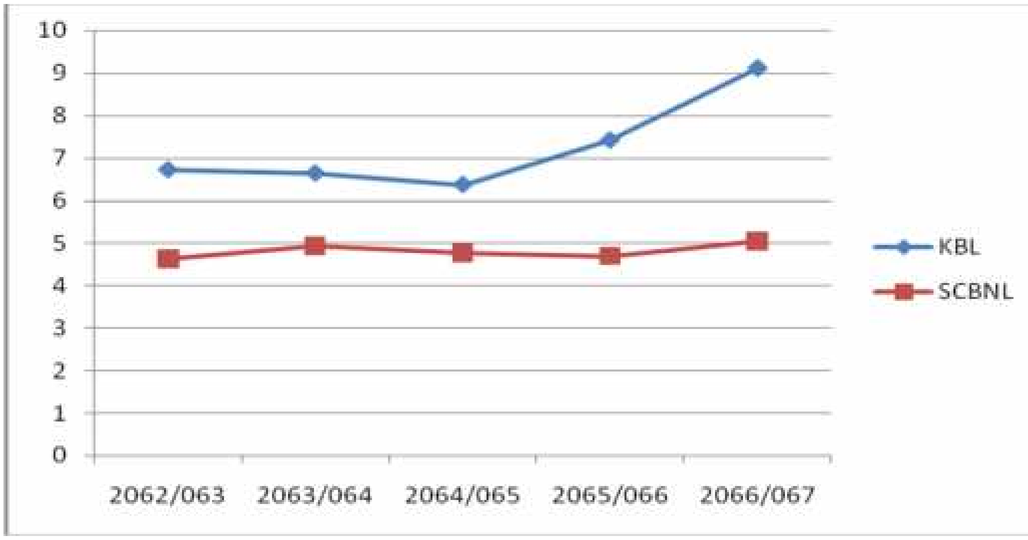
Fiscal Year	KBL	SCBNL
2062/063	6.72	4.62
2063/064	6.64	4.94
2064/065	6.37	4.77
2065/066	7.42	4.69
2066/067	9.12	5.05
Average	**7.25**	**4.81**
S.D	1.00	0.16
C.V	13.72	3.30

Source: Annex II, III, IV & V

From the table 4.11 it is depicted that Return on Total Interest Earned to Total Working Fund ratio of KBL is 7.25 percent in an average in the period under study whereas that of SCBNL is 4.81 percent in an average. The average ratio of KBL is higher than SCBNL. The ratios of the banks are found to be in fluctuating.

The higher ratio is 9.12 percent in FY 2066/067 for KBL and 5.05 percent in FY 2066/067 for SCBNL and the lowest ratio is 6.37 percent in FY 2064/065 for KBL and 4.62 percent in FY 2062/063 for SCBNL. The S.D is 1.00 and 0.16 for KBL and SCBNL respectively. As well as the C.V. for KBL and SCBNL are 13.72 and 3.30 respectively. These facts are shown in the figure 4.11 to make easier to understand.

Figure: 4.11
Total Interest Earned to Total Working Fund Ratio



4.3.4 Total Interest paid to Total Working Fund Ratio

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher interest expenses on total working fund and vice-versa.

Table: 4.12
Total Interest paid to Total Working Fund Ratio

(Ratio in %)

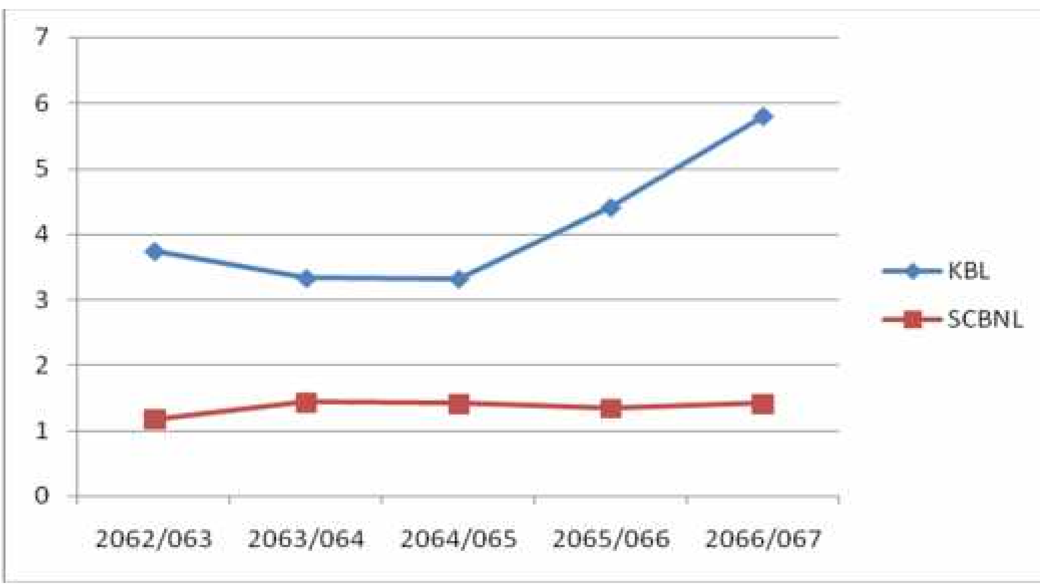
Fiscal Year	KBL	SCBNL
2062/063	3.74	1.18
2063/064	3.33	1.44
2064/065	3.32	1.42
2065/066	4.4	1.35
2066/067	5.79	1.42
Average	**4.12**	**1.36**
S.D	0.92	0.10
C.V	22.47	7.05

Source: Annex II, III, IV & V

From the table 4.12 it is depicted that Total Interest paid to Total Working Fund ratio of KBL is 4.12 percent in an average in the period under study whereas that of SCNBL is 1.36 percent in an average. The average ratio of SCBNL is lower than KBL. The ratios of the banks are found to be in fluctuating.

The higher ratio is 5.79 percent in FY 2066/067 for KBL and 1.44 percent in FY 2063/064 for SCBNL and the lowest ratio is 3.32 percent in FY 2064/065 for KBL whereas SCBNL is 1.18 percent in FY 2062/063. The S.D is 0.92 and 0.10 for KBL and SCBNL respectively. As well as the C.V. for KBL and SCBNL are 22.47 and 7.05 respectively. These facts are shown in the figure 4.12 to make easier to understand.

Figure: 4.12
Total Interest paid to Total Working Fund Ratio



4.4 Risk Ratios

Generally, risk means uncertainty which lies in the business transaction of investment management. This ratio checks the degree of risk involved in the various financial operations. For this study, following risk ratios are used to analyze and interprets the financial data and investment policy.

4.4.1 Liquidity Risk Ratio

The liquidity risk of the bank defines its liquidity need for deposit. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is calculated by dividing cash and bank balance to total deposit.

Table: 4.13
Liquidity Risk Ratio

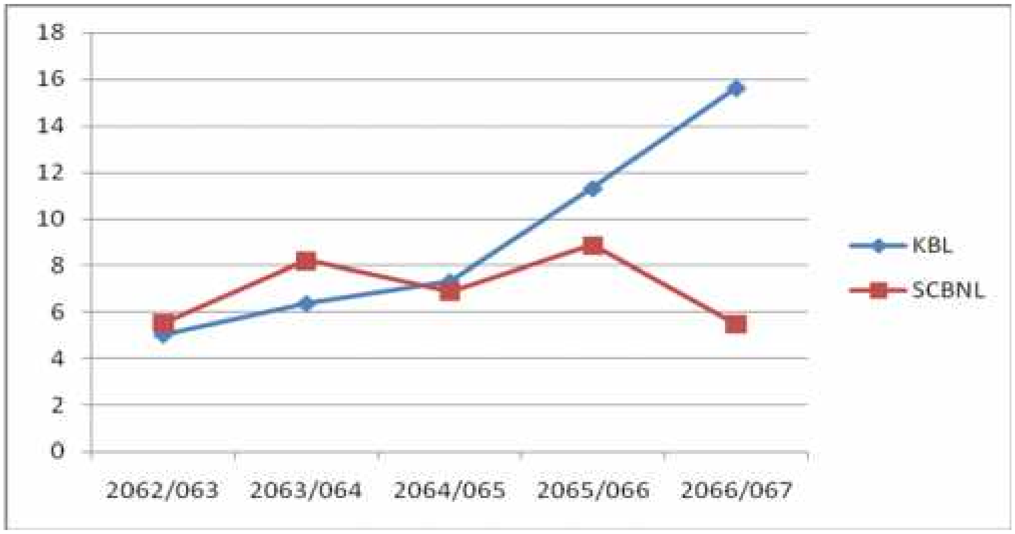
(Ratio in %)

Fiscal Year	KBL	SCBNL
2062/063	5.02	5.53
2063/064	6.37	8.2
2064/065	7.31	6.89
2065/066	11.31	8.87
2066/067	15.63	5.48
Average	**9.13**	**6.99**
S.D	3.87	1.37
C.V	42.38	19.63

Source: Annex II, III, IV & V

From the table 4.13 it is depicted that Liquidity Risk ratio of KBL is 9.13 percent in an average in the period under study whereas that of SCBNL is 6.99 percent in an average. The average ratio of KBL is higher than SCBNL. The higher ratio is 15.63 percent in FY 2066/067 for KBL and 8.87 percent in FY 2065/066 for SCBNL and the lowest ratio is 5.02 percent in FY 2062/063 for KBL and 5.48 percent in FY 2066/067 for SCBNL. 15.63 of KBL in FY 2066/067 is the highest ratio for all over. The SD is 3.87 and 1.73 for KBL and SCBNL respectively. As well as the C.V. for KBL and SCBNL are 42.38 and 19.63 respectively. These facts are shown in the figure 4.13 to make easier to understand.

Figure: 4.13
Liquidity Risk Ratio



4.4.2 Credit Risk Ratio

Generally credit risk ratio shows the proportion of nonperforming assets in the total investment plus loan and advances of a bank.

Table: 4.14
Credit Risk Ratio

(Ratio in %)

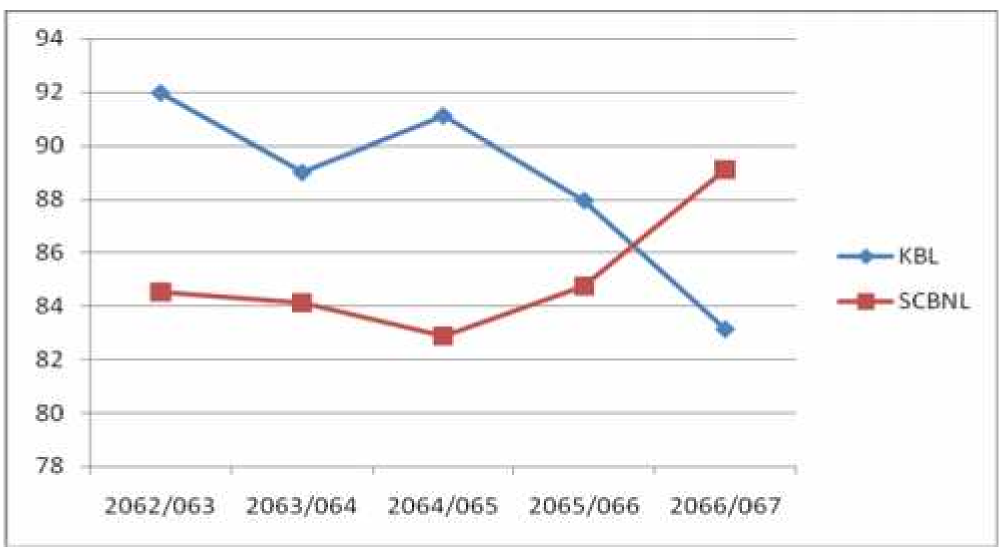
Fiscal Year	KBL	SCBNL
2062/063	91.97	84.5
2063/064	89.01	84.12
2064/065	91.11	82.86
2065/066	87.96	84.73
2066/067	83.14	89.1
Average	**88.64**	**85.06**
S.D	3.10	2.12
C.V	3.50	2.49

Source: Annex II, III, IV & V

From the table 4.14 it is depicted that Credit Risk ratio of KBL is 88.64 percent in an average in the period under study whereas that of SCBNL is 85.06 percent in an average. The average ratio of KBL is higher than SCBNL. 91.97 percent is the highest credit risk ratio which is in FY 2062/063 for KBL because the difference of total assets and the sum of total investment and loan & advance is very few than other years that creates the higher ratio. The ratios of the banks are found to be in fluctuating.

The higher ratio is 91.97percent in FY 2062/063 for KBL and 89.10 percent in FY 2066/067 for SCBNL and the lowest ratio is 83.14 percent in FY 2066/067 for KBL and 84.12 percent in FY 2063/064 for SCBNL. The S.D is 3.10 and 2.12 for KBL and SCBNL respectively. As well as the C.V. for KBLL and SCBNL are 3.50 and 2.49 respectively. These facts are shown in the figure 4.14 to make easier to understand.

Figure: 4.14
Credit Risk Ratio



4.5 Statistical Tools

The statistical analysis includes various methods of measuring relationship between two or more than two variables as well as their significance. In this study, different relationships have been calculated with the help of Karl Person's formula of correlation co efficient and calculating PE for measuring significant correlation.

4.5.1 Coefficient of Correlation between Deposit and Loan and Advance

The relationship between deposit and loan and advance is evaluated in order to measure deposit mobilization of the banks. The following result is obtained for selected commercial banks.

Table 4.15.1

Correlation Coefficient between Deposit and Loan and Advance

Banks	r	P.E.	6P.E	Significance/Insignificance
KBL	0.99	0.009	0.054	Significant
SCBNL	0.93	0.04	0.24	Significant

Source: Annex VI &VII

The calculation of correlation coefficient between deposit and loan and advance is 0.99, shows the positive correlation for KBL. The P.E is 0.009 and the 6P.E is 0.054. The correlation is significant due to the value "r" which is more than six times the value of PE, which is 0.99.

At the same time, SCBNL has the positive correlation between deposit and loan and advance. The correlation is significant due to the value "r" which is more than six times the value of PE, The P.E is 0.04 and the 6 P.E is 0.24.

4.5.2 Coefficient of Correlation between Deposit and Total Investment

The relationship between deposit and total investment is evaluated in order to measure deposit mobilization of the banks. The following result is obtained for selected commercial banks.

Table 4.15.2
Correlation Coefficient between Deposit and Total Investment

Banks	r	P.E.	6P.E	Significance/Insignificance
KBL	0.61	0.18	1.08	Insignificant
SCBNL	0.94	0.037	0.22	Significant

Source: Annex VIII & IX

The calculation of correlation coefficient between deposit and Total Investment is 0.61, shows the positive correlation for KBL. The P.E is 0.18 and the 6P.E is 1.08.The correlation is insignificant due to the value "r" which is less than six times the value of PE, which is 1.08. At the same time, SCBNL has 0.94 correlation coefficient, P.E is 0.037 and 6 P.E is 0.22, which shows the positive correlation for SCBNL. The correlation is significant due to the "r" which is more than six times the value of P.E.

4.6 Description of Major Findings

- The cash and bank balance to total deposit ratio of KBL is 9.12 percent in an average, and SCBNL has 6.99 percent. The average ratio of KBL is higher than SCBNL. The ratios of the banks are found to be in fluctuating. The S.D is 3.87 and 1.37 for KBL and SCBNL respectively. As well as the C.V. for KBL and SCBNL are 42.38 and 19.63 respectively.

- The Loan and Advances to Total Deposit ratio of KBL is 88.51 percent in an average and 42.54 percent in an average for SCBNL. The ratios of the banks are found to be in fluctuating. The S.D is 3.62 and 3.15 for KBL and SCBNL respectively. As well as the C.V. for KBL is 4.09 and SCBNL is 7.41.

- The Total Investment to Total Deposit ratio of KBL is 14.68 percent in an average and SCBNL has 54.21 percent in an average. The ratios of the banks are found to be in fluctuating. The S.D is 2.98 and 3.81 for KBL and SCBNL respectively. As well as the C.V. for KBL and SCBNL are 20.29 and 7.03 respectively.

- The Investment on Shares and Debentures to Total Working Fund ratio of KBL is 3.23 percent and for SCBNL is 21.91 percent in an average. The S.D is 0.65 and 4.53 for KBL and SCBNL respectively. As well as the C.V. for KBL is 193,97 and SCBNL is 20.65.

- The Liquidity Risk ratio of KBL is 9.13 percent in an average and 6.99 percent in an average for SCBNL. The S.D is 3.87 and 1.37 for KBL and SCBNL respectively. As well as the C.V. for KBL is 42.38 and SCBNL is 19.63.

- The calculation of correlation coefficient between deposit and loan and advance is 0.99, shows the positive correlation for KBL and SCBNL has also positive correlation coefficient which is 0.93 between deposit and loan and advance.

- The calculation of correlation coefficient between deposit and total investment is 0.61, shows the positive correlation for KBL is insignificant due to the value “r” which is less than six times the value of PE, which is 1.08. At the same time, SCBNL has 0.94 correlation coefficient, P.E is 0.037 and 6 P.E is 0.22, which shows the positive correlation for SCBNL. The correlation is significant due to the “r” which is more than six times the value of P.E.

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

In the last chapter of this study is summary, conclusion and recommendations have discussed and explored the facts and matters required for various parts of the study. Having completed the basic analysis required for the study, the researcher must point out the mistakes and error and also correct them by giving suitable suggestions for further improvement. Therefore, this summarized and recommended tasks of the researcher of the study would be meaningful to the top management of the bank to initiate the action and achieve the desired result.

Basically, the entire research work has focused on the comparative study on deposit mobilization of commercial banks. For the study, two commercial banks i.e. Kumari Bank Ltd. (KBL) and Standard Chartered Bank Nepal Ltd. (SCBNL) are taken as sample and analyzed their deposit mobilization. Five fiscal years secondary data, i.e. from the year 2062/063 to 2066/067, are taken for the study. The general objective of this study is to analyze the practice of deposit mobilization of the commercial banks. To meet the general objective, the other specific objectives are formulated.

To meet the research objectives this study was divided into five chapters. First is introduction chapter, which includes general background, focus of the study, statement of the problem, objectives of the study, significance of the study, limitations of the study and organization of the study.

Second chapter deals with review of available literatures in the field of the study being conducted. This includes review of the theories of the concerned topic, review of books and review of various empirical studies.

Third chapter explains the research methodology employed to conduct the study and tools and techniques used in analysis of the data as well. This chapter includes research design, source of data, population and samples, methods of data analysis and various financial and statistical tools.

Fourth chapter is devoted to the presentation, analysis and interpretation of the study through definite course of research methodology. In this chapter, all the data are compiled, processed and tabulated as per necessity and different tables; figures and diagrams are presented to make the study easier. Fifth and the last chapter is conclusive and suggestive chapter. It includes summary of the study, conclusion of the main finding and recommendation for further improvement.

This study suffers from different limitations; it considers two commercial banks as samples out of total commercial banks in Nepal. Time and resources are the constraints of the study. Therefore the study may not be generalized in all case and accuracy depends upon the data collected and provided by the organization.

5.2 Conclusions

From the analysis of liquidity ratio, the liquidity position of SCBNL is comparatively better than KBL. KBL has the highest cash and bank balance to total deposit. But SCBNL has highest ratio of cash and bank balance to current assets ratio.

The investment on government securities to current assets ratio of KBL is 10.28 percent in an average whereas SCBNL has 49.36 percent in an average. Here SCBNL has the higher ratio than KBL. In the beginning of the study period KBL and SCBNL both has decreasing in trend but SCBNL is increasing in the last two years and then again decrease in trend, but KBL has increasing in the end of the study period.

Considering asset management aspect of these banks, KBL is relatively successful to utilizing their total collection or deposits on loan and advances for the purpose of earning profit. SCBNL seems slightly successful in mobilizing total deposits invested on different sectors of other companies but it has weak conditions in mobilizing its total working fund in loan and advances. In comparison to KBL, SCBNL seems slightly successful in mobilizing total fund on different types of government securities as well as debenture and shares of other company to maximize its earning capacity.

SCBNL appears to be more successful to earn profit on loan and advances than KBL. Profit earning capacity of KBL is considered too weak as compare to SCBNL. The average ratio of return on total working fund indicates that working fund of SCBNL is well managed and efficiently utilized. SCBNL has not able to receive high interest on its total working fund in comparison with Kumari Bank Limited. On the other hand, SCBNL has mobilized its working fund properly and its earning capacity is also high.

Correlation coefficient between deposits and loan and advances indicates the positive relationship between the variables of KBL and SCBNL. In most of the cases it has been found that investment decision depends upon the deposits and only few decisions depend upon other variables. By considering the probable error, the value of coefficient of determination of all banks is greater than that of 6 P.E. so it can be concluded that the value of correlation coefficient is significant i.e. there is significant relationship between total deposits and loan and advances for KBL.

Correlation coefficient between deposit and total investment of KBL and SCBNL elucidates the positive relationship or there is high degree of positive correlation. Most of the investment decision of these banks depends upon deposits and only few decisions are depend upon other variables. Moreover by considering the probable error, the value of coefficient of determination of SCBNL has higher than 6 P.E. so it is significant i.e. there is significant relationship between deposits and total investment though there is positive relation between them. But the value of coefficient of determination of KBL is lower than 6 P.E. so it is insignificant relationship between deposits and total investment. On the other hand there is significant relationship between deposits and total investment of all banks.

5.3 Recommendations

The liquidity position of a bank may be affected by internal as well as external factors. The affecting factors may be interest rates, supply and demand position of loan and advances as well as savings, investment situations, central banks directives, the lending policies, capability of management, strategic planning and funds flow situations. The ratio of cash and bank balance to total deposit of KBL is higher than SCBNL and the ratio of cash and bank balance to current assets of SCBNL is higher than KBL. It means KBL has higher cash and bank balance than SCBNL and it indicates KBL has higher idle cash and bank balance. It may decrease profit of bank. KBL is recommended to mobilize its idle cash and bank balance in profitable sector as loan and advances.

The main source of commercial banks is collecting deposit from public who don't need that fund recently. So, it is recommended to collect more amounts as deposits through large variety of deposits schemes and facilities, like cumulative deposit scheme, prize bonds scheme, gift cheques scheme, recurring deposit scheme (life insurance), monthly interest scheme, house building scheme, direct finance housing scheme, education loan scheme and many others.

Investment on those securities issued by government i.e. treasury bills, development bonds, saving certificates are free of risk and highly liquid in nature and such securities yield the low interest rates of a particular maturity due to lowest risk in future, it is more better in regard to safety than other means of investment. So, KBL is strongly recommended to give more importance to invest more funds in government securities instead of keeping them idle with this proverb “something is better than nothing.

As a private sector, commercial banks cannot keep their eyes closed from the profit motive. They should be careful in increasing profit motive. They should be careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and all its customers. KBL’s profitability position is worse than SCBNL. So, KBL is strongly recommended to utilize risky assets and shareholders fund to gain highest profit margin. Similarly, it should reduce its expenses and should try to collect cheap fund being more profitable.

KBL and SCBNL are also recommended to mobilize the deposit to make profitability position in the market. It should reduce its unnecessary expenses and cost to maximize the profit margin. These banks are strongly recommended to give more importance to invest more funds in government securities instead of keeping them idle.

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