DEPOSIT & INVESTMENT PRACTICES OF COMMERCIAL BANKS IN NEPAL

A Thesis

Submitted By:

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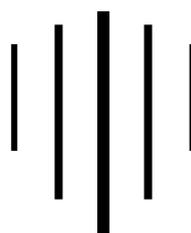
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Recommendation

This is to certify that the thesis

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Entitled

"Deposit & Investment Practices of Commercial Banks in Nepal"

has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination

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Viva-Voce Sheet

We have conducted the Viva-Voce examination of the thesis

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and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements of

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<u>Viva –Voce Committee:</u>

Chairperson, Research Committee   : ……………………………

Member, (Thesis Supervisor)   : ……………………………

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Declaration

I declare that the thesis entitled **"Deposit & Investment Practices of Commercial Banks in Nepal"** is entirely my own work and that where any material could be constructed as work of others, it is fully cited and referenced, and /or with appropriate acknowledgement given.

I, further, declare that this has not previously formed the basis of the award of any degree, diploma or other similar degrees.

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ABBREVIATIONS

ADBL	=	Agricultural Development Bank Ltd.
ATM	=	Automatic Teller Machine
BFIs	=	Banks and Financial Institutions
B.S	=	Bikram Sambat
BOK	=	Bank of Kathmandu
BOP	=	Balance Of Payment
CD	=	Credit Deposit
CEO	=	Chief Executive Officer
C.V	=	Coefficient of Variation
DCGC	=	Deposit and Credit Guarantee Corporation
DD	=	Demand Draft
EBL	=	Everest Bank Limited
EMH	=	Efficient Market Hypothesis
GDP	=	Gross Domestic Product
HBL	=	Himalayan Bank Limited
INGO	=	International Non Government Organization
IDNA	=	International Deposit Netting Agreement
IMF	=	Internal Monetary Fund
KBL	=	Kumari Bank Ltd.
LC	=	Letter of Credit
LBL	=	Lumbini Bank Ltd.
MBL	=	Machhapuchhre Bank Ltd.
NIDC	=	Nepal Industrial development Corporation
NBL	=	Nepal Bank Limited
NCC	=	Nepal Credit & Commerce Bank
NSBIB	=	Nepal SBI Bank
NBB	=	Nepal Bangladesh Bank
NEPSE	=	Nepal Stock Exchange Limited
NIBL	=	Nepal Investment Bank Limited
NGO	=	Non Government Organization
NRB	=	Nepal Rastra Bank

RBB	=	Rastiya Banijya Bank
S.D.	=	Standard Deviation
SCB	=	Standard Chartered Bank
SLF	=	Standing Liquidity Facility
SML	=	Security Market Line
SR	=	Systematic Risk
TD	=	Time Deposit
TT	=	Telex Transfer
T.U.	=	Tribhuvan University
TR	=	Total Risk
UDC	=	Under Develop Country
US	=	United States
USR	=	Unsystematic Risk

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal is a landlocked country of the south Asia, is bordered on the north by Chinese Tibet and the Himalayan and bounded by India to the east, south and west. Its territory, which has an area of 56,827 square miles 147,181 square kilometers), extends roughly 500 miles (800 kilometers) from east to west and 90 to 150 miles from north to south. Lacking substantial resources for economic development, and hampered nations in the world. It has population of more then 23 million. GDP Per capita income of Nepali is USD 1100.00 of the Nepalese are under absolute poverty. The economy is heavily dependent on imports of basic materials and on foreign markets for its forest and agricultural products. Nepal is basically an agricultural country. Agricultural provides employments to over 80% of labor force and contributes about 40% of gross domestic product. Agricultural production technologies are primitive and the production system is subsistence based. Today, foreign employment and other industrial development are the major sources of income besides agriculture. In the economic development of a country financial institution can be considered as the catalyst.

The development process of a country involved the mobilization and development of resource. Development of trade, commerce and industry are the prime requisite for the achievement of the economic, political and social goals. To fulfill the purpose of planning, financial functions more often dominates the other functions.

The development of any country depends upon its economic development. Thus the primary goal of any nation including Nepal is need of rapid economic development to promote the welfare of the people and the nation as well. This requires the productivity activities, which in turn is the result of the investment venture in productive enterprises. The establishment of these enterprises needs a huge amount of fund. Existing enterprises and companies within the economy can be viewed as productivity enterprises, which need long term and short-term investment for their operation, growth and existence. To enhance economic growth and solving the problem of underdeveloped economy is widely depending in the nature of its

economic infrastructure. One of the basic elements of achieving a self-reliant growth of the economic development is an accelerated growth rate of investment or capital formation in economy. The proper mobilization and utilization of domestic resources became indispensable for any developing countries aspiring for a sustainable economic development. Development of a trade, industry and commerce are prime requisite for the attainment of economic, social and political goals of any country. The reason behind Nepal underdeveloped economy is not due to lack of resource but due to not proper utilization of the available resources. Nepal being listed among least developed country which is trying to embark upon the path of economic growth rate and all sectors of economy. Even though, the process of economic development depends upon various factors.

However, economists are now convinced that capital formation and its proper utilization play a paramount role for the rapid economic development. Hence, investment portfolio is one such tool that helps for proper utilization of resources. Today each and every managerial decision-making based on financial analysis. It covers the acquisition, utilization, control and administration of fund. Finance is concerned with the conversion of capital funds to meet the financial need of business organization. Financial management led to the decision making most skillfully. In a short period, the field of finance has developed considerably; securities raise funds in capital market that certainly help to expand the national economy. The network of the well-organized financial system of the country has great bearing in capital formation. It collects scattered financial resources from the mass and invests them among those engaged in commercial and economic activities of the country. To develop well established economic activity of any country can hardly be carried forward without the assistance and support of financial institutions. Commercial Banks are major financial institutions which occupy quite and important place in the framework of every economic because of they provide capital for the development of industry, trade and business. All the economic activities are greatly influenced by the commercial Banking business of that country thus; commercial Banks have become the heart of financial system. Mobilization and utilization of domestic resource is the key factor to develop the economic of that country which can achieve through the help of commercial Banks. To make the role of commercial Banks more effective and efficiently government and respective organization should come up with sound

investment policy, which will lead quality and quantity of investment and eventually will contribute to the economic growth of country.

Development of the country grew as bank and its activity develop. Nepal bank Ltd. and Rastrya Banijya Bank was the only commercial bank operating over the last three decades in Nepal but today the scenario has totally changes there is a tremendous growth in number, size and the scope of the commercial bank. For the development of a country the financial sector is a vast field with comprise of banks, co-operatives societies, insurance companies, finance companies security exchange, foreign exchange markets etc. This institute collects idle and scattered money form general public and finally invests in different sectors of nation economy.

Banks occupies quite important role in this modern age as the financial support for the needy people like: - industries trades, business and for the individual. Bank plays vital role in the economic development of the nation, and uplifts the living standard of the people of the country. Integrated and sustainable development is possible only when competitive banking services reaches each and every remote corner of the nation and people. Due to banking facilities the idle money and scared money change into huge and big which helps to form large capital. Capital formation leads to increased in the size of national input an output, income and employment, problem of Inflation, balance of payment, help to make economy free from the burden of foreign debts etc. It helps to make economy self sustainable. It shows that capital is the backbone for the development of the country. To make country development, the country must have adequate capital. If there is enough capital available, it can be profitable sectors which promote economic growth and contribute to a nation's Wealth (The World Bank encyclopedia 1966).

The modern economy demands different types of financial Services. A single Institution cannot fulfill the services demanded by the customers. So, different types of Banks are emerged in the banking Industry specializing different functional areas. The developing economic market shows the needs of commercial Banking system for those who have surplus to deposit and who needed money to invest. Banking business includes cash deposit, loan provide, remitting money, exchange foreign currency, transaction of letter of credit, providing guarantee to businessmen etc.

Due to low income, there is fewer saving. People spend all the money in consumption of daily needs. Thus, people have no idea about the deposits and investment due to lack of income as well as lack of education. To encourage saving, earning must be adjusted firstly. Secondly, bank lends the funds to needy people and Industries to earn profit. All such investment helps to raise a nations standard of living. Bank can use the amount at right places at the right time through right medium.

Nepal is under developed country. About 25% of total population of Nepal is steeped in absolute poverty line. Through proper plan and strategy, capital and technology we must utilize our internal resources to uplift economic development. But available resources in our country, investment, technology etc cannot be perfectly supported for this. For economic development financial sectors must be strong. To make financial sectors strong, banks, finance companies, co-operatives etc must be established in each & every places of a country. It shows that financial institution become one of the bases for the measuring of economic development. Recognizing the true facts of developing the country, Nepal cannot ignore the importance of commercial banks. So, Nepal government adopts economy liberalization policy. This policy helps to increase the number of banks and emerged the touch combination of banks. At present there are 31 commercial banks,

The history of Commercial banking is starting after the establishment of Nepal Bank Ltd in Nov 15, 1937. It was the first bank started with organized banking system in Nepal. It performs all the banking transaction of Banks as well as function of central bank before 1956. Later on, Nepal Rastra Bank was established in 1956 to make banking system more scientific, systematic and dynamic during that time. As time passes, the need of commercial bank is increasing. As a result Rastriya Banijya Bank was established in 1966 A.D. It helps to make noticeable progress in the banking and economic sectors of Nepal. NRB has opened to foreign commercial banks to operate in Nepal. As a result Nepal Arab Bank Ltd newly known as Nabil Bank Ltd was established in July 1984 under the Commercial Bank 2031 B.S. Then, numbers of banks are increasing day by day.

Today, the banking industry can be compared with the international standard in terms of their functioning and operations and system are operating now a day. As a result

Nepalese banks are being awarded a "Bank of the year" from London. This increment includes both challenges and opportunities to commercial banks. The competition level goes on increasing due to increase of commercial banks which have both negative and positive affects.

The modern economy demands different types of financial Services. A single Institution cannot fulfill the services demanded by the customers. So, different types of Banks are emerged in the banking Industry specializing different functional areas. The developing economic market shows the needs of commercial Banking system for those who have surplus to deposit and who needed money to invest. Banking business includes cash deposit, loan provide, remitting money, exchange foreign currency, transaction of letter of credit, providing guarantee to businessmen etc.

List of Licensed Commercial Banks

S.No.	Names	Operation Date (A.D.)	Head Office
1	Nepal Bank Ltd.	1937/11/15	Kathmandu
2	Rastriya Banijya Bank	1966/01/23	Kathmandu
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu
4	Nabil Bank Ltd.	1984/07/16	Kathmandu
5	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu
6	Standard Chartered Bank Nepal Ltd.	1987/01/30	Kathmandu
7	Himalayan Bank Ltd.	1993/01/18	Kathmandu
8	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu
9	Nepal Bangladesh Bank Ltd.	1994/06/05	Kathmandu
10	Everest Bank Ltd.	1994/10/18	Kathmandu
11	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu
12	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Siddharthanagar,Rupandehi
13	Lumbini Bank Ltd.	1998/07/17	Narayangadh,Chitawan

14	Nepal Industrial & Commercial Bank Ltd.	1998/07/21	Biaratnagar,Morang
15	Machhapuchhre Bank Ltd.	2000/10/03	Pokhara, Kaski
16	Kumari Bank Ltd.	2001/04/03	Kathmandu
17	Laxmi Bank Ltd.	2002/04/03	Birgunj, Parsa
18	Siddhartha Bank Ltd.	2002/12/24	Kathmandu
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
20	Citizens Bank International Ltd.	2007/06/21	Kathmandu
21	Prime Commercial Bank Ltd	2007/09/24	Kathmandu
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu
24	DCBL Bank Ltd.	2008/05/25	Kathmandu
25	NMB Bank Ltd.	2008/06/05	Kathmandu
26	Kist Bank Ltd.	2009/05/07	Kathmandu
27	Janata Bank Nepal Ltd.	2010/04/05	Kathmandu
28	Mega Bank Nepal	2010/06/28	Kathmandu
29	Commerze & Trust Bank Nepal Ltd.	2010/09/20	Kathmandu
30	Civil Bank Ltd.	2010/12/15	Kathmandu
31	Century Commercial bank Ltd.	2011/01/23	Kathmandu
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1.2 Statement of Problem

Financial system of Nepal is still in its preliminary stage of development. Small and fast growing financial sector comprises of commercial Banks and other financial institutions like development Banks, finance companies, cooperatives, insurance etc. So far, development of financial services is uneven. In some regions of the country,

fast and advanced Banking services are available while other regions are fully deprived of banking services.

The lack of knowledge on financial risk, interest rate risk, management risk, business risk, liquidity risk, default risk, interest rate risk, management risk, purchasing risk etc. Granting loan against insufficient deposit, overvaluation of goods pledged, land and building mortgaged, risk averting decision regarding loan recovery an negligence in recovery of overdue loan are some of the basic lapses and the result of unsound investment policy sighted in the banks. Profit is only possible if the bank makes proper and safe investment. Bank collects money from depositors and makes profit by making proper investment in the form of loan and advances and investment in government securities and bonds and other investment. Bank 30 shares its profit to shareholder in the form of dividend. A bank must make profit to survive in the competitive market. The country is going through an economic downtrend. The atmosphere in the market is gloomy. Over whelming view among businessman is that the market is not expanding Manufacturing sector is not growing. Investment in manufacturing sector is decreasing though the profitability of the every Commercial Banks is in increasing trend.

Market Competition is increasing, many commercial Banks have been operating with new schemes to attract deposit from the limited depositors, many financial institutions have also been establishing day by day. Not only this decorating economic has also affected the income level of the people though the deposit sector of the Bank is also seems in increasing trend. At present Nepalese Commercial Banks do not seem to be capable to invest their fund in more profitable sectors where there is risk .They are found to more interested in investment in less risky and liquid sectors i.e. treasury bills, development bonds, national saving etc. The credit extended by CBs to agriculture and industrial sector is not satisfactory to meet the growing need of present day. Even if' NRB has made it's mandatory to invest in priority sector like agriculture, small scale industries and service. All CBs have not yet financing full 12% of their loan to this sector CBs is not able to fulfill customer's expectation till now. There is raised criticism that CBs have served only richer communities not the poor. The branches of Banks are mostly confined in the capital city and other urban area. They are interested to same big industrial and commercial house. This has directly had negative impact on economic growth these are main reasons for the CBs

and on the whole national economy as well. Thus, present study will make a modest attempt to analyze the deposit and investment portfolio of Nepalese Commercial Banks.

The numbers of commercial banks are being established in response to the economic liberalization policies of the government. But these institutions have centralized in major cities focusing the activities among the industrialists, traders and entrepreneurs. There are hardly any other opportunities available for short term investment. Due to high disturbances in business market of Nepal the internal rate are fluctuated at a higher rate. These are great problems that banks are facing now a day The research problem identified as follows:

1. How the Commercial Banks are increasing their profitability?

2. How are they collecting their deposit?

3. How are they managing their increasing deposit in different sector?

4.What is the reason behind lacking opportunity for investment?

5.Why are the banks providing higher interest rate on deposit as well charging higher interest on loan?.

6. What is the perfect CD ratio for the bank?

As a result banks provide loan on customer services like hire purchase, making building etc. While taking loan the legal procedures are being long as well as unsatisfactory. Centralized banking, limited investment, legal environment, competition are faced by commercial banks to high extend.

1.3 Focus of the Study

Commercial Banks have crucial role in collection of discrete small savings and transforming them into meaningful capital investment. The success and prosperity of the Banks relies heavily upon the successful investment of collected resource to the productive sectors of economy. Hence, the main significance of this study portfolio analysis on investment of commercial Bank is to help how to minimize risk on investment and maximize return through portfolio analysis. Similarly, the study of commercial Bank or investment trend, risk and return pattern, portfolio management, credit management, structural change, in deposit and investment effect on investment decision by earning, the internal weakness of the Banks and furnish the ideas for improvement. A few studies have been made on the investment portfolio management

of commercial Bank. Most of the studies made up to present are related to financial performance evaluation, capital structure analysis, dividend policy, risk and return etc. only few student have been able study on this topic .so the present study will be of substantial importance for investor, planner, researcher, student, and policy maker to meet their personal and organizational objective by identifying the various weakness prevailing in the investment and provide package of suggestions of it's improvement, finally it contribute to the national economy by means of institutional development. It is expected that this work will be helpful to decision makers maximize the value of their organization. For the rapid development of the economy there should be proper utilization of resources. To mobilize the resources, the banking sectors plays a vital role on colleting and utilizing of Idle and small scattered saving of the people.

This study is mainly focused on the optimum portfolio between deposits and investment practices of commercial banks in Nepal. It is focus on the problems of deposit collection, deposit mobilization and proper utilization of deposit of commercial bank. It consist market share, interims of deposits, deposits and investment growth rate. Deposit mix and investment areas . It deals with efficiency in economic development of the country by making a survey of deposit and credit. Our main focus of the study is whether these banks are able to utilize the scattered resources and efficiently mobilizing them. This study also focuses on investment problems their management, their remedies and developing the new investment area and sectors, which can again boost the Nepalese economy.

1.4 **Objectives of the Study**

The prosperity of the country depends upon the economic condition of a country.So,the primary objective of this study is to develop an action plan and overall strategy for managing the deposits and investment of commercial banks. The main objectives of the study is to find out the ways of utilizing surplus deposits funds. It also examines relationship between total deposit and total investment of the commercial banks.The specific objectives of the study can be illustrated below:-

- ﹚ To examine and analyze the various deposits services offered by the banks.
- ﹚ To analyze the investment position.
- ﹚ To study the strength and flows for the existing deposits policy and relationships of deposits and investment.

) To analyze the deposit fund position. To forecasting of deposit & investment position of commercial bank in Nepal.

) To provide suggestion for the improvement on the basis of findings.

1.5 Scope of the Study

Simply, the study is important to know how banks are utilizing their deposits. The study helps to know deposit collection and its investment performance of the banks. It is important to policy makers and academic professionals to formulate policies and plans on the basis of performances of the bank. It is important to comparatively study of future plans. It is important of the investors, customers loan takers, competitions, personnel of the banks, dealer market to take various decision. So, it helps to reveal the financial position of these banks. It also helps to forecast the trends and formulate policies and strategies of these banks. It identifies the area where changes and improvement to complete in the market. Significance to student and various groups those having interested in banking sectors. This study will help to increase the knowledge regarding deposit and investment practices.

1.6 Limitations of the Study

This study is simply a partial fulfillment of MBS degree, which has to be finished within limited period. Hence, this study is not a comprehensive study and it focused to analyze the certain aspects of commercial Banks. This study is only focused on Deposition & Investment practices of Commercial banks in Nepal. Some of the limitations of this study are as follows:

) Most of the part of the study is based on the secondary data, so it may contain reporting errors.

) Only fourteen commercial banks are analyzed in the study. Hence, it might not reflect the real status of all the commercial banks neither it can represent the deposit nor investment practices of whole bank of the country.

) It covers past & present state of commercial bank in Nepal & it does not have any projection about the future. The data and information are very limited for the study.

) The main limitations are time constraint, limited data, lack of research experience and lack of recent information. It includes the deposit sector i.e. current, saving and fixed deposit and its investment on various sectors are examined.

) The study done for the ten year period of time i.e. from FY 2001 to FY 2010 therefore a complete analysis is not possible. Statistical tools will be used for analysis. Hence, the drawbacks and weakness of those tools may affect the outcome of the study.

1.7 Organization of the Study

The whole study is mainly divided into five different chapters:

Chapter I   Introduction
Chapter II   Review of Literature
Chapter III Research methodology
Chapter IV   Presentation and analysis of data
Chapter V   Summary of findings, conclusion and Recommendation

Chapter I is the introduction chapter. It includes Background of the study, Focus of the study, Statement of problem, objectives of the study, significance/ importance of the study and importance of the study.

Chapter II deals with review of literatures, which includes Conceptual/theoretical review, and Review of related studies.

Chapter III is Research methodology which includes Research design, population and sample sources of data, data collection technique and data analysis tools.

Chapter IV deals with the various analysis and interpretations of data like, analysis of sources and uses of fund of commercial banks, analysis of deposits, loan & advances and investments of NIBL,HBL and NABIL Bank.Financial and statistical analysis and analysis of primary data. It also shows major findings of the study.

Chapter V includes summary and conclusions of the study. It also deals with recommendation suggested.

The list of Bibliography and Appendices are given at the last of references.

CHAPTER II
REVIEW OF LITERATURE

Simply, review of literature means to re-view the past experience or experiments or research done by researchers. Under this topic the past researchers thesis, articles, books, newspaper etc are reviewed past experiences or researchers will help us to collect important knowledge o information to support the research. Research can not be can deduce by sole idea. The previous studies can not be ignored because they provide the foundation to the present study .The review of literature provides the foundation for developing a comprehensive theoretical framework form which hypothesis can be developed for testing. The literature survey also minimizes the risk of perusing the dead ends in research. The main purpose of reviewing the literature is to develop some expertise in one's are to see what new contributions can be made and to receive some ideas for developing a research design.

In this section review of literature helps to know what other has done related to deposit and investment practices. Only the relevant literatures have been reviewed. Every possible effort has been made to grab the knowledge and information that is available.

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

In the course of research review of the existing literature would help to check the changes of duplication in the present study. Thus one can find that what studies have been concluded and what remains to go with. This chapter helps to take adequate information about the study and the following points have been reviewed:

1.   Conceptual Framework
2.   Review of related studies.
3.   Review of past thesis

2.1 Conceptual Framework

Under this heading the concept of bank and banking transactions are described. They are as follows:

2.1.1 Concept of Bank

The work "Bank" is derived from Italian word "BANCA" which means a bench for money changer so, such business was give a name "BANCO" an this name the word "bank" has been derived. Before the middle ages a few knowledge of banking was known. There is no unanimity among the economist about the origin of the bank.

Simply an institution established by law which deals with money and credit is called Bank. An institution involved in monetary transaction is called Bank. It has significant role in the development of the country. It facilitates the growth of trade and industry of national economy. A bank is a business organization that receives and holds deposits of fund from others and makes loan or credits and transfer funds by written order of depositors. Bank is that development of trade, commerce, industry which are the prime requirement for the achievement of economic social and political goals of any country.

2.1.2 Concept of Commercial Bank

Commercial Banks are the main institutions, which are meant to collection and utilization of small-scattered saving of the people. The commercial Banks utilize the collection resources by financing production Contribution and consumption and even to the need of the government. Commercial Bank's credit in the desired sectors constitutes the significant part of their activities. The commercial Banks play an important role in the modern economic. The accepting the deposits from individuals and institutions and providing loans to the needy person and business are its two important functions. Besides that it performs many other services or function such as payment of subscriptions, insurance of credit instruction, purchase and sells of securities, remittance of money and assist in foreign trade etc.

In the developing countries there is always shortage of the fund for the development activities. There is need in the development in all sectors. It is not possible to handle and develop all the sectors by the government alone at a time. Private people also can't undertake large business because the per capita income of the people very low. In the context of Nepal commercial Banks are the only financial institutions, which

can play very important role in the resource mobilization for the economic development in the country. Commercial Bank occupies greater role in the economic development by generating the saving towards the desired sectors from one place to another place,

communicating with its branches and agencies in different parts of the country and the world

and advising to the commercial people.

In general, commercial bank are that financial institutions, which deals in accepting deposits and providing loan against securities. Commercials banks also provide technical and administrative assistance to trade, industries an business enterprises. Commercial Banks are those banks that pool together the saving of people and industries and arrange for their productive use. Commercial banks are restricted to invest their funds in corporate securities. Apart form financing, they also render services like collection of bills and cheques, safe keeping of values financial advising etc. a commercial banks is one which exchanges money, accepts deposits, grant loans and performs commercial banking functions. They also purchase and discount bills of exchange, promissory notes, exchange foreign currency etc. The American institute of Banking has laid down the four major function of commercial bank such as receiving and handing of deposits, handing payments of its clients making loans and investments and creating money by extension of credit.

"Commercial Banks are the only institutions that accept demand deposit; their role is to furnish short-term funds to business, agriculture, and government though the year they have become veritable depart stores of finance. Their functions include substantial activity in the granting of intermediate term credit though term loan and long-term credit through leasing and the acquisition of governments bond and mortgages. Other services includes acceptance of time and saving deposit and the making consumer loans."(Robiheck and Coheman; 1967)

Principally, commercial banks accept deposits and provide loans, primarily to business firms, thereby facilitating the transfer of funds on the economy (Albrol and Gupta, 1971).

In the Nepalese context, commercial banks act, 2031 defines "A commercial bank as one which exchange money, deposits money, accepts deposits, grant loans and performs commercial banking functions" (Commercial Bank Act 2031).

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

Central bank is the bank of the bank. So it directs and controls all the banks whose existence is in the country. In Nepal, Nepal Rastra Bank is the central bank of the country. All the commercial bank performs their functions under rules, regulation and the directives provided by the Nepal Rastra Bank. Commercial bank act as a link between are the institutions which help to utilize national resources i.e. financial resources, human resources and natural resources in the best possible manner by encouraging and initiating these resources to be utilized. On the one hand it solves the problem of unemployment an on the hand it utilizes the best possible manner for the economic development. The improvement of the operation of commercial banks and the future of country is greatly determined by the active role played by the commercial banks.

2.1.3 Role of Commercial Banks in Nepal

For all countries of the world and more so far the developing countries like Nepal, fast Economic Development is one of the most important aspects of developmental activities. However, it is obvious that unless the development of the important sector like agriculture, industry, trade, and commerce are achieved, envenomed development is impossible. For all the development, the regular supply of financial resources is a prerequisite. Finance is thus like fuel for providing energy to move tempo of economic development and institutions naturally , serve as reservoir for supplying and controlling the stream of that fuel i.e. finance the commercial banks which are the financial institutions dealing with activities of agriculture industry, trade and commerce play the most important role for the business activities of the world. The objectives of the commercial banks are to mobilize the idle resources in productive uses collecting them from scattered and various sources. Its role in economic

development is thus immense in order to bring out mobility of resources to meet the ever increasing needs of financing or the various economic activities. These institutions are now trying best to contribute more and more services and facilities for the uplifting of national economy. They have become the core of financial system by holding the deposits; they make fund available through their lending and investing activities to different borrowers like individuals, business firms and even to the government. They ultimately facilitate the flow of goods and services from producer to consumers and to the financial activities of the government. It is quite clear that commercial banks are the most important institutions of capital formation that imply mainly saving, investment and productions which ultimately lead to the economic development of a country. The role of commercial banking in the economy is obviously a prime prerequisite for the formulations of the bank policy as the role shapes, the nature and character of the bank. The deposit minded bankers may overstress conservation liquidity while the loan minded banker may under emphasize safety. Often Commercial Bank performs a number of interrelated functions. There are not only the custodians of the community's money but the suppliers of its liquidity. For these banks customers who seldom borrow money from the bank an important function may be the acceptance and safe keeping of deposits. But those customers who often take loans from the bank, the credits creation function may be the most important. The commercial bank is different from the other banks especially from central bank. In appearance the main distinction between Central Bank and a Commercial Bank is that now-a-days the Central bank does not much banking, but the more fundamental difference is one of aim. The main objective of the Commercial Bank is to make profit whereas the Central Bank thinks of the effects of its operations on the working of the economic system. "The Commercial has the shareholders and is expected to the best it can for them but the Central Bank by contrast is usually owned by the government. The Commercial Bank may be few or many and they are to be found business with the general public all over the country. But, there is only one central bank in each country. Its market operations are mainly impersonal and are confided to what is necessary for influencing the country's financial business in the directions citrated by economic policy" (Sayers, 1972).

Commercial Banks are those banks that are engaged in commercial banking transactions and exclude from this description such banks are established for achieving certain specific goals such as co-operatives, agricultural and industrial

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

Nepal being an underdeveloped country, its industries, agriculture, sectors has been expanding. It provides the credit facilities for the development of agriculture in cases where Agricultural Development Banks & Cooperative Societies do not enter into the field. The agriculture sector needs more & more capital for the improved methods of farming viz. the fertilizers, equipment, irrigation facilities etc. require obliviously more investment. Thus role commercial bank in promoting agriculture sector is increasing in many of other countries, especially in developing countries like Nepal. The economy of our country is dominated by agricultural sector. This could be exemplified about 76 % of the total population is engaged in agriculture & about 40 % of the national income comes from the agriculture. Similarly, about 51% of the export trade is in agricultural product. Also if we take into account of the major industries of Nepal, they are mainly based on agriculture. This is very clear that in such a country the financial help to the agriculture

sector is most urgent & indispensable for strengthening the base of national economic structure.

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

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

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

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

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

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

The role of Commercial Banks is indispensable for industrial development of Nepal. Due to insufficiency of capital, industries are depending more & more upon the supply of capital by the banks. It would not be exaggeration to state that commercial banks are mainly responsible for whatever the financial institutions like ABD/ NIDC have already been established for the development of agricultural & industrial sector of the country. The commercial banks are also continuously participating in these activities. Being a mountainous country many places are very remote & sometimes it requires many weeks to approach some of the places. Due to lack of transport & communication facilities & other geographical causes, the country has been still

facing the problem of imbalances economic growth. The scattered capital of the country is unable to solve the problem of imbalance of the economy growth. Commercial Banks have their appropriate role to play here by expanding their branches in the differently hilly & Terai regions availing loan to the local people. In industrial sector, Commercial Banks are providing the necessary financial help for the industrial establishment in the country. They provide short & medium term loan to purchase machineries, tools, raw materials etc. & introduce new & developed techniques of production. Without the development of foreign trade, Economic Development of a country will not be possible. Nepal has focused its trade with India & Tibet only few years ago.

Today, Nepal has extended with different countries of the world. Commercial Banks has promoted the domestic & foreign trade of Nepal by spreading their braches all over the country & extending close relations with many renowned institutions by providing those facilities of DD, LC, Bank overdraft, TT etc. Commercial Banks are also helping for the development of transport by providing funds for transport Industry. Similarly, Banks are playing important role in tourism industries by helping to expand Hotel facilities, dealing with foreign exchange & accepting traveler cheques from the tourists. So, the role of Commercial Banks is extremely important for the development of industries, trade, commerce, agriculture etc. of the country. In fact, no nation can develop itself without the development of these banks. It is not only true in the capitalist countries but also true in the socialist countries & the mixed economic countries like Nepal as well.

2.1.4 Function of Commercial Banks

) Commercial banks are most important type of financial institutions of the nation. Traditional functions of commercial banks are only concerned with acceptation deposits and providing loan. But modern banks worked for overall development of trade, commerce, services and agriculture. The banking is expanding with quality and quantity. The main objective of commercial banking is mobilization saving is making investments of the development of a country. In a country like Nepal, the role of commercial bank is immeasurable. Thus the function of banks can be descried below:

) Commercial bank accepts the deposits from the public or institution which have surplus funds. Mainly there are current, saving and fixed account in

which bank accept deposit. Bank provides certain percentage of interest who deposit on the bank.

⟩   Commercial banks provide loan to needy people, company and institution against security. Bank grant loans in the form of overdraft, credit loan, and short term loan, long term loan etc.

⟩   A bank performs number of services on behalf of the customers. The following services rendering by the bank:-

➢   Dealing with foreign exchange business

➢   Serving as an agent or middle man.

➢   Issue bank's notes traveler's cheques etc.

➢   Purchase and sales of securities, remit money etc.

➢   Locker facility, SMS banking, e-banking etc.

➢   Bank guarantee in foreign business

➢   Facility of discounting bills and promissory notes

➢   Provide safe deposit vault

➢   Provide service of letter of credit (L/C)

➢   Provide facilities on bill clearing, purchase and collection services

Commercial banks create credit to earn profit and invest its money on various sectors. It grant loan to costumer.

Modern banking includes other different function which banks are providing now a day. We can pay telephone bills, electricity bills with the help of banks, hire purchase, ATM facilities, Debts cards, credit cards etc. are modern banking function which are getting form Commercial banks now- a-days. Thus commercial banking functions are expanding days by day due to development of technology and people's demand.

2.1.5 Credit Creation by Commercial Banks

The creation of credit or deposit is one of the most important functions of commercial banks. Bankers are dealer of money who deal others people's money. Banks generate profits by accepting cash through demand deposits and advance loan on credit to customers. When a bank advances a loan, it does not pay the amount in cash. But it

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

On the other hand, when a bank advances money by discounting a bill of exchange, the proceeds of the bill are credited to the customer's account. The deposits of the customers will then increase. More deposit can make more lending by banks. This is also one of the ways of creating credit. We know that the bank provides overdraft facility to a customer on the basis of some security. The bank enters the amount of the overdraft in the existing account of the customers & the customer is allowed to overdraw his account up to the fixed limit subject to the condition that the amount overdrawn from time to time is more than fully covered by the market value of the securities lodged with the bank. The amount may be used to buy goods & services. He can make payment by issuing cheques in settlement of his transactions. This process gives the bank an additional supply of money which did not exist before.

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

When funds are plentiful, market rate generally tend to decline, banks seek loan aggressively & therefore lower their rates induce marginal borrower to come into the market. When funds are scarce banks arise their rates & come potential borrower may differ the use of credit or seek it elsewhere. Some writers stress on the fulfillment of credit needs of various sectors which insure investment. The investment lending policy of commercial bank is based on the profit maximization as well as the enhancement of the country.

2.1.6 Resources of Nepalese Commercial Banks

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

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

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

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

borrowing from foreign banks, foreign government, international banks for reconstruction and development (IBRD).Internal monetary fund (IMF)etc. internally commercial banks can borrow from only one source that is from NRB.

2.1.7 Concept of Deposit

In general sense, deposit means the amount deposit in current, saving and fixed account of a bank. People, businessmen, the industrialist and other individuals and institutions can deposit money in the Bank. Deposit is the main sources of capital of the bank. Bank advance such amount as loan and invest in various sectors to earn profits. The deposit policy is the essential policy for its existence. The growth of banks depends primarily upon the growth of its deposits. Usually bank accepts three types of deposits. They are Current, Saving and Fixed deposits. Banks collects deposit from its customer and pays interest for it. The interest rate varied according to nature and type of deposit. Fixed deposit earns more interest than saving account. And current account doesn't earn any interest.

 "The deposits function of the banker is important because it has to aggregate small sums of money lying scattered here and there twenties, fifties and hundreds. Singly these sums have no economic efficiency what so ever but they can accomplish tasks when they are aggregated and employed by the banker". (Ronald, 1962).

Commercial banks collection deposit from various accounts, these accounts are as follows
1.Current account
2.Saving account
3.Fixed account
4.Other account

1.**Current account**:- Current account is a non interest bearing account which is known by cheking account also. The deposit in such account is known by demand deposit as bankers have to pay on demand& no withdrawal restrictions can be imposed on such account. Any individual, any organization,be it profit making or non-profit making, corporate body, NGOs and Ingos all can open this account. There

is no restriction of withdrawal and deposits in this account. Any amount can be deposited and any amount can be withdrawn in current account. Banks encourage this type of account, as it is a cost free account. The only weakness of this account is that large amount can be withdrawn at any time without giving prior information. So theretically this account is not considered very suitable for long term lending as banks resort to the theory of long term deposit-long term lending and short term deposit-short term lending. As the account is maintained at very low cost. It is considered as the "Cash Cows Product" of the bank.

2. **Saving account**:-It is an interest bearing account. In such account, interest is provided on daily average balance or on minimum monthly balance, depending on the bank's policy to attract deposits. Any individual, NGOs, INGOs, non-profit making organization like charitable organization are eligible to open this account. However, profit making organization can also open this account to tax on interest earned. Previously, they were restriction to a certain amount on daily/weekly or monthly basis in this type of account. However by saving a short period of notice to the bank large amount can also be withdrawn.

Banks encourage this type of account. The deposits in this type of account remains stable for a fairly long period of time. The weakness of this account is considered very suitable for lending. It is considered as the "Cash Cows Product" of the banker. Various banks have started to introduce various scheme in this account eg. Sanima Premium, Prime saving introduced by Sanima Bikas Bank, Nabil Bachat by Nabil, Himal Bachat by Himalayan bank etc. Such saving scheme has added additional vigor of higher interest rate, free ATM/Debit Card, medical & accidental insurance SMS banking, free fund transfer facilities etc. there is clearly a tough competition to trap this type of account among of the bankers. Recently NRB has imposed restriction on lucky drawn in saving account.

3.**Fixed account**:- Deposit in this type accounts are accepted for a fixed period of time. Term deposit receipt is issued in Non-Negotiable form. Fund can not be withdrawn before the maturity period of the deposit, interest rate are fixed depending upon the amount and time period of deposit, higher is the interest rate offered. However, in case the customer needs funds before the maturity of fixed term deposits, one can pledge the instrument (TD) and obtain loan. The interest on such loan may be

1% to 2% higher than what is paid on the fixed deposit. In emergency if the TD before its maturity. In such situation, accumulated interest for a certain period is not provided or certain percentage is deducted, which largely depends on the bank and its policy.

Theriticlly, this account is considered very suitable for long term lending as deposit remain stable for long term lending as deposit remains stable for a long period of time. The only weakness of this type of account is that it is maintained at a very high cost due to the higher interest rate paid compare to oyher deposits. This type of account is "star Product" for bankers.

4.Call Account:- This is a hybrid account, having mix features of saving account & current account. Deposit in this account earn interest as in saving account and at the same time, the depositcan be withdrawn similar to that of current account. Profit making organization were earlier restriction from opening saving account (though the restriction has already been remained at present) to this type of account become suitable to them who always had surplus fund in their account. Interest rate offered in this type of account depends on matual agreement reached between the banker and the customer.

Banks would rather prefer current account than call account but order to meet the need of cash rich customers. Banks are completed to maintain this type of account. However, banks offer very low interest rates in this types of account on funds can be withdrawn without any restriction. The weakness of this account is that it is maintained at a cost. Theoretically this account can be considered suitable as the deposit remains fairy stable as it earns interest. This type of account is considered as the " Cash Cows Product" of the bank becomes at low interest rate the deposit remain fairly stable.

2.1.8 Deposits Mobilization

"Collecting scattered small amount of capital through different Medias & investing the deposited fund in productive sector with a view to increase the income of the depositor is meant deposit mobilization. In the other words, investing the collecting fund in the productive sectors & increasing the income of the depositor, it also supports to increase the saving through the investment of increased extra amount" (NRB, 1984).

When we discuss about Deposit Mobilization, "we are concerned with increasing the income of the low income group of people & to make them able to save more & to invest again the collected amount in the development activities.The main objective of Deposit Mobilization is to convert idle saving into active saving" (NBL, 2037).

Saving refers to that part of the total income which is more than the expenditure of the individual. In other words, saving = Total income – total expenditure. Basically saving can be divided into two parts: Voluntary saving & Compulsory Savings. Amount deposited in different accounts of Commercial Bank, investment in government securities are some examples of voluntary saving. A commercial bank collects deposit through different accounts like fixed, saving & current. In developing countries there is always shortage of the capital for the development activities. There is need of development in all sectors. It is not possible to handle & develop all the sectors by the government alone at a time, Private people also can not undertake large business because the per capita income of the people is very low while their propensity consumes is very high. Due to the low income their saving is very low and capital formation is also very low. So their saving is not sufficient for carrying on development work. To achieve the higher rate of growth and per capita income, economic development should be accelerated. "Economic development may be defined in a very broad sense as a process of raising income per head through the accumulation of capital (Johnson, 1965). But how capital can be accumulation in the development countries there are two ways one from the external and other from the internal sources. In the first gap foreign Aid, Loans and grants are the main. While in the later, financial institution operating with in the country, play in a dominant role. In the context of Nepal, commercial bank is the main financial institution which can play very important role in the resource mobilization for the economic development in the country. Trade, industry, agriculture and commerce should be developed for the economic development. Economic development so defined is necessary and sufficient to generate rate of saving and investment. The generation of high rates of saving and there by investment is possible only through the commercial banks. Commercial banks occupies greater role in economic development by generating the saving towards the desired sectors from one place to another, communicating with its branches and agencies in different part of the country and the world and advising to the commercial people." Increasing the income of the low income group of people and making them able to save more, deposit mobilization helps to invest the collected deposit in desired sector″ (NRB, 1984).

The saving growth rate depends among others, on the level of country's per capita income and its growth rate, population growth rate, interest rate in saving or, on bank account, banking and financial facilities and net factor income etc. The national income is the measure of the nation from the economic activities. Saving is the excess if income over consumption. Investment is the expenditure made for the formation of fixed capital. Mobilization of saving implies transfer of resources from surplus spending unit to deficit units. In this connection, financial intermediaries play an important role in mobilizing of voluntary saving. The amount of saving of a typical household in Nepal is a small because the people have limited opportunities for investment. They prefer "to spend saving on commodities rather than on financial assets. These restricts the process of financial intermediation, which might otherwise bring such as reduction of investment risk and increase in liquidity when capital is highly mobile internally, saving from abroad can also finance the investment needed at home. When capital is not mobile internally, saving from abroad will limit investment at home. Insurance of bank deposits, creation of proper atmosphere can increase deposits and the development of severity of capital markets with the helps of banks will prove effective in mobilizing the available floating resources in the country (Ghosal and Sharma, 1965).

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

Banking transaction refers to the acceptance of deposits from the people for granting loan and advances, and returning the accepted deposit at demand or after the expiry of a certain period. According to banking rules and regulations, this definition clearly states that Deposit mobilization is the starting point of banking transactions. Banking activities can be increase as much as we can mobilize the accumulated deposit effectively. Deposit, such as current, saving and fixed are the main part of the working Capital. it is due to this reason that banks keep their deposit mobilization campaign always in full swing taking resort every possible means laying at their deposal. "A Commercial bank changes the scattered unproductive small saving into Lon able & active savings. The bank not only collect saving, but also it provides incentives to the saver & help them to be able to save more" (RBB, 2054).

Commercial banks are set up with a view to mobilize national resources. The first condition of National Economic Development is to be able to collect more & more deposit. In this context, the yearly increasing rate of commercial banks deposit clearly shows the satisfactory progress of deposit mobilization.

2.1.9 Need for Deposits Mobilization

The following are some reasons for why Deposit Mobilization is needed in a developing country like Nepal. Workshop report "Deposit Mobilization why & how" Group "A" states the following points as the need for deposit mobilization (NRB, 1984).

Capital is needed for the development of any sector of the country. The objective of Deposit Mobilization is to collect the scattered capital in different forms within the country. It is much more important to canalize the collected deposit in the priority sector of a country. In our developing country's we have to promote our business & other sectors by investing the accumulated capital towards productive sectors. The need of deposit mobilization is felt to control unnecessary expenditure. If there is no saving, the extra money that the people have, can flow forwards buying unnecessary & luxury goods. So, the government also should help to collect more deposit, steeping legal procedures to control unnecessary expenditures. Commercial banks are playing a vital role for National Development. Deposit mobilization is necessary to increase their activities. Commercial banks are granting loan not only in productive sectors, but also in other sectors like food grains, gold & silver etc. though these loans are traditional in nature & are not helpful to increase productivity, but it helps, to some extent, to mobilize bank deposit. To increase saving is to mobilize deposit. It is because if the production of agricultural & industrial products increases, it gives additional income, which helps to save more, & ultimately it plays a good role in deposit mobilization.

Deposit mobilization plays a vital role for the economic development of an under developed & developing country, rather than developed on e. it is because, a developed country does not feel the need of deposit mobilization for Under Developed Country (UDC) & developing country. Deposit mobilization plays a great role in such countries. Low National Income, Low per Capita Income, lack of

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

2.1.10 Concept of Investment

To collect fund effectively and its well utilization is the vey challenging task for the banks. The decision of an investment of fund may be the question of life and death for the bank. Thus investment is the most vast and different is the most vast and different parts of banking system. In general sense, investment means to lend money on productive sectors. It is very short incomplete means of investment. Investment means to trade or lend money for the expected stream of payment of benefits that will exceed the current outlay by an amount that will compensate the investor for the time. The funds are committed of the expected changes in prices during the period and for the uncertainty involved in expected future cash flow. So, investment is the most important function of any financial institution. It is the long term commitment. It is very challenging task for banks. So, bank has to be very cautions while investing their funds in various sections.

2.2 Review of Articles:-

Many Resources has analyzed under this heading. Efforts has been made to examine and review some of the related articles published in different economic journals, bulletin, dissertation, papers, magazines, newspaper and other related books.

There is still scope for the commercial banks to expand their lending portfolio as industrial average of credit the remit set by the regulatory body. According to the unaudited third quarterly report of the current fiscal year, the average CD ratio of the Bank stands at 76.2 per cent which is almost 10 per cent below the limit set by Nepal Rastra bank.The average CD ratio of 29 commercial banks- excluding Nepal Bank Ltd & Rastriya Banijya Bank Ltd. that are under special consideration due to ongoing

financial re-construction programme – also- stand at 71.7 per cent. However, if the newly opened five commercial banks that have yet to complete one year of operation are excluded then the average CD ratio of the commercial banks stands at 80.2 per cent.

Among the 31 commercial banks excluding Nepal Bank Ltd & Rastriya Banijya Bank Ltd, the eight commercial bank's CD ratio is less than industrial average while 21 commercial banks have higher CD ratio then the industrial average. The two state owned commercial banks enjoy goodwill from the depositors so that their deposit collection is substantial in comparison to their lending. Nepal Bank's deposit base alone is larger than Rs 42 billion lowering its CD ratio. The industrial average CD ratio of the class 'A' banks stood at 81 per cent in the second quarter of the current fiscal year.

According to the third quarter's financials, seven commercial banks have to either reduce their lending or increase their deposits to meet the central bank's requirement of reducing CD ratio to 85 per cent by next fiscal year. The central bank had directed the banks and financial institutions that have CD ratio exceeding to 85 per cent by the end of nest fiscal year's second quarter- that id mid January 2012.

In order to monitor the aggressive lending of the banks, back is April 2010, the central bank directed the banks to disclose CD ratio in their unaudited quarterly reports as well. The central bank had brought the regulation directing to maintain CD ratio within 95 per cent in order to supervise their credit exposure to the real estate back in December 2009. The financial sector that had gone through severe liquidity crunch brought on by over exposure to the really loans as some of the commercial banks' CD ratio had even exceeded 100 per cent. "If. it had been brought systemic failure", said central bank governor.

The gap between deposit mobilization and lending by commercial banks has gone on at an increasing rate during the first five months of fiscal year 2010/11, The deposit mobilization of commercial banks declined by Rs. 2.65 billion while the loan and advances increased by Rs. 34.94 billion in the review period. The deposit mobilization had increased by Rs. 24.25 billion and loan and advances had increased by Rs. 56.43 billion in the corresponding period of the previous year. The decline in

the deposit mobilization by commercial banks was due to the diversion of deposit to other financial institutions and cooperatives on account of relatively higher interest rate offered by them, said NRB in its report.

Contrary to the decline in deposit mobilization, the bank credit to private sector increased by Rs. 23.98 billion during the review period. However, the credit growth to private sector in the review period is much lower as compared to Rs. 52.14 billion in the corresponding period of the previous year of the total bank credit to private sector, the credit to production sector increased by Rs. 10.71 billion during the review period compared to Rs. 7.23 billion in the corresponding period of the previous year. Similarly, banks' credit to wholesale and retail trade, construction and mining sectors increased by Rs. 5.34 billion, Rs. 1.57 billion and Rs. 0.20 billion respectively during the review period. On the contrary, credit to transportation, communication and public services declined by Rs. 1.7 billion. With the increasing gap between deposit mobilization and lending of commercial banks, inter-bank transaction of commercial banks reached Rs. 165.14 billion during the review period compared to Rs. 118.93 billion in the corresponding period of the previous year.

Liquidity injection through the standing liquidity facility (SLF) amounted to Rs. 81.68 billion during the review period. It was Rs. 45.46 billion in the corresponding period of the previous year. In the side of liquidity management, the NRB mopped up net liquidity of Rs. 16.0 billion through secondary market operation during the review period. Liquidity of Rs. 21.0 billion was mopped up through outright sale auction and reverse repo auction during the review period. On the other hand, liquidity of Rs. 5.0 billion was injected through repo auction during the review period. Liquidity of Rs. 8.44 billion was mopped up through outright sale auction and reverse repo auction while Rs. 16.0 billion was injected through repo auction in the corresponding period of the previous year. The NRB injected net liquidity of Rs. 68.75 billion through the purchase of the USD 946.0 million from commercial banks during the review period.

A net liquidity of Rs. 33.76 billion was injected through the purchase of USD 443.3 million in the corresponding period of the previous year. The NRB purchased Indian currency equivalent to Rs. 74.45 billion through the sale of the USD 1.02 billion in the Indian money market during the review period. INR equivalent to Rs. 66.40 billion was purchased through the sale of USD 870.0 million in the corresponding period of the previous year.

The gap between deposit mobilization and lending by commercial banks widened during the first three months of the current fiscal year 2010/11. According to the Current Microeconomic Situation of the Nepal Rastra Bank, the deposit mobilization of commercial banks declined by Rs. 6.8 billion during the first three months of the current fiscal year as against a growth of Rs. 18.3 billion in the same period of the previous fiscal year. The decline in deposit mobilization by commercial banks was due to the diversion of deposit to other financial institutions on account of relatively higher interest rate offered by them, the report stated.

Contrary to the decline in deposit mobilization, the expansion in the bank credit to the private sector remained high. The banks' credit to production sector increased by Rs. 4.9 billion during the review period compared to Rs. 2.9 billion in the same period of the previous year. Similarly, banks' credit to agriculture, mining and wholesale and retail trade increased by Rs. 362.0 million, Rs. 229.0 million and Rs. 4.0 billion respectively. On the contrary, credit to transportation, communication and public services declined by Rs. 1.9 billion. Meanwhile, the NRB mopped up net liquidity of Rs. 18.0 billion through secondary market operation during the review period.

Liquidity of Rs. 2.0 billion was mopped up through outright sale auction and Rs. 19.0 billion through reverse repo auction during the review period. On the other hand, liquidity of Rs. 3.0 billion was injected through repo auction during the review period. Liquidity of Rs. 8.4 billion was mopped up through outright sale auction and reverse repo auction while Rs. 1.0 billion was injected through repo auction in the corresponding period of the previous year. The NRB injected net liquidity of Rs. 36.6 billion through the purchase of the USD 497 million from commercial banks during the review period. A net liquidity of Rs. 20.2 billion was injected through purchase of the USD 261 million from commercial banks in the corresponding period of the previous year. The NRB purchased Indian currency amounting to INR 25.8 billion through the sale of the USD 560 million in the Indian money market during the review period.

Total 133 banks and financial institutions (BFIs) have signed an agreement with the Deposit and Credit Guarantee Corporation (DCGC) for the security of over Rs 51 billion worth of deposits under the government´s policy to secure small deposits worth up to Rs 200,000. Total 66 development banks and 67 financial institutions -- class B and Class C citatory BFIs respectively -- have signed the pact in line with the

Credit and Deposit Guarantee by-laws that requires all banks and financial intuitions of class B, C, and D (micro-finance) to secure the deposit up to Rs 200,000 from individual depositors.

Total 83 development banks, 79 financial institutions and 19 micro-finance companies are in operation across the country. The government is formulating DCGC Act to ensure security guarantee of small deposits in all BFIs. The Nepal Rastra Bank had already asked the B, C, D category BFIs some six months back to sign the agreement for the security of deposits of small depositors. However, 48 BFIs have still to sign the pact with DCGC. "Total 48 banks and financial institutions -- 17 development banks, 12 financial institutions and all 19 micro-finances -- are still to ink the deal with the DCGC. Though we have not set any deadline, we are hopeful that they would enter the agreement by the end of this fiscal year," (Gyawali, 2010)

Preparation was going on to make it mandatory for class A BFIs (commercial banks) as well to guarantee the small deposits each worth Rs 200,000, from coming fiscal year. Amid growing feeling of insecurity about deposits in banks and financial institutions, the government has already announced the Small Deposit Guarantee Program covering the deposit up to Rs 200,000 at development banks and financial institutions in the budget of the current fiscal year.

The policy was introduced since last year beginning with class D (micro-finances) financial institutions. However, no micro-finance has signed the agreement in this regard with DCGC. The government has allocated a budget of Rs 250 million for the Deposit and Credit Guarantee Corporation, an agency that implements the program, whose capital will be gradually increased to Rs 2 billion. The by-laws have made it mandatory to sign the agreement with DCGC to contribute 20 paisa per Rs 100 of deposit per year, for the security of deposit worth Rs 200,000 in Deposit Guarantee Fund under the DCGC. Keeping in view the risks faced by small depositors, the proposed act has incorporated all classes of BFIs under the deposit guarantee scheme. As per the by-laws, those who would lose their deposits after the bankruptcy of the deposit recipient BFIs, would get compensation within seven days after the liquidator submits the report to the fund. Before refunding the lost amount to the depositors, the fund would issue 15 day notice calling them to claim their lost deposits.

Low rate of interest affects negatively in saving mobilization, flexibility of capital, effective utilization of capital resources, and high interest rate affects investment. Less spread shows the ability of financial institutions. But it is necessary to keep appropriate spread level for financial instructions to maintain them qualifies in this sector. (New Business Age, 2006 A.D)

"The main point to the considered in interest rate reform is that such change in interest rate provides a fair distribution of fixed deposits according to their length and amount. This kind of information, if extended to other items, would be a good bare for analysis of banks liquidity. Although the relief that high interest rate tends to avoid capital flights to India, yet the actual fact is that increases in interest rate of government securities has compelled banks to raise interest rate on deposits and there by making lending to productive sectors costly. Thus, it is advisable to lower interest on government securities enjoying tax advantage to that there will be better effect on deposit and lending rates" (Shrestha,1990).

The incentives to save, as reflected in Nepal Rastra Banks real interest rate policy can be structured for with profit. It is highly probable that further increase in the growth rte of financials savings can materialize it a flexible policy is pursued to keep real interest rate at a positive level. But eventually deposit expansion is to be bounded constrained by the low saving ability of the people as indicated by stagnant per capital GCP over the post decode. For a sustained growth of deposits or of overall saving rate what is needed more is to increase their income level of the people in order therefore to make saving mobilization strategy effective and successful po0licy measures should be taken considering two aspects of the strategy. In short run, policy should focus on the appropriate steps to tap savings with in the existing banking framework while the long run measures should be adopted with a view to raise the investment rate and making it more productive. (Joshi, 2005).

Establishment of joint venture banks a decade ago marks beginning of modern banking era in Nepal. The joint venture banks have brought in many new banking techniques such as computerization, hypothecation, consortium finance and modern fee based activities into the economy. These are indeed significant milestones in the financial development process to the economy. (Bista,1991).

The imbalance between deposit mobilization and lending by commercial banks has continued during the eight months of the FY 2010/11. The deposit mobilization of

commercial banks increased by Rs. 12.14 billion while the loan and advances increased by Rs. 54.24 billion in the review period. The deposit mobilization had increased by Rs. 21.77 billion and loan and advances had increased by Rs. 61.95 billion in the corresponding period of the previous year. Contrary to the lower growth rate in deposit mobilization, credit to private sector increased by Rs. 46.64 billion during the review period. Of the total bank credit to private sector, the credit to production sector increased by Rs. 19.21 billion during the review period compared to Rs. 9.87 billion in the corresponding period of the previous year. Similarly, banks' credit to wholesale and retail trade, construction and agriculture sectors increased by Rs. 11.48 billion, Rs. 2.40 billion and Rs. 0.88 billion respectively during the review period. On the contrary, credit to transportation, communication and public services declined by Rs. 1.63 billion. (NRB report, 2010)

Financial Institutions have been regarded to be the core area of economic development. However, Nepal could not achieve satisfactory level of economic development and growth due to Maoists war (1996-2006) and the political instability. The increase in size and number of commercial banks are limited only in the urban areas so that banking services are not accessible to the general public. This paper examines interaction between financial development and economic growth in Nepal employing correlation analysis, regression analysis, financial ratios and other related theories. As we found that financial institutions have grown rapidly which has implication in overall economy of the nation. The economic indicators such as GDP, GDP per capita, loan assets of commercial banks, investment, deposit, number of commercial banks, and inflation rate from fiscal year 2001 to 2007 are used for the analysis of this study.

The relevant ratios of commercial banks such as deposit, investment, and profitability are found to be in increasing trend. The growth rate of GDP/capita is however volatile in the study period, the regression result of Deposit/GDP is weakly significant under the study period {(0,06)'}. The investment growth rate is not significant at all possibly due to the time lag of the effect of investment on the economic development. Furthermore, correlation between Growth rate of GDP and deposit/GDP (=0.49). The Growth rate of GDP and investment over GDP is positive related with a correlation coefficient of 0.82. This has confirmed our beliefs in the set out of the thesis.

The paper seeks to examine the determinants of Chinese banks' foreign direct investment in EU. Based on the results of a full-scale survey of the Chinese banks which have their branches and subsidiaries in EU, the author draw the conclusion that the Chinese banks direct investment in EU depends significantly on: (1) ownership advantages related to the bank's size, domestic capital and deposit base, the customer base and the banking network; (2) the need to follow their clients in order to exploit their pre-existing bank-customer relationships; and (3) the access to externalities offered by the international financial center in EU and the positive business opportunities provided by the favorable banking regulation, especially the Second Banking Directive.

The liquidity position of commercial bank has decrease by about twenty-five percent. According to the ex. governor of NRB Dr. Tilak Rawal, last year the liquidity of the commercial bank was Rs. 48000.00 million, but now it is less than Rs. 35000.00 million. In this condition, capital drains seem responsible and political condition also responsible. The president of Nepal bankers association Mr. Narendra Bhattarai has expected that the liquidity position of commercial bank has decreased by twenty- five percent in comparison to the last year. Mr. Bhattarai requested to NRB to implement monetary policy in the current station of controlling inflation and decreasing liquidity. Dr.Tilak Rawal said that NRB has implemented flexible monitory policy and although continuing the policy, because of the BOP is negative, it should be careful and should be implement the monetary policy by balancing. But economist Dr. Badri Prasad Pokhrel has suggested that if demand is high, it should increase the liquidity.

2.3 Review of Books

"Investment has many factors. It may involve putting money into bond, treasury bills, notes or common stocks, painting of real estate, mortgages or oil venture, cattle and even the theater. It may involve, especially in bull markets or selling short in bear markets. It may involves options , straddles, tights, warrants, convertible, margin, gold silver, mutual funds, 40 money market funds, index funds and result in accumulation of wealth or dissipation of resources, diversity and challenge characterize the field. For the able or lucky, the reward may be substantial. for the uninformed results can be disastrous."(Jerome, 1997).

"Investment is the employment of funds with the aim of achieving addition income or growth in value. It involves the commitment of resource that have been saved or put away form current consumption in the hope that same benefits will accrue in future investment involves long term commitment and waiting for a reward. The sacrifice takes place in the present and certain while the rewards come later and uncertain." (William,1989).

"In investment decision, expenditure and benefits should be measured in cash. Investment analysis, cash flow is more important than accounting profit. It may also be pointed out that investment decision affects the firm"s value. The firm"s value will increase if investment should be evaluated on the basis of a criterion ,which is compatible with the objective of the shareholder"s fund maximization. Investmetns will add to the shareholder"s wealth if it yields benefit in excess of the minimum benefits as per the opportunity cost of capital."(Pandey, 1999).

Markowitz"s Portfolio Selection Model "Markowitz"s approach begins by assuming that an investor has a given sum of money to invest at the present time. Markowitz"s approach considers the single period rate of return. Single period rate of return is simply the total return an investor would receive during the investment period or holding period. Harry Markwoitz infused a high degree of sophistication into portfolio construction by developing a „Mean Variance Model" for the

selection of portfolios; portfolio managers used rules of thumb and intuitive judgment."(Markowitz1952)

Thus Markowitz suggested two measures of evaluating the merits of a portfolio, i.e.

1. The expected return from associated with the portfolio.

2. Level of risk explore find the efficient set of portfolio. So as to find the efficient set of

portfolio and select the most efficient one portfolio manager will need to know the expected return and the risk of these returns for the individual securities.

A portfolio is efficient when

1. "Offer maximum expected return for varying level of risk.

2. "Offer minimum risk for varying level of expected return."(William, 2000).

To build an efficient portfolio on expected return level is choose, and assets are substituted until the portfolio combination with smallest variance at the return level is found. As its process is repeated for other expected returns, set of efficient portfolios is generated.

Portfolio Theory Assumptions

"The portfolio selection model developed Markowitz. This model is based on several assumptions regarding investor behaviour".(Bhalla; 2001)

1. Investors consider each investment alternative as being represented by a probability distribution of expected returns over same holding period.

2. The risk of an individual asset or portfolio is based on the variability of return.

3. Investors base decisions solely on expected return and variance of return only. For a given risk level, investors prefer high returns compare to lower returns similarly, for a given level of expected returns, investor prefer less risk to more risk.

 (Francies,1993).

Every investment alternative associated with risk despite wide range of investment categories. The sources of uncertainty that contributes to investment risk as follows:

1. Interest risk

It is potential variability of return caused by changes in the market interest rates. Investment"s present value moves inversely with changes in the market interest rate i.e. if market interest rise then investment"s present value will fall and vice-versa.

2. Purchasing power risk

Purchasing power risk is the variability of return an investor suffers because of inflation. The rate of inflation is measured by consumer price index. When inflation takes place, financial assets such as stocks, bonds, etc. may lose that ability to command the same amount of real goods and services they did in the past.

3. Market risk

It is the risk that arises from the variability in market returns resulting from alternating bull and bear market forces. When security index rises fairly consistently from low point, this upwards trend is called a bull market and when the security index declines from peak point to the next trough is called a bear market. During bearish period the price of the stocks falls but in the bullish market that usually raise more than enough

to compensate for the bear market loses. So, the alternating bull and bear market forces create a perennial source of investment risk.

4. Default risk

Default risk is that portion of an investment"s total risk that resulting from changes in the financial integrity of the investment. In other words, default risk is the variability of return that investors experience as a result of change in the credit worthiness of a firm in which they invested. Investor"s losses from a firm weaken. So, by the time bankruptcy occurs, the market prices of the firm"s securities will already have declined to near zero.

5. Liquidity risk

It is the variability of return which results from price discounts given or sales commission paid in order to sell the asset without delay. Perfectly liquid assets are highly marketable and suffer no liquidation costs but liquid assets are not readily marketable. Hence, liquid assets required large price discount and sales commissions in order to affect to quick sell.

6. Call- ability Risk

The portion of a security's total variability of return that derives from the possibility that the issue may be called is the call-ability risk. Call-ability risk commands a risk premium that comes in the form of a slightly higher average rate of return.

7. Convertibility Risk

It is that portion of the total risk of return forms a convertible bon a convertible preferred stock that reflects the possibility that the investment may be converted into issuer's common stock.

8. Political Risk

It is the risk that caused by changes in the political environment that affect the asset"s market value. Political risk arises from changes in environmental regulations, fees, licenses, taxes etc.

9. Industry Risk

Industry risk is the variability of return caused by events that affect the products and firms that make up an industry. The stage of the industry's life cycle, International tariffs, quotas, taxes, labor union problems, environmental restrictions, raw material availability and similar factors interact and affect all the firms in an industry

simultaneously. As a result of these commonalities the prices of the securities issued by competing firms tend to rise and fall together.

Portfolio risk and return

Every financial asset associated with risk and return. Portfolio is the combination of financial asset so that investor must be able to quantify the portfolios expected return and risk. From an investor stand point the fact that a particular stock goes up or down is not very important. The return on his or her portfolio is more important than the market rate fluctuation.

Portfolio return

The return of a portfolio depends on expected rate of return of each security contained in the portfolio and the amount invested in each security. The portfolio return is the weighted average returns of the individual stock in the portfolio, with weight being the proportion of investment on each security in the portfolio. The portfolio expected return could be defined in equation as follows:

Rp=W1r1+W2r2…………+Wnrn

Rp =Expected portfolio return

r1= Expected return for stock1

W1= Weighted for stock 1

r2= Expected return for stock2

W2= Weighted for stock 2

Portfolio risk

The risk of portfolio can be measured the variance or standard deviation of the return of the portfolio. The riskless of the portfolio expresses the extent to which the actual return. In order to calculate the risk of portfolio consideration must be given not only to the risk of the individual assets in the portfolio and their relative weighted but also to the extent to which the asset's returns move together. However the standard of a portfolio is not simply the weighted average of standard deviation of individual securities. So the portfolio risk is measured in the following way.

$\dagger^2 p \ X \ w^2{}_1 \dagger^2{}_1 \ \Gamma \ w^2{}_2 \dagger^2{}_2 \ \Gamma \ 2 w_1 w_2 \ \mathrm{cov}(1,2)$

Where,

$2 p$=Variance of the portfolio's rate of return

W1= Weight for asset 1

W2= Weight for asset 2

$\sigma^2 1$= Variance for asset 1

$\sigma^2 2$= Variance for asset 2

cov(1, 2)=Covariance of return between asset 1 and 2

Correlation Coefficient and Portfolio Risk

The risk of the portfolio can be measured by using covariance of the returns of assets in the portfolio. The covariance's simply means the degree to which the returns of the two assets vary together. In other words its measures how two variables co-vary. A positive covariance indicates that the returns of two assets move in the same direction where as a negative covariance indicates that the returns of two assets move in opposite direction. If the covariance is zero, it means the rate of return on assets is independent. The correlation coefficient is the covariance divided by the product of the standard deviation for the two investments. Correlation coefficient is defined as

$$p_{ij} \; X \; \frac{\text{cov}(\,i,\,j)}{\dagger_i \dagger_j}$$

Where ,

$p_{ij} X \; Correlatio \; n \; Coefficien \; t \; between \; assest \; i \; \& \; j$
$\dagger_i X \; S \tan dard \; Devaition \; of \; assest \; i$
$j X \; S \tan dard \; Devaition \; of \; assest \; j$
$Cov \; (i, \; j) X \; Co \, var \, iance \; between \; asset \; i \; \& \; j$

The correlation coefficient range between -1 and +1, if the value of correlation is 1, it means perfectly positively correlated. It indicates that the return on two assets move together exactly the same way. In addition, the value of correlation -1 means perfectly negatively correlated which indicate that the return on two assets move together perfectly opposite way. If the value of correlation 0 means that, there is no relationship between two assets return.

Partitioning portfolio risk

A. Unsystematic risk (Diversifiable risk)

The portion of the total risk that can be diversified away is called unsystematic risk or avoidable risk or non- market risk or company specific risk. It is caused by events particular to the firm. For example, labor strikes, management errors, inventions, advertising campaigns, shifts in consumer taste, and lawsuits etc. the formula is given as

Unsystematic risk = total risk ($i2)$ – systematic risk

B. Systematic risk

The portion of the total risk of an individual security caused by market factors that simultaneously affects the price of all securities. It cannot be diversified away. It is also called systematic risk or market risk or unavoidable risk or beta risk. It seems form factors, which systematically affect all firms such as war, inflation recession, high interest rates, depressions, and long-term changes in consumption in the economy.

 "A sound investment policy of a bank is such that its funds are distributed on different types of assets with good profitability, on one hand and provide maximum safety and security to the depositors and banks on the other hand. More over, risk in banking sectors tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble, its problem usually springs from significant amounts of loan that have become uncollectible due to mismanagement, illegal manipulation of loan, misguided lending policy or unexpected economic downturn. Therefore, the bank investment policy must be such that it ensures that it is sound and prudent in order to protect public funds."(Baidhya,1997).

"The secret of successful banking is to distribute resources between the various forms assets in such a way as to get a sound balance between liquidity and profitability so that there is cash (on hand quickly realizable) to meet every claim and at the same time enough income for the bank to pay its way and earn profits for its shareholders."(Radhaswami and Vasudevan,1979).

2.4 Review of Different Thesis

The main objectives of the study are the deposit collected and interest rate provided by NBL with the help of collected data. To achieve the above objectives, the specific objectives are generated.

To show the deposit of the bank .

To show the different interest rate of the deposit .

To show the impact of the fluctuation on interest rate of deposit collected by the NBL.

 To show the present status and progress of the bank .

 The main objectives of the study was to compare financial performance of selected commercial bank of Nepal at macro level. So, with the help of descriptive con analytical research design the study was completed and the executive summary of the story is listed below:-

The operating profit of SCBNL was found to be in highest position through out the reviewed period, followed by NABIL in second position. NBBL had highest return on shareholders fund, followed by SCBNL. Nabil had the highest shareholder fund, followed by SCBNL (Prajun Shrestha 2000/02).

The main objectives of her study were: to discuss fund mobilization and investment policy of EBL, NABIL and BOK ltd .To evaluate the liquidity ,efficiency, roductivity and risk position. To evaluate the growth ratio of loan and advances, total investment with other financial variables. To analyze the trends of deposit utilization towards investment and loan and advances. To conduct hypothetical test to find whether there is significant difference between the various important ratio of EBL, NABIL and BOK. The major findings of the study were: The profitable ratio of EBL is average in comparison to other compared banks. The mean ratio of total interest earned to total working fund of EBL is higher than   that of BOK and lower than that of Nabil. The variability of the ratio is lower than that of other compared banks.EBL has moderate risk in between NABIL and BOK regarding various aspects of the banking functions. There is a significant difference between mean ratio of loan and advances to total deposit of EBL and NABIL, but there is no significant difference between mean ratio of loan and advances to total investment to total deposit of EBL, NABIL and BOK. (Joshi, 2005).

To find out the investment in government securities is increasing or decreasing.

To find out the major source of finance companies is utilized on loan and advances or not.

To evaluate the trends of deposit utilization and its projection of finance companies.

The major findings of her study were as follows:

The investment in government securities of the finance companies is decreasing.

Major source of finance companies is utilizes on loan and advances. Use of fund towards the hire-purchase loan is decreasing in the finance companies and - investment on housing loan is more. Profitability position of most of the companies is comparatively weak. (K.C.2005)**.**

NIBL has maintained both current ratio and cash reserve ratio better than NSBI. But its cash and bank Balance, investment on government securities and loan and advance in comparison to current assets are lower than that of NSBI. He also found that deposit utilization of NIBL is less effective than NSBI. Further, NSBI has invested lesser amount on government securities and shares and debenture than that of NSBI.NIBL did, not only a better performance but (i) in return on total assets and loan and advance, and (ii) interest earning it paid lower interest amount to working fund. And the growth ratios of total deposit loan and advance total investment and net profit of NIBL is less than that of NSBI. {Laudhari, 2006) .

 "A comparative study on investment policy of Nepal Bangladesh Bank Ltd and other joint venture banks shows the major objective were to evaluate the liquidity, assets management efficiency, profitability and risk position of NB Bank in comparison to NABIL and NGBL, to analyze the relationship between loan and advances and total investment with other financial variables of sample banks. To examine the fund mobilization and investment policy of NB Bank through off-balance sheet and on-balance sheet activities in comparison to the other two banks. To study the various risk in investment and to analyze the deposit utilization trend and its projection for improving the investment policy of NB bank on the basis of the finding of the analysis. The liquidity position of NB bank is comparatively better than that of NABIL and NGBL. It has the highest cash and bank balance to total deposit, cash and bank balance to current assets ratio. It has good deposit collection, is has made enough loan and advances and total investment with respect to growth rate of total

deposit and net profit of sample banks. To evaluate trend of deposit utilization toward total investment and loan and advances and its projection for five years. To perform empirical study on the customers' views and ideas regarding the existing services and adopted investment policy of the joint venture banks and to provide suggestions and recommendation on the basis of the study. (Thapa, 2005).

"An Analysis on Deposit Mobilization of commercial banks of Nepal". In this study he has compared deposit mobilization between NBL and SCBNL. According to his study, private sector commercial banks are strong in liquidity management but government owned banks also are not in dissatisfactory conditions. He has also found that SCBNL is stronger than NBL in all the ratios excepting loan and advance to total assets ratio. And NBL is seemed to be stronger than the SCBNL in the view point of collecting the mid-term and long-term deposits. In the study he has also found that SCBNL is stronger than the NBL in all ratios (profitability ratios, return on total assets and total expenses ratio) except interest expenses to total expenses ratio.

In the analysis of growth ratios of total commercial banking system, NBL and SCBNL, these all have the positive growth in deposit and investment but NBL has the negative growth in loan and advance and return. In the growth point of view SCBNL is stronger than NBL and NBL is seemed weaker than SCBNL and even than total commercial banking system in these ratios. In the analysis of correlation coefficient between the selected variables, NBL has the negative results on each test. It means the selected variables of NBL are not significantly correlated with each other during this period. Such results may have appeared because of the restructuring programs lunched for the betterment of the bank. In trend analysis both sampled banks are seemed stronger than the total commercial banking system in the trend of total investment to total deposit ratios and NBL seemed to be weaker than total commercial banking system and SCBNL in the trend analysis of loan and advance to total deposit ratio. In the hypothesis test it is found that the sampled banks are significantly different from total commercial banking system. But both sampled banks are not significantly different. In other words the sampled banks have no significant difference between the mean ratios of investment to total deposit and the mean ratio of loan and advance to total deposit. Finally, in conclusion, it can be concluded that the deposit mobilization position of both (government owned commercial banks and private sector commercial banks) are better than the total commercial banking system

but the position of private sector commercial banks is better than the position of government owned commercial banks. *(*Maharjan, 2009*)*.

"Mobilization of deposit and Investment of Nabil Bank Ltd" he has come up with following findings:- the correlation between total deposit and total credit is 0.94, which shows the degree of association between the two is very high, here "r" is greater than P.Er.it means that the relationship between total deposit and total credit is significant. The increasing trend of deposit collection is accompanied by incensement in utilization also. More than 50% of the resources are found to be utilized and leaving other 50% remaining idle. Yet it go hand in hand with developmental activities of the country, the bank more to utilize even better and with proper a locative scheme. The correlation between two variables shows that there is negative correlation between interest rate and deposit collection both in fixed and saving deposits. In both case "r" is less than PEr. It indicates that the correlation between interest and fixed/ saving deposit is not significant. Although the interest is lowered the deposit collection is high but the fact is something different. When liberalization was introduced in Nepal as a means of development of the country many joint venture banks and financial institutions began to work. With the establishment of new banks and financial institutions, people got opportunity to keep their savings in these institutions. Saving was now safe with banks than in home from security point of view also. Irrespective of the rate of interest, deposit collection seemed to increase. Therefore the correlation coefficient between the interest rate and fixed saving deposit is negative.

Here the hypothesis is rejected. Besides this, in credit sector also there is negative correlation between interest rate and credit granted. It shows that if interest rate is decreased, the more amount of credit can be issued. Here r is less than PEr. It means the relation between interest rate and credit is not significant theoretically but in economics the relation between the two i.e. interest rate and credit is said to be significant because it proves the general law that lower the interest rate , higher amount of credit granted and higher the interest rate the less amount of credit will be granted. This is very helpful to the investors. (Kaduwal, 2009).

Every investment requires the fund to invest in particular sector, assets or projects so as the Bank collects the fund required to invest in different securities and different

assets through the saving, fixed, current accounts, and using other sources. Banks have to pay predetermined interest on these sources of fund. That's why Banks invest these funds in high yielding and secure assets, financial securities, loans and advances, government securities etc. To earn high income which will be excess than that of the interest paid on the source of fund. This research has studies in the above mentioned area and the major findings of the study are presented below:

This study indicates that the commercial Banks are not able to utilize sufficient amount in different investment portfolio. there is lack of adequate sector to invest and utilize funds, There is lack of corporate sector and listed company to invest in share and debenture, availability of the only one stock exchange for the whole country, the Banks has not investing much amount in share and debenture.

Risk on investment portfolio is lower than that of the individual risk on government securities, loans and advances and the shares and debentures.

Higher the risk involved in the investment higher is the return on that investment in most of the investment sectors.

The performance of the investment portfolio using Sharpe ratio which measure the risk adjusted return found that NABIL'S investment portfolio has the highest risk adjusted return and the NIBL'S investment portfolio has the lower risk adjusted return among four commercial Banks.

All the four commercial Banks have the highest mean return on investment in loans advances than the return on investment in government securities.

All the four Commercial Banks return is stable, consistent or lower standard deviation on loans and advances over six year period compared to return on government securities and shares and debentures. Most of the commercial Banks return on investment in government securities is lower and not stable as it should be by its name. All the commercial Banks have lower percentage of investment in shares and debentures in total investment portfolio compared to loans and advances and government securities. All the commercial Banks have higher percentage of investment in loans and advances in total investment portfolio compared to government securities and shares and debentures. Most of the Banks are able to attract the higher deposits in saving, current, fixed, call and short deposits and others year-by-year means the trend of the deposits is increasing year by year. As the deposits of the commercial Banks increasing so as the investment in different sectors such as loans and advances, government securities, shares and debentures and other is also

increasing. All the Banks are able to earn the positive return on their investment portfolio, which includes the loan & advances, government securities and shares & debentures. (Adhikari, 2010)

2.5 Research Gap

There is a certain gap between the present research and the past research. Previous research generally presents a comparative financial analysis of two banks, in some cases the comparative financial analysis of maximum of four banks without any rating criteria are also found. These analysis express all items in the statement in the form of amount the previous researches did not disclose the practical comparative analysis which is practiced by the commercial banks. Thus to full fill this gap the present research is conducted. It covers the study of deposit and loan of three commercial banks. This analysis is based on expressing all items in the statement as a percentage. It is modern approach to evaluate performance analysis.

Most important point to remember about performance analysis is that every financial measure should be compacted across time and across over same line of companies to be meaningful. The world is becoming more dynamic and subject to rapid changes. This research will be based upon the modern approaches to financial analysis in which comparable group approaches to financial analysis in which comparable group approach and include consideration of economic and strategic factors where feasible. Thus, this research will be an concern to a wide range of its stakeholders and other government regulatory authorities. This study studies the performance evaluation of top three commercial banks in systematic manner which might be more effective than other studies previously done by different researchers.

CHAPTER III
RESEARCH METHODOLOGY

3.1 Introduction

In this lesson, the method techniques and mathematical tools used on the study will be described. In the last two chapters, background of the commercial JVB's has already been streamlined and reviews of literature with possible reviews of relevant ideas, theories and finding have also been discovered. As a result, researcher felt very comfortable to come to the choices of research methodology. Research methodology refers to the various sequential step to adopt by studying a by a researcher in studying a problem with certain objectives in view.

In other words, research methodology describes the method and proves applied in the entire aspect of the study. This study basically helps to conclude the deposit and investment problems position of commercial banks, the leading banks of Nepal and recommend the useful and meaningful points so that all concerned can achieve something form this study. To accomplish the goal the study follows the research methodology described in this chapter.

3.2 Research Design

This study is combination of both historical and descriptive research in that it has worked on past data and descriptive findings as well. It has gathered individuals' independents points of view regarding return on deposit and common stocks. Their opinions are summarized collectively. Besides, the relations and variations among the returns on deposit and common stocks of the sample banks and finance companies are tried to explore. A trend in deposit collection by banks and finance companies is found \out along with all these risks borne by the companies under consideration is compared with at risk of the market. "A research design is the arrangement of condition for collection and analysis of data in manner that aims to combine relevance to the research purpose with economy in procedure". Research design is the plan, structure and strategy of investigation conceived so as to obtain to research question and to control variances. It is the arrangement of condition for collection and analysis of data. To achieve the objectives of the study, descriptive and analytical research

design has been used. Some financial and statistical tools have applied to examine facts and descriptive techniques have been adopted to evaluate deposits and Investment of Commercial Banks.

3.3 Population and Sample

Only those banks are finance institutions with have issued shares to public and listed in NEPSE are chosen. These institutions are in operation for more than ten years. This study focus on fourteen commercial banks.

The sample to be selected calculated industry averages are as follows

1.	Nepal Bank Ltd.
2.	Rastriya Banijya Bank Ltd.
3.	Nabil Bank Ltd.
4.	Nepal Investment bank Ltd.
5.	Standard Chartered Bank Ltd.
6.	Himalayan bank Ltd.
7.	Nepal SBI Bank Ltd.
8.	Nepal Bangladesh bank Ltd.
9.	Everest Bank ltd.
10.	Bank Of Kathmandu Ltd.
11.	Nepal Credit & Commerce Bank Ltd
12.	Lumbini Bank Ltd.
13.	Machhapuchhre Bank Ltd
14.	Kumari Bank Ltd.

3.4 Sources of Data

This study is conducted on the basis of primary and secondary data. The data relating to the investment, deposit, loan & advances are directly obtained from the annual report of banks, supplementary data and information are collected form number of institutions and regulating authorities like Nepal Rastra Bank, Security exchange board, Nepal Stock Exchange Ltd, Ministry of Finance, Budget speech of different fiscal years, commission. All the secondary data complied processed and tabulated in the time series as per the need and objective. In other judge the reliability of data provided by the banks and other sources, they were complied with the annual reports of auditor. Formal and informal talks to the concerned data of the departments of the

banks were also helpful to obtain the additional information of the related problem. Similarly various data and information are collected from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sectors. This study is based on data of years. The concerned banks have provided the interest rates offered by them. At the same time the websites of those institutions were surfed to get the required data. The pages annual reports and minutes of the sample institutions are also turned over to know the dividend offered and totals deposits collected each year. Besides these secondary data, for primary information like opinions of individuals, questionnaires were prepared and distributed to various persons who fit into the above category. Thus, the study is based on both primary and secondary data.

3.5   Data Analysis and Tools

This study focuses on deposition & investment position of commercial bank in Nepal. The trend of deposit collection rates of banks and finance companies is proved by the time series methods. Because of limited time and resources, simple analytical statistical tool such as graph, percentage Karl Pearson's coefficient of correlation and the method of least square are adopted in this study. Similarly, some strong accounting tools such as ratio analytical also have been used for financial analysis. The various evaluated results obtained through financial, accounting and statistical tools are tabulated under different headings. Then they are compared with each other to interpret the result.

3.5.1 Financial Analysis

Ratio analysis is the calculation and interpretation of financial ratio to assets the firm's performance and status. It is the relationship between two accounting figures expressed in mathematically.

Ratio analysis is the main tool financial statement analysis .Ratio means the numerical of quantities relationship between numbers.

Financial ratio is the mathematically relationship between two accounting figures. Ratio analysis is used to compare   a firm' financial and status that firms of to itself overtime. From the help of ratio analysis the quantities judgment can   be done regarding financial performance of a firm.

A.   Growth Ratio

Growth ratios are directly related to the fund mobilization and investment management of a commercial bank. Growth ratios represent how well the commercial bank is maintaining its economical bank is maintaining its economic position.

To examine and analyzed following growth ratios calculated in this study.

i.   Growth Ratio of Total Deposits

ii.   Growth Ratio of Loan and Advances

iii.   Growth Ratio of Inv. on Govt. Securities

iv.   Growth Ratio of Inv. On Share.

v.   Growth Ratio of Total Investment

B. Liquidity Ratio

The ability of a firm to meet obligation in the short – term is known as liquidity.

It is measured by the speed with which a bank's assets can be converted in to cash to meet deposit withdrawals and other current obligations. There are various ratios liquidity ratio, which are calculated as follows:

I.   **Cash ratio NRB balance to total deposit ratio** This ratio calculated by dividing total balance at NRB by total deposit. This can be stated as:

NRB balance

Total deposit

II.   **Total Liquid fund to total deposit ratio**

This ratio calculated by dividing total liquid fund by total deposit. This ratio ca be stated as:

Total Liquid Fund

Total deposit

III.   **Cash ratio bank balance to total deposit ratio**

Cash ratio is computed by dividing cash and bank balance by total deposit. This can be stated as:

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

Cash and bank balance includes cash on hand, foreign cash on hand cheque and other cash items, balance with domestic bank and balance held aboard. The total deposit consists of current deposit, saving deposit, fixed deposits, money at call and short notice and other deposits.

C. Assets Management Ratio (Activity Ratio)

This ratio measures how efficiently the bank managers the resources as its command. The following ratios used under this assets management ratio.

i. Total Investment to Total Deposit Ratio

This ratio can be calculated by dividing total investment by total deposit, it can be mentioned as:

$$\frac{\text{Total Investment}}{\text{Total Deposit}}$$

The numerator consists of investment or government securities, investment on debenture and bonds, shares in subsidiary companies, shares in other companies and other investment.

ii. Loan and Advances to Total Deposit(CD Ratio)

This ratio is calculated by dividing loan and advances by total deposit. This ratio can be stated as:

$$\frac{\text{Loan and Advances}}{\text{Total Deposit}}$$

The denominator includes all assets of On-balance sheet items, In other word, this includes current assets, net fixed assets, loan for development banks and other miscellaneous assets but excludes Off-balance sheet items like letter of credit, letter of guarantee etc.

3.5.2 Statistical Tools

Some important statistical tools are used to achieve the objective of this study. In this study statistical tools such as correlation coefficient analysis, standard deviation, and coefficient of variance, Regression Analysis and Hypothesis testing have been used. The basic analyses are written in point below.

a.   Co-efficient of Correlation between different variables
b.   Regression Analysis
c.   Analysis Time Series

A.   Co-efficient of Correlation Analysis and Regression Analysis

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

i.   Co-efficient of correlation between deposit and loan and advances.
ii.   Co-efficient of correlation between deposit and total investment.

This tool analyzes the relationship between these variables and helps the banks to make appropriate policy regarding deposit collection, fund utilization (Loan and Advances and investment) and maximization of profit.

The Karl Pearson's Co-efficient of Correlation is calculated using the following formula

$$r \ X \ \frac{xy}{\sqrt{x\,2}\sqrt{y\,2}}$$

$$\overline{X} \ X \frac{X}{\rho}$$

$$\overline{Y} \ X \frac{Y}{\rho}$$

Where,

r= coefficient of correlation

$x = X - \overline{X}$

$y = Y - \overline{Y}$

N= number of pairs of values of variable X and variable Y

The value of correlation coefficient is interpreted in the following ways:

1.   If value of r= 1, then there is perfect positive correlation i.e. the two variables move together in same direction.

2.   If value of r= -1, then there is perfect negative correlation i.e. the two variables move together in opposite direction.

3.   If value of r -0, then there is no relationship between the two variables i.e. the movement of one does not affect the other.

B.   Regression Analysis

Regression is stepping or returning back to the original position. It is used as a tool of determining the strength of relationship between two variables. The cause and effects of relationship clearly indicated through regression analysis than by correlation. In other words, regression analysis is a mathematical measure of the average relationship between two or more variables in terms of original units of data. There are two types of variables i.e. dependent variables and independent variables. The variables whose value is influenced or to be predicated is called dependent variable whereas the variable which influences the value or used for prediction is called independent variable.

Thus regression analysis studies the statistical relationship between the variables. The main objective of Regression is to predict or estimate the value of variables corresponding to a given value of independent variables. While regression analysis has been developed to study and measure the statistical relationship between two variables only then the process is know as the simple regression analysis. Regression lines expresses in terms of mathematical relations are know as regression equations. It is the line which gives the best estimates for the value of y for any specified values of X.

Regression equation of Y on X is given by

$Y = a + b x$

Where,

Y = dependent variable

X = Independent variable

a = Intercept of the line

b = Slope of the line

The value of the constants „a‟ and „b‟ can be determined by solving two normal equations (applying

principle of method of least squares).

$\sum y = na + b \sum x$...........ii

$\sum xy = a \sum x + b \sum x2$ iii

C. Trend Analysis

we discuss these values of the phenomena or variable which change with respect to time. The volume of deposit, loan & advances, Investment are the example of such variable. Nowdays the important tasks for the financial institutions are to estimate for future. As for example a banker is interested to estimate the likely deposits in a coming year so that he may be able to adjust his loan & advances accordingly. In this way an banker wants to estimate the most likely deposits in the coming year so that proper adjustment can be made regarding the loan & advances. Thus for future estimation. Trend analysis has been a very useful and commonly applied statistical tool to forecast the future events in quantitative terms on the basis of tendencies in the dependent variables in the past periods. The future trend is forecasted. This analysis takes the historical data as the basis of forecasting. This method of forecasting the future trend is based on the assumptions that the past tendencies of the variables are repeated in the future or the past events affects the future events significantly. The future trend is forecasted by using the following formula

y = a + bx

Where,

y = the dependent variable.

a = the origin i.e. the arithmetic mean.

b = the slope coefficient i.e. rate of exchange

x = the independent variable

Chapter IV
DATA PRESENTATION AND ANALYSIS

This section of the study complies the collected data of the deposit and investment analysis, rational analysis and interpretation of these data helps is reaching a sound conclusion. In this chapter the analysis parts are presented in detail. Different financial and statistical analysis which are related to the deposit collected and investment practices are studies to evaluate and to analyze the overall performance of Commercial Banks in Nepal. A heading wise presentation of the data and analyzing and interpreting these with the help of the charts, percentage change etc has been done accordingly. Different financial and statistical analysis related to deposit mobilization is carried out and their results are presented in this chapter.

4.1 Data presentation
4.1.1 Deposit Position of Commercial Banks:-

Deposit is that types of amount which is deposited by the money senders in banks or other financial institutions for safe keeping with an obligation to invest for it. The banks or financial institutions main sources are the different kinds of deposits for financial existence. Existence of the commercial banks basically depends upon the mobilization of deposits. The commercial banks may function when they have adequate deposit amount. Higher the volume of deposits, higher will be the volume of investment and lending which generated the amount of profit. So commercial bank first of all tries to mobilize as much deposit as possible. Therefore deposited amount is the most required things of any banks or financial institutions which systematically generated or mobilize, helps in the existence of the banks in long time.

The main objectives of a commercial bank are to safeguard the money of depositors and mobilize this deposit into different sectors. Deposits are the main source of resources to meet growing demand of financial existence. The existences of commercial banks depend upon the mobilization of deposits so, it is very important that commercial banks deposits policy is the essential policy for its existence. For deposits, banks and financial intermediaries are big too. So, banks try to mobilize as much as its deposit to earn much benefit.

The following tables shows the deposit collection situation of commercial banks in different account.

Table No. 4.1

Deposit position of Nepal bank Ltd.

(Rs. In Million)

Account	Fiscal Years									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Current	5000.7	4311.7	4689.5	6300.0	5714.4	6030.5	6761.5	7799.1	9572.1	9166.0
Saving	20281.6	19851.5	21534.5	22063.0	22671.8	23547.9	26425.4	28545.1	31079.7	30303.3
Fixed	9921.8	9731.8	8396.9	7481.0	6269.3	5790.9	5393.2	4757.9	3579.4	3290.1
Call	-	7.8	12.4	270.0	2.8	-	-	250.0	-	-
Others	324.5	157.4	104.1	174.5	86.0	75.6	135.1	99.6	115.0	123.9
Total	35528.6	34060.1	34737.4	36288.5	34744.2	35444.9	38715.2	41451.7	44346.1	42883.3
Growth %	-	(4.13)	1.99	4.50	(4.26)	2.02	9.23	7.07	6.98	(3.29)

Source: - Various Year Annual Report

The above table (table no. 4.1) presents the growth rate on total deposit of Nepal Bank Ltd. For this analysis 2001 is chosen as the base year. The Banks are collecting deposit from the different sources like saving deposit, fixed, current, call and other deposits. The growth rate of year 2002 is negative that mean deposits of 2002 is decrease by 4.13% from 2001. And than deposit increase by 1.99% & 4.50% in the year 2003 & 2004 respectively. In the year 2005 deposit decrease by 4.26% . In year 2005, 2006, 2007, 2008 & 2009 deposit increase by 20.02%, 9.23%, 7.07%, 6.98% respectively. In last year deposit decrease by 3.29%.

Table No. 4.2

Deposit position of Rastriya Banijya Bank Ltd.

(Rs. In Million)

Account	Fiscal Years									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Current	4864.0	4639.7	4687.9	5227.5	6419.8	7891.2	10084.7	12853.0	17642.1	13,365.4
Saving	18822.1	18997.2	20861.2	23288.9	26848.2	29494.9	32909.4	40213.0	46102.8	45,665.3
Fixed	16477.2	15166.6	13579.5	11572.8	9001.5	8103.8	6997.5	4479.8	3207.8	2,924.9
Call	0.8	6.7	2.2	134.6	1034.9	45.0	6.6	14.4	140.8	32.4
Others	336.3	154.4	177.8	89.8	184.8	165.8	194.4	430.6	882.8	1,023.2
Total	40500.4	38964.6	39308.6	40313.6	43489.2	45700.7	50192.6	57990.8	67976.3	63,011.2
Growth%	-	(3.79)	0.88	2.56	7.87	5.08	9.83	15.54	17.22	(7.30)

Source: - Various Year Annual Report

The above table (table no. 4.2) presents the growth rate on total deposit of Rastriya Banijya Bank Ltd. For this analysis 2001 is chosen as the base year. The Banks are collecting deposit from the different sources like saving, fixed, current, call and other deposits. The growth rate of year 2002 is negative that means deposits of 2001 is decrease by 3.79% from 2000. And than deposit increase by 0.88%, 2.56%, 7.87%, 5.08%, 9.83%, 15.54% & 17.22% in year 2003, 3004, 2005, 2006, 2007, 2008 & 2009 respectively. At last year the deposit decrease by 7.30 percent.

Table No. 4.3

Deposit position of Nabil Bank Ltd.

(Rs. In Million)

	Fiscal Years									
Account	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*
Current	2957.1	2723.0	3025.0	2687.0	2843.5	2953.3	3446.1	5365.8	5515.9	7104.5
Saving	4917.1	4889.0	5237.4	5994.1	7026.4	8770.8	10187.4	12160.0	14620.4	16645.2
Fixed	3719.2	2446.8	2252.6	2310.6	2078.6	3450.2	5435.2	8464.1	8310.7	11026.7
Call	3948.3	4944.7	2540.7	2801.6	2341.3	3851.2	3961.6	5563.4	8438.3	8730.2
Others	297.2	367.1	382.0	304.7	297.0	322.9	312.1	361.8	463.0	516.6
Total	15838.9	15370.6	13437.7	14098.0	14586.8	19348.4	23342.4	31915.0	37348.3	44023.2
Growth%	-	(2.96)	(12.58)	4.91	3.47	32.64	20.64	36.73	17.02	17.87

Source: - Various Year Annual Report

The above table (table no. 4.3) presents the growth rate on total deposit of Nabil Bank Ltd. For this analysis 2001 is chosen as the base year. The Banks are collecting deposit from the different sources like saving, fixed, current, call and other deposits. The growth rate of year 2002 & 2003 are negative that means deposits of 2001 & 2002 decrease by 2.96% & 12.58% respectively. And than deposit increase by 4.91%, 3.47%, 32.64%, 20.64%, 36.73%, 17.02% & 17.87% in year 2004, 2005, 2006, 2007, 2008, 2009, 2010 respectively.

Table No. 4.4

Deposit position of Nepal Investment Bank Ltd.

(Rs. In Million)

Account	Fiscal Years									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Current	769.0	787.5	979.0	1625.1	1583.2	1705.6	2175.1	3138.7	3756.4	3844.6
Saving	1259.6	1276.7	2433.9	4922.0	6703.5	8082.0	10742.2	13688.8	17066.2	18347.6
Fixed	1658.7	945.9	1672.8	2294.7	3212.4	5413.0	7516.8	7944.2	11633.4	15379.8
Call	502.5	1052.0	2610.6	2576.6	2469.7	3448.2	3683.1	9073.0	13513.9	8963.0
Others	66.4	112.7	226.5	287.9	286.0	278.5	371.7	607.1	728.0	805.2
Total	4256.2	4174.8	7922.8	11706.3	14254.8	18927.3	24488.9	34451.8	46697.9	47340.3
Growth%		(1.91)	89.78	47.75	21.77	32.78	29.38	40.68	35.55	1.37

Source: - Various Year Annual Report

The above table (table no. 4.4) presents the growth rate on total deposit of Nepal Investment Bank Ltd. For this analysis 2001 is chosen as the base year. The Banks are collecting deposit from the different sources like saving, fixed, current, call and other deposits.

The growth rate of year 2002 is negative that means deposits of 2001 decrease by 1.91%. And than deposit increase by 89.78%, 47.75%, 21.77%, 32.78%, 29.38%, 40.68%, 35.55% & 1.37 in year 2003, 2004, 2005, 2006, 2007, 2008, 2009 & 2010 respectively.

Deposit position of Standard Chartered Bank Ltd.

(Rs. In Million)

	Fiscal Years									
Account	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*
Current	3279.4	3808.4	5768.6	5816.9	4356.3	4681.8	4794.5	6174.6	6202.8	10220.1
Saving	8404.6	9441.8	10633.1	12771.8	13027.7	14597.5	15244.2	17856.0	19187.7	15862.8
Fixed	3471.7	2264.9	1948.5	1428.5	1416.4	2136.3	3196.5	3301.1	7101.7	5897.4
Call		101.1	185.2	941.0	294.9	1125.5	919.0	1938.2	3001.6	2023.5
Others	274.4	219.5	220.1	203.2	248.7	509.4	486.1	474.0	378.0	350.5
Total	15430.1	15835.7	18755.5	21161.4	19344.0	23050.5	24640.3	29743.9	35871.8	34354.3
Growth%	_	2.63	18.44	12.83	(8.59)	19.16	6.98	20.71	20.60	(4.23)

Source: - Various Year Annual Report

The above table (table no. 4.5) presents the growth rate on total deposit of Standard Chartered   Bank Ltd. For this analysis 2001 is chosen as the base year. The Banks are collecting deposit from the different sources like saving, fixed, current, call and other deposits. The growth rate of deposit in year 2002, 2003, 2004 are increase by 2.63%, 18.44%, 12.83% respectively. Deposit decrease by 8.59 percent in year 2005. And than deposit increase by 19.16%, 6.98%, 20.71% & 20.60 percent in year 2006, 2007, 2008 & 2009 respectively. In last year 2010 the deposit decrease by 4.23 percent.

Table No. 4.6

Deposit position of Himalayan Bank Ltd.

(Rs. In Million)

	Fiscal Years									
Account	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*
Current	2313.7	2652.8	3702.2	4353.1	5013.0	4993.6	5447.1	6801.3	7566.4	8990.9
Saving	9164.1	9102.8	10840.8	11719.7	12852.4	14582.8	15784.7	17935.0	20061.0	18489.2
Fixed	5668.1	6044.9	5880.7	6043.7	6364.3	6350.2	8201.1	6423.9	6377.1	8556.2
Call	-	343.8	201.3	219.6	15.4	41.6	97.9		11.2	0.7
Others	467.7	450.9	377.8	424.8	586.0	488.0	375.0	645.2	665.2	984.8
Total	17613.6	18595.2	21002.8	22760.9	24831.1	26456.2	29905.8	31805.3	34681.0	37021.8
Growth%		5.57	12.95	8.37	9.09	6.54	13.04	6.35	9.04	6.75

The above table (table no. 4.6) presents the growth rate on total deposit of Himalayan Bank Ltd. for this analysis 2001 is chosen as the base year. The Banks are collecting deposit from the various accounts like saving, fixed, current, call and other deposits. The growth rate of deposit in year 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009 & 2010 are increase by 5.57%, 12.95%, 8.37%, 9.09%, 6.54%, 13.04%, 6.35%, 9.04% & 6.75 percent respectively. Deposit of Himalayan Bank increase every year.

Table No. 4.7

Deposit position of Nepal SBI Bank Ltd.

(Rs. In Million)

	Fiscal Years									
Account	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*
Current	2359.9	1086.7	1300.0	1712.6	1774.1	1375.4	1930.4	1738.1	2864.7	4095.4
Saving	1259.5	1274.7	1820.7	2024.2	2684.7	2832.7	3274.7	4171.2	5822.3	7308.8
Fixed	2929.4	3132.7	3337.6	3371.4	4086.4	6116.2	5517.3	6854.9	17438.4	14797.8
Call		26.3				449.0	624.7	828.8	1645.3	2485.8
Others	69.6	51.9	64.5	123.9	100.6	79.4	98.1	122.4	186.5	194.7
Total	6618.4	5572.2	6522.8	7232.1	8645.8	10852.7	11445.2	13715.4	27957.2	28882.5
Growth %	-	(15.81)	17.06	10.87	19.55	25.53	5.46	19.84	103.84	3.31

Source: - Various Year Annual Report

The above table (table no. 4.7) presents deposit position of Himalayan Bank Ltd. For 10 year. For this analysis 2001 is chosen as the base year. The Bank collecting deposit from the various accounts like saving, fixed, current, call and other deposits. Deposit of Nepal SBI bank decrease by 15.81 percent in year 2002 from year 2001. And than deposit of Nepal SBI Bank increase by 17.06%, 10.87%, 19.55%, 25.53%, 5.46%, 19.84%, 103.84% & 3.31 percent in year 2003, 2004, 2005, 2006, 2007, 2008, 2009 & 2010 respectively.

Table No. 4.8

Deposit position of Nepal Bangladesh Bank Ltd.

(Rs. In Million)

Account	Fiscal Years									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Current	634.1	864.5	884.2	1137.0	1077.6	1117.5	872.5	1147.1	1082.3	880.2
Saving	1694.9	2086.9	2913.6	4225.9	5475.2	7414.8	5582.9	6867.2	7099.3	6886.7
Fixed	5236.8	5453.6	5031.6	4875.7	3536.6	2867.0	1578.1	1166.7	813.2	813.2
Call	682.1	766.0	1439.8	2208.8	1770.4	1363.6	1155.7	1489.0	808.1	756.4
Others	330.9	343.0	278.8	299.9	265.7	251.9	274.8	213.7	192.7	210.3
Total	8578.8	9514.0	10548.0	12747.3	12125.5	13014.8	9464.0	10883.7	9995.6	9431.2
Growth%	-	10.90	10.86	20.85	(4.88)	7.33	(27.28)	15.00	(8.16)	(5.64)

Source: - Various Year Annual Report

The above table (table no. 4.8) presents deposit position of Nepal Bangladesh Bank Ltd. for 10 years. For this analysis 2001 is chosen as the base year. The Bank collecting deposit from the various accounts like saving, fixed, current, call and other accounts. Deposit of Nepal Bangladesh bank increase by 10.90%, 10.86%, 20.85 percent in year 2002, 2003, 2004 & decrease in year 2005 by 4.88 percent. In year 2006 deposit increase by 7.33 percent. Deposit increase by 15 percent in year 2008. Last two year deposit decrease by 8.16 & 5.64 percent in year 2009 & 2010 respectively.

Table No. 4.9

Deposit position of Everest Bank Ltd.

(Rs. In Million)

Account	Fiscal Years									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Current	399.7	489.6	562.4	719.8	1025.2	1155.2	2620.0	2492.3	4859.9	4783.3
Saving	1384.1	1733.3	2758.0	3730.7	4806.9	6929.2	9018.0	11883.9	14782.3	15888.2
Fixed	2470.2	2694.6	2803.4	2914.1	3444.5	4298.2	5658.7	6598.0	7094.7	7062.2
Call	225.6	439.4	428.0	565.6	704.4	1293.3	1578.9	2780.6	6294.0	6559.3

Others	94.9	104.2	143.1	133.8	116.8	126.6	222.1	221.4	292.0	509.9
Total	4574.5	5461.1	6694.9	8064.0	10097.8	13802.5	19097.7	23976.3	33322.9	34802.8
Growth%	-	19.38	22.59	20.45	25.22	36.69	38.36	25.55	38.98	4.44

The above table (table no. 4.9) presents deposit position of Everest Bank Ltd. for 10 years. For this analysis 2001 is chosen as the base year. The Bank collecting deposit from the various accounts like saving, fixed, current, call and other accounts. Deposit of Everest bank increase by 19.38%, 22.38%, 20.45%, 25.22%, 36.69, 38.36%, 25.55%, 38.98 & 4.44 percent in year 2002, 2003, 2004 2005, 2006, 2007, 2008, 2009 & 2010 respectively.

Table No. 4.10

Deposit position of Bank Of Kathmandu Ltd.

(Rs. In Million)

Fiscal Years										
Account	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Current	681.5	789.6	935.7	997.9	1302.6	1409.2	1661.8	2092.3	2294.4	2381.5
Saving	1848.9	1862.6	2267.3	2873.8	3447.5	4582.0	5526.8	6595.2	7260.3	7734.2
Fixed	1948.5	1958.8	1991.1	2279.7	2878.9	2709.8	3037.2	3703.1	4474.6	5604.3
Call	1050.1	995.1	854.7	1450.7	1162.1	1618.6	1966.5	3198.1	3823.4	2716.9
Others	195.1	129.8	120.8	139.5	151.7	109.7	166.3	244.0	231.2	290.1
Total	5724.1	5735.9	6169.6	7741.6	8942.8	10429.3	12358.6	15832.7	18083.9	18727.0
Growth%	-	0.21	7.56	25.98	15.52	16.62	18.50	28.11	14.22	3.56

The above table (table no. 4.10) presents deposit position of Bank Of Kathmandu Ltd. for 10 years. For this analysis 2001 is chosen as the base year. The Bank collecting deposit from the various accounts like saving, fixed, current, call and other accounts. Deposit of Bank Of Kathmandu Ltd. increase by 0.21%, 7.56%, 25.98%, 15.52%, 16.62%, 18.80%, 28.11%, 14.22 & 3.56 percent in year 2002, 2003, 2004 2005, 2006, 2007, 2008, 2009 & 2010 respectively.

Table No. 4.11

Deposit position of Nepal Credit & Commerce Bank

(Rs. In Million)

Account	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Fiscal Years										
Current	261.2	362.4	252.3	452.5	380.3	372.6	451.4	440.8	593.5	913.1
Saving	600.6	798.3	1024.6	1919.8	2626.1	3370.3	3317.3	4557.3	5457.7	5833.1
Fixed	2710.2	2421.5	2613.0	2659.5	2676.5	1922.9	1736.6	508.5	1145.5	1170.3
Call	106.7	61.0	350.0	839.5	819.6	838.4	900.4	1718.5	1822.9	1654.8
Others	94.0	65.8	54.2	88.3	127.6	115.3	94.6	95.1	117.4	144.3
Total	3772.7	3709.0	4294.1	5959.6	6630.1	6619.5	6500.3	7320.2	9137.0	9715.6
Growth%	-	(1.69)	15.78	38.79	11.25	(0.16)	(1.80)	12.61	24.82	6.33

Source: - Various Year Annual Report.

The above table (table no. 4.11) presents deposit position of Nepal Credit & Commerce Bank Ltd. for 10 years. For this analysis 2001 is chosen as the base year. The Bank collecting deposit from the various accounts like saving, fixed, current, call and other accounts. Deposit of Nepal Credit & Commerce Bank Ltd. decrease by 1.69 percent in year 2002 & increase in year 2003, 2004, 2005 by 18.78%, 38.79%, 11.25% respectively. In year 2006 & 2007 deposit decrease by 0.16% & 1.80 percent. And deposit increase in year 2008, 2009 & 2010 by 12.61%, 24.82% & 6.33 percent respectively.

Table No. 4.12

Deposition Position of Lumbini Bank Ltd.

(Rs. In million)

Account	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Fiscal Years										
Current	66.6	122.8	158.7	200.0	149.8	159.9	348.0	336.8	528.3	495.7
Saving	435.0	548.5	571.2	833.2	940.9	1769.4	2703.5	3304.4	3206.9	3039.8
Fixed	1271.3	1674.9	1808.1	1829.5	2142.8	1822.0	1660.1	878.1	1113.4	1698.0
Call	273.2	268.1	375.9	863.8	740.5	950.1	1222.2	1124.7	1550.6	620.3

Others	51.3	31.9	45.9	51.1	55.5	85.1	90.8	59.8	45.7	52.3
Total	2097.4	2646.1	2959.8	3777.6	4029.5	4786.5	6024.6	5703.7	6444.9	5906.1
Growth%	-	26.16	11.86	27.63	6.67	18.79	25.87	(5.33)	12.99	(8.36)

Source: - Various Year Annual Report

The above table (table no. 4.12) presents deposit position of Lumbini Bank Ltd. for 10 years. For this analysis 2001 is chosen as the base year. The Bank collecting deposit from the various accounts like saving, fixed, current, call and other accounts. Deposit of Lumbini Bank Ltd. increase by 26.16%, 11.86%, 27.63%, 6.67%, 18.79% & 25.87 percent in year 2002, 2003, 2004, 2005, 2006 & 2007 respectively. Deposit decrease by 5.33 percent in year 2008 than increase by 12.99 percent in year 2009. At last year 2010 deposit decrease by 8.36 percent.

Table No. 4.13

Deposit position of Machhapuchhre Bank Ltd.

(Rs. In Million)

	Fiscal Years									
Account	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Current	27.0	49.3	53.5	71.4	142.6	248.9	346.2	497.3	549.5	694.9
Saving	57.8	134.5	252.1	493.1	1250.0	2333.3	3856.8	4933.3	6844.5	7166.8
Fixed	612.0	736.2	921.6	1227.3	1914.8	2604.9	2733.4	2961.2	3681.	5006.9
Call		69.9	530.6	892.0	2209.3	2586.0	2269.1	2588.4	4309.3	2280.7
Others	3.2	4.9	20.9	70.8	69.8	120.2	269.5	120.9	211.0	197.8
Total	700.0	994.8	1778.7	2754.6	5586.5	7893.3	9475.0	11101.1	15596.1	15347.1
Growth%	-	42.11	78.80	54.87	102.81	41.29	20.04	17.16	40.49	(1.59)

Source: - Various Year Annual Report

The above table (table no. 4.13) presents deposit position of Machhcpuchhre Bank Ltd. for 10 years. For this analysis 2001 is chosen as the base year. The Bank collecting deposit from the various accounts like saving, fixed, current, call and other accounts. Deposit of Machhapuchhre Bank Ltd. increase by 42.11%, 78.80%, 54.87%, 102.81%, 41.29%, 20.04%, 17.16% & 40.49 percent in year from 2002 to year 2009 respectively. At last year 2010 deposit decrease by 1.59 percent.

Table No. 4.14

Deposit position of Kumari Bank Ltd.

(Rs. In Million)

Account	Fiscal Years									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Current	37.3	84.1	135.1	250.8	280.3	355.2	401.0	600.9	779.2	1009.9
Saving	75.4	260.9	461.9	910.9	1515.5	2317.9	4469.0	4142.7	4150.0	4281.0
Fixed	86.8	332.3	795.4	1292.4	2302.1	3189.9	2772.2	3799.6	4527.0	5204.2
Call	105.0	482.7	1093.3	2299.9	2102.8	1880.7	2827.7	4124.6	6135.6	6073.1
Others	11.5	20.0	27.4	62.5	69.4	56.7	90.1	113.3	268.7	321.1
Total	316.0	1180.0	2513.1	4816.5	6270.1	7800.4	10560.0	12781.0	15860.6	16889.3
Growth%	-	273.42	112.97	11.66	30.18	24.41	35.38	21.03	24.03	6.48

Source: - Various Year Annual Report

The above table (table no. 4.14) presents deposit position of Kumari Bank Ltd. for 10 years. For this analysis 2001 is chosen as the base year. The Bank collecting deposit from the various accounts like saving, fixed, current, call and other accounts.

Deposit of Kumari Bank Ltd. increase by 273.42%, 112.97%, 11.66%, 30.18%, 24.41%, 35.38%, 35.38%, 21.03%, 24.03% & 6.48 percent from year 2002 to 2010 respectively.

Table No. 4.15

Deposit position of Commercial Bank in Nepal.

(Rs. In Million)

Account	Fiscal Years									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Current	23651.2	22772.1	27134.1	31551.6	32062.7	34449.9	41340.3	51478.1	63807.5	67945.5
Saving	70205.3	72258.7	83610.3	97771.1	111876.8	130625.5	149042.3	176853.1	202741.1	203452
Fixed	58181.9	55005.5	53032.8	51580.9	51325.1	56775.3	61433.9	61841.1	80497.9	88432
Call	6894.3	9564.6	10624.7	16063.7	15668.1	19491.2	21213.4	34691.7	51495	42897.1
Others	2617	2213.5	2243.9	2454.7	2645.6	2785.1	3180.7	3808.9	4777.2	5724.7
Total	161549.7	161814.4	176645.8	199422	213578.3	244127	276210.6	328672.9	403318.7	408451.3
Growth	-	0.16	9.16	12.89	7.09	15.32	13.14	18.99	22.71	1.27

Above table 4.15 shows that the condition of deposits which is the main sources of banks or financial institutions. In this table we calculated the amount of total deposit. Saving and fixed deposit are the actual amount of deposit which was given by the banks financial reports and but in current deposit we included the call deposit, margin deposit, and other deposit for the calculation. The table shows that the banks deposited amount gradually increased from 2001 to 2010. It indicate that the bank able to collect the deposit from different sectors, people and institutions by the attraction of the depositor. In saving and fixed deposits banks give some interest and in current it gives only drawn facilities not interest.

. For this analysis 2001 is chosen as the base year. The Banks collecting deposit from the various accounts like saving, fixed, current, call and other accounts. The deposit growth 0.16 per cent in year 2002 from year 2001. Deposit growth 9016%, 12.89%, 7.09%, 15.32%, 13.14%, 18.99%, 22.71% & 1.27 per cent in year 2003, 2004, 2005, 2006, 2007, 2008, 2009 & 2010 respectively. In last year deposit increase low rate. Deposit increase high rate in year 2009.Position of deposit growth in various account shows in below graph.

Deposit Position of Commercial Bank

Figure 4.1
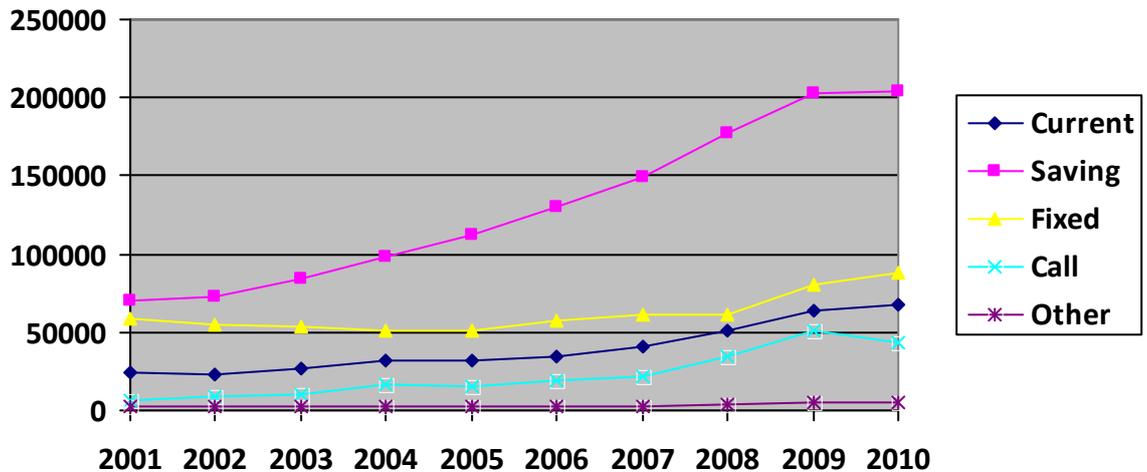
Above graph 4.1 shows the deposit position of commercial bank in Nepal. The line of saving deposit is higher than other deposit line. The saving deposit line growing up. The fixed deposit line decreasing trend to year 2005 from year 2001 & than slowly up.

4.1.2 Investment position of commercial bank in Nepal

In an increasingly competitive global economy capital was relative scare, inflation was raising in the other hand the world's most of the nation has adopted mantra of globalization, liberalization and resulting opening up of domestic market since then world economy experienced synchronize hence capital allocation is only way to survive and gain handsome profit which is the ultimate objective of commercial Banks. The term portfolio simply means collection of investment fund. Allocation of fund is the only way to minimize risk and maximize profit so that commercial Banks mobilize it's deposit in the different sector area like government securities, loans and advances and share and debenture which are quite prominent sectors now-a-days along with that commercial Banks investment agriculture, industry, commercial and social service sectors.

4.1.2.1 Loan & Advances of Commercial Bank In Nepal.

The amount of Loan and advances is called total credit. Simply, banks provides loan by accepting different collateral. The interest rates of loan are maintained according to the liquidity and investment level of the bank with nature, low interest rate attracts

people to take loan in different productive sectors. Bank provides loan in different area. It is main area of earning of commercial banks. The given table shows position of loan & advances of commercial bank in Nepal.

Commercial Banks pool the saving of different institutions, individuals in the form of different accounts and means. Commercial Banks can't hold the pooled money with them for the longer time since they have to pay interest on that deposit. That's why the main purpose of pooling the saving is to invest in different sectors one of them is loan and advances which is the most important and known function of commercial Banks as well as the core function. Investing in loan and advances involves the higher risk known as credit risk. Therefore before forwarding the credit to the needy organization, individuals commercial Banks assess the required information about the organization, individual whom the Bank is going to forward the credit to minimize the credit risk and to secure their investment and the return on that investment. How much credit should commercial Banks provides depends on the strategy adopted by the Bank, liquidity maintenance and the quality of credit asking customers that's why the percentage of loans and advances in total investment portfolio is different year to year.

Table No.4.16

Loan & Advances of Commercial Bank

(Rs. In Million)

Banks	Fiscal Years									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
NBL	21728.8	20755.6	19078.1	19108.0	17456.0	12180.4	13377.5	15480.6	19261.0	22715.0
RBB	28081.2	28183.5	27969.6	26514.4	28614.0	26863.8	25214.8	27353.6	31464.1	28,543.8
NABIL	8173.1	7072.0	7996.9	8635.1	11078.0	13021.3	15657.1	21514.6	27816.6	33792.8
NIBL	2385.5	2693.0	5872.6	7174.4	10295.4	13007.2	17482.0	27145.5	36250.4	41473.8
SCB	5838.7	5675.6	6028.5	6662.0	8213.5	8905.1	10538.1	13355.0	13118.6	15302.2
HBL	8836.6	9673.5	0894.2	13081.7	13245.0	15515.7	17672.0	19985.2	25292.1	30602.5
NSBIB	4091.0	4528.6	4761.1	5490.9	6619.1	8059.6	9846.7	12574.9	15465.2	18327.5
NBB	7022.3	7969.1	8362.9	9995.6	8739.8	9010.7	8302.8	8420.0	8507.9	9348.8
EBL	2963.7	3969.6	5030.9	6116.6	7914.4	10124.2	14059.2	18814.3	24366.2	28609.6

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BOK	4275.3	4840.1	4913.3	6049.7	6166.9	7525.2	9663.6	12692.9	14894.7	17363.9
NCC	2894.1	2936.9	3321.8	4417.6	5934.3	5836.6	5083.9	5084.5	7141.6	8628.6
LBL	1793.0	2295.4	2626.7	3207.0	3816.9	4315.0	4938.2	5365.7	5680.3	5999.0
MBL	499.2	680.8	1494.1	2541.7	5051.4	6033.4	7281.3	8880.5	12956.9	15304.2
KML	263.5	1120.2	2144.4	3709.0	5519.2	6918.3	9011.0	11449.0	14681.8	15728.9
Total	98846	102393.9	100495	122703.7	138664	147316.5	168128.2	208116.3	256897.4	291740.6
Growth %		3.59	(1.85)	22.09	13.01	6.24	14.12	23.78	23.44	13.56

Source: - Various Year Annual Report

The above table 4.16 shows the investment of commercial Banks in loan and advances from year 2001 to 2010. There are 14 commercial Banks have different investment amounts in loans and advances in different year. The growth rate of investment on loan & advance also shows this table. For this analysis year 2001 take as base year. Investment on loan & advances of commercial bank increase 3.59 per cent in year 2002 & than year 2003 decrease by 1.85 per cent in year 2004. In year 2004 , 2005, 2006, 2007, 2008, 2009 & 2010 increase by 22.09%, 13.01%, 6.24%, 6.24%, 14.12%, 23.78%, 23.44% & 23.56 per cent on loan & advances of commercial bank respectively. The position of loan & advances of commercial bank shows below graph.

Figur 4.2

Graph of loan & advances of commercial Banks in Nepal
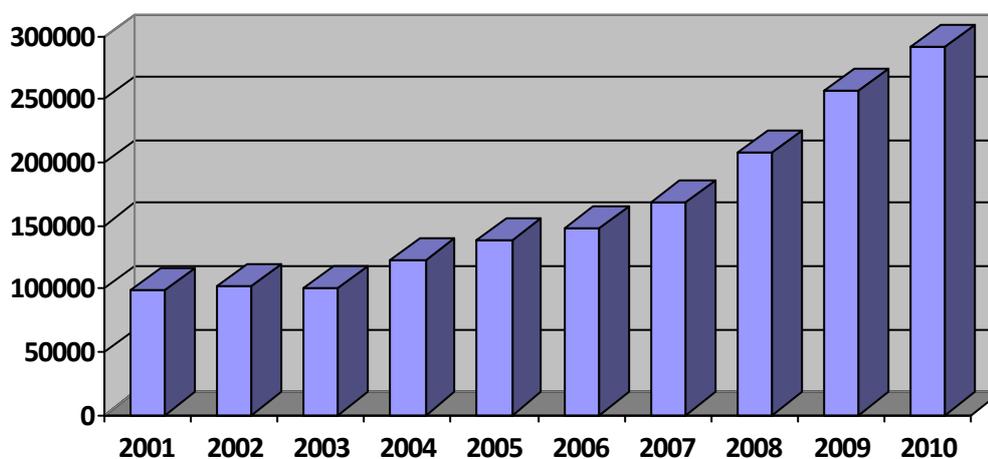
4.1.2.2 Investment of commercial Bank on Government Securities.

To run the development program smoothly, government should spent huge amount. For this shake, government collect fund from public and issuing treasury bills, development bonds etc. Government, as being the guarantor, these funds are regards as low risky funds.

Table No. 4.17

Investment on government Securities of Commercial Bank

(Rs. In Million)

| Banks	Fiscal Years									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
NBL	6720.0	7115.2	11722.8	10593.8	13838.6	11776.9	13226.3	12918.4	10597.9	8246.8
RBB	5576.3	4088.5	4137.1	2918.9	6494.8	9025.7	10129.2	10565.9	8365.5	10,192.7
NABIL	2732.9	4120.3	3663.5	3672.6	2826.8	2372.3	5359.2	4889.6	3978.7	4480.0
NIBL	300.0	224.4	400.0	2001.1	1948.5	2522.3	3256.4	3155.0	2531.3	2708.5
SCB	4811.0	5784.8	6722.8	7948.2	7204.6	8644.9	7115.7	8146.1	10007.3	5969.7
HBL	2224.3	2588.6	3980.0	2781.7	5469.7	5144.4	6454.8	7471.7	4212.3	3028.1
NSBIB	364.7	503.2	1189.4	1871.5	2588.2	3680.4	2345.6	3093.6	3306.6	2796.5
NBB	262.5	891.0	2040.4	2578.9	2212.5	2525.3	826.8	1221.8	1715.8	1818.2
EBL	823.0	1538.9	1599.4	2466.4	2100.3	3548.6	4704.6	4906.5	5146.0	3604.0
BOK	300.8	542.7	1510.8	2371.8	2216.5	2654.8	2332.0	2113.2	1745.0	1769.1
NCC	197.7	199.7	315.2	511.9	324.7	521.6	1155.3	1835.6	1427.6	1474.6
LBL	208.8	100.0	274.9	433.1	376.0	527.0	795.6	731.5	719.0	745.5
MBL	47.5	49.4	79.3	71.3	127.3	904.5	951.3	827.4	477.8	981.1
KML	9.8	116.7	236.0	601.9	1220.7	1114.3	1297.9	1469.1	1080.1	1058.6
TOTAL	24579.3	27863.4	37871.6	40823.1	48949.2	54963	59950.7	63345.4	55310.9	48873.4
Growth %	-	13.36	35.92	7.79	19.90	12.28	9.07	5.66	(12.68)	(11.64)

Source: - Various Year Annual Report

The above table 4.17 shows yearly investment on government securities of commercial bank. It also shows growth rate of investment on government securities. The commercial bank investment on government securities by amount Rs24579.3

million in year 2001 and than increase investment on government securities by 13.36 per cent in year 2002.Investment on government securities increase by 35.92%, 7.79%, 19.90%, 12.28%, 9.07% & 5.66 per cent in year 2003, 2004, 2005, 2006, 2007 & 2008 respectively. At last two year 2009 & 2010 decrease in investment on government securities by 12.68 & 11.64 per cent. The investment on government securities shows the following graph.

Figur 4.3

Graph of **Investment on government Securities of Commercial Bank**
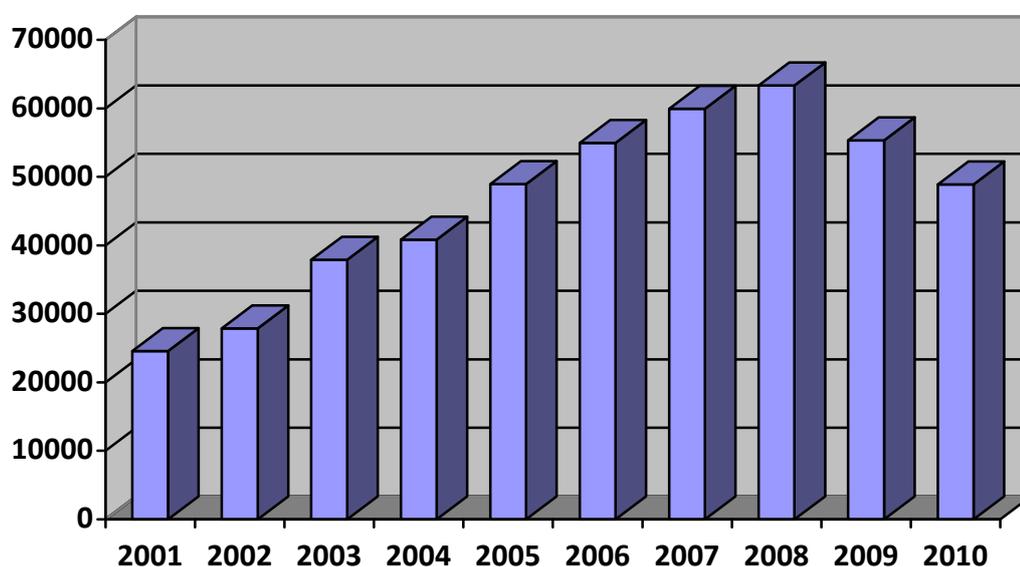
4.1.2.3 Investment on Share & Debenture of Commercial Bank.

Commercial banks are investing into shares and debentures of other companies. Though, the investment in government securities is relatively safer than investment in shares and debentures of other company. Investment on shares and debentures to total working fund ratio shares to what extent the bank has successfully invested its asset on other company's debentures and shares to generate incomes and utilize their excess fund. A high ratio indicates more portion of investment on shares and debentures.

Share and debenture is the another part of investment portfolio. Due to poor political environment and increasing Maoist activities commercial Bank have to select the investment in shares and debenture in order to maximize the return of investment

portfolio by retaining acceptable risk level. Especially the commercial Banks invest their funds in share issued by finance companies development Banks, rural micro finance Co.regional development Banks etc.

Commercial Banks have investment in the shares of different institutions some of them are Nepal Oil Corporation, National Insurance Corporation, NIDC Capital Markers Ltd., Rural Micro Finance Development Center Ltd, Nirdhan Uthan Bank Ltd, Far Western Development Bank Ltd, Mid Western Development Bank Ltd, Eastern Development Finance Co. Ltd, Himalaya and Distillery Ltd., Nepal Housing Bikas Bank Ltd, Sudur Paschimanchall Grameen Bikash Bank, Paschimanchal Gramin Bikash Bank etc. The following table shows the investment structure of commercial Banks on shares and debentures.

Table No. 4.18

Investment on Share & Debenture of Commercial Bank

(Rs. In Million)

	Fiscal Years									
Banks	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
NBL	56.3	37.6	59.8	429.9	51.2	2644.5	3057.0	3733.5	2881.1	2631.7
RBB	80.6	82.1	95.8	223.1	2058.1	2753.2	2693.0	4165.6	7277.4	6,339.8
NABIL	19.8	1081.8	24.3	24.5	1526.5	3802.5	3593.1	5077.0	6896.3	7217.3
NIBL	12.7	37.6	1345.3	2171.4	2125.7	3150.6	3262.2	3724.4	4871.8	3884.7
SCB	11.2	3491.2	3634.9	3412.1	2499.5	4205.7	6448.3	5756.7	8633.2	9340.2
HBL	10.7	34.3	34.3	96.6	39.9	5746.1	5366.8	5280.3	4319.2	3836.5
NSBI	8.9	17.9	17.9	17.9	19.5	19.5	31.9	53.3	9979.6	9510.4
NBB	15.0	138.4	236.3	38.4	62.8	64.8	182.2	194.2	130.1	172.7
EBL	3.7	89.7	17.1	17.1	19.4	652.7	280.5	154.6	804.0	648.8
BOK	24.6	88.0	108.0	22.8	19.2	93.6	663.2	1090.8	1029.4	833.7
NCC	91.2	126.1	91.8	96.6	68.1	75.6	70.0	64.4	155.6	95.5
LBL	3.3	170.7	20.8	5.3	16.0	147.0	33.9	85.9	209.6	95.4
MBL	7.5	28.9	319.0	203.1	341.3	286.9	871.2	686.2	768.3	443.0
KML	–	138.3	187.5	–	120.0	0.4	0.4	168.2	158.3	19.5
TOTAL	345.5	5562.6	6192.8	6758.8	8967.2	23643.1	26553.7	30235.1	48113.9	45069.2

Growth %	-	1510.0	11.39	9.14	41.05	163.66	12.31	13.86	59.13	(6.32)

The above table 4.18 shows yearly investment on shares of commercial bank. It also shows growth rate of investment on shares. The commercial bank investment on other company's shares by amount Rs345.5 million in year 2001 and than increase investment on shares by 1510.0 per cent in year 2002.Investment on shares increase by 11.39%, 9.14%, 41.05%, 163.66%, 12.31% & 59.13 per cent in year 2003, 2004, 2005, 2006, 2007, 2008 & 2009 respectively. At last year 2010 decrease in investment on shares by 6.32 per cent. The investment on shares shows the following graph.

Figur 4.4

Graph of investment on shares by Commercial banks
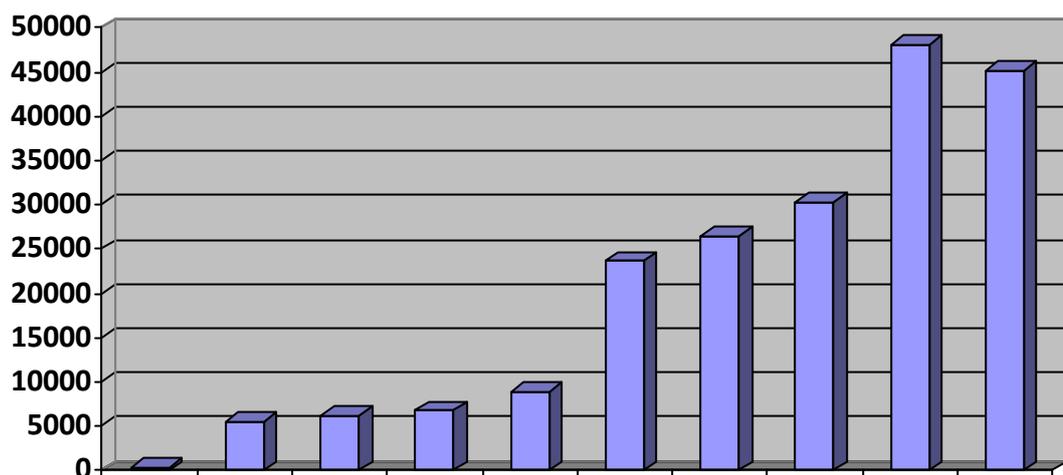
4.1.2.4 Investment Detail of Commercial Banks

Commercial banks mobilizations it's deposit into various productive sectors, government securities & other companies' securities. The detail of deposit mobilize in different sector shows following table.

Table 4.19

Total investment & loan of commercial bank in Nepal

(Rs. In Million)

Fiscal Years										
Investment	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*
Loan& Advance	98846	102393.9	100495	122703.7	138664	147316.5	168128.2	208116.3	256897.4	291740.6
Inv. on Govt. etc.	24579.3	27863.4	37871.6	40823.1	48949.2	54963	59950.7	63345.4	55310.9	48873.4
Inv. On Share	345.5	5562.6	6192.8	6758.8	8967.2	23643.1	26553.7	30235.1	48113.9	45069.2
Total	123770.8	135819.9	144559.4	170285.6	196580.4	225922.6	254632.6	301696.8	360322.2	385683.2
Growth %		9.74	6.48	17.79	15.44	14.92	12.71	9.74	6.48	17.79

Source: - Various Year Annual Report

Above table 4.19 shows that the position of total investment & loan of Commercial banks in Nepal over last 10 years i.e year 2001 to 2010. The growth rate of investment & loan of Commercial bank in Nepal is increase year by year. The growth rate of loan & investment are 9.74%, 6.48%, 17.79%, 15.44%, 14.92%, 12.71%, 9.74%, 6.48%, 17.79 per cent in year 2001 to 2010 respectively.

The Investment position of commercial banks in Nepal shows the following graph.

Figure 4.5

Graph of Investment position of Commercial

Banks
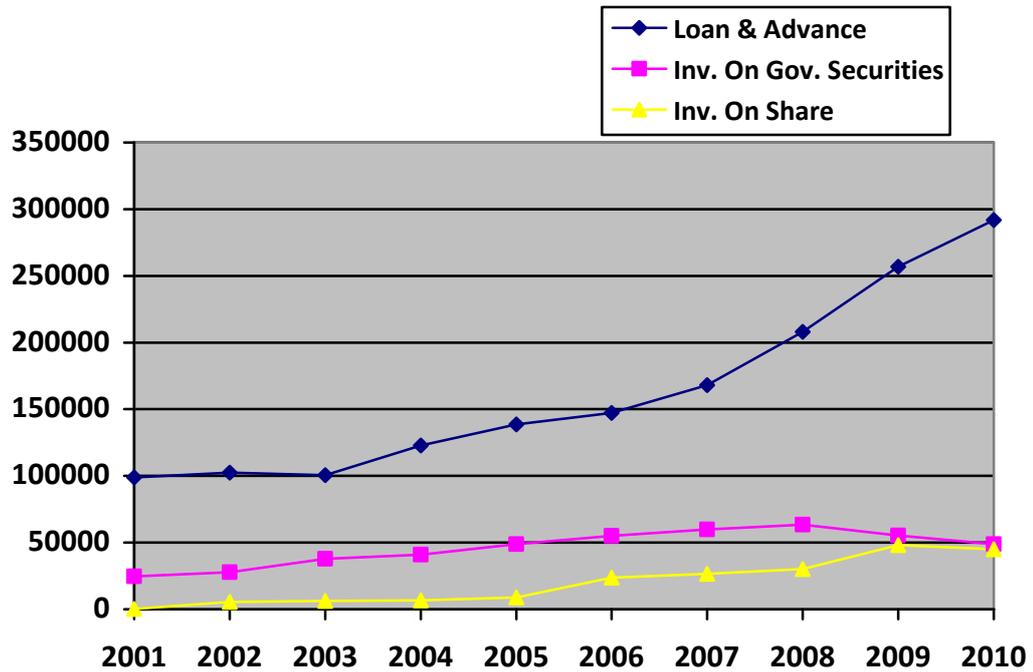
4.2 Analysis of data

4.2.1 Financial Analysis

Ratio analysis is a technique and interpretation of financial statement through mathematical expression. It may be defined as the mathematical expression of the relationship between two accounting figures. To evaluate the different performances of figures of different account is termed as ratio analysis. In short ratio analysis can be defined an analysis of financial statement s with the help of ratios. Ratio analysis is an important technique of financial analysis. The data given in financial statements are meaningless and they are unable to communicate anything from the analytic view point. One has to work very hard in digging out the required information.

Growth Rate

Growth ratio is directly related to the deposit, loan & advances and investment mobilization of commercial Bank. It denotes that how the banks are preserving their economic or financial position through mobilizing its deposit into difference sectors.

The growth ratio represents how well the bank is maintaining its economic and financial position. Higher the ratio is better performance of the bank and vice versa. In this ratio, four growth ratios are studies which are directly related to deposit collection & mobilization, investment of the commercial bank.

For calculation of growth rate, the following formula can be used.

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

Where,

D_n = Total amount of nth year

D_o = Total amount of initial year

g = growth rate of amount

n = Total no of years during the study period

Table 4.20

Growth ratio of Deposit

(Rs in million)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Growth rate
Total Deposit	161549.7	161814.4	176645.8	199422	213578.3	244127	276210.6	328672.9	403318.7	408451.3	10.85%

Source: annex 1

From the above analysis, it is found that the growth rate of total deposit of Commercial bank is 10.85 per cent. This growth ratio is average growth ration of deposit collection of commercial bank in Nepal.

It can be said that the Commercial bank must improve its deposit collection in higher growth rate. Therefore this bank should reform the existing policy into new activities, program, policy and rules and regulation which might help increased in the deposit of bank.

Table 4.21

Growth ratio of loan & advances

(Rs. In million)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Growth rate
Total Loan	98846	102393.9	100495	122703.7	138664	147316.5	168128.2	208116.3	256897.4	291740.6	17.07%

Source: annex 2

Above table shows that the growth rate of total credit of Commercial bank is 17.07% under the year of study period. The growth rate of total credit of Commercial bank is little satisfactory with comparison of the growth rate of total deposit growth rate of bank i.e. 7.94%%. Therefore it can be concluded that, the bank seems in weak condition but it is good condition in growth rate with comparison of growth rate of total deposit.

Table 4.22

Growth ratio of Investment on Government Securities

(Rs in million)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Growth rate
Total	24579.3	27863.4	37871.6	40823.1	48949.2	54963	59950.7	63345.4	55310.9	48873.4	7.94%

Source: annex 3

From the above analysis, it is found that the growth rate of investment on government securities of Commercial bank is 7.94 per cent. This growth ratio is average growth ratio of investment on government securities of commercial bank in Nepal.

It can be said that the Commercial bank must improve its investment on government securities in higher growth rate. Therefore the bank should reform the existing policy

into new activities, program, policy and rules and regulation which might help increased in the deposit of bank.

Table 4.23

Growth ratio of Investment on share & Debenture

(Rs in million)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Growth rate
Total	345.5	5562.6	6192.8	6758.8	8967.2	23643.1	26553.7	30235.1	48113.9	45069.2	71.18%

Source: annex 4

From the above analysis, it is found that the growth rate of investment on Share by Commercial bank is 71.18 per cent. This growth ratio is average growth ratio of investment on share by commercial bank in Nepal. It can be said that the Commercial bank interest invest on other companies shares. So the growth rate is very high. But this is not good for long period because of there are high risk in invest on other companies shares.

4.2.2 Ratio analysis

4.2.2.1Current deposit to total deposit ratio

The deposit in current account has also become one of the vital features of commercial banks. So it is a little more amount than the other account. But the current account holders doesn't has receive interest. Any time costumer withdraw huge amount from in this account without any pre-information. The ratio between current deposit to total deposit shows as follow:

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Table No. 4.24

Current deposit to total deposit Ratio of Commercial Bank

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Current Deposit.	23651.2	22772.1	27134.1	31551.6	32062.7	34449.9	41340.3	51478.1	63807.5	67945.5
Total Deposit	161549.7	161814.4	176645.8	199422	213578.3	244127	276210.6	328672.9	403318.7	408451.3
Ratio	0.15	0.14	0.15	0.16	0.15	0.16	0.149	0.156	0.158	0.166

Above table no. 4.24 shows that current deposit to total deposit ration of commercial bank in various fiscal years. This ratio lies between 14% to 16.66%, it means that Banks collection very low deposit in current account.

4.2.2.2 Saving deposit to total deposit Ratio

The deposit in saving account has also become one of the vital features of commercial banks. So it is a little more amount than the other commercial banks. But the saving account holders doesn't has the same facility of withdrawn money as the current account holders. If the customer wants to withdraw more money from the bank, in this situation they can withdraw more money. The ratio between saving deposit to total deposit shows as follow:

Table No. 4.25

Saving deposit to total deposit Ratio of Commercial Bank

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Saving Deposit	70205.3	72258.7	83610.3	97771.1	111876.8	130625.5	149042.3	176853.1	202741.1	203452
Total Deposit	161549.7	161814.4	176645.8	199422	213578.3	244127	276210.6	328672.9	403318.7	408451.3
Ratio	0.43	0.45	0.47	0.49	0.52	0.54	0.54	0.54	0.50	0.50

Above table 4.25 shows that saving deposit to total deposit ratio of Commercial banks in various fiscal year. The ratio of saving deposit to total deposit lies between 43 per cent to 54 per cent, it means that Banks collection deposit nearly 50 per cent from saving account.

4.2.2.3 Fixed deposit to total deposit

Fixed deposit account means an account of amount deposited in a bank for certain period of time. A person can renew the fixed deposit period after the expiry of the fixed time period. Any Nepalese person can open fixed account with minimum balance. The rate of interest in the fixed deposit is higher than that of other deposit. A person can not deposit more money again in this deposit before the fixed time period. The table shows the fixed deposit position and percentage of fixed deposit with comparison to the total deposit.

Table No. 4.26

Fixed deposit to total deposit Ratio of Commercial Bank

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Fixed Deposit.	58181.9	55005.5	53032.8	51580.9	51325.1	56775.3	61433.9	61841.1	80497.9	88432
Total Deposit	161549.7	161814.4	176645.8	199422	213578.3	244127	276210.6	328672.9	403318.7	408451.3
Ratio	0.36	0.34	0.30	0.26	0.24	0.23	0.22	0.19	0.20	0.22

Above table 4.26 shows that the ratio between fixed deposit to total deposit of commercial bank in Nepal various years. This ratio lies between 19 per cent to 36 percent.

4.2.2.4 Call deposit to total deposits

Call deposit account means an account of amount deposited in a bank by firm. Any Nepalese firm can open call account. The rate of interest in the call like to saving account. Individual person cannot open this type of account.

The table shows the call deposit position and percentage of call deposit with comparison to the total deposit**.**

Table 4.27

Call deposit to total deposit Ratio of Commercial Bank

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Call Deposit.	6894.3	9564.6	10624.7	16063.7	15668.1	19491.2	21213.4	34691.7	51495	42897.1
Total Deposit	161549.7	161814.4	176645.8	199422	213578.3	244127	276210.6	328672.9	403318.7	408451.3
Ratio	0.04	0.06	0.06	0.08	0.07	0.08	0.08	0.11	0.13	0.11

Above table 4.27 shows that the ratio between call deposit to total deposit of commercial bank in Nepal of various years. This ratio lies between 4 per cent to 13 per cent.

4.2.2.5 Other deposit To total deposit ratio

Other deposit account means an account of amount deposited in a bank by foreign currency. Foreign person can open this type of account. The rate of interest in this account give in foreign currency. The table shows the call deposit position and percentage of other deposit with comparison to the total deposit**.**

Table No. 4.28

Other deposit to total deposit Ratio of Commercial Bank

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Other Deposit.	2617	2213.5	2243.9	2454.7	2645.6	2785.1	3180.7	3808.9	4777.2	5724.7
Total Deposit	161549.7	161814.4	176645.8	199422	213578.3	244127	276210.6	328672.9	403318.7	408451.3
Ratio	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01

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

4.2.3.1 NRB Balance to total Deposit.

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

The ratio is calculated as under

NRB balance to total deposit = NRB Balance / Total Deposit

Total deposit = Current + saving + Fixed + Other

<div align="center">**Table No 4.29**</div>

<div align="center">**Ratio of NRB Balance to Total deposits**</div>

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
NRB Bal.	19773.6	23339.5	15683.3	21098.2	15425.6	18200.1	20142.7	25727.9	42042.7	30082
Total Dep.	161549.7	161814.4	176645.8	199422	213578.3	244127	276210.6	328672.9	403318.7	408451.3
Ratio	12.24	14.42	8.88	10.58	7.22	7.45	7.29	7.83	10.42	7.36

From the above table no. 4.29 shows the ratio of Commercial banks are obtained form the annex 01. Though this table it is analyzed the short term obligation of the banks. It reveals that average ratio of the balance with NRB to total deposit of Commercial bank are 12.24%, 14.42%, 8.88%, 10.58%, 7.22%, 7.45%, 7.29%, 7.83%, 10.42% & 7.36 per cent in year 2001, 2002, 2003, 2004 2005, 2006, 2007, 2008, 2009 & 2010 respectively.

4.2.3.2 Liquid fund to total Deposit ratio Liquid fund means that type of asset which are converted into cash short time period. Liquid fund to total deposit ratio shows the liquidity position of bank. This ratio calculated as:

<u>Liquid fund</u>
Total deposit

The following table shows that liquidity position of commercial bank.

<div align="center">**Table No 4.30**</div>

<div align="center">**Total Liquid fund to total deposit ratio**</div>

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Liquid Fund	52798.5	47197.1	35514.6	42752.6	34275.4	33478	37084.2	48516.3	66969.4	60498.6
Total Deposit	161549.7	161814.4	176645.8	199422	213578.3	244127	276210.6	328672.9	403318.7	408451.3

Ratio	0.32683	0.2917	0.201	0.21438	0.1605	0.1371	0.1343	0.1476	0.166	0.14812

4.2.4 Activity Ratio:

Activity ratio is also called assets management ratio. It measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. A commercial bank must manage its assets in properly to earn high return. Following ratios are studied in this chapter.

4.2.4.1 Credit Deposit Ratio:-

Credit and Deposit are the major two functions of commercial banks. Simply, credit deposit ratio is used to find out the effective utilization of available resources of the bank. The relationship between credit and deposit shows the efficiency, ability and idle resources of commercial bank.

The ration of credit and deposit declares by the effective utilization of collected resources. Simply increase of deposit lead to increase in credit. Thus, prosperity of any commercial bank are depends upon the rate of deposit and credit.

Table No. 4.31

Credit deposit ratio of Commercial bank in Nepal

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Credit	98846	102393.9	100495	122703.7	138664	147316.5	168128.2	208116.3	256897.4	291740.6
Deposit	161549.7	161814.4	176645.8	199422	213578.3	244127	276210.6	328672.9	403318.7	408451.3
CD Ratio	0.611	0.632	0.568	0.615	0.649	0.603	0.609	0.633	0.637	0.714

From the above table 4.31, we can analyze the ratio of credit with respect to the deposit. It shows that maximum deposits are mobilized by Commercial Banks. It has also been utilizing its deposit in loan and advances, and but has some progress in 2008

& 2009, shows that bank is mobilizing its maximum deposit in different productive sector.

Figur 4.6

Graph of CD ratio of commercial Banks in Nepal
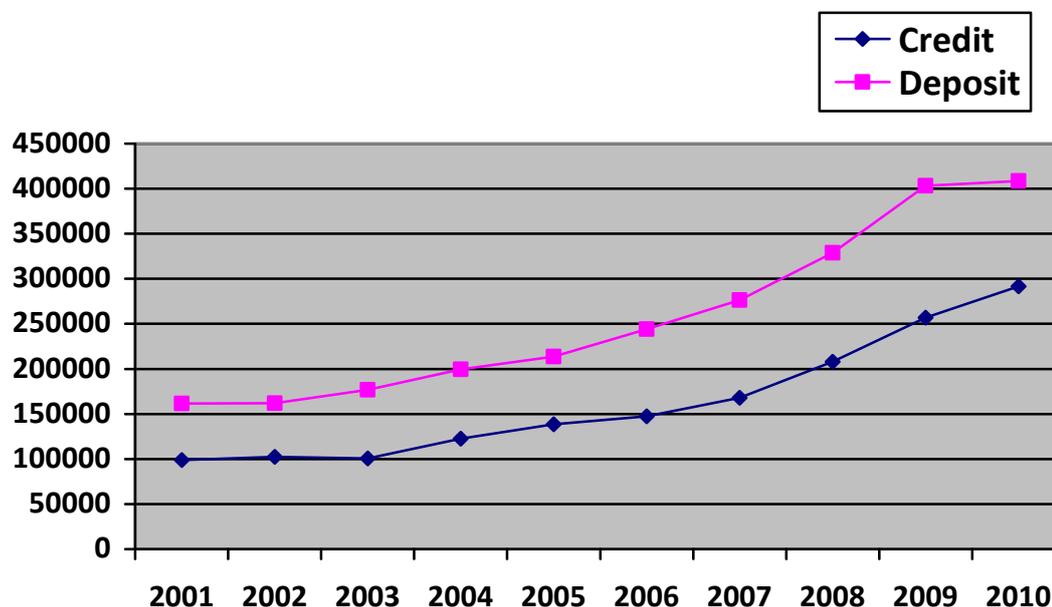
4.2.5 Statistical Analysis

Under this analysis some statistical tools are used to achieve the objectives of the study. Following statistical tools are used for this purpose.

➢ Coefficient of Correlation

➢ Regression Analysis

➢ Trend Analysis

4.2.5 Coefficient of Correlation

The Karl Pearson's coefficient of correlation is used to find the relationship between two or more variables. Correlation analysis is a measure of association that is based on the numerical values of the two or more variables. It is preferred in this study to identify the relationship between the variables whether the relationship is significant or not. The correlation coefficient helps to measure the relationship of negative or positive. And indicates the intimacy or not.

4.2.5.1 Correlation Coefficient between Total Deposit and Credit

Correlation Coefficient between Total deposit and credit measures the degree relationship between deposit and credit; here the credit is the amount of loan and advance. In correlation analysis deposit is an independent variable (X) and while credit is dependent variable (Y). See detail (Annex…)

Table 4.32

Correlation Coefficient between Total Deposit and Credit

Bank	R	r2	6P.Er
Commercial bank	0.317	0.10	1.1482

Source :Annex 5

The calculated value of correlation coefficient between total deposit and total credit is 0.317 therefore there is high degree of positive correlation. The coefficient of determination, r2 is 0.10 It indicates that 10% of the variation in the dependent variable (total credit) has been explained by the independent variable (total deposit). And value of P.Er is 0.1914and 6P.Er is 1.1482, The value of correlation coefficient r is too less than the 6 times probable error 6 P.Er. Therefore r is insignificant.

4.2.5.2 Regression analysis

The main objective of Regression is to predict or estimate the value of variables corresponding to a given value of independent variables. While regression analysis has been developed to study and measure the statistical relationship between two variables only then the process is know as the simple regression analysis. Regression lines expresses in terms of mathematical relations are know as regression equations. It is the line which gives the best estimates for the value of y for any specified values of X.

Here loan & advances is depended variable & deposit is independent variable.

X=Deposit

Y=Loan & advances

Regression equation of Y on X is given by

Loan= 0.7146dep- Rs20392.92

(Rs. In million)

Deposit	450000	500000	550000	600000
Loan advances	301177.08	336907.1	372637.08	408367.1

The above table shows the relation between deposit & loan & advances of commercial banks in Nepal. If commercial bank collection deposit Rs 450000 million any particular time period, than it can provides loan & advances its client by Rs.301177.08 million.

4.2.5.3 Trend Analysis

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

$y = a + bx$

Where,

y = the dependent variable.

a = the origin i.e. the arithmetic mean.

b = the slope coefficient i.e. rate of exchange

x = the independent variable

4.2.5.2.1 Trend Analysis of Deposit

Deposit includes current, saving, fixed and other deposit (call deposit + other) under this topic an effort has been made to calculate the trend values to total deposit of Commercial banks in Nepal for 10 years and forecast for next five years.

Table No. 4.33.

Trend Analysis of Total Deposit

(Rs. In millions)

Year	2011	2012	2013	2014	2015
Deposits	421835.579	451736.757	481637.935	511539.113	541440.291

Above table 4.33 shows that forecasted deposit for year 2011 to 2015 of Commercial bank in Nepal. Deposit of Commercial bank is increase year by year. Deposit will be reach Rs.541440.291 million in year 2015, if other things remaining to the same.

4.2.5.2.2 Trend Analysis of Loan & Advances

Under this topic an effort has been made to calculate the trend values to Loan & Advances of Commercial banks in Nepal for 10 years and forecast for next five years.

Table No. 4.34

Trend Analysis of Loan & Advances

(Rs. In millions)

Year	2011	2012	2013	2014	2015
Loan& Advances	1751988.955	1773204.765	1794420.575	1815636.385	1836852.195

Source: Annex 8

Above table 4.34 shows that forecast of loan & advances of Commercial banks in Nepal for the year 2011 to 2015. The loan & advances is increase year by year. If other thing remaining the same loan & advances of Commercial banks in Nepal reach Rs.1836852.195 million in 2015.

4.2.5.2.2 Trend Analysis of Investment on Gov. Securities

Under this topic an effort has been made to calculate the trend values to investment on government securities of Commercial banks in Nepal for 10 years and forecast for next five years.

Table No. 4.35

Trend Analysis of investment on government securities

(Rs. In millions)

Year	2011	2012	2013	2014	2015
Inv. On Govt. Securities	66304.515	69950.245	73595.975	77241.705	80887.435

Above table 4.35 shows that forecast of investment on government securities of Commercial banks in Nepal for the year 2011 to 2015. The investment on government securities is increase year by year. If other thing remaining the same investment on government securities of Commercial banks in Nepal will be reach Rs. 80887.435 million in 2015.

4.2.5.2.2 Trend Analysis of Investment on share

Under this topic an effort has been made to calculate the trend values to investment on share of Commercial banks in Nepal for 10 years and forecast for next five years.

Table No. 4.36

Trend Analysis of investment on Share

Year	2011	2012	2013	2014	2015
Inv. On Share	49965.63	55387.71	55387.71	60809.79	71653.95

Above table 4.36 shows that forecast of investment on shares of Commercial banks in Nepal for the year 2011 to 2015. The investment on share is increase year by year. If other thing remaining the same investment on share of Commercial banks in Nepal will be reach Rs. 71653.95 million in 2015.

4.3 Major Findings
4.3.1 Deposit Mobilization

From the above table and graph, it is clear that the deposit collections of commercial banks are increasing year after year. Similarly, the investments and loan and advances of banks are increasing every year. But the deposit collection increase in decreasing rate. Banks collection deposit in various account like current, saving, fixed etc. Banks collection huge volume of deposit in saving account, likely more than 50 per cent deposit collection in saving account of commercial banks in Nepal.

4.3.2 Financial Ratio Analysis
Growth Rate:

ﾉ   Growth rate of total deposit of commercial bank in Nepal is increase year by year. The growth rate of deposit of commercial bank in Nepal is 0.16 per cent in year 2002 with base year 2001. The annual growth rate of deposit are 9.16%, 12.89%, 7.09%, 15.32%, 13.14%, 18.99%, 22.11% and 1.27 per cent in year 2003, 2004, 2005, 2006, 2007, 2008, 2009 and 2010 respectively. The average growth rate of deposit is 10.85 per cent of commercial bank in Nepal. This ratio measures the capacity of the bank to maintain the percentage of total deposit. Since the growth ratio of total deposit is 10.85%, the bank must improve its deposit collection in high growth ratio.

ﾉ   Growth rate of loan & advances of commercial bank in Nepal is also increasing year by year but in year 2003 loan & advances of commercial bank is decrease by 1.85 percent. The growth rate of loan & advances of commercial bank are 2.59%, 22.09%, 13.01%, 6.24%, 14.12%, 23.78%, 23.44% and 13.56 percent in year 2002, 2004, 2005, 2006, 2007, 2008, 2009 and 2010 respectively. The average growth rate of loan & advances of commercial bank in Nepal is 17.07 per cent,

which higher than growth rate of total deposit. So the bank seems in strong condition to increase the total credit than the total deposit growth rate.

) The commercial bank's growth rate of investment on government securities is 7.94 per cent per year. This growth rate is average growth rate per year. Investment of government securities increase by 13.36% & 35.92 percent in year 2002 & 2002 respectively. After than investment on government securities increase by decreasing rate until year 2008. At last two year 2009 & 2010 investment on government securities decrease by 12.68% & 11.64 percent respectively.

) The commercial bank investment on other company & financial institution's shares & debenture for earning profit. Last 10 year's data shows that position of investment on other company's shares & debenture by commercial bank in my study. Commercial bank are increasing investment on shares & debenture year by year but last year 2010 this growth rate decrease by 6.32 per cent. In year 2002 commercial bank investment on share & debenture huge amount. In this year growth rate of investment on share & debenture by 1510 per cent from year 2001.

Deposit ratios :

) We can observe that current deposit to total deposit of commercial bank lies between 14 percent to 16.60per cent. It shows that Commercial bank collection deposit in current account 15%, 14%, 15%, 16%, 15%, 16%, 14.90%, 15.60%, 15.80% and 16.60 percent in year 2001 to 2010 respectively.

) In my study saving deposit to total deposit of commercial bank lies between 43per cent to 54per cent. Commercial bank collection deposit in saving account is 43%, 45%, 47%, 49%, 52%, 54%, 54%, 50%, 50% in year 2001 to 2010 respectively. It shows that maximum deposit collection in saving account by bank in Nepal.

) In my study fixed deposit to total deposit lies between 19per cent to 36per cent of commercial bank in Nepal. It shows that deposit collection by commercial bank is 36%, 34%, 30%, 26%, 24%, 23%, 22%, 19%, 20% & 22per cent in year 2001 to 2010 respectively.

) In my study we find out that the ratio of call deposit to total deposit lies between 4per cent to 13per cent. Deposit collection in call account by commercial

bank in Nepal is 4%, 6%, 6%, 8%, 7%, 8%, 8%, 11%, 13% & 11per cent in year 2001 to 2010 respectively.

) Commercial bank collection deposit other account like foreign currency account. The other deposit to total deposit ratio of commercial bank lies between 1 percent to 2 percent in year 2001 to 2010.

Liquidity Ratio:

) We can observe that commercial banks has been maintaining sufficient NRB balance. This ratio maintain by commercial bank are 12.24%, 14.42%, 8.88%, 10.58%, 7.22%, 7.29%, 7.83%, 10.42% & 7.36 percent in year 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009 & 2010 respectively. That means bank deposit into NRB 12.24 per cent of total deposit in year 2001 and so on.

) In my study liquid fund to total deposit ratio lies between 13per cent to 33per cent. It shows that this ratio is 32.68%, 29.17%, 20.10%, 21.44%, 16.05%, 13.71%, 13.43%, 14.76%, 16.60%, & 14.81per cent in year 2001 to 2010. This ratio shows that how much keep cash in vault of total deposit for daily transaction.

Activity Ratio (CD ratio):

The CD ratio, which indicates that the better utilization of its deposit on loan and advances in little favorable condition. CD ratio has been followed in zigzag trend. The bank is facing the problem in investing in loan and advances. Due to various internal and external factors, the bank is not making any open investment. That's why deposits are excess and idle in the bank. So there is little gap between deposit and credit. As a result, there is piling up the idle deposits with the bank

We can observe that CD ratio of commercial bank lies between 56per cent to 71.40per cant. It shows that the CD ratio maintain by commercial bank is 61.10%, 63.20%, 56.80%, 61.50%, 64.90%, 60.30%, 60.90%, 63.30%, 63.70% & 71.40per cant in year 2001 to 2010 respectively. In year 2010 Commercial Bank maintain CD ratio maximum 71.40per cent.

Correlation Co-efficient :

Correlation coefficient between total deposit and loan and advances found that it is positive correlation (i.e.0.3176) of Commercial bank which indicates that increase in

deposit will increase in loan and advances. This study also suggests that independent variable that is loan and advances is highly dependent to the deposit. Therefore, it is significant relationship between total deposits and loan and advances of banks. We can say that the correlation coefficient between total deposit and total credit of Banks shows the positive relationship between them ie it is 0.3176. And r_2= 0.10, it indicates that 10.00% of variation in total credit has been explained by the total deposit. Since "r" is greater than 6PEr, there is significant relationship between deposit and credit.

Regression analysis:

In my study the regression equation of dependent variable loan on independent variable deposits is fount that *Loan=0.7146dep-20392.92* of commercial bank in Nepal. If commercial bank could collection deposit of Rs 450000 million than it provides loan & advances Rs 301177.08 million.

Trend Analysis:

We can observe that deposit of commercial bank in Nepal is in increasing trend. It also shows that they are able to retain the deposit as well as attract new and fresh deposit. We forecasted deposit of commercial bank next five year is Rs 421835.579 million, 451736.757 million, 481637.935 million, 511539.113 million & 541440.291 million in year 2011 to 2015 respectively.

We can observe that loan & advances of commercial bank in Nepal is also in increasing trend. It shows that the banks are able to provides loan & advances in various productive sectors. The forecasted loan & advances of commercial bank next five year is Rs 1751988.955 million, 1773204.765 million, 1794420.575 million, & 1836852.195 million in year 2011 to 2015 respectively.

We can observe that investment on government securities by commercial bank is in increasing trend. The amount of investment in government securities by commercial bank is Rs 66304.515 million, 69950.245 million, 73595.975 million, 77241.705 million & 80887.435 million in year 2011 to 2015 respectively.

Similarly, the amount of investment on other companies share & debenture by commercial bank in Nepal is also increasing trend. The amount of investment next five year is Rs 49965.63 million, 55387.71 million, 55387.71 million, 60809.79 million & 71653.95 million in year 2011 to 2015 respectively.

CHAPTER – V
SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter summarizes that whole study, draw the major conclusions and forwards the recommendations on the basis of major findings.

5.1 Summary:

The problem of economic development of a developing country is a problem of real growth. Only considering real factor can't solve this problem, because, nowadays financial and monitoring factors have a tremendous effect on the growth process. For the development of the country's economy, sound and co-ordinate fiscal and monetary policy plays an important role even in underdeveloped country like Nepal. For this, the role of commercial banks becomes crucial in the task of capital formation, which is, no doubt, a key variable in the economic development of a country. Scattered resources hold no meaning unless and until they are mobilize and utilize efficiently in some productive sectors. Commercial banks contribute to the process of capital formation by converting dispersed saving into meaningful capital investments in order to aid industry, trade, commerce, agriculture and other sectors for the economic development of a nation. It should not be forgotten that a country could hardly achieve its goal of economic development with a strong capital base. Commercial banks play a pivotal role in performing such base for financial and economic development by way of deposit mobilization. Deposits are the obligation of the commercial banks. So commercial banks must allocate the funds in different loan and advances and investment. Here proper efficiency in mobilizing the deposits has to be maintained. So the purpose of this study is to know the efficient utilization of the accumulated deposits. Besides this, the objective is to see the impact of interest rates on amount of deposits collected and amount of loan granted by commercial banks. Interest in the deposits paid according to year and category of deposits. No interest will be pay in current account. In saving deposit the interest rate is 4 percent and similarly in fixed deposit the interest rate is 12.50 percent will be paid according to the duration of the deposits. The credit of the commercial banks depends upon the deposit position of the banks. Commercial banks in Nepal used to utilize their deposit in two ways (a) Loan and advance and (b) Investments. In mid January 2010 the total deposit of Commercial bank in Nepal NPR408451.3 million, which is NPR 161549.7

million in mid January 2011. The growth rate of deposit of commercial bank in Nepal is 10.85 per cent per year. In mid January 2010 the loan & advances of commercial bank was NPR 291740.6 million, which was NPR 98846 million in mid January 2011. It shows that the growth rate of loan & advances of commercial bank in Nepal is 17.07 per cent per year. In mid January 2010 the investment in government securities by commercial bank was NPR 48873.4 million, which was NPR24579.3 million in mid January 2001. It shows that the growth rate of investment on government securities by commercial bank is 7.94per cent per year. And in mid January 2010 the investment on other companies securities by commercial Bank was NPR45069.2 million, which was NPR345.5million. It shows that the growth rate of investment on other companies securities by commercial Bank in Nepal is 71.18per cent per year.

The ratio between deposit and credits i.e. CD ratio has increased overall. In mid January 2010 CD ratio was 71.40%. In this study, which was 61.10% in mid January 2001.it is found that the correlation between total deposit and total credit is 0.32, which shows the degree of association between the two is low, here "r" is lower than 6P.Er.it means that the relationship between total deposit and total credit is insignificant. The commercial bank collection deposit various account, like current, saving, fixed etc. In mid January 2010 Bank collection deposit in current account, saving account, fixed account, call account & other account was 17%, 50%, 22%, 11% & 1per cent respectively of total deposit. It shows that bank collection maximum deposit in saving account. Yet it go hand in hand with developmental activities of the country, the bank more to utilize even better and with proper a locative scheme. When liberalization was introduced in Nepal as a means of development of the country many joint venture banks and financial institutions began to work. With the establishment of new banks and financial institutions, people got opportunity to keep their savings in these institutions. Saving was now safe with banks than in home from security point of view also. Irrespective of the rate of interest, deposit collection seemed to increase. We can say that Fixed Deposit occupies major portion of banking income. It also plays a vital role in upgrading the national economy. So, it can be inferred from the analysis of data are as follows:

1. The moderate interest rate will encourage in maximizing the fixed deposit
2. Increase in fixed deposit will eventually lead to the increase in industrial and commercial activity
3. With the better accumulation of fixed deposit causes reduction in the lending

interest rate.

4. Better fixed deposit means maximum availability of capital reducing the cost of capital

5. Indirect benefit in creation of better employment opportunity

6. Proper fixed deposit policy controls the money demand and supply market ultimately stabilizing the economy activity

7. Enhance the economy growth of the national

8. Maintaining the fixed deposit scheme (policy) of bank helps in controlling inflation and deflation.

There are five chapter included in this research, first chapter include that background of the study, statements of the problems, objectives of the study and limitations of the study. The main objective of the study are-:To examine and analyze the various deposits services offered by the banks. To analyze the investment position. To study the strength and flows for the existing deposits policy and relationships of deposits and investment. To analyze the deposit fund position. To provide suggestion for the improvement on the basis of findings.

There are many limitations of the study such as the study is depends on secondary data..and the data collected are very limited it only present the 10 yrs data. In the second chapter, it includes the review of literature this chapter focuses on the conceptual review, review of related study, review of articles, review of thesis.

In the third chapter, the study is mainly bases on secondary sources. All data are taken form concerned banks annual report, literature publication, balance sheet profit and loss account, previous thesis report, different websites, related booklets, journals and articles. After collecting the data from the different sources, it is analyzed by using financial tools and statistical tools. This research is based on the secondary data.

In the forth chapter analysis the data and result represented clearly and simultaneously using tables and trend lines. In summary following results are obtaining by the analysis of data.

Deposit of the commercial banks is very important variable. The contribution of the deposit to the investment also higher in the banks record as found in this research. The collection of the deposit is must taken by the commercial bank as the major functions

relations to the others. To increase investment or deposit is the most important function of the commercial bank.

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

In the study, all fourteen banks have increased its deposit and loan and advances year after year. The increasing rate percentages are not serially but it is on zigzag order. The increasing rate varies from bank to bank. It signed that both banks are in prosperity stage and buying to be better year after year.

Karl Pearson's correlation analysis helped conclude the fact that Commercial banks was capable of exploiting their resources by utilizing them in more effectively and efficiently in productive sectors. Trend analysis of all ratios and trend value forecast of total deposits, loan and advances and investment.

In general sense, we can summarize that Commercial banks in Nepal are on the way of prosperity and general overall performance.

5.2 Conclusion

It can be concluded from the observance and analysis of above data the commercial bank should move as per the direction given by the central bank. Bank should have optimum policy to collect the deposit in various accounts. Deposit is the major organ of commercial banks to live in the industry. Higher the deposit higher will be the chance of the mobilization of working fund and profit there to. Bank should invest in different sector very carefully, while advancing loan because loan is the blood of commercial banks for survival. If commercial banks do not apply sound investment policy it will be in great trouble in future to collect it in time. Hence the possibility of bankruptcy there too. Bank should invest their fund in various portfolios after the deep study of the project to be safe from being bankruptcy. If banks concentrate the investment in few organizations, there is high chance of default risk. Diversifications are indeed need to all the business houses but it has seen immense importance to commercial banks.

Diversification of investment is very much important to commercial bank than other business houses because banks use the money to other people for the benefit of its own. And lastly is can be said that banks are important for the nation. It helps in the capital formation to the nations, which is the most important element for the economic growth of the country. Capital helps to solve the various problems arising in the country. And fixed deposit controls the measure economic activity of the nation. Therefore, it is very important for the policymakers to adopt appropriate policy with calculated interest rate so that large capital can be mustered at very low capital cost encouraging the industrial and commercial activity eventually leading to better economic growth, socio-economic development, employment opportunity, etc. In overall it can be concluded that the role of NRB in Deposit Mobilization of commercial banks has positive impact.

Banks should not invest their fund haphazardly. This should be careful while advancing loan because loan is the blood circulation of commercial banks for survival. If commercial banks doesn't apply sound investment policy its will be in great trouble in future to collect it in time hence the possibility of bankruptcy there to. Banks should invest their funds in various portfolios after the deep study of the project to be safe form being bankruptcy. If banks concentrate the investment in few organizations there is a high chance of default risk. Deposit collection and loan mobilization are two major functions of commercial banks. So, banks must be careful in these two functions.

Diversification is indeed need to all business houses but it has seen immense important to commercial banks. Diversification of investment is very much important to commercial banks than other business houses because bank use the money of other people for the benefit of its own. And lastly, it is obvious that the banks are important for the economic development of the country. It helps in the capital formation to the country which is the most important element for the economic growth of the country. In overall, it can be concluded that commercial banks life is totally dependent upon the deposit collection policy and the optimum deposit mobilization procedure.

5.3 Recommendations   On the basis of analysis and findings of the study, following recommendation can be advanced to overcome weakness, inefficiency and improve present fund mobilization and investment strategies of Nepalese commercial banks.

1. Nowadays, in the competitive banking industry, the Bank should attract more depositors by providing improved and new services and facilities.

2. In order to serve the customer smoothly and swiftly, the bank should avoid manual techniques and adopt office automation.

3. Ethics of staff impresses the customers and create interest to improve the performance of the company. Hence, full co-peration from staff must be obtained. Customers" satisfactions are affected by the services provided by the Bank, which will effect the collection of deposits. The bank should also provide the training programmed to the employees for the professional development.

4. Interest rate structure should be carried out and an appropriate interest rate policy should be formulated so as to attract more savings of the general public.

5. The Bank should find out new areas/sectors for investing collected deposits from which it can generate maximum profit. In context of present scenario of the country, health and education can be considered as the best sector for investment, which are more secure and can generate a reasonable profit.

6. Since the national economy is approaching towards recession period, all the financial institutions should work towards improving the economic development of the country. The financial institutes should encourage internal business, industries and export rather than imports, so as to reduce the outflow of currencies.

7. For the upgrading in the financial health of the banks, the ratio of bad loan has to be minimized substantially other wise it has to keep huge amount in loan loss provision.

8. The bank has to create the conductive environment for the revival of sick investment and has to analyze the necessity of Mobilizing additional resource to revive the overall banking sector.

9. The liberal policy of NRB to establish new financial institution and bank, branch is challenging to the profit the banks which also promoting unhealthy competition. So Bank is suggested to make a fair competition in the market and should adopt the policy to live and let to live others which make them to compel to think the optimum policy in turn.

10. At the end, the Banks are suggested to support the social welfare event to promote the business.

11. Proper evaluation of the performance of the staffs should be done in timely and continuously in order to increase the efficiency of the bank. For this, it is recommended that the job analysis should be dine to dine out the job skill, knowledge, abilities etc. of staffs.

12. There should be attractive publicity of the banks in such a way that people will have knowledge of the bank and it encourages them to save the money. When there is more publicity, people may have great desire to save money in order to earn interest and use the bank to lend money instead of money lenders. The bank should also pay attention to publish bulletin, brochures and others so as to make people familiarize with its performance and activities.

13. The government before issuing license for the commercial banks should make a market study for the background and reputation of the people establishing a bank, this will help in avoiding the corrupt banking in the country and existing commercial banks will also get benefit from this policies because they do not have to face false competition policies launched by the corrupt banks.

14. In the context of commercial banks in Nepal, for speedy development of the kingdom, HMG/N and NRB as well as all the commercial banks are suggested to follow decentralization policy and formulate new plans and policies to develop banks' credit operation like formulating policies regarding investments in small scale industries, tourism industry, hydro-electricity projects etc. The Nepalese Government should makes policies regarding salaries, various types of incentives for the commercial banks to avoid internal corruptions in the banks.

15. Looking at current trend of banking business, a bank must be careful while formulating marketing strategies to serve customers. The marketing strategies should be innovative so that it would attract and retain the customers. It is recommended that Banks should develop innovative approach to banks marketing for its well being and sustainability in the market upgrade the banking facilities as per the changing need of the customers.

16. The commercial banks are supposed to boost foreign investments in the country. However, these banks' do not seem to be successful in this aspect. Therefore, all these banks are recommended to activate for increasing foreign investment in Nepal by means of their wide international banking network.

5.3.1 General statement Recommendations

NRB liberal policy has left the banking sector with a Ltd scope of options for the rescheduling of the bad loans. Considering these banks must be formulated its future strategies. Portfolio condition of the banks should be regularly revised time to time. Commercial banks must be providing their services in the remote are not deprived people. Commercial banks are not willing to deal in small loans so that there is gap

which needs to be fulfilled. Lastly, sample banks are suggested to support the social welfare event to promote the business.

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Annex – 1

Calculation of growth rate of deposit

(Rs Millions)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total	161549.7	161814.4	176645.8	199422	213578.3	244127	276210.6	328672.9	403318.7	408451.3

Dn= Deposit of year 2010.

D0= Deposit Of year 2001.

g= Growth rate

n= Time period

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

or, $408451.3 = 161549.7\ (1+g)^{10-1}$

or, $408451.3 / 161549.7 = (1+g)^9$

or, $2.528332 = (1+g)^9$

or, $(1+g)^9 = 2.528332$

or, $(1+g) = (2.528332)^{1/9}$

or, $g = 1.1085-1$

or, $g = 10.85\%$

Annex – 2

Calculation of growth rate of Loan & advances

(Rs Millions)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total	98846	102393.9	100495	122703.7	138664	147316.5	168128.2	208116.3	256897.4	291740.6

Ln= Loan & advances of year 2010.

L0= Loan & advances 2001.

g= Growth rate

n= Time period

$D_n = Do\,(1 + g)^{\,n-1}$

or, $291740.6 = 98846\,(1 + g)^{\,10-1}$

or, $408451.3/\,98846 = (1 + g)^{\,9}$

or, $4.1321986 = (1 + g)^{\,9}$

or, $(1 + g)^{9} = 4.1321986$

or, $(1 + g) = (4.1321986)^{1/9}$

or, $g = 1.1707 - 1$

or, $g = 17.07\%$

Annex – 3

Calculation of growth rate of Inv. On Govt. Securities

(Rs Millions)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total	24579.3	27863.4	37871.6	40823.1	48949.2	54963	59950.7	63345.4	55310.9	48873.4

IGS_n= Inv. On Govt. Securities of year 2010.

IGS 0= Inv. On Govt. Securities 2001.

g= Growth rate

n= Time period

$IGS_n = IGSo (1 + g)^{n-1}$

or, $48873.4 = 24579.3 (1 + g)^{10-1}$

or, $48873.4 / 24579.3 = (1 + g)^9$

or, $1.9884 = (1 + g)^9$

or, $(1 + g) = (1.9884)^{1/9}$

or, $g = 1.07936-1$

or, $g = 7.94\%$

Annex – 4
Calculation of growth rate of Inv. On Shares

(Rs Millions)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total	345.5	5562.6	6192.8	6758.8	8967.2	23643.1	26553.7	30235.1	48113.9	45069.2

ISn= Inv Inv. On Shares of year 2010.

IS0= Inv. Inv. On Shares 2001.

g= Growth rate

n= Time period

$IS_n = IS_o (1 + g)^{n-1}$

or, $45069.2 = 345.5 (1 + g)^{10-1}$

or, $45069.2/ 345.5 = (1 + g)^9$

or, $130.4463 = (1 + g)^9$

or, $(1 + g) = (130.4463)^{1/9}$

or, $g = 1.71809 - 1$

or, $g = 71.18\%$

Annex-5

Calculation of correlation co-efficient and co-efficient of determination (r^2) of total deposit to loan and advances of Commercial bank.

(*Rs Millions)*

Total Deposit (X)	Loan and Advances (Y)	x=X-mean	y=Y-mean	x2	y2	xy
161549.7	98846	-95829.4	-64684	3922380.25	4184045730	128107058.1
161814.4	102393.9	-95564.7	-61136	2943969.64	3737647178	104897663.5
176645.8	100495	-80733.3	-63035	172018963.4	3973436439	-826744469.1
199422	122703.7	-57957.1	-40827	1288221307	1666803102	-1465336573
213578.3	138664	-43800.8	-24866	2504812314	618327902.4	-1244506064
244127	147316.5	-13252.1	-16214	6495844170	262884067.7	-1306772336
276210.6	168128.2	18831.5	4598	12696872544	21141604	518104479.2
328672.9	208116.3	71293.8	44586.1	27272111363	1987920313	7363068936
403318.7	256897.4	145939.6	93367.2	57498524732	8717434036	22388380837
408451.3	291740.6	151072.2	128210	59986345225	16437906668	31401432199
∑X = 2573791	∑Y = 635302			∑x2=167921616969.25	∑y2=41607547040	∑xy=57060631732

Here,

N=10

$$\overline{X} \text{ X } \frac{X}{N} \text{ X } \frac{2573791}{10} \text{ X } 257379 \ .10$$

$$\overline{Y} \text{ X } \frac{Y}{N} \text{ X } \frac{1635302}{10} \text{ X } 163530 \ .2$$

$$r \text{ X } \frac{xy}{\sqrt{x2}\sqrt{y2}}$$

$$\text{X } \frac{5706063173 \qquad 2}{\sqrt{1679216169 \qquad 69 \ .25 \ * \ 4160754704 \qquad 0}}$$

X 0.31765

Co-efficient of determinant

$r^2 = (r)^2$

$r^2 = (0.317)^2$

$r^2 = 0.10$

$$\text{Probable Error (PE) X } 0.6745 \ \left| \ \frac{1 - r^2}{\sqrt{n}} \text{ X } 0.6745 \ \left| \ \frac{1 \ Z \ 0.10}{\sqrt{10}} \text{ X } 0.1914 \right.\right.$$

Annex-6

Calculation Regression equations between Deposits and loan & advances (Assumed mean)

Let, Y=loan & advances

X=Deposits

(Rs Millions)

Y	X	u=x-a	v=y-b	u2	v2	uv
98846	161549.7	-82577.3	-69282.2	6819010475	4800023237	5721137014
102393.9	161814.4	-82312.6	-65734.3	6775364119	4320998196	5410761142
100495	176645.8	-67481.2	-67633.2	4553712353	4574249742	4563969496
122703.7	199422	-44705	-45424.5	1998537025	2063385200	2030702273
138664	213578.3	-30548.7	-29464.2	933223071.7	868139081.6	900093006.5
147316.5	244127	0	-20811.7	0	433126856.9	0
168128.2	276210.6	32083.6	0	1029357389	0	0
208116.3	328672.9	84545.9	39988.1	7148009207	1599048142	3380829904
256897.4	403318.7	159191.7	88769.2	25341997349	7879970869	14131319856
291740.6	408451.3	164324.3	123612.4	27002475570	15280025434	20312521101
		U=132520.7	V=-45980.4	U2=81601686559	V2=41818966758	UV=56451333792

Here,

A=assumed mean of x =244127

B=assumed mean of y=168128.2

$$\overline{X} = A + \frac{\sum u}{N} = 244127 + \frac{132520.7}{10} = 257379.07$$

$$\overline{Y} = B + \frac{\sum v}{N} = 168128.20 + \frac{45980.4}{10} = 163530.16$$

$$b_{yx} = \frac{n\sum uv - \sum u.\sum v}{n\sum u^2 - (\sum u)^2} = \frac{10*5645133379.2 - (132520.7)*(45980.40)}{10*8160168655.9 - (132520.7)^2} = 0.7146$$

$$b_{xy} = \frac{n\sum uv - \sum u.\sum v}{n\sum v^2 - (\sum v)^2} = \frac{10*5645133379.2 - (132520.7)*(45980.40)}{10*4181896675.8 - (45980.40)^2} = 1.3714$$

The equation of line of regression of y on x Is,

$$y - \overline{y} = b_{yx}(x - \overline{x})$$
$$y - 163530.16 = 0.7146(x - 257379.07)$$
$$y - 163530.16 = 07146 x - 183923.08$$
$$y = 0.7146x - 20392.92$$

Loan=0.7146dep-20392.92

(Rs. In million)

Deposit	450000	500000	550000	600000
Loan advances	301177.08	336907.1	372637.08	408367.1

Trend Analysis of Total Deposit of commercial bank

(Rs Millions)

Year	Deposit (y)	x=X-2005.5	x^2	xy
2001	161549.7	-4.5	20.25	-726974
2002	161814.4	-3.5	12.25	-566350
2003	176645.8	-2.5	6.25	-441615
2004	199422	-1.5	2.25	-299133
2005	213578.3	-0.5	0.25	-106789
2006	244127	0.5	0.25	122063.5
2007	276210.6	1.5	2.25	414315.9
2008	328672.9	2.5	6.25	821682.3
2009	403318.7	3.5	12.25	1411615
2010		4.5	20.25	1838031
	Y = 2573791	X = 0	X^2 = 82.50	XY = 2466847

Here,   X = 0, N=10

$$a \ X\frac{\psi}{\rho} \ X\frac{2573791}{10} \ X 257379.10$$

$$b = \frac{\Sigma XY}{\Sigma X^2} = X\frac{2466847}{82.50} \ X 29901.178$$

Hence, trend line equation

y = a + b x

y = 257379.10 + 29901.178x

For 2011, $y = 257379.10 + 29901.178 \times 5.5 = 421835.579$

For 2012, $y = 257379.10 + 29901.178 \times 6.5 = 451736.757$

For 2013, $y = 257379.10 + 29901.178 \times 7.5 = 481637.935$

For 2014, $y = 257379.10 + 29901.178 \times 8.5 = 511539.113$

For 2015, $y = 257379.10 + 29901.178 \times 9.5 = 541440.291$

For 2020, $y = 257379.10 + 29901.178 \times 14.5 = 690946.181$

Appendix Annex – 8

Trend Analysis of Loan & Advances of commercial bank

(Rs Millions)

Year	Loan & advance (y)	x=X-2005.5	x^2	Xy
2001	98846	-4.5	20.25	-444807
2002	102393.9	-3.5	12.25	-358379
2003	100495	-2.5	6.25	-251238
2004	122703.7	-1.5	2.25	-184056
2005	138664	-0.5	0.25	-69332
2006	147316.5	0.5	0.25	73658.25
2007	168128.2	1.5	2.25	252192.3
2008	208116.3	2.5	6.25	520290.8
2009	256897.4	3.5	12.25	899140.9
2010	291740.6	4.5	20.25	1312833
	Y = 1635302	X = 0	X^2 = 82.50	XY = 1750304

Here,

N=10.

X = 0

$$a \text{ X} \frac{\Psi}{\rho} \text{ X} \frac{1635302}{10} \text{ X} 163530.2$$

$$b \text{ X} \frac{xy}{x2} \text{ X} \frac{1750304}{82.50} \text{ X } 21215 \text{ .81}$$

Hence, trend line equation

y = a + b x

y = 1635302 + 21215.81x

For 2011,   y = 1635302 + 21215.81x5.5= 1751988.955

For 2012,   y = 1635302 + 21215.81x6.5= 1773204.765

For 2013,   y = 1635302 + 21215.81x7.5= 1794420.575

For 2014,   y = 1635302 + 21215.81x8.5= 1815636.385

For 2015,   y = 1635302 + 21215.81x9.5 = 1836852.195

For 2020,   y = 1635302 + 21215.81x14.5= 1942931.245

Trend Analysis of invest on Gov. sec. of commercial bank

(Rs Millions)

Year	Inv. on Gov. sec. (y)	x=X-2005.5	x^2	Xy
2001	24579.3	-4.5	20.25	-110606.85
2002	27863.4	-3.5	12.25	-97521.9
2003	37871.6	-2.5	6.25	-94679
2004	40823.1	-1.5	2.25	-61234.65
2005	48949.2	-0.5	0.25	-24474.6
2006	54963	0.5	0.25	27481.5
2007	59950.7	1.5	2.25	89926.05
2008	63345.4	2.5	6.25	158363.5
2009	55310.9	3.5	12.25	193588.15
2010	48873.4	4.5	20.25	219930.3
	Y = 462530	X = 0	X^2 = 82.50	XY = 300772.5

$$a \ X \frac{\Psi}{\rho} \ X \frac{462530}{10} \ X 46253.00$$

$$b \text{ X } \frac{xy}{x2} \text{ X } \frac{300772 \ .5}{82 .50} \text{ X } 3645 \ .73$$

Hence, trend line equation

y = a + b x

y = 46253 + 3645.73x

For 2011,   y = 46253 + 3645.73x5.5= 66304.515

For 2012,   y = 46253 + 3645.73x6.5= 69950.245

For 2013,   y = 46253 + 3645.73x7.5= 73595.975

For 2014,   y = 46253 + 3645.73x8.5= 77241.705

For 2015,   y = 46253 + 3645.73x9.5= 80887.435

Annex – 10

Trend Analysis of invest on share & Debentures of commercial bank

(Rs Millions)

Year	Inv. on Share & debenture (y)	x=X-2005.5	x^2	xy
2001	345.5	-4.5	20.25	-1554.75
2002	5562.6	-3.5	12.25	-19469.1
2003	6192.8	-2.5	6.25	-15482
2004	6758.8	-1.5	2.25	-10138.2
2005	8967.2	-0.5	0.25	-4483.6
2006	23643.1	0.5	0.25	11821.55
2007	26553.7	1.5	2.25	39830.55
2008	30235.1	2.5	6.25	75587.75
2009	48113.9	3.5	12.25	168398.65
2010	45069.2	4.5	20.25	202811.4
	Y = 201441.9	X = 0	X^2 = 82.50	XY= 447322.25

$$a \times \frac{\Psi}{\rho} \times \frac{201441.9}{10} \times 20144.19$$

$$b \times \frac{xy}{x2} \times \frac{447322.25}{82.50} \times 5422.08$$

Hence, trend line equation

y = a + b x

$y = 20144.19 + 5422.08x$

For 2011, $y = 20144.19 + 5422.08 \times 5.5 = 49965.63$

For 2012, $y = 20144.19 + 5422.08 \times 6.5 = 55387.71$

For 2013, $y = 20144.19 + 5422.08 \times 7.5 = 60809.79$

For 2014, $y = 20144.19 + 5422.08 \times 8.5 = 66231.87$

For 2015, $y = 20144.19 + 5422.08 \times 9.5 = 71653.95$