

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 General Background of the Study**

Nepal is an underdeveloped country having the population of about 26.6 million. Population under poverty line is claimed as 25.4%. Nepalese economic growth rate is expected equal to 4.6% in 2011/012 from 3.8% in 2010/11, which shows that the economic growth rate has slightly increased. More than 70% of the population is engaged in agriculture but the contribution of this sector to the GDP is low (Economic Survey, 2011/12).

There are a number of countries whose economic condition is very high with per capita income of more than US \$ 30,000 while there are such countries whose economic condition is very poor with per capita income of less than \$568 per annum. Of course, these countries are trying to lift up their economic condition. These countries are suffering from numerous problems. However, recently, significant improvement has been seen in the global economic and financial scenario.

Capital formation, considered to be one of the important factors in economic development leads to increase the size of national output, income and employment solving the problem of inflation, balance of payments and making the economy free from any burden of foreign debts. Domestic capital formation helps in making a country self-sustainable.

"Capital formation was the accumulation of capital. Profit made by the business community constituted the major part of saving of the community and that savings was assumed to be invested. They thought capital formation indeed plays a decisive role in determining the level and growth of national income and economic

development "(American Institute of Banking, 1972:162). It seems unquestionable that the insufficient capital accumulation is the more serious limiting factors in developing countries. In the view of many economists, capital occupies the central and strategic position in the process of economic development. It seems unquestionable that the insufficient capital accumulation is the more serious limiting factor in undeveloped countries.

In the view of many economists, capital occupied central and strategic position in the process of economic economy lie in the rapid expansion of the rate of its capital investment. So that it development in an under developed attains a rate of growth of output which exceeds the rate of growth of population by the significant margin only with such a rate of capital investment will the living standard begin to improve in a developing country. In developing countries the rate of saving is quite low and exiting institution are half successive in mobilizing such saving as most people have incomes so low that vertically all current income be spent in marinating a substantial level of consumption.

"For the development of the nation it is required to have enough capital, without adequate capital investment may not be possible, formation of the adequate capital life financial institution like finance company banks etc. is important" (Encyclopedia, 1966: 232). Bank is an institution that works for making the financial transactions sound and effective. Bank collects deposits from the depositors and lends it to the people who are seeking credit for their own purposes. Bank accumulates the idle money from the scattered sources and lends it to the various productive sectors in an economy that certainly yields positive results in an economy , employment opportunities, economic activities and finally developing the whole economy.

The main objective of the bank is to mobilize idle resources into productive sectors by collecting the funds from scattered sources. Bank accepts the deposit in numerous forms depending upon the nature of savers and the strategy of the bank itself. Some of the common type of deposits are current deposit, fixed deposit and call deposit. The interest rate of the deposit varies to the different banks as the central bank has freed up the commercial banks to determine the interest rate of their own. Generally Bank is an institution, the essential operation of which is to make the

monetary transaction possible in a sound and effective way. Bank accepts deposits of money from those who save and lend to those who need credit for some purpose.

Bank accumulates idle money from general public by offering attractive or sound interest and lends it to the fund seekers in the economy investment in fixed assets would be possible where by productivity could grow, employment could be generated and finally national economy could be enhanced. Banks are also found to be involved in a number of agency services of remitting and collecting cash on behalf of its clients by opening bank drafts and letter of credit facility etc.

Besides, the main task of bank is to mobilize idle resources into productive sector by collecting it from scattered sources and generating profit. Banks also facilitates people to carry out their financial transaction in every sector such as organization, industries, agriculture trade and needy people as well. Bank accepts deposits in numerous forms depending upon the nature of savers and banks own product offering strategy. Some of the common deposits are saving, fixed and call deposits etc. The cost of deposits to the banks varied as central bank has freed up the commercial bank to offer the interest rate on their own.

However, it is said that the average cost of deposits for the bank is 4%. Development of nation banking sector of that country is responsible and must be strong. The financial sector like bank is a vast field, which helps in reducing poverty, increase in life style of people, increase employment opportunities and there by developing the society of a country as a whole development of a country depends upon adequate saving and invested in productive sector which is inspired by banking activities. Due to the low income there is fewer saving people spend all the money in consumption of necessary items. People who have a lot of money also consume precious goods; people have no idea the investment in productive line. Banks are the main sources which motivate people to save their earnings. Banks collect the saving of people in the form of deposits collection and investment in the productive area. They give the loan to the people; banks mobilize deposit collected from people. The importance of the banking as the nerve centre of economic development cannot be over emphasized and it is said that which are the need of and great wealth of country has got to be kept very sacred just as water of irrigation good banks are for

the country's and trade. The development of a country is always measured by its economic development through indices. Therefore every country has given emphasis on uplifting of a country can hardly be carried forward without the assistances of financial institution. They are the indispensable part of the development process It is the fact that the unorganized financial system leads the country. Therefore, central bank plays a major role and keeping the financial system of a country organized by providing those guidelines and directions.

Recognizing the true fact of developing country," Nepal cannot ignore the importance of commercial banks. Realizing it, Government of Nepal has been adopted the economy liberalization policy. Due to liberalization policy made by government, the number of (bank has been increased and there has emerged the tough competition among them" (Banking and Financial Statistics, 1997: 37).

### **1.1.1 Historical Development of Commercial Banks in Nepal**

The word 'bank' generally denotes commercial bank. It is believed that the word 'bank' was derived from the French word 'Benque' and Italian word 'Banqo'. Literally, a bank means doing the transaction of money sitting on a bench. The first bank of its kind was established on 1148 A.D. in Genoa and on 1157 in Venus. However, in Nepalese context, a formal banking system was introduced only in 1973 with the establishment of Nepal Bank Ltd. which is regarded as the mount institution of modern banking system of Nepal. Prior to the establishment of this bank, the banking needs of people, were fulfilled to certain extent .only by organized financial institution the 'TejarathAddha' but the services offered by it were not sufficient. Actually, the formation of high quality board, 'Udhyog Parisad' was indeed a land mark in opening a new avenue in the field of banking and commerce accordingly. NBL was established in November 1937 under Nepal Bank Act as joint venture between government and private sector and replace the 'TejarathAddha' by taking over its operation. Since then, Nepalese have been able to enjoy the banking services in an organized way.

Saving account is considered to be the major source of funds for banks. Many of the bank's deposit structure here in Nepal shows that about eighty percent of their total deposit liabilities comes from this account. This account provides some interest to the

depositors on their deposited money as they are bound by the rules regarding the operation of their accounts. The volume of such deposits is very high in commercial banks operating within the boundary of Nepal.

"In modern times, commercial banking occupies quite an important place in the financial framework of every economy because of the continuing challenge presents to those who are responsible for managing the affairs' of the banks and to those who observe and study their performance. The character of banking has kept on meandering through times and the working of the commercial banks reflects the changing character of the credit mechanism which is itself the outcome of the economic changes taking place in the economic system. Consequently, commercial bank's workings must be flexible to enable them to face the new economic problem and policy issue in order to play their useful role in the economy"(Vaish, 1999:540).

The recent trend in the banking industry has been observed that the portion of idle cash they are holding is mounting. For instance: commercial banks are currently holding about eighty one percent of the total deposits held by entire depository institution, which turns out to 219 billion rupees. In the meantime, the total loan outstanding and investments of commercial banks is about 180 billion rupees only. This clearly shows the level of deposit management by commercial banks and it requires something to be done immediately.

### **1.1.2 An Introduction to the Selected Commercial Banks**

Two commercial banks have been chosen with an aim to attain the basic purposes of the study. Standard Chartered Bank Nepal represents the private owned commercial bank that is considered as the well managed banks among the private sector and joint venture banks. On the other hand Nepal Bank Ltd is considered as the wide area serving bank in Nepal. This bank is selected as the sample bank because this is most popular government owned bank in Nepal. The selection of sampled banks has been made with an attempt to achieve the maximum variety in respect to their investments and loans characteristics. A brief introduction to these banks has been made in the following paragraphs.

### **1.1.2.1 Nepal Bank Limited**

Nepal Bank Limited, The first bank of Nepal was established in November 15, 1937 A.D (Kartik, 30, 1994) and its vision statement is "To remain the leading financial institution of the country". It was formed under the principle of Joint venture (Joint venture between govt. & general public). NBL's authorized capital was Rs. 10 million & issued capital Rs. 2.5 million of which paid-up capital was Rs. 842 thousand with 10 shareholders. The bank has been providing banking through its branch offices in the different geographical locations of the country.

The latest statistics of NBL shows that the bank has a total capital fund of Rs.(5524.9) million that includes paid up capital of Rs. 380.4 million, general reserve of Rs.1380 million, retained earnings of Rs.0, and other reserves of Rs.206.2 million. (*Source: Banking and financial statistics report mid January 2010, No54 (nrb)*)

NBL being the first commercial bank has been serving the people from very beginning of its establishment. But due to the lack of managerial strength and some other lapses this bank is facing the great problem. Nepalese government decided to manage this bank by the management contract on 2003 and a foreign management team has been managing the bank from 2004. This team is seemed to be successful in minimizing the default of recovery of loan and this management is trying to make the bank as competent as other multinational banks operating in Nepal.

### **1.1.2.2 Standard Chartered Bank Nepal Limited**

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint-venture operation. Today the Bank is an integral part of Standard Chartered Group having an ownership of 75% in the company with 25% shares owned by the Nepalese public. The Bank enjoys the status of the largest international bank currently operating in Nepal.

Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest-growing markets with an extensive global network of over 1750 branches (including subsidiaries, associates and joint ventures) in over 70 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom

and the Americas. As one of the world's most international banks, Standard Chartered employs almost 75,000 people, representing over 115 nationalities, worldwide. This diversity lies at the heart of the Bank's values and supports the Bank's growth as the world increasingly becomes one market.

With 19 points of representation, 23 ATMs across the country and with more than 425 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal.

Standard Chartered Bank Nepal Limited offers a full range of banking products and services in Consumer banking, Wholesale and SME Banking catering to a wide range of customers encompassing individuals, mid-market local corporates, multinationals, large public sector companies, government corporations, airlines, hotels as well as the do segment comprising of embassies, aid agencies, NGOs and INGOs.

The Bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. It is the first Bank in Nepal that has implemented the Anti-Money Laundering policy and applied the 'Know Your Customer' procedure on all the customer accounts.

The recent statistics published by central bank shows that bank has a total capital fund of Rs.3053.0 million that includes Rs.1398.5 million's paid up capital, Rs.1195.3 million of general reserve, Rs.239.5 million's retained earnings, Rs.30 million's and other reserves of Rs.77.9 million. (*Source: Banking and financial statistics report mid January 2010, No 54(nrb)*)

## **1.2 Statement of the Problem**

Within the sphere of the proposed study, there exist a considerable number of problems regarding the commercial banks, services they offer such as different deposit types, their features etc., and their relationship with customers. For example: It's said that banks are not being able to fully utilize their deposits fund in to

productive sectors. In other words, they are said to be more focused on retail banking rather than in corporate banking. Similarly, banks are holding major portion of their deposits liabilities as the cost bearing deposits. Likewise, it can be generalized that banks are not being able to manage their liquid assets efficiently.

Precisely, these problems could be numerically categorized into the following four broad groups, and they are being explained as well.

- Have banks been able to utilize their deposits efficiently?
- Is the proportion of cost bearing deposits to total deposits high?
- Are the public funds safe?
- Is their excessive money creation?

### **1.3 Objectives of the Study**

Banks provide both the deposit and credit services to the public. They accept the funds from the savers as deposits and lend the funds to the fund seekers in the economy. Therefore, banks can run effectively and efficiently only if they can mobilize their deposits fund at their prescribed area and realize those disbursed amounts timely. In totality, the proposed study aims to analyze how far the banks have been able to achieve these objectives.

The basic purposes of this study are:

- To analyze the financial factors like liquidity management, efficiency and profitability position in comparison to deposit mobilization between NBL and SCBNL.
- To compare the deposit mobilization position of Nepal Bank Limited and Standard Chartered Bank Nepal limited.
- To analyze the trend of deposit mobilization and their utilization.
- To provide suggestions on the basis of major findings.

### **1.4 Significance of the Study**

This study focuses on the history of the deposit mobilization of total commercial banking system and two sampled banks NBL and SCBNL. This study is made the especial aim of observing the deposit mobilization position of total commercial banking system in Nepal and comparing the deposit mobilization position of NBL



representing the government and public owned first commercial bank and SCBNL representing the private sector and most popular international level commercial bank. Therefore the study certainly focuses on the elements related to deposit mobilization. The study focuses on the analysis of efficiency of deposit mobilization of total commercial banking system and two sampled banks.

The quality and coverage of a bank's fund mobilizing policy reflects the degree of healthiness of the bank and eventually the national economy. In order to accomplish the optimum utilization of the scarce economic resource, the capital, banks must successfully formulate their fund mobilizing policy and effectively implement it as well. So, the role of commercial banks in supplying the credit in the economy is vital.

The proposed study is believed to be beneficial for a number of individuals, groups, and organizations directly or indirectly. Some of the direct beneficiaries of the study could be named as lenders, creditors, investors, and depositors of the banks. However, borrowers can also achieve some sort of advantages from the study. These beneficiaries and the kind of benefits they receive from the proposed study are being explained as follows:

### **I. Investors**

Investors, the owners of the banks could be benefited from the study as the study aims to identify the overall deposits fund management by the banks. In other words, it facilitates to understand the investors the exact cost and composition of the deposit liabilities.

### **II. Depositors**

Depositors are the primary supplier of the funds in the banking system. They could also be benefited from the study as it tries to identify the status of their deposits i.e. those sectors where their money has been invested.

### **III. Borrowers**

Borrowers are the fund seekers in the economy who are believed to be involved in the economic transactions very actively. They can receive the advantages from the study

as well by acquiring the information about the current and expected cost of capital in the market.

#### **IV. Further Studies**

Those related issues such as the cost and composition of deposits, trend analysis of deposits, etc. of commercial banks might facilitate to advance the study ahead.

#### **V. Policy Makers**

This study is aimed to find out the deposit mobilization position of commercial banks and is expected to find the reasons of weak performance in some extent, if any. That will certainly help the policy makers to take the right step for the betterment of the condition.

### **1.5 Limitations of the Study**

The study has focused on its objective to observe the deposit mobilization position of commercial banks. As the study is more objective and is made for the fulfillment of academic requirement it possesses numbers of limitations. Some specific limitations are as follows:

- The research work will be made on the basis of latest five year's data from fiscal year 2006/07 to 2010/11.
- Therefore, time limit is a major constraint for the study.
- Simple statistical and financial tools are used for the analysis.
- Study is made on the basis of secondary data only.
- The usage of transaction period of the selected banks has been determined by the specific nature and availability of data.

### **1.6 Organization of the Study**

This unit considers the total considerations of the research report. This report is organized on five chapters. These five chapters consider:

#### **Chapter-I Introduction**

The first chapter includes the introduction of the study that considers the background of the study, historical development of commercial bank in Nepal, statement of problem, significance of the study, objective of the study, focus of the

study, limitation of the study, and the organization of the study.

### **Chapter-II Review of Literature**

This is the second chapter of the report. It includes the conceptual review and review of related studies. Conceptual review considers the study of books and other publications related to the concept of commercial bank, concept of deposit and concept of deposit mobilization. And the review of related studies includes the study of past studies made on the deposit related topics especially the studies related to the deposit mobilization of the commercial banks.

### **Chapter-III Research Methodology**

This chapter contains the tools and techniques these are applied on the study. The financial and statistical tools which are used for the analysis and presentation of data are described in this chapter.

### **Chapter-IV Presentation and Analysis of Data**

This is the major chapter of the study. It contains the presentation of data and analysis of the data that specify the findings of the study. Data are presented on the basis of objective of the study. This chapter contains the major findings of the study too. It helps the searcher to find out what is going on about the deposit mobilization in Nepal and selected commercial banks.

### **Chapter-V Summary, Conclusion and Recommendations**

This is the last chapter of the study that contains summary of the study, conclusion of the study and some recommendations to the related banks and policy makers for making the deposit mobilization position of related banks and total commercial banking system better than this.

## **CHAPTER II REVIEW OF LITERATURE**

To develop the concept and ideas about the selected topic, the review of relevant

material is very important and crucial. In fact, review of literature begins with a search for a suitable topic and continuous throughout the duration of the research, either a dissertation or a thesis. Review of literature means reviewing research studies or other relevant propositions in the related areas of the study so that all the past studies, their conclusions and deficiencies may be known and further search can be conducted. It is an integral and mandatory process in research works. It deals with a literature survey of existing volumes of similar or related subjects and a careful check should be made that the proposed study has not been carried out previously. Completely new and original problems are very rare, however a previous study should not be exactly replicable unless the techniques used facilitate to trace out the doubtful conclusions or some new sources of information identified.

So, in this chapter, emphasis is given to review major relevant literature on the deposit liabilities and their analyses. Different definitions or opinions expressed by experts in respect of deposit mobilization are considered to be relevant for the proposed study.

Similarly, this chapter also sheds light on some of the rules and regulations prescribed by the central bank regarding the commercial banks' deposit liabilities and their mobilization aspects.

This chapter is basically concerned with review of literature relevant to the topic "Deposit Mobilization of SCBNL and NBL". Every study is very much based on past knowledge. The previous studies cannot be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past studies.

## **2.1 Conceptual Review**

An attempt has been made to look into a number of related books and the bank publications, especially of those related to the deposits collection and mobilization aspects, and central bank's rules and regulations that abide the commercial banks on this regard. In addition, some sort of personal intuition has also been made.

### **2.1.1 Concept of Deposits**

Deposit is one of the most important sources of the commercial bank." Deposit "an account with a bank or other financial institution such as a building society in the UK. Deposit may be on current account UK or checking account or sight deposit US, which bear no interest and can be withdrawn on demand, or deposit accounts UK or saving account or time deposits US which bear interest but require notice of withdrawal. In recent years new types of account have blurred (Oxford Dictionary of Economics, 2004: 116).

It is important that the commercial banks deposit policy is the most essential policy for its existences. The growth of banks depends primarily upon the growth of its deposit. The volume of funds that management will use for creating income, through loans and investment is determined largely by the bank policy governing deposits. When the policy is restrictive, the growth of bank is restarted or accelerated with the liberalization in the deposit policy. In banking business the Volume of credit extension much depends upon the deposit base of a bank

Thus, banks have evolved from relatively passive acceptors of deposits to active bidder for funds. Deposits are one of the aspects of the bank liabilities that management has been influencing through deliberate action.

"Bank deposits arise in two ways the first when the banker receives cash and credits a customer's a/c, it is known as a primary or a simple deposit. Such primary deposits are made from the initiative of depositors. The second, when banks advance loans discount bills, provide overdraft facilities; make investments through bonds and securities. This is called derived deposits of derivative deposits. They add to the supply of frozen money. Banks actively create such deposits "(The Encyclopedia Britannica, 1981: 700).

#### **2.1.1.1 Types of Deposits**

At the outset it is necessary to know what a deposit is. Commercial bank Act 2031, defines deposits is the amounts deposited in a current, saving or fixed account of a bank and financial institution. People in general, the businessmen; the industrialist and other individuals deposit money in a bank. Bank, flows such amount as loan and invest indifferent sectors to earn profit. Usually, a bank accepts three types of

deposits. They are current, saving and fixed deposits. But in other countries we find more than three deposits. In Nepal, banks grant permission to their customers to open three types of account under various terms and conditions. This classification is made on different theoretical and financial basis. Therefore, deposits of bank are classified on the following basis:

- Demand Deposits
- Saving Deposits
- Fixed Deposits

#### **i. Demand Deposits**

The deposit in which an amount is immediately paid at the time of any account holder's demand is called demand deposits. In another words, we can say this type of demand deposit as current account. Current account means an account of amounts deposited in a bank, which may be drawn at any time on demand. Its transaction is continual and such deposit can't be invested in the productive sector, so such type of amount remains as stock in the bank. Though the bank can't gain profit by investing it in new sector after taking from the customers, this facility is given to the customer. Therefore, the bank doesn't give interest on this account. From such deposit, the merchant and traders are benefited more than the individual. The bank should pay as many times as the checks is sent until there is deposit in his account. The bank can't impose any condition and restrictions in demand deposit. An institution or an individual, who usually needs money daily, precedes their acts and transaction through such deposit. The current account is very important for the customers of bank. In any institution, which carries out cash transaction, there is possibility of corruption; misuses and fraud. There should be a provision of separate employees for the recovery of the cash and for the payment of the cash. The current account is necessary to collect and buy the bills, to use the facility of over-draft, letter of credit, remittance etc. Current deposit on the one hand, saves time, labor and other hand, the bank keeps the accurate of the account holders, so it is a great facility for the customers. Therefore, it has a great importance.

#### **ii. Saving Deposits**

The bank can collect capital through the saving deposit as well. This deposit is also important and its necessity and scope is not negligible. According to the Commercial

bank Act 2031, saving accounts means an a/c of amounts deposited in a bank for savings purposes. This account is suitable appropriate for the people of middle class, farmers and the labors that have low income, official and small businessmen. This saving deposit bears the features of both of the current and fixed period deposits.

Generally, most accounts are opened saving deposit in a bank.

Therefore, the deposit is popular in people in general. According to internal rules or banks some banks demand a small amount and some banks demand a great deal of money to open saving account. Different banks have made different rules. Some banks have made one hundred thousand, some banks have made two hundred thousand, some have three hundred thousand, some have five hundred thousand and some have not fixed the limitation. So, there is divergence as to how much amount of money can be withdrawn. Banks give some interest on it.

### **iii. Fixed Deposits**

Under the commercial Bank Act 2031: Fixed Account means an account of amounts deposited in a bank for certain period of time. The customers opening such account deposit their money in this account, for a fixed period. In the other words, it is called time deposit because this account is deposited for a certain period.

Usually, only the person or institution who wants to gain more interest opens such type of account. The period of time can be 3 months, 6 months, 9 months, 1 year, 2 years, 3 years, 4 years, 5 years etc. More interest rate is payable in this deposit than other deposit. Both parties the bank and the customers can take benefit from this deposit. The banks invest this money on the productive sector and gains profit and the customers too can be made his financial transaction stronger by getting more interest from this deposit. The amount in the saving deposit must be returned to the customers after date is expires. The amount can't be withdrawn before the fixed time.

#### **2.1.1.2 Deposit Mobilization**

"Collecting scattered small amount of capital through different Medias and 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 and increasing the income of the depositor, it

also supports to increase the saving through the investment of increased extra amount' (NRB, 1984: 10-12).

When we discuss about Deposit Mobilization, "we are concerned with increasing the income of the low income group of people and to make them able to save more and 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: 7).

Saving refers to that part of the total income which is more than the expenditure of the individual. In other words,  $\text{Saving} = \text{Total Income} - \text{Total Expenditure}$ . Basically saving can be divided into two parts: Voluntary saving and Compulsory Savings Amount deposited in different accounts of Commercial Bank, investment in government securities are some examples of voluntary saving. A commercial bank collects deposit through different accounts like fixed, saving and current.

In developing countries there is always shortage of the capital for the development activities. There is need of development in all sectors. It is not possible to handle and develop all the sectors by the government alone at a time, Private people also can not 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, 1999: 11). 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 within 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: 25).

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 help of banks will prove effective in mobilizing the available floating resources in the country (Ghosal and Sharma, 1965: 92). 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: 14). 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 disposal. "A commercial bank change the scattered unproductive small saving into loan and active savings. The bank not only collect saving, but also it provides incentives to the saver and help them to be able to save more" (RBB, 2054: 15). Commercial banks are set up with a view to mobilize national resources. The first condition of National Economic Development is to be able to collect more and more deposit. In this context, the yearly increasing rate of commercial banks deposit clearly shows the satisfactory progress of deposit mobilization.

#### **a. 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 and how" Group "A" states the following points as the need for deposit mobilization (NRB, 1984: 10-12).

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 and other sectors by investing the accumulated capital towards productive sectors. The need of deposit mobilization is felt to control unnecessary expenditure. If there is no saving,

the extra money that the people have, can flow forwards buying unnecessary and luxury goods. So, the government also should help to collect more deposit, steeping legal procedures to control unnecessary expenditures.

Commercial banks are playing a vital role for National Development. Deposit mobilization is necessary to increase their activities. Commercial banks are granting loan not only in productive sectors, but also in other sectors like food

grains, gold and silver etc. though these loans are traditional in nature and 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 and industrial products increases, it gives additional income, which helps to save more, and ultimately it plays a good role in deposit mobilization. Deposit mobilization plays a vital role for the economic development of an under developed and developing country, rather than developed one. It is because, a developed country does not feel the need of deposit mobilization for Under Developed Country (UDC) and 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 and 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 and to accumulate the scattered and unproductive sectors deposit on the other is the felt need of an UDC. We can take this in our country's present context.

## **b. Advantages of Deposit Mobilization**

Following points as the advantages of deposit mobilization:

### **i) Circulation of Idle Money**

Deposit mobilization helps to circulate idle money. The meaning of deposit

mobilization is to convert idle saving into active saving. It helps the depositors' habit of saving on one side, and it also helps to circulate the idle saving into productive sector on the others. This helps to create incentives to the depositors. Again, investment in productive sector helps to develop a country's economic development, and also increase in investors' income.

#### **ii) To Support Fiscal and Monetary Policy**

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

#### **iii) To Promote Cottage Industries**

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

#### **iv) To Formation of Capital**

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

#### **v) To Development of Banking Habit**

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

#### **vi) To Check up Miss Utilization of Money**

Mostly our customs and habit are supported by social and religious believes. There is

also tendency of copying others and to show there superiority buying unnecessary and luxury items in our society. In such society, deposit mobilization proves a tool to check up miss utilization of money.

#### **vii) To Support Government Development Project**

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

#### **viii) To Co-ordination between Different Sectors**

It helps to collect capital from surplus and capital hoarding sector. The fund can be invested for the needy sectors. Thus, it helps to fulfill the gap between these two different sectors. Earning interest in their deposit and the needy sector by receiving loans and advances benefits the surplus and hoarding sectors, thus it helps to keep good co-ordination between different sectors.

#### **ix) Others**

Deposit mobilization supports small savers by earning interests, helps to the development of rural economy, protects villagers from being exploitation of indigenous bankers, increase investment incentives, and provides facilities to the small farmers to purchase tools and fertilizers.

### **2.1.2 Concept of Commercial Bank**

"A Bank is a business organization that receives and holds deposits of funds from others make loans or extends credits and transfer funds by written order of depositors" (Encyclopedia America, 1984-85: 302).

"A Commercial banker is a dealer in money and substitutes for money, such as cheque or bill of exchange. He also provides a variety of financial services" (The New Encyclopedia Britannica, 1985: 605).

"Commercial bank" a bank dealing with the general public, accepting deposit from and making loans to large numbers of household and small firms. Such banks are known in the UK as retail or high street banks. They also provide various services for depositors, including provision of cash and credit cards, storage facilities for

valuables and documents, foreign exchange, stock broking, mortgage finance and executor services. Commercial banks are contrasted with central banks, and with investment, merchant and other specialist banks which deal little with the general public "(Oxford Dictionary of Economics, 2004: 65).

"The American institute of banking has laid down for functions of the commercial banks i.e. Receiving and handling deposits handling payment for its clients, granting loans and investment and creating money by extension of credit" (Encyclopedia America, 1984-85: 605). Principally, commercial bank accepts deposits and provides loans, primarily to business firms thereby facilitating the transfer of funds on the economy. In the Nepalese context, commercial bank act, 1974 defines "a commercial bank as one which exchanges money, deposits money accepts deposits, grants loans, and performs commercial banking functions".

Commercial Banks are those banks who pool together the savings of the community and arrange for their productive use. They supply the financial needs of moderns business by various means. They accept deposits from the public on the condition that they are repayable on demand or on short notice. Commercial Banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short terms needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant loans in the forms of cash credits and overdrafts. Apart from financing they also render services like collection of bills and checks, safe keeping of valuables financing advising etc.

#### **2.1.2.1 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.

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 and Debentures for public corporations guaranteeing and underwriting foreign exchange business under the restriction imposed by Foreign Exchange Act, Rules, Orders and Notifications, advancing loans for period not exceeding one year against the security of the jewelers, gold and silver ornaments, the mortgage of land and buildings for acquiring plant and 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 and Cooperative Societies do not enter into the field. The agriculture sector needs more and more capital for the improved methods of farming viz. The fertilizers, equipment, irrigation facilities etc. require obviously 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 66 % of the total population is engaged in agriculture and 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 and 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:

- i. By providing fixed capital to Agricultural Development Bank by purchasing its Shares of debentures



ii. 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 and 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 and the commercial banks should play crucial role in the agriculture sector of the economy. Thus the sound development and wide geographical average commercial banks particularly in agriculture is a prerequisite in accelerated and 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 see apparent that accelerated private sector investment is dependent on the commercial banks giving more emphasis in medium & long term credit for equipment and construction and 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. and providing facilities regarding better market for their product, helping to start livestock, poultry firm, rice mills, animal husbandry, bee firm and 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 and 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/N, NIDC have already been established for the development of

agricultural and industrial sector of the country. The commercial banks are also continuously participating in these activities.

Being a mountainous country many places are very remote and sometimes it requires many weeks to approach some of the places. Due to lack of transport and communication facilities and 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 and 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 and medium term loan to purchase machineries, tools, raw materials and introduce new and 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 and Tibet only few years ago. Today, Nepal has extended with different countries of the world. Commercial banks has promoted the domestic and foreign trade of Nepal by spreading their braches all over the country and extending close relations with many renowned institutions by providing them facilities of BD, 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 and 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 and the mixed economic countries like Nepal as well.

#### **2.1.2.2 Functions of Commercial Banks**

Commercial banks are directly related with the people. Commercial bank is an

important bank. Its functions are very attractive for people. Although these banks are truly inspired with the objectives of gaining profit, here commercial banks are also established to accelerate common people's economic welfare and facility, to make available loan to agriculture, industry and commerce and to provide the banking services to the public and the state. Along with other functions, the main functions of commercial banks are to accept deposits from the people and to lend to those who demand it. Numerically, these functions could be categorized into the following functions:

- Liquidity Function
- Savings Function
- Wealth Function
- Payment Function
- Credit Function
- Policy Function

### **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 and 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 and

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 and 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 and 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.

When funds are plentiful, market rate generally tend to decline, banks seek loan aggressively and therefore lower their rates induce marginal borrower to come into the market. When funds are scarce banks arise their rates and 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.

### **2.1.2.3 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 far as the capital funds are concerned, it is only a nominal source. Therefore it cannot 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

## **iii. Internal and External Borrowing**

Internal and external borrowings are very important for a developing country like Nepal being an 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.

## **2.2 Review of Related Studies**

This part consists of a review of past studies conducted by other researchers which are relevant to the topic.

Bajracharya (2047), through his article "Monetary Policy & Deposit Mobilization in Nepal" has concluded that the mobilization of domestic savings is one of the monetary policies in Nepal. For this purpose commercial banks stand as the vital and active financial intermediary for generating resources in the form of deposit of the private sector so as to provide credit to the investor's in different aspects of economy (Bajracharya, 2047 BS: 93-97).

Fry (1947), in the article, "Resources Mobilization and Financial Development in Nepal" says that the interest rate fixing authorities cause an adverse effect on income distribution. Interest rate affects the savings and its mobilization. A high interest rate diverts the resources from unproductive tangible assets into financial claim. For Nepalese people and Nepalese undeveloped money and capital market, interest can be taken as an important weapon in mobilizing the internal resources. Higher interest rate pushed people to some money and it allows people to invest into

best opportunities (Fry, 1974: 15).

Joshi (1994), the chief officer of NRB in the topic "Rural Saving Mobilization in Nepal" states that: The ability to save and the incentive to save are the two major determinants of saving. The incentive to save as reflected in NRB real interest rate policy can be stretched for with profit. It is highly probable that the further increase in the growth rate of financial saving can materialize if a flexible policy is pursued to keep real interest rate at a positive level (Joshi, 1994: 65-66).

Eventually the deposit expansion is to be bounded constrained by the low saving ability of the people as indicated by stagnant per capita GDP over the past decade.

For a sustained growth of deposits or of overall saving rate what is needed more is to increase the income level of the people in order therefore to make saving mobilization strategy effective and successful policy measures should be taken considering two aspects of the strategy. In short run, policy should focus on the appropriate steps to tap saving within the existing banking framework while the long run measures should be adopted with a review to raising the investment rate and making it more productive.

The researchers suggest the following points to increase and to extend volume of credit;

- Effective publicity and attractive prizes.
- Branch expansion policy.
- Extend the house saving account.
- Revision in interest rate policy.
- Credit planning.
- Win the confidence of local people.
- Investment in priority sector.

Pradhan (2053), in his article "Deposit Mobilization, its Problem and Prospects" has presented that deposit is the life-blood of every financial institutions, like commercial bank, finance company, and co-operative or non-government organization. He further adds in consideration of most of banks and finance companies, the latest

figure dopes produce a strong feeling that serious review must be made of problems and prospects of deposit sector. Leaving few joint venture banks, other organizations rely heavily, on the business deposit and credit disbursement (Pradhan, 2053 BS: 9-10).

The writer has highlighted following problems of deposit mobilization in Nepalese context.

- i. Most of the Nepalese do not go for saving in institutional manner, due to the lack of good knowledge. However, they are very much used of saving be it in the form of cash or ornaments. Their reluctance to deal with institutional system is governed by the lower level of understanding about financial organization process, withdrawn system, and availability of depositing facilities and so on.
- Unavailability of the institutional services in rural areas.
- Due to lesser office hours of banking systems people prefers holding and cash in the personal possession.
- No more mobilization and improvement of the employment of deposits and loan sectors.

The writer has also recommended for the prosperity of deposit mobilization which are as follows;

- By providing sufficient institutional services in the rural areas.
- By cultivating the habit of using rural banking unit.
- By adding services hour system to bank.
- NRB could also organize training programs to develop skilled man power.
- By spreading co- operative to the rural areas for development of mini-branch services to these backward areas.

Kafle (2053), in his article entitled "NRB and its Policies for Monetary Control" opines that liberalization, the effect on deposit seems to be positive in the later period as it increased from 17.74 to 21.62% of nominal GDP. And, this, there was a positive effect on saving mobilization, however in the case of loan and advances, commercial banks were found to be underlet because the percentage of loans and advances to nominal GDP was only 100.6 and 11.9 in the two period

respectively (Kafle, 2053 B.S.: 15).

Shrestha (2054), Deputy Chief officer of NRB Banking operation department, has given a short glimpse on the "Portfolio Management in Commercial Banks, Theory and Practice" Shrestha has highlighted issue in the article.

The portfolio management becomes very important both the individual and the institutional investors. Invest would like to select a best mix of invests assets subject to the following aspects.

- Higher return which is comparable with alternative opportunities available according to the risk class of investors.
- Good liquidity with adequate safety of investment. Certain capital gain.
- Maximum tax concession. Flexible investment.
- Economic efficient and effective investment mix.
- In view of above aspects 'following strategies are adopted'
- Do not hold any single security; try to have a portfolio of different securities. Do not put all the eggs in the one basket; to have diversified investment. Choose such a portfolio of securities, which insures maximum return with minimum risk or lower of return with added objectives of wealth maximization.

However, Shrestha has also presented following approach to be adopted for designing a good portfolio and its investment.

- To find out the invisible assets (generally securities) having scope for the better returns depending upon individual characteristics like age, health, need, disposition, liquidity, tax liability etc.
- To find out the risk of securities depending upon the attitude of investor towards risk.
- To develop alternative investment strategies for selecting a better portfolio, this will insure a trade-off between risk and return so as to attach the primary objectives of wealth maximization at lower risk.
- To identify of securities for investment to refuse volatility of return and risk.

Shrestha (2054) has presented two types of investment analysis technique; i.e.



fundamental analysis and technical analysis to consider any securities such as equity, debenture or bond and other money and capital market instrument. He has suggested that the bank having international network can also offer access to global financial markets. He has pointed out the requirements of skilled manpower, research and analysis team and proper management information system (MIS) in any commercial banks to get success in portfolio management and customer confidence. According to Shrestha, the portfolio management activities of Nepalese commercial banks at present are in nascent stage however, on the other hand, most of the banks are not doing such activities so for because of following reasons.

- Unawareness of the clients about the services available.
- Hesitation of taking risk by the clients to use such facilities.
- Lack of proper techniques to run such activities in the best and successful manner.
- Less developed capital market and availability of new financial instruments in the financial markets

Regarding the joint venture commercial banks, they are very eager to provide such services but because of above mentioned problems very limited opportunities are available to the banks for exercising the portfolio management.

Shrestha has drawn following conclusion:

- The survival of the banks depends upon its own financial health and various activities.
- In order to develop and expand the portfolio management activities successfully, the investment management mythology of a portfolio manager should reflects high standard and give their clients the benefits of global strength, local insights and prudent philosophy.
- With the disciplined and systematic approval to the selection of appropriate countries, financial assets and the management of various risks; the portfolio manager could enhance the opportunities for each investor to earn superior return over time.
- The Nepalese banks having greater network and access to national and international capital markets have to go for portfolio management activities for the increment of their fee based income as well as to enrich the clients

based and to contribute in national economy.

### 2.3 Review of Thesis

In time of research of secondary sources it found that some student from T.U. and other management campus have conducted several thesis works. Some of them are supposed to be relevant for this study is presented below.

**Karmacharya (1998)**, in his thesis paper, *"A Study on the Deposit Mobilization by the Nepal Bank Ltd."* during eight years study period has concluded that the utilization side of Nepal Bank Ltd. has been weak as compare to the collection of resources. He has mentioned that the bank has successfully mentioned its liquid assets position but couldn't mobilize its resources efficiently. He has suggested to set-up more banking branches to increase the deposit collection and long-term as well as short-term credit. He has recommended not considering security factor only but to provide loan to genuine project without security.

**Thapa (2000)**, in her thesis paper, *"A Comparative Study on Investment Policy of Nepal Bangladesh Bank Ltd" and Other Joint Venture Banks of Nepal"* has compared the investment activities NBBL with only two of the joint venture banks. By taking five years data, she has recommended in two ways, first statement recommendation and second theoretical recommendation. In statement recommendation, she has suggested about investment in government securities, OBS operation loan recover act, sound credit collection policy, project oriented approach, effective portfolio management, innovative approach to bank marketing and banking facilities. In theoretical recommendation she has suggested about liberal lending policy and cost management strategy

This study conducted by Pant entitled, "A study of deposit collection and utilization of commercial banks in Nepal" with the main objectives:

- To find out whether commercial banks have been able to collect deposit from different sector.
- To find out whether banks are to satisfy financial need of economy.
- To find out relationship between deposits and loans.

For the purpose of study, activities of NBL and RBB are taken together the period of

14 years. Only secondary data are used in this study to gather the required information regarding existing position of commercial banks.

The writer found that deposits are collected much from individuals and deposits from organization is very low, similarly more loans are granted to the commercial sector and a little amount to the agriculture and industrial by commercial banks. They cannot utilize the deposit properly. The writer further found, there is positive relation between deposits and loan.

The writer recommended that commercial banks should not limit their lending activities in only business sectors. Commercial banks also offer long term loans not only short term period. At last, he suggest that the fully interest rates should be changed by making it's more suitable to expand the services of commercial banks in all sectors (Thapa, 2000).

**Agrawal (2000)**, in the thesis entitled, (A study on deposit and investment position of Yeti Finance Company Ltd.) has tried to examine the trend of deposit position and investment position of the Yeti finance company. That study was conducted on the basis of secondary data and used various financial tools to analyze the data. Study just covered only period of five years i.e. 1997 to 2001.

The researchers have found that the deposit policy is not stale but has highly fluctuating trend and investment is gradually in increasing trend. The researcher found there is highly positively correlation between total deposit and total investment the researcher concluded that Finance Company has been found profit oriented, ignoring the social responsibility which is not a fair strategy to sustain in long run. Therefore, it is suggested the company should involve in social program which helps the deprive people who are depended helps in agriculture. Agriculture is the paramount of Nepalese economy so that any finance company should not forget to invest in this sector. In order to do so, they must open their branches in remote area with an objective of providing cheaper financing services.

**Munakarmi (2006)**, in his thesis paper, "*A Study on the Deposit Mobilization by the Nepal Bank Ltd.*" during eight years study period has concluded that the utilization

side of Nepal Bank Ltd. has been weak as compare to the collection of resources. He has mentioned that the bank has successfully mentioned its liquid assets position but couldn't mobilize its resources efficiently. He has suggested to set-up more banking branches to increase the deposit collection and long-term as well as short-term credit. He has recommended not considering security factor only but to provide loan to genuine project without security.

## **2.4 Research Gap**

Even though numerous studies have been carried out in different part covering various aspects of financial sector of commercial banks of Nepal, but there is still lack of research in the field of fund mobilization of commercial banks comparing to private bank and public bank. Few studies have analyzed existing state of fund mobilization of the financial institutions. However, none of the studies has been able to portray the complete picture of fund mobilization and its best effectiveness in Nepal. This study tries to understand the pace of effective fund mobilization of commercial banks.

This study will be helpful to new financial institutions (new and existing), bank manager, investor, government organizations, general public, researcher and other parties related to financial sector.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology describes the method and process applied in the study. This chapter describes the methodology employed in the study. Research methodology refers to various sequential steps these are adopted by a researcher in studying a problem with certain objectives. In other words, research methodology describes the method and process applied in the entire aspect of the study. It is the process of arriving at a solution of the problem through planned and systematic dealing with the collection, analysis, and interpretation of facts and figures. Research is a systematic method of finding right solutions for the problem whereas research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology refers to the various methods of practices applied by the researcher in the entire aspect of the study.

The basic objectives of this study is to evaluate the fund mobilizing policy of standard Chartered bank has got in the whole commercial JVBS of Nepal and recommend the useful and meaningful, points. So that all concerned can achieve something from this study. To accomplish this goal, the study follows the research methodology described in this chapter.

### **3.2 Research Design**

The proposed study is mainly based on two types of research design namely descriptive and analytical. Descriptive research design describes the general attitude of the Nepalese depositors, business environment, problems regarding the deposits mobilization aspects etc. Similarly, the analytical research design makes a thorough analysis of gathered facts and information and critically evaluates it as well.

Some statistical and accounting tools have also been applied to examine facts and descriptive techniques have been adopted to evaluate funds mobilizing performance of standard Chartered bank and Nepal Bank Limited and these are compared with the deposit mobilization position of commercial banks in aggregate.

### **3.3 Sources of Data**

This study is conducted on the basis of secondary data. The data relating to the investment, deposit, loan and advances, assets and profit are directly obtained from the balance sheet , profit and loss a/c of concerned bank's annual reports. Supplementary data and information are collected from number of institution and regulating authorities like NRB, security exchange board, Nepal Stock Exchange Ltd., ministry of finance budget speech of different fiscal years, economic survey and national planning commission etc.

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

Similarly, various data and information are collected from the periodic economic journals, managerial magazines, other published , unpublished reports and documents from various sources. This research study would be based on the secondary data that are available in the published form.

Specifically, the required data for the study has been collected from the concerned organizations and a number of publishers. In other words, it has been gathered from a number of books, journals, articles, reports, etc. Some of the major types and sources of data are as follows:

- Banking and financial statistics of Nepal Rasta Bank. Annual report of Nepal bank ltd.
- Annual Reports of Standard Chartered Bank Nepal Ltd. Central Bank's directives to Commercial Banks: Consortium Financial Directive
- Main Economic Indicators
- Macro-economic situation of Nepal, 2004/2005

### **3.4 Population, Sampling of the Study**

There are 31 commercial banks operating in Nepal. Out of these 31 banks operating in the nation, two commercial banks representing the government sector and private sector Nepal bank limited and standard Chartered bank limited respectively are selected as the base for the study. The deposit mobilization positions of these two banks are studied comparatively with the deposit mobilization of aggregate commercial banks within the country.

### **3.5 Method of Analysis**

To achieve the objectives of the study, various financial, statistical and accounting tools have been used in this study. The analysis of data will be done according to pattern of data available. Because of limited time and resources, simple analytical statistical tools such as graph, percentage, Karl Pearson's coefficient of correlation and the method of least square, are adopted in this study. Especially descriptive analysis method is used for the study.

The various calculated results obtained through financial, accounting and statistical

tools tabulated under different heading and these are compared with each other. Major tools used for the analysis of collected data are:

### **3.6 Necessary Tools and Techniques for the Study**

This thesis work is based on financial as well as statistical analysis. Some major tools and techniques applied for making the thesis work more presentable are briefly considered below.

#### **3.6.1 Financial Analysis (Ratio Analysis)**

In this unit the financial position of the banks are observed. Especially the ratio analysis technique is applied for financial analysis of total commercial banking system and sampled banks in this unit. An arithmetical relationship between two figures is known as ratio. It is computed by dividing one item of relationship with the other. Ratio simply means one number expressed in terms of another.

Ratio analysis is a technique of analysis and interpretation of financial statement. To evaluate the performances of an organization by creating the ratios from the figure of different accounts consisting in balance sheet and income statement is known as ratio Analysis. Ratio analysis is also very helpful for decision making. From the information provided by ratio analysis with the help of financial statement are very useful for making decision on any financial activity. Due to inter-firm comparison ratio analysis also serves as a stepping stone to remedial measures. It helps management in evolving future market strategies'.

- |  |  |
|--|--|
| 1. Liquid Assets to Total Assets Ratio     | = $\frac{\text{Liquid Assets}}{\text{Total ssets}}$      |
| 2. Return on Liquid Assets                 | = $\frac{\text{Net Profit}}{\text{Total Deposit}}$       |
| 3. Liquid fund to Total Deposit Ratio      | = $\frac{\text{Liquid fund}}{\text{Total Deposit}}$      |
| 4. Total Investment to Total Deposit Ratio | = $\frac{\text{Total Investment}}{\text{Total Deposit}}$ |
| 5. Loan and Advance to Total Deposit Ratio | = $\frac{\text{Load and Advance}}{\text{Total Deposit}}$ |



6. Current Deposit to Total Deposit Ratio	$= \frac{\text{Current Deposit}}{\text{Total Deposit}}$
7. Saving Deposit to Total Deposit Ratio	$= \frac{\text{Saving Deposit}}{\text{Total Deposit}}$
8. Fixed Deposit to Total Deposit Ratio	$= \frac{\text{Fixed Deposit}}{\text{Total Deposit}}$
9. Call Deposit to Total Deposit Ratio	$= \frac{\text{Call Deposit}}{\text{Total Deposit}}$
10. Other Deposit to Total Deposit Ratio	$= \frac{\text{Other Deposit}}{\text{Total Deposit}}$

### 3.6.2 Statistical Tools

#### 3.6.2.1 Arithmetic Mean

Arithmetic Mean has widely used in this study. It has been used as to calculate the average for 5 years. This tool has been used to calculate the single figure that can represent the whole data for the period. The Arithmetic Mean of loan, deposits, net profit, nonperforming loan, loan loss provision etc, has been calculated in this study. It is computed by sing following formula:

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

Where,

$$\bar{X} = \text{Mean}$$

$\Sigma X$  = Sum of all the variable X

n = Variables involved

#### 3.6.2.2 Standard Deviation

The measurement of the sauternes of the mass of figure in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion. The greater the amount of dispersion, larger will be the standard deviation. A small standard deviation means a high degree of uniformity and consistent of the observation as well as home gently of a series; a large standard deviation means just

the opposites. In this study, standard deviation of different ratio is calculated.

$$\text{S.D., } \sigma = \sqrt{\frac{\sum X^2}{n} - \left(\frac{\sum X}{n}\right)^2}$$

### 3.6.2.3 Coefficient of Correlation Analysis (r)

"Correlation is the statistical tools that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of sigma. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1. When  $r = +1$ , it means there is perfect relationship between two variables & vice versa. When  $r = 0$ , it means there is no relationship between two variables. The Pearson's formula is:

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

$$\text{Where, } x = X - \bar{X}$$

$$y = Y - \bar{Y}$$

### 3.6.2.4 Probable Error of Correlation Coefficient

Probable error of correlation coefficient denoted by P.E is the measure of testing the reliability of the calculated value of 'r'. If r be the calculated value of correlation from a sample of 'n' pair of observations, then P.Er is defined by:

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

It is used in interpretation whether calculated value of 'r' is significant or not.

- If  $r < \text{P.Er}$ , it is insignificant. So, perhaps there is no evidence of correlation.
- If  $r > 6 \text{ P.Er}$ , it is significant.
- In other cases, nothing can be concluded.



## **CHAPTER IV**

### **PRESENTATION AND ANALYSIS OF DATA**

This chapter is the major body of the research work. This chapter presents and analyses the collected data for the achievement of the objective of this study and helps the researcher to reach to the conclusion. This chapter is divided into major two parts. The first is financial analysis and the second is statistical analysis.

#### **4.1 Financial Analysis**

Financial analysis is the profound study of the financial position of an institution. Financial analysis is the study and the calculation and evaluation of various financial ratios, especially the ratios related to the deposit mobilization of selected banks. This section deals with financial ratios which would be helpful for the researcher to reach to the conclusion and make the conclusion more believable and more presentable too. Following five categories of ratios are presented in this section:

Liquidity ratio

Asset management ratio

Profitability ratio

Growth ratio

Deposit Composition Ratio

##### **4.1.1 Liquidity Ratio**

Liquidity ration shows the short term solvency position of an institution. Commercial bank must maintain the satisfactory level of the liquidity to meet the credit need of the customer. Similarly demand for the deposit withdrawal and pay maturity in time are the other points which clarify the need of balanced liquidity position. The satisfactory level of liquidity helps the bank to run smoothly without any loss on short-term and even in long-term. Following liquidity ratios are calculated and evaluated in this unit:

#### 4.1.1.1 Analysis of Liquid Assets to Total Assets Ratio

Liquid assets consist of liquid funds, government securities and NRB bonds it is the obligation of the banks. The liquid asset is the part of total assets that can be invested on the productive sector. If the ratio of liquid assets to total assets is higher the bank has the higher opportunity of investing and vice versa.

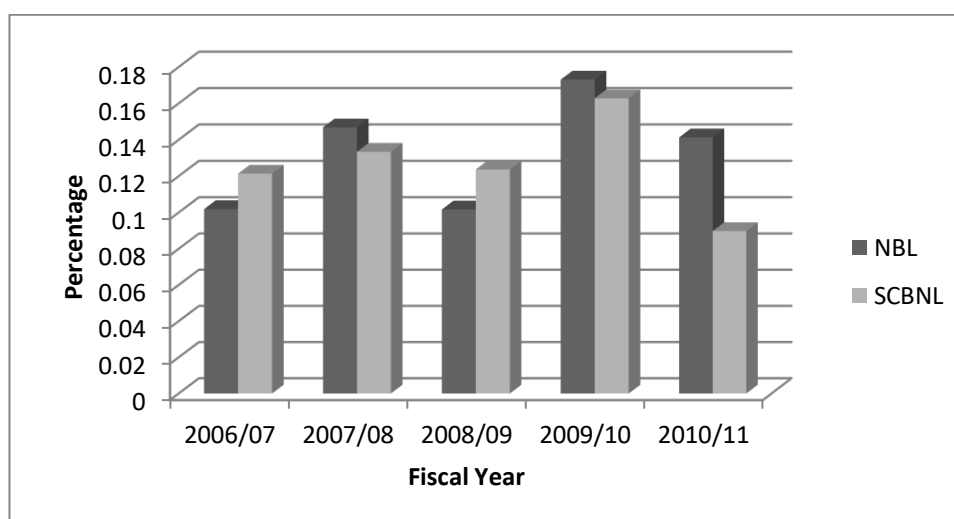
**Table 4.1**  
**Liquid Assets to Total Assets Ratio**

(Rs. In millions)

Fiscal Year	NBL			SCBNL		
	Liquid Assets	Total Assets	Ratio	Liquid Assets	Total Assets	Ratio
2006/07	5517.4	54133.0	0.1019	3253.5	26797.8	0.1214
2007/08	7003.6	47707.1	0.1468	3996.1	29937.4	0.1334
2008/09	5055.2	49660.0	0.1017	4247.7	34312.9	0.1237
2009/10	9454.8	54608.8	0.1731	6788.5	41678.8	0.1628
2010/11	8122.7	57483.8	0.1413	7135.1	79396.3	0.0898
<b>Total</b>	<b>35153.7</b>	<b>263592.7</b>	<b>0.6649</b>	<b>25420.9</b>	<b>212123.2</b>	<b>0.6314</b>
<b>Average</b>	<b>7030.6</b>	<b>52718.54</b>	<b>0.1329</b>	<b>5084.18</b>	<b>42424.64</b>	<b>0.1262</b>

Source: Annual Report of NBL and SCBNL

**Figure 4.1**  
**Liquid Assets to Total Assets Ratio**



The table 4.1 and figure 4.1 shows that the liquid assets to total assets of NBL and SCBNL from the fiscal years 2006/07 to 2010/11. During the fiscal year 2006/07 to 2010/2011 the average liquid assets of NBL and SCBNL are Rs. 7030.6 and Rs. 5084.18 respectively and average ratio of NBL and SCBNL is 0.1329 and 0.1262. Similarly the average total assets of NBL and SCBNL of Rs. 52718.54 and Rs. 42424.64 respectively. The liquid assets of NBL for year 2006/07 to 2008/09 are less than average where as in fiscal year 2009/10 and 2010/11 is more than average. Similarly liquid assets of SCBNL in the fiscal year 2006/07 to 2008/09 are less than average where as in the fiscal year 2009/10 and 2010/11 it is more than the average. The ratios of NBL and SCBNL are fluctuating during the study period.

#### 4.1.1.2 Analysis of Return on Liquid Assets Ratio

Return on liquid assets measures the rate of return in utilizing its liquid assets. Return will be higher if the banks liquid assets is well managed and efficiently utilized. Higher the return better will be the financial position of the bank. The higher ratio shows the better earning capacity of the bank.

**Table 4.2**  
**Return on Liquid Assets**

(Rs. In millions)

Fiscal Year	NBL			SCBNL		
	Liquid Assets	Net profit	Ratio	Liquid Assets	Net profit	Ratio
2006/07	5517.4	2329.7	0.4222	3253.5	662.5	0.2036
2007/08	7003.6	0.00	0	3996.1	692.1	0.1731
2008/09	5055.2	0.00	0	4247.7	814.4	0.1917
2009/10	9454.8	0.00	0	6788.5	1028.3	0.1514
2010/11	8122.7	0.00	0	7135.1	513.0	0.0718
<b>Total</b>	<b>35153.7</b>	<b>2329.7</b>	<b>0.4222</b>	<b>25420.9</b>	<b>3710.3</b>	<b>0.7919</b>
<b>Average</b>	<b>7030.6</b>	<b>465.94</b>	<b>0.0844</b>	<b>5084.18</b>	<b>742.06</b>	<b>0.1583</b>

Source: Annual Report of NBL and SCBNL

**Figure 4.2**  
**Return on Liquid Assets**

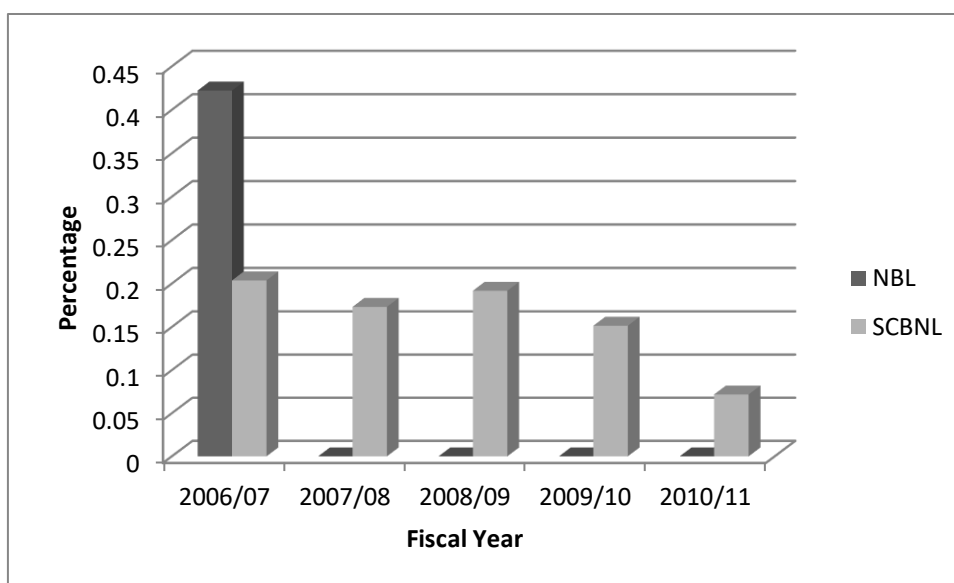


Table 4.2 and Figure 4.2 present the ratio on return on liquid assets of the NBL and SCBNL. The ratios are fluctuating for the both NBL and SCBNL for the study period. From the fiscal year 2006/07 to 2010/2011 the average liquid assets of NBL and SCBNL are Rs. 7030.6 & Rs. 5084.18 respectively. Similarly the average total assets of NBL & SCBNL of Rs. 43779.74 and Rs. 42424.64 respectively and the average ratio of NBL and SCBNL are 0.0844 and 0.1583. The liquid asset of NBL is low in the fiscal year 2006/07 to 2008/09 and increasing in the 2009/10 and 2010/11. Ratio of NBL is high in the fiscal years 2006/07 and ratio are zero in the years 2007/08 to 2010/11 so, SCBNL is better than the NBL. The ratio of SCBNL is slightly changed in the every year. After analyzing above facts and figures it is found that SCBNL has managed its liquid assets strongly in comparison to NBL and total commercial banking system. It is also observed that both the banks have some kind of similarity in the liquid assets mobilization capacity.

#### **4.1.1.3 Analysis of Liquid Fund to Total Deposit Ratio**

Liquid fund is said to be the first line defense of every bank. The ratio between the liquid fund and total deposit measures the ability of a bank to meet the unanticipated call on all types of deposit. Higher the ratio greater will be the ability to meet the sudden demand of deposit. But very high ratio is not desirable since bank has to pay interest on deposit. The high ratio of liquid fund also maximizes the cost of fund to the bank

**Table 4.3**  
**Liquid Fund to Total Deposit Ratio**

(Rs. In Million)

Fiscal Year	NBL			SCBNL		
	Liquid Fund	Total Deposit	Ratio	Liquid Fund	Total Deposits	Ratio
2006/07	5517.4	35444.9	0.1556	3253.5	230550.5	0.0141
2007/08	7003.6	38715.2	0.1809	3996.1	24640.3	0.1621
2008/09	5055.2	41451.7	0.1219	4247.7	29743.9	0.1428
2009/10	9454.8	44346.1	0.2132	6788.5	35871.8	0.1892
2010/11	8122.7	42883.3	0.1894	7135.1	343543.3	0.0207
<b>Total</b>	<b>35153.7</b>	<b>202841.2</b>	<b>0.8611</b>	<b>25420.9</b>	<b>664349.8</b>	<b>0.5291</b>
<b>Average</b>	<b>7030.6</b>	<b>40568.24</b>	<b>0.1722</b>	<b>5084.18</b>	<b>132869.96</b>	<b>0.1058</b>

*Source: Annual Report of NBL and SCBNL*

The table 4.3 and figure 4.3 show that the liquid fund to total deposit ratio of both banks NBL and SCBNL from the fiscal years 2006/07 to 2010/11. During the study period the average liquid assets of NBL and SCBNL are Rs. 7030.6 & Rs. 5084.18 respectively. Similarly the average total assets of NBL & SCBNL of Rs.43779.74 and Rs.42424.64 respectively. The average ratio of NBL is 0.1722 and SCBNL is 0.1058. The average ratio of NBL is higher than the SCBNL. The liquid assets of NBL for year 2006/07 to 2008/09 are less than average where as in the fiscal year 2009/10 and 2010/11 is more than average. Similarly during the fiscal year 2006/07 and 2007/08 the annual value is less than the average of total deposit and for the remaining fiscal year the value is are greater than the average total deposit.

Table and the Figure are the presentations of the ratio of liquid funds to total deposit of the two commercial banks. The ratios of both the sampled banks are fluctuates during the study period.

#### **4.1.1.4 Analysis of Total Investment to Total Deposit Ratio**

Commercial bank mobilizes its deposits by investing in different sectors such as securities issued by government and other financial or non-financial companies, land and buildings for business purpose, and on other productive sectors. This ratio



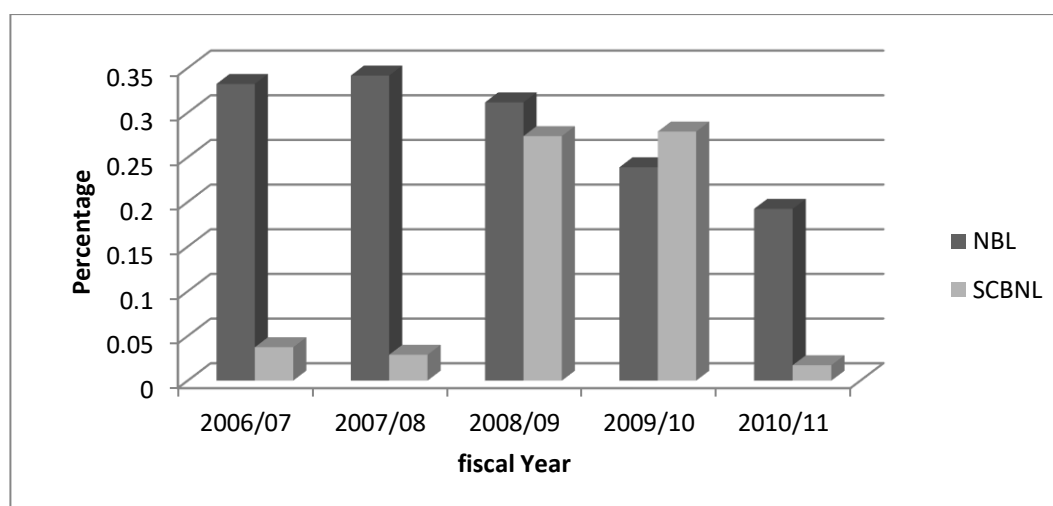
measures the extent to which the banks are able to mobilize their deposit on investment in various sectors. A high ratio indicates the better mobilization of Deposit in investment and vice versa.

**Table 4.4**  
**Total Investment to Total Deposit Ratio**

Fiscal Year	NBL			SCBNL		
	Total Investment	Total Deposits	Ratio	Total Investment	Total Deposits	Ratio
2006/07	11776.9	35444.9	0.3322	8644.9	230550.5	0.0374
2007/08	13226.3	38715.2	0.3416	715.7	24640.3	0.0290
2008/09	12918.4	41451.7	0.3116	8146.1	29743.9	0.2738
2009/10	10597.9	44346.1	0.2389	10007.3	35871.8	0.2789
2010/11	8246.8	42883.3	0.1923	5969.7	343543.3	0.0173
<b>Total</b>	<b>56766.3</b>	<b>202841.2</b>	<b>1.4168</b>	<b>33483.7</b>	<b>664349.8</b>	<b>0.6367</b>
<b>Average</b>	<b>11353.26</b>	<b>40568.24</b>	<b>0.2833</b>	<b>6696.74</b>	<b>132869.96</b>	<b>0.1273</b>

*Source: Annual Report of NBL and SCBNL*

**Figure 4.4**  
**Total Investment to Total Deposit Ratio**



The table 4.4 and figure 4.4 show the total investment to total deposit ratio of NBL and SCBNL from the fiscal year 2006/07 to 2010/11. During the fiscal year 2006/07 to 2010/2011 the average total investment of NBL and SCBNL are Rs.11353.26 &

Rs.6696.74 respectively which is greater than 2009/10 and 2010/11, & 2010/11 respectively value's and less than remaining fiscal year. Similarly the average values of total deposits of NBL & SCBNL are Rs. 40568.24 & Rs. 132869.96 respectively. The average ratio of NBL is 0.2833 and SCBNL is 0.1273 its shows that the average ratio of NBL is higher than the SCBNL so, NBL is better than the SCBNL. During the fiscal year 2006/07 and 2007/08 value is less than the average of total deposits and for the remaining fiscal year the value is greater than the average total deposit. The ratio of NBL and SCBNL is slightly changed in every year. The NBL is decreasing trend in the fiscal years 2008/09 to 2010/11 and SCBNL is increasing in the fiscal years 2008/09.

#### 4.1.1.5 Analysis of Loan and Advances to Total Assets Ratio

Loan and advances is an important part of total assets. Commercial banks must be very careful in mobilizing its total assets as loan and advances in appropriate level to generate profit. The loan and advance which is granted after profound analysis of chance of repayment can generate profit and can make the financial position of the bank strong. This ratio reflects the extent to which the commercial banks are success in mobilizing their assets on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of assets on loan and advances and vice versa.

**Table 4.5**  
**Loan and Advance to Total Assets Ratio**

(Rs in Million)

Fiscal Year	NBL			SCBNL		
	Loan and Advance	Total Assets	Ratio	Loan and Advance	Total Assets	Ratio
2006/07	12180.4	54133.0	0.2250	8905.1	26797.8	0.3323
2007/08	13377.5	47707.1	0.2804	10538.1	29937.4	0.3520
2008/09	15480.6	49660.0	0.3117	13355.0	34312.9	0.3892
2009/10	19261.0	54608.8	0.3527	13118.6	41678.8	0.3147
2010/11	22715.0	57483.8	0.3951	15302.0	39796.3	0.3845
<b>Total</b>	<b>83014.5</b>	<b>263593.3</b>	<b>1.5650</b>	<b>61218.8</b>	<b>172523.2</b>	<b>1.7727</b>
<b>Average</b>	<b>16602.9</b>	<b>52718.66</b>	<b>0.3130</b>	<b>12243.76</b>	<b>34504.64</b>	<b>0.3545</b>

*Source: Annual Report of NBL and SCBNL*

**Figure 4.5**  
**Loan and Advance to Total Assets Ratio**

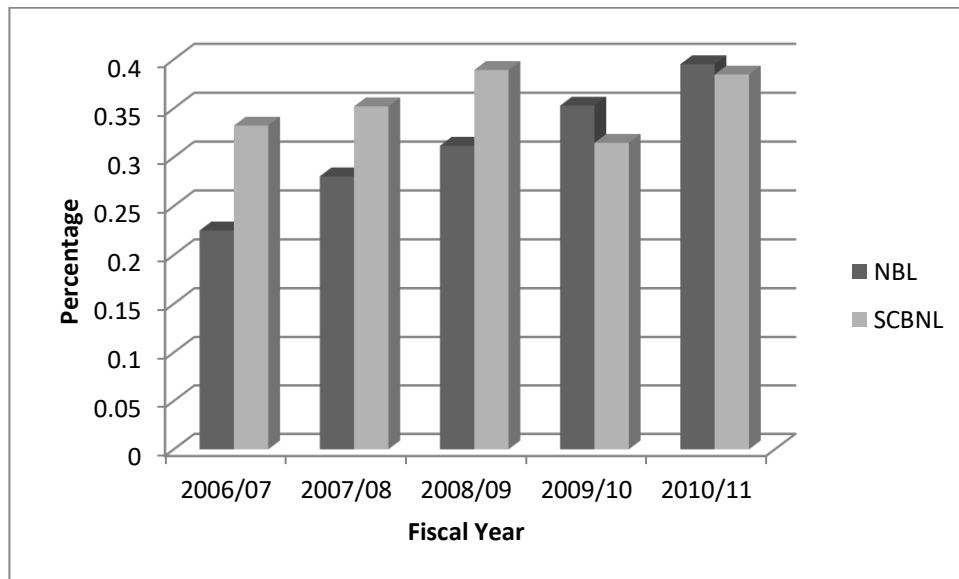


Table 4.5 and Figure 4.5 are the presentations of the ratio of loan and advance to total assets ratio of the two banks for the period of five years from 2006/07 to 2010/11. During the fiscal year 2006/07 to 2010/11 the average loan advance of NBL and SCBNL are Rs.16602.9 & Rs. 12243.76 respectively . Similarly the average total assets of NBL & SCBNL of Rs.52718.66 and Rs. 34504.64 respectively and the average ratio NBL and SCBNL are 0.3130 and 0.3545 it's so that the average ratio of SCBNL is greater than the NBL. The loan and advance of NBL for year 2006/07 to 2008/09 are less than average whereas in the fiscal year 2009/10 and 2010/11 is more than average similarly liquid assets of SCBNL the fiscal year 2006/07 to 2007/08 are less than average where as in the fiscal year 2008/09 & 2010/11 it is more than the average.

#### **4.1.1.6 Analysis of Formation of Deposit**

Deposit is the major resource of commercial banks. Major three types of deposits; current deposit, saving deposit, and fixed deposit are commonly provided to the bank customers by the related commercial banks in Nepal. The portions of various deposits also effect the deposit mobilization position of commercial banks. If the deposits are of long term or mid-term nature then the bank can mobilize these deposits into long term profitable sector without any problem but if the deposits are of short term nature then the bank has to manage high degree of liquidity and the mobilization becomes

tough. In this unit, formation of deposit in Nepalese commercial banks is analyzed.

#### 4.1.1.6.1 Analysis of Current Deposit to Total Deposit Ratio

Current deposit is the most liquid type of deposit that cannot be mobilized in investment. The high portion of such deposit should be held in liquid form. The higher ratio shows the less chance of investment and vice versa.

**Table 4.6**  
**Current Deposit to Total Deposit Ratio**

(Rs in Million)

Fiscal Year	NBL			SCBNL		
	Current deposit	Total	Ratio	Current deposit	Total	Ratio
2006/07	6030.5	35444.9	0.1701	4681.8	230550.5	0.0203
2007/08	6761.5	38715.2	0.1746	4794.5	24640.3	0.1945
2008/09	7799.1	41451.7	0.1881	61202.8	29743.9	2.0576
2009/10	9572.1	44346.1	0.2158	6202.8	35871.8	0.1729
2010/11	9172.1	42883.3	0.2138	10220	343543.3	0.0297
<b>Total</b>	<b>39335.3</b>	<b>202841.2</b>	<b>0.9626</b>	<b>87101.9</b>	<b>664349.8</b>	<b>2.4752</b>
<b>Average</b>	<b>7867.06</b>	<b>40568.24</b>	<b>0.1925</b>	<b>17420.38</b>	<b>132869.96</b>	<b>0.4950</b>

*Source: Annual Report of NBL and SCBNL*

Table 4.6 and Figure 4.6 show the ratios of current deposit to total deposit ratios of two commercial sampled banks for the period of five years from 2006/07 to 2010/11. During the fiscal year 2006/07 to 2010/11 the current deposit of NBL and SCBNL are Rs.17867.06 and Rs. 17420.38 respectively which is less than 2006/07 to 2008/09 , 2010/011, respectively value's and greater then remaining fiscal year. Similarly the average value of total deposits of NBL & SCBNL are 40568.24 & 132869.96 respectively during the fiscal year 2006/07 and 2007/08 the value is less than the average of total deposit and for the remaining fiscal year the value is greater than the average total deposit. The average ratio of NBL is 0.1925 and SCBNL is 0.4950. The average ratio of SCBNL is higher than the NBL. So, the average ratio of current deposit to current deposit of SCBNL is better than the NBL.

#### 4.1.1.6.2 Analysis of Saving Deposit to Total Deposit Ratio

Saving deposit provide the mid-term investment facilities to the commercial banks. There are some rules on the withdrawal of money from saving deposit so the bank get the time to manage the liquidity for the payment of deposit in this type of deposit. Higher the portion of saving deposit higher will be the chance of mobilization of deposit in short-term mad mid-term investment and vice versa.

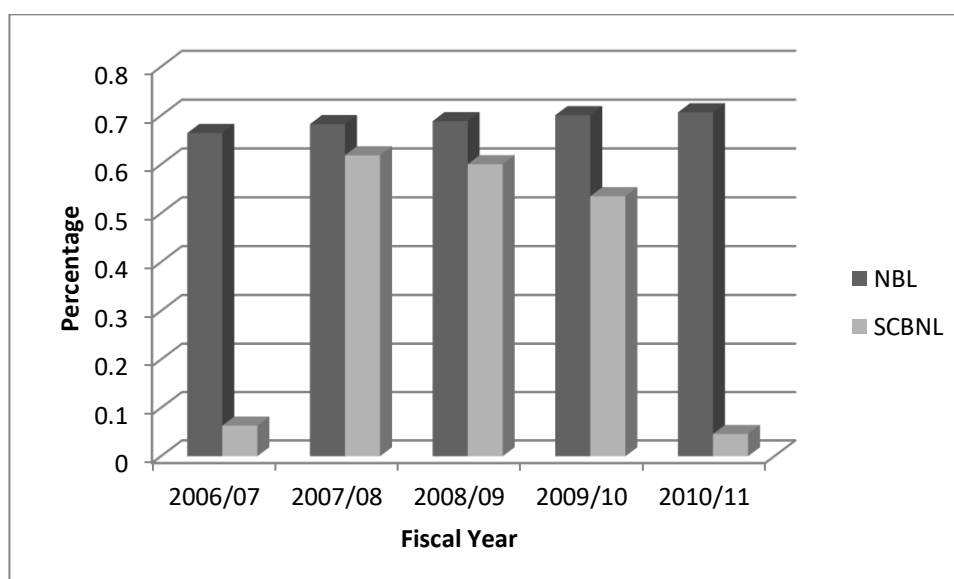
**Table 4.7**  
**Saving Deposit to Total Deposit Ratio**

(Rs. In million)

Fiscal Year	NBL			SCBNL		
	Saving Deposit	Total Deposits	Ratio	Saving Deposit	Total Deposits	Ratio
2006/07	23547.9	35444.9	0.6643	14597.5	230550.5	0.0633
2007/08	26425.4	38715.2	0.6825	15244.2	24640.3	0.6186
2008/09	28545.1	41451.7	0.6886	17856.0	29743.9	0.6003
2009/10	31079.7	44346.1	0.7008	19187.7	35871.8	0.5348
2010/11	30303.3	42883.3	0.7066	15862.8	343543.3	0.0461
<b>Total</b>	<b>139901.4</b>	<b>2028412</b>	<b>3.4430</b>	<b>82748.2</b>	<b>664349.8</b>	<b>1.8633</b>
<b>Average</b>	<b>27980.28</b>	<b>40568.24</b>	<b>0.6886</b>	<b>16549.64</b>	<b>132869.96</b>	<b>0.3726</b>

Source: Annual Report of NBL and SCBNL

**Figure 4.7**  
**Saving Deposit to Total Deposit Ratio**



The table 4.7 and figure 4.7 show that the saving deposit to total deposit ratio of selected two commercial banks NBL and SCBNL for the time of five years study period. During the fiscal year 2006/07 to 2010/11 the average saving deposit of NBL and SCBNL are Rs. 27980.21 & Rs.16549.64 respectively which is greater than 2006/07 and 2007/08 respectively its value is less for the remaining fiscal years. Similarly the average value of total deposits of NBL & SCBNL are Rs.40568.24 & Rs.132869.96 respectively during the fiscal year 2006/07 and 2007/08 the value is less than the average of total deposit and for the remaining fiscal years the value is greater than the average total deposit. The average ratio of saving deposit to total deposit ratio of NBL is 0.6886 and SCBNL is 0.3726. The average ratio of NBL is higher than the SCBNL. The ratio of NBL is high in the fiscal years 2009/10 and 2010/11 and low in the fiscal years 2006/07.

#### 4.1.1.6.3 Analysis of Fixed Deposit to Total Deposit Ratio

Fixed deposit is the most important type of deposit for the commercial banks because this provides the bank the fixed term deposit for the commercial banks for making the profitable investment. Higher the portion of fixed deposit higher will be the chance of making the fixed-term or long-term investment and vice versa.

**Table 4.8**  
**Fixed Deposit to Total Deposit Ratio**

(Rs. In million)

Fiscal Year	NBL			SCBNL		
	Fixed Deposit	Total Deposits	Ratio	Fixed Deposit	Total Deposits	Ratio
2006/07	5790.9	35444.9	0.1633	2136.3	230550.5	0.0092
2007/08	5393.2	38715.2	0.1393	3196.5	24640.3	0.1297
2008/09	4757.9	41451.7	0.1147	3301.1	29743.9	0.1109
2009/10	3579.4	44346.1	0.0807	7101.7	35871.8	0.1979
2010/11	3290.1	42883.3	0.0767	5897.4	343543.3	0.0171
<b>Total</b>	<b>22811.5</b>	<b>2028412</b>	<b>0.5749</b>	<b>21632.4</b>	<b>664349.8</b>	<b>0.4651</b>
<b>Average</b>	<b>4562.3</b>	<b>40568.24</b>	<b>0.1149</b>	<b>4326.48</b>	<b>132869.96</b>	<b>0.1550</b>

Source: Annual Report of NBL and SCBNL

**Figure 4.8**  
**Fixed Deposit to Total Deposit Ratio**

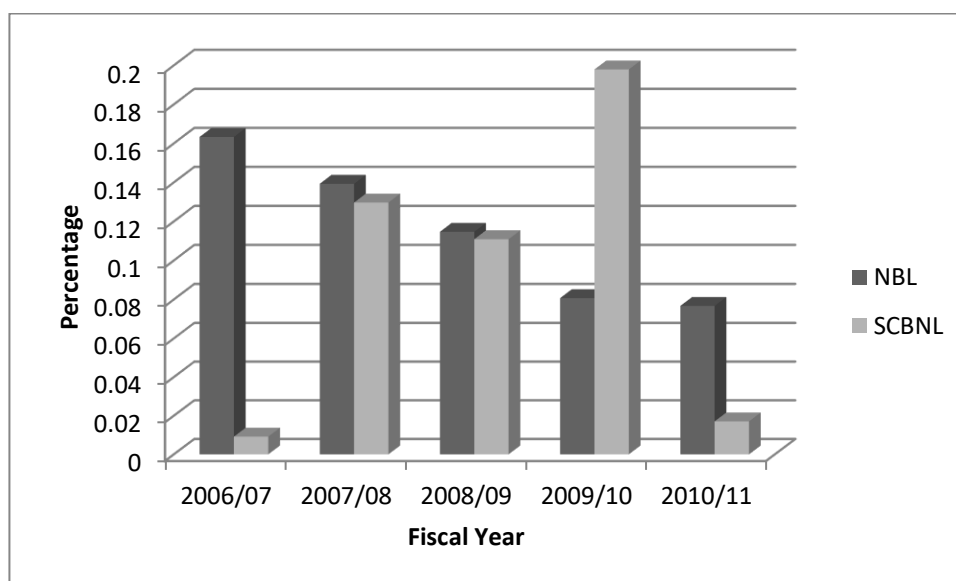


Table 4.8 and Figure 4.8 show the ratios of fixed deposit to total deposit ratios of NBL and SCBNL for the time of four years 2006/07 to 2010/11 period. The ratios of NBL and SCBNL are fluctuating during the study period rather than the fluctuation ratio of total commercial banking system. During the fiscal year 2006/07 to 2010/2011 the average fixed deposit of NBL and SCBNL are Rs.4562.3 & Rs.4326.48 respectively which is greater than 2009 to 2010 and respectively the value is less than the remaining fiscal year. Similarly the average value of total deposits of NBL & SCBNL are Rs. 40568.24 & Rs.132869.96 respectively. The average ratio of fixed deposit to total deposit ratio of NBL is 0.1149 and SCBNL is 0.1550. The average ratio of SCBNL is higher than the NBL.

#### **4.1.1.6.4 Analysis of Call Deposit to Total Deposit Ratio**

Call deposit is one of the deposits offering by the commercial banks in Nepal. The facility of this deposit is not provided to the general people. This deposit provides only short-term fund to the bank and provides some earning for the service. The portion of this deposit reflects the position of the bank in high ranking customers.

**Table 4.9**  
**Call Deposit to Total Deposit Ratio**

**(Rs. In millions)**

Fiscal Year	NBL			SCBNL		
	Call Deposit	Total Deposits	Ratio	Call Deposit	Total Deposits	Ratio
2006/07	0.00	35444.9	0	1125.5	230550.5	0.0048
2007/08	0.00	38715.2	0	919.0	24640.3	0.0372
2008/09	250.0	41451.7	0.0060	1938.2	29743.9	0.0651
2009/10	0.00	44346.1	0	3001.6	35871.8	0.0836
2010/11	0.00	42883.3	0	2023.5	343543.3	0.0058
<b>Total</b>	<b>250.0</b>	<b>2028412</b>	<b>0.0060</b>	<b>8027.4</b>	<b>664349.8</b>	<b>0.1969</b>
<b>Average</b>	<b>50</b>	<b>40568.24</b>	<b>0.0012</b>	<b>4013.7</b>	<b>132869.96</b>	<b>0.0393</b>

*Source: Annual Report of NBL and SCBNL*

**Figure 4.9**  
**Call Deposit to Total Deposit Ratio**

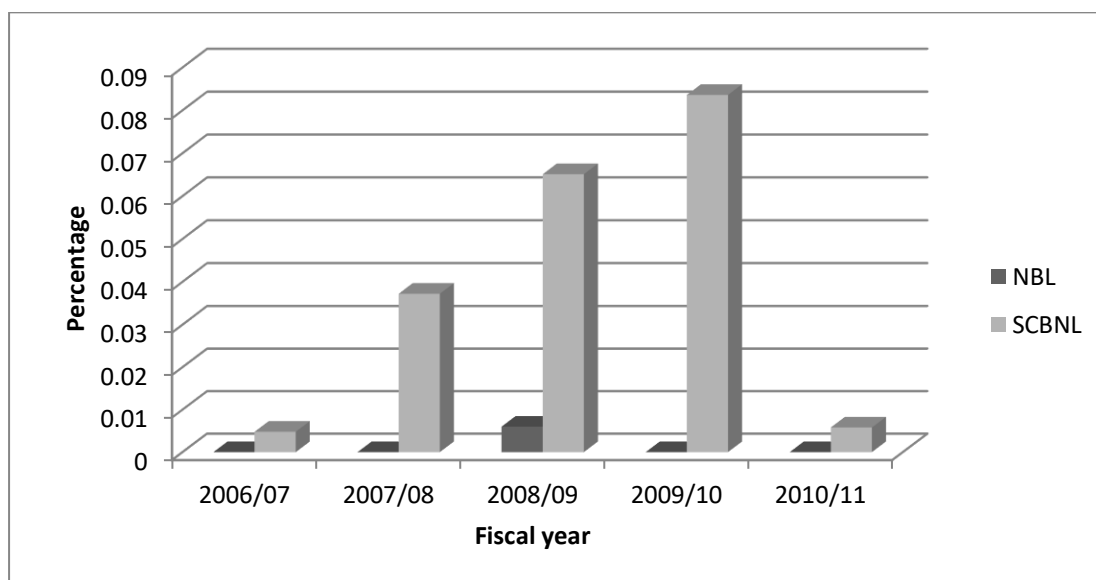


Table 4.9 and the Figure 4.9 is the presentation of the ratios of call deposit to total deposit ratios two sampled commercial banks. During the fiscal year 2006/07 to 2010/2011 the average call deposit of NBL and SCBNL are Rs.50 & Rs.4013.7 respectively which is greater than 2008/09 value and less than remaining fiscal year but SCBNL has greater that all fiscal year. similarly the average value of total



deposits of NBL & SCBNL are Rs.40568.24 & Rs.132869.96 respectively during the fiscal year 2006/07 and 2007/08 value is less than the average of total deposit and for the remaining fiscal years value is greater than the average total deposit. The average ratio of other deposit to total deposit ratio of NBL is 0.0012 and SCBNL is 0.0393 it shows that the average ratio of SCBNL is higher than the NBL So, SCBNL is better than the NBL.

#### 4.1.1.6.5 Analysis of Other Deposit to Total Deposit Ratio

Other deposit refers to the other types of deposit excepting above mentioned four types of deposit. There is no certainty whether the long-term funds or short-term funds are provided by this deposit. The higher ratio shows the popularity of the bank and availability of funds to the bank.

**Table 4.10**  
**Other Deposits to Total Deposit Ratio**

Fiscal Year	NBL			SCBNL		
	Other Deposit	Total Deposits	Ratio	Other Deposit	Total Deposits	Ratio
2006/07	75.6	35444.9	0.0021	509.4	230550.5	0.0022
2007/08	135.1	38715.2	0.0034	486.1	24640.3	0.0197
2008/09	99.6	41451.7	0.0024	474.0	29743.9	0.0159
2009/10	115.0	44346.1	0.0025	378.0	35871.8	0.0105
2010/11	123.9	42883.3	0.0028	350.5	343543.3	0.0010
<b>Total</b>	<b>549.2</b>	<b>2028412</b>	<b>0.0135</b>	<b>2198</b>	<b>664349.8</b>	<b>0.0494</b>
<b>Average</b>	<b>109.84</b>	<b>40568.24</b>	<b>0.0027</b>	<b>439.6</b>	<b>132869.96</b>	<b>0.0098</b>

*Source: Banking and financial statistics report mid January 2010, No 54(NRB)*

**Figure 4.10**  
**Other Deposits to Total Deposit Ratio**

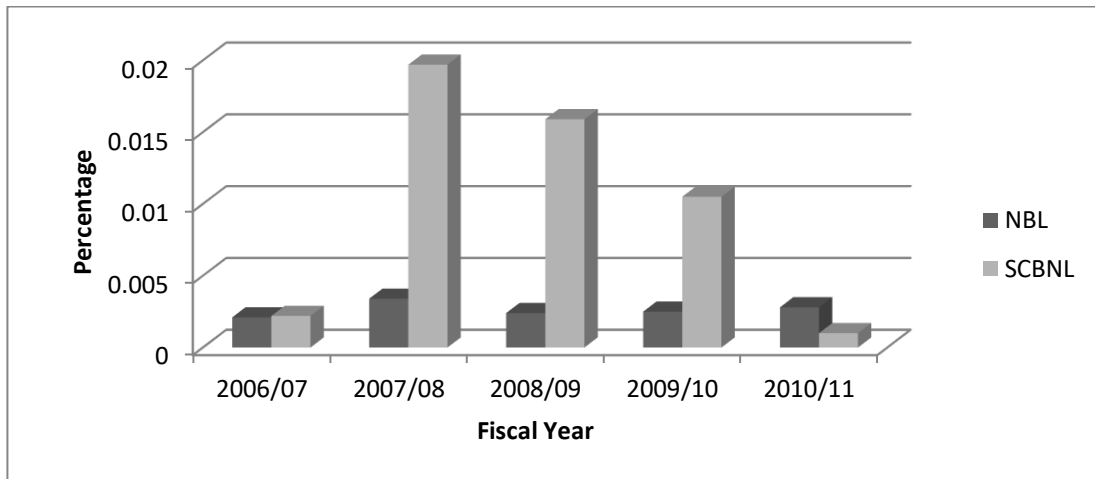


Table 4.10 and Figure 4.10 show the ratio of other deposits to total deposit ratios of two commercial sample banks. The ratios of other deposits to total deposit for two samples banks are fluctuating by the study period of year 2006/07 to year 2010/011. During the fiscal year 2006/07 to 2010/2011 the average other deposit of NBL and SCBNL are Rs.109.84 & Rs.439.6 respectively which is greater than 2006/07, 2008/09 and 2009/10 to 2010/11 respectively the value is less than the remaining fiscal year. Similarly the average value of total deposits of NBL & SCBNL are Rs. 40568.24 & Rs.132869.96 respectively during the fiscal year 2006/07 value is less than the average of total deposit and for the remaining fiscal years the value is greater than the average total deposit. The average ratio other deposit to total deposit ratio of NBL is 0.0029 and SCBNL is 0.0098. SCBNL is higher than the NBL.

## **4.2 Statistical Analysis**

This unit aims to analyze the factors related to the topic of the study by using statistical tools such as co-efficient of correlation, trend analysis and test of hypothesis between different variables. Such types of statistical analysis assist the researcher to get to the decision.

### **4.2.1 Analysis of Correlation Coefficient between Deposit and Total**

#### **Investment**

The coefficient of correlation between deposit and investment is the degree of relationship between two variables. In this analysis, deposit in independent variable

(y) and total investment is dependent (x). The purpose of this analysis is to justify whether the deposits are significantly use in proper way or not and whether there is any relationship between these variables.

**Table 4.11**  
**Correlation Coefficient between Deposit and Total Investment**

<b>Banks</b>	<b>R</b>	<b>P.Er</b>
<b>NBL</b>	<b>-0.5</b>	<b>0.23</b>
<b>SCBNL</b>	<b>0.1</b>	<b>0.29</b>

*Source: Table 4.4, Appendix-1*

Table 4.12 shows the correlation coefficient between deposit and total investment of NBL, SCBNL. Correlation coefficient between deposit and total investment of NBL is negatively correlated i.e. -0.5. There is indirect relationship between deposit and total investment. Here also the correlation coefficient is less than 6P.Er, so the value of r is insignificant.

In the context of SCBNL correlation coefficient is 0.1 which is positive. So there is a positive relationship between deposit and total investment and the correlation coefficient is less than 6P.Er, so the value of r is insignificant.

#### **4.2.2 Analysis of Correlation Coefficient between Loan & Advance and Total Assets**

Correlation coefficient between loan & advance and assets measures the degree of relationship between loan and advances and total assets. Generally this relation should be positive and high. If the value of 'r' i.e. correlation coefficient is high, it can be generalized that the bank is mobilizing its fund well and vice versa.

**Table 4.12**  
**Correlation Coefficient between Assets and Loan & Advance**

<b>Banks</b>	<b>R</b>	<b>P.Er</b>
<b>NBL</b>	<b>0.69</b>	<b>0.15</b>
<b>SCBNL</b>	<b>0.99</b>	<b>0.29</b>

*Source: Table 4.5, Appendix -2*

Table 4.12 shows the correlation coefficient between assets and loan and advance of NBL, SCBNL. Correlation coefficient between assets and loan and advance of NBL is positively correlated i.e. 0.69. There is direct relationship between assets and total loan and advance. Here also the correlation coefficient is less than 6P.Er, so the value of r is insignificant.

In the context of SCBNL correlation coefficient is 0.99 which is highly positive. So there is a positive relationship between assets and loan and advance and the correlation coefficient is less than 6P.Er, so the value of r is insignificant.

### **4.3 Major Findings**

The major findings of the presentation and analysis part of the research work can be culled as under

- Analyzing the liquidity position of the banks, both banks have satisfactory level of liquidity but SCBNL has the larger portion of liquid assets in total assets. Return on liquid fund of NBL is not more satisfactory and the portions of liquid fund of total deposit of both banks are in satisfactory level in comparison to total commercial banking system. Generalizing the findings of the study it can be observed that private sector commercial banks are strong in liquidity management but government owned banks are not in dissatisfactory condition.
- In assets management ratios of both sampled banks seemed stronger than total commercial banking system in total deposit liabilities ratio, total investment to total deposit ratio and investment on government bond to total assets ratio. Both banks are weak in loan and advance to total deposit ratio and loan and advance to total assets ratio. Comparing these all ratios of two sampled banks it is found that SCBNL is stronger than NBL in all the ratios excepting loan and advance to total assets ratio.
- In the analysis of profitability ratios of both sampled banks are stronger in return on loan and advance ratio and return on total assets ratio. Both banks are weaker than the total commercial banking system in interest expenses to total expenses ratio. Comparing this ratio of two sampled banks it is found that SCBNL is stronger than the NBL in all ratios excepting interest expenses to total expenses ratio.
- In the analysis of growth ratios of both 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 launched for the betterment of the bank. In the context of SCBNL correlation coefficient is positive. So there is a positive relationship between selected variables and the correlation coefficient is less than 6P.Er, so the value of r is insignificant.

Finally, it can be concluded that the deposit mobilization position of both commercial banks are better but the position of private sector commercial banks is better than the position of government owned , public and private sector commercial banks.

## CHAPTER V

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Summary

Mobilization as well as canalization of saving in the productive sector is important for the economic development of the country without inflationary pressure in the economy. No doubt commercial banks play a crucial role for the economic development by formulation of capital, which is key variable in the economic development of the country. Scattered resources hold no meaning unless and until they mobilized and utilized efficiently in some productive sectors. Commercial banks contribute to the process of capital formation by converting dispersed saving into meaningful capital investment in order to aid industry, Trade, commerce and agriculture for the economic development of a nation. It should not be forgotten that a country could hardly achieve its growth of economic development without a strong capital base. Commercial banks play a vital role in performing such base for financial and economic development by way of deposit mobilization. It is quite true that a strong financial institution is of great need in the developing country like Nepal. Because all the economic conditions are based on the financial institution and the development of a country depend upon the active participation of the banks in the different activities in the economy.

Deposits are the obligation of the commercial banks. So, commercial banks must allocate the funds in different loans and advances and investments. In this study, two banks NBL representing the government bank and SCBNL representing the private sector bank are compared with total commercial banking system and with each another. In this study data of four years from 2006/07 to 2010/011 have been considered for the targeted analysis.

Analyzing the liquidity position of the banks, both banks have satisfactory level of liquidity but SCBNL has the larger portion of liquid assets in total assets. Return on liquid fund of NBL is not more satisfactory and the portions of liquid fund of total deposit of both banks are in satisfactory level in comparison to total commercial banking system. Generalizing the findings of the study it can be observed that private sector commercial banks are strong in liquidity management but government owned banks are not in dissatisfactory condition.

In assets management ratios of both sampled banks seemed stronger than total commercial banking system in total deposit liabilities ratio, total investment to total deposit ratio and investment on government bond to total assets ratio. Both banks are weak in loan and advance to total deposit ratio and loan and advance to total assets ratio. Comparing these all ratios of two sampled banks it is found that SCBNL is stronger than NBL in all the ratios excepting loan and advance to total assets ratio.

In the analysis of profitability ratios of both sampled banks are stronger in return on loan and advance ratio and return on total assets ratio. Both banks are weaker than the total commercial banking system in interest expenses to total expenses ratio. Comparing this ratio of two sampled banks it is found that SCBNL is stronger than the NBL in all ratios excepting interest expenses to total expenses ratio.

In the analysis of growth ratios of both banks (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 launched for the betterment of the bank. In the context of SCBNL correlation coefficient is positive. So there is a positive relationship between selected variables and the correlation coefficient is less than 6P.Er so the value of  $r$  is insignificant.

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.

## 5.2 Conclusion

Banks are the very necessary elements of the economy of a country. The word banks generally denote the commercial banks. The commercial bank helps in the formation of capital that is the most important for the economic growth of the country. The commercial banks in Nepal are doing well but they are not giving satisfactory result due to some internal and external factors. The deposits and its investment in productive sector by commercial banks are not stable and these are going thoroughly by the time passes on. A deposit is indeed the major organ of commercial banks. Higher the deposit higher will be the capacity of investment and higher will be the chance of mobilization of fund and make the satisfactory profit for the long term sustainability of an organization

Banks should be careful while granting loan because loan is the blood of commercial banks for survival. If commercial bank does not adopt the sound investment policy, it will be in greater trouble in future in the collection of loan amount. Banks should invest its funds in various portfolios after the profound study of the project. It keeps the bank far from the problem of default of payment that certain) keeps the bank safe from the bankruptcy. Diversification of investment is very much important for banks because a bank uses the money of people for the benefit of the depositors and the benefit of its own.

Various analysis yield different results but summarizing the results it can be generalized that there is no more difference between the deposit mobilizations of government owned commercial banks and private sector commercial banks. But the private sector commercial banks are seemed more sufficient than the government owned commercial banks in deposit mobilization.

Every sector is facing the problem in Nepal due to the violence and political instability. The commercial banking system also could not escape out from this situation. All the banks within this system have been facing the problem but this problem of NBL became great, because this is the government owned commercial bank which is serving even in remote areas by largest number of branches. Most of the loans became the bad debt due to the unfavorable economic environment. But the positions of this bank have been failing due to the managerial insufficiency and political interference in the management in some extent.



### 5.3 Recommendations

The problems related to deposit mobilization of NBL and SCBNL representing the government owned commercial banks and private sector commercial banks respectively have been discussed. In accordance with facts found in previous sections, the following recommendations are made for the further improvement of the deposit mobilization of the government owned commercial banks and private sector commercial banks especially NBL and SCBNL.

i. SCBNL has high degree of liquidity than NBL but comparing the return *on* liquid assets SCBNL has higher return it means though NBL has mobilized the liquid funds, the liquidity management is not strong and there is some lapses on the deposit mobilization policy. So NBL is better to revise the liquidity management policy and implement the revised policy strongly.

ii. The ever mounting amount of deposits is now got to be properly mobilized in the different sectors of the economy. For the proper mobilization of deposit, banks must be prepared to take more risk on their lending and investments to encourage the borrowing by the units of the economy. In other words, it's time for them to divert their traditional collateral taking process into more realistic and potential aspects. They must provide loan for a project on the basis of its potentiality instead of sound and safe collateral. In addition, it's also suggested that they should lower their lending rate too. Private sector commercial banks are adopting this policy in some extent.

iii. In order to develop the banking and saving habit of the people of remote areas in the nation, commercial banks are suggested not to be surrounded and limited within the urban areas and not to be gathered around the big clients (e.g. multinational companies, large industries, manufacturers and exporters, NGO's and INGO's etc). Reduction in the minimum required threshold balance and extension of its services to wards rural area and priority sector indicated by the government is must for boosting up the living standard of lower level people.

iv. Since, commercial banks used to provide less loan and advances in comparison to its total deposits, commercial banks are strongly recommended to follow the liberal lending policy more percentage of deposits can be invested to different profitable sector as well as towards loan and advances. Because, analysis showed investment and loan and advances as a significant factor this affects the net profit of the banks. Subsequently, a skillful administration is the most for these assets because negligence may become a reason liquidity crisis and more liberal lending may lead to the default of repayment of loan.

v. Considering the current economic scenario, banks are suggested to further advance their retail banking through newer and innovative products. They should expand their transaction in new services such as tax revenue collection, business enterprise's bill amount collection etc. Both banks are doing these works in some extent but that is not satisfactory to the customers of all regions.

vi. Commercial banks themselves should seek for new investment opportunities rather than investing in identified areas. Commercial banks should establish the efficient R&D department for this purpose.

vii. It may be the worth being suggestion that banks are better to seek investment opportunities in foreign countries in order to overcome the mounting deposits and limited investment opportunities. They should invest in foreign currencies, precious metals, and highly liquid safe securities.

viii. All commercial banks should make an attractive publicity of the bank and then people will have knowledge about 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 banks should also pay attention to publish bulletin, brochures and others so as to make people familiarizes with its performance and activities.

ix. Training and observation tours should be organized on regular basis to increase the efficiency of the employees. Proper evaluation of the performance of the staff should be done in time. Continuous and timely evaluation of performance is

must for improving the managerial efficiency of the bank. Job analysis should be done to find out the skill, knowledge, abilities etc. of the staffs that is needed for the better performance.

Finally, for the speedy development of the nation, the government owned banks as well as the private sector banks are suggested to follow decentralization policy in order to extend the modem and computerized banking facilities towards the marginal areas and for assuring the reach of remote area people in modem banking facilities.